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Office

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## Report VI

# Employment policies for sustainable recovery and development

Recurrent discussion under the ILO Declaration on Social Justice for a Fair Globalization



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Labour  
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Report VI

# Employment policies for sustainable recovery and development

*Recurrent discussion under the ILO Declaration  
on Social Justice for a Fair Globalization*

Sixth item on the agenda

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# Contents

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|                                                                                                                                              | <i>Page</i> |
|----------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Abbreviations .....                                                                                                                          | v           |
| Introduction .....                                                                                                                           | 1           |
| Chapter 1. Employment challenges .....                                                                                                       | 3           |
| 1.1. The continuing economic crisis and its impact .....                                                                                     | 3           |
| 1.1.1. Trends in economic growth and in the quantity and<br>quality of employment .....                                                      | 3           |
| 1.1.2. Policy responses during the crisis and its aftermath .....                                                                            | 19          |
| 1.2. Structural trends and drivers of change .....                                                                                           | 24          |
| 1.2.1. Globalization, the new geography of growth and the challenges<br>of structural transformation, competitiveness and productivity ..... | 24          |
| 1.2.2. The new demographic context .....                                                                                                     | 28          |
| 1.2.3. Inequality and its implications .....                                                                                                 | 31          |
| 1.2.4. Gender equality in labour markets .....                                                                                               | 35          |
| 1.2.5. Transition to environmentally sustainable development .....                                                                           | 39          |
| 1.2.6. Skills mismatch .....                                                                                                                 | 41          |
| Chapter 2. Action to promote full, decent, productive and<br>freely chosen employment .....                                                  | 45          |
| 2.1. National employment policies .....                                                                                                      | 45          |
| 2.2. Pro-employment macroeconomic policy frameworks .....                                                                                    | 55          |
| 2.3. Trade, industrial and sectoral policies .....                                                                                           | 58          |
| 2.4. An enabling environment for enterprises and support for SMEs .....                                                                      | 61          |
| 2.5. Employment-intensive investment in infrastructure and innovations<br>in public employment programmes .....                              | 64          |
| 2.6. Improving employability and productivity .....                                                                                          | 66          |
| 2.7. The informal economy and transitioning to formality .....                                                                               | 68          |
| 2.8. Follow-up to the call for action on the youth employment crisis .....                                                                   | 70          |
| 2.9. Standards-related actions with respect to the strategic objective<br>of employment .....                                                | 73          |
| 2.10. Global advocacy for employment promotion .....                                                                                         | 74          |
| Chapter 3. Summary and possible ways forward .....                                                                                           | 79          |
| Chapter 4. Suggested points for discussion .....                                                                                             | 83          |



## Abbreviations

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|         |                                                                        |
|---------|------------------------------------------------------------------------|
| ACI     | area of critical importance                                            |
| ADB     | Asian Development Bank                                                 |
| AfDB    | African Development Bank                                               |
| Cedefop | European Centre for the Development of Vocational Training             |
| CIS     | Commonwealth of Independent States                                     |
| EU      | European Union                                                         |
| G20     | group of 20 major economies                                            |
| GDP     | gross domestic product                                                 |
| ICT     | information and communications technologies                            |
| IDB     | Inter-American Development Bank                                        |
| IFC     | International Finance Corporation                                      |
| ILC     | International Labour Conference                                        |
| ILO     | International Labour Organization                                      |
| IMF     | International Monetary Fund                                            |
| IOE     | International Organisation of Employers                                |
| MDGs    | Millennium Development Goals                                           |
| MNE     | multinational enterprise                                               |
| MSMEs   | micro-, small and medium-sized enterprises                             |
| OECD    | Organisation for Economic Co-operation and Development                 |
| SMEs    | small and medium-sized enterprises                                     |
| UN      | United Nations                                                         |
| UNCTAD  | United Nations Conference on Trade and Development                     |
| UNDG    | United Nations Development Group                                       |
| UNDP    | United Nations Development Programme                                   |
| UNECA   | United Nations Economic Commission for Africa                          |
| UNECLAC | United Nations Economic Commission for Latin America and the Caribbean |
| UNESCAP | United Nations Economic and Social Commission for Asia and the Pacific |

|        |                                                                  |
|--------|------------------------------------------------------------------|
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| UNHCR  | United Nations High Commissioner for Refugees                    |
| UNIDO  | United Nations Industrial Development Organization               |
| WIEGO  | Women in Informal Employment: Globalizing and Organizing         |
| WTO    | World Trade Organization                                         |

# Introduction

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1. Six years into the financial and economic crisis, labour markets are in a state of disarray in many countries, the global jobs deficit is worse than before the onset of the global financial crisis in 2008, and the world faces the prospect of weak and uneven economic recovery in 2014 and probably beyond. In these conditions, the challenge of integrating 404 million new entrants into the labour market in the next decade while also absorbing the 202 million unemployed into decent and productive employment opportunities is tremendous. The road towards sustainable recovery and development requires proactive, employment-centred, inclusive growth strategies and coherent policy frameworks, both at global and national levels in industrialized, emerging and developing economies alike.
2. Against this background, the second recurrent discussion on employment at the 103rd Session of the International Labour Conference (ILC) in 2014 provides an opportunity for the International Labour Organization's (ILO's) tripartite constituents to critically review action taken in the member States and by the Office, to assess the effectiveness of responses so far and to consider options for the future.
3. The first recurrent discussion on employment at the 2010 ILC inaugurated the discussion cycle of the ILO's strategic objectives introduced by the 2008 ILO Declaration on Social Justice for a Fair Globalization. That session took place one year after the adoption of the Global Jobs Pact in 2009, at a time when the international community was taking coordinated action to prevent the recession deepening and to support economic and labour market recovery. As the second recurrent discussion on employment takes place four years later, the global economic slowdown, the austerity and fiscal consolidation measures adopted in a large number of countries, and the uncertain environment for enterprises constrain the space for investment and proactive action to tackle the structural and cyclical dimensions of the employment crisis.
4. This background report has been prepared by the Office in line with the guidance provided at the 317th Session of the ILO Governing Body.<sup>1</sup> It is presented in three parts. Chapter 1 begins by reviewing the impact of the continuing global crisis on economic and employment trends in diverse national and regional contexts. The policy responses to the crisis and the ensuing debates on their effectiveness are discussed in section 1.1.2. Beyond the crisis, section 1.2 analyses six global trends and structural drivers of change and their profound implications for the design of the next generation of employment policies.

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<sup>1</sup> ILO: *Recurrent discussion report on employment (2014)*, Governing Body, 317th Session, Geneva, 2013, GB.317/POL/1, [http://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_204976.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_204976.pdf).

5. Chapter 2 reports on the action taken, principally by the Office, in the follow-up to the 2010 resolution on the first recurrent discussion on employment, covering the areas of priority action identified by the ILC and endorsed by the Governing Body at its 309th Session in November 2010.<sup>2</sup> Effective and inclusive employment policies bring together, in a context-specific coherent framework, action in a wide range of policy areas affecting both demand and supply of labour and the intermediation through labour market institutions. Hence, the analysis presented here is founded on the interrelated and mutually supportive nature of the four strategic objectives of the ILO, underscored in the 2008 Declaration on Social Justice for a Fair Globalization. This second recurrent review of the employment objective is enriched by the recurrent discussions on social protection (2011), fundamental principles and rights at work (2012) and social dialogue (2013), and their respective conclusions, which have highlighted synergies with employment policies.

6. Given the limited space of this background report, and the broad scope of policy areas that are considered, the reporting is succinct and selective, and only a few country examples are given. The review period is confined to 2010–13. The background information on mandate and policy frameworks for the strategic objective of employment, in particular the Global Employment Agenda of 2003 and the Global Jobs Pact, was amply covered in the report of the first recurrent discussion on employment in 2010 and is not repeated here. It is also expected that ILO constituents will enhance the discussion by providing further information reflecting the diversity and richness of national realities and their experience with employment policies in implementing the conclusions of the 2010 resolution.

7. Chapter 3 concludes with possible ways forward, particularly in the context of the internal reform set in motion by the Director-General and the areas of critical importance (ACIs) contained in the Programme and Budget for 2014–15.

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<sup>2</sup> ILO: *Matters arising out of the work of the 99th Session (2010) of the International Labour Conference: Follow-up to the adoption of the resolution concerning the recurrent discussion on employment*, Governing Body, 309th Session, Geneva, Nov. 2010, GB.309/3/1, [http://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_146211.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_146211.pdf).

# Chapter 1

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## Employment challenges

### 1.1. The continuing economic crisis and its impact

#### 1.1.1. Trends in economic growth and in the quantity and quality of employment

8. This section provides an overview of recent trends in economic growth resulting from the financial and economic crisis and its aftermath. It summarizes the impacts on labour markets, in particular on employment and unemployment, wages, working poverty, job security, informality and enterprises.

9. By 2010, there had been a remarkable recovery from the 2008–09 economic and financial crisis, with world growth rebounding to 5.2 per cent. The advanced countries grew by 3.0 per cent, while emerging markets and developing countries grew by an impressive 7.5 per cent (9.8 per cent in Asia, 6.0 per cent in Latin America and the Caribbean, and 5.6 per cent in sub-Saharan Africa). This turnaround in the fortunes of the world economy was largely the result of swift action to bail out financial systems in countries where they were on the verge of collapse and the widespread adoption of expansionary macroeconomic policies.

10. However, since 2011, growth has been weakening every year. Globally, output growth fell to 3.9 per cent in 2011, 3.2 per cent in 2012 and 2.9 per cent in 2013. In the advanced economies, the corresponding figures were 1.7, 1.5 and 1.2 per cent. In emerging markets and developing countries, the decline was less sharp but still marked, with growth at 6.2 per cent in 2011, 4.9 per cent in 2012 and 4.5 per cent in 2013.<sup>1</sup>

11. A major factor behind this stalling of the recovery was the outbreak of the sovereign debt crisis in the Eurozone in 2010 and the subsequent shift to fiscal consolidation policies in many advanced economies. This placed the burden of reviving growth on expansionary monetary policy, through instruments such as the large-scale purchase of financial assets by central banks.

12. By late 2013, uncertainties remained over how soon a broad-based and sustained recovery would set in. The International Monetary Fund (IMF) forecast that world output would increase from 2.9 per cent in 2013 to 3.6 per cent in 2014, but warned that downside risks remain.

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<sup>1</sup> All growth estimates are taken from the 2013 World Economic Outlook database. See also, IMF: *World Economic Outlook: Hopes, realities and risks* (Washington, DC, 2013).

13. Continued slow growth in the advanced economies, along with slower growth in China as it shifts to a more inward-looking growth strategy, suggests a global economic environment less favourable for export growth and inflows of foreign direct investment. For commodity exporters, there is a fear that prices will drop. Access to international capital markets is also likely to become more difficult as interest rates rise with monetary tightening in advanced countries. Low-income countries could see official development assistance and other concessional flows decline if advanced economies remain weak.

14. In Africa, there is a concern that the economic momentum that has made it the second fastest growing region in the world may falter. If weaker global growth results in lower commodity export earnings, shrinking export volumes of other goods, and lower receipts from tourism, official development assistance, foreign direct investment and workers' remittances, efforts to achieve faster structural transformation of African economies will increasingly depend on internally driven growth.<sup>2</sup>

15. In the Asia and the Pacific region, growth in 2013 is estimated at 6 per cent, significantly lower than during the pre-crisis period.<sup>3</sup> This is due in large part to the slowdown in China and India.<sup>4</sup>

16. In Latin America and the Caribbean, growth in 2013–17 is likely to be almost one percentage point lower than in 2003–07, as a result of lower global growth. Lower real commodity prices, declining terms of trade, lower growth in private consumption and sharply reduced growth in investment are anticipated. Fiscal balances have deteriorated and remain considerably weaker than before the financial crisis.<sup>5</sup>

17. The disarray that has pervaded the global economy since 2010 has had serious consequences for labour markets across the world. Already weakened by faltering aggregate demand, the labour market has been further hit by fiscal austerity programmes in numerous countries. Diminishing confidence and heightened uncertainty are preventing stronger investment and faster job creation. Together, uncertainty, weak investment and decreasing productivity growth continue to hold back wage growth, which inhibits consumption and further undermines aggregate demand, to complete the vicious circle.<sup>6</sup>

18. Since 2010, unemployment rates in most regions have stagnated, a trend which is likely to be continued over the next two years (see figure 1.1). In North Africa, they have actually risen by 1.8 percentage points partly as a result of political turmoil.

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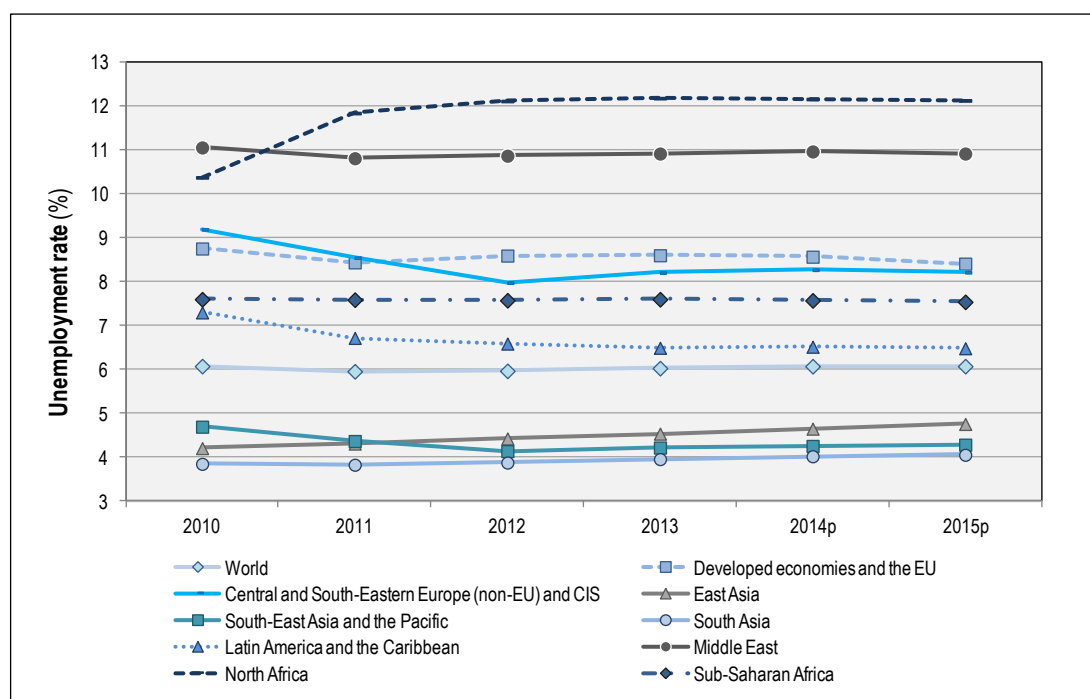
<sup>2</sup> African Development Bank (AfDB), Organisation for Economic Co-operation and Development (OECD), United Nations Development Programme (UNDP) and United Nations Economic Commission for Africa (UNECA): *African Economic Outlook 2013: Structural transformation and natural resources* (Paris, 2013).

<sup>3</sup> United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP): *Economic and social survey of Asia and the Pacific 2013: Forward-looking macroeconomic policies for inclusive and sustainable development* (Bangkok, 2013).

<sup>4</sup> Asian Development Bank (ADB): *Asian Development Outlook 2013: Asia's energy challenge* (Manila, 2013); and ILO: *Asia-Pacific labour market update* (Geneva, 2013).

<sup>5</sup> Inter-American Development Bank (IDB): *2013 Latin American and Caribbean macroeconomic report* (New York, 2013).

<sup>6</sup> ILO: *Global Employment Trends 2013: Recovering from a second jobs dip* (Geneva, 2013), p. 38.

**Figure 1.1. Unemployment rates by region, 2010–13, with projections to 2015**

p = projections.

Source: ILO: Trends Econometric Models, Oct. 2013.

19. By the end of 2013, 202 million people across the world were without a job. Notwithstanding the moderate pick-up in output growth expected for 2013–14, the number of unemployed people worldwide is projected to rise by 4.2 million in 2014 and by 3 million in 2015.<sup>7</sup>

20. In the advanced economies, rates of job loss have recently increased again after briefly stabilizing in 2010. Even though this country group represents less than 16 per cent of the global workforce, it accounts for half of the total increase in unemployment of 31.8 million since the onset of the crisis in 2008.

21. The biggest overall contributor to the decline in the global employment-to-population ratio during the crisis was the decline in the labour force participation rate as people left the labour market, disheartened by the lack of jobs available. In 2013, the global employment-to-population ratio was 59.6 per cent, well below pre-crisis levels. The largest regional decline occurred in the developed economies and European Union (EU), where it fell from 57.0 per cent to 54.8 per cent between 2007 and 2013.

22. Despite the decline in labour force participation, it is estimated that by 2024 there will be 404 million more people in the labour force than today. It will therefore be necessary to create more than 600 million jobs across the world to accommodate both the currently unemployed and newcomers to the labour market.<sup>8</sup>

<sup>7</sup> ILO: *Global Employment Trends 2014: Risk of a jobless recovery?* (Geneva, 2014).

<sup>8</sup> ILO: *Global Employment Trends for Youth 2013: A generation at risk* (Geneva, 2013).

*Young people bear the brunt of the impact*

23. The crisis has had a disproportionately severe effect on youth. Young people are increasingly vulnerable to higher unemployment, poorer quality jobs for those who do find work, greater labour market inequalities, longer and more insecure school-to-work transitions, and an increased mismatch between their skills and labour market needs. The gap between young people's aspirations and capabilities and possible employment opportunities has widened.

24. Globally, young people continue to be almost three times as likely to be unemployed as adults (see table 1.1). In South-East Asia and the Pacific, the multiple is almost six. After peaking in 2009–10 at 12.9 per cent, the global youth unemployment rate fell slightly, but then climbed again, reaching 13.1 per cent in 2013 (see table 1.1 and figure 1.2). This trend is not expected to change substantially between now and 2018, when the rate is projected to be 13.2 per cent.<sup>9</sup> Globally, the unemployment rates of young women exceed those of young men (at 13.5 per cent in 2013 compared to 12.8 per cent for young men). The discrepancy is particularly marked in some regions, notably North Africa and the Middle East.

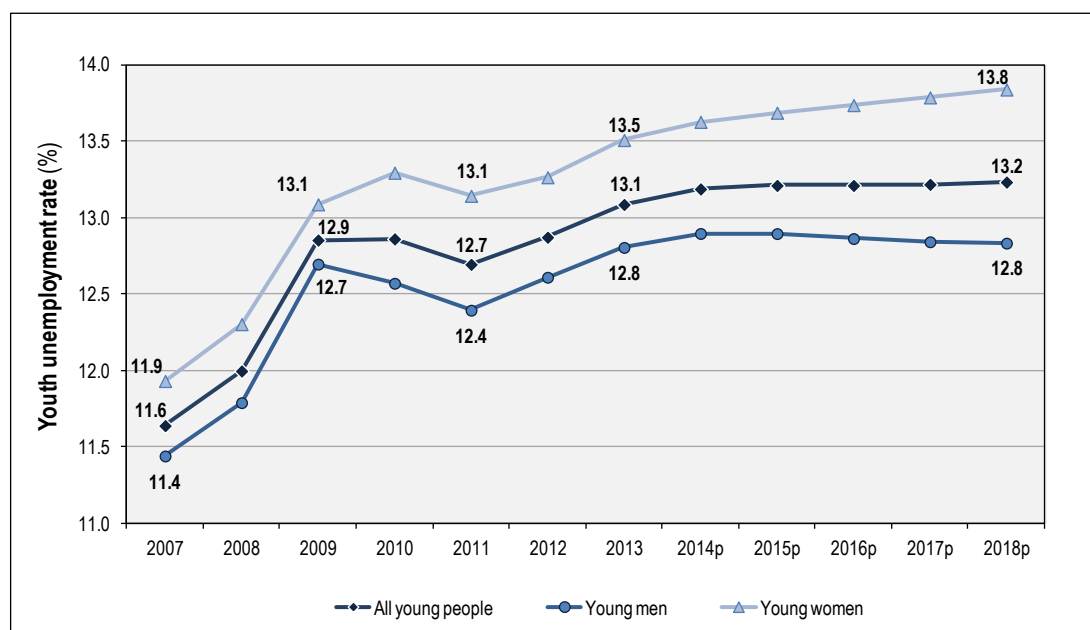
**Table 1.1. Key youth labour market indicators, global and regions, 2010 and 2013**

| Region                                            | Labour force participation rate |             | Employment-to-population ratio |             | Unemployment rate |             | Youth-to-adult ratio of unemployment rate |            |
|---------------------------------------------------|---------------------------------|-------------|--------------------------------|-------------|-------------------|-------------|-------------------------------------------|------------|
|                                                   | 2010                            | 2013        | 2010                           | 2013        | 2010              | 2013        | 2010                                      | 2013       |
| <b>World</b>                                      | <b>47.7</b>                     | <b>47.4</b> | <b>41.6</b>                    | <b>41.2</b> | <b>12.9</b>       | <b>13.1</b> | <b>2.8</b>                                | <b>2.9</b> |
| Developed economies and the EU                    | 47.4                            | 47.3        | 38.8                           | 38.6        | 18.1              | 18.3        | 2.4                                       | 2.5        |
| Central and South-Eastern Europe (non-EU) and CIS | 40.9                            | 40.5        | 33.1                           | 33.2        | 19.0              | 18.0        | 2.5                                       | 2.7        |
| East Asia                                         | 54.2                            | 55.1        | 49.3                           | 49.6        | 9.1               | 10.1        | 2.8                                       | 2.8        |
| South-East Asia and the Pacific                   | 52.3                            | 52.4        | 44.7                           | 45.6        | 14.5              | 13.0        | 6.0                                       | 5.7        |
| South Asia                                        | 41.4                            | 39.6        | 37.4                           | 35.5        | 9.7               | 10.2        | 4.1                                       | 4.1        |
| Latin America and the Caribbean                   | 52.6                            | 52.5        | 44.7                           | 45.3        | 15.0              | 13.6        | 2.8                                       | 2.8        |
| Middle East                                       | 30.9                            | 31.1        | 22.8                           | 22.7        | 26.2              | 27.2        | 3.5                                       | 3.6        |
| North Africa                                      | 33.4                            | 33.6        | 25.5                           | 23.7        | 23.7              | 29.4        | 3.3                                       | 3.6        |
| Sub-Saharan Africa                                | 54.1                            | 54.3        | 47.6                           | 47.8        | 12.0              | 11.9        | 2.0                                       | 2.0        |

Source: ILO: Trends Econometric Models, Oct. 2013.

<sup>9</sup> ILO: *Global Employment Trends 2014: Risk of a jobless recovery?*, op. cit.

**Figure 1.2. Youth unemployment rates, total, male and female, 2007–12, with projections to 2018**



p = projections.

Source: ILO: Trends Econometric Models, Oct. 2013.

25. As noted in several ILO reports, youth unemployment is only the tip of the iceberg.<sup>10</sup> In high-income economies, more and more young people are forced to take temporary and/or involuntary part-time work.<sup>11</sup> In less-developed countries, the challenge is not only to create jobs but also to improve the quality of jobs available to young people. In these countries, large proportions of young people who are in some form of work are underemployed or working in the informal economy. The results of the school-to-work transition surveys recently conducted by the ILO in several low- and middle-income countries show that, on average, six out of ten young workers in developing countries receive wages below the country average. A similar proportion has no employment contract.<sup>12</sup> Around 80 per cent of young workers in the countries of sub-Saharan Africa covered by the survey were working in the informal economy.<sup>13</sup>

<sup>10</sup> See, for instance, ILO: *The youth employment crisis: Time for action*, Report V, International Labour Conference, 101st Session, Geneva, 2012, [http://www.ilo.org/ilc/ILCSessions/101stSession/reports/reports-submitted/WCMS\\_175421](http://www.ilo.org/ilc/ILCSessions/101stSession/reports/reports-submitted/WCMS_175421).

<sup>11</sup> ILO: *Global Employment Trends for Youth 2013: A generation at risk*, op. cit.

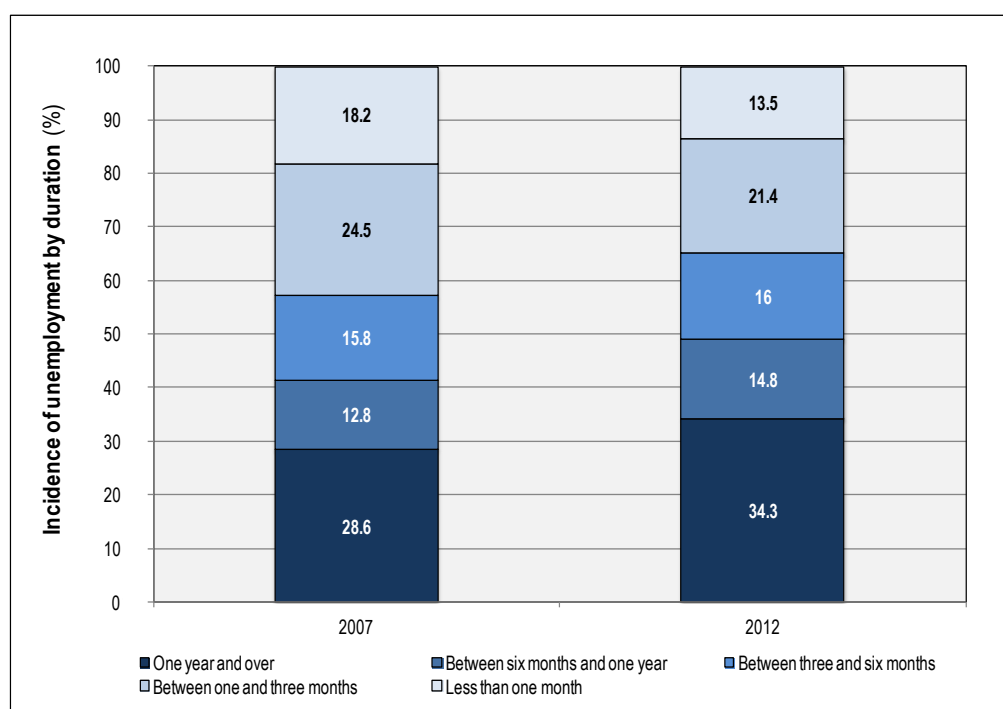
<sup>12</sup> The results of the school-to-work transition surveys are available at: [www.ilo.org/w4y](http://www.ilo.org/w4y).

<sup>13</sup> ILO: *Global Employment Trends for Youth 2013: A generation at risk*, op. cit.

### Rising long-term unemployment

26. Long-term unemployment,<sup>14</sup> an under-researched topic to date,<sup>15</sup> is rising in most OECD countries. While long unemployment spells have been the norm in many OECD countries, even before the crisis (see figure 1.3), the phenomenon has historically been rare in the United States. Yet between 2007 and the first quarter of 2011, the proportion of the total unemployed in the United States who had been out of work for more than six months jumped from 17 per cent to 44 per cent. This is still lower than the figures for many European countries, even in pre-crisis times: in 2007, more than 60 per cent of unemployed people in Belgium, Czech Republic, Estonia, Germany, Greece, Hungary, Poland, Portugal, Slovakia and Spain had been out of work for more than six months. Although the US unemployment rate declined slowly after the peak of the crisis, the average number of months unemployed people remained without a job continued to rise. In 2012, the average duration of unemployment in the United States was around nine months – a 140 per cent increase from the pre-recession level in 2007. Across the OECD countries, the average duration of unemployment rose from eight to ten months between 2007 and 2012.

**Figure 1.3. Unemployment by duration as a percentage of all unemployment, 2007 and 2012**



Source: OECD: StatExtracts.

27. Outside the OECD, data on long-term unemployment is not systematically analysed. From the information available, it seems that in Asia it is not a significant phenomenon. In North Africa, rates hover around 10 per cent. In some Eastern European countries (Montenegro and the former Yugoslav Republic of Macedonia), rates exceed

<sup>14</sup> Long-term unemployment is defined variously as more than six months without employment, or as more than one year. It is clearly indicated in the text to which definition it refers.

<sup>15</sup> Recently commissioned research by the Office includes: R. Ghayad: *The great recession and long-term unemployment* (Geneva, ILO, forthcoming); and M. Hengge: *Long-term unemployment across OECD countries* (Geneva, ILO, forthcoming).

15 per cent, but elsewhere in the region they are much lower (around 5 per cent). Like unemployment overall, long-term unemployment everywhere has a disproportionate impact on women and young people, and further increases the vulnerability of groups already disadvantaged in the labour markets.

28. Diagnosing the nature of long-term unemployment is important. If it is structural – for example, due to an increase in skills mismatch or geographical mismatch between workers and unfilled jobs – there are several possibilities. Profiling jobseekers, and initiatives that facilitate the school-to-work transition, can help to deliver assistance to those most at risk of falling into long-term unemployment. Training measures, developed in cooperation with social partners, can prevent skills erosion. Likewise, direct job creation initiatives help unemployed people to retain their skills and to maintain ties to the labour market and societal networks. Regulations that prohibit discrimination against the long-term unemployed can also help to reduce the levels. However, many international organizations, including the ILO<sup>16</sup> and leading economists and policy-makers,<sup>17</sup> maintain that high unemployment and long-term unemployment, especially in the advanced economies, is largely cyclical in nature, reflecting a shortfall in aggregate demand. In these circumstances, there might be a role for policies that increase aggregate demand. Appropriate labour market policies of this kind often need to be accompanied by effective macroeconomic measures, such as counter-cyclical spending and tax measures.

29. Unemployment benefit schemes are an important mechanism to protect jobseekers and their families from financial hardship and to facilitate their search for jobs that match their skills. Evidence does not support the view that higher unemployment benefits increase the duration of unemployment.<sup>18</sup> Nonetheless, several OECD countries have implemented mutual obligation requirements that make unemployment benefits conditional on recipients' participation in activation measures, such as job search, skills upgrading and acceptance of job offers. Overall, a balanced approach between protection and activation should be sought to address both equity and efficiency concerns. More policy-oriented research on effective responses to rising long-term unemployment is needed.

### *Working poverty*

30. In many developing countries a significant proportion of those who are employed do not earn enough to meet their basic needs. Currently, some 375 million workers are living with their families in extreme poverty (where the daily income per person in the family is under US\$1.25 per day); an additional 464 million workers regularly have difficulty in meeting their basic needs. While working poverty had been diminishing, the global economic crisis has slowed down the rate of decline.<sup>19</sup>

31. In Central and South-Eastern Europe, working poverty declined sharply over the 2000s, before bottoming out with the onset of the crisis in 2009. Currently, 3.6 per cent of all workers in the region are considered to be extremely or moderately poor, living in households with less than US\$2 per person per day. This rate is expected to fall to 2.8 per cent by 2018.

<sup>16</sup> For example, IMF: *Labor market policies and IMF advice in advanced economies during the great recession* (Washington, DC, 2013).

<sup>17</sup> Such as Janet Yellen, Chair of the US Federal Reserve Board.

<sup>18</sup> R. Ghayad: *The great recession and long-term unemployment* (Geneva, ILO, forthcoming).

<sup>19</sup> UN: *Millennium Development Goals Report 2013* (New York, 2013).

32. In some countries in Latin America and the Caribbean, working poverty has declined considerably in the past decade. Between 2000 and 2013, the proportion of workers living on less than US\$2 per day fell from 16 to less than 7 per cent. Over the same period, the proportion of workers in extreme poverty declined from around 8 to 3 per cent of total employment. This trend is consistent with the decrease in informality discussed below.

33. Table 1.2 illustrates that South Asia has one of the highest regional working poverty rates, with over 60 per cent of workers living on less than US\$2 per day. Working poverty rates are often higher for young people: in India, which represents three-quarters of South Asia's population, 33.7 per cent of young workers were in extreme poverty in 2010, compared with 28.5 per cent of adult workers.<sup>20</sup>

**Table 1.2. Working poor indicators, global and regional, 2000–18**  
(US\$1.25 and US\$2 per day)

|                                                          | 2000 total<br>(millions) |       | 2013 * total<br>(millions) |       | 2018 * total<br>(millions) |       | 2000 share<br>of total<br>employment<br>(%) |       | 2013 * share<br>of total<br>employment<br>(%) |       | 2018 * share<br>of total<br>employment<br>(%) |       |
|----------------------------------------------------------|--------------------------|-------|----------------------------|-------|----------------------------|-------|---------------------------------------------|-------|-----------------------------------------------|-------|-----------------------------------------------|-------|
|                                                          | US\$1.25                 | US\$2 | US\$1.25                   | US\$2 | US\$1.25                   | US\$2 | US\$1.25                                    | US\$2 | US\$1.25                                      | US\$2 | US\$1.25                                      | US\$2 |
| World                                                    | 693                      | 1 199 | 375                        | 839   | 285                        | 736   | 32                                          | 55.4  | 14                                            | 31.4  | 10                                            | 25.8  |
| Central and South-<br>Eastern Europe<br>(non-EU) and CIS | 6.6                      | 18    | 1.6                        | 6     | 0.9                        | 4.7   | 4.6                                         | 12.3  | 1                                             | 3.6   | 0.6                                           | 2.8   |
| East Asia                                                | 232                      | 413   | 43                         | 112   | 19                         | 52    | 31.1                                        | 55.1  | 5.2                                           | 13.5  | 2.3                                           | 6.2   |
| South-East Asia and<br>the Pacific                       | 83                       | 151   | 34                         | 94    | 25                         | 76    | 34.2                                        | 62.3  | 11.2                                          | 30.5  | 7.5                                           | 23    |
| South Asia                                               | 225                      | 399   | 155                        | 388   | 112                        | 360   | 44.2                                        | 78.5  | 24.6                                          | 61.5  | 16.2                                          | 52.2  |
| Latin America and<br>the Caribbean                       | 16                       | 33    | 8.5                        | 19    | 6.9                        | 16    | 7.9                                         | 16    | 3                                             | 6.7   | 2.3                                           | 5.3   |
| Middle East                                              | 0.6                      | 3.8   | 0.7                        | 5     | 0.6                        | 4.9   | 1.5                                         | 9.3   | 1.1                                           | 7.4   | 0.8                                           | 6.4   |
| North Africa                                             | 3.1                      | 11    | 1.8                        | 8.8   | 1.6                        | 8.6   | 6.9                                         | 23.8  | 3                                             | 14.2  | 2.4                                           | 12.6  |
| Sub-Saharan Africa                                       | 126                      | 170   | 130                        | 207   | 119                        | 214   | 55.8                                        | 75.4  | 39.2                                          | 62.8  | 30.8                                          | 55.6  |

\* 2013: preliminary estimates; 2018: preliminary projections.

Source: ILO: Trends Econometric Models, Oct. 2013.

34. In North Africa, although extreme working poverty is low, the proportion of those in working poverty at the US\$2 per day level remains high at 14.2 per cent in 2013. This proportion is expected to decline much more slowly than in the past.

35. Working poverty in sub-Saharan Africa is falling, albeit more slowly than in other regions (despite solid growth). Even so, the region has the highest rate of working poverty, with almost 40 per cent of workers at the US\$1.25 per day level in 2013.

36. Reductions in working poverty are generally the result of structural changes and the movement of workers out of agriculture and into higher productivity sectors. These shifts have seen the emergence in some countries of a working middle class (earning US\$4–13 per day), which has now surpassed 30 per cent of the developing world's

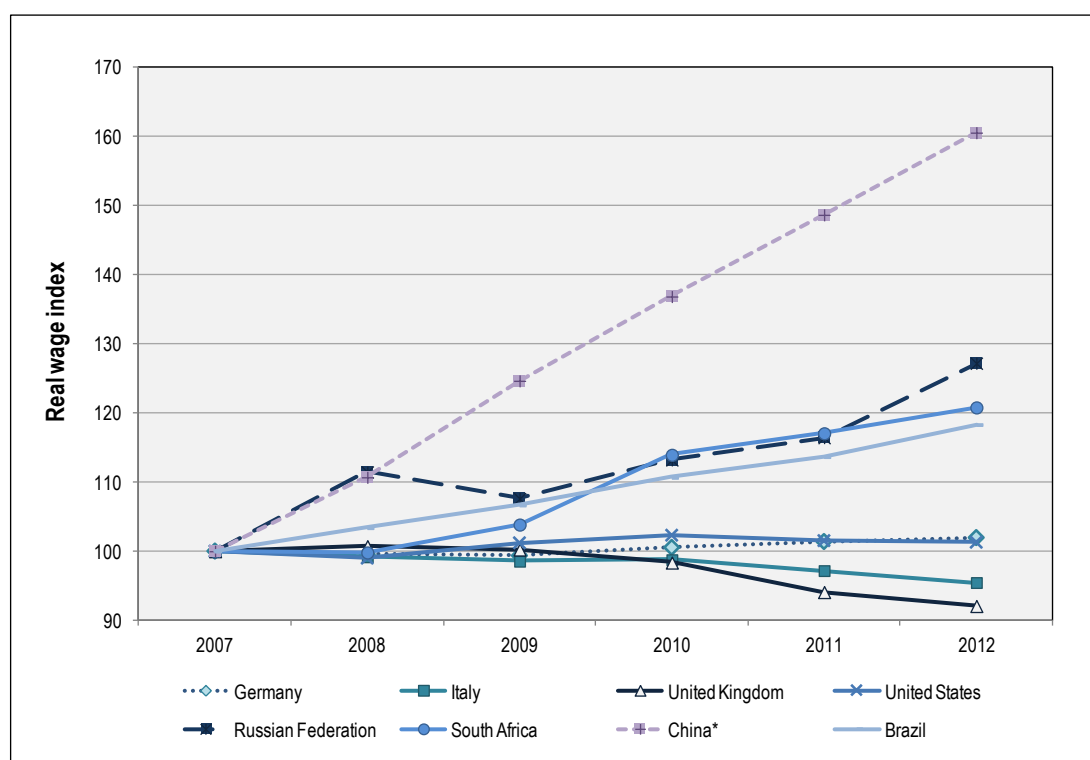
<sup>20</sup> ILO: *Global Employment Trends for Youth 2013: A generation at risk*, op. cit.

workforce. The growth of this class could, however, be hindered by the slowing of poverty reduction that has followed the crisis.

### *Trends in wages*

37. In the group of developed economies, average real wage growth has fallen or slowed in many countries since the onset of the crisis. Overall, average real wages in this group of countries, after growing by 0.6 per cent in 2010, fell by 0.5 per cent in 2011 and hovered around zero growth in 2012.<sup>21</sup> As figure 1.4 shows, there were differences across the advanced countries. In Eurozone countries which implemented programmes of austerity and “internal devaluations” – with prices and wage cuts replacing currency devaluation – the declines in real wages were sometimes severe: in Greece, for example, real wages fell by a cumulative 15 per cent in 2010 and 2011. Overall, these trends have raised concerns about the effects of stagnant wages on household consumption and aggregate demand.<sup>22</sup> Real wages did, however, increase in Germany and the United States. In Eastern Europe and the Commonwealth of Independent States (CIS), the crisis led to falling wages in 2009; since then, wages have begun to grow again – by 27 per cent in the Russian Federation, for example (see figure 1.4).

**Figure 1.4. Trends in real average wages, selected countries, 2007–12 (index: 2007=100)**



\* = estimate.

Source: ILO: Global Wage Database.

<sup>21</sup> ILO: *Global Wage Report 2012–13: Wages and equitable growth* (Geneva, 2013).

<sup>22</sup> *ibid.*

38. In emerging and developing countries, growth in real wages has been uneven: it has been higher in East Asia (dominated by the rapid real wage growth in China and leading to a considerable decrease in working poverty as discussed above) and more modest in Africa and in Latin America and the Caribbean. Figure 1.4 shows that, over the full period from 2007 to 2012, real average wages increased in Brazil (18 per cent), South Africa (21 per cent) and China (61 per cent). Trends in real wages in developing and emerging economies would have been even more impressive had they kept pace with productivity growth.

### *Informal employment*

39. Informality remains a big challenge in labour markets, in particular in developing countries. A recent compilation of relevant statistics for 47 countries and territories shows that, on average, over 40 per cent of non-agricultural employment in developing countries is informal.<sup>23</sup>

40. Measuring informal employment as a percentage of total non-agricultural employment excludes the large number of people working informally in the agricultural sector, especially in low-income countries, where for many people agricultural work is the last resort.<sup>24</sup>

41. In recent years, progress towards more formalization has been slow, owing in part to the sluggish pace of formal employment creation during and after the crisis.<sup>25</sup>

42. Nonetheless, thanks to a combination of policies, informal employment has decreased in some Latin American countries,<sup>26</sup> such as Argentina and Brazil.<sup>27</sup> Despite this positive trend, in many countries in the region, informal employment remains at high levels. In some countries, such as El Salvador, Honduras, Peru and Plurinational State of Bolivia, informal employment accounts for two-thirds of total non-agricultural employment (see figures 1.5(a) and 1.5(b)). A household survey conducted by the ILO in five countries (Colombia, Ecuador, Mexico, Panama and Peru) showed that during the crisis the number of formal-sector jobs fell and the proportion of informal self-employed jobs in non-agricultural activities rose by almost 3 per cent.<sup>28</sup>

<sup>23</sup> ILO and Women in Informal Employment: Globalizing and Organizing (WIEGO): *Women and men in the informal economy: A statistical picture* (Geneva, ILO, 2013).

<sup>24</sup> ILO: *Transitioning from the informal to the formal economy*, Report V(1), International Labour Conference, 103rd Session, Geneva, 2013; and OECD–Sahel and West Africa Club (SWAC) secretariat: “Informal economy and food security”, in *West African Futures* (2011, No. 6, Nov.).

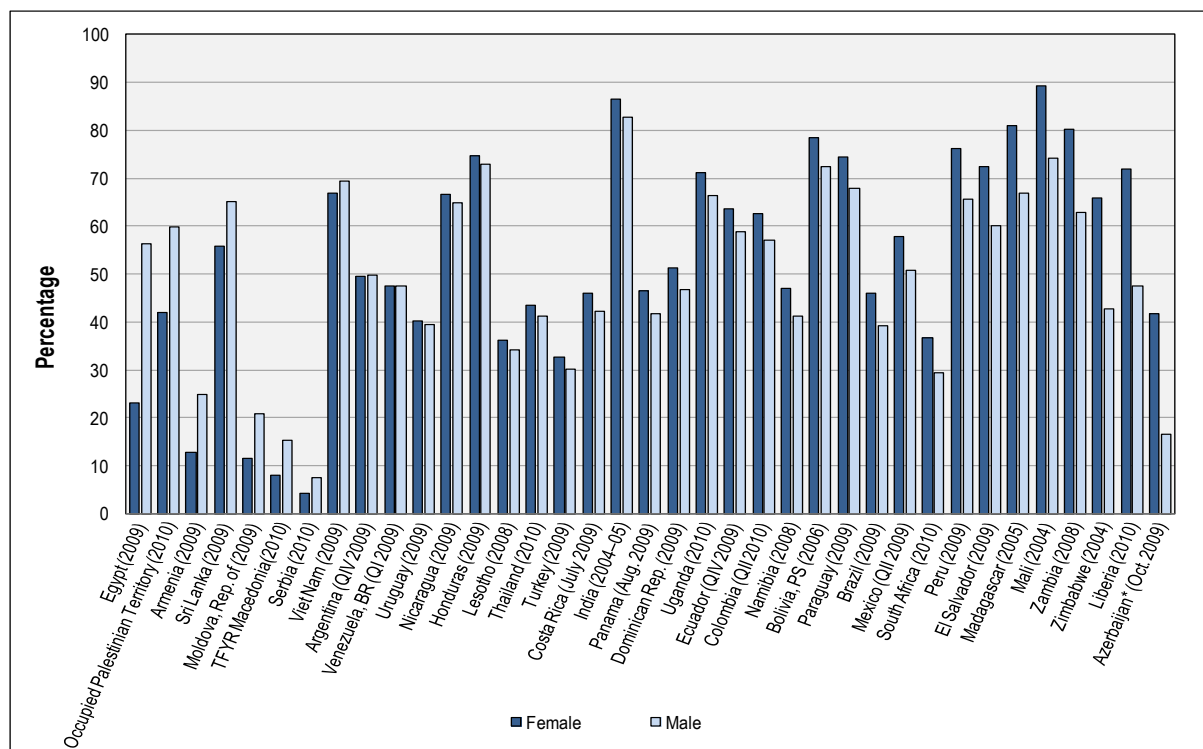
<sup>25</sup> ILO: *World of Work Report 2012: Better jobs for a better economy*, op. cit., p. 9.

<sup>26</sup> ILO: *Transitioning from the informal to the formal economy*, op. cit., p. 65.

<sup>27</sup> World Bank: *World Development Report 2013: Jobs* (Washington, DC, 2013), p. 212.

<sup>28</sup> ILO: *2010 Labour Overview: Latin America and the Caribbean* (Lima, 2010).

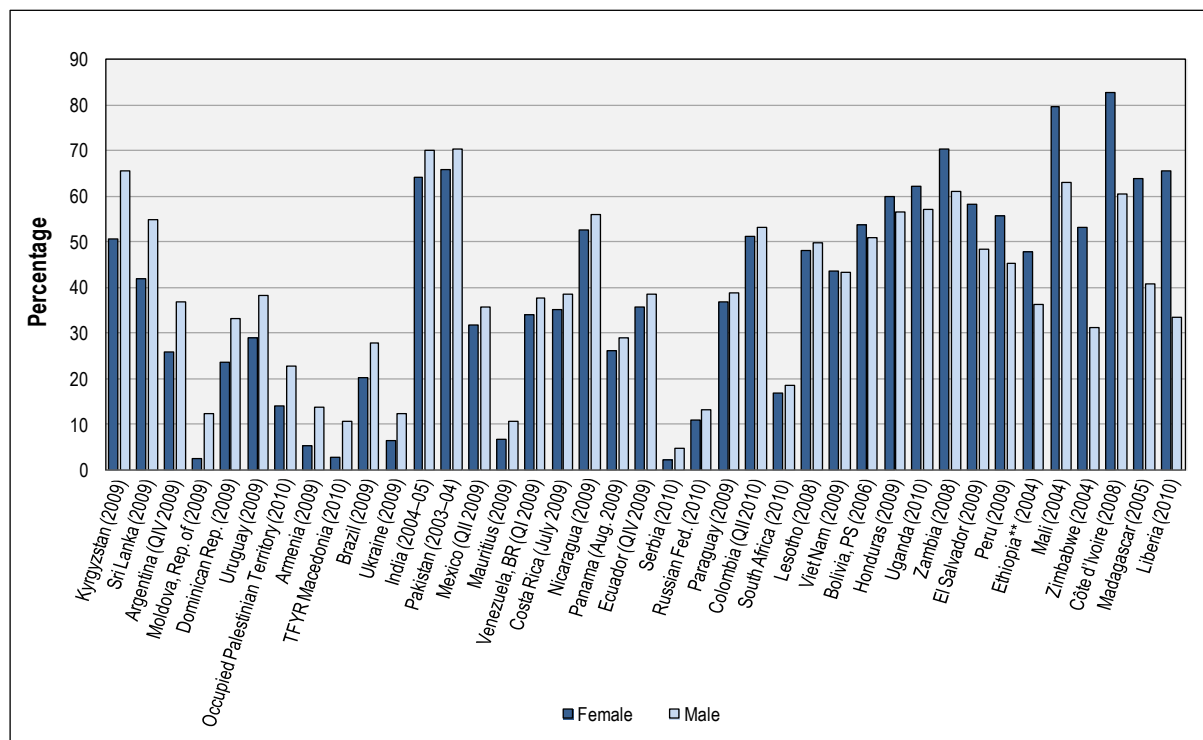
**Figure 1.5(a). Informal employment outside the informal sector as a percentage of non-agricultural employment, for selected countries, by sex, latest year available**



\* Employees only.

Source: ILO: Department of Statistics.

**Figure 1.5(b). Employment in the informal sector as percentage of non-agricultural employment, for selected countries, by sex, latest year available**



\*\* Urban areas only.

Source: ILO: Department of Statistics.

43. In all regions, disproportionate numbers of young people and women are in informal employment.<sup>29</sup> In Latin America, six out of ten employed young people could find only informal employment,<sup>30</sup> and in the Russian Federation, where informal employment overall is low, 50.9 per cent of all young workers entering the labour market for the first time are employed informally. In Armenia, 64.2 per cent of young people are in informal employment; in Egypt, the figure is 91.1 per cent. Informal work is often low-quality work, in poor conditions and with dismal prospects for skills and capacity building.<sup>31</sup>

44. In over two-thirds of the countries covered in a recent ILO survey, a higher proportion of women than men are in informal non-agricultural employment.<sup>32</sup>

45. The factors explaining the rise or decline in informality are complex and country-specific (see section 2.7). One reason why informal employment has increased in some countries and fallen in others is related to the speed and intensity of economic recovery.<sup>33</sup> In six of the countries where informal employment fell, employment rates grew; however, in others informality increased alongside economic and employment growth.<sup>34</sup>

46. It is clear from some of the examples above and a large amount of empirical evidence that sizeable informal economies can coexist with good growth performance. This is the case not only for developing countries but also for middle-income countries, especially in Asia.<sup>35</sup>

47. The most effective response to the challenge of formalization is a policy mix that addresses the specific causes of informality in each national context (see section 2.7).

### *Job insecurity*

48. Job insecurity is a pressing issue in many developed and developing countries. Though an agreed definition remains elusive, there is a general consensus that job insecurity includes both “objective” and “subjective” dimensions.<sup>36</sup> Whereas objective job insecurity stems from the specific features of the job and is mostly associated with involuntary temporary or part-time work (such as short-term contracts or a forced reduction in working hours) and involuntary overtime, subjective job insecurity is related more to individual perceptions, including the fear of losing one’s job.<sup>37</sup>

<sup>29</sup> ILO: *World of Work Report 2012: Better jobs for a better economy*, op. cit.

<sup>30</sup> ILO: *2011 Labour Overview: Latin America and the Caribbean* (Lima, 2011), p. 65.

<sup>31</sup> ILO: *Global Employment Trends for Youth 2013: A generation at risk*, op. cit., p. 43.

<sup>32</sup> ILO: *Employment and gender differences in the informal economy* (Geneva, 2012), [http://unstats.un.org/unsd/gender/Jordan\\_Mar2012/Presentations/Panel%201.b/Panel%201.b\\_1\\_ILO\\_informal%20employment%20Jordan%202012.pdf](http://unstats.un.org/unsd/gender/Jordan_Mar2012/Presentations/Panel%201.b/Panel%201.b_1_ILO_informal%20employment%20Jordan%202012.pdf).

<sup>33</sup> ILO: *World of Work Report 2012: Better jobs for a better economy*, op. cit.

<sup>34</sup> ILO: *Statistical update on employment in the informal economy* (Geneva, 2012).

<sup>35</sup> F. Lapeyre and A. Lemaître: *Politiques publiques et pratiques de l’économie informelle en Afrique subsaharienne* [Public policies and practices in the informal economy in sub-Saharan Africa] (Louvain-la-Neuve, Academia-L’Harmattan, forthcoming).

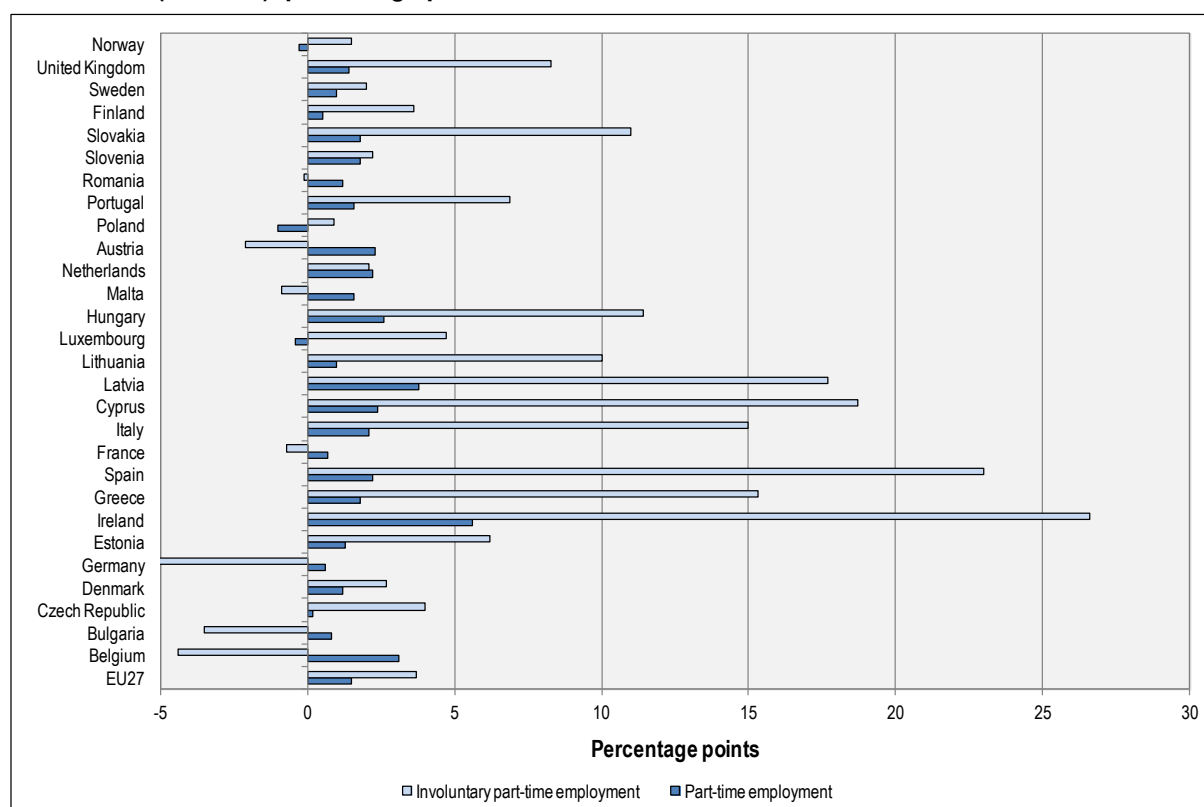
<sup>36</sup> H. De Witte: “Job insecurity: Review of the international literature on definitions, prevalence, antecedents and consequences”, in *SA Journal of Industrial Psychology* (2005, 31(4)), pp. 1–6; L. Greenhalgh and Z. Rosenblatt: “Evolution of research on job insecurity”, in *International Studies of Management and Organization* (2010, 40(1)), pp. 6–19. See also, E. Lozza et al.: “Temporary employment, job insecurity and their extraorganizational outcomes”, in *Economic and Industrial Democracy* (2013, 34(1)), pp. 89–105.

<sup>37</sup> D. Bustillo and P. Pedraza: “Determinants of job insecurity in five European countries”, in *European Journal of Industrial Relations* (2010, 16(1)), pp. 5–20.

49. In view of the dismal state of labour markets and the employment trends outlined above, it is not surprising that both subjective and objective job insecurity have remained high since 2010. The prevalence and pattern of job insecurity differ significantly from country to country; however, it affects women, young people and other vulnerable groups disproportionately in all countries.<sup>38</sup>

50. In developed countries, high levels of objective job insecurity persist.<sup>39</sup> Both involuntary temporary employment (defined as the inability of workers who are engaged in temporary employment to find permanent jobs<sup>40</sup>) and involuntary part-time employment (defined as the inability of workers who would prefer to work more to do so) have been problems since the onset of the global economic crisis.<sup>41</sup> As figure 1.6 shows, involuntary part-time employment has increased in nearly all European countries. In Spain in 2010, 56.2 per cent of men and 49.8 per cent of women working part-time were doing so because they could not find a full-time job.<sup>42</sup>

**Figure 1.6. Changes in part-time and involuntary part-time employment (2007–11), percentage points**



Note: The share of part-time employment is measured as the share of total employment; involuntary part-time employment is calculated as the share of total part-time employment.

Source: Eurostat: 2013.

<sup>38</sup> ILO: *Global Employment Trends 2012: Preventing a deeper jobs crisis* (Geneva, 2012), p. 9.

<sup>39</sup> ILO: *World of Work Report 2013: Repairing the economic and social fabric* (Geneva, 2013), p. 8.

<sup>40</sup> *ibid.*, p. 12.

<sup>41</sup> J. Messenger and J. Ray: *The “deconstruction” of part-time work* (Geneva, ILO, 2013), p. 5.

<sup>42</sup> C. Fagan et al.: *In search of good quality part-time employment: An international review* (Geneva, ILO, forthcoming).

51. Even in those developed countries where employment growth has resumed, the shares of involuntary temporary and part-time employment have increased. This has occurred in a third (for involuntary temporary employment) and half (for involuntary part-time employment) of the labour markets that performed best in terms of overall employment rates.<sup>43</sup> In Hungary, for instance, the 0.5 percentage point rise in the employment rate between 2010 and 2011 was accompanied by an increase of 4.2 percentage points in the proportion of involuntary part-time employment.<sup>44</sup>

52. Women in advanced economies suffer disproportionately from objective job insecurity. In Italy, for instance, adding underemployment to the unemployment total would increase the female unemployment rate by 3.2 percentage points, whereas for men the increase would be 2.2 percentage points.<sup>45</sup>

53. “Marginal” part-time work has also grown since the crisis. This is a complex phenomenon, but can be characterized as strongly atypical working-time arrangements marked by very short hours (usually 15 hours per week or less), widely varying lengths of shift, and a lack of predictability in working hours and work schedules. Examples include “work on demand” as a special type of “mini job” in Germany, “zero-hours contracts” in the United Kingdom, and casual employment in Australia. Given the high levels of vulnerability inherent in such arrangements, marginal part-time work demands close attention.<sup>46</sup>

54. Subjective job insecurity has also increased since the crisis in most EU countries.<sup>47</sup> As table 1.3 shows, Slovenia had the highest change in perceived likelihood of job loss between 2007 and 2012 at 24.9 percentage points, followed by Greece and Cyprus at 22.4 percentage points, and Ireland at 12.5 percentage points.

**Table 1.3. Level and dynamics of perceived job insecurity across Europe, 2007–12**

| Country        | Perceived job insecurity in 2007 (%) | Perceived job insecurity in 2010 (%) | Perceived job insecurity in 2012 (%) | Change in perceived job insecurity between 2007 and 2012 (percentage points) |
|----------------|--------------------------------------|--------------------------------------|--------------------------------------|------------------------------------------------------------------------------|
| Slovenia       | 8.8                                  | 9.5                                  | 33.7                                 | + 24.9                                                                       |
| Greece         | 8.2                                  | 36.5                                 | 30.6                                 | + 22.4                                                                       |
| Cyprus         | 9.3                                  | —                                    | 31.7                                 | + 22.4                                                                       |
| Ireland        | 5.2                                  | 20.5                                 | 17.7                                 | + 12.5                                                                       |
| Czech Republic | 9.9                                  | 21.8                                 | 21.9                                 | + 12.0                                                                       |
| Portugal       | 11.4                                 | 15.8                                 | 22.8                                 | + 11.4                                                                       |
| Spain          | 8.4                                  | 13.7                                 | 19.3                                 | + 10.9                                                                       |
| Italy          | 7.9                                  | —                                    | 14.9                                 | + 7.0                                                                        |

<sup>43</sup> ILO: *World of Work Report 2013: Repairing the economic and social fabric*, op. cit., p. 9.

<sup>44</sup> *ibid.*

<sup>45</sup> ILO: *Global Employment Trends for Women 2012* (Geneva, 2012), p. 12.

<sup>46</sup> J. Messenger and P. Wallot: *The diversity of “marginal” part-time employment*, ILO Research Brief Draft (Geneva, 2013).

<sup>47</sup> Data originate from the European Social Survey: *ESS-5 2010 Documentation Report*, Edition 2.0 (Brussels, 2012), and from Eurofound: *European Quality of Life Surveys* (Brussels, 2012).

| Country        | Perceived job insecurity in 2007 (%) | Perceived job insecurity in 2010 (%) | Perceived job insecurity in 2012 (%) | Change in perceived job insecurity between 2007 and 2012 (percentage points) |
|----------------|--------------------------------------|--------------------------------------|--------------------------------------|------------------------------------------------------------------------------|
| United Kingdom | 8.3                                  | 14.7                                 | 13.4                                 | + 5.1                                                                        |
| Hungary        | 8.2                                  | 18.0                                 | 12.1                                 | + 3.9                                                                        |
| France         | 11.1                                 | —                                    | 14.9                                 | + 3.7                                                                        |
| Denmark        | 9.3                                  | 10.0                                 | 11.6                                 | + 2.2                                                                        |
| Finland        | 13.4                                 | 7.7                                  | 11.6                                 | - 1.9                                                                        |
| Germany        | 6.1                                  | 10.8                                 | 3.7                                  | - 2.4                                                                        |

— = no data available.

Source: European Social Survey, 2012, and European Quality of Life Surveys (Eurofound, 2013) (see footnote 47).

55. Job insecurity is also high in emerging economies and developing countries, where the higher incidence of informality and of working poverty by definition render those affected more vulnerable and insecure.

56. Moreover, some developing countries are experiencing increases in involuntary part-time and temporary employment similar to those seen in developed countries. For instance, 11.5 per cent of the employed population in Indonesia in 2011 and around 20 per cent of the labour force in the Philippines in 2013 indicated that they would prefer to work more hours; both figures are higher than in earlier years. In Egypt, 11.2 per cent of young people aged 15–29 had been in non-satisfactory self-employment or involuntary temporary employment in 2012: again, this is an increase on earlier years.

57. Job insecurity has numerous negative implications both for those directly affected and for the wider society.<sup>48</sup> It has serious effects on employees' physical and psychological health and well-being.<sup>49</sup> It also has negative effects on the workplace, including low work commitment, weak employee–employer relationships, absenteeism and low job satisfaction.<sup>50</sup>

58. In the wider society, job insecurity affects both long-term life plans (such as getting married, having children)<sup>51</sup> and consumer behaviour (such as buying a house, investing in children's education). Recent research provides evidence that job insecurity increases a worker's motivation to save monthly income and also reduces consumption by other members of the household.<sup>52</sup>

<sup>48</sup> E. Lozza et al.: 2013, op. cit., p. 90.

<sup>49</sup> N. De Cuyper et al.: "Objective threat of unemployment and situational uncertainty during a restructuring: Associations with perceived job insecurity and strain", in *Journal of Business and Psychology* (2010, 25(1)), pp. 75–85.

<sup>50</sup> T. Staufenbiel and C. König: "A model for the effects of job insecurity on performance, turnover intention, and absenteeism", in *Journal of Occupational and Organizational Psychology* (2010, 83(1)), pp. 101–117.

<sup>51</sup> E. Lozza et al.: 2013, op. cit.

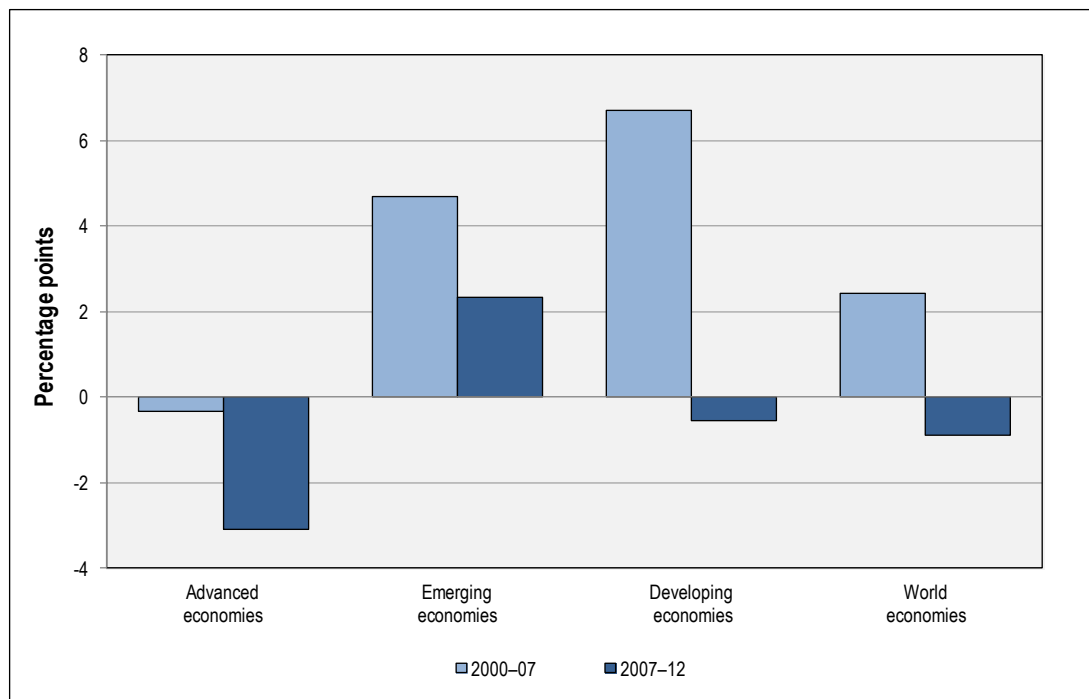
<sup>52</sup> M. Klemm: *The impact of job insecurity on the saving behavior of German households* (DIW Berlin, 2010), pp. 1–26.

59. Job insecurity puts additional financial pressure on social security systems, because workers in involuntary temporary or part-time employment are often still dependent on wage subsidies or welfare benefits where these are available.<sup>53</sup>

#### *An uncertain environment for enterprises*

60. In recent years, the economic crisis, and the sluggish demand and credit crunch that followed, have created a highly uncertain environment for enterprises in many countries, leading to job losses and falling investment (see figure 1.7).

**Figure 1.7. Changes in investment as a share of gross domestic product (GDP) (percentage points)**



Note: Total investment refers to gross fixed capital formation by the public and private sectors. Averages are weighted based upon 2011 GDP at purchasing power parity.

Source: *World of Work Report 2013*; see footnote 39.

61. The post-crisis recovery in foreign direct investment that started in 2010 and 2011 stalled in 2012, when inflows fell by 18 per cent from the previous year to below the pre-crisis level. In 2013, inflows stagnated in developed economies but increased slightly in developing economies.<sup>54</sup> This stagnation can be attributed to structural weaknesses in the global financial system, weak growth in the EU and significant policy uncertainties in areas crucial for investor confidence.

<sup>53</sup> ILO: *New developments in work sharing in middle-income countries*, TRAVAIL Policy Brief No. 2 (Geneva, 2010), p. 4.

<sup>54</sup> United Nations Conference on Trade and Development (UNCTAD): *World Investment Report 2013: Global value chains: Investment and trade for development* (Geneva, 2013); World Bank: *Global Economic Prospects*, Jan. 2014; UNCTAD: *Global Investment Trends Monitor*, No. 15, Jan. 2014.

62. The private sector is the main engine of job creation and the source of almost nine in ten jobs in the world,<sup>55</sup> with little variation across region or development level.<sup>56</sup> The bulk of this employment is generated in small and medium-sized enterprises (SMEs), which provide two-thirds of the jobs. More important than the share in total employment, however, is the net job creation of SMEs. On average, 68 per cent of all new jobs in the group of 20 major economies (G20) countries are generated in SMEs. In developing countries, this share is even higher, at 90 per cent.<sup>57</sup>

63. The impact of the crisis differs according to the type and size of firm. Figures from Europe show that between 2008 and 2010 the number of jobs in SMEs fell by an average of 2.4 per cent annually as opposed to 1 per cent in large enterprises.<sup>58</sup> While micro-, small and medium-sized enterprises (MSMEs) in the informal economy were hit by the crisis as hard as those in the formal economy, they benefited the least from the policy response. Interestingly, cooperatives appear to have been less affected by the crisis.<sup>59</sup>

64. Start-ups are a particularly important source of new jobs. At the height of the crisis, start-up rates fell precipitously in all OECD countries where data are available. In the second quarter of 2009, start-up rates began picking up again, towards pre-crisis levels, but since the last quarter of 2011, this momentum appears to have stalled, particularly in the Eurozone and the United States – among other reasons, because of limited access to finance and restrictive lending conditions.<sup>60</sup>

65. Data on bankruptcies are not easily comparable across countries, as they are affected by national legislation; however, data for Australia and the United Kingdom are broadly consistent with higher levels of business entry and exit rates, with slightly higher bankruptcy rates in recent years. Bankruptcy rates for the United States are significantly below the peaks reached at the height of the crisis and have followed a strong downward trend in recent years. Bankruptcy rates in both France and Norway have recently stabilized close to pre-crisis levels.<sup>61</sup>

### 1.1.2. Policy responses during the crisis and its aftermath

66. When the G20 Leaders met in London in April 2009, the emphasis was on global coordination of fiscal stimulus packages to stave off a severe global recession.<sup>62</sup> According to an ILO–World Bank policy inventory of 77 countries, the vast majority of countries at all income levels enacted fiscal stimulus packages entailing a combination of

<sup>55</sup> World Bank: *World Development Report 2013: Jobs*, op. cit.

<sup>56</sup> AfDB: *Supporting the transformation of the private sector in Africa: Private Sector Development Strategy of the African Development Bank Group 2012–2017* (Abidjan, 2012); United Nations Economic Commission for Latin America and the Caribbean (UNECLAC): *Social panorama of Latin America 2009* (Santiago de Chile, 2010).

<sup>57</sup> ILO and the German Agency for International Cooperation (GIZ): *Is small still beautiful? Literature review of recent empirical evidence on the contribution of SMEs to employment creation* (Geneva and Eschborn, 2013).

<sup>58</sup> J. De Kok et al.: *Do SMEs create more and better jobs?* (Zoetermeer, 2011).

<sup>59</sup> ILO: *What have cooperatives got to do with the post-2015 development framework and sustainable development goals?* (Geneva, 2013).

<sup>60</sup> OECD: *Entrepreneurship at a glance 2013* (Paris, 2013).

<sup>61</sup> OECD: Timely Indicators of Entrepreneurship (ISIC4), OECD StatExtracts: [http://stats.oecd.org/Index.aspx?DataSetCode=TIMELY\\_BDS\\_ISIC4](http://stats.oecd.org/Index.aspx?DataSetCode=TIMELY_BDS_ISIC4).

<sup>62</sup> G20: *London Summit Leaders' Statement*, 2 Apr. 2009, [http://www.g20.org/sites/default/files/g20\\_resources/library/London\\_Declaration.pdf](http://www.g20.org/sites/default/files/g20_resources/library/London_Declaration.pdf).

tax rebates and expenditure increases.<sup>63</sup> This response was complemented by monetary and related policies to boost labour demand. High-income countries focused on facilitating access to credit, while low- and middle-income countries prioritized direct job creation and employment incentives.

67. On the supply side, countries at all income levels gave priority to skills and training measures, but high-income countries had more resources to provide support to young people during the crisis.

68. Support for enterprises, especially SMEs, was one of the five most important measures taken to generate labour demand; the others were direct job creation, improving access to credit, offering subsidies to employers for maintaining jobs and lowering non-wage labour costs.

69. In June 2010, the G20 Leaders declared at the Toronto Summit that the “advanced economies have committed to fiscal plans that will at least halve deficits by 2013 and stabilize or reduce government debt-to-GDP ratios by 2016”. The G20 Declaration was based on the premise that a global recovery was well under way and an exit strategy from the fiscal stimulus packages would be appropriate.<sup>64</sup>

### **Box 1.1 The Global Jobs Pact**

The Global Jobs Pact, adopted by the ILC in June 2009, contains a portfolio of policies that countries, with the support of regional and international institutions, can adopt to promote economic recovery and jobs, protect people and rebalance policies in line with a more sustainable and inclusive growth process and a fairer globalization.

The key elements of the Office's strategy to encourage constituents to utilize the Global Jobs Pact included technical support, research and analysis, knowledge sharing and capacity building, and international policy dialogue.

Some countries requested the Office to facilitate an integrated application of the Pact. To this effect the Office developed an integrated diagnostic application of crisis response policies, entitled “Global Jobs Pact country scans”. By December 2011, country scans had been published for Argentina, Bulgaria, El Salvador, Indonesia, Jordan, Mongolia and South Africa, and national policy dialogues had been developed in those countries, based on the scans, to strengthen crisis response packages. Roadmaps or other forms of action plans had been adopted in four countries, the most prominent example being the Indonesian Jobs Pact.

A review in late 2011 of these integrated applications of the Global Jobs Pact showed that, in spite of delays in some cases, the scan, the subsequent dialogue between the ILO and constituents, social dialogue around a roadmap and capacity-building support had a positive influence on national consultations and recovery policies.

70. The policy shift from stimulus to consolidation between late 2009 and early 2010 was triggered by the emerging Eurozone sovereign debt crisis. As a result, the issue of sustainable levels of public debt and fiscal deficit came to occupy centre stage in policy discussions.

<sup>63</sup> ILO and World Bank: *Inventory of policy responses to the financial and economic crises, Joint synthesis report* (Geneva and Washington, DC, 2012). The inventory uses a sample of 77 countries, including 22 countries from Europe and Central Asia; for a detailed analysis by country, see: <http://www.ilo.org/dyn/crisis-inventory/f?p=17030:2:6463839110160789::NO>.

<sup>64</sup> G20: *The G20 Toronto Summit Declaration*, Toronto, 26–27 June 2010, [http://www.g20.org/sites/default/files/g20\\_resources/library/Toronto\\_Declaration\\_eng.pdf](http://www.g20.org/sites/default/files/g20_resources/library/Toronto_Declaration_eng.pdf).

71. Another factor encouraging the shift towards fiscal austerity was the apparent success of the combination of financial bailout and fiscal stimulus in preventing the catastrophe of a second Great Depression. An IMF staff discussion note offers a succinct statement of this view. It suggests that a “strong fiscal stimulus” was appropriate “early in the crisis”, and “prevented a much worse decrease in demand than actually took place. Once the collapse was averted, the increase in debt ... led the IMF to recommend a shift from fiscal stimulus to fiscal consolidation”.<sup>65</sup>

72. By the end of 2013, opinions were sharply divided regarding the effectiveness of the policy measures already taken and the appropriate course of action from this point onwards. Advocates of austerity based their case on the notion of “expansionary fiscal contraction”, whereby a return to fiscal prudence would increase confidence among business and financial markets and thereby pave the way for a resumption of growth, outweighing the negative impact on aggregate demand. This proposition was based on an influential study that claimed to provide empirical evidence of episodes when fiscal consolidation had resulted in higher growth.<sup>66</sup> Further support was drawn from another influential study that claimed to show, drawing on the historical experience of advanced economies, that a ratio of public debt to GDP of over 90 per cent resulted in significantly lower growth.<sup>67</sup>

73. Critics of fiscal consolidation have reacted by pointing out that the latter study, which claimed that public debt above a certain threshold results in lower growth, has serious technical flaws.<sup>68</sup> At the same time, it is clear that neither interest rates nor inflation have risen as a result of the stimulus programmes introduced in the immediate aftermath of the crisis.

74. Opponents of austerity highlight the significant social cost that it has imposed on vulnerable groups in society, from cuts in public sector employment, public services, housing benefits, child allowances and disability benefits to inadequate increases in active labour market policies.

75. The case against fiscal austerity has been strengthened by new evidence that the multiplier effects of public expenditures are much higher in crisis periods (especially at the beginning) than under normal economic conditions.<sup>69</sup> Moreover, a fiscal stimulus is the only available macroeconomic policy instrument, since conventional monetary policies are ineffective in a depressed economy facing a Keynesian liquidity trap when nominal interest rates are near zero and so cannot be lowered any further in order to boost growth. Attempts have been made by major central banks in the advanced economies to circumvent this constraint through the adoption of unconventional monetary policy measures, but their efficacy remains contested.<sup>70</sup>

<sup>65</sup> IMF: *Labor market policies and IMF advice in advanced economies during the great recession*, op. cit., p. 14.

<sup>66</sup> A. Alesina: *Fiscal adjustments: Lessons from recent history*, Conference Report for the Ecofin meeting, Madrid, 15 Apr. 2010 (Harvard University).

<sup>67</sup> C. Reinhart and K. Rogoff: “Growth in a time of debt”, in *American Economic Review* (2010, 100(2)), pp. 573–578.

<sup>68</sup> T. Herndon, M. Ash and R. Pollin: *Does high public debt consistently stifle economic growth? A critique of Reinhart and Rogoff*, Political Economy Research Institute Working Paper No. 322 (Amherst, University of Massachusetts, 2013).

<sup>69</sup> O. Blanchard and D. Leigh: *Growth forecast errors and fiscal multipliers*, IMF Working Paper 13/1 (Washington, DC, 2013). See also, D. Holland and J. Portes: “Self-defeating austerity?” in *National Institute of Economic Review* (2012, 11(1)).

<sup>70</sup> M. Woodford: *Methods of policy accommodation at the interest-rate lower bound*, paper prepared for presentation at the Jackson Hole Symposium “The Changing Policy Landscape”, 31 Aug.–1 Sep. 2012.

76. Fiscal expansion directed towards productive investment in a period of slow growth is also a more effective path than austerity to achieve fiscal consolidation. The higher growth generated will mean that a given level of public debt will become a smaller proportion of the new higher level of GDP. Government revenues will also increase as GDP rises. Proponents of fiscal stimulus also claim that the consequent reduction in long-term unemployment would mitigate hysteresis effects, whereby unemployment continues at higher levels than before the crisis even after recovery, by avoiding the loss of skills caused by prolonged detachment from the labour market that allows hysteresis to set in.

77. Yet another benefit of a stimulus programme is that if it is designed to focus on much-needed investment in productive economic and social infrastructure it will yield long-term benefits by enhancing the growth potential of the economy. Given the current environment of low real interest rates, the cost–benefit ratio of such investment would be attractively high: indeed, it would in effect be self-financing over the medium term in which the growth-enhancing benefits of these investments would be achieved.<sup>71</sup>

78. Proponents of fiscal stimulus accept that due attention must be paid to the perceived risks associated with unsustainable public finances. Announcing credible medium-term targets for fiscal consolidation would reassure financial markets that an initial increase in debt to finance a stimulus programme did not indicate a total disregard for the level of public debt. The first step is to signal that governments are serious about medium-term fiscal consolidation and have a credible plan to achieve this after a time-bound programme of fiscal stimulus has been implemented. After the stimulus phase, the economy should be well on the road to recovery and hence in a better situation to reduce debt over the medium term.

79. The policy responses recently adopted by Japan show the potential practical benefits of such an approach. In November 2012, Japan introduced a new policy combining quantitative easing with fiscal stimulus. Early indications are positive: the unemployment rate is at its lowest level in five years, while forecasts suggest that quarterly growth has accelerated. At the same time, the Government has signalled its intention to deal with high public debt within a medium-term framework through an increase in sales tax to generate more revenue to counter the increase in fiscal deficit resulting from the fiscal stimulus package.<sup>72</sup>

80. While macroeconomic policy has been central to the debate on responses to the crisis, it is by no means the only important policy from the standpoint of employment. There have been significant differences among countries with respect to the emphasis given to active labour market policies, wage policies, wage subsidies, work-sharing schemes and social dialogue.

81. Some countries have stepped up expenditure on active labour market policies in an attempt to stem the rise in long-term and youth unemployment. Such policies, as noted above, are also important for preventing hysteresis effects.

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<sup>71</sup> For example, B. De Long and L. Summers: *Fiscal policy in a depressed economy*, Brookings Paper on Economic Activity, Spring 2012, pp. 233–298. The authors have developed a formal model to support this “self-financing thesis”.

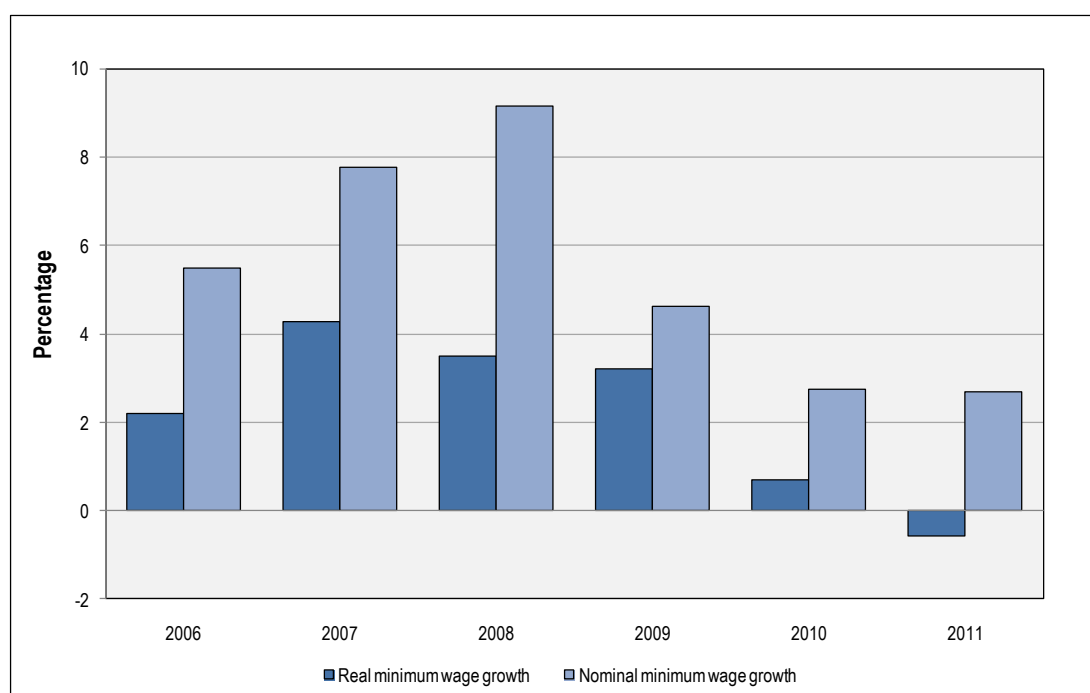
<sup>72</sup> New York Times: “Japan’s central bank votes to maintain stimulus plans”, 5 Sep. 2013, <http://www.nytimes.com/2013/09/06/business/global/central-bank-says-japans-economy-is-recovering.html>.

82. It is interesting to note that measures have targeted youth employment in particular, even in countries with a strong focus on austerity.<sup>73</sup>

83. In the context of stimulus programmes, wage subsidies and work-sharing schemes have been introduced in several countries. Such measures help to increase employment, both directly through the incentive effect and indirectly through the positive impact of additional employment on aggregate demand. Such schemes were particularly effective in Germany, where shorter working hours implemented through cooperation between social partners helped companies to remain in business while also keeping employees attached to the labour market.

84. In developed countries, policy-makers actively used the minimum wage as a means to enhance income security for the most vulnerable workers from the beginning of the crisis until 2009; however, in later years, the minimum wage was in most cases adjusted only with a view to compensating for inflation, usually in an attempt to maintain employment rates (see figure 1.8). Minimum wages are also used in a large majority of emerging and developing economies, though in many the rates remain below the poverty line or household subsistence level.<sup>74</sup>

**Figure 1.8. Minimum-wage growth in developed economies, 2008–11**



Note: Based on an unweighted simple average of estimated growth rates of real and nominal minimum wages in 26 developed economies.

Source: ILO: Global Wage Database.

85. Recovery from the current slowdown remains at the top of the G20 agenda. Leaders at the Saint Petersburg Summit in September 2013 reaffirmed that: “Strengthening growth and creating jobs is our top priority and we are fully committed to taking decisive actions to return to a job-rich, strong, sustainable and balanced growth

<sup>73</sup> The ILO Employment Policy Department collects information on youth employment policies on a regular basis in order to analyse youth employment policy trends around the world.

<sup>74</sup> ILO: General Survey of 2014 on minimum wage fixing instruments (Geneva, 2013).

path.” They further noted: “We are committed to working cooperatively to address key global economic challenges [including] ... unemployment and underemployment, particularly among young people. We are united in the resolve to achieve better quality and more productive jobs. Coordinated and integrated public policies (macroeconomic, financial, fiscal, education, skills development, innovation, employment and social protection) are key to reach this goal.”<sup>75</sup>

## 1.2. Structural trends and drivers of change

86. Beyond the impact of the crisis, it is essential that policy-makers and ILO constituents have a clear understanding of the long-term structural trends that are profoundly changing the world of work, and of how they affect labour markets. This section of the report will discuss some of these key trends and drivers of change, and the main challenges they pose for employment policy in developed and developing countries.

### 1.2.1. Globalization, the new geography of growth and the challenges of structural transformation, competitiveness and productivity

87. Globalization has been the main driver of change in growth and employment patterns in the global economy since the 1990s. It has been characterized by the rapid growth of international trade, investment and financial flows made possible by a wave of economic liberalization across both developed and developing countries. The emergence of new information and communications technologies (ICT) has made the coordination of complex multinational production systems much more economical and simpler.

88. These developments have greatly expanded the opportunities open to developing countries seeking integration into the global economy, from exporting primary commodities and/or finished manufactured products to finding a niche within global production systems and participating in the burgeoning trade in services. The traditional view of service-sector activities as non-tradable has been overturned, resulting in the rapid expansion of trade in services, including offshoring of service-sector jobs to some developing countries. Beginning with simple repetitive tasks such as data entry and processing, the process of offshoring has since worked its way up the skill ladder through intermediate occupations such as call centre work to include an array of complex professional tasks.

89. Since 1990, a new geography of growth has emerged, with the average rate of economic growth of developing countries, taken as a group, consistently higher than that of high-income countries. Between 1990 and 2000, the annual average growth rate of developing countries was 4.2 per cent, slightly more than double the 2.0 per cent achieved by high-income countries. Between 2000 and 2012, this difference widened considerably, with developing countries growing at 6.3 per cent a year and high-income countries at only 1.7 per cent.<sup>76</sup>

90. This remarkable growth occurred in all developing regions, in contrast to the growth of earlier decades that was driven largely by growth in the Asian region, including Asia’s newly industrializing countries as well as China and India. Between 2000 and 2012, annual growth in Africa was 5.0 per cent, second only to the 9.3 per cent achieved in the Asia and

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<sup>75</sup> G20: *G20 Leaders’ Declaration*, Saint Petersburg Summit, 5–6 Sep. 2013, p. 3, [http://www.g20.org/sites/default/files/g20\\_resources/library/Saint\\_Petersburg\\_Declaration\\_ENG.pdf](http://www.g20.org/sites/default/files/g20_resources/library/Saint_Petersburg_Declaration_ENG.pdf).

<sup>76</sup> World Bank: *World Development Indicators Database*, 2013.

the Pacific region. The corresponding figures for Latin America and the Caribbean and for the Middle East and North Africa were 3.5 and 4.5 per cent, respectively.<sup>77</sup>

91. These growth rate trends have seen the developing countries' share of global GDP rise from 17 per cent in 1990 to 36 per cent in 2012, and their contribution to the growth of the global economy increase from 28 per cent in 1990 to approximately 40 per cent from 2003 to 2007 – and further still to nearly 75 per cent since 2008.<sup>78</sup> With the advanced economies struggling to restore growth even to pre-crisis levels, this growth distribution is unlikely to change soon.

92. Optimists maintain that the new global economy will be a powerful engine for growth and employment creation and that an expanding global economy will allow more and more developing countries to join the “convergence club” of countries whose per capita income is growing faster than that of the advanced countries.

93. Other researchers, however, emphasize that so far only a few developing countries have achieved rapid export-led industrialization or gained a share of the offshore service-sector jobs. Similarly, foreign direct investment and other financial flows have been highly concentrated on a small number of successful countries. For example, in 2012, even though nine of the top 20 economies receiving foreign direct investment were developing economies, the bulk of these inflows went to Brazil and China, and not one of the top 20 was an African country.<sup>79</sup>

94. Overall, it has been very difficult to maintain high growth over several decades. The list of countries that have sustained per capita growth exceeding 4.5 per cent per annum for three decades or more since 1950 is very short, and consists of countries in southern Europe, those that have experienced a mineral boom, and the “tigers” of East and South-East Asia. A number of Asian middle-income countries, including China, are faced with what is called the “middle-income trap”, finding it difficult to move up into the high-income bracket.

95. Similarly, there is much to applaud in the growth revival in Africa: not only did growth accelerate in the 2000s, in 2012 the continent attracted rising inflows of foreign direct investment at a time when such inflows were declining in aggregate.<sup>80</sup> Nevertheless, from a long-term perspective, the growth revival in Africa is merely offsetting the long period of decline in median growth rates between 1980 and the mid-1990s – a phenomenon that has been referred to as the “lost decades”, not merely for Africa, but for the developing world as a whole.<sup>81</sup>

96. To date, relatively few developing countries have managed to initiate a process of productive structural transformation led by the manufacturing sector and based on technological change. The Republic of Korea, Taiwan (China) and Hong Kong (China) are often cited as examples of what developing economies can achieve. They have succeeded in moving from the simple assembly of imported inputs to the highest stage of industrial development, with original brand-name manufacturers that are players in the global industry in their own right. They have also built up a regional supply chain that has

<sup>77</sup> *ibid.*

<sup>78</sup> UNCTAD: *Trade and Development Report, 2013* (New York and Geneva, 2013).

<sup>79</sup> UNCTAD: *World Investment Report 2013: Global value chains – Investment and trade for development* (New York and Geneva, 2013), p. xiv.

<sup>80</sup> *ibid.*

<sup>81</sup> W. Easterly: “The lost decades: Developing countries’ stagnation in spite of policy reform 1980–1998”, in *Journal of Economic Growth* (2001, 6(2)), pp. 135–157.

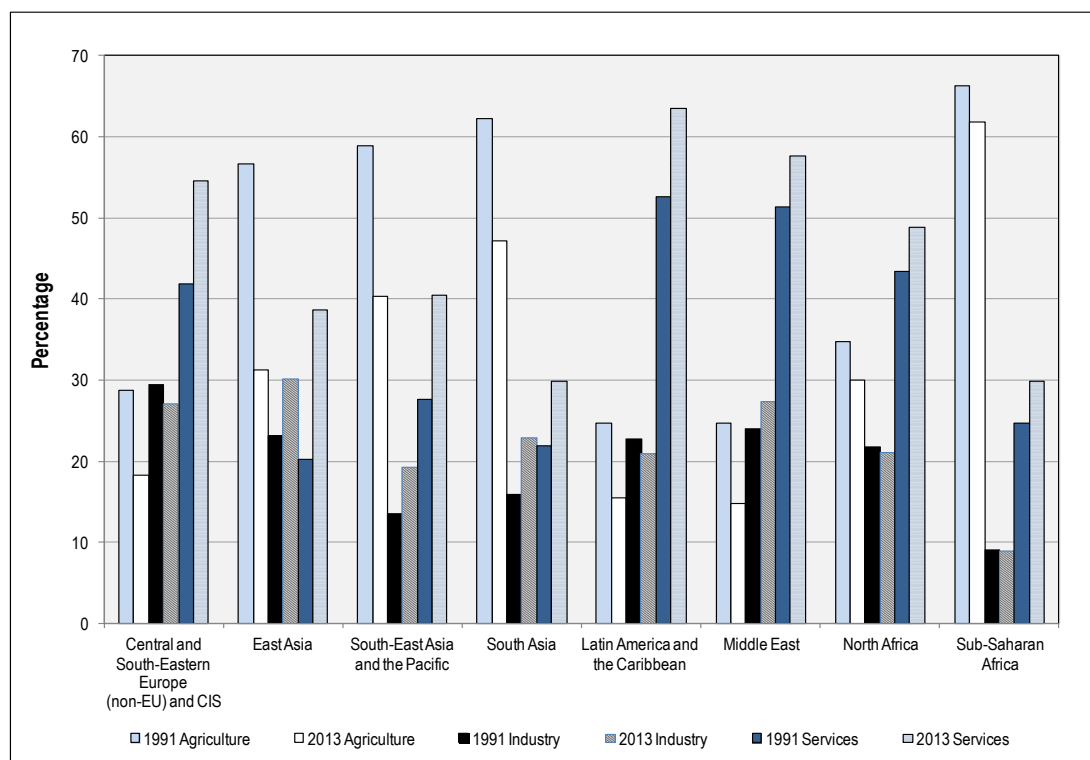
provided an entry point into manufacturing activities for lower income Asian countries. The introduction of new technologies led to improved growth and competitiveness at both enterprise level and sectoral level (through increased market shares and reduced production costs), encouraging investment that led to the creation of new jobs.

97. It is important to note the contribution made by the distribution of productivity gains to workers through both earnings and working time over the course of individuals' working lives, thereby offsetting the effects of labour-displacing technological change. Such factors in those economies' success are now less apparent, with the wage share of national income falling in many countries alongside the weakening of labour market institutions and the growth of non-traditional forms of work.

98. However, rapid technology transfer from richer to poorer countries is not always beneficial. It often exacerbates the phenomenon of jobless growth, given the typically greater capital intensity of production methods in richer countries. Its potentially positive impact may also be hampered by a workforce unprepared for the demands of the technology.

99. These factors help to explain why developing countries in other regions have struggled to repeat the success of the East Asian examples. While a growing number have created labour-intensive industries, especially in the garment and footwear sector, very few have moved much further up the value-added chain.<sup>82</sup> At the same time, leapfrogging from agriculture to services has perpetuated the predominance of informal employment and encouraged the development of the low-productivity segment of the service sector. Indeed, as figure 1.9 shows, the industry share of employment has increased less than the services share in all regions over the last two decades – even in East Asia.

**Figure 1.9. Employment shares by sector, 1991 and 2013**



Source: ILO: Trends Econometric Models, Oct. 2013.

<sup>82</sup> R. Wade: "After the crisis: Industrial policy and the developmental state in low-income countries", in *Global Policy* (2010, 1(2)), p. 152.

100. Some have expressed concerns about “premature de-industrialization” in the developing world. The basic thesis is that the transition from manufacturing to services is occurring at much lower levels of income in developing countries than in the historical experience of the industrialized countries. As a result, developing countries are unable to reap the benefits of higher productivity associated with manufacturing-led structural transformation and thus to reduce the productivity gap between rich and poor countries.<sup>83</sup>

101. At the same time, new thinking on active policies for the promotion of productive structural transformation is moving forward. Investment in industrial production plays an important role in stimulating productivity growth, both by increasing capacity and by introducing technological change, and a rapidly growing industrial sector boosts aggregate demand and stimulates further investment and technological change.<sup>84</sup>

102. A recent report by the McKinsey Global Institute on employment in Africa advocates “targeted strategies implemented by government and business leaders to spur growth in sectors with the greatest job creation potential”.<sup>85</sup> This will involve “an end-to-end approach that removes the many barriers to growth along specific industry value chains and puts in place the infrastructure, financing, business environment, and workforce skills needed for the target industries to thrive”.<sup>86</sup> These active policies can be applied not only to manufacturing but also to high-productivity areas of agriculture<sup>87</sup> and to modern services, provided that the industries targeted have the potential to create productive jobs. Also, agricultural diversification will remain a core part of any growth and employment promotion strategy in a number of African countries over the next five to ten years.<sup>88</sup>

103. An important theme in the discussion on structural transformation is the relationship between employment and productivity. Recent work in the ILO on the linkages between employment and productivity highlights, first, that productivity growth is driven by both intrasectoral and intersectoral allocation of resources and, second, that a negative relationship between employment growth and labour productivity growth can be detected for the full sample of countries and for all subsamples by income levels.<sup>89</sup>

104. Nevertheless, some are optimistic that the convergence between developing countries and advanced countries of the past two decades can be sustained, since the factors that made it possible will persist. Investment rates in developing countries have been higher than in the advanced countries, and this can easily be maintained.<sup>90</sup> At the same time, the “demographic dividend” (see section 1.2.2) that many developing countries enjoy will continue for several more decades.

<sup>83</sup> D. Rodrik: “The perils of premature deindustrialization”, in *Project Syndicate* (2013, 11 Oct.).

<sup>84</sup> UNCTAD: *World Investment Report 2013: Global value chains – Investment and trade for development*.

<sup>85</sup> McKinsey: *Africa at work: Job creation and inclusive growth* (2012), p. 2.

<sup>86</sup> *ibid.*, p. 3.

<sup>87</sup> This will be an important aspect discussed under the ACI on decent work in the rural economy.

<sup>88</sup> C. Hidalgo: *Discovering Southern and East Africa’s industrial opportunities*, Economic Policy Paper Series 2011, The German Marshall Fund of the United States (Washington, DC, 2011).

<sup>89</sup> I. Islam and D. Kucera: *Beyond macroeconomic stability: Structural transformation and inclusive development* (Geneva, ILO and Palgrave Macmillan, 2014), Chapter 5; and P.N. Junankar: *Is there a trade-off between employment and productivity?*, IZA Discussion Paper No. 7717 (Nov. 2013).

<sup>90</sup> K. Dervis: “Convergence, interdependence and divergence”, in *Finance and Development* (2012, 49(3), Sep.).

105. Even so, while globalization has vastly expanded the opportunities available for developing countries to accelerate growth and employment creation, formidable obstacles remain.

106. The process of globalization and development is inherently uneven. Investment tends to concentrate in countries that can provide a minimum critical mass of good infrastructure, skills and supporting services required by multinational companies. The key problem is that small differences in initial conditions tend to be cumulative, heightening barriers for latecomers and so hindering generalized convergence among countries.

107. Some of these obstacles can only be overcome by collaborative action at the global level; but there are also serious challenges for national policy, including employment policy, in managing successful integration into the global economy.

108. Discussion of the new geography of growth must therefore consider the prospects for convergence and structural transformation from the perspectives of both employment and development. The major policy challenge is how to convert the developing world's good growth performance of recent years into tangible and widely shared benefits in employment and social welfare.

109. Policies conducive to macroeconomic stability, market liberalization and good economic governance are necessary but not sufficient conditions of success. Active promotion of structural transformation into high-productivity activities is also essential.<sup>91</sup> An employment-friendly macroeconomic framework (as discussed in section 2.2) will provide the foundation for sustainable growth that fosters the creation of high-quality jobs.

110. Policies that foster both investment and industrial production should play a key role in national employment strategies. They should be combined with income distribution and wage policies that aim for an equitable sharing of productivity gains. This dual-track approach is likely to be the most appropriate in dealing with the employment–productivity linkages.

### 1.2.2. The new demographic context

111. The 2013 ILC discussed the wide-ranging employment and social protection implications of the current and future demographic context.<sup>92</sup>

112. The global population will continue to increase, from 6.9 billion in 2010 to 9.3 billion in 2050, despite decreasing fertility trends. This population increase will be concentrated in less-developed regions, while the populations of the more developed regions remain stable. Future population growth is expected to occur almost exclusively in urban areas.

113. Almost all developed countries have fertility rates below the 2.1 children per woman necessary to maintain a population size at its current level. By 2040–45, Africa will be the only region with a fertility rate considerably above the replacement level.

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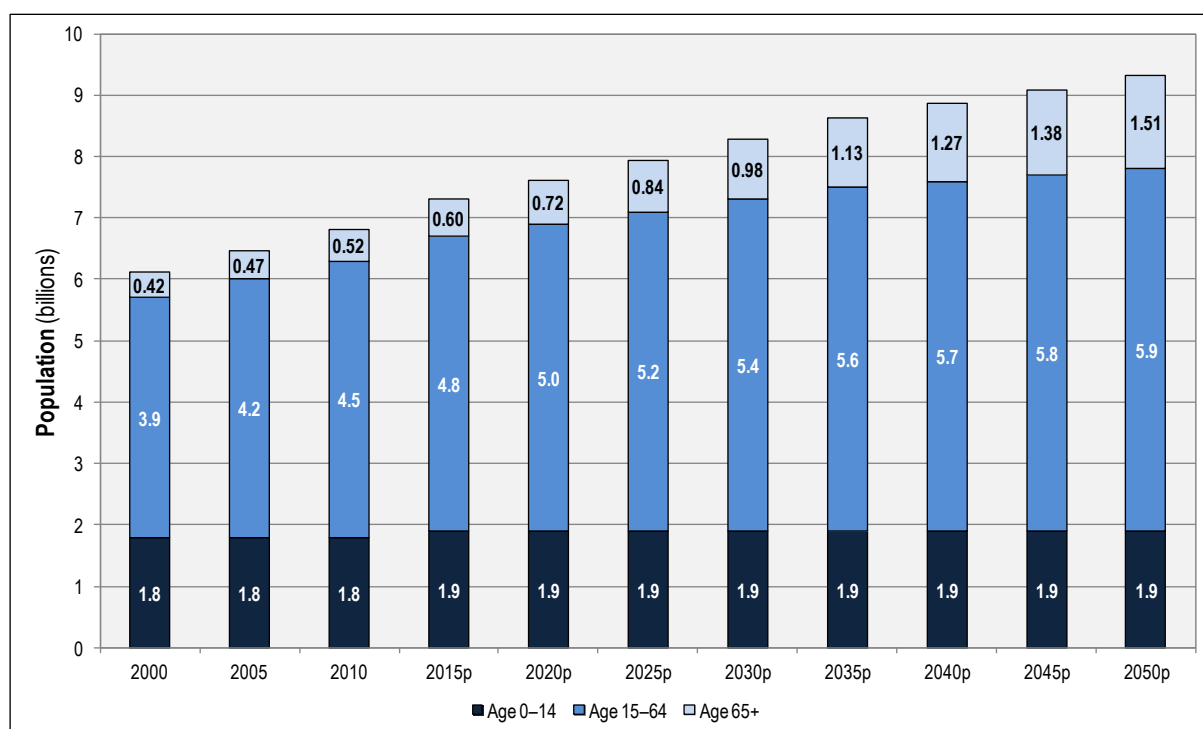
<sup>91</sup> D. Rodrik: *The future of convergence*, Faculty Research Working Paper Series RWP11-033 (Boston, Harvard University, 2011).

<sup>92</sup> ILO: *Employment and social protection in the new demographic context*, Report IV, International Labour Conference, 102nd Session, Geneva, 2013.

114. Life expectancy at birth, another determinant of population trends, is expected to grow in all regions. In a number of countries, however, notably in sub-Saharan Africa, HIV/AIDS is having a profound negative impact on life expectancy.

115. Owing to these and other factors, the age distribution of the world's population is undergoing a profound transformation. It is projected that by 2050 the population over 65 years old will be three times the 2010 level, while the population under 15 years old will remain stable (see figure 1.10). Three-quarters of the world's older population will be in developing countries (especially Asia), the majority of them women.

**Figure 1.10. Total world population by age groups, 2000–50**



p = projections.

Source: United Nations (UN): World Population Prospects, 2010.

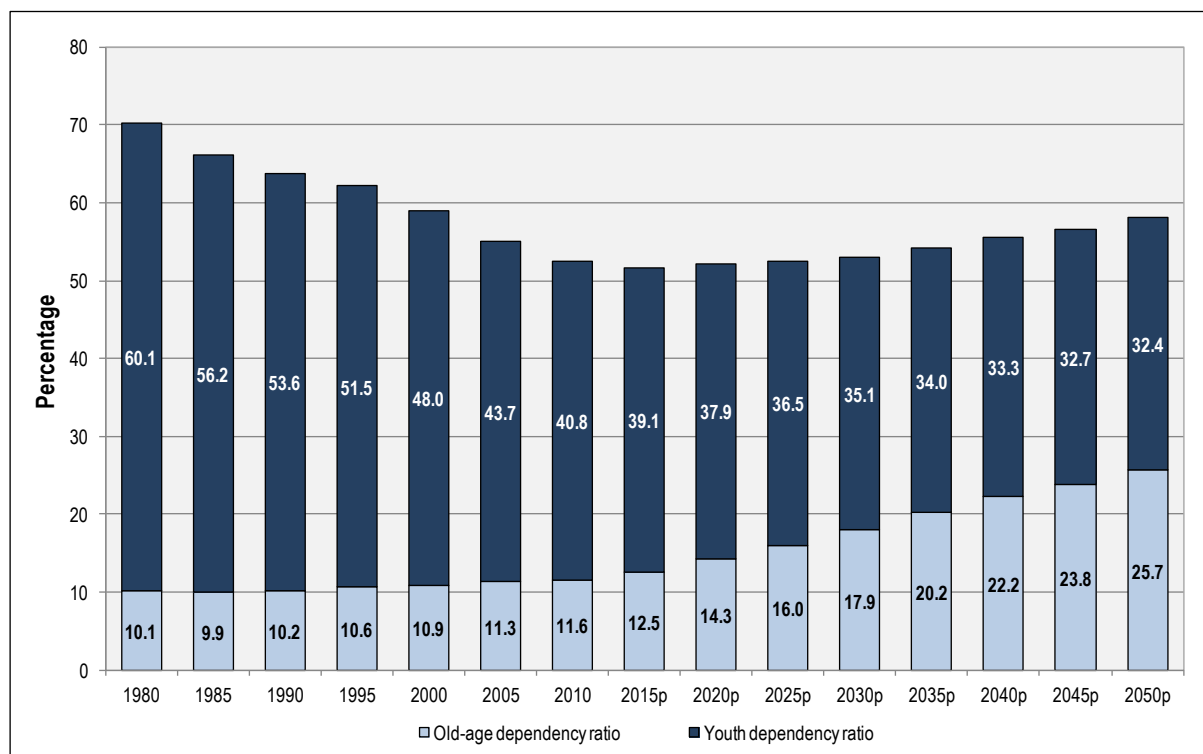
116. Population ageing trends are affecting all countries, albeit at different rates and within different time horizons.

117. Population growth and ageing trends will lead to 404 million more people in the labour force one decade from now. Labour force growth is anticipated to be particularly strong in developing countries, while it will stagnate or even decline in many developed countries.

118. The new demographic context and its interaction with labour markets have profound implications for migration dynamics. Today an estimated 105 million migrants are economically active. Migration for employment is increasingly considered an important element of employment policies in origin and destination countries. Population ageing and the potential risk of labour and skills shortages are likely to increase the demand for migrant labour in key economic sectors such as the health and care sector.

119. Overall, the ratio of people outside working age to those inside (also called the economic dependency ratio) will increase after 2015 (see figure 1.11). In 2050, for every four people of working age, there will be six people depending on their income. Where the deceleration in population growth has eased, a potential “demographic dividend” is created, which developing countries can use to their advantage by adopting the right policies.

**Figure 1.11. World total dependency ratios disaggregated by age, 1980–2050**



p = projections.

Source: UN: World Population Prospects, 2010.

120. The advantages of a demographic dividend do not occur automatically, but depend on institutions and policies. A basic requirement is vigorous effort to maximize productive employment creation. High youth unemployment, low-quality employment and low labour force participation rates – prevalent in many African and Asian countries today – reduce the benefits available from a proportionately larger labour force.

121. Conversely, in most developed countries, population ageing poses the key demographic challenge. Some developing countries are already affected. As old-age dependency ratios rise, financing of social protection, especially health care and pensions, becomes more difficult. There is also a risk that labour and skill shortages will impede growth.

122. The resolution adopted by the ILC in 2013 emphasized that, in addressing the demographic challenge, tripartite constituents will need to construct an innovative and comprehensive policy mix that recognizes the interdependence of demographic shifts, employment, labour migration, social protection and economic development. It should include policies to promote youth employment, prevent and combat age discrimination, promote gender equality, include workers with disabilities, eliminate child labour and

ensure well-managed labour migration. All policies need to have a long-term vision that spans the life cycle.<sup>93</sup>

123. The increase in labour force participation of underrepresented groups is an essential element of responses. To achieve this, it will be crucial to provide good quality jobs and policies for family support and work–life balance, including childcare and old-age care facilities, maternity protection, and mutually agreed and freely chosen part-time work. Integrated and coherent approaches to training linked to labour market needs and lifelong learning opportunities are essential.

124. Comprehensive, adequate and sustainable social security systems should be established and maintained, taking into account the new demographic context. Social protection floors are needed to ensure, at a minimum, that everyone has access to essential health care and to basic income security over the life cycle.<sup>94</sup>

125. Social dialogue to tackle the challenges of the new demographic context will be central to finding effective, equitable and sustainable answers to demographic challenges.

126. The follow-up plan adopted by the Governing Body in November 2013 identified measures the Office could take to support action by ILO constituents from an integrated employment and social protection perspective.<sup>95</sup>

### 1.2.3. Inequality and its implications

127. There has been a global trend of rising income inequality (see figure 1.12).<sup>96</sup> This encompasses both the distribution of personal income among individuals or households and the distribution of national income between profits and wages.

128. Overall, income inequality (as measured by the Gini index) in high-income countries has risen over the past three decades, with the median value increasing from 28.7 to 30.1 between 1980 and 2005. In low- and middle-income countries, by contrast, inequality declined, with the median value falling from 43.0 in 1980 to 39.8 in 2005. However, these figures also show that levels of inequality are overall notably higher in developing countries than in developed countries.

129. Changes in income inequality differ across regions. A slight downward trend can be observed between 1980 and 2005 for East Asia and the Pacific, the Middle East and North Africa, South Asia and sub-Saharan Africa. In contrast, disparity of income increased in Europe and Central Asia, and in Latin America and the Caribbean.<sup>97</sup>

130. It should be noted that the evidence on top income shares shows an upward trend in the proportion of national income taken by the top 1 per cent in some selected low- and middle-income countries (see figure 1.13).

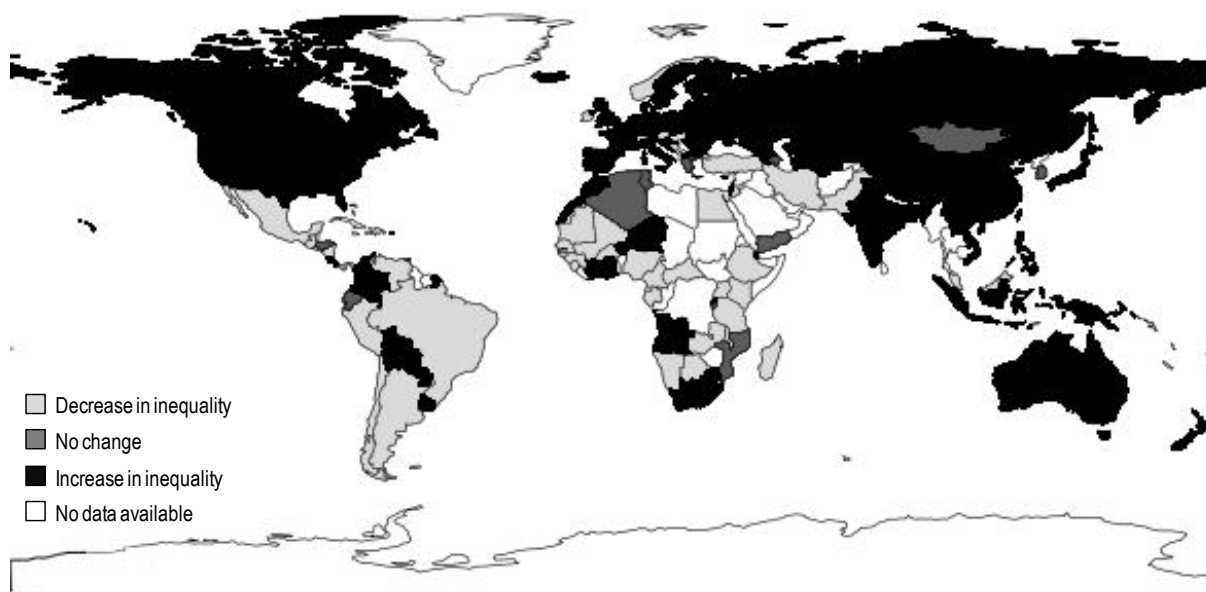
<sup>93</sup> ILO: Resolution concerning employment and social protection in the new demographic context, International Labour Conference, 102nd Session, Geneva, 2013.

<sup>94</sup> ILO: Social Protection Floors Recommendation, 2012 (No. 202), International Labour Conference, 101st Session, Geneva, 2012.

<sup>95</sup> ILO: *Matters arising out of the work of the 102nd Session of the International Labour Conference: Follow-up to the resolution concerning employment and social protection in the new demographic context*, Governing Body, 319th Session, Geneva, Oct. 2013, GB.319/INS/3/3.

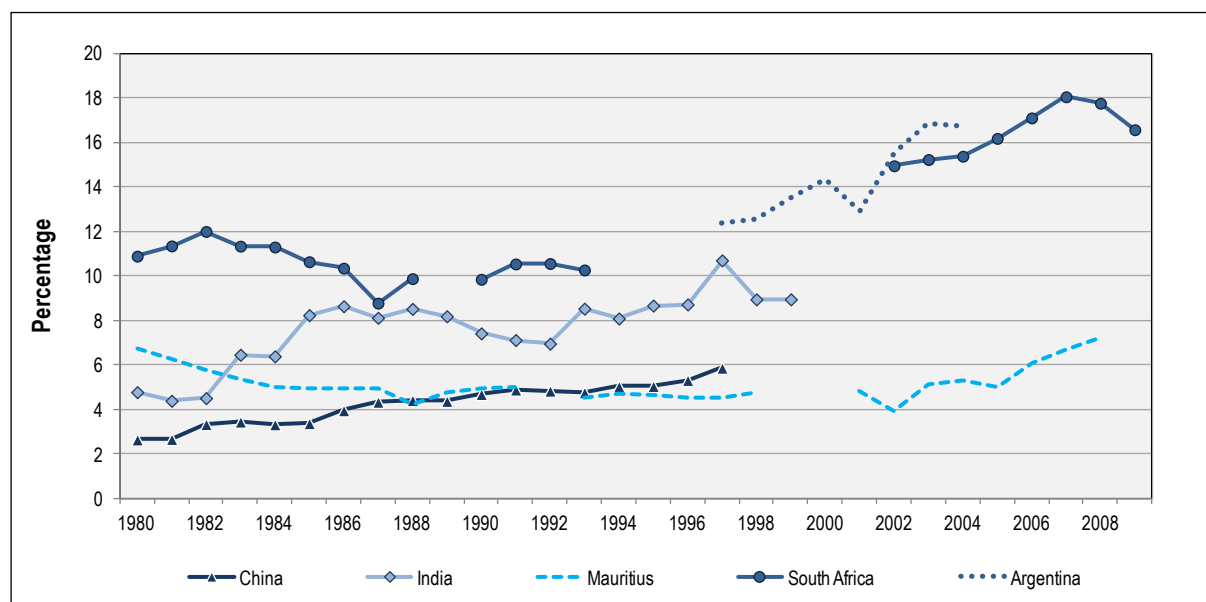
<sup>96</sup> J. Berg: *Labour market institutions and inequality: Building social justice in the 21st century* (Cheltenham and Geneva, forthcoming).

<sup>97</sup> Changes in the median values of the Gini coefficient between 1980 and 2005 across regions are as follows: East Asia and the Pacific: -2.2; Europe and Central Asia: +7.1; Latin America and the Caribbean: +2.6; Middle East and North Africa: -2.3; South Asia: -2.1; and sub-Saharan Africa: -2.5.

**Figure 1.12. Changes in inequality across the world**

Note: The measure used is the comparison of Gini coefficient for the first year between 1990 and 1995 for which data is available and the last year between 2005 and 2010 for which data is available; due to data constraints for African countries, a less strict definition was employed by using data for the following countries and years: Burkina Faso: 1994 and 2003; Cameroon: 1990 and 2002; Central African Republic: 1992 and 2003; Côte d'Ivoire: 1990 and 2002; Gambia: 1992 and 2003; Mauritania: 1990 and 2000; Mozambique: 1996 and 2005; Nigeria: 1990 and 2004; United Republic of Tanzania: 1990 and 2001.

Source: F. Solt: "Standardizing the World Income Inequality Database", in *Social Science Quarterly* (90(2)), pp. 231–242; Standardized World Income Inequality Database, version 3.1, Dec. 2011.

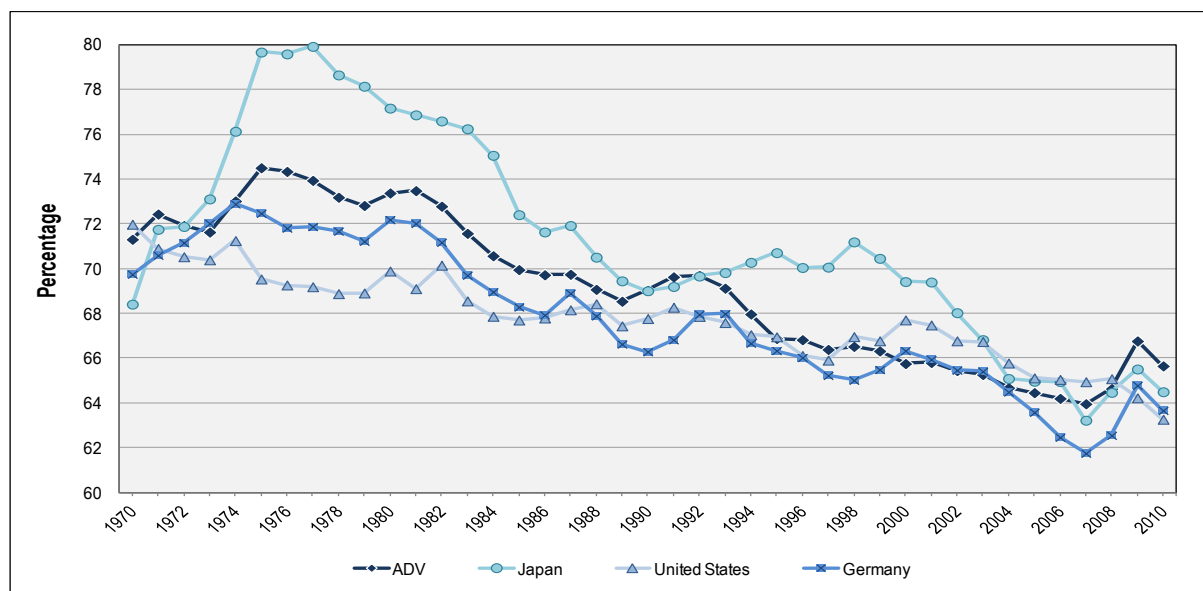
**Figure 1.13. Proportion of national income taken by top 1 per cent in selected low-and middle-income countries, 1980–2009**

Source: F. Alvaredo et al.: The World Top Incomes Database, 2012, <http://g-mond.parisschoolofeconomics.eu/topincomes>.

131. Even before the most recent crisis, the distribution of national income between labour and capital was cause for increasing concern. The ILO *Global Wage Report 2012–13* recorded a fall in the labour share of national income in a group of 26 developed economies from more than 75 per cent on average in the late 1970s to about 65 per cent in the years just before the crisis (see figure 1.14(a)). In a group of

16 developing and emerging economies, it fell from 62 per cent of national income in the early 1990s to 58 per cent just before the crisis (see figure 1.14(b)).<sup>98</sup> These trends confirm the findings from earlier studies.<sup>99</sup>

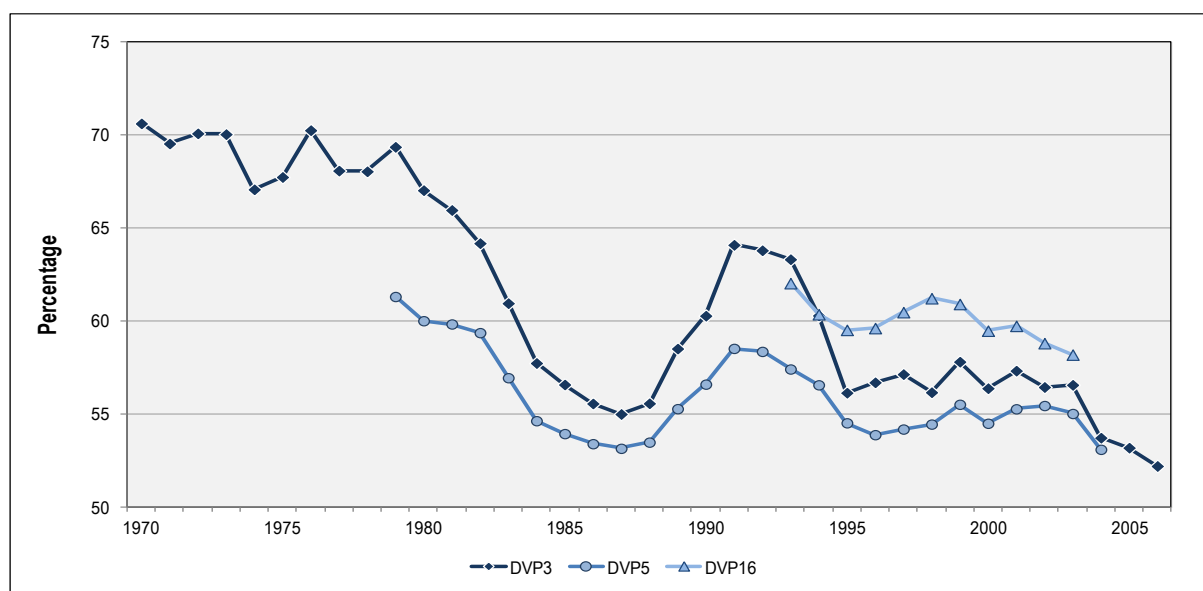
**Figure 1.14(a). Adjusted labour income shares in advanced countries, 1970–2010**



Note: ADV = Unweighted average of 16 high-income OECD countries.

Source: E. Stockhammer: *Why have wage shares fallen? A panel analysis of the determinants of functional income distribution*, Conditions of Work and Employment Series No. 35 (Geneva, ILO, 2012); European Commission: Annual Macro-Economic Database.

**Figure 1.14(b). Adjusted labour income shares in developing and emerging economies, 1970–2007**



Note: DVP3: Republic of Korea, Mexico and Turkey; DVP5: China, Kenya, Republic of Korea, Mexico and Turkey; DVP16: Argentina, Brazil, Chile, China, Costa Rica, Kenya, Republic of Korea, Mexico, Namibia, Oman, Panama, Peru, Russian Federation, South Africa, Thailand and Turkey (all unweighted averages).

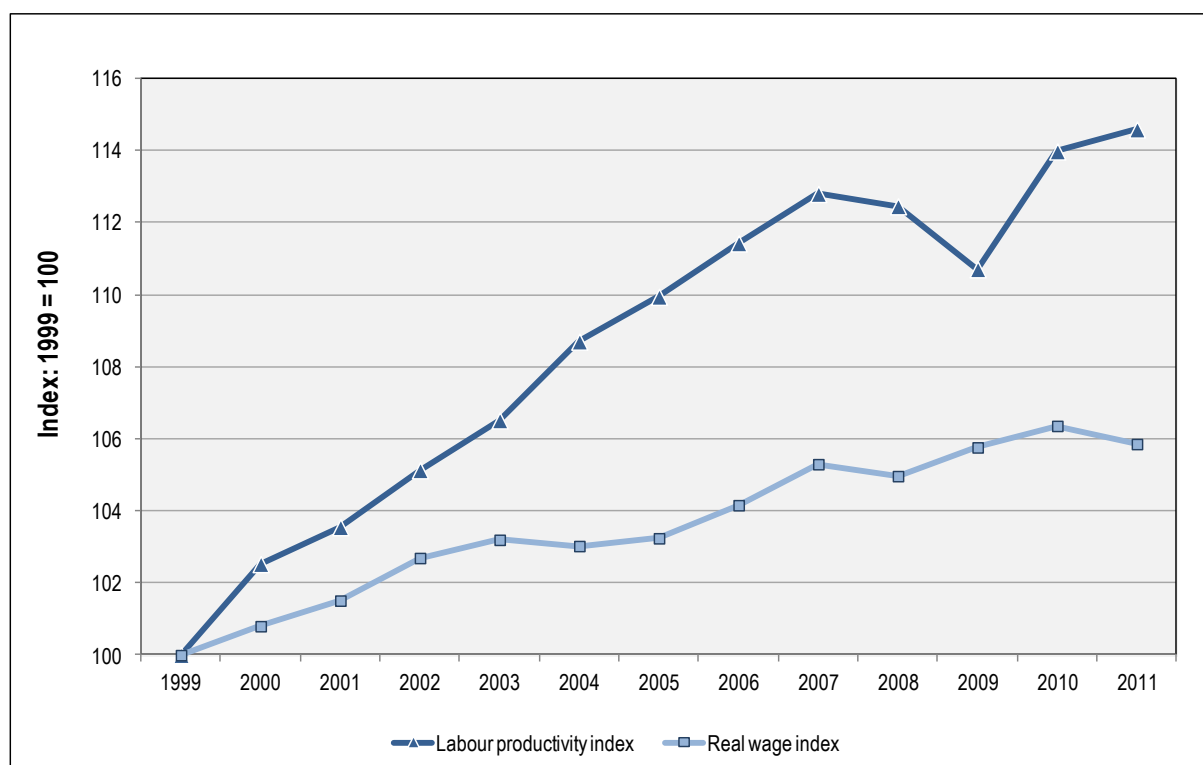
Source: See source for figure 1.14(a).

<sup>98</sup> ILO: *Global Wage Report 2012–13: Wages and equitable growth*.

<sup>99</sup> OECD: *Employment Outlook 2012* (Paris, 2012).

132. The shrinking labour share is tied to the growing discrepancy between the respective growth rates of average wages and labour productivity (see figure 1.15). For developed economies, labour productivity has increased more than twice as much as average wages since 1999.<sup>100</sup> However, this finding is heavily influenced by trends in large countries such as the United States, Germany and Japan, and does not necessarily apply to other countries. Empirical evidence attributes the drop in the labour share to a number of factors, including technological progress, globalization, the increasing influence of financial markets on the real economy, and the decline in union membership.

**Figure 1.15. Changes in real wages and productivity, developed economies, 1999–2011**



Source: ILO: Global Wage Database and ILO: Trends Econometrics Model, Mar. 2012.

133. The declining labour share across the world has also been associated with an increase in wage inequality. According to the ILO *Global Wage Report 2012–13*, the distance between the top 10 per cent and the bottom 10 per cent of wage earners has increased in 23 out of 31 countries, and the proportion of those on low pay (defined as less than two-thirds of the median wage) has also increased in 25 out of 37 countries. At the same time, the wages and salaries of the top 1 per cent have increased. This phenomenon is particularly strong in the United States but can also be observed, to varying degrees, in Japan, Netherlands, Canada, Italy, Spain and United Kingdom – though not in Sweden, Finland or Australia.<sup>101</sup>

<sup>100</sup> ILO: *Global Wage Report 2012–13: Wages and equitable growth*, op. cit.

<sup>101</sup> F. Alvaredo et al.: *The World Top Incomes Database*, 2012, [http://g-mond.parisschoolofeconomics.eu/top\\_incomes](http://g-mond.parisschoolofeconomics.eu/top_incomes).

134. Recent research by the IMF and others has found that fiscal consolidation in OECD countries has typically had significant distributional effects, increased inequality and unemployment, and has depressed the wage share of national income. The evidence also suggests that spending-based adjustments have had, on average, larger distributional effects than tax-based adjustments.<sup>102</sup>

135. Beyond the cost of rising inequality for social justice and cohesion, the links between rising inequality and employment are multiple and warrant further policy-oriented research. High inequality reduces aggregate demand and household consumption, further restraining the opportunities for employment generation. Given that the propensity to consume is higher out of wage income than out of profit income, a lower wage share creates a tendency towards lower levels of effective demand. While it is possible in theory that this tendency can be counteracted by increased investment expenditure out of profits – or increased exports due to lower labour costs – this has not occurred universally in practice, as shown earlier.<sup>103</sup>

136. Inequality is also related to patterns of growth. Labour-intensive growth in dynamic sectors of the economy is a powerful means of accelerating growth and reducing poverty without incurring the cost of rising income inequality.

137. Policy measures to tackle income and labour market inequality include generating quality employment and reducing informal employment, complemented by other initiatives, such as targeted and effective public expenditures for vulnerable groups, wage policies – most notably, appropriately designed minimum wages to protect wage earners against unduly low pay – and effective national social protection floors as fundamental elements of national social security systems.

#### 1.2.4. Gender equality in labour markets

138. Although there has been progress in recent decades, significant gender inequalities still characterize labour markets across the world. In all regions and almost all countries, labour force participation rates for women are much lower than for men. Much of women's employment remains less well paid, less secure and lower status than that of men.

139. Globally, in 2013, 49.1 per cent of employed women and 46.9 per cent of men were in vulnerable employment. This relatively small overall gender gap in vulnerable employment masks substantially larger gaps in North Africa (24.5 percentage points), the Middle East (9.5 points) and sub-Saharan Africa (15 points).<sup>104</sup>

140. Occupational segregation by sex persists across the world, though it has been reduced in many economies, partly because the relative importance of gender differences in human capital, especially in education, is diminishing.<sup>105</sup>

<sup>102</sup> L. Agnello and R. Sousa: *How do banking crises impact on income inequality?*, Working Paper Series 30/2011 (Economic Policies Research Unit, University of Minho); L. Ball et al.: *The distributional effects of fiscal consolidation*, IMF Working Paper WP/13/151 (Washington, DC, 2013); and J. Woo et al.: *Distributional consequences of fiscal consolidation and the role of fiscal policy: What do the data say?*, IMF Working Paper WP/13/195 (2013).

<sup>103</sup> ILO: *The global crisis: Causes, responses and challenges* (Geneva, 2011).

<sup>104</sup> ILO: *Global Employment Trends for Women 2012*, op. cit.

<sup>105</sup> T. Sparreboom: *Gender equality, part-time work and segregation*, paper presented at the 73rd Decent Work Forum, ILO, Geneva, 2013 (unpublished).

141. There are also significant gender differences in the sectoral composition of employment. Globally, 49.4 per cent of female workers were employed in the service sector in 2013 compared to 42.3 per cent of males. In the same year, 26.7 per cent of male employees worked in the industrial sector, as against 17.4 per cent of female employees; and 31.0 per cent of male employment was in agriculture, compared with 33.2 per cent for women. However, the share of agricultural work in total women's employment was much higher in South Asia, the Middle East and North Africa – regions where the employment rate of women overall is substantially lower than that of men: here, the gender gap was respectively 23.9, 13.1 and 12.4 percentage points.<sup>106</sup> In South Asia, while the share of agriculture in women's employment declined from 76.4 per cent in 1992 to 64.8 per cent in 2013, for men the share declined almost twice as sharply, from 56.4 per cent to 40.9 per cent, during the same period. Women are tending to be marginalized in agriculture, which implies persistent female poverty.

142. Increased globalization has brought women in developing countries into paid work through various channels, and many now work in export processing zones, in export-oriented agriculture and increasingly as independent migrant workers. However, this employment is not always of good quality or secure. The recent crisis has seen substantial numbers of low-wage female workers in export-oriented manufacturing being laid off in many developing countries. With alternative employment opportunities scarce, they tend to become informal workers, and as a result poorer and even less well protected.<sup>107</sup>

143. As noted earlier, in a large majority of countries, informality is higher for women's employment than for men's, especially outside agriculture.<sup>108</sup> This is partly why more women than men are in working poverty and higher vulnerability, particularly during times of crisis, civil strife and natural disaster.<sup>109</sup> Across the world, more men than women are covered by social security systems.

144. In a number of poor developing countries, especially in sub-Saharan Africa, the consequences of the HIV/AIDS pandemic are disproportionately borne by women.

145. Persistent poverty and the limited alternative employment opportunities available to them are increasingly pushing women into rural–urban and international migration. Most of those who migrate internationally to work are engaged in lower status jobs such as domestic work. There is an alarming trend of exploitation, abuse and violence against migrant women and children, especially trafficking into domestic work and the sex sector.<sup>110</sup> Of an estimated 53.6 million domestic workers in the world in 2010, 83 per

<sup>106</sup> ILO: *Global Employment Trends 2014: Risk of a jobless recovery?*, op. cit.

<sup>107</sup> N. Otobe: *Global economic crisis, gender and employment: The impact and policy response*, Employment Working Paper No. 74 (Geneva, ILO, 2011); ILO and the Asian Development Bank: *Women and labour markets in Asia: Rebalancing for gender equality*, 2011.

<sup>108</sup> ILO: *Statistical update on employment in the informal economy* (Geneva, 2012) and ILO: *Decent work and the informal economy*, Report VI, International Labour Conference, 90th Session, Geneva, 2002; M. Carr, M.A. Chen and J. Tate: "Globalization and home-based workers", in *Feminist Economics* (2000, 6(3)), pp. 123–142; M. Chen, J. Sebstad and L. O'Connell: "Counting the invisible workforce: The case of home-based workers", in *World Development* (1999, 27(3)), pp. 603–610.

<sup>109</sup> G. Hemmings-Gapihan: "Climate change, subsistence farming, food security and poverty: The consequences of agricultural policies on women and men farmers in Burkina Faso and Côte d'Ivoire", in *Africa Policy Journal*, IV (Boston, Harvard University, 2008).

<sup>110</sup> ILO: *Preventing discrimination, exploitation and abuse of women migrant workers: An information guide*, Geneva, 2003; F. Laczko and E. Gozdzia: "Data and research on human trafficking: A global survey", in *International Migration* (Geneva, International Organization for Migration, 2005, 43(1/2)).

cent were women, many of them migrants.<sup>111</sup> More than half of all domestic workers have no statutory limitation on their weekly working hours, more than two out of five are not entitled to a minimum wage, and more than a third have no right to take maternity leave.<sup>112</sup>

146. The demographic transition discussed in section 1.2.2 has specific gender implications. The number of women who face the risk of old-age poverty is increasing, especially in countries which lack basic pension provision. Women are also the main providers of both paid and unpaid care,<sup>113</sup> and in many developing countries the burden of household work and unpaid care work severely constrains women's ability to enter paid employment. Time use data indicate that in Africa and Asia, women are responsible for approximately 80 per cent of the total time dedicated to unpaid work in the household.

147. On the positive side, increasing women's labour force participation can be an important policy measure to tackle the demographic transition. It can offset the decrease in the working-age population induced by ageing and avoid a significant increase in the old-age dependency rate. In Egypt, India and South Africa, for example, the economic dependency ratio could be almost halved by increasing female labour force participation to 90 per cent of the male level.

148. A root cause of low female participation in paid employment continues to be the burden of household responsibilities. This is true even in developed countries. The cost of outsourcing household work through hiring domestic help, paying for childcare, and buying prepared food absorbs a significant part of potential wage income.

149. The provision of affordable childcare services is an important requirement for raising the labour force participation rate of women and achieving equality in pay and career prospects.

150. Gender wage gaps continue to be a challenge. Figure 1.16 presents changes in the average gender pay gap between 1999–2007 and 2008–11, illustrating the evolution of the gap in all countries over the crisis where such data are available. The data show that the gender pay gap declined in the crisis years in most countries. However, this does not necessarily imply that the situation of women has improved. A decline in the gender pay gap can be through a deterioration of the labour market circumstances of men relative to women. In 2009, the gender pay gap narrowed because of a decrease in male wages as a result of a decline in the number of hours worked by men.<sup>114</sup>

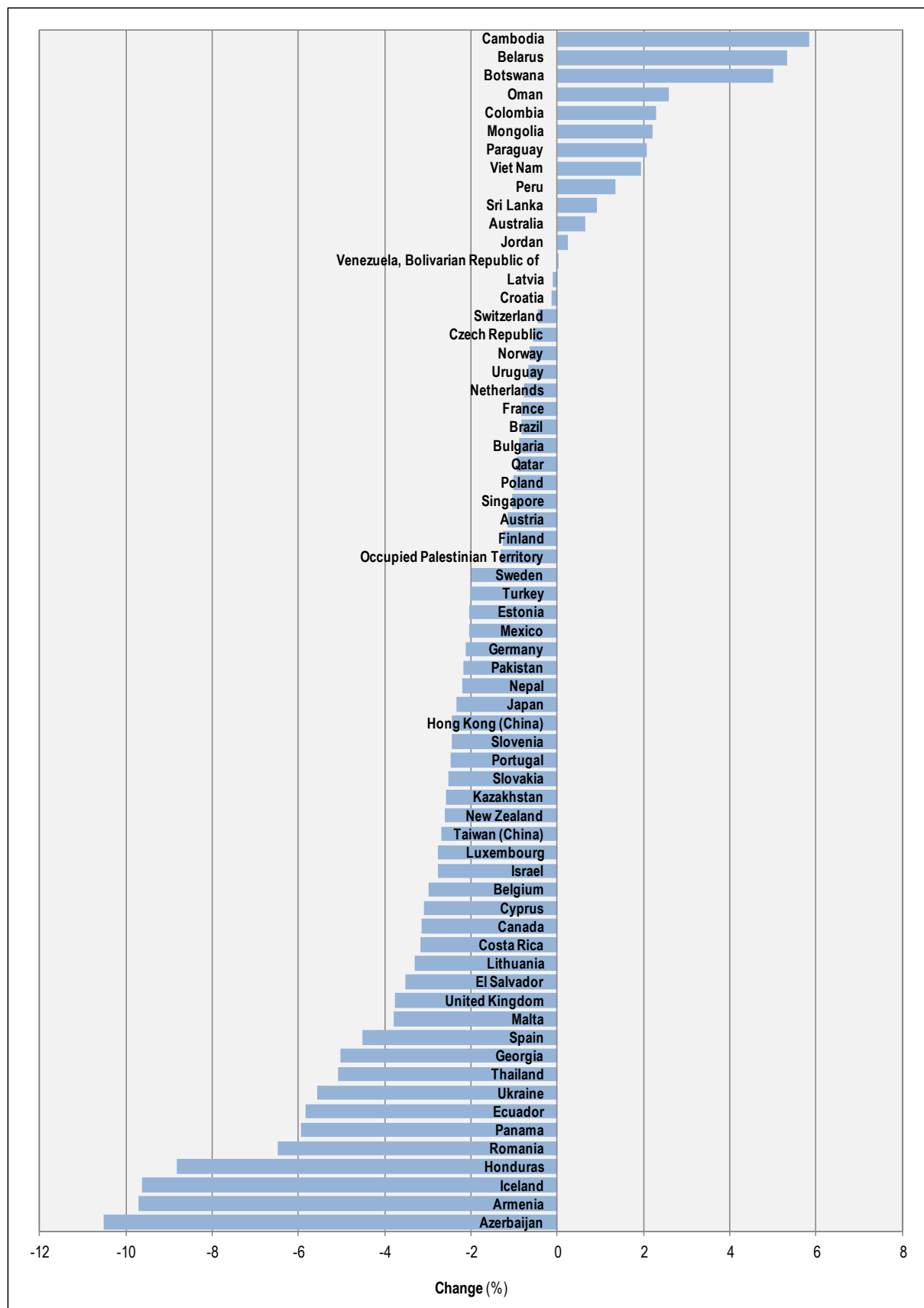
<sup>111</sup> For example, in Sri Lanka, female labour migration has been increasing over the last decade, constituting almost a half of total migrant worker departures. In 2010, of the total women migrant workers, 86.36 per cent were domestic workers (N. Otobe: *Globalization, employment and gender in the open economy of Sri Lanka*, Employment Working Paper No. 138 (Geneva, ILO, 2013)).

<sup>112</sup> ILO: *Domestic workers across the world: Global and regional statistics and the extent of legal protection* (Geneva, 2013).

<sup>113</sup> ILO: *Employment and social protection in the new demographic context*, op. cit.

<sup>114</sup> S. Anspal, L. Kraut and T. Rõõm: *Sooline palgalõhe Eestis: empiiriline analuus* [Gender pay gap in Estonia: Empirical analysis], Estonian Center for Applied Research, Center for Policy Studies, Ministry of Social Affairs, 2010.

Figure 1.16. Changes in the gender pay gap between 1999–2007 and 2008–11



Source: ILO: Global Wage Database.

151. A basic enabling requirement is that strong equality legislation should be built into a country's legal framework. ILO labour standards provide important guidance in this area.

152. Collective bargaining is an important tool for promoting gender equality. There is strong evidence that collective bargaining is associated with a lower level of wage inequality in general and narrower gender pay gaps in particular. Nevertheless, the positive impact of collective bargaining on gender equality will be stronger where union membership among women workers is high and where women's voices within unions are strong.

153. Setting and enforcing a minimum wage have a particularly strong effect in reducing gender pay gaps.

154. Part-time work and flexible work arrangements can help women reconcile work and household responsibilities, provided that they are properly regulated and protected. If they are not, women themselves pay the price in terms of inferior employment security and entitlements to benefits, as noted above. Moreover, making flexible time arrangements available to male as well as female workers would be conducive to more equal sharing of household responsibilities between the genders. Further, given that much of women's employment is vulnerable employment, it is crucial to enhance women's equal access to productive resources, business services, loans, technology and markets, thereby opening up and supporting women's entrepreneurship development and socio-economic empowerment.

155. Persistent gender inequalities reduce the growth potential of economies. Economic and social policies, and in particular employment policies, will have to be increasingly sensitive to the goal of actively promoting gender equality. Labour market institutions and policies have to make it easier for women to take up jobs, while at the same time reducing inequalities in pay, and equalizing social benefits and terms of employment. These policies need to be embedded within a larger set of policies that attack the root causes of gender inequality in labour, such as ensuring equal access to education, eliminating gender discrimination and promoting greater gender equality in the household division of labour. All this lies at the heart of the Women at Work initiative, one of the ILO centenary initiatives proposed by the Director-General.<sup>115</sup>

#### 1.2.5. Transition to environmentally sustainable development

156. There are multiple long-term trends that directly link the environment to the world of work, as discussed at the 2013 ILC. With an expected world population of 9 billion in 2050 and a doubling or tripling in size of the world economy, resource scarcity will have an increasing impact on patterns of production and employment. The effects of climate change, disasters, pollution, environmental degradation and resource depletion have serious negative implications for economic growth, employment and social development.

157. The physical impacts of environmental depletion, degradation and climate change are tremendous and include damage to agriculture and infrastructure, increasing scarcity of fresh water resources and risks to human health. If not actively protected by targeted policies, poor people (especially in rural areas) will suffer disproportionately, especially through higher land, water and food prices and worsening living conditions.

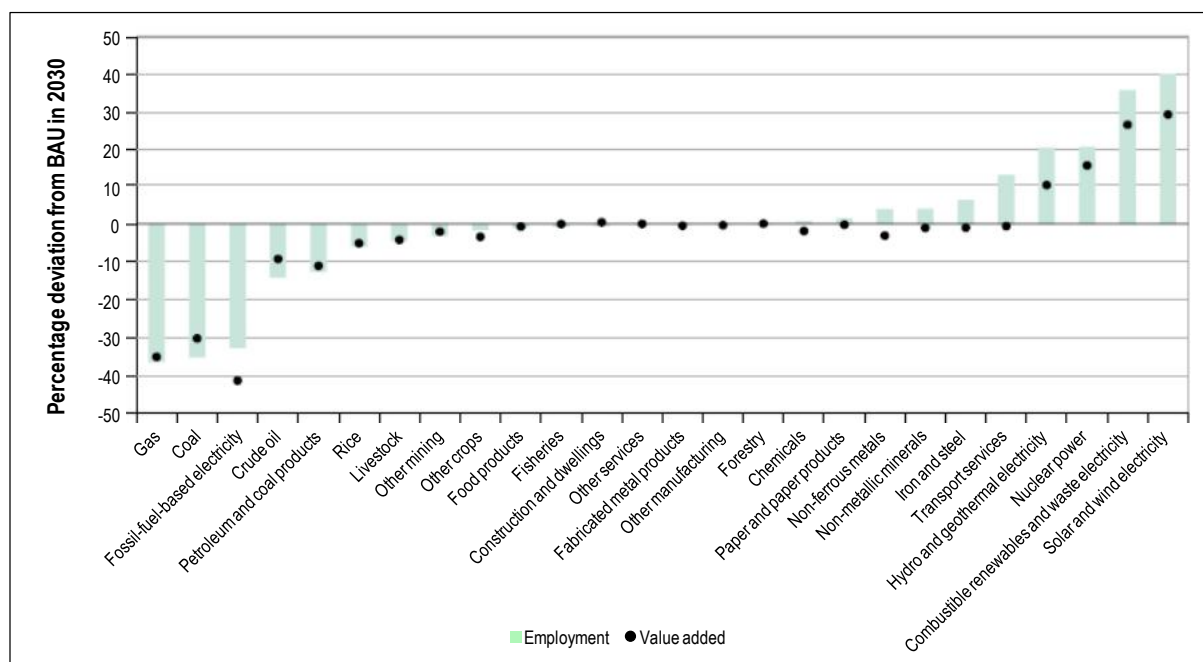
<sup>115</sup> ILO: *Towards the ILO centenary: Realities, renewal and tripartite commitment*, Report of the Director-General, Report I(A), International Labour Conference, 102nd Session, 2013.

158. Environmental factors, in particular climate change, are already a strong driver for migration, within and across borders. The Office of the United Nations High Commissioner for Refugees (UNHCR) estimated that in 2002, 24 million people around the world became refugees because of flood, famine and other environmental factors, exceeding the number of all other refugees, including those fleeing from armed conflicts. According to forecasts, 150–200 million people may be permanently displaced by the middle of the century, owing to rising sea levels, heavier floods and more intense droughts. Inevitably, the poorest will be most vulnerable to the impact of climate change, and its increasing effects have the potential to reverse many of the achievements in poverty reduction over the last decade.

159. There is a growing global sense of urgency, including in the private sector, about the need to apply strategies for job-centred transition to environmentally sustainable development in order to capture the potential for win-win outcomes in terms of economic, social and environmental sustainability. “Greening” economies has profound structural implications, including for employment, which differ between countries at different levels of development.

160. An increasing number of countries around the world, including China, the Member States of the EU and the United States, are adopting climate policies and green growth strategies which accelerate low-carbon investment and shift demand towards environmentally-friendly goods and services. The ICT and globalized market revolution within European countries led to a total cross-sector reallocation of 20 per cent of jobs between 1995 and 2005; a low-carbon development strategy with a 30 per cent carbon dioxide reduction target is estimated to affect less than 1 per cent of all jobs by 2030 (see figure 1.17).<sup>116</sup>

**Figure 1.17. Changes in sector composition of employment associated with an ambitious climate change mitigation policy, OECD countries**



BAU = business as usual.

Source: Chateau et al.: 2011 (see footnote 116).

<sup>116</sup> J. Chateau, A. Saint-Martin and T. Manfredi: “Employment impacts of climate change mitigation policies in OECD: A general-equilibrium perspective”, *OECD Environment Working Papers* No. 32, Paris, 2011.

161. However, the transition costs will fall upon particular industries, which are often confined to geographically defined areas (such as coalmining). In addition, although the highest carbon-emitting industries account for a relatively small share of employment, they employ relatively large numbers of low-skilled workers.

162. The right policy mix discussed extensively at the 2013 ILC could facilitate structural change to more sustainable economies by mitigating employment losses, and even resulting in employment gains as well as a just transition.<sup>117</sup>

163. The ILO Director-General has called for a green initiative to “give practical application to the decent work dimension of the transition to a low-carbon, sustainable development path and to facilitate the tripartite contribution to it”.<sup>118</sup>

#### 1.2.6. Skills mismatch

164. Despite considerable progress in educational development in both developing and industrialized countries, skills mismatch remains a persistent concern. Over-supply or shortage of certain skills result in higher unemployment and this in turn contributes to deskilling and further mismatch. Skills shortages can also delay the structural transformation of an economy into higher productivity sectors, reduce enterprises’ productivity by forcing them to employ workers with suboptimal skills or resort to suboptimal technologies and forms of work organization, and lead to higher wage inequality because of rising premiums on skills.

165. In developed countries and in some less-developed countries, the problem of mismatch is generally one of “over-education” or “over-qualification”, where the years spent in education or the level of qualification attained exceeds what is required in the labour market. In these countries, levels of educational attainment have been steadily rising over recent decades. The proportion of people with high-level (post-secondary) qualifications in the EU will rise to 37 per cent by 2020.<sup>119</sup> The trend towards over-qualification is likely to be exacerbated by the economic crisis, because with jobs scarce, many young people have opted to stay longer in education.

166. Increasing levels of educational attainment overall have many impacts. Young people with low or no qualifications find it increasingly difficult to compete on the job market, while the well-educated have to compete harder for the available jobs, with the supply of higher qualifications expected to rise faster than demand for highly qualified workers. Consequently, people may be more willing to accept jobs for which they are over-qualified.<sup>120</sup>

167. Although over-qualification may have benefits, in shaping and upgrading jobs and increasing the productivity of enterprises, such mismatch brings lower returns on investments in education and training at both the individual and the economy level. Evidence shows that over-qualification tends to persist beyond crisis times, often resulting in lower productivity as people become discouraged and frustrated in their jobs and as their underutilized skills become obsolete.<sup>121</sup> Moreover, societies are losing their

<sup>117</sup> ILO: Social Protection Floors Recommendation, 2012 (No. 202); and ILO: Resolution concerning sustainable development, decent work and green jobs, International Labour Conference, 102nd Session, Geneva, 2013.

<sup>118</sup> ILO: *Towards the ILO centenary: Realities, renewal and tripartite commitment*, op. cit., p. 28.

<sup>119</sup> European Centre for the Development of Vocational Training (Cedefop): *Future skills supply and demand in Europe: Forecast 2012*, Research Paper No. 26 (Luxembourg, 2012).

<sup>120</sup> *ibid.*

<sup>121</sup> Cedefop: *The skill matching challenge: Analysing skill mismatch and policy implications* (Luxembourg, 2010).

valuable skills and forfeiting the stronger productivity growth that would have been achieved if these young people had been employed at their appropriate level of qualification.<sup>122</sup>

168. Over-qualification can also lead to skills shortages in certain sectors where low-skills and intermediary vocational skills are needed.<sup>123</sup> This trend is common not only for advanced countries but more recently also for developing countries, and it is projected to continue, with a shortage of 45 million workers qualified to work in labour-intensive manufacturing and services expected in developing countries alone by 2020.<sup>124</sup> In addition, even though the supply of highly educated people may be excessive, the need for the particular skills required in the knowledge- and innovation-intensive economic segments remains unmet: shortages of engineers, scientists and doctors are common globally.

169. In developing countries, the problem is more likely the opposite: under-education or under-qualification. For example, in Malawi 82 per cent, in Cambodia 56 per cent and in Togo 55 per cent of young people work in occupations requiring a level of education above that which they possess. Low educational achievement in low-income countries results in low productivity growth and low potential for economic diversification. Under-qualification also causes a greater tendency towards job dissatisfaction among young people compared to their over-qualified peers.<sup>125</sup>

170. The process of “skill-biased technological change” and technology transfer to developing countries both increase demand for occupations which tend to use fewer manual skills in production, and increasingly require non-routine cognitive skills and a capacity for multi-skilling even within traditional occupations.

171. Higher unemployment among those with higher levels of education is increasingly prevalent in developing countries, which diminishes returns on investment in education and wastes human capital that could be used in productive employment. In North Africa, the unemployment rates for people with tertiary-level education are among the highest in the world, at 21.4 per cent, 18.9 per cent and 17.4 per cent in 2010 in Algeria, Egypt and Morocco, respectively. In Algeria and Egypt, they are higher than for those with only primary or secondary education.<sup>126</sup> The reasons may include limited creation of quality and formal jobs by the private sector, the large size of the informal economy, and a preference among graduates for high-quality jobs with better job security (typically in the public sector).

172. The paradoxical coexistence of unemployment and labour shortages has become a persistent phenomenon. Demand is high not only for occupations requiring tertiary education but also for technicians, operators and labourers, that is, workers with technical or vocational education or training.<sup>127</sup> According to recent global surveys, 35 to 40 per cent of employers questioned were finding it hard to fill vacancies because

<sup>122</sup> ILO: *Global employment trends for youth 2013: A generation at risk* (Geneva, 2013). Half of young people are not sure that their post-secondary education has improved their chances of finding a job. See McKinsey: *Education to employment: Designing a system that works* (2012).

<sup>123</sup> ManpowerGroup: *Talent shortage survey: Research results* (Milwaukee, 2013); Cedefop: *Future skills supply and demand in Europe: Forecast 2012*, op. cit.

<sup>124</sup> McKinsey: *The world at work: Jobs, pay and skills for 3.5 billion people* (2012).

<sup>125</sup> ILO: *Global Employment Trends for Youth 2013: A generation at risk*, op. cit.

<sup>126</sup> *ibid.*

<sup>127</sup> World Bank: *World Development Report 2013: Jobs*, op. cit.

of skills shortages. This represents the highest proportion of employers expressing concern about skills shortages since 2007.<sup>128</sup>

173. Such imbalances have many causes. Some result from various market failures related to information asymmetry on labour supply and demand. Other factors include wage inflexibilities, limited geographical mobility, training or moving costs, and subjective decisions regarding career choices or wages. Public policies also contribute: industrial or investment policies may generate a sudden demand for certain types of skills that are not readily available. The quality of education and training also plays a crucial role, and quality assurance mechanisms for both vocational training and general education are urgently needed.

174. However, not all recruitment difficulties arise from a lack of skills in the workforce. Many are caused by unfavourable working conditions, low wages, “dirty” jobs, unattractive working hours, locations in remote areas and low-prestige jobs. Although such factors do not necessarily involve a skills mismatch, they often result in the loss of skilled workers to competitors in other geographical areas, industries or countries. For instance, more than 70 per cent of citizens with tertiary education in Haiti, Jamaica, and Trinidad and Tobago live abroad.<sup>129</sup> It is therefore essential to attract recruits by improving working conditions and the attractiveness of jobs, and offering efficient retraining and career development measures.

175. The so-called “low-wage, low-skills, low-productivity equilibrium” is an example of a “match” which does not lead to growth and development and does not result in an increase in decent jobs. The “low-road” business strategy based on low input costs becomes a disincentive to acquire skills or, for the private sector, to provide them. Sector-based strategies or public policies that provide incentives to help businesses take the “high-road”, high-skilled path to productivity and move up in value chains are required.

176. Reactive measures to counter skills mismatch include improving provision of labour market information on supply and demand; making training systems more flexible and more responsive to labour market needs; efficient matching and placement by public employment services; and appropriate retraining provision.

177. Preventive measures include anticipating future skill needs in order to inform both policy decisions on training and individual decisions through vocational counselling and career guidance. Current decisions on education choices need to be based on future demand for skills. One concern here is the lead time of education: designing curricula takes time, and supply may be slow to build up, especially in the case of emerging and changing skill needs.<sup>130</sup> Therefore, timely information on current and future skills demand and coordinated policy and planning measures to meet it are crucial. Public employment services are instrumental in contributing to better labour market information and preventing information asymmetry.

<sup>128</sup> ManpowerGroup: *Talent shortage survey: Research results*, op. cit.; McKinsey: *Education to employment: Designing a system that works*, op. cit.

<sup>129</sup> World Bank: *World Development Report 2013: Jobs*, op. cit.

<sup>130</sup> ILO: *Skills mismatch: Why does it occur and how to avoid it?*, Skills for Employment Policy Brief (Geneva, forthcoming).

178. Accurately identifying both the reasons behind skills mismatch in specific contexts and responsive measures should be a policy priority. Appropriate skills development strategies should form an integral part of national employment policies, sectoral, trade and investment policies, and technology adoption strategies. Public–private partnerships and social dialogue mechanisms should be built into the education and training system to enable it to adjust flexibly to changing labour market demands.

## Chapter 2

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### Action to promote full, decent, productive and freely chosen employment

179. This chapter provides a succinct analysis of action taken in particular by the Office in response to the recommendations that emerged from the 2010 recurrent discussion on employment<sup>1</sup> and the 2012 resolution on the call for action on youth employment.<sup>2</sup> As this report is of necessity concise, and as a wide range of policies and programmes affect employment outcomes, this chapter is inevitably selective in the actions and examples it covers.

#### 2.1. National employment policies

180. The Employment Policy Convention, 1964 (No. 122), one of the four governance Conventions under the 2008 ILO Declaration on Social Justice for a Fair Globalization, calls on each ratifying member State to make an explicit formal pronouncement of its employment policy. The Convention requires this policy to be positioned as a major macroeconomic goal within the national policy agenda.<sup>3</sup> It also calls for tripartite consultations. The conclusions of the 2010 ILC reiterated the importance of ILO support to the development and adoption of national employment policies (NEPs).<sup>4</sup>

181. In the aftermath of the crisis, many countries embarked on formulating national employment policies and/or strengthened the employment dimension in national development plans, often with ILO support. Since 2010, the ILO has supported no fewer than 60 countries in the review and development of employment policies.

182. In 2011, a database, the “EmPol Gateway”, was set up by the Employment Policy Department to address constituents’ demand for up-to-date and comparative information on employment policies. A review of the information for the 63 countries in the database shows similarities across countries that have adopted national employment policies, as well as interesting differences reflecting the specific regional and national contexts.

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<sup>1</sup> ILO: Resolution and conclusions concerning the recurrent discussion on employment, International Labour Conference, 99th Session, Geneva, 2010.

<sup>2</sup> ILO: *The youth employment crisis: A call for action*, resolution and conclusions of the 101st Session of the International Labour Conference, Geneva, 2012, [http://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_185950.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_185950.pdf).

<sup>3</sup> ILO: Employment Policy Convention, 1964 (No. 122), [http://www.ilo.org/dyn/normlex/en/f?p=NORMLEX\\_PUB:12100:0::NO::P12100\\_ILO\\_CODE:C122](http://www.ilo.org/dyn/normlex/en/f?p=NORMLEX_PUB:12100:0::NO::P12100_ILO_CODE:C122).

<sup>4</sup> ILO: *Employment policies for social justice and a fair globalization*, Report VI, International Labour Conference, 99th Session, Geneva, 2010, [http://www.ilo.org/ilc/ILCSessions/99thSession/reports/WCMS\\_126682/](http://www.ilo.org/ilc/ILCSessions/99thSession/reports/WCMS_126682/).

183. In sub-Saharan Africa, an impressive number of countries have put in place comprehensive national employment policies. The second generation of poverty reduction strategies<sup>5</sup> has increasingly emphasized the role of productive employment generation as a critical factor in growth and sustainable poverty reduction.

184. In North Africa, national employment policies have been developed in Morocco and Tunisia since 2010, moving from limited active labour market policies focused on young graduates to more comprehensive policies addressing the multidimensional employment challenges facing the region.

185. In Central and South-Eastern Europe (non-EU) and the CIS, several countries have adopted national employment policies. The focus is on promoting active labour market programmes (especially for young people) and improving the capacity of employment services; improving labour market governance and functioning; strengthening social protection for the unemployed; promoting human capital development; and encouraging active ageing. For countries contemplating EU accession, the development of an employment policy that conforms to the European social model and the EU Employment Strategy is a prerequisite for membership.

186. In many Asian countries, employment goals have hitherto been addressed within national development plans rather than through specific employment policy documents. This trend is changing, with several countries launching employment policy processes (such as Cambodia and Mongolia) and adopting employment policy documents (such as Fiji, Republic of Korea, Papua New Guinea, Samoa, Sri Lanka, Viet Nam).

187. In Latin America, youth employment challenges are more often addressed through specific action plans. Some countries in the region (such as Argentina and Brazil) are also adopting comprehensive approaches to the informal economy and transition to formality.

188. The conclusions of the 2010 ILC also highlighted the importance of setting specific targets for the quantity and quality of employment. While half the national employment policies covered by the database contain employment targets, in most cases these refer only to quantitative measures, such as numbers of jobs created and/or unemployment, including youth unemployment. In a few cases, however, targets are also set for improving the quality of employment (using indicators such as underemployment or working poverty).

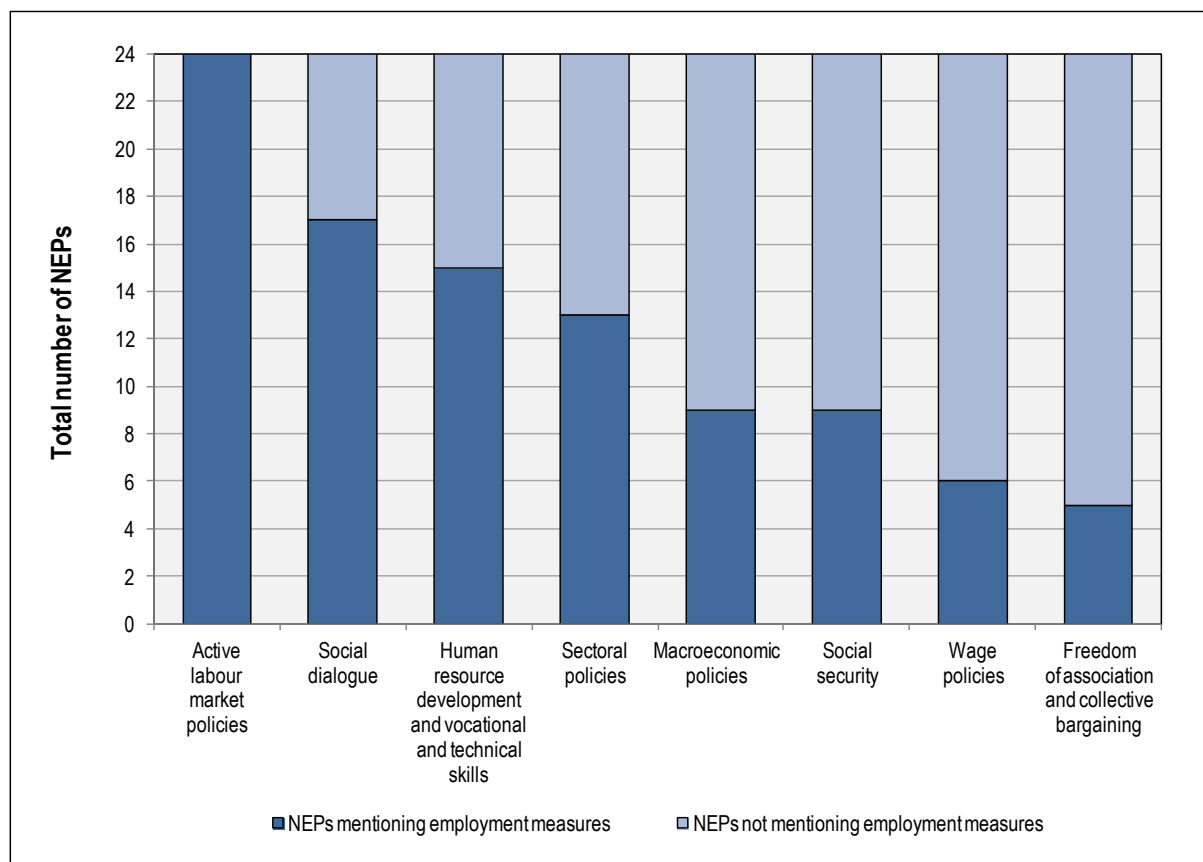
189. Active labour market policies, skills development and special youth employment measures are prominent in most national employment policies.

190. The employment-creation potential of productive sectors is more salient than in the past. The link between employment and macroeconomic policies is gaining ground, featuring in about a third of the national employment policies analysed. In more than half, explicit reference is made to social dialogue (see figure 2.1).

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<sup>5</sup> Poverty reduction strategies were initiated by the IMF and the World Bank in 1999 as a prerequisite for multilateral debt relief under the Enhanced Heavily Indebted Poor Countries Initiative. These strategies became the basis of international financial institutions' lending in many low-income countries and served as core planning frameworks to guide development policies in these countries. Today, around 70 countries in total have embarked on poverty reduction strategies integrated into five-year development plans.

**Figure 2.1. Policy areas covered in a sample of 24 adopted national employment policies (NEPs), 2005–12**



Note: Countries included in the sample: Benin, Bosnia and Herzegovina, Burkina Faso, Cameroon, China, Côte d'Ivoire, Ghana, Honduras, Iraq, Jordan, Republic of Korea, Liberia, Madagascar, Republic of Moldova, Mozambique, Nepal, Russian Federation, Senegal, Serbia, Seychelles, Spain, Sri Lanka, United Republic of Tanzania and Uganda. The selection of countries is based on the quality of information available.

Source: ILO: EmPol Gateway, 2013.

191. Only a few national employment policies refer to working conditions and labour administration. Less than half refer to wage policy, freedom of association and collective bargaining, or social protection.

192. The link between employment and social protection is addressed in some national employment policies (for example, in Liberia<sup>6</sup> and Sri Lanka<sup>7</sup>). The ILO–EU project “Improving social protection and promoting employment” delivered a number of high-quality products on the design of integrated social protection and employment policy frameworks piloted in three low-income countries: Burkina Faso, Cambodia and Honduras.<sup>8</sup>

193. There is evidence that employment goals and strategies feature more significantly in national development plans formulated in recent years – in many cases as a result of ILO policy advice. Among the 24 plans reviewed, 16 include employment as a key element of their global and/or strategic objectives, 13 have a specific chapter or section

<sup>6</sup> Liberia: *National Employment Policy – Action Plan (2013–2017)*, Ministry of Labour, 2013.

<sup>7</sup> Sri Lanka: *The National Human Resources and Employment Policy for Sri Lanka*, Secretariat for Senior Ministers, Colombo, 2012, <http://www.nhrep.gov.lk>.

<sup>8</sup> For details, see the project website at: <http://www.social-protection.org/gimi/gess/ShowProjectSpePage.do?pid=1175>.

on employment and some countries give formal recognition to the new focus on employment in the title of their plans, such as the Growth and Employment Strategy in Cameroon or the Strategy for Accelerated Growth and Employment Promotion in Togo.

194. Social partners feature increasingly but not yet systematically in the formulation and implementation of national development plans. Evidence shows that their participation enhances the employment policy planning process.<sup>9</sup>

195. In the 2012–13 biennium, 63 countries requested the ILO’s assistance in national employment policies. The ILO provides technical advice to constituents, supported by capacity building, facilitation of social dialogue and customized policy tools, through a well-defined policy cycle approach (see table 2.1). This work is delivered and monitored by the ILO global employment policy team, with members in the field and at headquarters.

**Table 2.1. ILO support throughout the development of national employment policies**

| Policy cycle step                 | Areas supported by the ILO                                                                                                                                                                                                                                                                                                |
|-----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Diagnostic                        | Identifying issues (including constraints and opportunities) based on extensive in-country research, institutional reviews and broad-based consultations with all stakeholders.                                                                                                                                           |
| Formulation                       | Formulating employment objectives and outcomes; identifying policy interventions; drafting policy document; facilitating social dialogue.                                                                                                                                                                                 |
| Validation/adoption/communication | Strengthening capacities of tripartite partners; reaching for consensus on the policy through tripartite and inter-ministerial discussion; drafting the legal texts for adoption and/or integrating the policy into the national development plan; communicating about the policy with both practitioners and the public. |
| Programming/budgeting             | Helping to formulate national and regional action plans and link them to budgets and fiscal policies.                                                                                                                                                                                                                     |
| Implementation/monitoring         | Implementing support, monitoring and coordination mechanisms; building capacities and institutions.                                                                                                                                                                                                                       |
| Evaluation                        | Evaluating the impact of the policy.                                                                                                                                                                                                                                                                                      |

196. It is critically important that the employment policy-making process brings together all actors concerned, including various ministries and the country’s central bank. Here the ILO plays a facilitating role, in particular to ensure that social dialogue takes place throughout the process. Technical support is provided to governments, employers and workers to strengthen their capacities to engage actively in this dialogue (see, for example, the case of Sri Lanka, box 2.1).

**Box 2.1**  
**The comprehensive National Human Resources  
and Employment Policy of Sri Lanka**

Following the end of a three-decade-long conflict, the Sri Lankan Government adopted a National Human Resources and Employment Policy in 2012 under the auspices of the President. The policy document was formulated on the basis of a series of national and regional consultations among social partners and stakeholders with ILO technical assistance. Coordination mechanisms for the implementation of the policy have been established, with a national steering committee under the chairmanship of the

<sup>9</sup> ILO: *Social partners and their engagement in National Development Plans: Lessons learnt from a decade of implementation of poverty reduction strategies* (Geneva, 2011).

Senior Minister for Human Resources, which oversees five subcommittees corresponding to the five pillars of the policy. This overarching policy framework responds to key employment challenges, including the macroeconomic policy environment, vocational skills and employability, sectoral development strategies, SME development, informal employment, wages and social protection, and social dialogue.

The Government also adopted an action plan in 2013 which is essential for the implementation of the policy. The plan ensures policy coherence and coordination, in line with the Government's ten-year development plan. Coordination and facilitation mechanisms have been established across the implementing agencies, a monitoring and evaluation mechanism has been designed and a resource mobilization strategy has been launched.

197. A systematic review of effective tripartite institutions at the country level and their role in employment policy-making, conducted since 2010,<sup>10</sup> points to some key messages:

- ❑ There is no single model for the organization of social dialogue on employment policy: it is context-specific.
- ❑ A well-informed employment policy requires an effective social dialogue framework, with efficiently resourced institutions and sound legal underpinning, used to full practical effect.
- ❑ Consultative mechanisms for multi-stakeholder consultations on employment-related issues are too often limited to traditional tripartite structures. Further efforts are needed to open consultations to ministries of economics and finance, and to other groups such as small informal businesses, youth groups and farmers' associations.
- ❑ The political will of the government to involve the social partners from the preparatory stage of the national employment policy through to monitoring and evaluation is crucial.
- ❑ Social partners' participation in employment policy-making has generally improved. However, not all have equal opportunity and capacity to participate regularly and contribute effectively.
- ❑ Social partners at all levels (enterprise, local, industry and national) need to be strong, capable and proactive, with a broad membership base.
- ❑ Labour administration should be active and well-resourced.

198. Since 2011, a capacity-building package has been developed jointly by the Employment Policy Department and the Governance and Tripartism Department. One module of the annual employment policy course in Turin is dedicated to social dialogue on employment. Three different guides also address this important issue: the *Guide for the formulation of employment policies* (2012); *National tripartite social dialogue: An ILO guide for improved performance* (2013); and *National employment policies: A guide for workers' organizations* (forthcoming).

199. Policy briefs and dedicated policy manuals have been prepared in collaboration with the Bureau for Workers' Activities and the Bureau for Employers' Activities. Training and capacity-building seminars are held jointly in numerous areas of work at national, regional and international levels.

<sup>10</sup> *ibid.*; ILO: *Towards more inclusive employment policy-making: Process and role of stakeholders in Indonesia, Nicaragua, Moldova and Uganda* (Geneva, 2012).

200. Boxes 2.2 and 2.3 give further examples of policy work in individual countries and box 2.4 describes two successful policy-related technical cooperation projects.

**Box 2.2**  
**A sectoral approach to employment policy:**  
**El Salvador**

With the aim of redressing the socio-economic imbalances and inequality of the preceding decade, in 2010 the Government of El Salvador, following guidance from the President, developed the first national programme based on the Global Jobs Pact. Substantial progress was made in placing the promotion of employment through tripartite consultations high on the policy agenda.

In June 2011, employment priorities were agreed upon at a tripartite workshop. A sectoral approach to employment promotion was established, and intrasectoral workshops on employment policy priorities were organized for workers' and employers' organizations respectively. These dialogues led to the identification of the main priorities for workers and for employers in each sector. In 2013, through a partnership with the Employment Policy Department, the Ministry of the Economy and the Central Bank integrated a focus on employment into their social accounting matrix.<sup>1</sup> In parallel, a methodology to estimate the employment generated through public expenditure and investment was validated and implemented by the Ministry of Public Works.

In the context of the recently approved productive transformation and diversification policy, dialogue took place in six economic sectors central for economic growth and employment generation: plastics, textiles, electronics, aeronautics, business services and pharmaceuticals.<sup>2</sup> The development of the implementation plan and the institutionalization of the sectoral dialogues (based on a workplan and a monitoring and evaluation strategy) ensure a central emphasis on employment-rich measures in the policy.

<sup>1</sup> Training on employment multipliers and employment-generating sectors was organized for ILO partners, think tanks, public institutions and universities. <sup>2</sup> Over 115 employer representatives met with the public institutions in eight workshops on the Productive Transformation and Diversification Policy to ensure that employment objectives are integrated in the policy.

**Box 2.3**  
**Targeting employment in the national development plan:**  
**The Russian Federation**

Job creation and labour productivity growth have been identified by the President of the Russian Federation as key indicators of Russia's socio-economic development. The creation and modernization of jobs for the transition to an innovation-based economy is a key focus of national policy. This is reflected in the State Employment Promotion Programme endorsed by the Government on 22 November 2012. This comprehensive policy document has three objectives: avoiding strain on the labour market; attracting foreign workers to match labour market demand; and the promotion of skills development, occupational safety and health, and protection of workers' rights. The employment targets of the programme are both quantitative (unemployment rate) and qualitative (share of workers whose working conditions require improvement).

The programme has been developed with ILO technical support<sup>1</sup> and in consultation with the social partners.

<sup>1</sup> This has included: policy reviews on youth employment and on the main drivers of informal employment; translation into Russian and dissemination of the ILO *Guide for the formulation of national employment policies*; participation of the ILO tripartite constituents in the employment policy course at the ILO's International Training Centre; and facilitating tripartite consultations on the major issues of the national employment policy.

**Box 2.4**  
**Technical cooperation in support of employment policies**

1. The APERP project (*Appui à la promotion de l'emploi et la réduction de la pauvreté*, [support for employment promotion and poverty reduction]), funded by France, is a follow-up to the Extraordinary Summit of African Heads of State held in Ouagadougou in 2004 and to the recommendations of the 2009 Global Jobs Pact.

The project supports countries in formulating comprehensive and integrated national employment policies and action plans in selected French-speaking African countries. Support is provided at each step of the policy cycle, from the diagnostic stage through to implementation, budgeting and monitoring.

Specific and in-depth support is provided to public employment services – a key instrument in policy implementation.

2. For 2012–13, a collaborative project between the ILO and the Swedish International Development Agency provided substantial support to constituents in ten countries (Cambodia, Comoros, El Salvador, Kyrgyzstan, Lesotho, Liberia, Malawi, Mozambique, Oman and Sri Lanka) in formulating comprehensive national employment policies consistent with the priorities of the national development plans.

Support was tailored to each country's needs and requests, and included: (a) research and knowledge development to inform the policy-making process; (b) policy dialogue and advocacy; and (c) capacity building of ILO constituents for engagement in employment policy formulation. Global product tools were developed concurrently, since clear linkages exist between the development of policy-making tools and policy advice. Country-level activities feed into the development of global products, while tools and training material developed under the global product are used in country-level work.

201. Since 2011, the Employment Policy Department of the ILO has collaborated with the International Training Centre in Turin in holding an annual two-week training course on employment policy, targeting government officials from employment and finance ministries and social partners involved in the design and implementation of employment policies. The more than 140 participants between 2011 and 2013 included one quarter workers' representatives, one quarter employers' representatives and two-quarters government representatives (including ministries of labour, finance and planning). Subregional <sup>11</sup> and national <sup>12</sup> courses have also been organized on the specific request of member States and contribute greatly to policy-making processes at the country level.

202. The *Guide for the formulation of national employment policies*, published in 2012 and translated into several languages, is much in demand and used at the country level. A customized version for trade unions is under development, through consultations with workers. Other tools include a guide on developing budget programming tools to enhance mainstreaming of employment concerns in national public policies and budgets. Considerable ILO effort has also gone into initiatives and tools to strengthen capacities to collect and analyse labour market information in order to inform evidence-based policies.

203. Once policies have been adopted, the ILO provides support for the formulation of action plans. These have already been developed in, for example, Liberia, Malawi, Namibia, the Southern African Development Community, Sri Lanka and Togo, and are

<sup>11</sup> Workshop on active labour market policies for Algeria, Mauritania, Morocco and Tunisia, Rabat, 10–13 July 2012, and National Employment Policy course for French-speaking African countries, Dakar, 15–29 Apr. 2013.

<sup>12</sup> Rabat, 5–6 Feb. 2013; Maputo, Mar. 2013; and Fiji, Nov. 2012.

being developed in Botswana and Uganda, among others. Customized technical advice on how to mainstream employment in the budgeting process is provided.

204. A research project on “Comparative analysis of employment policy implementation mechanisms”, supported by the Government of the Republic of Korea, has studied seven countries (Argentina, Bosnia and Herzegovina, Burkina Faso, Brazil, China, Republic of Korea and South Africa) and the EU (with special reference to Germany and the United Kingdom) to review the effectiveness of coordination and implementation mechanisms for national employment policies. A guide based on the findings will be issued in 2014.

205. Country studies, policy reviews, conferences and high-quality publications contribute to the ILO’s advocacy work on strengthening the employment content of development strategies and formulating sound national employment policies.

206. In 2012, an independent evaluation commissioned by the Office assessed the ILO’s global strategy and contribution to supporting member States in improving their policies for productive employment, decent work and income opportunities from 2006 to 2011. The evaluation results, presented at the 316th Session of the Governing Body, concluded that the ILO had gained international visibility and a position of solid leadership on employment policy issues through its impressive range of technical competencies that supported the delivery of its tools and services and its strong national tripartite networks and partnerships. It found that the ILO had demonstrated its reliability in completing its programme of work and meeting performance targets, and had successfully adapted its approaches following the international financial and economic crisis. It suggested that the efficiency, impact and sustainability of the ILO’s strategy could be further improved by articulating a longer-term vision of how countries can be supported through all stages of the employment policy cycle.<sup>13</sup> Its recommendations included building further knowledge through research and analysis; promoting effective institutional set-ups to pilot implementation of national employment policies; addressing specific capacity needs of ILO constituents; strengthening efforts to integrate employment in national budgets; and establishing durable partnerships with other key international actors.

#### *Strengthening employment policy reviews*

207. The abovementioned comprehensive country employment policy reviews and diagnostics are carried out at the request of governments, mostly at the time of development and revision of policies or in conjunction with the development planning processes.

208. The 2008 Declaration on Social Justice for a Fair Globalization underlined the importance of strengthened policy reviews for effective implementation. It suggested conducting voluntary reviews through:

- (i) studies conducted on an ad hoc basis with the voluntary cooperation of the governments and representative organizations of employers and workers in the countries concerned; or
- (ii) any common schemes such as peer reviews which interested Members may wish to establish or join on a voluntary basis.<sup>14</sup>

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<sup>13</sup> ILO: *Discussions of high-level evaluations: Strategies and Decent Work Country Programmes*, Governing Body, 316th Session, Geneva, Nov. 2012, GB.316/PFA/7/2, [http://www.ilo.org/gb/GBSessions/GB316/pfa/WCMS\\_191164](http://www.ilo.org/gb/GBSessions/GB316/pfa/WCMS_191164).

<sup>14</sup> ILO: *Declaration on Social Justice for a Fair Globalization*, 2008, p. 20.

209. ILO constituents have on occasion requested the Office to analyse existing mechanisms for systematic policy reviews and assess their applicability to employment policy reviews. The existing mechanisms include the following.

210. **The IMF Article IV reports:**<sup>15</sup> When a country joins the IMF, it agrees to subject its economic and financial policies to the scrutiny of the international community. Country surveillance is an ongoing process incorporating regular comprehensive consultations, known as Article IV consultations because they are required by Article IV of the IMF's Articles of Agreement. Article IV consultations usually take place once a year. IMF economists visit the member country to gather information and hold discussions with government and central bank officials, and often private investors and labour representatives, members of parliament, and civil society organizations. Upon its return, the mission submits a report to the IMF's Executive Board for discussion. The Board's views are subsequently summarized and transmitted to the country's authorities. Currently, nine out of ten member countries agree to the publication of a public information notice, which summarizes the staff's and the Board's views, and four out of five countries agree to publication of the staff report itself.<sup>16</sup>

211. **World Trade Organization (WTO) trade policy reviews:**<sup>17</sup> To ensure transparency of regulations and policies, governments have to inform the WTO and fellow members of specific measures, policies or laws through regular notifications. The WTO also conducts regular reviews of individual countries' trade policies. Under the Trade Policy Review Mechanism, all WTO members are reviewed at intervals related to individual countries' share of world trade. The reviews are essentially peer-group assessments, although much of the factual work is done by the WTO secretariat. Reviews are conducted by the Trade Policy Review Body on the basis of a policy statement by the member under review and a report prepared by the WTO secretariat. In preparing its report, the secretariat seeks the cooperation of the member, but bears sole responsibility for the facts presented and views expressed. The secretariat report and the member's policy statement are published after the review meeting, along with the minutes of the meeting and the concluding remarks of the chairperson of the Trade Policy Review Body.

212. **The European employment strategy:**<sup>18</sup> Through what is described as the "open method of coordination", the European Commission provides a framework within which EU countries can share information on and discuss and coordinate their employment policies. It is supported by employment guidelines, proposed by the Commission and approved by the EU Council, which present common priorities and targets for national employment policies, and involves the following annual elements:

- A Joint Employment Report, based on: (a) an assessment of the employment situation in Europe; (b) implementation of the Employment Guidelines; and (c) an examination of draft national reform programmes by the Employment Committee. The report forms part of the Annual Growth Survey. It is published by the Commission and adopted by the EU Council.

<sup>15</sup> IMF: *Surveillance*, <http://www.imf.org/external/about/econsurv.htm>.

<sup>16</sup> IMF: *IMF Article IV Staff Reports*, <http://www.imf.org/external/ns/cs.aspx?id=51>; I. Islam et al.: *Macroeconomic policy advice and the Article IV consultations: A development perspective*, ILO Research Paper No. 2 (ILO, Geneva, 2012).

<sup>17</sup> WTO: *Trade Policy Reviews: Brief Introduction*, [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp\\_int\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp_int_e.htm).

<sup>18</sup> European Commission: *European employment strategy*, <http://ec.europa.eu/social/main.jsp?catId=101&langId=en>.

- ❑ National reform programmes submitted by national governments, which are analysed by the Commission for compliance with the Strategy Europe 2020.
- ❑ Country-specific recommendations issued by the Commission, on the basis of an assessment of each country's national reform programme.

**213. The Bucharest Process of Country Reports on Employment Policies, 2004–08:**<sup>19</sup> The South-East European Ministerial Conference on Employment, held in Bucharest in October 2003, adopted the Bucharest Declaration calling for regional cooperation in addressing employment challenges to bring about major improvements in national employment policies. The ILO and the Council of Europe were asked to give guidance and support to this effort by reviewing the policies in close cooperation with the social partners and labour market institutions, and providing recommendations.

214. The Labour Ministers of the Stability Pact countries approved and updated the objectives of this cooperation, and the activities were designed and supervised by a permanent high-level committee comprising directors-general of employment and representatives of national employment services. The Bucharest Process became a significant reference point for employment policy development in South-East Europe. The Sofia Conclusions adopted at the second Ministerial Conference, held in 2005, endorsed the process and placed even more emphasis on policy coherence and social dialogue.

215. A series of seven country reviews of employment policy were conducted between 2004 and 2008.<sup>20</sup> Each review was based on a national report produced by the relevant ministry of labour in cooperation with the national employment service, based on a common outline for national background reports. The ILO and the Council of Europe then reviewed the information presented, as requested, and added recommendations. The employment policy reviews were adopted at national tripartite conferences, which provided an opportunity for the social partners to discuss and assess the findings and the recommendations proposed. The reviews also provided a basis for a peer review discussion with other countries of the Stability Pact, which was organized as part of the process of cooperation on employment during the sessions of the permanent high-level committee of the Bucharest Process.

**216. ILO Governing Body reviews:** For a brief period in 2007–08, the Committee on Employment and Social Policy of the ILO Governing Body introduced country reviews with reference to the implementation of the Global Employment Agenda. The process, which was applied to three countries (Burkina Faso, Pakistan and Viet Nam), included an ILO report and a presentation by a tripartite delegation from each country, headed by the Minister of Labour. The reviews ceased with the onset of the global economic and financial crisis, when the focus shifted to the Global Jobs Pact. While the latter was piloted in seven countries (see box 1.1), it did not involve a peer review process as such.

217. The peer reviewing of employment policies can serve as a platform for the exchange of good practice, strengthen close contacts among national experts and improve mutual understanding between countries. A sustained programme of such reviews requires an agreed framework of reference; an institutionalized systematic review process; a follow-up mechanism; and a realistic scope (the experience of the

<sup>19</sup> Stability Pact for South-Eastern Europe: *Initiative for Social Cohesion – Employment*, <http://www.stabilitypact.org/wt2/ISCemployment.asp>.

<sup>20</sup> Albania, Bosnia and Herzegovina, Croatia, Serbia, Republic of Moldova, Montenegro and the former Yugoslav Republic of Macedonia.

Stability Pact countries' employment policy reviews suggests that no more than two countries could be efficiently reviewed in depth each year).

## 2.2. Pro-employment macroeconomic policy frameworks

218. As discussed in section 1.1.2, since the global recession of 2008–09 and the ensuing Eurozone crisis, macroeconomic policies and their impact on labour markets have taken central stage. The 2010 ILC called for the Office to strengthen knowledge on pro-employment macroeconomic frameworks, and this was reiterated in the 2012 ILC discussion on youth employment.

219. In response, the Office has embarked on the following initiatives, with special reference to developing and emerging economies: (i) knowledge generation and dissemination of evidence-based critiques of conventional macroeconomics using cross-country data; (ii) country-specific studies of macroeconomic policies and the extent to which they help or hinder durable and productive employment creation; (iii) using the findings of these studies to design and develop capacity-building initiatives targeting both constituents and senior academics; (iv) policy advisory and technical services to member States. Progress has been made in all four areas.

220. Various studies pertaining to inflation targeting, fiscal consolidation and policy advice transmitted through IMF Article IV consultations have been completed, validated through technical workshops (including multiple presentations to the IMF) and disseminated through appropriate publications.<sup>21</sup>

221. The findings reveal that, at least up to 2011, Article IV consultations were preoccupied with inflation control and fiscal consolidation and paid insufficient attention to either country-specific circumstances or core development and employment concerns. The IMF's self-evaluation of 30 Article IV consultations undertaken in its 2013 *Jobs and growth* report draws similar conclusions.<sup>22</sup> An attempt is being made to broaden the scope of these consultations by explicitly incorporating labour and employment dimensions into staff reports.<sup>23</sup>

222. The findings also show that the preoccupation of conventional macroeconomics with stability is often disconnected from mainstream development concerns such as employment creation, economic diversification and poverty reduction. Extreme macroeconomic instability kills growth, but the return of stability does not necessarily promote and sustain long-term growth, or productive and durable employment creation. What is needed is a form of "dual mandate" in which macroeconomic policy managers perform a delicate balancing act, ensuring macroeconomic stability together with employment generation.

223. Many country studies have been carried out<sup>24</sup> and discussed in technical workshops, giving rise to a number of salient policy lessons, which are summarized in table 2.2. As can be seen, the emphasis is on shifting attention away from the stability

<sup>21</sup> For the updated versions of these studies, see: I. Islam and D. Kucera: *Beyond macroeconomic stability: Structural transformation and inclusive development*, Introduction and Chapters 1–3 (ILO and Palgrave Macmillan, 2014).

<sup>22</sup> IMF: *Jobs and growth: Analytical and operational considerations for the Fund* (Washington, DC, 2013).

<sup>23</sup> IMF: *A template for analyzing and projecting labor market indicators* (Washington, DC, 2012).

<sup>24</sup> See, for example, ILO Employment Working Papers on Argentina (No. 109), Bangladesh (No. 92), Jordan (No. 118), Malawi (No. 93), Nigeria (No. 107), Peru (No. 134), Sri Lanka (No. 110), Turkey (No. 108) and Uganda (No. 91).

and credibility dimensions of conventional macroeconomics to such issues as the role of counter-cyclical policies in coping with economic volatility, encouraging financial inclusion and mobilizing domestic resources within a “dual mandate” framework. The appropriate roles of central banks, financial authorities and ministries of finance in this “dual mandate” framework are noted. Regarding monetary and fiscal policies, central banks and financial authorities should encourage high levels of investment, enhance financial inclusion and ensure access to credit, allocating credits especially to priority sectors with high potential to create quality employment. Ministries of finance should provide fiscally sustainable support for employment-intensive public investment in infrastructure, active labour market policies, employment guarantee schemes focusing on vulnerable labour market groups, and investment in education, training and health.

224. Current account and exchange rate policies should be geared towards a stable real exchange rate rule to predictably influence resource allocation between traded and non-traded goods sectors in support of the goals of structural transformation and employment creation, and to provide an enabling framework for private sector investment. Finally, capital and account management should ensure policy space by regulating capital accounts in such a way as to support sectoral initiatives for structural transformation and employment creation. If the measures outlined in table 2.2 are followed, economies will have much greater scope to create employment and especially to assist vulnerable groups such as young people in finding and keeping decent work.

225. The findings are consistent with the messages on macroeconomic policy that have emerged from the global consultations on “growth and employment in the post-2015 agenda” carried out by the United Nations Development Group (UNDG), in which the ILO played a key role. For example: “[M]acroeconomic policies should be used as instruments to support structural transformation and employment generation by providing stability of investment and consumption, scaling up public investments and minimizing the costs of accessing finance for enterprises.”<sup>25</sup>

226. The findings have been used to support policy advisory and capacity-building programmes in the development of national employment policies in, for example, Botswana, Cambodia, Malawi, Namibia and Sri Lanka, and in the employment policy course held in cooperation with the International Training Centre (see section 2.1). Macroeconomic policy issues feature prominently in the policy documents of countries that have benefited from the capacity-building and advisory services.

227. Changes in the functional distribution of income, analysed in sections 1.1.1 and 1.2.3, have macroeconomic consequences. ILO research draws strong inferences about the impact of such developments on aggregate demand and competitiveness. The empirical evidence (compiled for 15 countries, including some emerging economies and the EU as a group) shows that private consumption always declines with a decline in labour income share, but net exports always increase, while investment either stays constant or increases.<sup>26</sup>

228. Findings suggest that sustainable increases in minimum wages play an important role in supporting private consumption and thus in aggregate demand management.

229. The synthesis and policy implications of the Office’s initiatives will be published in 2014 in the *Handbook on employment targeting: The macro and sectoral approaches*.

<sup>25</sup> UNDG: *Growth and employment in the post-2015 agenda: Messages from a global consultation*, 2013, p. 27.

<sup>26</sup> ILO: *Global Wage Report 2012–13: Wages and equitable growth*.

**Table 2.2. Multiple dimensions of macroeconomic management: From stability to structural transformation**

| Policy area                              | Conventional macroeconomics:<br>Stability and credibility dimensions                                                   | Pro-employment macroeconomics:<br>Prudential and protective dimensions                                                                                                                                                               | Pro-employment macroeconomics: Allocative dimensions                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|------------------------------------------|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Monetary and financial policies          | Target low (single-digit) inflation and communicate commitment clearly to private sector to enhance policy credibility | Increase resilience of domestic financial systems to external shocks, thereby creating increased incentives for domestic savings that can support productive investment for promoting growth and employment                          | Central banks and financial authorities, while maintaining reasonable price stability, should support the goal of productive employment creation by: <ul style="list-style-type: none"> <li>■ ensuring access to credit by SMEs;</li> <li>■ supporting development of well-functioning microfinance institutions;</li> <li>■ enhancing financial inclusion of “unbanked” households;</li> <li>■ allocating credit to priority sectors and industries using transparent and consistent criteria</li> </ul>   |
| Fiscal policy                            | Focus on fiscal sustainability<br><br>Monitor debts and deficits and institute explicit fiscal rules, if required      | Build up fiscal space and appropriate institutional arrangements during booms and periods of normal economic growth to attenuate or eliminate the pro-cyclical bias of fiscal measures and increase space for anti-cyclical measures | Finance ministries should mobilize adequate resources to provide fiscally sustainable support to: <ul style="list-style-type: none"> <li>■ employment-intensive public investment in infrastructure;</li> <li>■ active labour market policies to support employment of vulnerable groups (youth, women, long-term unemployed);</li> <li>■ employment guarantee schemes to support poor and vulnerable households;</li> <li>■ health, education and training to build up skills and employability</li> </ul> |
| Current account and exchange rate policy | Use exchange rate as a nominal anchor or allow for market-determined exchange rates – the “corner solution”            | Build up foreign exchange reserves to cope with external economic volatility and as a prudential measure to reinforce counter-cyclical policies                                                                                      | Adopt a medium-term framework geared towards a stable real exchange rate rule to predictably influence resource allocation between traded and non-traded goods sectors in support of the goals of structural transformation and employment creation                                                                                                                                                                                                                                                         |
| Capital account management               | Adopt an open capital account to enhance macroeconomic credibility and harness external resources                      | Engage in active capital account management by reducing dependence on short-term capital flows through various prudential measures and thus reduce exposure to economic volatility                                                   | Create policy space by regulating capital account to support investment and sectoral initiatives for structural transformation and employment creation                                                                                                                                                                                                                                                                                                                                                      |

Note: Column 2 represents conventional macroeconomic frameworks as reflected, for example, in IMF Article IV consultations. Columns 3 and 4 represent the genesis of an employment-oriented macroeconomic framework.

## 2.3. Trade, industrial and sectoral policies

230. The 2010 ILC also underscored the importance of industrial policies and sectoral strategies to economic diversification and expansion of productive employment. The Office was asked to strengthen its trade, investment and industrial policy expertise with a view to evaluating the impact of such policies on employment and decent work.<sup>27</sup>

231. The 2008 ILO Declaration on Social Justice for a Fair Globalization states: “As trade and financial market policy both affect employment, it is the ILO’s role to evaluate those employment effects to achieve its aim of placing employment at the heart of economic policies.”

232. Since 2010, the Office’s work on trade and employment linkages has evolved in three main areas: (i) improving empirical knowledge; (ii) enhancing coordination and partnerships with other international organizations; and (iii) developing policy advisory tools and technical cooperation.

233. The Office has published three volumes on the subject of trade and employment. *Making globalization socially sustainable*<sup>28</sup> (co-published with the WTO and financed by the International Chamber of Commerce) provided evidence that globalization’s promise of expanding high-productivity employment and growth has been fulfilled in some countries (most notably China and India) but not in others (such as some countries in Latin America and sub-Saharan Africa), and stressed the importance of both social protection in labour markets exposed to external shocks and education policies in making globalization more inclusive. *Trade and employment: From myths to facts*<sup>29</sup> (financed by the EU) focused on developing countries and engaged with crucial issues such as the informal economy, gender and adjustments following trade liberalization. *Shared harvests: Agriculture, trade and employment*<sup>30</sup> (co-published with UNCTAD and financed by the EU) concluded that broad development benefits from agriculture will be obtained only if both national development strategies and international trade negotiations give careful consideration to agricultural trade policy and its effects on employment.

234. The ILO has also produced several other studies and working papers on trade and employment.<sup>31</sup> This research, which has benefited from strong links with academia and the research arms of other national and international institutions, used quantitative and qualitative methodologies and focused on assessing the employment effects of trade at both global and country levels.

235. The strengthening of technical expertise on trade and employment, and of collaborative efforts among departments and between departments and field units, significantly increased the ILO’s knowledge base, and recognition of its expertise, in this area between 2010 and 2013.

236. The Office has aimed to make its research products highly visible among global policy-makers, and many of the studies on trade and employment have been presented at a range of international events, many jointly organized with other institutions.

<sup>27</sup> ILO: *2010 Labour Overview: Latin America and the Caribbean*, op. cit.

<sup>28</sup> ILO and WTO: *Making globalization socially sustainable* (Geneva, 2011).

<sup>29</sup> ILO: *Trade and employment: From myths to facts* (Geneva, 2011).

<sup>30</sup> ILO and UNCTAD: *Shared harvests: Agriculture, trade and employment* (Geneva, 2013).

<sup>31</sup> This research is accessible at: [http://www.ilo.org/employment/areas/trade-and-employment/WCMS\\_181194](http://www.ilo.org/employment/areas/trade-and-employment/WCMS_181194).

237. The Office has been very active in the International Collaborative Initiative on Trade and Employment, which was created in 2010 and includes major UN agencies and regional banks. Through the initiative, the Office has played a major role in shaping the global policy agenda with regard to linkages between trade and employment.

238. The ILO has also actively participated as a member of the United Nations Inter-Agency Cluster on Trade and Productive Capacity. The ILO has been heavily involved in Cluster proposals for trade-related technical assistance within country-level United Nations Development Assistance Frameworks and the implementation of technical assistance. One example of this work is the project on “Enhancing sustainable tourism, clean production and export capacity”, which has been implemented in the Lao People’s Democratic Republic and is in the inception phase in the United Republic of Tanzania.

239. Since 2010, the ILO has endeavoured to build institutional capacity to address the topic of trade and employment by undertaking policy-relevant studies, marshalling empirical evidence and mobilizing resources for trade-related technical cooperation. Technical assistance projects and tools in this area include:

- (1) “Assessing and addressing the effects of trade on employment”, an EU-funded project to support the formulation and analysis of effective and coherent trade and labour market policies that address the adjustment challenges faced by workers and employers and expand opportunities for the creation of decent employment in developing countries. Implemented in Bangladesh, Benin, Guatemala and Indonesia, it brought together ministries of employment and trade to consider the effects of trade on employment. The project also established in several countries a dedicated multi-stakeholder policy working group with a tripartite core to formulate effective and coherent trade and labour market adjustment policies. A second phase of this project is envisaged in 2014.
- (2) The Skills for Trade and Economic Diversification (STED) methodology provides strategic guidance for the integration of skills development in sectoral policies designed to support growth and the creation of decent employment in sectors that have the potential to increase exports and to contribute to economic diversification. This tool has been implemented in Bangladesh, Kyrgyzstan, the former Yugoslav Republic of Macedonia and Ukraine. It is currently being applied in selected sectors in Jordan and Viet Nam, and will also be applied in some North African countries and possibly Tajikistan. The main aim of this programme is to raise awareness and stimulate dialogue on skills development among employers, trade unions and training providers within a trade-oriented sector.

240. Since 2010, the ILO’s International Training Centre has offered annual courses in Turin and elsewhere on international trade and labour markets, as well as technical assessment courses on the impact of trade on employment.

241. As discussed earlier, there is a new enthusiasm for sector-focused interventions in the framework of employment policies.<sup>32</sup>

<sup>32</sup> One good example is the 2012 McKinsey Global Institute report on Africa. Another is the work of the former World Bank Chief Economist, Justin Lin, on the “new structural economics”, which maintains that market-based principles should be used to design sector-specific policy interventions.

242. The ILO has developed a coherent and integrated approach on sectoral strategies for employment promotion that has been applied in several countries. Analyses using quantitative and qualitative methods<sup>33</sup> have been presented in tripartite workshops aimed at giving policy-makers the tools to target employment-intensive sectors and evaluate sectoral policy scenarios with regard to employment outcomes.

243. In Katanga, Democratic Republic of the Congo, for example, a sectoral study was conducted, with detailed empirical analysis of the level and nature of linkages and spillovers between extractive industries, local suppliers and the local labour market. It was designed to be a core tool for formulating a coherent and integrated policy framework. This has led to the implementation of a technical cooperation workshop for the promotion of youth employment.

244. The successful implementation of productive employment-oriented sectoral strategies requires tripartite dialogue and close collaboration between governments and the private sector. Strong sectoral strategies will improve capabilities to reach the goals of skills development, enhanced enterprise competitiveness, higher productivity and sustainable employment creation. A symposium organized by the ILO in collaboration with the International Organisation of Employers (IOE) in 2013 brought together presidents and executive directors of employers' organizations from around Africa in Casablanca and launched the African employers' Task Force on Employment. A workshop for employers' organizations from sub-Saharan Africa earlier the same year in Johannesburg focused on their important role in skills development policies and systems.

245. These and many other research projects have contributed to the international policy debate on structural transformation, economic development and industrial policies. They have influenced flagship reports of other international organizations.<sup>34</sup> A book entitled *Capabilities for productive transformation and development: A new perspective on industrial policies*<sup>35</sup> explores the role of domestic capabilities at the level of enterprises, the economy and society in driving the dynamics of this process and elaborates a comprehensive learning strategy. Another publication, *Making industrial policies work for growth, jobs and development*,<sup>36</sup> engages new analytical thinking on learning,

<sup>33</sup> For some quantitative methods and related papers, see: M. Bensaid et al.: *Évaluation des emplois générés dans le cadre du DSCR au Gabon* [Evaluation of jobs created in the framework of the Poverty Reduction and Growth Strategy Paper in Gabon], Employment Sector Working Paper Series, No. 80 (Geneva, ILO, 2011); G. Epstein et al.: *Employment, poverty and economic development in Madagascar: A macroeconomic framework*, Employment Sector Working Paper Series, No. 58 (Geneva, ILO, 2010); and the case studies on the cut-flower industry in Ethiopia and the coffee sector in Rwanda in ILO: *Efficient growth, employment and decent work in Africa: Time for a new vision* (Pretoria, 2011).

Qualitative methods based on social dialogue and surveys include: O. Renard et al.: *Filières porteuses et emploi des jeunes au Katanga* [Growth areas and youth employment in Katanga] (Geneva, ILO, 2013); A. Mitra: *Can industry be the key to pro-poor growth? An exploratory analysis for India* (New Delhi, ILO, 2013); Institute of Human Development: *Promoting employment and skills development in the manufacturing sector in India: Field study* (New Delhi, ILO, 2013); F. Lapeyre et al.: *Le modèle de croissance Katangais face à la crise financière mondiale: Enjeux en termes d'emplois* [The Katanga growth model in the world financial crisis: Challenges for jobs], Employment Sector Working Paper Series, No. 82 (Geneva, ILO, 2011); D'Achon et al.: *L'impact de la crise sur le secteur textile au Maroc: Quelles implications pour l'emploi* [Impact of the crisis on the textiles sector in Morocco: Implications for employment] (Geneva, ILO, 2010); and Chandarot et al.: *Rapid assessment of the impact of the financial crisis in Cambodia* (Bangkok, ILO, 2008).

<sup>34</sup> For example: UNECA: *Making the most of Africa's commodities: Industrializing for growth, jobs and economic transformation* (Addis Ababa, 2013); and United Nations Industrial Development Organization (UNIDO): *Industrial development report 2013: Sustaining employment growth – The role of manufacturing and structural change* (Vienna, 2013).

<sup>35</sup> I. Nübler (Geneva, ILO, forthcoming).

<sup>36</sup> J.M. Salazar-Xirinachs, I. Nübler and R. Kozul-Wright (Geneva, ILO, forthcoming).

structural transformation and the role of public policies with the pursuit of productive structural transformation and employment growth.

246. To meet the challenge of promoting structural change towards low-carbon, more sustainable economies and to ensure a just transition for all, the ILO has been developing a strategy centred on green jobs and the green economy (see also the discussion in section 1.2.5), based on three pillars.

247. The first pillar is to provide the right mix of incentives and support. One prominent tool is environmental tax reform to shift the burden of taxation away from labour and onto resource use and pollution. Part of the revenue generated could be used for greening education, skills, and research and development. The ILO's Global Economic Linkages model indicates that, if such an eco tax were combined with employment support measures, by 2020 multi-factor productivity would be 1.5 per cent higher than if green taxes were not used to support employment, and by 2050 it would be 5.0 per cent higher.<sup>37</sup>

248. The second pillar of the strategy is to ensure that investment in greening human capital and employment, decent work and social inclusion is at the core of any sustainable development strategy. Employment and labour market policies need to serve an integrated transition to greener economies that are socially inclusive, reduce poverty and ensure equitable outcomes for women and men. Emphasis on skills and education policies to facilitate job transition and improve employability is critical. The ILO's *Skills for green jobs* report analyses the global skills needs of greener economies and highlights the experience of 21 countries worldwide.<sup>38</sup> In addition, the ILO reports on skills and occupational needs in the green building and renewable energy sectors analysed skills demand in related value chains and the training responses in some 30 countries.<sup>39</sup>

249. Social protection interventions can complement other sustainable development policies in cushioning the impact of social, economic and environmental crises while also enabling structural change towards greener economies, for example by protecting retrenched workers as they look for new opportunities or undergo retraining.

250. The third pillar of the strategy is to place social dialogue at the centre of policy-making. Given that the transition towards environmentally sustainable development will entail profound changes in production processes and technologies as well as reallocation of jobs, close cooperation between government and the social partners will be central to the success of this transformation.

## 2.4. An enabling environment for enterprises and support for SMEs

251. Enterprise-level interventions will be far more effective in creating more and better jobs if they are supported by factors in the environment such as the legal and regulatory framework, physical infrastructure and access to finance. In the follow-up to the 2007 ILC resolution on sustainable enterprises and in order to assess these external factors and to produce evidence-based advice on how to improve the business environment, the

<sup>37</sup> ILO: Global Economic Linkages Model, International Institute for Labour Studies.

<sup>38</sup> ILO: *Skills for green jobs: A global view* (Geneva, 2011).

<sup>39</sup> ILO: *Skills and occupational needs in green building* (Geneva, 2011); and ILO: *Skills and occupational needs in renewable energy* (Geneva, 2011).

Office has established a new means for assessing the political, economic, social and ecological conditions of the environment in which businesses operate. The methodology, entitled “Enabling Environment for Sustainable Enterprises”, has been used or initiated in 22 countries.

252. In each of these countries, priority areas for change in the enabling environment have been identified as a basis for new or revised policies, laws, regulations and institutional arrangements. In some countries, position papers and/or strategic policy frameworks have been developed in cooperation with the ILO’s Bureau for Employers’ Activities as the basis for advocacy by the respective employers’ organizations. For example, in Africa, under the leadership of the Employers’ Consultative Association of Malawi, the Malawi Congress of Trade Unions and the Malawi Ministry of Industry and Trade, a workplan on how to improve the enabling environment for sustainable enterprises was developed, concentrating on enhancing the entrepreneurial culture and the legal framework for SMEs. In Europe, the Montenegrin Employers’ Federation developed an advocacy agenda and strategy entitled “The Five Business Killers in Montenegro”, focusing on the inadequate regulatory framework, poor access to finance, the informal economy, corruption, and the skills mismatch on the labour market. In Latin America, the National Business Council of Honduras formulated a business environment reform programme and plan of action which was presented to the National Enterprise Convention in October 2013. In Asia, the Cambodian Federation of Employers and Business Associations drafted four policy papers focusing on: (i) education, training and skills; (ii) corruption; (iii) social security; and (iv) social dialogue, along with an overarching vision document.

253. It is still too early to judge the impact of these initiatives at the enterprise level in creating or improving the quality of jobs. However, it is expected that cutting down registration requirements, simplifying tax systems and establishing reliable legal frameworks will greatly improve enterprise performance at relatively low cost. It should also help informal enterprises to enter the formal economy, with attendant benefits for employment quality.

254. The findings of Enabling Environment for Sustainable Enterprises assessments and the reform proposals derived from them can fruitfully contribute to national employment policies supported by the ILO to ensure that employment and private sector development policies inform and reinforce each other. Such integration is already being fostered in some countries.

255. Multinational enterprises (MNEs) often play a major role in the socio-economic development of host countries, through foreign direct investment and their own operations, as well as through forward and backward linkages with local enterprises. This contribution is recognized in the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy” (MNE Declaration), which aims to maximize the positive contribution of multinational enterprises and features a full chapter on employment as well as one on training. These chapters focus on how to better align the policies and practices of MNEs with public employment and skills policies.

256. As part of the Office’s activities on the principles of the MNE Declaration, action-oriented research was carried out with MNEs in key sectors of three African economies (Côte d’Ivoire, Liberia and Sierra Leone) to identify opportunities for and obstacles to local recruitment of young women and men in their own operations and the inclusion of local SMEs in their supply chains. Informed public–private dialogues on the findings led to collective action.

257. The Office also conducts programmes that map multinational enterprises' existing business linkages with local suppliers in a host country, with a view to enhancing opportunities to contribute to local job creation and skills development. This work is currently being carried out in the mining sector in several countries, including Brazil, Colombia, Peru and Zambia, and in Katanga Province of the Democratic Republic of the Congo (linked to the activity described in paragraph 246 above).

258. Links with MNEs are also important for improving the quality of employment in supplying companies. An increasing number of MNEs have specific supplier codes, most of which refer to relevant international labour standards, especially the ILO Declaration on Fundamental Principles and Rights at Work. MNEs can be effective agents in promoting the Decent Work Agenda, for example in fostering formalization, when well embedded within the national context and better aligned with national priorities.

259. Regarding entrepreneurship and SME management training, a set of training packages and delivery models for different groups ranging from an initial orientation for potential start-ups to in-depth training for existing enterprises (called Start and Improve Your Business) is being made available to local counterparts in approximately 100 countries. The ILO continues to be one of the largest providers of this type of training, achieving a critical scale of 2 million participants since 2010. Based on a recent tracer study,<sup>40</sup> it is estimated that this contributed to the creation of 1.2 million new jobs. For example, the General Department of Vocational Training of the Viet Nam Ministry of Labour, Invalids and Social Affairs officially adopted the Start and Improve Your Business programme for use in its "Million Farmers" rural skills development programme.

260. The ILO curriculum which teaches entrepreneurship at secondary or tertiary level, called Know About Business, has been adapted, translated and introduced by 33 member countries. In total, 56 countries are using the curriculum and 1.4 million students have taken the course since 2010.

261. A training package specifically designed for the needs of women entrepreneurs has been introduced in 25 member countries, reaching 60,000 women and leading to an increase in sales and profits. An impact study in one country (Lao People's Democratic Republic) showed that female-led enterprises saw monthly profits increase by 50 per cent and sales by 200 per cent after their leaders had taken the training.

262. The ILO expanded its technical cooperation portfolio in value chain development from US\$20 million to more than US\$50 million between 2010 and 2013. These projects supported sectoral development and job creation in more than 20 countries. The ILO is also a key global player in building national capacity in developing value chains. In collaboration with the International Training Centre, more than 40 training courses on value chain development were delivered to more than 1,500 project implementers, policy-makers and other actors in more than 80 countries between 2010 and 2013. In-country courses were held in Brazil, Costa Rica, Egypt, Ethiopia, Italy, Kenya, Nigeria, Peru, Philippines, Sudan, Thailand and Uganda.

263. The Sustaining Competitive and Responsible Enterprises programme (SCORE), which promotes responsible workplace practices in SMEs, worked with 19 institutions (government agencies, industry associations and training providers) in seven emerging countries to train 300 SMEs with a total of 60,000 employees on improving productivity

<sup>40</sup> ILO: *Start and Improve Your Business: Global Tracer Study 2011 – ILO's business management training programme* (Geneva, 2012).

and working conditions through better workplace cooperation. The Office managed to secure external funding topped up by internal resources to massively scale up the programme in the five years from 2014 to 2018, quadrupling the number of participating enterprises. The programme is also strongly embedded in the work of the ACI on productivity and working conditions in SMEs.

264. Cooperatives can play an important role as creators of employment in their own right, as well as in supporting SMEs to overcome problems of small size. The My.Coop training package and programme on the management of agricultural cooperatives was developed in 2012 to improve the efficiency and effectiveness of cooperative services to members. Partnerships with the Food and Agriculture Organization of the United Nations, universities, agricultural development agencies and cooperative organizations have helped to achieve a good outreach in nine countries within three regions.

265. In order to generate more evidence on the effectiveness of enterprise development interventions and to further improve their quality, a wide range of reports and publications were produced for the Office and for stakeholders.<sup>41</sup>

266. The Summer Academy on Sustainable Enterprise Development, a two-week training programme in Turin organized for policy-makers and enterprise development practitioners, has become a regular event, with some 300 participants since 2010.

## 2.5. Employment-intensive investment in infrastructure and innovations in public employment programmes

267. Increased investment in infrastructure creates a unique opportunity to promote direct, indirect and induced employment. Policy-makers are often faced with the choice between costly infrastructure that benefits the few and low-cost infrastructure that serves a larger part of the population. The way infrastructure is built and maintained greatly influences its multiplier effects.

268. The ILO's experience shows that a local resource-based approach,<sup>42</sup> especially applied to small and medium-sized infrastructure needed at local level, can produce three to five times as much direct employment as a conventional approach involving no local input. It may also double the number of jobs directly created and triple the value of local goods and services purchased. While these benefits vary from place to place, and with the type and size of project, the greatest variation comes from how infrastructure projects have been designed and implemented.

269. Public funding through regular investment and counter-cyclical spending on infrastructure are already widely used to expand demand for private enterprises, and to create and sustain jobs.

270. The ILO is continuously called upon by member States to provide capacity building for large-scale public investment and employment programmes through its Employment-Intensive Investment Programme. One of ILO's largest technical cooperation programmes, with a donor portfolio of some US\$120 million, the Programme now operates in some 45 member States. In some cases, governments pay for ILO services (in the last biennium, about 30 per cent of the technical cooperation

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<sup>41</sup> For details, see: <http://www.ilo.org/seed>.

<sup>42</sup> This means seeking an optimal mix of locally available labour, materials, equipment and tools, including the greatest possible use of local actors for design and implementation, such as local SMEs (consultancy firms and small-scale contractors).

portfolio was accounted for by developing countries buying ILO services in this field), while in others, finance is provided by development bank programmes.

271. In order to provide better guidance to member State policy-makers' strategic choice of infrastructure investments, the ILO has refined its employment impact assessment methodologies and has combined them with traditional project appraisal methods that focus on economic and technical analysis.

272. The Employment-Intensive Investment Programme is currently developing a reference tool on employment and infrastructure investments. Employment impact assessments are already being carried out in a number of countries, including India, Indonesia, Mozambique, Paraguay, South Africa, United States and, with the support of the European Investment Bank, Egypt, Jordan, Morocco and Tunisia. Services are provided both to governments and to development partners. Capacity building for public and private sector implementation is provided in many countries: for example, the programme is under contract to the Government of India to build capacity for private sector contracting in the world's largest rural roads programme under a loan from the World Bank.

273. In the context of South-South and triangular cooperation, the ILO has been working closely over the last decades with various African governments to host biennial regional seminars bringing together labour-based practitioners, planners, policy-makers, researchers, funding and development partners, and other stakeholders, to discuss developments and share experience and ideas on the application of employment-intensive approaches in the delivery of essential infrastructure.

274. Public investment in infrastructure is undoubtedly a powerful tool for creating jobs and boosting the economy. However, evidence shows that in situations of high inequality, the benefits of economic growth are unlikely to reach the poor. Here, other interventions such as public employment programmes<sup>43</sup> can help to reach disadvantaged communities.

275. It has been recognized that public employment programmes can be a key instrument in a country's social protection floor, offering predictable and stable work as well as income security. The ILO, through the Employment-Intensive Investment Programme and in interdepartmental collaboration with the Social Protection Department, continues to participate actively in the debate around using public works programmes to promote social protection and employment, with partners including the Overseas Development Institute, the World Bank, bilateral donor agencies and other specialized UN agencies.

276. There is a vast spectrum of public employment programmes, ranging from short-term public works programmes implemented during natural or anthropogenic crises to provide immediate relief, to institutionalized employment guarantee schemes designed to alleviate structural problems of underemployment and poverty. The ability of public employment programmes to achieve multiple objectives and to respond to specific circumstances makes them highly desirable from a policy perspective.

277. Significant work has been undertaken since 2010 to upgrade the ILO's capacity to respond to increasing demand for such programmes. The ILO has developed a new knowledge and training product, *Innovations in Public Employment Programmes*. Courses are delivered at the International Training Centre in Turin as well as through

<sup>43</sup> Public employment programme refers to any direct employment creation by government through an employment programme rather than through the expansion of the civil service.

partnerships at regional level (for example, with the University of Cape Town in South Africa). The topic also forms part of the agreement between the ILO and India, Brazil and South Africa on priority issues for collaboration, and was the subject of a seminar held in India in March 2012 with global participation.

278. The number of public employment programmes has increased exponentially in the last five years. The largest and most innovative is the Mahatma Gandhi National Rural Employment Guarantee Act in India, which guarantees 100 days of work per year to around 60 million people. The ILO provides support on decent work and wages, which have become core policy issues in India. In South Africa, 4.5 million job opportunities were created under phase II (2009–13) of the ILO-supported Expanded Public Works Programme and a third phase is designed to generate 7.5 million more. Technical cooperation advisory services and capacity building in public employment programmes have also been provided in Africa to Burundi, Egypt, Ethiopia, Ghana, Guinea, Niger and South Africa; in Asia to Cambodia, Indonesia, Philippines and Viet Nam; and in the Americas to Colombia, El Salvador and Jamaica.

## 2.6. Improving employability and productivity

279. The 97th Session of the ILC in 2008 agreed a conceptual and policy framework linking skills development to improved productivity, employment growth and development that has guided the full range of subsequent work by the Office.<sup>44</sup> In response to the 2010 resolution on the recurrent discussion on employment, a global public–private knowledge-sharing platform on skills for employment was launched in 2013.<sup>45</sup> The platform aims to share the findings of governments, employers, workers and international organizations on how best to bridge the worlds of education and training and of decent and productive work. Partnerships with the United Nations Educational, Scientific and Cultural Organization (UNESCO), the OECD and the World Bank enrich the resource base that the platform makes available to ILO constituents, which includes experiences from some 130 countries.

280. Through its coordination of the human resource development pillar of the G20's Development Working Group,<sup>46</sup> the Office has supported tripartite workshops in pilot countries, which have formulated action plans to improve skills development. Government representatives presented the action plans and discussed technical and financial constraints in implementing them at a Development Working Group workshop in Moscow in May 2013.

281. The G20 Saint Petersburg Development Outlook (September 2013) pledged to support the implementation and assessment of pilot country action plans on skills for employment and productivity and their possible roll-out to middle-income countries, and to promote the use and maintenance of the global knowledge-sharing platform on skills for employment.

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<sup>44</sup> ILO: Resolution concerning skills for improved productivity, employment growth and development, International Labour Conference, 97th Session, Geneva, 2008.

<sup>45</sup> The platform is accessible from the ILO homepage and at: <http://www.skillsforemployment.org>.

<sup>46</sup> At their Summit in Seoul in November 2010, the G20 Leaders issued a multi-year action plan on development whose pillar on human resource development called on the ILO to work together with the OECD, UNESCO and the World Bank to support low-income countries in building on the G20 Training Strategy to develop “employment-related skills that are better matched to employer and market needs in order to attract investment and decent jobs”, <http://www.g20.utoronto.ca/2010/g20seoul-development.html>.

282. The Office helped constituents develop and implement national skills development policies, promote tripartite industry skills councils, improve the availability of training in rural areas (through the Training for Rural Economic Empowerment programme), integrate skills development in trade strategies (through the Skills for Trade and Economic Diversification programme), improve the capabilities of public employment services to provide better career guidance, training and job placement services, integrate gender equality in skills development systems, and build capacity to include people with disabilities in the labour market. Good practices and South–South learning in all these areas were promoted through the ILO International Training Centre’s Skills Academy, launched in 2011 and held annually, and the Inter-American Centre for Knowledge Development in Vocational Training (ILO–CINTERFOR).

283. Social dialogue and collective bargaining at enterprise, sector and/or national levels are highly effective in creating incentives for investment in skills and knowledge.

284. Active participation of social partners is essential to improving transitions to work, enhancing individuals’ employability, minimizing skills mismatch and keeping enterprises competitive. While governments have primary responsibility for education, pre-employment training, core skills, and training the unemployed and people with special needs, the social partners play a significant role in further training, workplace learning and on-the-job training, and quality apprenticeships.<sup>47</sup>

285. With respect to the skills mismatch challenges discussed above (see section 1.2.6), the ILO, in collaboration with the European Centre for the Development of Vocational Training and the European Training Foundation, has produced a number of tools to aid anticipation of skill needs, covering quantitative forecasting and qualitative foresights at macroeconomic level, methods and institutional approaches at sectoral level, the role of employment services, how to implement surveys among employers to get first-hand demand-side information, the implementation of tracer studies and the employability of school graduates, and the use of labour market information to answer key policy concerns related to skills anticipation and matching.

286. Apprenticeship systems can also help in avoiding skills mismatch. Training provided in part by employers will match their needs and be more likely to provide a pathway into employment. Among European countries with strong apprenticeship systems, unemployment rates for young people are much closer to those of adults.<sup>48</sup>

287. In response to constituents’ growing interest, a strategy for expanding quality apprenticeship systems in countries and sectors where they have not traditionally been strong was launched through research,<sup>49</sup> tripartite training workshops in Africa, Arab States and Europe, and support for the IOE in launching the Global Apprenticeship Network.<sup>50</sup>

<sup>47</sup> ILO: *Overview of apprenticeship systems and issues – ILO contribution to the G20 Task Force on Employment* (Geneva, 2012); ILO: *Key elements of quality apprenticeships* (Geneva, 2012); ILO: *Case studies on social dialogue for workplace learning: Europe, Costa Rica and Israel* (Geneva, 2012); ILO and IOE: *Feasibility study for a global business network on apprenticeship* (Geneva, 2013). All documents are available on the knowledge-sharing platform.

<sup>48</sup> H. Steedman: *Overview of apprenticeship systems and issues: ILO contribution to the G20 Task Force on Employment* (Geneva, ILO, 2012); and M. Axmann and C. Hofmann: *Overcoming the work-inexperience gap through quality apprenticeships – The ILO’s contribution* (Geneva, ILO, 2013).

<sup>49</sup> H. Steedman: 2012, op. cit.; M. Axmann and C. Hofmann: 2013, op. cit.

<sup>50</sup> S. Gopauls: *Feasibility study for a global business network on apprenticeship* (Geneva, ILO, 2013) and the *Key elements of quality apprenticeships: A joint understanding of the B20 and L20* recognized the shared responsibility of governments, employers and trade unions in making apprenticeships work.

288. The ILO has been working with constituents to demonstrate the benefits of social dialogue in upgrading informal apprenticeships: for example, a regional knowledge-sharing workshop on upgrading informal apprenticeships, held in Johannesburg in April 2013, validated the Skills Testing Guide by Small Business Associations and shared experience using the Guide to Upgrading Informal Apprenticeships.<sup>51</sup>

## 2.7. The informal economy and transitioning to formality

289. In follow-up to the 2010 ILC resolution and to address the widespread informal economy challenges discussed in section 1.1.1, the ILO conducted a series of 18 country studies in different regions to better understand the drivers of informalization, the main obstacles to formalization, and, through tripartite dialogue, to formulate policy options to facilitate transitions to formality.<sup>52</sup> To improve the knowledge base on informal employment across the world, the ILO published a manual, *Measuring informality: A statistical manual on the informal sector and informal employment*, in 2013 and a second edition of *Women and men in the informal economy: A statistical picture* (in collaboration with WIEGO) in 2014.

290. In 2013, the ILO published an integrated and comprehensive policy resource guide entitled *The informal economy and decent work: A policy resource guide – Supporting transitions to formality* (now available in several languages) to support capacity building for constituents in promoting transitions to formality.<sup>53</sup> This brings together in one publication the latest knowledge, policy innovations and tools in multiple policy areas relevant to the transition to formality. Comprising 28 briefs in a range of policy areas such as employment promotion, social protection, social dialogue and legal frameworks, the guide showcases the multiple policy pathways towards formality and the range of appropriate approaches to different groups and sectors within the informal economy. The ACI on formalization of the informal economy will actively promote its dissemination and use through a series of capacity-building initiatives.

291. Also in 2013, the ILO launched the Labour Formalization Programme in Latin America and the Caribbean. It has three pillars: (i) the generation and circulation of knowledge and analysis on the challenges of the informal economy and especially policy options for formalization; (ii) pilot interventions in specific sectors, supplemented by technical assistance for the tripartite ILO constituents; and (iii) capacity building with institutions to promote the transition to formality.

<sup>51</sup> ILO: *Upgrading informal apprenticeship: A resource guide for Africa* (Geneva, 2012); and ILO: *Skills testing guide by small business associations* (Geneva, 2013).

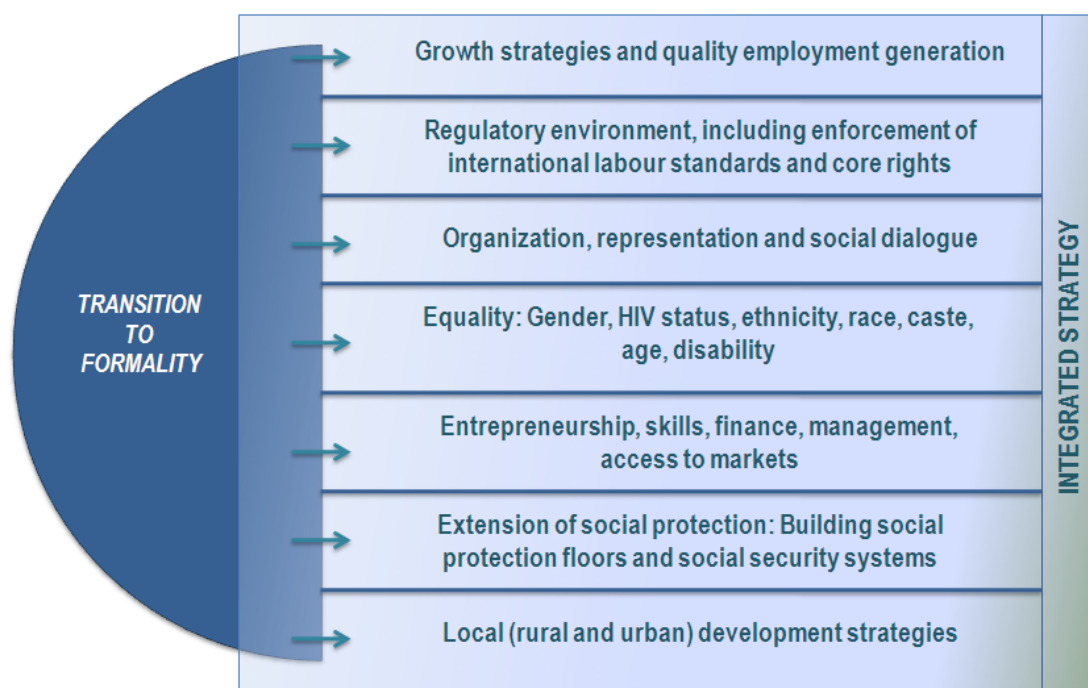
<sup>52</sup> See, for example, F. Bertranou, L. Casanova and T. Lukin: *La formalización laboral en Argentina: Avances recientes y el camino por recorrer* [Formalization of labour in Argentina: Recent progress and the way forward], (Buenos Aires, ILO, 2013); M. Fortuny and J. Al Hussein: *Labour market policies and institutions: A synthesis report: The cases of Algeria, Jordan, Morocco, Syria and Turkey*, WP No. 64 (Geneva, ILO, 2011); G. Kanyenze and F. Lapeyre: *Growth, employment and decent work in Namibia: A situation analysis*, WP No. 81 (Geneva, ILO, 2012); F. Lapeyre and A. Lemaître: *Politiques publiques et pratiques de l'économie informelle en Afrique Sub-Saharienne* [Public policies and practices in the informal economy in sub-Saharan Africa], op. cit.; O. Koulaeva and F. Lapeyre: *Informal employment in CIS countries: Main trends and challenges* (in Russian) (Moscow, ILO, 2014).

<sup>53</sup> ILO: *Report of the Director-General: Sixth Supplementary Report: Report of the Tripartite Meeting of Experts on Facilitating Transitions from the Informal Economy to the Formal Economy* (Geneva, 16–20 September, 2013), Governing Body, 319th Session, Oct. 2013, GB.319/INS/14/6; and ILO: *The informal economy and decent work: A policy resource guide: Supporting transitions to formality* (Geneva, 2013).

292. Transition to formality is increasingly seen as a central goal in national employment policies. Several countries have developed innovative approaches, some of which have been successful, particularly in Latin America (such as Argentina and Brazil) and also elsewhere (for example, Mongolia). However, few countries have yet developed a comprehensive and integrated approach.

293. The ILO approach to preventing informalization and actively promoting transitions to formality, bringing multiple strands together into a coherent policy framework (summarized in figure 2.2), was accepted by the abovementioned tripartite meeting of experts, organized in preparation for the 2014 ILC standard-setting discussion.<sup>54</sup>

**Figure 2.2. Decent work strategies for the informal economy**



Source: ILO: *The informal economy and decent work* (see footnote 53).

294. In the current context of renewed interest by policy-makers, social partners and development practitioners in developing effective policies for transition to formality, the ILO Governing Body decided at its 317th Session in March 2013 to place a standard-setting item on the agenda of the 2014 session of the ILC on facilitating transitions from the informal to the formal economy (standard-setting, double discussion) with a view to the elaboration of a Recommendation.<sup>55</sup> This discussion will build on the conclusions concerning decent work and the informal economy adopted by the ILC in 2002,<sup>56</sup> the outcome of the ILO Tripartite Interregional Symposium on the Informal Economy

<sup>54</sup> ILO: *The informal economy and decent work: A policy resource guide: Supporting transitions to formality*, op. cit.

<sup>55</sup> ILO: *Agenda of the International Labour Conference: Proposals for the agenda of the 103rd Session (2014) and beyond of the Conference* (GB.317/INS/2(Rev.)), and *Record of decisions*, Governing Body, 317th Session, Geneva, Mar. 2013.

<sup>56</sup> ILO: *Conclusions concerning decent work and the informal economy*, International Labour Conference, 90th Session, Geneva, 2002, <http://www.ilo.org/public/english/standards/relm/ilc/ilc90/pdf/pr-25res.pdf>.

(2007),<sup>57</sup> and the ILC conclusions concerning the recurrent discussion on fundamental principles and rights at work (2012).<sup>58</sup>

295. In preparation for this discussion, a tripartite meeting of experts on facilitating transitions from the informal economy to the formal economy was held in Geneva in September 2013, with the aim of providing guidance on the nature and content of the proposed instrument, in particular concerning innovative solutions and up-to-date experience (of legislative, policy, institutional, governance and other interventions) that have proved successful in supporting transitions to formality.

296. The Office report, *Transitioning from the informal to the formal economy*,<sup>59</sup> provided an overview of the phenomenon of the informal economy, its impact on the attainment of decent work for all workers and employers, and the ILO's approach to the transition to formality. It also provided information on the regulatory environment relating to the informal economy at the international and national levels. In addition, it examined the need for an integrated policy framework, encompassing the ILO's four strategic objectives, adapted to the national context, for a progressive transition to the formal economy and decent work, and analysed the innovative approaches of member States in this regard. The report on the discussions was submitted to the 319th Session of the Governing Body<sup>60</sup> and has informed the preparation of the report for the 2014 ILC standard-setting discussion.

## 2.8. Follow-up to the call for action on the youth employment crisis

297. The 2012 ILC resolution, *The youth employment crisis: A call for action*,<sup>61</sup> requested the Office to report to the 2014 ILC on action taken on this priority area of work.

298. The resolution underlined the urgency of immediate action to tackle the youth employment crisis. It called on policy-makers to make employment creation a major policy goal and to address the specific problems faced by youth with targeted interventions to improve the quantity and quality of jobs. Five key policy areas were identified: (i) employment and economic policies to increase aggregate demand; (ii) education and training; (iii) labour market policies; (iv) entrepreneurship; and (v) labour rights.

299. The adoption of national development strategies, employment policies and time-bound action plans for youth employment enable a comprehensive set of policy priorities, targets and outcomes to be established. During the last biennium, Albania, Greece, Malawi, Nicaragua, Paraguay, Philippines, the former Yugoslav Republic of Macedonia and Zambia adopted such plans.

<sup>57</sup> ILO: *Decent work and the transition to formalization: Recent trends, policy debates and good practices*, report of the Tripartite Interregional Symposium on the Informal Economy: Enabling Transition to Formalization (27–29 November 2007) (Geneva, 2008).

<sup>58</sup> ILO: *Conclusions concerning the recurrent discussion on fundamental principles and rights at work*, International Labour Conference, 101st Session, Geneva, 2012.

<sup>59</sup> ILO: *Transitioning from the informal to the formal economy*, Report V(1), International Labour Conference, 103rd Session, Geneva, 2013.

<sup>60</sup> The report was a Supplementary Report of the Director-General (GB.319/INS/14/6).

<sup>61</sup> ILO: *The youth employment crisis: A call for action*, op. cit.

300. Measures to boost aggregate demand are increasingly being included in youth employment policies. Another recent development is measures that envisage reductions in tax or labour costs as an incentive to recruit and train young workers. Policy interventions that aim to increase labour demand, however, remain underutilized.

301. A large number of countries (such as Greece, Italy, Jordan, Liberia, Paraguay, South Africa and Uruguay) have also adopted policies to improve education and skills development by introducing work experience in vocational education and training, and a number of countries have adopted policies to introduce or reform apprenticeship systems.

302. Several countries (such as Colombia, El Salvador, Peru and South Africa) have expanded measures to improve employment of young people through targeted labour market policies including remedial education, labour market training, job-search assistance, incentives for employers to recruit disadvantaged young people and measures to help young people start businesses.

303. In an effort to enhance policy integration, several countries have revised the targeting and sequencing of labour and social protection measures, and have expanded the package of interventions to respond to diverse needs. The most notable example is the establishment of youth guarantees in some EU countries (see box 2.5).

#### **Box 2.5**

##### **Youth guarantees: A response to the youth employment crisis?**

Youth guarantees provide all young people who meet pre-established criteria with an entitlement to certain labour market support measures. The Nordic countries were the first to implement guarantees in the 1980s and 1990s. More recently, other countries (such as Austria, Germany and Poland) have introduced similar programmes.

The objective of the guarantees is to promote integration and prevent long-term unemployment and discouragement among young people. Evidence on the impact of youth guarantees is rather limited. According to an evaluation of the 2011 Swedish guarantee, unemployed young people who participated in the programme were able to find jobs faster than participants in other measures.

An ILO review suggests that youth guarantees can play a significant role in reducing the lasting damage of long-term unemployment. The review distilled lessons on the requisites for well-functioning guarantees and analysed implementation costs. Key factors in success are timely interventions targeted at disadvantaged young people, well-established capacity, budget flexibility and a strong public employment service and training system. ILO estimates suggest that guarantees can be implemented at an annual cost of 0.5–1.5 per cent of GDP. The transfer of guarantees to countries with less-developed infrastructure and experience should take into account the resources required to strengthen delivery capacity.

Source: ILO: *Youth guarantees: A response to the youth employment crisis?*, 2013, accessible at [www.ilo.org/youth](http://www.ilo.org/youth).

304. Several countries (such as Armenia, Benin, Colombia, Kyrgyzstan, Liberia and Ukraine) have promoted youth entrepreneurship through interventions including entrepreneurship education and training in schools; enacting regulations for sustainable enterprises, cooperatives and social businesses; easing access to finance, especially micro-credit; and increasing non-financial support for young entrepreneurs.

305. The resolution calls for youth employment policies that are consistent with international labour standards and ensure equal treatment and rights. A number of countries have introduced reforms to promote young people's access to stable employment. For instance, the 2012 labour market reform in Italy contained provisions

to address labour market segmentation on the basis of contractual arrangements and reduce the numbers of young people in precarious and low-paid work.

306. Since June 2012, the Office has implemented several initiatives to give effect to the resolution. Its seven-year follow-up plan (2013–19), endorsed by the Governing Body in November 2012,<sup>62</sup> is clustered around three pillars: (i) knowledge development and dissemination; (ii) technical assistance and capacity building; and (iii) partnerships and advocacy. It also includes activities to promote the call for action and develop a resource mobilization strategy.

307. The identification of jobs and skills for youth as one of the eight ACIs for the work of the ILO represents an important opportunity for multidisciplinary and collaborative work in the 2014–15 biennium.

308. To expand the knowledge base, the Office developed a research agenda to monitor trends and emerging issues. In 2013, it published *Global employment trends for youth* and implemented school-to-work transition surveys in 28 countries, conducting tripartite workshops to discuss findings, policy implications and priorities for action. Two regional reports were published in 2013 to capture the different youth labour market realities of Latin America and the Caribbean, and sub-Saharan Africa. New research aims at better understanding the determinants of employment and conditions of work among specific youth groups, and analyses gender-differentiated transitions to decent work. Thematic studies have been conducted on the impact of macroeconomic and fiscal policies, developments in youth pay, informality, quality apprenticeships, youth migration and youth employment in rural areas. These have informed the preparation of the ILO's global reports, including those on child labour and wages.

309. The Office expanded work on reviews of country policies for youth employment. For example, the review and assessment of policies in Cyprus informed policy-making and the design of a national plan introducing a youth guarantee. In the Russian Federation, the review led to the introduction of work experience in vocational schools programmes and to the development of a national youth employment strategy.

310. As part of the “What Works” priority of the ACI, the Office has developed tools to deepen programme evaluations and improve the effectiveness of interventions. Special attention is given to rigorous impact evaluation of entrepreneurship programmes.

311. Good practices on different topics were identified to support policy-making. These included measures combining labour market and social protection policies and interventions on youth employment and migration. The ILO pilot database on good practices was further expanded to include practices from several institutions and agencies. A tool to review and assess good practice was developed to compare information across countries and regions.

312. Since 2012, policy advice has been provided to governments and social partners in approximately 40 countries – of which 15 received more intensive assistance – in developing and implementing policy and institutional reforms, strategies and time-bound national action plans, and national programmes aligned with the resolution. In February 2013, the Office organized a meeting of development partners to mobilize support for extending its advisory capacity to additional countries.

<sup>62</sup> ILO: *Follow-up to the adoption of the resolution – The youth employment crisis: A call for action*, Governing Body, 316th Session, Geneva, Nov. 2012, GB.316/INS/5/2, [http://www.ilo.org/gb/GBSessions/GB316/ins/WCMS\\_191163](http://www.ilo.org/gb/GBSessions/GB316/ins/WCMS_191163).

313. In terms of capacity building, the Office developed a set of learning packages on topics including analysis of youth labour market information, programme development, design of profiling systems to detect disadvantage and improve targeting, and tools to strengthen monitoring and evaluation functions of institutions.

314. The ILO's International Training Centre reviewed its residential and distance-learning programmes to take account of the 2012 resolution. In 2013, it delivered the first youth academy and regional programmes on the basis of the global policy framework of the resolution.

315. The Office has taken a number of steps to assert its global leadership role and promote coherence on youth employment initiatives by multilateral and regional institutions. It coordinated the employment and entrepreneurship priority of the UN System-Wide Action Plan on Youth, an initiative introduced in 2013 providing opportunities to promote decent work for young people at global, regional and country levels. Partnerships with the World Bank and the UN have been strengthened through a series of joint initiatives. At the regional level, in September 2013 the Office signed a programme of cooperation on youth employment with the African Development Bank (AfDB), the African Union and the United Nations Economic Commission for Africa (UNECA). In Latin America and the Caribbean, a memorandum of understanding with the Inter-American Development Bank (IDB) envisages cooperation on youth employment. Stronger collaboration has been established with the European Commission, including the provision of advisory services in the establishment of the youth guarantee. At the country level, the Office strengthened partnerships within the multilateral system, especially through joint youth employment programming. In Zambia, for instance, the Office leads the roll-out of the System-Wide Action Plan on Youth.

## 2.9. Standards-related actions with respect to the strategic objective of employment

316. International labour standards guide governments and social partners in adopting active measures for promoting decent work. The 2008 Declaration on Social Justice for a Fair Globalization identified the Employment Policy Convention, 1964 (No. 122), as one of the key governance Conventions. This Convention and the Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169), along with other international instruments, provide specific guidance for employment policies. Action on the follow-up to Convention No. 122 is discussed above in section 2.1 on national employment policies.

317. By September 2013, a total of 108 countries had ratified Convention No. 122,<sup>63</sup> of which five (Rwanda, Saint Vincent and the Grenadines, Switzerland, Trinidad and Tobago, and Viet Nam) had done so since the 2010 ILC. Capacity-building workshops on international labour standards related to employment promotion were organized in selected French-speaking countries in Africa between 2010 and 2013. The Office has also prepared a *Guide on employment policy and international labour standards*.<sup>64</sup>

<sup>63</sup> ILO: Ratifications of C.122 – Employment Policy Convention, 1964 (No. 122), [http://www.ilo.org/dyn/normlex/en/f?p=1000:11300:0::NO::P11300\\_INSTRUMENT\\_ID:312267](http://www.ilo.org/dyn/normlex/en/f?p=1000:11300:0::NO::P11300_INSTRUMENT_ID:312267).

<sup>64</sup> ILO: *Guide for the formulation of national employment policies* (Geneva, 2012).

318. Various sessions of the Committee on the Application of Standards have discussed the application of Convention No. 122 in selected countries.<sup>65</sup>

319. By September 2013, 89 countries had ratified the Employment Service Convention, 1948 (No. 88), and 68 countries had ratified the Human Resources Development Convention, 1975 (No. 142).

320. The 2011 recurrent discussion on social protection reaffirmed the relevance of the Social Security (Minimum Standards) Convention, 1952 (No. 102), and recognized full, productive and decent employment as the most important source of income. The Social Protection Floors Recommendation, 2012 (No. 202), acknowledged in its preamble that the right to social security is, along with promoting employment, an economic and social necessity for development and progress. It also provides guidance to members on ensuring coherence between public policies, including employment and social security policies.

321. The Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189), underpins relevant work on SMEs by the ILO, providing guidance on policy and legal frameworks, enterprise culture, service infrastructure, and the role of employers' and workers' organizations.<sup>66</sup>

322. The ILO MNE Declaration provides important guidance on SMEs and supply chains.

## 2.10. Global advocacy for employment promotion

323. Global advocacy to place employment and decent work at the centre of the international development agenda and to strengthen partnership and policy coherence with other organizations has intensified.

### The Millennium Development Goals and beyond

324. The eight Millennium Development Goals (MDGs) adopted by the UN General Assembly in September 2000 have provided the global framework for international development since that date. Each goal represented a global consensus and voluntary commitment; each was constructed as a nest of quantitative time-bound targets with indicators and data sets to facilitate monitoring and accountability.<sup>67</sup>

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<sup>65</sup> See ILO: Ratifications of C.122 – Employment Policy Convention, 1964 (No. 122), op. cit.

<sup>66</sup> The following instruments are also highly relevant: Labour Inspection Convention, 1947 (No. 81); Labour Clauses (Public Contracts) Convention, 1949 (No. 94); Workers' Representatives Convention, 1971 (No. 135); Maternity Protection Convention, 2000 (No. 183); Human Resources Development Recommendation, 2004 (No. 195); and Employment Relationship Recommendation, 2006 (No. 198).

<sup>67</sup> S. Fukuda-Parr and A. Yamin: *The power of numbers: A critical review of MDG targets for human development and human rights* (Boston, Harvard School of Public Health, 2013). Only two labour market indicators were included in the original MDG package, namely the share of women in wage employment in the non-agricultural sector (under MDG3, "Promote gender equality and empower women") and the unemployment rate of 15–24-year-olds (under MDG8, "Develop a global partnership for development").

325. In 2007, a new target to achieve full and productive employment and decent work for all, including for women and young people, was included under MDG1 (“Eradicate extreme poverty and hunger”). The ILO proposed four indicators,<sup>68</sup> and provided data and estimates on them. However, the targets were merely aspirational, and progress towards them received late and limited attention.

326. As the end date of the MDGs approaches, multiple processes of consultation and debate are under way on the post-2015 development agenda. A distinctive feature of the debate is the recognition that employment, as a key factor in transforming economies and eradicating poverty, should feature prominently in any future framework of global development goals. In November 2012, the ILO Governing Body proposed the adoption of full and productive employment and decent work as an explicit goal of the global development agenda beyond 2015, including a reference to the need for social protection floors.

327. This call extended well beyond the ILO. Better job opportunities were among the top three priorities – together with education and health care – identified in the UN My World 2015 global survey encompassing nearly 800,000 respondents from 190 countries.<sup>69</sup> Job creation also emerged as a pressing need in nearly all the countries where the UN held national consultations on perspectives beyond 2015.<sup>70</sup> Influential reports on the post-2015 agenda stressed that equipping economies for inclusive growth and employment generation should be one of the main pillars of the future agenda. For instance, the report by the UN High-level Panel on the Post-2015 Development Agenda explicitly suggested an illustrative goal 8 (out of 12), “Create jobs, sustainable livelihoods and equitable growth”, and recommended a target on social protection under illustrative goal 1, “End poverty”.<sup>71</sup>

328. The ILO and its tripartite constituents have actively contributed to the post-2015 debate. The Office prepared two concept notes to position ILO issues in the debate, spelling out the rationale for a possible stand-alone goal on jobs and livelihoods, and reviewing options for relevant goals, targets and indicators. It produced notes and policy briefs on employment, decent work and social protection for the UN post-2015 secretariat, various task teams, the UN General Assembly Open Working Group on Sustainable Development, and other thematic discussions.<sup>72</sup>

329. While it is not possible at this stage to predict the final outcome of the intergovernmental negotiation that will start in September 2014 and should deliver a text for adoption by the UN General Assembly in September 2015, there is consensus that the MDG format should be retained: a small list of simple, concrete and measurable sustainable development goals that can capture the public imagination. While there is widespread agreement around the world on the importance of quality jobs for sustainable

<sup>68</sup> Growth rate of GDP per person employed; employment-to-population ratio; proportion of employed people living below US\$1.25 (at purchasing power parity) per day; and proportion of own-account and contributing family workers in total employment. See ILO: *Guide to the Millennium Development Goals: Employment Indicators*, second edition (Geneva, 2013).

<sup>69</sup> UN: *My World 2015: The United Nations Global Survey for a Better World*, 2013, <http://www.myworld2015.org/?page=results>.

<sup>70</sup> UNDG: *A million voices: The world we want*, 2013, op. cit.

<sup>71</sup> UN: *A new global partnership: Eradicate poverty and transform economies through sustainable development*, 2013; and UN: *A life of dignity for all: Accelerating progress towards the Millennium Development Goals and advancing the United Nations development agenda beyond 2015*, 2013.

<sup>72</sup> UNDG: *Growth and employment in the post-2015 agenda: Messages from a global consultation* (New York, 2013).

and inclusive development, a concerted effort by all ILO constituents will be needed in order to ensure that full and productive employment and decent work become a key development goal in the post-2015 framework. The conclusions of this recurrent discussion report on employment could provide a very useful tool for global advocacy by identifying the key drivers behind the generation of better job opportunities and encapsulating them into a practical agenda for action that can be adequately measured and monitored.

## The G20

330. Since the onset of the global crisis, the ILO has engaged with global leaders in the G20 process to ensure that concerns about jobs and sustainable recovery are given due prominence, in particular by highlighting the need for collective efforts to boost growth and employment.

331. The ILO played a key role in the first joint meeting of the G20 Labour and Employment and Finance Ministers under the Russian presidency. This gathering of ministers who normally focus on the demand side of the labour markets with their counterparts who focus on the supply side led to an important breakthrough.<sup>73</sup> The G20 Labour and Employment and Finance Ministers' final communiqué declared: "We will strive to ensure that our future commitments to provide strong, sustainable and balanced growth reflect our common views regarding employment, labour and social policies, and the need to integrate them with our macroeconomic policies to support economic growth, quality job creation, and social cohesion."<sup>74</sup>

332. At the Saint Petersburg Summit in September 2013, the G20 Leaders stated their full commitment to take decisive action towards job-rich, sustainable and balanced growth patterns.

333. The ILO has participated in the regular Framework Working Group meetings that act as the secretariat of the G20 Finance Ministers and the central bankers, as well as the Development Working Group and the G20 Employment Taskforce (created in 2011), which is informed by consultations with employers' representatives (the B20) and workers' representatives (the L20).

334. The ILO will continue to support the work of the G20 Employment Taskforce under the Australian presidency, in particular the follow-up to implementation of the G20 Leaders' commitment to develop specific employment plans as central goals in growth strategies.

## Other multilateral frameworks

335. While the issue of jobs received insufficient attention in the past work of the Bretton Woods institutions, there is now renewed commitment to employment creation as a core aspect of the global development agenda. In recent years, major reports on jobs by the IMF, the World Bank and the International Finance Corporation (IFC) represent

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<sup>73</sup> ILO: *ILO welcomes G20 efforts to boost job creation and growth*, Moscow, 19 July 2013, [http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_218014](http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_218014).

<sup>74</sup> *The G20 Labour and Employment and Finance Ministers' Communiqué*, 19 July 2013, Moscow p. 3, [http://www.ilo.org/global/publications/WCMS\\_218017](http://www.ilo.org/global/publications/WCMS_218017).

important developments, suggesting a significant convergence in views between the ILO, the Bretton Woods institutions and the IFC.<sup>75</sup>

336. There is strong commitment by the new leadership in the World Bank to strengthen partnership and cooperation with the ILO in a number of areas, including research, data generation, employment policy and youth employment, and concrete partnerships on a range of actions have been agreed.

337. The Youth Employment Network, a long-standing inter-agency initiative encompassing the World Bank, the ILO and the UN system at large, is evolving towards a global coalition in support of youth employment, and is constructing a joint research and evidence base for assessment of policies by expanding the inventory of youth employment interventions.<sup>76</sup>

338. The ILO has also joined forces with the World Bank in crisis-related work, including the generation of a policy inventory of responses to the crisis across a large number of countries.<sup>77</sup>

339. The ILO's partnership with the IMF, launched in Oslo in September 2010, has been followed by collaborative work in various countries, including Bulgaria, the Dominican Republic and Zambia. The IMF has also sought the ILO's feedback on a newly devised labour market template now incorporated in its Article IV consultations.<sup>78</sup>

340. The ILO's work on evaluation of IMF Article IV consultations (see section 2.2) has influenced the IMF's 2013 *Jobs and growth* report, in which it reports a self-evaluation of macroeconomic policies.

341. Recent global initiatives, such as the establishment of the New Deal for Engagement in Fragile States, seek to formulate a more effective international response to the unique challenges posed by conflict-affected and fragile States. The ILO is directly involved in the ongoing work for the establishment of the Global Facility for employment creation in fragile situations, an initiative also supported by the World Bank Group, the AfDB, the United Nations Development Programme, UNECA and the UN Peacebuilding Support Office.<sup>79</sup> Partnerships with regional institutions such as the ADB, the Association of Southeast Asian Nations, the AfDB and the EU have been extended in recent years in support of employment policy and youth employment.

<sup>75</sup> World Bank: *World Development Report 2013: Jobs*; IMF: *Jobs and growth: Analytical and operational considerations for the Fund*; and International Finance Corporation: *IFC jobs study: Assessing private sector contributions to job creation and poverty reduction* (Washington, DC, 2013).

<sup>76</sup> See <http://www.ilo.org/public/english/employment/yen/>.

<sup>77</sup> ILO and World Bank: *Joint synthesis report: Inventory of policy responses to the financial and economic crisis* (Geneva and Washington, DC, 2013).

<sup>78</sup> IMF: *The IMF's Advice on Labor Market Issues*, 5 Dec. 2013, <http://www.imf.org/external/np/exr/facts/labor.htm>.

<sup>79</sup> The Global Facility is based on both the UN Employment Policy and the World Bank: *World Development Report 2011: Conflict, security and development* (Washington, DC, 2011).



## Chapter 3

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### Summary and possible ways forward

342. Taking up the challenge of employment, in its multiple facets reviewed in this report, in the context of weak, uneven and uncertain recovery from the crisis, while addressing the structural drivers of change that are reshaping labour markets, requires significant scaling up of actions in support of employment promotion policies at the global and national levels. At the global level, ILO constituents' continued advocacy in the context of the post-2015 Sustainable Development Agenda, the G20 and regional frameworks will be vital.

343. Investing in the generation of quality employment is crucial to revive growth and to promote more inclusive and sustainable recovery and development. Over the next decade, decent jobs will be needed, both for the quarter of the world population (over 600 million people) who are currently unemployed, underemployed or about to enter the labour market and for the 840 million working poor who are living on less than US\$2 per day.

344. The analysis presented in Chapters 1 and 2 of this report has shown how widely countries diverge in their demographic, economic, fiscal and institutional characteristics and conditions. It has clearly demonstrated that the promotion of full, productive and freely chosen employment requires a coherent policy mix customized to national context and covering a broad range of policy areas. It has also shown the extent of interdependence of actions among countries and therefore the high degree of coherence, collaboration and coordination needed at the global level. In addition, it has shown that effective employment policies require public-private dialogues and cooperation in a number of policy areas to deepen complementarity and maximize synergies between the private sector's key role in job creation and public policies for strong, inclusive and enabling policy frameworks, skills development strategies and labour market institutions.

345. Breaking out from the low aggregate demand that is stifling stronger recovery may require a more balanced approach, with increased reliance on domestic consumption, investment and markets to counteract sluggish exports. Higher levels of investment in dynamic and job-rich productive sectors, better access to finance for SMEs, improved social protection and decent wages, aligned with productivity growth and well-targeted public expenditure, can create a virtuous cycle of inclusive growth, productive employment and development.

346. Much progress has been made by countries in all regions in adopting national employment policies and in giving these policies a central place in national development plans and growth visions and strategies. Further effort is needed to ensure effective policy implementation, strong monitoring and evaluation of results, continuous improvement and adaptation of policies, and links to budgetary and investment plans.

347. The coherence and complementarity between pro-employment macroeconomic frameworks and labour market interventions to promote jobs have to be established, both in the long term to address structural issues of transformation and development, and in the short term to support access to decent work for disadvantaged and vulnerable groups, in particular young people, women, the long-term unemployed, and those in informal and insecure employment. The joint declaration of the G20 Labour and Employment and Finance Ministers at their meeting in Saint Petersburg in September 2013 underscores the link between macroeconomic policies and labour market policies.

348. Reversing the decline in domestic investment and foreign direct investment, and increasing productive investment – especially in infrastructure, in agriculture in countries with a significant share of rural employment, and in dynamic sectors in manufacturing and services – are essential for job creation and for promoting economic diversification and productivity-enhancing structural change. Regional development banks can play a more proactive role by targeting employment generation in their investment loans.

349. Some of the structural drivers of change analysed in section 1.2 present opportunities for job creation and investment. This is the case, for example, with the transition to a low-carbon economy, and with the increased demand for care services in the new demographic context. Anticipating skills needs and investing in skills development in these sectors will help to reduce skills mismatch.

350. Large-scale and multifaceted initiatives are needed in particular to address the unprecedented youth employment crisis. Conditional activation measures have proved effective in those countries with adequate institutions and administrative capacity for delivery, as have innovative and large-scale public employment programmes in most countries. Beyond the immediate results of providing protection and reducing poverty, they have multiplier effects in spurring demand, growth and investment, fostering skills and providing business opportunities in disadvantaged communities.

351. In a context of widespread fiscal constraint, investment in rigorous monitoring and evaluation of the impact of all these schemes is more imperative than ever.

352. Transitioning to formality is becoming a priority objective of employment and social protection policies. Innovative, multi-stranded and context-specific approaches combining the promotion of employment and entrepreneurship with social protection, rights and compliance are yielding results. The standard-setting discussion on this topic that is taking place at the 2014 ILC and will be pursued in 2015 can potentially complement and significantly augment existing international labour standards relating to employment.

353. Social dialogue is key to the informed consensus building which is essential in undertaking the challenging structural reforms necessary for job-centred recovery and development. Social dialogue for employment policy should engage not only the traditional tripartite partners but also ministries and government agencies in charge of economic, financial and investment strategies.

354. Ministries of labour often bear the main responsibility for advocacy, coordination and establishing coherence in employment policy delivery. A recent cross-country review carried out by the Office clearly shows the need to reinvigorate their role and to build the capacities of tripartite employment commissions and inter-ministerial coordination mechanisms.

355. ILO constituents are also invited to consider whether to introduce strengthened employment policy reviews at the country level, including through a peer review mechanism as envisaged in the 2008 ILO Declaration on Social Justice for a Fair Globalization. Examples and lessons from previous experience and current examples of other international and regional organizations' frameworks are presented in section 2.1.

356. The Office follow-up to the 2010 resolution, reviewed in this report, provided examples of new empirical evidence generated in particular on demand-side interventions, and of results achieved through country-specific policy advice, capacity building and tools development.

357. The internal reform of the ILO, including the centenary initiatives proposed by the Director-General and the adoption of the eight ACIs in the Programme and Budget for 2014–15, provides a platform for the Office to focus inter-disciplinary expertise and broad-based intra-Office cooperation on a number of priority areas identified in this report which are central to the pursuit of the objective of full and productive employment.

358. The overarching objective of ACI 1 on promoting more and better jobs for inclusive growth would enable the strengthening of the policy stance and tools and advisory capacity of the ILO in the following streams: (1) labour market institutions for inclusive growth; (2) pro-employment macroeconomic policies; and (3) sectoral approaches for more and better jobs. The focus on country-level action under this ACI will support constituents' increasing demand for effective action on the specific employment challenges they face, with an emphasis on the conditions and mechanisms for effective implementation, and for monitoring and evaluation of national employment policies. Good practices of countries at different levels of development will be documented and widely shared. Lessons learned will feed into the ILO's leadership in global advocacy, including in the post-2015 Sustainable Development Agenda, the G20, and new regional frameworks. Work in all three areas, as well as at the country level, will be based on improved data and strengthened support for countries to collect and analyse labour market information.

359. The follow-up to the 2012 call for action, discussed earlier, will be intensely pursued in the context of the ACI on jobs and skills for youth. As the review shows, the focus is on analysing what works for youth employment in the five policy areas covered by the call for action, with a balanced perspective regarding the demand and supply sides and intermediation. The capacity-building initiatives will be multiplied in all regions and intraregional exchanges will be facilitated.

360. The goal of the interventions under the ACI on productivity and working conditions in SMEs is to demonstrate conclusively how productivity in SMEs can be boosted at significant levels by investing in workers and working conditions, accelerating economic growth and making growth more sustainable. It aims at introducing this approach in the increasing number of countries adopting policies and creating institutions for private sector development. Policy areas to be addressed will include skills development, safety and health, wages and other working conditions, social protection and the regulatory environment.

361. The ACI on formalization of the informal economy, alongside the standard-setting discussion starting at the 2014 ILC and continuing in 2015, will enable scaled-up action to analyse drivers of informality in specific country and development contexts and policy combinations that can promote tangible and lasting transitions to formality. Using policy tools to build constituents' capacity to take action on transitions to formality will be a major area of focus of this ACI.

362. The work under the ACI on creating and extending social protection floors will be based on the synergies of social protection and employment creation discussed in this report, which is key for poverty reduction and sustainable development.

363. The ACI on decent work in the rural economy will focus on issues of income and food security and resilience in rural areas, and decent work for rural workers in supply chains and in plantations.

364. The ACIs on protection of workers from unacceptable forms of work and on strengthening workplace compliance through labour inspection will include issues that have strong links to the promotion of decent, productive and freely chosen employment.

365. Of particular relevance among the centenary proposals are the Green Initiative, the End to Poverty Initiative, the Enterprise Initiative, the Women at Work Initiative, and the Future of Work Initiative.

366. Taken together, the analysis in this report and the preparatory work undertaken by the Office on the ACIs point to significant gaps in knowledge and policy tools in the following areas in particular:

- (a) *Structural and long-term unemployment*: the persistence of high levels of unemployment and increasing incidence of long-term unemployment, including among young people, require fresh analysis of the structural nature of these phenomena, with a view to better understanding skill and age decomposition and generating appropriate responses.
- (b) *Self-employment*: as the primary form of employment for a majority of the labour force in many developing countries, self-employment warrants new policy-oriented research on trends, characteristics, employment, incomes and livelihood patterns, to generate potential ways for improving incomes and productivity and reducing vulnerability.
- (c) *Technology, employment and skills linkages*: in particular, implications for trends in labour market segmentation and increases in non-standard forms of labour.
- (d) *Inequality*: in particular regarding its implications for labour market dynamics.

367. The Office's follow-up to this second recurrent discussion on the strategic objective of employment needs to be more ambitious and on a larger scale. It must be supported and reinforced with adequate resources, including external resources. It also requires strengthened partnerships with multilateral and regional institutions, including those that feature in this report.

## Chapter 4

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### Suggested points for discussion

1. Shared understanding of current employment challenges and the main drivers of change
  - (a) What are the main current employment challenges in different parts of the world, and what are the trends and underlying causes of unemployment and underemployment, informality, job security, wages, working poverty?
2. Review of the actions of the Organization and its Members to promote employment, including the follow-up to the 2010 ILC conclusions concerning the recurrent discussion on employment <sup>1</sup>
  - (a) What have been the employment and decent work outcomes of various macroeconomic policy choices, based on the 2010 ILC conclusions, taking account of the diverse contexts in which those choices were made?
  - (b) What actions have been taken and which policies have been applied that have resulted in increased investment and structural transformation; more sustainable enterprises; leading to decent and productive employment?
  - (c) Which labour market policies have been successful in addressing inequality, decent employment and inclusion of disadvantaged groups?
  - (d) What actions have been taken and what policy coordination mechanisms have been put in place at the national and international levels to improve employment outcomes?

How could we further promote the inclusion of employment goals in the post-2015 sustainable development agenda?
  - (e) What action has been taken by the Office to support constituents in the above areas and with what results?

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<sup>1</sup> The 2010 ILC conclusions are available at: [http://www.ilo.org/ilc/ILCSessions/99thSession/texts/WCMS\\_143164/lang--en/index.htm](http://www.ilo.org/ilc/ILCSessions/99thSession/texts/WCMS_143164/lang--en/index.htm).

3. Implications of the evolving external and internal contexts for the work of the Organization on employment

- (a) What should be main elements of a comprehensive framework to create decent employment that would be relevant and effective for the next period?
- (b) What lessons have we learned about the interrelationship of the four strategic objectives of the ILO with regard to employment promotion?