Employment

Working for fair pay as a way to escape poverty

The International Labour Organisation (ILO) estimates that there are 200 million people around the world who do not have a job. Another 900 million earn less than USD 2 a day from their jobs. Working for fair pay offers a way out of poverty. KfW Development Bank works to bring about the creation of more jobs with better conditions in its partner countries.

Context

Respectable and appropriately paid work offers an opportunity to escape a life of poverty and suffering. But more than that, employment also aids recognition by and integration into society. For many people, work provides self-fulfillment. Employment and appropriate incomes are fundamental to a harmonious society in which people are able to live from the proceeds of their own work. This mitigates social conflicts, prevents unrest and serves as an important basis for a country’s economic and social development.

In many countries, however, this is not yet a reality. In addition to the 200 million people out of work around the world, the International Labour Organisation (ILO) estimates that there are 900 million "working poor" earning less than USD 2 a day. Many of them work twelve hours a day and are still trapped in poverty.

Even those with slightly better-paid jobs often have no safety net in place. Formal employment arrangements involving social security payments are the exception in developing countries. Those who lose their jobs have no entitlement to social security such as unemployment benefits, for example. As a result, many people cannot afford to be out of work. They find their own employ-

The KfW development approach

KfW Development Bank promotes employment in its partner countries. Through its projects, it contributes both directly and indirectly to the creation of more jobs with better conditions.

In a targeted manner, jobs are created by employment programmes with a short-term impact, for example for former soldiers in post-conflict countries or for unem-
employed youths in slums. The aim of these programmes is to reduce the potential for unrest and significantly boost the chances of sustainable positive development.

As another type of programmes that directly promote employment, financial sector programmes provide loans to micro, small and medium-sized companies. This allows informal micro-entrepreneurs, financing a sewing machine by means of a micro-loan for example, to above all secure or even increase their own income. Larger companies can use a loan to expand their production capacity, thus creating new jobs.

Furthermore, economic or social infrastructure projects almost automatically have a direct impact on employment. Constructing a hydroelectric power plant requires local workers, and running a hospital provides employment for doctors, nursing staff and cleaners. KfW Development Bank's projects also have an indirect impact on employment, with upstream or downstream effects in value chains resulting in the creation of jobs (because building a road requires construction materials and machinery, for example).

Ultimately, however, employment must be provided by the private sector, for which it requires favourable local conditions. Investment by KfW Development Bank in roads, the electrical grid or schools improves local conditions so that local and foreign companies will set up in the area, creating jobs. The income generated as a result boosts local demand – creating a cycle that promotes the economy and employment.

India – Social entrepreneurs

Dhiraj Dolwani and Venkatesh Iyer are responsible for a small-scale economic upturn at the foot of the Himalayan mountains. The money has been flowing since they started investing in the remote region via their company B2R. What others only dare to do in New Delhi or Mumbai, B2R does in Uttarakhand: updating databases via the Internet and handling banking transactions and administrative tasks for other companies. The twist is that Dolwani hires people from the surrounding villages – people who now earn enough to feed two or three dependents. Since then there has been a sharp rise in sales at stores and tearooms - an economic miracle on a local scale. B2R also donates a third of its profits to local communities, making it a truly socially-minded business.

This is exactly the kind of business promoted by the Asvishkaar II investment fund, which was established in 2001. KfW Development Bank supports the fund with almost EUR 15 million of government money and its own funds. The fund, which has grown to a volume of almost EUR 100 million, currently supports 25 young and innovative enterprises, most of which are based in India's underdeveloped, rural areas.

Some of them promote medical care or better education for primary school pupils. Others create biomass for generating energy or provide better marketing for smallholders' products – social involvement writ large. The fund helps socially-minded entrepreneurs by providing capital and advice.