



**DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE**

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**MAKING ECONOMIC GROWTH MORE PRO-POOR: THE ROLE OF EMPLOYMENT AND
SOCIAL PROTECTION**

Policy Statement

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MAKING ECONOMIC GROWTH MORE PRO-POOR:

THE ROLE OF EMPLOYMENT AND SOCIAL PROTECTION

1. Sustained economic growth, in which poor women and men participate directly, as both agents and beneficiaries, is essential for reducing poverty. Recurring crises expose the vulnerability of poor individuals and families and their jobs and livelihoods. The current economic crisis, and the on-going challenges of population growth, price volatility, food insecurity and climate change, highlight the need for more effective public actions to address the real constraints and opportunities faced by poor women and men.

2. Employment and social protection, two critical avenues towards achieving pro-poor growth and the Millennium Development Goals, have not received enough attention in public policy making:

- Productive employment and decent work are the main routes out of poverty. Well-functioning labour markets and an enabling environment for local entrepreneurship are essential to increase employment opportunities for the poor. Policies that recognise and improve conditions in the informal economy, where most poor women and men earn their livelihoods, are critical to poverty reduction. Increasing the employability of poor people, especially for women and youth, unlocks their potential to contribute to growth.
- Social protection directly reduces poverty and helps make growth more pro-poor. It stimulates the involvement of poor women and men in economic growth, protects the poorest and most vulnerable in a downturn and contributes to social cohesion and stability. It helps build human capital, manage risks, promote investment and entrepreneurship and improve participation in labour markets. Social protection programmes can be affordable, including for the poorest countries, and represent good value for money.

3. Actions in these two areas are mutually reinforcing and promote pro-poor growth. Better and more productive jobs raise incomes, allow social spending by poor workers and help finance social protection. Social protection improves the productivity and employability of poor people and stabilises and increases their incomes and links short term coping strategies with longer term growth enhancing and poverty reduction strategies

4. Action on both employment and social protection will be a critical and countercyclical element of developing countries' response to the current global economic recession. Measures in these areas will help protect the progress made over the last decade towards achieving MDG1 in the face of global recession and volatility in international markets. Combinations of measures promoting social protection (*e.g.* cash transfers) and employment (*e.g.* workfare) will help protect the most vulnerable while also promoting longer term recovery.

5. Developing countries will need considerable assistance from donors to build the foundations for the economic rebound. They also need support with providing social protection measures to build resilience to the recession and tackle the real economic hardships faced by poor people. Though obviously difficult when budgets are under pressure and fiscal space is limited, it is even more important now to create the conditions and incentives for pro-poor growth that will reduce poverty and build livelihoods robust enough to weather the storms of the global economic climate.

Social protection

6. Social protection refers to policies and actions which enhance the capacity of poor and vulnerable people to escape from poverty and enable them to better manage risks and shocks. Social protection measures include social insurance, social transfers and minimum labour standards.

a) Social protection directly reduces poverty, stimulates the involvement of poor women and men in the economy and contributes to social cohesion and stability

7. Social protection directly reduces poverty through improved health outcomes, increased school attendance, hunger reduction and livelihoods promotion. It helps reduce gender disparities in human development outcomes. It can provide essential support to vulnerable members of society who are unable to work.

8. Social protection makes growth more pro-poor by enabling household investment in productive activities and human capital, raising productivity and incomes. It helps poor women and men to manage the trade-offs between meeting immediate needs and securing future livelihoods. Social protection helps poor and vulnerable households to safeguard their assets and adopt effective coping strategies to meet challenges arising from man-made and natural disasters, economic crises and climate change. This allows households to invest in more productive but often riskier livelihood strategies.

9. By strengthening the employability of poor women and men and enabling them to seek and obtain better and more remunerative work, social protection promotes their participation in the labour force. Social protection thus builds self reliance, not dependency.

10. Social protection reinforces the social contract that can help legitimise and strengthen the state, which is particularly important in fragile contexts.

b) Well-designed social protection programmes can be affordable, including for the poorest countries, represent good value for money and require strong political commitment

11. The costs of social protection measures can be kept relatively low and manageable by starting small and building up over several years. Context specific targeting and delivery are critical design and capacity issues which influence costs and the ability to reach the poor and achieve desired outcomes. Evidence shows that even small programmes bring benefits, as supported by evidence from e.g. the ILO and South Africa.

12. Social protection policies need to be directed at the informal economy to maximise reach and results. As social protection is generally seen as essentially linked to formal working environments, workers in the informal economy tend to be invisible to policy makers.

13. The state has the primary role in providing the framework for delivering social protection. Social protection systems thus require strong and sustained political commitment to deliver lasting benefits and must be integrated into national social policy frameworks. Investment in implementation systems, monitoring and evaluation, fiduciary risk management and accountability mechanisms are important for the effective and sustainable delivery of social protection.

Employment and labour markets

14. The MDG1 target on *productive employment and decent work for all* emphasises the importance of employment for reducing poverty. The vast majority of poor people work, but employment conditions are frequently poor, productivity low and incomes inadequate.

a) Policies that recognise and improve conditions in the informal economy, where most poor women and men earn their livelihoods, are critical to poverty reduction

15. Most poor people, and particularly women, earn their livelihoods in the informal economy, which does not necessarily shrink with economic growth. Policies aimed at increasing employment and reducing poverty will be more effective when they take into account the informal economy. This means that measures, such as skills development, the promotion of entrepreneurship and improving working conditions, must be designed for delivery and impact in the informal economy.

16. Measures that facilitate the process of formalisation of firms and labour should generate more productive employment and decent work, improve social protection and reduce poverty. Policies need to reduce barriers and provide incentives to formalisation and tackle the forces driving informality.

b) Increasing the employability of poor people, especially for women and youth, unlocks their potential to contribute to growth

17. Promoting the employment of women makes sound economic, social and political sense, and is all the more important in economic downturns, which impact severely on women. Young people as well as women face particular barriers and biases concerning their access and participation in economic growth, resulting in a major underutilised potential for growth and poverty reduction. Their employability can be promoted through measures that specifically address their respective constraints and potentials and also by giving particular attention to activities where they have high labour market participation.

18. The productivity and employability of poor women and men can also be increased with well-tailored and recognised vocational training, building on basic education and life skills. These programmes have to be demand-driven, apply also to the informal economy and become an integral part of education and employment strategies.

c) Well-functioning labour markets and an enabling environment for local entrepreneurship are essential to increase employment opportunities for the poor

19. A sound understanding of how labour markets are structured and work is needed for policy making. Donors should support developing country efforts that improve knowledge and sex-disaggregated statistics, to strengthen evidence-based policy making and involve other stakeholders in that process. A multi-stakeholder approach, supporting a broad-based dialogue, is crucial to establishing socially responsible employment practices and regulating labour markets in ways that deliver state, employer and employee objectives.

20. International migration due to labour market imbalances needs to be better managed through a stronger partnership between origin and destination countries and through more coherent approaches to promote development outcomes and minimise negative effects. Making the best of migration requires more research and sharing of good practices, including how to manage the impacts of brain-drain, encourage brain-gain through circular or return migration, reduce the transfer cost and improve the security of remittances and strengthen co-operation with diaspora communities. Remittances are an important resource flow to developing countries which is already being adversely affected by the global recession, adding to the vulnerability of developing countries and their citizens.

21. Employment contributes towards stability and economic recovery in fragile situations. Short-term employment creation is an essential component of post-conflict strategies alongside longer-term investments in the enabling environment for the private sector.

Implications for donors

22. There is growing demand in partner countries, and from regional institutions such as the African Union, for more public action on social protection and employment. Many countries incorporate strategies and targets in these areas in their national development and poverty reduction programmes. As donors, we need to respond positively to this demand and support these developing country policy initiatives.

23. Donors' support for social protection programmes should provide adequate, long-term and predictable financial assistance to help partner governments establish gender-sensitive social protection programmes and create the conditions for those programmes to be politically and financially sustainable. This is especially important in the current situation of contracting fiscal space and declining financial inflows. Such support must be provided through harmonised and co-ordinated financing mechanisms in support of nationally defined strategies and programmes. This requires:

- Supporting developing countries' own efforts to build the political commitment and policy processes needed to develop and implement social protection systems.
- Committing to a long term partnership, including financial and technical support, to underpin developing countries' efforts to build social protection systems.
- Investing in developing country initiatives to develop and share knowledge on the effective design and implementation of social protection systems.

24. Productive employment and decent work needs to be a key objective of development co-operation. This requires:

- Taking specific measures to improve employment, productivity and working conditions in the informal economy, facilitate formalisation, encourage entrepreneurship and promote more, productive and decent employment in the formal economy.
- Increasing the participation of women and young people in the labour market, including by addressing the discrimination, constraints and barriers that women and young people face and by strengthening measures to improve access to demand-driven vocational training.
- Supporting developing country efforts to improve knowledge and sex-disaggregated statistics to strengthen evidence-based policy making and involving other stakeholders in that process.

25. Our actions in these areas must be harmonised and aligned with national policy, in line with the Paris Declaration and Accra Agenda for Action. We must commit to developing country policy making processes and to their outcomes. We must also help governments strengthen implementation capacity, foster effective stakeholder engagement and facilitate the empowerment of poor people in national policy-making processes.