

Studies and Materials



INTERNATIONAL CONFERENCE
EMPLOYMENT AND DEVELOPMENT - WHAT DO WE KNOW AND
WHAT CAN WE DO?

We would like to express our gratitude to Ulrike Dangelmaier, Kristin Hausotter, Bakh Mirkasimov, Tony Muhumuza, Janneke Pieters, Caroline Reeg, and Ulf Rinne who volunteered to exchange themes and information between the workshops during the conference and provided very valuable workshop summaries.

Published by
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on behalf of Business area KfW Entwicklungsbank

Frankfurt am Main, March 2012

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Conference Agenda

Day 1	<i>Public symposium: Employment in the context of development – challenges ahead</i>	
13:15	Registration	
14:00	Opening	Stephan Opitz, Director General, KfW Christiane Bögemann-Hagedorn, Deputy Director General, Civil Society – Private Sector, Federal Ministry for Economic Cooperation and Development
14:30	Keynote lecture: How does employment matter for development?	Dani Rodrik, Harvard University Chair: José Manuel Salazar-Xirinachs, Executive Director, ILO
16:00	Coffee break	
16:15	Panel discussion: Growth, jobs, or poverty reduction: What should decision makers address first? Chair: Prof. Dr. Zimmermann, Institute for the Study of Labor (IZA), Bonn	Dani Rodrik, Harvard University Namrata Bali, Director, Self-Employed Women's Association SEWA, India Ghada Waly, Managing Director, Egyptian Social Fund for Development Raymond Torres, Director, International Institute for Labour Studies, ILO Stefano Scarpetta, Deputy Director DELSA, OECD
18:00 – 19:00	Reception at Wandelhalle	

Day 2	<i>Expert Conference (closed sessions): Employment and Development: What do we know and what can we do?</i>	
9:00	Employment, development and policy: the state of research and practice Chair: Tilman Altenburg, Head of Department, Competitiveness and Social Development, German Development Institute DIE	
	Presentation 1: Employment, growth and poverty reduction: Factors, interdependencies and successful policies	Gary Fields, Cornell University
	Presentation 2: Labour market institutions, policies and programmes: What are donors doing?	Holger Seebens, KfW
10:30	Coffee break	
11:00	Parallel workshop sessions: Issues and challenges	
12:30	Lunch	
14:00	Future development and employment: Research needs and options for practice	
	Presentation 3: Core potentials of employment creation for development	Martin Rama, World Bank Development Research Group
15:00	Coffee break	
15:15	Parallel workshop sessions: Approaches and solutions	
17:15	Plenary presentation of workshop results: Lessons learnt and next steps Comments: The challenge of employment – prospects of research and development practice	Michael Wehinger, Director Development and Climate, KfW Klaus F. Zimmermann, Director, Institute for the Study of Labor IZA
18:30	End of Conference	

1. Executive Summary



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From 15-16 March, 2012, the Institute for the Study of Labor (IZA) and KfW Entwicklungsbank convened an international conference on “Employment and Development” at the KfW Berlin branch. The following pages summarise the conference purpose, themes and results. More detailed information including the content of lectures and discussions can be retrieved from the respective summaries as well as the video documentation at www.kfw.de/employment-conference (see “Conference Results”).

Background: Employment is crucial for development

Sustainable and decent employment is increasingly recognised as an important end as well as means of development. Recent events in North Africa show that lack of employment is a serious socio-economic and political challenge. Successful employment, on the other hand, involves not only income and poverty reduction, but also contributes to social security and cohesion and can provide a basis for economic development.

To achieve more and better employment, partner countries and donor agencies need to better understand how employment, growth, poverty and other factors interact, how unemployment is caused and what can be done about it.

At the same time, drawing on practical experience, research can identify knowledge gaps that to date pose limits to successful employment creation policy.

Setup of the conference: A forum for high-level dialogue of research and practice

The purpose of the conference was twofold. First, researchers and practitioners took stock of what they know (and what they do not yet know) about employment, growth and development, and the relevant connections. Second, participants explored next steps towards gaining better knowledge and improving practices in both fields, separately as well as in cooperation. The participants came from a wide range of research and practice organisations, including international organisations (World Bank, ILO, OECD, UN), policy-makers from partner countries, German development cooperation, political foundations and non-governmental organisations.

The conference included a **public symposium** with Professor Dani Rodrik (Harvard University) as distinguished keynote speaker and a high-level panel discussion, in which the challenges of employment were debated. The symposium attracted more than 200 participants. The second day was a results-oriented **expert conference** for approx. 100 invited participants. Leading academics, practitioners and decision makers presented the state of the art in research, development cooperation and policy. Participants discussed in parallel workshops how current knowledge can inform innovative and more effective policies and measures, and the need to complement this through further research and research-practice cooperation.

Summary of public lectures and discussions

After Stephan Opitz (Director General, Cooperation with Developing Countries, Environment and Climate, Latin America, KfW) and Christiane Bögemann-Hagedorn (Deputy Director General, Civil Society - Private Sector, Federal Ministry for Economic Cooperation and Development) opened the conference, Professor Dani Rodrik gave his **keynote lecture** on “Employment, Structural Change, and Economic Development”.

Rodrik referred to the active economic policies of China and India. Both countries have developed much more dynamically than other countries which have given more priority to the free interplay of market forces. China and India succeeded in creating many new jobs through moderate market reforms and state interventions in different industries. The policy of the 'Washington Consensus' pursued by the World Bank and the International Monetary Fund (IMF), which focuses mainly on strengthening market forces and liberalising markets in order to achieve growth, was in principle not wrong. However, economic development that is sustainable and reduces poverty is not guaranteed without additional measures.

Rodrik thus called for a pragmatic industrial policy that focuses on creating productive jobs in new industries. The most sensible measures for each case depend on the conditions in the respective country; the undervaluation of the currency could be helpful under certain circumstances as well. Therefore Rodrik encouraged economic policies that are open to experimentation or are even unconventional and which enable structural transformation that leads to competitive and differentiated industries.

The keynote lecture was followed by a high-level **panel discussion** chaired by Professor Klaus F. Zimmermann (IZA). Opinions were divided on the main question “Growth, jobs, or poverty reduction: What should decision makers address first?”: Namrata Bali (Director of the Self-Employed Women’s Association - SEWA, India) stressed the importance of measures helping the poor, such as social security and capacity-development programmes. These measures should not, in her opinion, follow a growth strategy but rather be implemented simultaneously. Ghada Waly (Managing Director of the Egyptian Social Fund for Development) agreed with Bali’s holistic approach pointing out that Egypt used to focus too much on economic issues while neglecting social ones. As a consequence, growth in Egypt benefitted only few

people, widening the gap between the rich and poor. Unfulfilled expectations contributed to the social tensions culminating in the Arab Spring. According to Waly, there was no time to tackle the challenges of promoting growth, jobs, and poverty reduction sequentially.



Rodrik and Zimmermann contrasted her view by arguing that in practice these challenges can hardly be addressed simultaneously. Rodrik recommended shortcuts: even when governance problems exist and labour market institutions are not (yet) in place, making a country or a sector

very profitable for investors could trigger a process of growth that subsequently provides a good basis for improving institutions and education.

The promotion of jobs is key to improving inequality, argued Stefano Scarpetta (OECD). He found a compromise saying that there is not necessarily a trade-off between increasing productivity and more and better jobs. Nonetheless, in his opinion labour market institutions are important to help compensate the losers of structural change and help them avoid being trapped in low-productivity jobs. In principle, Raymond Torres (Director of the International Institute for Labour Studies at the ILO) agreed with this view, while advocating a change of the conventional development model that in his view neglects social protection and regulation.

The **second conference day** started with two presentations on the state of knowledge concerning employment from the viewpoint of academics on the one hand and international donors on the other. Representing the academic side, renowned labour economist Professor Gary Fields (Cornell University) focused his speech on people who are employed but earn so little that they can hardly make a living. He shifted the focus from general issues such as growth, structural change and employment promotion to the people affected by focusing on people and individual stories of the “working poor”. Fields argued that, rather than combating unemployment per se, the goal of policymakers should be to a) generate more paid employment and b) raise the earnings of the self-employed. After outlining some research gaps, such as the effects of supply-side interventions on beneficiaries and the control group, Fields closed by underlining that, since valid conclusions can only

be drawn at the country level, better specific models of how different countries' labour markets work are needed.

Holger Seebens, economist at KfW Entwicklungsbank, summarised the experiences that development institutions have had in promoting employment, and analysed which types of projects and programs would be suitable for this purpose. Overall, he concluded that development cooperation helps create the conditions in partner countries that enable effective support of the pragmatic industrial policies demanded by Rodrik. In this regard, many projects pursued by donors deal directly or indirectly with employment. Support to build economic or social infrastructure, for instance, is eventually also intended to promote the creation of jobs. In addition, programmes that aim at immediately creating jobs are regarded by donors as a short-term response to crises such as conflicts or natural disasters. In these cases, projects are purposefully implemented using employment intensive technologies. However, in some areas there are indeed possibilities to sharpen donor approaches and to embed them in a broader strategy to create sustainable employment.

Martin Rama, Lead Economist at the World Bank's Development Research Group, provided insights on the World Bank's current thoughts on the topic. He argued that jobs are central to transformations in living standards, productivity and social cohesion; however these three objectives can often not be met jointly, as different jobs make various contributions to them. Female employment, for instance, tends to contribute more to rising living standards while employment for young men may improve social cohesion. At the same time, some types of jobs are more conducive to development than others due to externalities such as knowledge spillovers. Discussing "good" jobs, Rama stressed the difference between the individual and the social value of jobs. He concluded with a policy recommendation: if tensions between the three transformation areas mentioned above exist, a job strategy can be helpful. Based on the country's specific problems, such a strategy should prioritise the three objectives and focus on those jobs that have been identified as most conducive to the respective objective.

Summary of workshop results



In six parallel workshops participants discussed how current knowledge could inform innovative and more effective policies and measures, and in what areas further research and research-practice cooperation were needed. The workshops addressed the following topics:

1. Global shift of production factors, globalised value chains, and the role of industrial policy
2. Informal sector and graduation
3. Productivity growth, regional development, and the agricultural sector
4. Employment creation in fragile states
5. Labour supply, education, youth
6. Labour mobility and employment in developing and transition countries



Beyond discussing available knowledge, participants also identified sector-specific problems and best practices and developed initial innovative ideas for their solution:

- Tailor-made and differentiated solutions for the informal sector based on the individual potential of micro-entrepreneurs (basic education and social protection for survivalists, business development skills for high-potentials)
- Graduation of informal sector enterprises via vouchers for education funded partly by financial cooperation
- Catalytic finance to attract private investment and mitigate consequences from economic crises

- Employment programs as means of social protection in rural areas; e.g. a guaranteed minimum number of paid working days spent in infrastructure projects or agriculture
- Greater voice for the poor: A central agency could be set up to collect feedback from the target group of donor-initiated projects in fragile states. This would help to develop a rating for projects; successful projects could then be replicated / prolonged

The detailed documentation of the workshops is available separately on the conference webpage.

Conclusion

At the end of the conference Professor Klaus F. Zimmermann (IZA) and Joachim Heidebrecht (Director, Development Research, KfW) emphasised that internationally available knowledge from development research and development practice had been brought together successfully. In addition, a range of innovative ideas for solutions and concrete recommendations for development cooperation had been developed. Participants praised in particular the high quality of the presentations by internationally distinguished speakers and the possibilities for rich discussions and networking among a very diverse audience of academics and practitioners. Results will be covered in several publications at IZA and KfW as well as in lectures in the KfW “Development Research” series.

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2. Keynote Lecture by Professor Dani Rodrik

“Employment, Structural Change and Economic Development”

[Power Point Presentation](#)

[Video Documentation](#)

Summary



Dani Rodrik is the Rafiq Hairiri Professor of International Political Economy at the John F. Kennedy School of Government at Harvard University. He has published widely in the areas of international economics, economic development, and political economy. Some of his articles have been published in the top

journals of the field including the American Economic Review, the Quarterly Journal of Economics and the Journal of Political Economy. More recently, Mr. Rodrik has become famous among researchers and policy makers alike for his Growth Diagnostics Approach and his blog on ‘Unconventional thoughts on economic development and globalisation’.

Professor Rodrik started his talk by making the point that labour is the most abundant resource in developing countries. While capital as a production factor is scarce in this context, most developing countries are characterised by a substantial part of the population being unemployed or at least underemployed. The key to development therefore is to put those workers into productive jobs.

According to Professor Rodrik, creating employment in the productive parts of the economy is fundamental for achieving sustainable growth in the developing world. This process of successful structural change occurs already in some parts of the developing world but not in others. In particular, Asian countries have been very successful over the last four decades in increasing productivity levels in many sectors of their economy while at the same time creating many new jobs in these sectors. Therefore, productivity growth went hand in hand with employment creation.

However, as Rodrik pointed out, structural change and sector-specific productivity growth is not an automatic escalator up to higher economy-wide growth levels. In

Africa and Latin America, despite their relatively high growth rates over the last two decades, productivity growth, especially in the manufacturing sector, has led to massive employment destruction in these parts of the economy. Although productivity levels in manufacturing have increased in Africa and Latin America over this period, average economy-wide labour productivity levels have decreased due to a large number of laid off workers from manufacturing who could only find jobs in low-productivity jobs.

In the subsequent part of his talk Rodrik singled out some of the conditions that contribute to successful structural change. In principle, the objective is to exploit the productivity differences across sectors in the early and medium phases of the development process by shifting employment from low-productivity sectors to high-productivity sectors of the economy. Thus, under certain circumstances it is more important from a policy perspective to focus on shifting employment patterns across sectors than on productivity growth within each sector as a means of achieving higher economic growth.

Based on his recent empirical research using new industry and employment data for a larger group of developing countries Professor Rodrik highlighted three factors that contribute to successful structural change.

First of all, a country's wealth of natural resources seems to have a negative effect on successful structural change. Rodrik explained that although some primary sectors such as minerals do operate at very high levels of labour productivity they have a very limited capacity to generate substantial employment. In addition, a rich wealth of natural resources reinforces traditional specialisation patterns and seems to reduce the incentive to diversify into, for instance, modern manufacturing where more employment can be created.

A second related issue concerns the real exchange rate. Countries in Latin America and Africa have typically liberalised in the context of overvalued currencies – driven either by disinflationary monetary policies or by large foreign aid inflows. Overvaluation squeezes industries in the tradable sector of the economy more, especially damaging the more modern ones in manufacturing that operate at tight profit margins. Asian countries, by contrast, have often targeted competitive real exchange rates with the express purpose of promoting their tradable industries.

Third, countries with rigid labour markets seem to show a much slower rate of successful structural change. The reasoning behind this observation seems to be that inter-sectoral reallocation into and within manufacturing industries is slowed down by entry barriers. When employment conditions are perceived as rigid, say because of firing costs that are too high, firms are likely to respond to new opportunities by upgrading plant and equipment (capital deepening) rather than by hiring new workers. This slows down the transition of workers to modern economic activities.

Professor Rodrik concluded his talk with an optimistic outlook on the development prospects for many poor countries. Since 1990, and for the first time since independence, many countries in Africa, Asia and Latin America have achieved higher growth rates than industrialised countries. This positive growth has translated into a substantial decrease in poverty rates in the developing world. However, there are remarkable differences between the success of Asian countries vs. African and Latin American countries. Asia has managed to create a substantial number of jobs in the high-productivity sectors of the economy – something that Africa and Latin America still need to do.

3. Presentation by Professor Gary Fields

“Employment, Growth and Poverty Reduction: Factors, Interdependencies and Successful Policies”

[Power Point Presentation](#)

[Video Documentation](#)

Summary



Professor Gary Fields of Cornell University, a labour economist of high international reputation, started his presentation by pointing out that within the problem of global poverty there is what he termed an “employment problem” (rather than an unemployment problem). According to ILO statistics, while

200 million people live in poverty and are unemployed, there are 900 million people who are actually employed but still earn so little that their family members live on less than USD 2/day. Fields illustrated this using the image of an iceberg whose biggest, though invisible part represents those employed, but still poor.

Fields offered vivid insight into how the world's poor work. He presented several personal stories, for instance of a woman in India who hand-rolls cigarettes eleven hours non-stop, earning as little as ten cents an hour, or of a woman in Mexico producing fireworks – a task so dangerous that she built her production site far-away uphill so that if something explodes it would only kill her and not her family. Fields underlined the enormous gap between how much these poor earn and the minimum wage of USD 7.25 in the US.

Fields concluded that the poor are not poor because they are unemployed. The poor want to work and they do work long and hard hours. But they earn so little that they remain poor. A main problem underlying this are segmented labour markets: People with the same qualification may have a very different chance of getting a good or a bad job due to circumstances they can hardly influence. He illustrated this through the story of a young woman who could not get a job in a hotel although she was highly qualified because, as she said herself, she was not beautiful.

Continuing on a more general level, Fields gave an overview of the problems facing working people in developing countries: often there are simply not enough good jobs that pay enough to get out of poverty. Moreover, jobs are often insecure and there is little, if any, job-related social protection (which, as Fields suggested, is what is often called the informal sector). Finally, work is often indecent – not only in the sense of not meeting the ILO definition of decent work, but also cruel such as child prostitution, people trafficking and the like.

Often the hope is that employment and labour market conditions will improve with economic growth. Fields discussed this correlation by referring to several countries for which the necessary data are actually available. His conclusion was that in fact labour market conditions do generally improve as economic growth takes place. According to Fields this result holds for both low- and middle-income countries, for countries in Asia, Latin America or Africa, and for both fast and not-so-fast-growing economies. An important exception to this is South Africa where labour market conditions have not improved, and where conditions outside the labour market, like social funds, have helped reduce poverty.

Surprisingly, thus, growth in these developing countries has not been jobless as it has been in the US and as it is often thought to have been in fast-growing economies like China. However, Fields qualified this result, emphasising that growth has not come at the expense of labour if one uses the ILO definition of a job (one which is not overly demanding). According to this definition one has a job if one works at least one hour a week for pay or 15 hours for no pay, for instance in a family business.

So, at least by that definition, more employment has been created with growth, although this is often not salaried work and formal employment. Against this background, Fields suggested several areas in which donors may contribute to helping the poor find their way out of poverty by supporting the creation of more and better jobs, such as creating workplace protections, enhancing growth and harnessing the employment potentials of private companies.

Fields differentiated between the goals of generating more paid employment and of raising self-employment earnings. The former would involve avoiding prematurely high labour costs and undue barriers to employment, increasing employees' productive abilities and improving labour market information systems. The latter would involve, among several other measures, building business skills and designing

products that help raise the productivity of the self-employed. For this pro-poor innovation Fields gave an example of rice farming: planting seeds further apart and applying less water has lead to 40 % higher yields.

To make this call for donor engagement more specific, Fields outlined several critical knowledge gaps that donors would have an important role in remedying. For each gap, he suggested one crucial question to be addressed:

- Regarding macro-economic growth, to what extent and how does it improve labour market conditions in each specific context?
- Regarding labour demand, why is the demand curve positioned where it is?
- Regarding labour supply, what are the effects of interventions such as improving education on those treated and on those not treated?
- Regarding wage-setting mechanisms and institutions, what determines earnings changes over time?
- And finally, regarding other institutions affecting the functioning of the labour market, what are some barriers to labour market adjustments within labour markets (like a minimum wage) but also outside labour markets (like officially elevated living costs of job migrants, such as in the case of China)?

Fields underlined again that these knowledge gaps need to be addressed for each country individually and that what is needed are better models of how different countries' labour markets function, how the different sectors work and how they are interlinked.

Closing his presentation, Fields encouraged practitioners and researchers to be more explicit about objectives, trade-offs and evaluation criteria, to be more specific about theoretical models and more comprehensive in empirical evidence, and finally to be "humble enough to know when the best policy conclusion is to draw no policy conclusion at all".

4. Presentation by Dr. Holger Seebens

“Labour Market Institutions, Policies, and Programmes: What are Donors Doing?”

[Power Point Presentation](#)

[Video Documentation](#)

Summary



Holger Seebens is an economist at KfW with special expertise in growth theories and employment. His presentation was mainly based on extensive research on donors' approaches for the promotion of employment, and on an in-house study conducted at KfW. Seebens pointed

out that donors pursued a huge array of different strategies that are conceived as being employment-creating. He mentioned, however, that assessing donor approaches for creating and promoting employment is an extremely complex task due to very multifaceted relationships within very different environments. Given this complexity, employment promotion is frequently approached indirectly, which means that it often emerges at the end of the results chain and materialises only after other goals have been met.

Seebens focused on a number of general issues and lessons learnt. Among others he introduced the World Bank MILES approach, which came about through a multi-donor trust fund which identified five key areas for creating employment: macro and political stability, investment climate, labour market regulations and institutions, education and skills, and social protection.

Seebens highlighted that donors today often do not engage directly in creating employment, but instead emphasise the creation of a functional infrastructure to lay the foundation to create jobs. Only few approaches include employment promotion as a direct outcome. That is why donors usually face a number of problems specific to the creation of employment. These difficulties may be best understood by resorting to the concept of results chains. According to the OECD definition, a results chain

describes a 'causal sequence for a development intervention that stipulates the necessary sequence to achieve desired objectives'. As Seebens pointed out, donors can directly support the creation of an economic infrastructure. Job creation, however, comes about as a rather indirect result of donor interventions.

Emphasising the importance of distinguishing between direct and indirect employment creation, Seebens explained that direct employment creation is comparatively simple to achieve and to verify, but often also limited in scope (e.g. workers hired by a construction firm to build a road). The potential for indirect job creation on the other hand can be much more versatile. Indirect effects refer to jobs that do not immediately result from the project (e.g. jobs that emerge out of the usage of the road). Seebens explained that indirect effects were therefore hard to measure, which poses a problem for evaluating the long-term success of projects. He asserted that since it is too difficult and too costly to attain a complete account of jobs created as a consequence of a particular intervention, most donors base the measurement of employment effects on fairly rough approaches.

Short term crisis response approaches do evidently achieve job creation on a large scale. Programs like the labour intensive construction of basic infrastructure typically created a huge number of jobs – which could be monitored easily. This form of employment generation does not come without a cost, however. The generated incomes are often very low, while there are only few qualification effects. Finally, the jobs created are only temporary and are lost again after the project has ended.

These findings indicate that result chains are very diverse across different approaches. Meanwhile, Seebens clearly demonstrated that the goals of employment promotion are context dependent. The existence of different target groups with different needs adds to this complexity. Further, he emphasised that donors need to think about the promotion of decent jobs in the sense of the ILO-definition.

Seebens concluded that efforts to promote employment need to be seen in the light of a broader strategy that considers employment as a cross-cutting issue requiring a country-specific strategy. Additionally he recommended integrating employment creation into efforts to reduce poverty or to promote environmental sustainability. Lastly, he emphasised that expectations needed to be managed carefully. Apart from many efforts that are being undertaken, much remains to be done.

5. Workshop Summaries

5.1 Workshop 1

"Global Shift of Production Factors, Globalised Value Chains, and the Role of Industrial Policy"

By Janneke Pieters (IZA)

In this workshop, the discussion focused mainly on whether and how industrial policy



should play a role in development strategies.

A better understanding of the global value chain of a certain industry or sector could help in designing better policies. In general, the participants agree that rather than direct industrial policy, a more successful approach is to facilitate structural change by,

for example, improvements in (financial) infrastructure. The discussion around this theme built mainly on the input of Khalid Nadvi (University of Manchester):

- We need to move away from the idea that there is a worldwide race to the bottom with respect to labour/jobs. There is little understanding of the impact of emerging powers, especially China, moving up the value chain. In particular sectors, emerging economies were a small part of the global value chain, but have now become global leaders. They themselves now outsource production, but we know little about how they organise their production.
- Increasingly, also, the world's consumers are in the global South, as the middle class is growing in developing countries. What are the consequences for what is produced and how it is produced?
- We also should realise that the state plays an active role in emerging economies, through industrial policies, labour regulation, etc.

For development banks and other institutions involved in development cooperation, contributions are most often at the micro level. That means industrial policy or growth strategies are far beyond the scope of particular investments. Still, a better

understanding of value chains would help to get better measurements of employment impacts from certain investments and projects. A particular concern that was raised is the 'general equilibrium' effect of job creation in certain projects, since direct or even indirect job creation may destroy jobs in other parts of the economy.

The input from Gudrun Timm (DEG) focused on this issue:

- DEG supports the private sector and measures investment returns in terms of direct and indirect job creation. DEG data shows that these returns are particularly high in the agriculture and forestry sector and in textiles, apparel, and leather production – and within these sectors, mostly in the SME segment. The data show very little job creation from investment in, for example, the health sector, although this is hard to believe. We need more research to understand the employment effects of private sector support.

Roland Michelitsch (IFC) focused more on the role of the private sector in job creation:

- It is the most productive firms that create jobs, so raising productivity does not harm workers. Moreover, if wages increase with productivity, this raises purchasing power and consumer demand.
- Stunted growth is a real problem, i.e. small firms don't transition into large firms.
- Environmental and social standards can help job creation.
- Foreign direct investment can offer know-how to employees. The Bangladesh garment sector is an example, where most entrepreneurs were employees in foreign-owned firms before starting their own firm.

Points from the general discussion

- Industrial policy is often not evidence-based
- Rather than focusing on a few industries, a better approach could be to design a strategy for promoting each of your (relatively large) sectors.

- A problem for donors is the possible crowding-out: often only micro-interventions are possible.
- Many LICs have poor state capacity, so industrial policy (picking winners) is hindered by corruption, poor implementation, etc. This may only harm private sector development, especially since private investors do not want direct government intervention. The macro policies should focus more on facilitating the economic change process, e.g. through investment climate strategies.
- We need to know what drives investment, and what determines the stickiness of investment (i.e. we want long-term investment).
- It is not always clear what the goal is: growth-enhancing structural change at any cost? Or do we care about (short term) job creation?
- → Facilitating structural change by the private sector, rather than top-down strategy. Social policies, labour standards, and social dialogue should be used to facilitate change democratically.

Intermediate conclusions and questions

- Martin Rama's presentation raises the question of whether economic transformation can be facilitated by a 'job strategy' by focusing on the so-called transformational jobs.
- The informal sector workshop raises the question of explicitly considering how the informal sector is affected by certain solutions to global value chain issues.
- From the agriculture workshop we take the message that social policies and safety regulation could be used to promote structural change.
- The youth and education workshop raises the issue of the private sector role in the design and implementation of technical and vocational education and training (TVET) programs.
- From the migration workshop, we take the message that labour mobility and global value chains are interrelated.

Second workshop session

Participants chose two specific challenges to work on and developed initial ideas for solutions:

- How to manage structural transformation in low-income countries?
 - ‘Picking winners’ is considered risky business, but governments sometimes decide to take this approach and ask for advice after choosing a sector they want to promote.
 - It is then important to involve the different stakeholders in the process in a forum we named “competitiveness council”. Ideally such a council would already be involved before any particular sectors are chosen.
- How to help the private sector link into the global value chain?
 - If countries seek to find their comparative advantage it helps to have knowledge of global value chains; where in the production chain are countries at similar development levels?

These two themes were presented in the final plenary session. Ideas may be taken up and put into practice by UNIDO and possibly by GIZ.



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5.2 Workshop 2

“Informal Sector and Graduation”

By Caroline Reeg (DIE) and Julia Kubny (KfW)



The following document is oriented on the discussion that took place in the workshops, while summarising and aggregating certain issues and themes that repeatedly came up during the day.

Introduction

At the start of the workshop, participants introduced the following key interests and questions that motivated their participation:

- Is productivity growth a means or an end for employment creation?
- How does the informal sector relate to issues of tax evasion?
- Should formalisation of the informal sector be a priority?
- What are the effects of formalisation on individual wellbeing?
- How can we unlock potential in the informal sector?
- What is the role of different public and private actors in the process of formalisation? Also what is the role of multilateral vs. bilateral donors?
- How do we include the informal economy in social security systems?
- What are the major constraints in the informal sector in improving the quality of employment?

The different backgrounds between researchers and practitioners as well as the heterogeneity among researchers created the need for defining different existing phenomena, such as informality, (good) employment and formalisation. Participants discussed and shared their understanding of informality and the connected phenomena while the discussion was not narrowed down to one clear-cut definition.

Short presentations

Jasmina Glisovic (CGAP), Natalie Chun (ADB) and Michael Grimm (ISS) gave small introductory notes after which the workshop participants made the following **key insights**:

- The informal sector should not be ignored by policy-makers due to its size in terms of employment creation, GDP contribution and relevance for poverty-reduction.
- Informality includes informal enterprises as well as informal workers.
- Most informal enterprises are micro and small in size, however altogether they account for nearly 50 % of exports in Indonesia and provide for almost 90% percent of jobs in India (numbers given by participants).
- Due to the nature of the informal sector there is only limited knowledge on informal enterprises and informal workers among practitioners, yet researchers point out that recently there is more data available on micro and small enterprises (MSEs) and informal employment.
- It became clear that while discussing the informal sector that there is great heterogeneity among enterprises as well as between workers participating in it. This makes it dangerous to make comprehensive statements and policy recommendations that ignore different levels of productivity among enterprises and workers as well as trends within sub-sectors. Targeting, prioritising and using a context-specific policy approach are crucial. Accordingly, different segments of the informal sector have different needs and constraints. Constraints can be related to local infrastructure (transport, institutions, regulation, and electricity), access issues (such as finance, markets with effective demand, knowledge and

technology), social and political reasons (political voice, norms, traditions, discrimination).

- The data shows that most informal MSEs are survival enterprises that would rather be wage-workers with a stable and regular job than be self-employed. This is because the majority of survival entrepreneurs have insufficient skills to be real opportunity entrepreneurs. However, there is potential in the informal sector that can be unlocked. Some MSEs have the potential to grow and become future employers. These “high-potentials” or “gazelles” constitute between 30-50% of MSEs (number based on Michael Grimm).

Based on these insights the following **key challenges** were identified:

1. Is formalisation enough and what are the costs and benefits of it? How do we induce innovation and create future markets for new entries in the formal economy (the micro-macro-challenge)?
2. How do we organise informal workers and give them a political voice to improve the quality of employment?
3. How do we identify “high-potentials” or future employers among informal MSEs? How do we support those who show potential?

These challenges were discussed in sub-groups with the aim of developing initial ideas for solutions. Key points in the discussions of the sub-groups are as follows:

Challenge 1: How to formalise informal firms and how to create new markets?

- Participants approached the issue of formalisation from a cost-benefit perspective.
- There was the impression that for many informal enterprises the cost of registration (such as time and money to invest in coping with authorities and paying taxes) outweighs the benefits of being formal – therefore many stay informal.
- The question was then rather whether forced formalisation results in enterprise growth. All participants agreed that formalisation per se is a far too short-sighted approach. Rather other issues such as skill, business knowledge and finance issues might play a role.

- In particular, knowledge in terms of coming up with an innovative business idea or improved product is the real challenge for many MSEs that participate in very competitive markets.
- Creating new markets and being innovative requires creativity, but also certain business skills. Only few entrepreneurs provide these qualities. Therefore franchising came up as a strategy to help high-potential MSEs to adopt new ideas in yet unsaturated markets.

Challenge 2: How to give political voice to informal workers?

- It has been acknowledged that informal workers individually will not be able to improve their work environment. This includes the fact that most workers employed informally face an array of constraints concerning their rights.
- A main issue for informal workers is the collective action problem. Therefore approaches for organising their interests seem to be of vital importance in increasing their wages, as well as improving their work environment and access to social protection. Cooperatives and self-employed associations that are organised along sectors or even sub-sectors may increase negotiation power among informal workers.
- Unions may be helpful in organising the masses, but they may be too heterogeneous and too big to lobby for specific changes in certain sub-sectors. In addition, the bigger organisations become more difficult to run; particularly informal workers may struggle to provide the skills and the time to set up a negotiation process strategically. Furthermore, the lack of essential skills such as financial literacy and strategic thinking may constrain the effectiveness of such organisations.
- Accordingly, within cooperatives, unions, or self-employed associations, skill development and training should be provided a) to make the organisation as such more effective and b) to empower informal workers by educating them on their rights.
- Setting up such an organisation is costly. Therefore public grants and other financial measures will be needed. It is also crucial that the local government has a strong buy-in for it, since the public sector might need to act as “protector” of the poor.

Challenge 3: How to identify and support MSEs with growth potential?

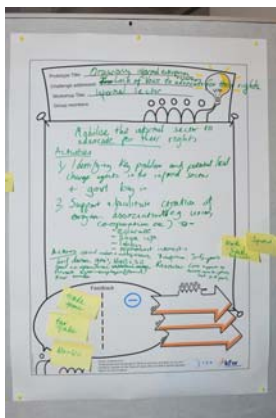
- There is a group among informal MSEs that shows the motivation, skills and ideas to grow their business and hire more workers. How can their partly unused potential be tapped and the skills gap filled? These entrepreneurs tend to face different constraints and have different needs than “survival entrepreneurs”. Heterogeneity even exists within the group of high-potentials. Some entrepreneurs may need capital; others require some form of social protection at the household-level, or training. In terms of training, we firstly need to identify the different skill levels in informal firms. Secondly, we need to identify the right policies for enhancing the skills.
- Entrepreneurs with growth potential can be identified in various ways:
 - Through self-selection, although one might miss a significant number of potential gazelles.
 - Through surveys. One might identify entrepreneurs with a certain level of business skills and absorptive capacity to learn about new production processes, business strategies or ideas.
 - Through expert interviews. Experts might be better able to identify entrepreneurs with potential to grow their business while also understanding their specific needs and constraints in this growth process.
 - Peer group discussions may also help to identify high-potentials (similar to Anirudh Krishna’s stages of progress)
 - In cooperation with local MFIs entrepreneurs with constantly increasing credit volume (and repayments) can be identified as high-potentials
 - Also, competitions on business ideas for venture capital could be made available for informal MSEs.
- While some data on entrepreneurs and their skill set exists among microfinance institutions (for some countries and sectors) there is little systematic search for “champions”. This could be enhanced by collecting more comprehensive data on informal MSEs.
- As larger and formal entrepreneurs require more skills than survival entrepreneurs (e.g. in accounting and management), high-potential entrepreneurs need a different type of support that focuses on improving their business development

skills. In contrast, survival entrepreneurs tend to require vocational training and basic education alongside social protection.

Conclusions

Participants agreed on the following conclusions from the workshop:

- The informal sector has an enormous size; its importance in fighting poverty and providing employment can hardly be overestimated.
- At the same time, the informal sector is very heterogeneous. While a large group of informal entrepreneurs can be considered “survivalists” and would rather be employed in the formal sector, others have the potential to grow and create more employment.
- Formalisation does not pay off for many MSEs; forced formalisation does not result in enterprise growth. Rather than focusing on formalisation per se, support should concentrate on skills development and access to finance.
- In doing so, different types of informal entrepreneurs need to be identified as they require different policies/types of support (basic training and social protection for survivalists, business development skills for high-potentials). Franchising could help high-potentials to adopt new ideas.
- Unions, cooperatives, and self-employed associations may give voice to informal sector workers and help them to improve their working conditions, wages, and social protection. Skills development and training as well as funding are required to make such organisations effective; local governments play a crucial role in supporting the organisations.



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5.3 Workshop 3

“Productivity Growth, Regional Development and the Agricultural Sector”

By Ulrike Dangelmaier (DEG)

Michael Brüntrup (DIE): Some stylised facts, trends and options for pro-poor agricultural and rural employment



Agriculture provides labour for about 1 billion people, or about 35% of the worldwide workforce, making it the largest employer. Of that figure, more than 95% are found in developing countries, though in individual countries the share can be very different depending on the natural endowment

and the economic structure. The workforce is very heterogeneous: self-employed (farmers with very different size production, but mostly smallholders), wage earners, employers, and unpaid family labour. Most are unskilled. Although agriculture provides a basic standard of living for the majority of the global population, it does not provide enough income for most of them – smallholders form the bulk of the poor. However, productivity of agriculture is generally underestimated in macro-economic analyses since most people which declare themselves employed in agriculture have considerable off-farm incomes. Particularly critical groups are children, dependent tenants, seasonal migrants and indigenous populations. Gender differences can be marked. A particularity of jobs in agriculture is that they are deeply embedded into agrarian societies with strong traditional values. In addition, rural areas are marked by dependence on the vagaries of nature and high transaction costs (transport, communication, remoteness, landscape, language, weak formal institutions overlapping with traditional institutions, weak contract enforcements) which require costly, tailor-made solutions.

Agriculture and its profitability in developing countries are argued to have suffered in the past from several trends which will not continue into the future. Agricultural prices were depressed by very high productivity gains and moderate increases in area, low energy and oil (and nitrogen fertiliser) prices favouring an external input-intensive

production model, low regards for environmental externalities, and a moderate expansion of economic progress and western consumption styles in the global south. Low prices meant low incomes for farmers, low wages in agriculture and widespread rural poverty. At the same time, they favoured rural-urban migration and therefore structural change. Since the prices crisis 2007/08 it is increasingly becoming clear that some of these trends will be changed. Energy and oil prices will increase, raising production costs. Climate change and climate change policies will further reduce use of fossil fuels and energy, and increase production costs. Higher demand for food, feed, bio energy, fibre and other material oil substitutes will increase demand for agricultural products. Higher agricultural prices will favour incomes and wages in agriculture and dampen structural change, without stopping it. Whether this will ultimately reduce rural poverty is, however, still an open question because along with increasing prices, higher requirements for quality, traceability, food safety and other standards will challenge smallholders and encourage larger units and agricultural industrialisation leading to large scale land acquisitions.

Gabriele Köhler (IDS): Public works schemes and employment generation: the South Asia policy contribution

In response to the question of how to foster employment rather than capital intensity, Gabriele Koehler presented findings on South Asian public work schemes as a policy example. The existing situation is that despite the fact that most poor people are working, they are not able to make a decent living from their work.¹

Generic responses at the global level include the decent work agenda, as developed by the ILO, and different approaches to offering social protection, including public work schemes. The global social floors initiative of the UN, to be adopted as an ILO recommendation shortly, is a major policy effort in that direction.²

In South Asia there are specific challenges. The first is the situation of working poverty and the persistent informality and casualisation of work, with 90% of the labour force in India, for example, working in the informal economy. Another is the

¹ For example see UN 2011: The Millennium Development Report 2011, New York 2011, [http://mdgs.un.org/unsd/mdg/Resources/Static/Products/Progress2011/11-31339%20\(E\)%20MDG%20Report%202011_Book%20LR.pdf](http://mdgs.un.org/unsd/mdg/Resources/Static/Products/Progress2011/11-31339%20(E)%20MDG%20Report%202011_Book%20LR.pdf)

² Bachelet, Michelle, 2011. Social protection floor for a fair and inclusive globalization. Report of the Advisory Group chaired by Michelle Bachelet convened by the ILO with the collaboration of the WHO. ILO 2011, http://www.ilo.org/global/about-the-ilo/pressand-media-centre/news/WCMS_166292/lang--en/index.htm

surge of new labour force entrants, with South Asia needing to generate between 1 and 1.2 million jobs every month if it is to absorb the growing labour force.

South Asia is emerging as a policy innovator³ in the realm of social policy, social protection and employment policies in particular. One observes a suite of public work schemes in India, Bangladesh, Nepal and, to some degree also in Pakistan, that are guaranteeing 100 days of work, notionally paid at minimum wage levels, and cast as a legal right, since compensation in the form of social transfers is paid if a work scheme can not be arranged in the claiming household's vicinity. Other features include quotas for women's work and a focus on disadvantaged castes. The Indian scheme, the Mahatma Gandhi National Rural Employment Guarantee Act, is the largest, covering 55 million households in 2010 and costing 0.55% of GDP or 11% of the annual fiscal budget at the federal level. It has built-in mechanisms for monitoring and accountability.

A quick look at the schemes shows patchy information on outcomes, but records show that since the schemes' introduction between 15 and 45 days of work on average per household were generated in recent years.

An assessment of this South Asian approach to generate employment reveals mixed findings:

- There is a – much welcomed - focus on employment for low skilled people in rural areas, as a response to hunger/food insecurity; income poverty; and distress migration. There is a built-in rights discourse, and the public works schemes are set in a larger context of related social and economic policies.
- There is however little emphasis on skills building and productivity. This is because the public works schemes are conceptualised as a rapid response to extreme poverty, and are designed to be locally anchored, precluding sophisticated planning and engineering. Moreover, they do not take adequate account of employment opportunities that would be less physically taxing, such as generating remunerative work in the care economy.
- There is also a lack of attention to sustainability, in the sense of creating long-term, up-scale incomes and employment. The public works schemes also do not

³ The following draws on Koehler, Gabriele ,2011. Transformative social protection: reflections on policy experiences in four South Asian countries. IDS Bulletin 2011 Vol 42, Number 5 and updates.

address power relations in the rural economy. And except for the case of Bangladesh, they lack systematic environmental screening.

Oliver Lenze (DEG): Five hypotheses

- 1) All investments in agriculture, in particular private investments, are needed and most-welcome (if certain environmental and social standards are complied with).
- 2) Private investors are looking for investment opportunities that include economically sustainable technologies. Economically sustainable technologies are often capital-intensive and not employment intensive.
- 3) Private investments inject fresh cash into the money flow and provide farmers in rural areas with money as a means of exchange. Cash is an entrance card for taking part in trade at local markets.
- 4) The role of a Development Finance Institution (DFI) like DEG is (i) to mobilise funding for desired sectors and (ii) to promote high environmental and social standards, not necessarily to promote employment intensive technologies.
- 5) From a private investor's / DFI's perspective (like DEG), out-grower schemes can have advantages, especially a continuous supply at desired quality. Therefore, the risk of side selling must be properly managed. Smallholders are not as helpless as widely believed. If they feel unfairly treated (regarding payment etc.), they find ways to punish their contract partners (e. g. via side selling etc.). In order to avoid problems like side selling and low quality, intensive relationships between the outgrowers and the contractors are needed. Outgrower schemes can provide a big opportunity for smallholders ("the bottom of the pyramid") to become integrated into the global value chain.

Results of group work

How to improve market access for (small) farmers that contributes to increased incomes and employment?



In order to provide sustainable market access for small-scale farmers and to thus create better income opportunities and generate employment, the following three step approach is suggested. Firstly, the agricultural sector has to be differentiated by value chains, locations and actors

(traditional farmers, open markets and modern integrated markets) and different strategies are likely to be of relevance for different segments. Secondly, a supportive macro-economic framework (constant, possibly slightly devalued exchange rates to address price volatility, free trade arrangements and regional integration, priority setting at the national level, market transparency etc.) is needed. Thirdly, with a focus on traditional and largely small-scale farmers, a market-oriented approach intervening at the meso and micro-levels will be required. Meso-level interventions include the strengthening of support institutions as well as financial and non-financial advisory services (research & development, certification, support of public-private and private-private partnerships) as well as infrastructure development (ICT, roads, electricity, water, etc). At the micro-level, it will be important to support the effective representation of small-scale farmers (through cooperatives, but also enterprise networks, clusters, value chain arrangements), and the development of technical and managerial skills (to facilitate the absorption of financial and non-financial advisory services and to approach farming as a business activity). Further questions are: How to create access to finance? How to achieve knowledge transfer (including in a private-private context, e.g. along value/supply chains or within clusters)? What else is needed: education or finance? How to promote the development of new and intermediary support services and BDS?

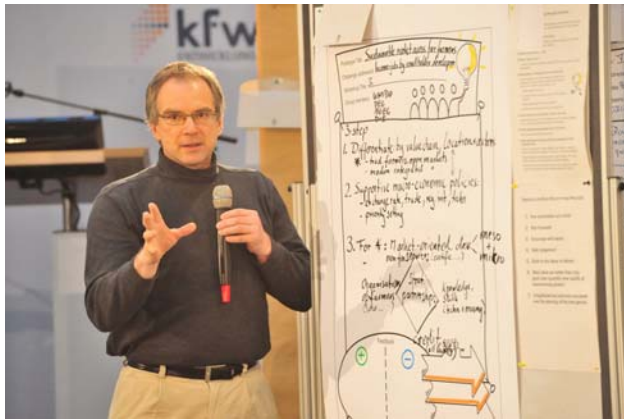
How to achieve structural change in rural areas that contributes to more and better jobs?

In order to achieve structural change in rural areas that contributes to more and better jobs the prototype “the three pronged approach” has been developed. First, the agricultural sector should be professionalised and value chains in high potential areas have to be promoted (SME Development in the value chains, skills development according to needs and with involvement of the private sector). Second, public work schemes should be provided for unskilled labour and as compensation for periods of acute unemployment (like building of roads, terraces, and soil protection). Thirdly, transition strategies for low potential areas have to be developed. Further questions are: Which framework conditions are required? Should there be high parcellation or land accumulation? Is employment or capital intensive-production the right approach? How can productivity be increased? And does higher productivity mean higher income and decent work?

Further key insights and key questions

To increase food security in developing countries and to give smallholders a chance to survive, small-scale farmers must be supported. Seen from this perspective, jobs in the agricultural (subsistence) sector are “right” jobs and the existing agricultural structure should be strengthened. But the aim should not be to have as many people as possible working in the agricultural sector. A sustainable, efficient agricultural sector is needed, and for those living in rural areas, better working conditions should be found. Support in the form of both technical and managerial training is needed in order to transform jobs in the agricultural sector to good jobs and to meet increased demand for agricultural raw materials. However, the question “who should be addressed by qualification measures to create multiplier effects?” is difficult to answer. New jobs in rural areas could be created in processing by small and medium-sized enterprises. Through outgrower schemes and other initiatives to support access to relevant supply chains, smallholders are able to generate higher incomes.

Open questions include: How can the “youth” be integrated into the agricultural sector? What is the proportion of the informal and the formal agricultural sector? How big is the contribution of the informal sector to employment and rural incomes? How



efficient are the existing resources used? How can productivity be increased? Which development strategies for the agricultural sector exist? How can good jobs really be created? What role does migration out of rural areas play for the agricultural sector? How to plan, coordinate and

govern investments in agriculture? How can the effectiveness of private investments in the agricultural sector be measured, controlled and promoted? How to take the right policy decision (especially regarding “food security” - cheap food for the urban population vs increasing prices to investment in rural areas)?. Do cash crops really matter?

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5.4 Workshop 4

“Employment Creation in Fragile States”

By Bakh Mirkasimov (DIW), Tony Muhumuza (DIW) and Jan Priebe (KfW)



The following document is oriented on the discussion that took place in the workshops, while summarising and aggregating certain issues and themes that repeatedly came up during the day.

Introduction

The purpose of the workshop was to share knowledge and experiences from different backgrounds, to discuss best practices, to identify knowledge-gaps, and to inspire innovative solutions. It was designed to address a number of key questions, including:

- How do typical characteristics of fragile or conflict-affected states (such as weak institutions, adverse business climate, violence) affect employment? How does this vary across different cases?
- What role does, or could, employment play in fragile states? Under what circumstances does employment contribute to stability? And how does this interact with fragile statehood?
- What are realistic options for employment creation in fragile states? Which supporting measures are needed?
- How should short-term and long-term measures be sequenced and made complementary? How can the private sector temporarily assume tasks of public entities in the employment context?
- How can economic integration be complemented with social integration, in particular with regard to youth?

Short presentations

Christina Kükenshöner (Joyn-Coop Consulting) and Tilman Brück (DIW) gave short introductory notes in order to bring some detailed input into the discussion part of the workshop.

Session 1:

Input presentations

Tilman Brück: Employment creation in conflict-affected and fragile states

- Background
 - Conflicts are detrimental to economic development. They drain the countries' resources substantially. Globally, the economic cost of violent conflict has been estimated at 16% of the world's GDP.
 - The concepts of conflict and fragility cannot be discussed in isolation because they overlap.
 - Fragile states are characterised by weak institutions, which, among other things, have failed to create employment.
 - One of the key challenges in fragile environments is job creation. This is exacerbated by the absence of clear property rights, continued violence, internal displacement.
- Policy implications of programs designed to create jobs should identify the actual level where interventions should be based. These could include:
 - At the individual level: increase human capital
 - At the household level: needs of the household, "portfolio" holistic perspective
 - At the national level: resource extraction

Christina Kükenshöner: How to foster employment in fragile states:

Lessons learned from 10+ years of engagement

- Background

- It is imperative to address employment needs, both in the short and long-term. KfW focused on short- and long-term employment projects.
- There is great need to evaluate all possible measurement effects and identify the measures that have the most important impact on employment creation.
- Policy implications
 - Employability of people needs to be addressed.
 - Applied measures should be conflict sensitive.
 - Conflict is complex but we need to simplify measurements / solutions.
 - Implementation should not exclude the local population; there is a need to build local capacity to sustain projects.

Insights and challenges:

From the presentations and the subsequent brainstorming session the following insights and challenges were derived:

- Data and measurement issues:
 - How do we define status of countries over time, when do we remove “fragile”, “conflict” or “post-conflict” from a country description?
 - How do we measure conflict effects and impacts?
 - How do we design interventions with measurements?
 - How do we facilitate data collection and data availability in a fragile states environment?
- Policy issues:
 - How can we achieve a meaningful scale of employment creation in post-conflict areas?
 - How do we incentivise the private sector for job creation with scale and sustainability?
 - Youth: how to train young people who have lost education and skills due to conflict
 - What is the relationship between emerging powers and donor programs?

- How do we create political coalitions for employment? How to prioritise focus among “fragile” states...?
- How can we align elite interests and the interests of the working poor?
- Who to partner with and at what level? Local, regional or national level? “Tailor-made” approach?
- How do we address conflict and employment when states and institutions are part of the problem?
- How do we improve skills for long-term investment? invest in human skills? (restore trust in the future)
- What is the opportunity cost of unemployed young men? How do we get them off the streets on a large scale and in a reasonable way (conflict traps)?
- How do we reach the most vulnerable groups?
- Criminality (activities), security → employment
- “Bottom-up accountability”

Session 2:

Out of the various issues that participants identified as key for creating employment opportunities, three main themes were identified and presented in the plenary session:

Theme 1: Supporting hybrid structure to boost agriculture

with Tony Addison (UNI-WIDER), Jan Köhler (ARC Consulting), Tony Muhumuza (DIW), Marlis Sieburger (KfW), and Elke Stumpf (GIZ)

State institutions in fragile states are usually very weak or non-existent. However, there often exist traditional institutions in communities that secure property rights and reduce risks associated with production and settlement. In the context of fragile states it might be necessary for programs designed to promote job creation through agriculture to enhance the capacity of these institutions. In the absence of functional traditional institutions, communities could be assisted to establish functional and

acceptable proxy institutions. Through this framework, cooperative arrangements and other services could be promoted to enhance productivity and link farmers to relevant markets. Where state or self-imposed institutions exist, interventions could aim at building cooperation and trust between traditional structures and higher hierarchies.

Theme 2: How to make implementing agencies accountable

with Alexander Klein (DEG), Christina Kükenshöner (Joyn-Coop Consulting), Bakh Mirkasimov (DIW), Silvia Popp (SWP)



One of the weaknesses of interventions is that implementing agencies are rarely held accountable for failures. Absence of relevant local performance checks hinders successful interventions. The working group came up with an idea of a “Rating Agency” (called “Standard for the Poor, S&P”) to

increase bottom-up transparency and accountability. This agency will collect information from local citizens about the employment effects of various programs (local and international) in terms of successes and failures. It will give voice to beneficiaries of such employment programs. The information will be collected by the “Rating Agency” via surveys, mobile phone applications and online. One enforcement “accountability” strategy is to have public disclosure of failed programs via traditional media outlets, etc. This enforcement is extremely important in the context of conflict-prone and fragile environments because failure could cost lives. On the other hand, the “Rating Agency” will also publicly disclose successful (this could even provide friendly competition for local NGOs and international implementing agencies to measure employment programs, etc).

Theme 3: Building trust, building jobs

with Tilman Brück (DIW), Beatrice Dück (KfW), Elena Lau (GIZ), Davies Stuart (DFID)

Employment opportunities may be limited, in part because fragile states are characterised by intergroup tensions, high degrees of mistrust, missing infrastructure and weak state capacities. One starting point could be to instill group cohesion, managing individual and group expectations and public works at the local levels, both in the short-term and long-term. This calls for a participatory approach in designing and implementing interventions, designing labour intensive activities, encouraging partnerships and capacity building. The point is to focus on the long-term approach to building jobs and building trust because this takes time.

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5.5 Workshop 5

"Labour Supply, Education and Youth"

By Kristin Hausotter (GIZ)



The purpose of the workshop was to share knowledge and experiences from different backgrounds, to discuss best practices, identify knowledge-gaps, and to inspire innovative solutions.

Participants of Workshop 5 "Labour Supply, Education and Youth" specifically discussed the following key

question: How can vocational training and skills development be targeted towards dynamic labour demand, structural change and demographic development? How should these measures be integrated with other employment measures? How can and should they address skills needed in particular in the informal sector? How should youth be targeted in particular? How can demand for vocational training be supported effectively?

Following a brief introduction of the participants, experts from academia, implementing agencies and international organisations presented key insights on the workshop topics.

Werner Eichhorst from IZA discussed three different kinds of vocational training and education measures and their applicability in the development context (informal, school-based, dual).

Michaela Baur from GIZ presented an integrated approach to employment promotion focusing on labour demand, labour supply and matching mechanisms, and suggested hypotheses regarding e.g. the intensity of regulation of labour markets, feasibility of demand-oriented vocational training, differences regarding informal vs. formal employment, or the involvement of the private sector when designing and implementing training and education schemes.

Juan de Laiglesia from OECD Development Centre focused his presentation on two issues, drawing on recent work carried out at the Development Centre on youth

employment in Africa. The first issue was that youth employment in Africa is largely demand constrained and the composition of youth employment today implies that future growth in youth employment will only become significant in scale if it occurs in the informal sector. This has two implications for education and training: first, the need to adapt vocational training to jobs in the informal sector and, second, the need for interventions in the supply-side of the economy to make a more entrepreneurial economy viable.

What do we know?

During the workshop, participants identified a range of key challenges with regard to labour supply, education and training, and the youth:

- **Quality, quantity and attractiveness of (technical) education and training:** It became clear that one of the key questions when talking about labour supply is how to provide the skills to the youth which the economy needs. In order to foster the employability of young people, solutions have to be found on how to overcome the huge mismatch in education – which is true for developing and transition countries as well as for some developed countries. The mismatch derives, first, from an incorrect focus and a lack of labour market orientation in the educational system and, second, from a widespread lack of attractiveness and the poor image of technical and vocational education and training (TVET).
- **Segmentation of the labour market:** Participants highlighted the need for discussing how to increase the productivity of informal employees and informal entrepreneurs through training, and how to involve and not neglect the informal sector in the educational system. Effective interventions could still be hampered given the lack of valid data from the informal sector.
- **Demographic development as a driving force:** Population growth in most of the developing countries places immense pressure on the labour markets, since huge numbers of young people (“youth bulge”) enter the labour market every year. The key challenge is to benefit from the demographic development in those countries where fertility rates and faster rates of economic growth and human development are possible when combined with effective policies (“demographic dividend”).

- **Coherence, coordination and harmonisation of policies and stakeholders:**
The key challenge is to improve coherence and effectiveness of donors as well as government ministries in affecting employment. Supporting partner countries in this regard could have a great impact.
- **Labour demand and quality of jobs:** It was clear that without stimulating (formal) job creation and implementing interventions in the supply-side of the economy and the labour market, challenges cannot be overcome. Nonetheless, when focussing on job creation, policy makers and practitioners must not forget about the *quality* of the jobs.

What can we do?

After identifying key challenges, the participants focused on developing concrete proposals addressing the issue of quality, quantity and attractiveness of technical education and training:

Prototype 1: "Making stakeholders engage in TVET"



To ensure employability of graduates, TVET has to be demand-oriented by involving employers. The challenge is to find suitable models. The group intensively discussed incentives and disincentives for relevant stakeholders with regard to TVET systems which have been identified as: public and

private training institutes, trainees and their peer groups, chambers of commerce and companies, social partners, donor agencies as well as national and local governments.

According to the participants, interventions should focus on the following issues:

- National and local governments need to engage in improving standards, developing national qualification frameworks, regulations and effective processes;
- Incentives for private training institutes to engage in high quality training services: "make TVET a market";

- Encourage private sector companies and chambers of commerce to join efforts in training systems since on-the-job training can be a means of corporate social responsibility and might lead to a higher reputation. In addition TVET can be made a business case. Moreover, policy makers and practitioners should show private sector companies the advantage of sustainable human resource development measures (HRD), especially if the problem and pressure of finding well trained staff is high enough;
- Implement disincentives for companies such as levies and fees on training and education;
- Develop sustainable voucher systems in order to enable students to join the training system. Voucher systems might be complemented by financial contributions by the trainees.

Core principles and requirements for an effective and efficient TVET system have been identified as sustainable basic funding, preventing corruption, a good governance structure that is responsive to change, as well as a sound labour market monitoring system and labour market transparency.

Prototype 2: Voucher system for/in the informal sector (car repair)

In many developing countries the challenge of involving the informal employed and informal micro and small enterprises (MSME) in the training system is key. Hence, the second group focused on designing a TVET voucher system for the car repair and car maintenance branch where most of the MSMEs operate in the informal sector:

- A fund, administered by the local government, provides TVET students who are engaged in car repairing and maintenance with education vouchers. Students are committed to pay back the voucher after they have obtained their first employment opportunity;
- The vouchers enable students to participate in on-the-job training within informal enterprises;
- A public certification authority provides certification using a skills and competency based exam recognising the labour market orientation of the training;

- A competence centre provides additional in-classroom training; curricula should be developed in close cooperation between the respective public entities and both formal and informal enterprises.

By involving formal as well as informal enterprises in the TVET system and adapting vocational training to jobs in the informal sector, both the employability of young people and the productivity of informal MSMEs can be strengthened.

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5.6 Workshop 6

“Labour Mobility and Employment in Developing and Transition Countries”

By Ulf Rinne (IZA)

What do we know?



The scope of migration has increased to significant degrees –both from developing to developed countries as well as within developing regions on a national and international scale. Apart from a brain drain, migration involves substantial monetary transfers from migrants to their remaining families.

There is nowadays a broad consensus in the economic literature that labour mobility improves the allocation of resources. In this context, “diversity” as achieved through regional or international migration is often viewed as desirable. In addition, such diversity needs to be acknowledged to foster integration and to promote workers according to their skills. However, it may seem that this consensus is based on assumptions rather than on research findings and hard evidence, especially for people outside the academia. Historically, development policy was viewed as a means to avoiding migration (by fostering development). Although this view and the approach towards development policy has substantially changed, evidence-based policymaking is still limited in the area of labour mobility, employment and development.

There are many opinions about labour mobility and employment, but few of these are actually based on facts. It is therefore important to disseminate the existing



knowledge and evidence in this area (“myth busting”). Due to its function as a mechanism for efficient resource allocation, labour mobility may even be the key to development and, hence, practitioners in development cooperation should view labour mobility as an integral part of their tool kit.

To foster worldwide labour mobility, the international recognition of qualifications and multinational migration agreements are both identified as central areas where action is needed.

In addition, there are still significant gaps in policy-relevant knowledge which can be partly explained by a lack of adequate data. Furthermore, research should incorporate and focus more strongly on alternative outcome measures (e.g., subjective well-being, happiness). Finally, multi-disciplinary approaches are still scarce, but such attempts involve a sizeable potential to move the research frontier beyond what is currently known.

What can we do?

Two areas were identified in which substantial progress is needed with respect to the key challenges in the field of labour mobility, employment and development:

- “Improving and investigating the social and economic impact of migration in home and host societies”
- “Assessing whether available data and current research agendas are sufficiently linked to practice”

Two groups have intensively discussed the major obstacles to improvements in these areas. Against this background, they have moreover developed two concrete proposals:

1. Migrants as messengers

Migrants are insufficiently utilised as “messengers between two worlds”. For example, in the context of rural-to-urban migration, providing relevant information to newly-arrived migrants could substantially improve their social and economic

integration. In addition, there is insufficient feedback provided to potential migrants in rural areas. To tackle the first issue, establishing “migrant contact points” in the cities appears to be a very useful strategy. These contact points could provide information about vacant jobs, job search strategies, health-related issues, as well as the transfer of remittances to the families left behind. To facilitate the knowledge and information transfer to rural areas, establishing groups of migrants that visit rural areas (e.g., theatre groups) seems feasible and promising.

2. World Development Report

To improve the dissemination of existing knowledge and, at the same time, to make persons outside academia aware of research gaps and underlying constraints, it would be very useful to establish “Migration and Labour Mobility” as a core topic of the World Development Report. As a first step, this would require the establishment of a multi-disciplinary task force. This group should then strive to convince relevant persons and stakeholders of the idea. Finally, the team should jointly develop concrete proposals to deliver to the editorial team.

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