

# »» Materials on Development Finance



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## FC promotion of employment in fragile partner countries

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**Employment is crucially important in fragile contexts: employment generates income and helps families earn their own living again, and not be dependent on humanitarian aid. Employment also increases people's self-esteem, involves them in social networks and thus makes an important contribution to stabilisation and social cohesion. Especially in the context of displacement and migration, employment has a decisive influence on future opportunities and perspectives for those affected. For this reason, KfW finances projects in fragile environments where creating income opportunities as a contribution to peace development is an explicit primary objective or important secondary objective.**

### FC promotion of employment in fragile states – overview

Conflict-prone environments and a lack of vital basic services often require fast-acting measures in fragile contexts. Thanks to their immediate income effects, employment pro-

grammes can often bring about short-term relief and defuse conflict-ridden situations. In particular, employing the unemployed as well as underemployed young people and former combatants can help to prevent a rapid regression into fragility and renewed outbreaks of violence. In addition, however, growth of the formal sector is also important in the long term to create “good” jobs with higher labour standards and a minimum level of social security.

KfW therefore supports a broad range of measures with funds from the Federal Government, helping to create employment in fragile contexts both in the short term and in a sustainable and long-term manner.

**Based on commitments made in 2017, Financial Cooperation (FC) contributes to creating and maintaining approximately 6.9 million years of employment in fragile countries.**

Every FC project has employment effects (irrespective of whether or not

it was explicitly designed for this purpose). KfW has developed a model for estimating the overall employment effects of projects promoted with FC funds, which can capture both direct and indirect or induced employment effects (a more detailed description of the model is available [here](#)). If the new commitments for 2017 are filtered according to the OECD fragility list, which comprises 57 countries and is updated annually as part of the “States of Fragility Report”, we find that these projects contribute to creating around 6.9 million years of employment (one-year jobs) or 327,000 permanent jobs (with an average project duration of 21 years).

Within FC projects where creating employment is the primary or key secondary objective, a distinction is made between

1. direct employment promotion measures (labour-intensive reconstruction, cash-for-work programmes, employment guarantee programmes),

2. vocational training measures, and
3. indirect employment promotion measures (improved framework conditions for the private sector, financial sector development, corporate finance, industrial parks, etc.),

which are explained in more detail below.

### Direct employment promotion: employment-intensive measures offer new prospects and stability

In the wake of violent conflicts, political crises and natural disasters, states are often no longer in a position to provide basic services, guarantee citizens' security or focus on developing economic prospects. The economic and social infrastructure is often destroyed or can no longer be used due to a lack of or inadequate maintenance. Value chains are often interrupted by destroyed transport or communication infrastructure or high safety risks on the transport routes; this means companies are cut off from suppliers and customers, and sometimes also employees, and have to restrict or completely stop production. Consequently, this leads to a decline in employment and a significant deterioration in living conditions for the population.

Direct employment promotion measures focus on generating short-term income so people can quickly earn their own living again and are not reliant solely on humanitarian aid (e.g. cash-for-work programmes, food for work, social investment funds, etc.). Many of these programmes also have positive effects in the long term through training on the job. These programmes can also be linked to other approaches promoting vocational qualifications (vocational training, further training opportunities, paths to self-employment, etc.) and improving labour and social standards (raising minimum wages, accident protection, etc.).

An important second-round effect of direct employment promotion measures is the fact that the income-boosting impact also boosts consumption, which in turn is reflected in increased demand at other compa-

nies (food, textiles, etc.) and generates additional employment there. This way, entire economic cycles can be relaunched.

### Labour-intensive (re-)construction of infrastructure

Although these measures generally focus on sectoral objectives (e.g. constructing roads to better connect remote regions to markets, or repairing destroyed primary schools), the measures are also designed as far as possible to generate as much local employment as they can at the same time (e.g. awarding construction services and supply contracts to local businesses as well as specifications for shares of local services and supplies within tenders ensure that mainly



#### Labour-intensive road construction in Jordan: income for refugees and people in need as well as promotion of local infrastructure

The aim of the Employment Intensive Investment Programme in Jordan is to offer refugees short-term economic opportunities without losing sight of the local population. The project is to be implemented as part of the ["Employment campaign in the Middle East"](#) launched by the Federal Ministry for Economic Cooperation and Development (BMZ). So far, KfW has provided EUR 20 million on behalf of the BMZ to fund projects run by the International Labour Organization (ILO) for the equal benefit of Syrian refugees and the local Jordanian population. Opportunities for up to 8,300 people and their families to generate income will be created in close cooperation with the local communities as part of the individual activities. Roads, cisterns, greenhouses and other infrastructure will be built or maintained in labour-intensive projects mainly in rural areas; urban streets, parks and playgrounds will be cleared of refuse and improved. Accompanying training measures for the target group not only aim to improve the living conditions of people in the short term, but they also make access to the labour market easier for programme participants in the medium term.



local workers are employed). The projects thus generate a double dividend: on the one hand, they create short-term employment and income (with the positive effects outlined above on the living conditions of the population affected by crises, and on the stimulation of local economic cycles); yet on the other hand, the rehabilitation of infrastructure also makes an important contribution to improving long-term development prospects. The overhaul of economic infrastructure in particular will lead in the medium and long term to the creation and expansion of employment and employment opportunities in agriculture, small industries, trade and transport.

In post-conflict situations in particular, these are important prerequisites for re-establishing confidence in the capability (and legitimacy) of decentralised state control and preventing a rapid regression into fragility ("political stabilisation").

Engaging the local population in the selection and operation of the infrastructure measures to be realised increases the likelihood of sustainable results.

For employment activities in the context of crisis situations, particular attention must be paid to ensure the programme does not knowingly or unknowingly favour one or other side in the conflict and therefore rekindle or ignite the conflict rather than defusing it ("do no harm approach").

### Cash-for-work programmes offer initial earning and training opportunities

In contrast to labour-intensive (reconstruction) infrastructure programmes, cash-for-work programmes focus on the short-term creation of jobs. Cash-for-work programmes can also be used to build up infrastructure (and then have similar effects as the measures described in the previous section), but they can also involve completely different work, such as the short-term employment of teachers, health workers, waste collectors, etc., which help to safeguard basic services. Employment is usually limited to 3-5 months and in fragile contexts often provides initial earnings oppor-

tunities and work experience for those returning home or for former combatants, in order to avoid a rapid regression into the conflict cycle. Instead of monetary remuneration, “in-kind” services can also be awarded as an alternative, as part of food-for-work programmes for example.



### Creating income in Yemen

Yemen is one of the least developed countries in the world. The country's situation has further deteriorated due to the escalation of the armed conflict since March 2015; some two million people have since become internally displaced persons. According to estimates by UN organisations, more than 70% of the entire population depends on humanitarian aid. On behalf of the Federal Government, KfW is financing the development of social and economic infrastructure through measures to boost employment via the “Social Fund for Development” (SFD). Specifically, the construction and rehabilitation of field terraces as well as irrigation channels and rainwater storage tanks are financed in order to boost agricultural yields and improve the supply of drinking water. In addition, and in collaboration with the neighbouring communities, wells and water springs are improved and cobblestone roads and markets constructed in rural regions. Around 92,000 people in Yemen's rural regions will benefit from the project, which will help to improve both living conditions and food security.



If it is possible to incorporate qualification schemes tailored to the market and demand into employment programmes, benefits can continue to be derived even after the actual employment measures have ceased. In this context, linking employment to micro-credits has proven particularly effective as a way of helping entrepreneurs take their first step towards independence with seed capital.

Direct employment measures can be efficient and needs-based ways of providing basic social security, and can be implemented quickly and at

short notice in a fragile context. Nevertheless, it is important to avoid creating parallel structures and permanently replacing social security with state mechanisms.

### Employment guarantee programmes as a further development option

Employment guarantee programmes securing minimum employment (e.g. 100 working days per year) for working people in a country or region can be a longer-term development option. These programmes are located at the interface between

1. **public works programmes**, including cash and food for work, which generally offer public work for a limited period and a limited number of beneficiaries, without any guarantees, and
2. **social security systems** that make transfer payments to the poor without linking them to other prerequisites (unconditional cash transfers, voucher systems), or setting conditions, especially with regard to the use of funds, e.g. school attendance of children or regular preventive examinations (conditional cash transfers).

Employment guarantee programmes thus also have an insurance effect: the guarantee of minimum income (fall-back option) reduces the individual income risk of self-employed people in the informal sector. If they do not have to hold as many savings for emergencies, they can use their capital productively to grow instead.

In order for the programmes to perform social security functions effectively, the employment guarantee should be relatively long-term and easy to plan.

There is a pre-defined uniform wage, which is relatively low but protects the recipients against absolute poverty. Wages close to the local minimum wage ensure that only people who have no alternative on the regular labour market take advantage of the programmes (self-targeting). The activities offered focus on areas of particular economic and social relevance, such as management of natural re-

sources (e.g. erosion control, reforestation, irrigation) and infrastructure development (e.g. construction of roads, wells, classrooms and health stations). Well-known examples include the “National Rural Employment Guarantee Act” (NREGA) in India and the “Expanded Public Works Programme” (EPWP) in South Africa.



### Food for work and other transfer services in Ethiopia

Local droughts and resulting food shortages are a common occurrence in Ethiopia. In 2015, as a result of the climate phenomenon El Niño, large parts of the country saw no rainfall at all. There was also much less rainfall in 2016 than usual, so over 80% of the 9.7 million people in the regions affected no longer had an adequate supply of food. KfW supports diverse measures to ease people's immediate hardships, but also to enable those affected to restore and improve their productive livelihoods in the medium term, thus increasing their resilience to future droughts. One key measure is the financing of the Productive Safety Nets Program (PSNP) of the Ethiopian government that is being run with support from the World Food Programme (WFP). In the public works component with total funding of EUR 10 million, the population affected is working on production-oriented, community-based infrastructure projects, e.g. water and soil protection or the rehabilitation of roads and drainage channels. In return, those affected receive food, and in appropriate cases also money (cash for work) or vouchers.

Over 350,000 participants in the work programmes have already been supplied with food. More than 60,000 other households not fit for employment received food without any prior obligation to work. According to households surveyed as part of project monitoring, nearly 80% also use the newly created infrastructure and are convinced that it meets their needs. Transfer services also play an important role in other projects in Ethiopia. Through UNICEF, KfW supports around 50,000 internally displaced refugees with aid packages for example, containing household utensils and tent tarps among other things.



KfW can support the development and start-up financing of employment guarantee programmes. Sustainable financing by the partner country must be ensured in the medium and long term because the positive effects of this can only be harnessed if it is maintained in the long term.

### Promoting employability and creating prospects through demand-oriented vocational training

The demographic structure of most developing countries is very young. About 90% of young people worldwide live in developing countries. This has far-reaching consequences as the doubling of the working-age population over the last 30 years has not been offset by sufficient growth in productive employment, often despite economic growth. This is due to the fact that young people are frequently not sufficiently qualified for the labour market. However, a basic prerequisite for sustainable growth is the availability of a qualified workforce. In addition to an important economic function though, vocational training also has enormous social significance. Employment promotion for young people is thus crucially important in fragile and post-conflict contexts, which manifests itself in several ways: alongside migration flows in the direction of “rural>urban>abroad”, the lack of economic prospects also leads to growing social tensions (e.g. Arab Spring) and frustrated young people becoming susceptible to the recruitment efforts of criminal gangs, militias or terrorist groups. While employment-intensive measures only create short to medium-term prospects and alternatives, sustainable and long-term employment can only be achieved with the right qualifications.

Since the prospects for a job increase with the level of training, one of the key factors lies in improving vocational training or establishing it in the first place. Vocational schools, if they exist at all, are not well organised in many countries and are often not aligned to the needs of the labour market. There is frequently a lack of general training standards. In addition, there is often a lack of practical relevance because companies are generally not involved

in vocational training measures. Poorly trained teachers without practical work experience, outdated curricula, lack of learning materials and technical backwardness make things even more difficult.

The transition to sustainable employment can only work if vocational training and labour market demand are coordinated properly.

Last but not least, young women also benefit from KfW's commitment. In rural areas, where up to 80% of the population lives in many countries, girls barely know any way of life other than working in the fields and having children. Thousands of examples show that young women, who now have their own income thanks to vocational training, want and are able to plan their future more independently. The promotion of vocational training is therefore also a very effective lever for reducing gender inequalities. This finding underlies the G7 Elmau Declaration too, in which the states set themselves the goal of increasing access to vocational training for women and girls in developing countries.

#### Closing the gap between education and employment – Skills Initiative for Africa

Against the background of sharing national experiences and creating role models that are also applied in other countries, the African Union and Germany set up the regional “Skills Initiative for Africa”, which aims to improve the prospects of young men and women by promoting vocational training and education. To achieve this goal, FC is investing in the promotion of innovative, regionally relevant training and education projects in five pilot countries of the African Union. The FC project contributes to the further development of practice-oriented training and education in terms of quality and innovation. The implementation partner of the facility is the New Partnership for Africa's Development (NEPAD), the technical arm of the African Union Commission (AUC).



### Indirect employment promotion: improving framework conditions through private sector promotion, SMEs and innovation promotion

A strong private sector is crucial for a high employment rate in the long term. DEG, which is part of KfW Group, advises private companies that make environmentally and socially affordable investments in projects that make sense in terms of economic and development policy, even in fragile countries.

In these contexts, KfW Development Bank supports the improvement of framework conditions for the private sector. Small and micro businesses make a decisive contribution to the creation of new jobs. However, entrepreneurs face enormous challenges in fragile contexts. Major business obstacles usually include the lack of electricity, lack of access to financial services, corruption and poor transport options to strengthen networks and market products. Nationwide industrial development in fragile contexts is therefore generally not feasible in the short term. In this sense, so-called growth poles or corridors in the form of selective private sector promotion can offer important incentives. In addition to the indirect employment effects stemming from improved framework conditions for companies, the recruitment of local workers to build the infrastructure also creates direct short-term jobs, and, from their increased demand, indirect employment. Alongside infrastructure projects, KfW Development Bank is also involved in the financial sector in fragile contexts. The aim here is to create stable and trustworthy financial institutions which grant loans that are fair and tailored to the needs of micro and small entrepreneurs. Access to capital should enable the poor to implement their business ideas or expand their business and thus create new income opportunities for themselves or even for employees.

Private companies that operate competitively in the market and comply with international social and environmental standards create sustainable and qualitative growth. They generate jobs and income and make an important contribution to their countries'

public revenues through tax payments. They process local resources and thus increase added value. However, the lack of financing for investments is one of the biggest obstacles to growth for private companies in developing and emerging countries.

### **Promotion of special economic zones and industrial parks as opportunities for further development**

Special economic zones (SEZ), industrial parks and business parks help domestic and foreign companies from industry and the service sector establish themselves, as well as helping to diversify the economy, develop future industries and create productive and better paid jobs. This approach is attracting increasing attention in a fragile context, especially in countries with high reception rates for refugees and migrants, as it promises the creation of many jobs over a medium to long-term horizon. The framework conditions and design of these zones are instrumental in their success. FC is involved in the design, handles the financing of the infrastructure and supports the operating companies in these zones.

### **Conclusion: employment is not an end in itself, but an important factor for sustainable stability in fragile contexts**

Alongside security, employment is a key factor for greater stability and crisis prevention in fragile contexts, giving rise to a large number of positive effects. It not only helps stabilise post-conflict contexts in the short term, but also has a key effect on conflict parameters and a reduction in the causes of flight. A more stable environment is a prerequisite for strengthening the private sector too, which is essential for the long-term creation of jobs and offers sustainable opportunities for the future. With its projects in fragile contexts, KfW therefore applies a number of levers and promotes employment both directly and indirectly. KfW Development Bank's many years of experience in promoting employment and the broad spectrum of approaches also enable solutions to be customised for the crisis context. In view of global trends,

influenced by migration, displacement, international crises and the continued strong growth of populations in many countries, we can expect employment promotion approaches to continue gaining in importance in the future.



#### **Photos**

KfW Photo Archive: p.1: photographers from l to r: photothek.net, Bernhard Schurian, photothek.net; p.2: Rüdiger Nehmzow; p.3: photothek.net, Katharina Pannwitz; p.4: Rüdiger Nehmzow



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