Lack of employment opportunities and future prospects are often a human tragedy for those concerned and an enormous waste of development potential for economies as a whole. Moreover, as a social mass phenomenon, underemployment and unemployment are associated with a high risk of violence and political instability which can eradicate previous development successes and future development opportunities within a short time. However, underemployment and unemployment can also trigger positive changes. Most recently, this was demonstrated by the uprisings of young people in Arab countries.

According to estimates from the International Labour Organisation, 200 million people worldwide have no work. Around 900 million further people work in poorly-paid, legally unregulated conditions, living in poverty despite working.

The promotion of productive and decent employment is a central instrument of development policy to overcome poverty and enable peaceful and stable social development.

As part of Financial Cooperation (FC), KfW Development Bank is achieving significant employment effects through its projects. At the end of 2011, the project portfolio of KfW Development Bank comprised a total of 1,884 projects totalling EUR 30 billion in many different areas of intervention.

### Result chains – how financial cooperation promotes employment

The projects or measures supported as part of FC have various effects on employment, as Figure 1 illustrates. These can be broadly categorised into direct and indirect effects.

#### Direct employment effects in construction and operations

Included in direct employment effects are jobs arising directly from an FC measure. This comprises temporary jobs created during the construction or implementation phase of FC measures as well as permanent jobs in the subsequent operating phase.

In the case of infrastructure construction (such as wind parks, hospitals, sewage treatment plants, rural roads, tourist infrastructure at nature reserves), employment arises with the construction company engaged to carry out the work. This is mostly restricted to the construction phase and is therefore temporary. Temporary employment can also arise at consulting firms for planning, construction supervision and supplementary measures (such as training operational staff, sensitisation of target groups). However, a sequence of temporary jobs may eventually lead to permanent jobs in construction and consulting businesses.

Further permanent jobs generally arise for the operation and maintenance of built infrastructure, for example for mechanics in hydropower plants or teachers at schools. Financial institutions need loan officers for the revolving use of FC funds; that is, the granting of additional loans after the first cycle of loans has been repaid by the borrowers.

FC measures are primarily aimed at eliminating a development bottleneck such as inadequate power supply, a lack of transport connections or a lack of credit for firms. In most cases, therefore, the promotion of employment is only an additional or intermediate target. Only in the event of crisis prevention and reconstruction after natural disasters is the rapid creation of employment the main focus of FC measures. For example, this includes FC measures to reintegrate former soldiers or unemployed young people in slums and refugee camps by setting up businesses and gaining professional qualifications, or FC measures for the rapid restoration of destroyed basic infrastructure such as schools or streets by means of labour-intensive construction programs. To the extent that the measures also help to temporarily bridge a crisis situation (by reducing the potential for violence and creating income possibilities), even measures carried out for a limited period can have a sustainable positive effect over time.

#### Indirect employment effects

In the case of most FC measures, indirect employment effects are significantly more important than direct effects. They occur along the value chain, through a better business climate and better productivity or through increases in local demand (cycle effects).

Indirect employment effects are achieved in upstream stages of the value chain which supply FC measures with services and intermediate products. In the case of FC measures designed to equip schools and provide teaching and learning materials, there are, for example, important indirect employment
effects on the manufacturers of school furniture, textbook publishers or printers. In the same way, FC measures concerned with improving the water supply also contribute indirectly to employment with manufacturers of pipes, water pumps or chemicals.

At the same time, the results of FC measures are partly also preliminary work for downstream production processes, enabling corresponding expansions in production and employment in downstream industries. For example, this is the case if agricultural products such as vegetables or cereals grown as part of irrigation projects can later be processed by other companies.

Companies in developing and emerging markets regularly see poor business climate such as a lack of access to financial services, electricity and qualified workers as the main barriers to their growth. Against this backdrop, FC measures to improve the business climate and productivity make up an important prerequisite for the development of the private sector, which in turn requires labour.

The FC is addressing the lack of access to financial services as part of financial sector development. The loans supported by FC enable businesses to be set up or allow investment in the expansion of existing companies, generating permanent self-employment and employment of workers. In the particular case of microcredit, women often form the majority of borrowers and can benefit over-proportionally from the employment effects. Likewise, investments in energy supply, telecommunications or transport links open up new business opportunities (for example, by means of better market access, new products or the introduction of more efficient machines). They lower companies’ production and transaction costs and increase their competitiveness.

Investments in school and vocational training as well as drinking water and health are directly oriented towards basic needs but also improve the "employability" of local workers and increase their efficiency. They raise labour productivity and reduce illness-related absences from work. Less time is also needed for taking care of sick relatives, which particularly benefits women due to the traditional distribution of roles.

To summarise, FC measures help to ensure that new companies can be established and jobs can be created. At the same time, existing companies benefit from a better business climate and can increase their productivity. This improves competitiveness and enables growth, which again can lead to new jobs.

All newly created jobs, whether directly through FC measures or indirectly with existing or newly established companies, strengthen local demand afresh by means of income multipliers. Part of the additional income is spent on local products, for example by workers who buy food from local traders during the construction of a hydropower plant financed by FC, or by a female tailor who purchases a new sewing machine using FC-financed microcredit to enable her to increase her production, and who ultimately buys more fabric at the local market.

1 Source: Enterprise Surveys (http://www.enterprisesurveys.org). The World Bank, in particular http://www.enterprisesurveys.org/Graphing-Tool for a graphic of the ten most frequent obstacles to growth for businesses worldwide
Tradeoffs between employment promotion and other development goals

For practitioners, conflicts of interest arise regularly between the different areas of intervention supported by the FC. For example, nature conservation is often in direct competition with other forms of land use that can also create jobs and stimulate growth, such as agriculture, mining or power generation. The case study of KAZA (see box below) demonstrates that there are often ways to resolve or at least to alleviate these conflicts of interest to the satisfaction of all concerned.

It is important that the short-term focus on employment effects does not impede the necessary long-term structural change. The introduction of new technologies or organizational restructuring can destroy jobs short-term. However, on a long-term basis this structural change is indispensable for creating new, competitive jobs. Negative employment effects can potentially arise in the short-term, for example unproductive jobs have to be cut in agriculture or in inefficiently operating power suppliers to ensure economically sustainable power supply that is cost-effective for the user. Negative employment effects can also arise if professional, modern waste disposal companies replace informal waste pickers or if improvements in central water supply decrease demand for bottled water and with it, the sales of producers and retailers of water bottles become less significant.

Measurability of employment effects

Direct employment effects are usually relatively easy to measure, though their scope is often limited. Ascertaining all indirect employment effects arising from a particular measure is much more complex and requires, for example, knowledge of the sectoral interrelations within an economy.

In order to calculate not only the gross but also the net employment effect, the growth in certain jobs achieved must be contrasted with the resulting eventual reduction in other jobs (displacement effects). The calculation becomes even more complicated if taking into account the differing productivity and qualities of the newly created and displaced jobs. Including the effect period (short-term versus long-term), the geographical aspect (domestic versus foreign, city versus country) and the preservation of existing jobs into the analysis further increases complexity. For example, many microcredits are used to increase productivity and secure the borrower's self-employment rather than to quantitatively increase employment.

Creation of not just more, but also better jobs

Not all jobs are equally valuable. For KfW Development Bank, it is important to contribute towards creating new, better jobs that enable decent employment and sustainable development.

More decent working conditions

FC projects very often include components that improve the quality of jobs (professional qualification measures, occupational safety, environmental and social standards, job security, remuneration etc.). For example, in the case of rural water supply, local workers are trained as pump mechanics to maintain the newly built wells. Particular attention is paid to noise protection and occupational safety at power plants. As part of education projects, efforts are made to ensure that primary school teachers receive a sufficient salary and are not reliant on pursuing a second job during teaching time. Meanwhile, in agriculture, the income of small farmers is increased thanks to improvements in productivity.

Win-win situation for employees and environment - FC case study KAZA

In the border region of Angola, Botswana, Namibia, Zambia and Zimbabwe, the largest transfrontier nature reserve on Earth, KAZA, was opened in 2012. KfW provides EUR 20 million of support on behalf of the German federal government. This project is not only intended to protect nature but also to create jobs. The wandering wildlife attracts nature tourists. Therefore, park keepers and rangers are needed and also tourist guides and drivers; in this way, jobs are created for the mostly poor local population. Anyone operating a guest lodge in the reserve must recruit half of their employees from the region. Approximately seven to eight tourists create one job, which in turn can feed up to 15 people. In total, KAZA may lead to several thousand new jobs and the local population no longer regards conservation as a threat but as an income opportunity.

Giving young people prospects

Young people have an increased tendency to be disproportionately strongly affected by unemployment, poor pay, precarious employment contracts and employment in the informal sector. The high level of youth unemployment is particularly serious in the Middle East and North Africa, where it has reached 25 per cent and is four times higher than the rate amongst adults. In some countries such as Tunisia, youth employment has already exceeded the 30 per cent mark. The lack of employment opportunities and future prospects is directly responsible for high levels of frustration and readiness to use violence amongst young people.

Amongst other things, KfW is seeking to integrate young people in the labour market and give them new prospects by means of vocational training. In such cases, close cooperation with the private sector is an important element in project design. Training should be aligned as closely as possible with the requirements of future employers and should be practically oriented. In this way, for example, an average of 70 per cent of the graduates of vocational training centres supported by KfW in the Philippines obtained a job, compared with 22 per cent in unsupported centres.

Green Jobs: Jobs with a future?

Green Jobs that contribute substantially to protecting the environment are being extensively discussed at present as part of a sustainable economy. The concept combines the topics of environment and employment. The definitions are as diverse as the estimates for the potential number of Green Jobs. In the FC's partner countries, the greatest potential for Green Jobs can be seen in the renewable energy sector in emerging markets. In developing countries, an increase in Green Jobs for managing natural resources is expected, including eco-tourism. KfW does not just support the demand for employees in Green Jobs by means of investment in renewable energy or the establishment of nature conservation parks. KfW also contributes on the supply side of the labour market in improving the qualifications of workers so that these can benefit from increased numbers of Green Jobs available.
Local employment effects

KfW strives to achieve the greatest possible local employment effects. Where the complexity of the task makes it possible and economically feasible, construction and supply services are put out to tender in small batches to enable local businesses to participate. Even in the case of international invitations to tender, a majority of the employment resulting from construction projects falls to local workers, as international companies often recruit locally for cost reasons. The extent of local employment effects depends significantly on whether there are regional suppliers and local service providers that can take the opportunity to provide goods and services. In emerging markets such as India, where technology markets are well developed and parts and materials are almost entirely produced domestically, the value chain effects are greater than in less developed countries in Sub-Saharan Africa.

Knowledge building and exchange

Next to promoting employment by means of specific projects, KfW intensively tackles the topic of employment in impact studies, research projects, scientific collaborations and expert discussions both nationally and internationally. For example, through these activities the connections between employment promotion, growth and poverty reduction are analysed. The resulting knowledge is incorporated in the design of new projects and fed into international discussions via publications and specialist lectures so that others can also benefit.

Conclusion

On a long-term basis, poverty can only be effectively tackled if people have the opportunity to use their skills and time productively and are able to make a living from their earned income. Consequently, decent employment is an effective route out of poverty.

In recent years, the significance of employment has thus moved more strongly into the focus of debates on development policy, with good reason. Without targeted countermeasures, under- and unemployment will intensify in the future, particularly in Sub-Saharan Africa, where the population is growing sharply at an above-average rate.

Through its projects, KfW is contributing both directly and indirectly in effective ways to preserving, improving and creating new jobs. These efforts must be intensified still further in the future in order to counteract the looming increase of under- and unemployment and to create prospects for the increasing number of young people.

Further information

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KfW Website on employment:
http://www.kfw-entwicklungsbank.de/ebank/DE_Home/Themen/Beschaeftigung/index.jsp

Further position papers on single areas of intervention:
- Financial sector promotion, microfinance and employment
- Agriculture and employment
- Good governance, employment and growth
- Private sector, employment and growth
- Energy and employment
- Urban development and employment
- Employment in fragile contexts
- Water and employment
- Health and employment
- CDM mechanism and employment
- Education and employment
- Waste management and employment

Training young people for Green Jobs – FC case studies REMENA and SAWC

The REMENA Masters programme – “Renewable Energy and Energy Efficiency for the Middle East and North Africa Region” – is a collaboration between Cairo and Kassel Universities. Its background lies in the great potential for wind and solar energy in North Africa and a large, unsatisfied demand for energy. At the same time, the region faces the challenge of integrating a large number of unemployed young people into the labour market. The REMENA Masters course was initiated by the Federal Ministry for Economic Cooperation and Development and is supported by KfW. In 21 months, the students become acquainted not only with the technical fundamentals of renewable energies but also learn much about their management, funding and legal basis.

At the Southern African Wildlife College (SAWC), 4,800 reserve managers from 24 African countries have already been trained since 1997. In one-year diploma programmes for the middle management of wildlife parks and in short courses for rangers on specific topics, the participants learn how animals are protected, how a wildlife park is managed cost-effectively and how successful ecotourism concepts can be implemented. The college was founded with significant financial support from KfW and the World Wildlife Fund. By now, the college largely operates on an economically sustainable basis and has become a recognised training institution for park managers in Africa.

Waste management and employment
- Education and employment
- Waste management and employment