Pro-poor growth: Linkages and policies

Which types of growth offer the best chance of reducing poverty? And what kinds of employment and labour market policies are needed? The answers will vary according to the circumstances, but the experience of selected countries does give some pointers.

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The persistence of poverty at high levels and the slow rate of poverty reduction pose major challenges for world leaders, governments, policy-makers and development practioners. Some projections (e.g. those by the World Bank 2003) indicate that the Millennium Development Goal of halving poverty by 2015 (from the benchmark level of 1990) could be attained at the global level. However, doubts remain about certain regions (e.g. sub-Saharan Africa) and countries.

It is only in countries of East and South-East Asia that real success in poverty reduction has been achieved, although that achievement also looked rather fragile during the economic crisis of 1997-98. Progress in poverty reduction outside that region has been rather disappointing.

The experience of countries that succeeded in reducing poverty significantly indicates the importance of sustained high growth in achieving this result. However, studies on poverty also mention that high growth alone is not adequate. The pattern and sources of growth, as well as the manner in which its benefits are distributed, are extremely important for achieving the goal of poverty reduction. And in that regard, the importance of employment in linking growth with poverty reduction is often pointed out.

Conceptualizing pro-poor growth

The linkage between output growth, employment and poverty can be analysed at both macro and micro levels. At the macro level, the linkage between poverty in its income dimension and output growth can be conceptualized in terms of the average productivity of the employed work force, which in turn is reflected in low levels of real wages and low levels of earnings in self-employment.

At the micro level of a household, the same linkage between employment and poverty operates through the type and the low productivity of economic activities in which the earning members of a household are engaged, the low level of human capital of the members of the workforce, the dependency burden that limits participation in the workforce, and the scarceness of remunerative employment. Low average productivity of the workforce can be due to the deficiency of capital relative to labour and the use of backward technology.

To result in poverty reduction, economic growth has to lead to sustained increase in productive capacity as well as employment opportunities with rising productivity. The latter would allow for a progressive absorption and integration of the unemployed and underemployed into expanding economic activities with higher levels of productivity. In the process, the poor would be able to achieve higher productivity and increase their incomes in existing occupations, or shift to new occupations involving higher-level skills and/or better technology. The result of the process described above could be reflected in:

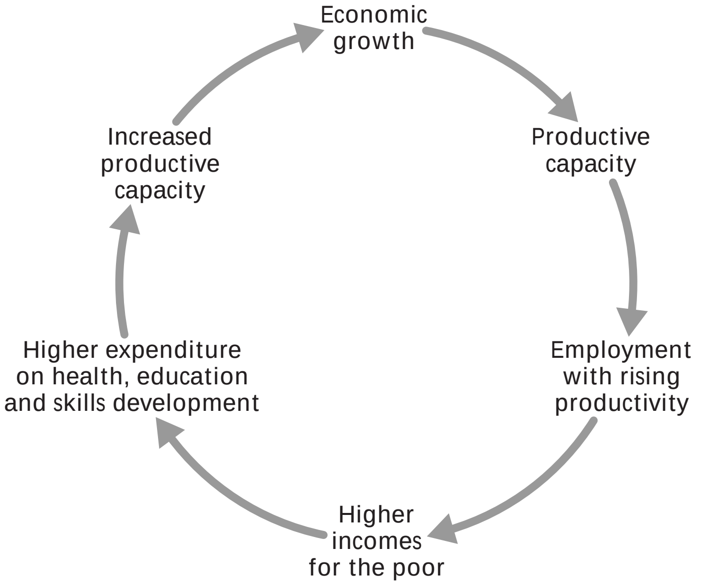
- improved productivity of various sectors and occupations
- a shift in the structure of employment towards occupations and sectors with higher levels of productivity
- increases in real wage earnings from self-employment, and earnings from wage employment.

Higher levels of earnings resulting from the process mentioned above would enable workers to spend more on education and skills formation for their children, thus raising the productive capacity of the future workforce and creating the necessary conditions for achieving higher levels of economic growth. The process would thus complete the virtuous circle of economic growth leading to poverty reduction via growth of employment with rising productivity, and reduced poverty creating the possibility of further increases in productivity and higher rates of economic growth (see Figure 1). Growth with such a virtuous circle in operation may be termed "pro-poor growth".

Indeed, the conceptual framework outlined above for analysing the linkage between economic growth, employment and poverty basically follows a demand-supply approach. The variables that are expected to influence the incomes of the poor from the demand side include the employment intensity of growth, shifts in the employment structure towards higher productivity sectors, technology, creation of assets for the poor, etc. On the supply side, an important factor is the ability of the poor to integrate into the process of economic growth and get access to the jobs that are created. The levels of education and skills of the workforce are amongst the key variables that determine the ability of the poor to integrate into and benefit from the growth process.[2]

A summary indicator of the employment growth that is associated with a given

Figure 1. Virtuous circle of links between growth, employment and poverty reduction



output growth is provided by the employment elasticity of output growth (for overall GDP, measured as the proportionate change in employment divided by the proportionate change in GDP during a given period). This implies that talking about a high employment intensity of growth would mean talking about a high employment elasticity. But employment elasticity reflects the inverse of labour productivity. While an elasticity higher than unity implies decline in productivity, a lower-than-unity elasticity means that employment expansion is taking place along with an increase in productivity. A rise in productivity would lead to a reduction in employment elasticity. Therefore, raising employment elasticity in individual activities cannot be the objective, as that would mean a further lowering of productivity in economies that may already be characterized by widespread low-productivity employment.

One more question needs to be raised in the context of levels as well as changes in employment elasticity. Regarding the level, the desirability of an elasticity of lower than unity has been mentioned above. How much lower than unity it should be (i.e. the right order of magnitude for the elasticity of employment) depends on the level of development and the relative factor endowment of the country concerned. The magnitude would also have a good deal of sectoral variation. As the overall elasticity is a weighted average of sectoral elasticities, greater allocation of investment in more labour-intensive sectors and higher growth rates in such sectors could yield a situation where the overall employment elasticity increases (even with declining elasticities in some sectors). And the result could be higher employment growth with given GDP growth or employment-intensive growth.

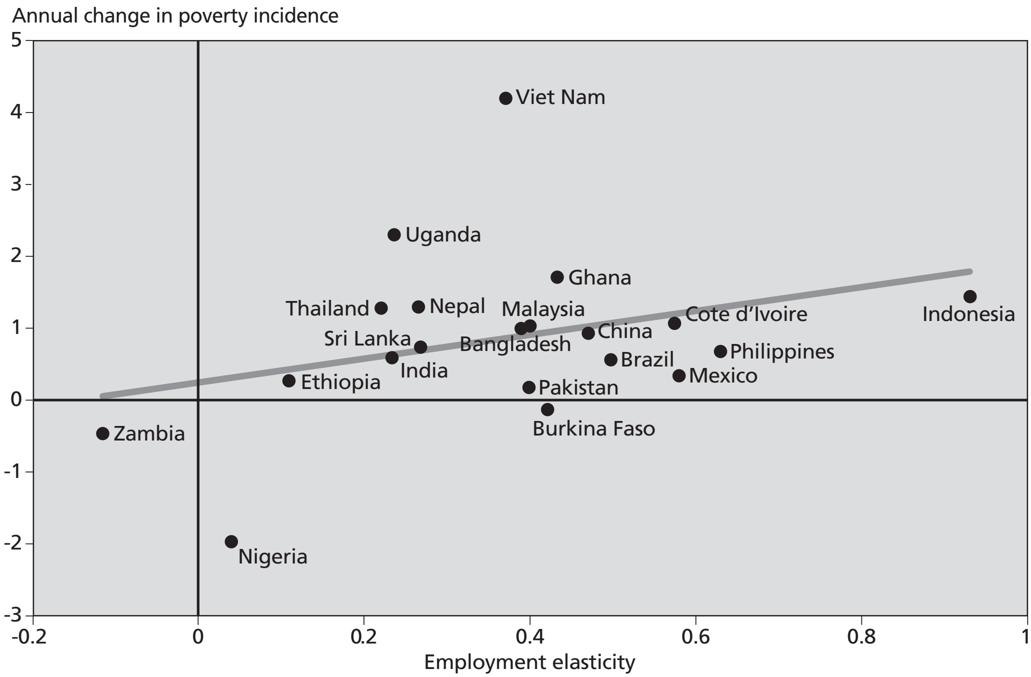
A simple illustration may be useful to show the magnitude of employment elasticity (and output growth) that may be desirable for an economy in order to quickly absorb its surplus labour. With a labour force growth of 2.5 per cent per annum and an overall employment elasticity of 0.4, a GDP growth of 6 per cent would be required merely to absorb the annual additions to the labour force. And in order to have employment growth, so as to enable the economy to absorb its backlog of the unemployed and surplus labour, the required GDP growth would be of the order of 7 per cent. On the other hand, if this hypothetical economy could achieve a high growth of its more labour-intensive sectors (e.g. labour-intensive manufacturers, construction and services), the overall employment elasticity could perhaps be raised (say, to 0.6) and a lower GDP growth (say, of 6 per cent) could enable it to achieve the same objective (the absorption of surplus labour in modern sectors).

Employment-intensive growth for poverty reduction

Employment-poverty linkages. It follows that the employment intensity of growth can be an important factor in determining its poverty-reducing effect. But it is not easy to establish this empirically, because of the difficulty in measuring the overall employment intensity (or employment elasticity – the measure suggested above) of growth. The difficulty in measuring the elasticity of employment with respect to GDP in developing countries arises from the problem of obtaining a reliable estimate of aggregate employment. This is particularly the case where there are large unorganized sectors for which estimates of employment at constant intensity of employment are difficult to come by. What are often available more readily are data on the manufacturing sector. Although the latter accounts for relatively small segments of many developing economies, and one cannot expect to find a strong correlation between the employment intensity of that sector and the overall change in the incidence of poverty, an attempt was made to examine this relationship empirically.

It was possible to compile figures for employment elasticity in manufacturing and the incidence of poverty for roughly similar periods for 23 developing countries. Figure 2, which shows a scatter of the data, indicates a positive relationship between annual change in the incidence of

Figure 2. Percentage decline in poverty and manufacturing employment elasticity



poverty and the elasticity of employment in manufacturing. Regression analysis in Islam (2003) shows that the influence of employment elasticity on poverty reduction is statistically significant.

Apart from the overall employment intensity of growth, employment and labour market variables, e.g. the sector in which one is engaged, labour force participation rate (or its inverse, the dependency ratio) or the level of education and skill of the workforce, can have a significant influence on the incidence of poverty. This has been examined empirically (Islam, 2003) by employing regression analysis with data from 41 developing countries. The results of that analysis lend support to the hypothesis of the impact of employment and labour market variables on poverty. More specifically:

- The concentration of workers in agriculture causes poverty.
- A shift of workers to manufacturing reduces poverty.
- The education and skills of the workforce contribute to poverty reduction.
- A higher dependency burden causes poverty.

In-depth analysis of household survey data in a number of countries (viz. Bangladesh, Bolivia, Ethiopia, India, Indonesia and Vietnam) also provides support to the above hypothesis. The sector of employment, diversification of the sources of income, access to income-generating assets, receipt of remittance income, education and skills and the dependency ratio are found to be significant in explaining either the profitability of a household being poor or the actual income of the poor households.

Different combinations of growth and poverty reduction. While high rates of economic growth are a necessary condition for poverty reduction, it is possible to demonstrate empirically that there is no invariant relationship between the rates of economic growth and poverty reduction. The poverty-reducing effect of growth depends on a variety of factors that characterize the pattern of growth. Important among these factors are the degree of employment intensity of the growth process and the ability of the poor to benefit from the employment opportunities that are created.

The relevance of these two broad sets of factors for poverty reduction has already been demonstrated. Given the importance of such factors in poverty reduction, it is quite possible to see in reality different experiences of growth and poverty reduction. While on the one hand, high rates of growth can be accompanied by moderate or slow rates of poverty reduction, it is also possible to have rapid rates of poverty reduction with moderate rates of growth – if the pattern of growth is sufficiently employment-intensive and the poor can readily integrate into the growth process and benefit from the income-earning opportunities that open up.

Using data from in-depth studies of growth-employment-poverty linkages in seven countries,[3] six different combinations of growth and poverty have been identified (see Table 1). High growth leading to rapid rates of poverty reduction is only one of these six combinations. What is also interesting is that the same country can have different growth-poverty outcomes in different periods – depending on the nature of policies pursued. For example, in Indonesia during the 1970s and the 1980s, high growth was associated with high rates of poverty reduction; but the rate of poverty reduction slowed down during the 1990s, although output growth rates remained high. In India, high growth during the 1990s was associated with a slow rate of poverty reduction in rural areas and a moderate rate of poverty reduction in urban areas. Given the problems involved in comparing data from different surveys in India, it is difficult to arrive at a definite conclusion as to whether higher GDP growth has produced better results on poverty reduction during the 1990s compared to the earlier decade. Sundaram and Tendulkar (2002), for example, conclude that the rate of poverty reduction during the 1990s has been faster than during the 1980s. Using an alternative approach for producing comparable estimates, Datt, et al. (2003) arrive at a different conclusion. According to the latter, the rate of poverty reduction during the 1990s has been "slightly lower than India experienced during the 1980s" (see Table 2). Deaton and Dreze (2002) regard

Table 1. Varying rates of GDP growth and poverty reduction: Some examples

Rates of GDP growth	Rates of poverty reduction		
	High	Moderate	Low
High	Indonesia (1970s and 1980s) Vietnam (1990s) Uganda (1990s)	India (1990s)[a] India (1990s – urban)[b]	India (1990s)[b] India (1990s – rural)[c] Indonesia (1990s)
Medium	Bolivia (1990s)	Bangladesh (1991-96)	Ethiopia (1990s) Bangladesh (1996-2000) India (1980s)[a]

Notes: The cut-off points used in this table to categorize countries by "high" and "medium" growth, and various rates of poverty reduction are rather arbitrary. An annual GDP growth of 6 per cent and over has been regarded as "high". For poverty reduction, the following cut-off figures have been used: "high" – 2 percentage points and over per annum; "moderate" – 1-2 percentage points per annum; "low" – less than 1 percentage point per annum.
[a] Based on Sundaram and Tendulkar (2002). [b] Based on Datt, et al. (2003). [c] Based on Deaton (2003).

Sources: Bangladesh: Rahman and Islam (2003); India: Sundaram and Tendulkar (2002), Deaton (2003), Datt, et al. (2003); Indonesia: Islam (2002); Vietnam: Huong, et al. (2003); Ethiopia: Mulat, et al. (2003); Uganda: Kabann (2003); Bolivia: Jemio and Choque (2003).

Table 2. GDP growth and poverty reduction in selected countries

Country	GDP growth (% per annum)	Incidence of poverty (% of population below poverty line)	Annual percentage point change in poverty
Bangladesh			
1986-91	2.46	51.7 (1985-86)[a]	+1.18
1991-96	4.50	58.8 (1991-92)	–1.43
1996-2001	5.29	53.1 (1995-96)	–0.83
		49.8 (2000)	
India			
1970-80	3.8	*Sundaram and Tendulkar (2002)*[b]	–0.92
1980-90	5.8	46.5 (1983:URP)	–1.32
1990-98	6.1	37.3 (1993-94: URP)	–0.70
		35.5 (1993-94: MRP)	–1.32
		27.6 (1999-2000)	–0.80
		Deaton (2003)	
		37.2 (1993-94: rural)	
		30.2 (1999-2000: rural)	
		32.6 (1993-94: urban)	
		24.7 (1999-2000: urban)	
		Datt, et al. (2003)	
		39.1 (1993-94)	
		34.3 (1999-2000)	
Indonesia			
1970-80	7.5	40.1 (1976)	–2.88
1980-90	5.7	28.6 (1980)	–1.35
1990-96	7.3	15.1 (1990)	–0.63
		11.3 (1996)	
Viet Nam			
1990	5.1	58 (1993)	–4.2
1995	9.5	37 (1998)	–2.5
2001	6.8	32 (2000)	
Ethiopia			
1980/81-1991/92	2.3	45.4 (1995-96)	–0.33
1992/93-2000/01	4.6	44.2 (1999-2000)	
Uganda			
1990	6.5	56.0 (1992-93)	–2.4
1995	11.5	44.0 (1997-98)	–3.0
1999	7.4	35.0 (2000)	
2000	6.0		
Bolivia			
1987-90	3.45	57 (1989)[c]	–3.0
1991-98	4.36	65 (1996)	+4.0
1999-2001	1.34	56 (1999)	
		64 (2001)	

Notes: [a] Using the "cost of basic needs" method. [b] URP in this study refers to "uniform recall period" and MRP refers to "mixed recall period". The first figure (37.3) for 1993-94 is comparable to 1983, while the second (35.5) is comparable to 1999-2000. [c] Percentage of households; and hence, this figure is not comparable to the subsequent ones.

Sources: Bangladesh: Rahman and Islam (2003); India: Sundaram and Tendulkar (2002), Datt, et al.(2003), and Deaton (2003): Indonesia: Islam (2002); Vietnam: Huong, et al. (2003); Ethiopia: Mulat, et al. (2003); Uganda: Kabann (2003); Bolivia: Jemio and Choque (2003).

the decline of poverty in the 1990s "as an example of *continued progress*". They conclude: "There is, at any rate, no obvious pattern of 'acceleration' or 'slowdown' in this respect" (p. 3743). Thus, the literature on poverty in India does not indicate any consensus on whether higher GDP growth during the 1990s was associated with a faster rate of poverty reduction compared to the 1980s. The answer seems to depend on how the rate of progress is measured.

Bangladesh experienced a decline in the annual rate of poverty reduction from 1995/96 to 2000, compared to the period of 1991/92 to 1995/96, although the rate of economic growth was higher during 1996-2001, compared to 1991-96. Ethiopia provides another example of moderate growth producing very little reduction in poverty.

Which pattern of growth can make a more effective contribution to poverty reduction?

In-depth country studies (mentioned above) indicate that there is no single answer to this question.

In **Indonesia,** for example, a reduction in rural poverty during the 1970s was helped by high rates of growth of agriculture and rural non-farm activities – both highly employment-intensive in nature. In the urban areas, much of employment growth came from construction and services. But in the 1980s, manufacturing employment registered high growth, and employment elasticity in the sector also increased. Real wages and labour productivity grew in tandem (with, of course, exceptions in some years).

In **Vietnam** (during the 1990s), rural poverty declined mainly due to improvements in farm productivity which were made possible by intensification as well as diversification away from low-value outputs like staple crops to higher-value ones like livestock, aquaculture, fruits and perennial crops. While the shift to higher-value crops generated additional employment, the linkage effects of higher agricultural income helped create non-farm employment. In the urban areas, enterprises in the private sector have been the main source of new employment.

In **Uganda,** agriculture has played a prominent role in achieving high growth and poverty reduction during the 1990s. Cash crops like coffee and tobacco have benefited from price increases in the world market. As coffee growing is primarily a smallholder-based activity, and the distribution of landholding is also quite egalitarian, the poor have benefited from the price increases. It needs to be noted, however, that Uganda has not yet undergone a change in the structure of employment towards manufacturing. The share of the latter has remained virtually unchanged despite healthy growth of output in the sector. The only notable change that has taken place in the structure of employment is a shift away from food crops to cash crops.

The experiences mentioned above (and elsewhere, e.g. Islam, 2003) bring out a few issues concerning the ingredients of pro-poor growth. The first relates to the role of agriculture. Given the importance of this sector in many developing countries with high incidence of poverty, it has to have a prominent role in a strategy for pro-poor growth. The empirical finding that a shift away from agriculture to higher productivity sectors is associated with poverty reduction does validate the hypothesis that a structural shift in employment is an important element of pro-poor growth. This, however, does not mean that agriculture itself cannot contribute to the pro-poor growth process. Important factors in this regard are the relative prices of agricultural products, and the productivity and real wages of agricultural labourers. The second important factor in pro-poor growth is a structural shift in employment. In countries with an abundance of labour, such a shift should result from a growth of the relatively more labour-intensive sectors and sub-sectors, e.g. manufactures and other non-farm activities. Third, one of the principal means of enhancing the ability of the poor to integrate into the growth process and of increasing their productivity is to endow them with education and skills. Investment in human capital, therefore, needs to be an important ingredient in a country's strategy for pro-poor growth.

Employment and labour market policies for poverty reduction[4]

In the literature on poverty reduction, as well as among development practitioners, it is possible to find two broad strands representing two different approaches to the problem. One of these maintains the importance of interventions aimed at bringing about structural changes in economic organization which could contribute to poverty alleviation through a redistribution of productive assets in favour of the poor. A variant of this approach focuses on the need to reorient macroeconomic and sectoral policies with a view to facilitating a pro-poor, employment-intensive growth of the economy, and thereby making possible a broad-based sharing of the benefits of economic growth. The second approach is to implement policies and programmes directly aimed at the poor. Advocates of the latter usually are sceptical of the feasibility and practicability of reorienting development strategies through redistributive measures, and consider direct interventions to be a surer way of reducing poverty.

While there are merits in both the approaches mentioned above, in order to achieve a faster and more sustained rate of poverty reduction, it is essential to adopt an integrated approach because the two approaches can complement each other effectively. For example, the direct programmes can provide much-needed interim support to the poor, as the benefits of a reoriented development strategy with a conducive macroeconomic policy environment may take time to reach the poor. This issue can be important, especially in situations of acute poverty, which often get aggravated by external shocks causing crisis situations.

Direct programmes can also help bring about necessary enhancements in the capabilities of the poor. However, it may often be difficult to reach all (or even most of) the poor people through such programmes. More importantly, major changes in policies are often required in order to ensure that direct programmes achieve their objectives fully. Indeed, programmes aimed at raising the productivity and incomes of the poor have the best chance of success when they are implemented within a macro policy environment which is conducive to their operation.

The two approaches mentioned earlier should, therefore, be adopted and applied in such a manner as to derive the maximum benefit from their complementarity. Keeping the above in view, the rest of this section enumerates policy reforms in a few areas that would contribute to the objective of poverty reduction:

- greater pro-poor orientation in macroeconomic and sectoral policies as well as in public investment programmes
- promoting productive employment in sectors where the poor could benefit
- labour market regulations
- reducing vulnerability in the labour market
- enhancing the capabilities of the poor through human resource development.

Macroeconomic policies and public investment programmes. Macroeconomic policies can affect the levels of income and living conditions of the poor by changing any of the following:

- access to productive assets (e.g. land, equipment and machinery, knowledge and information, etc.)
- returns on productive assets
- employment opportunities
- access to social services (e.g. education and health) which in turn can influence the quality of labour supply.

Indeed, there are studies showing that appropriate policies in the areas of trade, exchange rates, taxation, credit, subsidies and pricing have played an important role in alleviating poverty in Asia through the channels mentioned above (Islam, 1990; Khan, 1997). The process of formulating such policies, therefore, needs to be more sensitive to their potential impact (either via the labour market or directly). Likewise, public investment programmes can also be given a greater pro-poor orientation by factoring in the potential impact on poverty (through the creation of jobs for the poor, for example) in the allocation of such investment.

The informal economy

While the informal economy is known to be characterized by a degree of heterogeneity, not only in terms of the type of activities, but also in terms of their productivity and returns, it is true that a large number of the so-called "working poor" are engaged there. Many of them are self-employed, and their low income could be due to a variety of factors, e.g. limited access to finance and productive assets due to their initial poverty, low levels of education and skills, etc. A large number of them are in exploitative or coercive external economic relationships (e.g. with the suppliers of assets, inputs or credit or with purchasers of output). Policies and action to fight against their poverty will need to be based on a clear understanding of such varied factors.

There is, understandably, a degree of anxiety to put an end to the poverty of such people, who work hard and yet are unable to generate enough income for a decent living. And the ultimate goal in that context is seen as the progressive integration of the informal economy into the formal economy, together with the application of the protective measures articulated in international labour standards. It is, however, important to remain aware of the difficulty of applying universal labour standards, both because of the difficulty of enforcement and because of the inability of many informal producers to comply. Furthermore, it is essential to remember that the emergence of the informal economy is itself due to the poverty of those for whom the alternative could have been even more acute poverty in the absence of alternative opportunities for income and livelihood. Seen that way, the informal economy, even in its present form, perhaps provides the poor with some degree of cushioning.[5] An ILO study summarizes the situation as follows:

> Analysis of the constraints imposed upon the informal sector by existing institutional, legal and regulatory structures suggests that, while it is important to provide basic social protection to informal sector producers and workers, it would be unrealistic to try to immediately apply to them all the existing labour legislation. Most informal sector producers are unable to comply with such regulatory structures, and such a move would only cause them to retreat further into the hidden economy, thus depriving the labour market of a vital source of employment. However, if action in the informal sector is to contribute to reducing poverty it is essential to ensure that at least minimum levels of income and protection be attained.

It is thus clear that in order to achieve the goal of reducing poverty in the informal economy, action will be needed on the normative as well as the developmental front. On the latter, interventions will have to focus on access to capital, skills, technology and markets. While we do have useful experience based on work in these areas by government agencies, NGOs and multilateral agencies, what is important is to look for means of action through which such work can be replicated on a larger scale in order to have a significant impact on overall levels of poverty.

The rural economy

A large number of the rural poor in developing countries are engaged in agriculture (including fishery and livestock) either as wage labourers or marginal farmers and self-employed workers. Interventions needed to alleviate their poverty include policies and programmes to raise productivity in such activities on the one hand, and labour market interventions (e.g. wage protection through legislation, and increasing the negotiating power of the poor by promoting organization) on the other.

It should be noted, however, that a sustained reduction of rural poverty hinges on the growth of a productive and dynamic non-farm sector. Experience shows that rural non-farm activities can be of two broad types:

- activities to which the rural poor turn in desperation, when there are very few alternative ways of making a living
- activities (often with strong linkages to agriculture) where productivity and wages are no less than in agriculture and which have a dynamic growth potential.

It is through the promotion of the latter type of activities that one can make a significant contribution to the goal of poverty reduction.

In formulating strategies for reducing rural poverty through the promotion of non-farm activities, it is essential to take note of the two broad types mentioned above and identify the major constraints that hinder the growth of the relevant type. By now, a number of studies on this topic are available, indicating that while capital is an important constraint, infrastructure (e.g. roads, transport, electricity, education and skills of workers and access to markets – for inputs as well as outputs) is also critical. Policies and action to promote rural non-farm activities with the goal of poverty alleviation should take this into account. However, as in the case of the urban informal sector, it would be necessary to find means of action through which large-scale programmes can be undertaken.

Infrastructure and labour-based approaches

The critical importance of infrastructure in catalysing development is well-known. Also, as mentioned above, by opening up and linking hitherto isolated rural areas, roads and improved transport can play a critical role in facilitating the growth of poverty-reducing non-farm activities. There are at least two more reasons for paying particular attention to investment in this sector (from the point of view of poverty reduction).

The first relates to the weight of this sector in a typical developing country economy. According to a World Bank report (World Bank, 1994), some 20 per cent of total investment and 40 to 60 per cent of public investment are allocated to infrastructure in developing countries.

Secondly, given the range of technological options that are available for this sector, it is possible to use investments here as a means of generating much-needed employment for the poor (while at the same time, carefully planned infrastructure can help the growth of economic activities that would benefit the poor). This can often be done without compromising on quality and cost-effectiveness. In fact, labour-based approaches could also be applied in urban situations where they would contribute simultaneously to an improvement in conditions of living of the urban poor and improvements in urban environment. Upgrading urban slums (through clearing and paving of roads, improving drainage, etc.), and management of solid wastes are examples of such activities.

While the approach outlined above is often taken as synonymous with public works programmes, experience (especially with the ILO's programmes in this field) shows that it is possible to involve the private sector and communities in executing the infrastructure schemes. It is also possible to introduce elements of core labour standards (e.g. those relating to forced and child labour, non-discrimination, wages, safety requirements, etc.) in their execution.

Thus, although many experiences with public works programmes have been rather disappointing, that need not be an argument against such an approach. Rather, it should be an argument for devising and implementing programmes that can successfully contribute to poverty reduction. Indeed, evaluations show that, with good programme design, especially based on decentralized planning and community involvement, and effective implementation, labour-based approaches in infrastructure can make a valuable contribution to the goal of poverty reduction.

Labour market regulations. Regulation of contractual relations in employment can cover a variety of aspects, such as wages, other terms and conditions (e.g. those relating to the basis of wage calculation or the type and duration of contracts), the right to negotiate terms and conditions, etc. While some of them may be applied only (or mainly) in the formal sector (which usually accounts for a small part of the economy in developing countries, and where poverty is less) and as such may not be directly concerned with poverty, there are aspects which are potentially important in any action against poverty.

This is particularly true of the regulation of wage-setting, although it must be mentioned that the relationship between minimum wages, employment and poverty may not be so obvious.[6]

Whether the potential role of minimum wages in reducing poverty can be realized depends on several factors, e.g. the extent of coverage, the extent of compliance, the indirect effects of the minimum wage on overall labour demand, the effects on labour productivity, etc. For minimum wages to be effective against poverty, they have to be widely applied and complied with.

Regulations relating to other aspects of the labour market, e.g. employment security, forms of contractual arrangement (especially measures designed to put an end to exploitative practices) can also contribute to the fight against poverty. But in order to be effective, they also need to be applied widely.

Human resource development. Investments in education and training are a potentially powerful instrument for raising the productivity and earnings of the poor. Improving the human capital base of the poor through the spread of literacy and basic education enhances their capabilities in several ways. In the rural economy, improved educational levels have been shown to raise productivity in peasant agriculture by enhancing the willingness to innovate and the capacity to absorb information on new techniques of production. More generally, they also enhance the capacity to respond to market opportunities in both farm and non-farm rural activities, and offer an access route to training and, through this, to better jobs. In the urban economy, improved access to further education and training for the poor is a key escape route from poverty to more skilled and better-paying jobs. Training is also an important component of support services provided to raise productivity and incomes in the informal sector.

The above view of the role of human resource development in poverty reduction suggests that policy interventions are required at several levels. At the macro level, policies are needed which ensure that adequate provisions are made for expenditures in education and training and that these are allocated equitably. It is particularly important to ensure universal access to good basic education, since this is most beneficial from the standpoint of poverty reduction. At the meso level, policy interventions are required to ensure that school fees and other cost recovery measures do not prevent access by the poor to education and training. Positive measures to promote greater school enrolment and attendance by the poor will also often be required. At the same time, labour market interventions may often be required to remove barriers to the access of the poor to training opportunities. Finally, direct interventions at the micro level will also be required to provide training to upgrade production among the poor in peasant agriculture and the urban informal sector.

Such targeted interventions also serve to promote new income-generating activities among the poor.

It needs to be noted, however, that vocational and technical training in formal institutions benefits a relatively small proportion of the labour force who may find jobs in the formal sector. In order to make a real contribution to the objective of poverty reduction, training systems must be geared to the tasks of imparting and upgrading skills for the informal economy and rural non-farm activities of the type that can raise the productivity and incomes of the poor.

Notes

[1] The views expressed in this paper do not necessarily reflect those of the organization with which the author is associated.

[2] See also ILO (2003), for the promotion of such an approach to poverty reduction.

[3] The countries are: Bangladesh, Bolivia, Ethiopia, India, Indonesia, Uganda, and Vietnam. The major criteria used in selecting them were (i) at least moderate (preferably high) economic growth during the 1990s, and (ii) representation from the three developing continents (Africa, Asia, and Latin America). Countries that attained moderate to high rates of economic growth were selected because the purpose was to examine the contribution of growth to poverty reduction.

[4] Parts of this section draw on Rodgers (1995).

[5] Indeed, an ILO instrument – the Employment Policy (Supplementary Provisions) Recommendation No. 169, 1984, does recognize the need to maintain the employment-creating potential of the sector.

[6] Saget (2001) finds that a decent minimum wage may help to alleviate poverty.

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