



Special topics

Targeted poverty reduction mechanisms:

- Labor markets
- Gender
- Resettlement

Poverty Alleviation, Employment and Labor Market: Lessons from the Asian Experience and Policies

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1. Introduction

The record of poverty alleviation in Asia seems better than that of other developing regions like Africa and Latin America. During the 1990s, Asia was the only developing region where the incidence of poverty (defined as the percentage of people living on less than US\$1 per day) registered a substantial decline. Despite this achievement, however, there is very little room for complacency. Asia still remains home to over two thirds of the world's poor. And within Asia, there is a wide variation in the progress made in reducing poverty. While some countries in East Asia and Southeast Asia have achieved impressive reductions in poverty, the performance of the South Asian countries has been rather modest. Furthermore, the recent economic crisis shows how fragile some of the gains in poverty reduction can be. Sustained reduction in poverty, therefore, needs to remain a live issue on the Asian development agenda.

The diversity of the Asian experience with respect to poverty reduction enables one to draw useful lessons from that experience. One lesson is the importance of employment and labor market outcomes. As income is an important aspect of poverty, and as productive employment is a key determinant of income, one way of defining pro-poor growth is in terms of the employment outcome of growth. It could therefore be argued that decent and productive employment is one of the best routes out of poverty. One of the main purposes of this paper is to point out the role that employment and the labor market have played in reducing poverty in Asia. It also highlights policies and programs that are required to strengthen the contribution of labor market outcomes to the objective of poverty reduction.

2. Employment, the Labor Market, and Poverty

While there is no easy answer to the question of how poverty can be alleviated, various studies now provide a fairly strong indication about the role of overall economic growth in alleviating poverty. In Asia, for example, the countries that achieved notable success in poverty alleviation (viz., the People's Republic of China (PRC), Indonesia, the Republic of Korea, Malaysia, and Thailand) are also the ones that attained high rates of gross domestic product (GDP) growth. It must be noted, however, that a high rate of economic growth is only a necessary condition, not a sufficient criterion in itself, for reducing poverty. The nature and content of output growth is extremely important for achieving this goal.

For growth to contribute to poverty alleviation, output growth must translate into incomes of the poor. For those who are employed as wage laborers and salaried workers, the quantity of employment and the rate of remuneration are crucial. For those who are self-employed, productivity and returns are important; these in turn are influenced by a host of factors, e.g., technology, inputs used, and prices of inputs and outputs. Employment is, thus, the key link between output growth and poverty alleviation. Monitoring and analysis of the growth/employment/poverty nexus is, therefore, crucial in the fight to reduce poverty.

The role that employment plays in poverty alleviation is indicated by the contrasting experiences (at least up to 1996) between the more successful countries of East Asia and Southeast Asia, and the less successful ones of South Asia. In the former, high output growth was accompanied by employment growth at high rates, which in turn led to labor market tightening and increases in rates of remuneration. Countries of South Asia were less successful in achieving such employment-augmenting growth, and also less successful in reducing poverty.

The International Labor Organisation's (ILO's) *World Employment Report for 1996/97* (ILO, 1996) mentions that between 1986 and 1993, in the countries of East Asia and Southeast Asia (with the sole exception of Indonesia), employment grew at more than 3% per year, while in countries like India and Pakistan, employment performance was weaker. The contrast is sharper for employment in manufacturing (Table 20.1). During 1986–1992,

Table 20.1. Growth and Elasticity of Employment in Manufacturing in Selected Countries of Asia

Country	1975–1980	1981–1985	1986–1992
Bangladesh			3.07
China, People's Rep. of			5.00
India	4.26 (0.68)	-1.18	1.41 (0.20)
Indonesia	6.42 (0.33)	12.45 (0.76)	8.00 (0.66)
Korea, Rep. of	7.96 (0.53)	3.55 (0.36)	3.70 (0.30)
Malaysia	10.27 (0.67)	-0.82	11.20 (0.84)
Pakistan	0.08 (0.01)	1.78 (0.21)	1.54 (0.20)
The Philippines	14.14 (3.66)	-7.49 (0.21)	6.47 (0.20)
Thailand	4.01 (0.61)	3.29 (0.68)	3.76 (0.38)

Note: Blank cells = not available. Figures in parentheses represent elasticity of employment with respect to output growth.

Sources: The figure for Bangladesh (referring to the period 1985–86 to 1995–96) was calculated from data available in Bangladesh Bureau of Statistics (1997). The figure for the People's Republic of China represents the period 1986–90, and has been calculated from data in Government of China (1999). The rest of the figures are from ILO (1996).

in countries like Indonesia, Malaysia, the Philippines, and Thailand, growth in manufacturing employment was much higher than in India and Pakistan. The same is true of 1975–1980. During the early 1980s, a recession in Malaysia and the Philippines led to declines in manufacturing employment; but these countries were able to reverse that trend with very high rates of growth after 1985. Such high rates of growth in manufacturing employment enabled countries like Indonesia, Malaysia, the Philippines, and Thailand to achieve significant structural shifts in employment (in varying degrees), which in turn led to a tightening of the labor market and a rise in real wages, thus aiding the process of poverty reduction.

Another aspect of the labor market that is important for poverty reduction is the growth of real wages for workers. As the economies of many Asian countries remain predominantly rural/agrarian, and as agricultural laborers often constitute a large proportion of the poor in rural areas, the real wages of such workers are extremely important to their levels of living. On the other hand, as an agrarian economy undergoes structural transformation and the surplus/underemployed labor moves out of agriculture into the modern (primarily manufacturing) sector, wage rates in the latter will also be important in achieving poverty reduction. In addition, a large number of the poor could be engaged in rural nonfarm activities and in a variety of activities in the urban informal sector. Wage rates and earnings in such activities can be important determinants of poverty.

Unfortunately, it is difficult to establish the linkage between poverty and real wages mentioned above, for a variety of reasons. First, in developing countries where traditional institutions and practices remain, it is difficult to conceptualize and quantify wages (especially because of the practice of paying wages in kind). Second, large segments of these economies are often not covered by a systematic practice of collecting data on wages. What is thus available is usually fragmentary, not standardized, and hence, often not comparable. It may, however, be possible to have some idea about broad trends and provide at least a heuristic argument on the linkage between poverty and real wages.

Data presented in Table 20.2, although rather dated, can help reveal differences in the growth of real wages between countries that attained an impressive reduction in poverty and those where poverty reduction was rather modest. Both Indonesia (during the 1970s and 1980s) and the Republic of Korea (starting from the 1960s) achieved high rates of real wage growth in manufacturing as well as agriculture. The record of poverty reduction was also impressive in both countries (though at different levels). Growth in real wages in agriculture was also high in Malaysia (although the growth of the manufacturing wage was not so high), another country where the incidence of poverty declined sharply. Thailand is the other Southeast Asian country that achieved a very substantial reduction in poverty. Although there are no data on the agricultural wage for that country, data on the manufacturing wage rate indicates the importance of this variable in reducing poverty. At the other extreme lie Bangladesh and Sri Lanka, where real wage rates in agriculture actually declined. In India, the growth rates of real wages were rather modest, in both agriculture and manufacturing. It is also well known that the record of poverty alleviation in these last three countries is much less impressive than in the East Asian and Southeast Asian countries.

Table 20.2. Growth Rates of Real Wages in Agriculture and Manufacturing in Selected Asian Countries
(percentage per year)

Country	Growth or agricultural wages		Growth of manufacturing wages	
	period	growth rate	period	growth rate
Bangladesh	1960–1991	-0.73	1967–1989	-1.05
India	1960–1990	1.82	1963–1990	1.74
Indonesia	1976–1988	3.74	1970–1991	5.52
Korea, Republic of	1960–1978	7.06	1966–1991	9.09
Malaysia	1971–1992	3.96	1968–1992	2.18
Pakistan	1970–1992	2.94	1963–1988	4.89
Philippines	1960–1977	-1.10	1963–1991	0.89
Sri Lanka	1980–1990	-1.06	1966–1990	1.03
Thailand			1970–1990	3.00

Note: Blank cells = not available.

Source: World Bank (1995).

The impact of real wages on the incidence of poverty is further illustrated by the experience of the countries affected by the recent economic crisis in Asia. Data presented in Table 20.3 show that real wage rates declined in all five countries that were seriously affected by that crisis. In the extreme case of Indonesia, the crisis caused a reversal of several impressive labor market gains made by the country before the economic crisis (viz., reduction in the degree of underemployment and in the extent of dependence on the informal sector, and high rates of real wage growth). While underemployment and the dependence on the informal sector increased, real wage rates also declined sharply in all sectors. As a result, the impressive achievements made in reducing poverty were reversed. Indeed, the incidence of poverty appears to have doubled during the crisis period (ILO, 1999). In other countries as well (especially the Republic of Korea and Thailand), declines in real wages and increases in unemployment were reflected in increases in poverty (Lee, 1998).

Table 20.3. Growth of Real Wages in Southeast Asian Countries before and during the Economic Crisis

Country	Percentage change in real wages		
	1996	1997	1998
Indonesia	10.8	8.7	-41.0
Republic of Korea	6.8	2.4	-9.3
Malaysia	2.1	3.3	-1.1
The Philippines	-2.0	-1.1	-2.0
Thailand	2.3	1.4	-7.1

Source: World Bank (1995).

While recognizing the centrality of employment in making economic growth pro poor, it is necessary to add that employment is not a sufficient condition for achieving the goal of poverty reduction. Clearly, there are many who are employed yet are still poor (especially in the developing world). In any effort at poverty alleviation, it would be important to address the issue of the so called “working poor,” because work alone does not guarantee an escape from poverty.

Who are the working poor? There is often a tendency to equate them with those working in the informal sector. This notion, however, is not borne out by facts. Two points are worth making in this regard. First, informal sector activities can be quite heterogeneous; many of them provide returns/incomes above poverty thresholds. It is, therefore, important to locate who the poor are within the informal sector. Second, many of the poor may be in activities that are not classified as informal sector but can be said to belong to the “informal economy,” defined in a broad way. Examples of such people include marginal farmers, farm workers, those working in petty nonfarm activities (self-employed or wage workers), and so on. They are “employed” in some sense; but the incomes of many of them are below poverty thresholds.

What can be done to raise the incomes of such working poor? One line of reasoning is as follows. If an economy can get onto a high-growth path, and through appropriate macro and sectoral policies make this growth sufficiently employment intensive, an adequate amount of productive employment will be created so as to gradually absorb all the working poor into such jobs as will lift them out of poverty. Indeed, this is the path followed by the East Asian countries that have been successful in alleviating poverty. And as mentioned earlier, policies can be geared toward achieving such employment-intensive growth paths. It must be recognized, however, that in many of the developing countries characterized by a high incidence of poverty, such high growth rates are not in sight. While efforts need to continue for implementing an employment-intensive, high-growth strategy, additional interventions will be needed to address the situation of the working poor.

What kind of interventions can help the working poor raise their incomes? The answer(s) to this question depend on the reasons for their low incomes, which, in turn, vary depending on the type of activity, geographic location, etc. It is necessary, therefore, to take stock of the knowledge base in this area (and undertake additional work if warranted). Some of the factors for low productivity, low returns, and low wages include type of market, demand for the products, relative prices of inputs and outputs, marketing arrangements, technology, bargaining power, and so on. Direct interventions in these areas are important from the point of view of addressing the problems of the working poor.

3. Direct Interventions for Poverty Alleviation

Although a high rate of economic growth is essential for poverty alleviation on a sustained basis, it has not been possible for many developing countries to achieve such rapid growth. On the other hand, many of these countries are also characterized by a high incidence of poverty. If they were to wait for poverty alleviation through the normal process of economic growth, they would perhaps have to wait for several more decades. The conditions necessary for the benefits of growth to trickle down to the poor are also often absent from developing countries. In such circumstances, special measures and directly targeted programs help in speeding up the process of poverty alleviation.

The special measures for poverty alleviation can be of two types: (i) programs for employ-

ment and income generation and (ii) measures for social welfare. In fact, these two categories of programs can be linked to the two broad types of basic human needs. One part of the basic needs—the one consisting of food, clothing, and shelter—is met mainly through one's individual (or private) income and consumption. Programs of employment and income generation are designed mainly with the aim of contributing to the satisfaction of such "private basic needs." On the other hand, an important component of basic needs—e.g., education and health care—often cannot be satisfied through increases in individual income alone. Social welfare programs can be important in meeting those needs. Such programs are often not targeted at the poor, but to the extent they are designed to cover specific areas, e.g., slum areas in cities or villages in backward regions, the poor are likely to benefit more.

Employment and income generation can be advanced by either self-help or wage employment programs. Self-employment programs usually target the poor and assist them in undertaking income-generating activities by providing them with microcredit. In some cases, credit is accompanied by assistance in skill training, marketing, etc. The wage employment programs create employment by using labor-intensive methods in constructing infrastructure.

A large number of programs of both types can be found in Asia, especially in South Asia. In assessing the effectiveness of such programs in poverty alleviation, it would be necessary to seek answers to three questions:

- How successful have the programs been in targeting the poor?
- How effective have they been in raising the incomes of the poor? and
- What has been the coverage of such programs in relation to the overall magnitude of poverty in various countries?

The following discussion, based on the experience of Asian countries, attempts to answer these three questions. Table 4 presents basic information on programs in some Asian countries.

a. Reaching the target groups

The success achieved by various poverty alleviation programs in reaching the target groups varies considerably. While there are successful programs, there are also programs that are not so successful, and in which large numbers of the beneficiaries are not poor. For example, in Bangladesh, credit and other assistance programs of the Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC) are available only to the poor (defined as landless and/or near landless). But there are other programs that have not attained similar success in reaching the poor (Alam, 1989; Hossain, 1984; Masum, 1996). A recent evaluation (Masum, 1996) points out that even in the case of programs that have succeeded in reaching the poor, it is the "not so poor" who have benefited more.

India's Integrated Rural Development Program (IRDP) also faces this criticism: the program's performance has been rather disappointing, even in backward and remote areas of the country. One evaluation shows that in 1992/1993, 22 percent of the beneficiaries were

Table 20.4. Direct Interventions for Poverty Alleviation: Some facts on Selected Programs in Selected Asian Countries

A. Self-Employment Programs					
Country	Program	Implemented by	Target Group(s)	Mode of Assistance	
Bangladesh	1 Credit from Grameen Bank	Bank	Households owning less than 0.5 acre of cultivable land or assets worth one acre of medium quality land	Microcredit without collateral (conditional upon group formation)	
	2 BRAC Rural Development Program	NGO	The landless and the poor	Credit and other necessary support (including training)	
	3 PROSHIKA Employment and Income-Generating Program	NGO	The landless, small and marginal farmers, fishermen and destitute women	Credit, skill and management training, technical and marketing support	
	4 BRDB Production and Employment Program	Government	Landless and assetless	Credit and training for self-employment	
People's Republic of China	Program for funding poor "collectives"	Local Government	Groups of women in poor farm households	Low-interest credit	
India	Integrated Rural Development Program	Government	Small and marginal farmers, agricultural laborers, and rural artisans below the poverty line. At least 50% are to be drawn from Scheduled Castes and Scheduled Tribes and 40% from women.	Bank credit along with subsidy	

Table 20.4. Direct Interventions for Poverty Alleviation: Some facts on Selected Programs in Selected Asian Countries (continued)

A. Self-Employment Programs

Country	Program	Implemented by	Target Group(s)	Mode of Assistance
Indonesia	Income-generating project for marginal farmers	Government	Small and marginal farmers; landless families with an annual household income of less than the value of 320 kg. of rice per head	Credit without collateral (through Bank Rakyat Indonesia) and training for income-generating activities
Nepal	Small farmer development Program	Government Bank	Small farmers (less than 0.5 ha of land or annual per capita income of less than Rs. 2,500 at 1987/88 prices,	Credit and other support
	Intensive banking project	Commercial Bank	Rural poor	Credit
	Credit for rural women	Commercial Bank	Rural poor women	Credit
	Rural development bank	Government Central Bank	Poorest women in remote areas	Credit

Table 20.4. Direct Interventions for Poverty Alleviation: Some facts on Selected Programs in Selected Asian Countries (continued)

A. Self-Employment Programs

Country	Program	Implemented by	Target Group(s)	Mode of Assistance
Philippines	Microcredit program	Government and NGO	Microentrepreneurs and self-help groups engaged in microbusiness	Credit through NGOs
	Credit program for the poorest of the poor	'Do'	Poorest of the poor in 25 priority provinces	Credit for the poorest 75 percent of those below the poverty line
	Self-employment assistance Program	Government	Unemployed and under employed household heads, disadvantaged women, out-of-school youth, and persons with disabilities below the poverty line	Integrated package of social welfare services including collateral and interest-free credit
	Programs for promotion of rural employment through self-employment and entrepreneurship development	Government and NGO	Landless and assetless rural workers, especially unemployed plantation workers, marginal farmers, fishermen, and home-based cottage industry workers	Credit, entrepreneurship development training, and consultancy services
	Women Workers' Employment and Entrepreneurship Development Program	Government and NGO	Women's group	Credit, training

Table 20.4. Direct Interventions for Poverty Alleviation: Some facts on Selected Programs in Selected Asian Countries (concluded)

B. Wage-Employment Programs

Country	Program	Implemented by	Target Group(s)	Mode of Assistance
Bangladesh	Food for works—now multisectoral rural development Program	Government	Underemployed rural labourers, extreme poor	Short-term seasonal employment; wages in terms of food
	Rural Maintenance Program	Government with NGO financial assistance	Poor women	Regular employment; skill training to aid self-employment
	Vulnerable Group Development Program	Government	Extremely poor assetless groups	Food as wages, skill training, and credit
India	Jawahar Rozgar Yojana	Government	Poor in areas with weak infrastructure	Wage employment at notified minimum wages; aimed at durable asset building
	Food-for-Work Program	Government	Poor in areas with weak infrastructure	Wage employment to the poor
People's Republic of China	Community Employment and Development Program	Government (monitored by NGOs)	Rural poor	Wage employment

Notes: BRAC = Bangladesh Rural Advancement Committee; BRDB = Bangladesh Rural Development Board; ha = hectares NGO = nongovernment organization. Source: Thamarajakshi (1997) and ILO-SAAAT (1996).

close to the poverty line while another 4 percent did not even meet the criteria for inclusion in the program (Thamarajakshi, 1997). In the PRC, loans from the credit program for poor “collectives” often went to nonpoor collectives and households. The experience of the PRESEED program in the Philippines was similar (Thamarajakshi, 1997). In Sri Lanka, middle- and higher-income people benefited most from the self-employment programs of the 1980s (Senanayake et al., 1989). However, not much is known about the performance of the more recent poverty alleviation programs of that country.

In the case of wage employment programs, it has been generally assumed, the problem of reaching the target groups is less serious, as they can employ wage rates as a mechanism for self-targeting. More specifically, it was thought that if the wage rate in the special programs were kept at the level of market wages or at the levels offered in comparable work within agriculture, only the poor (and those without any alternative employment opportunity) would be offering themselves for such jobs. In reality, however, the performance of the wage employment programs in this respect has also been rather mixed.

A well-known example of wage employment programs targeted at the poor is the “employment guarantee scheme” in the Indian state of Maharashtra; there is a good deal of debate regarding its targeting success. While a number of evaluations point to the success of the program, a recent study (Gaiha, 1996) casts some doubt. Using panel survey data from two villages of Maharashtra, this study shows that most of the project beneficiaries in 1979 had incomes above the poverty line. The situation continued during the next decade, and in 1989, the proportion of nonpoor beneficiaries was even higher than in 1979.

“Jawahar Rojgar Yojana” is another wage employment program that is being implemented throughout India. But one study shows that in 1992, as many as 57 percent of the program participants were above the poverty line, and another 25 percent were quite close to that level. Only 5 percent belonged to the poorest of the poor.

In Bangladesh, the “food for work” program has been going on for many years now. Recently, it has been transformed into a multisectoral rural development program, with the basic objective of poverty alleviation. While the food for work program had no reputation for success in targeting, not much is known about the performance of its new version. Another wage employment program is the “vulnerable group development program,” which targets destitute women. This program is known for its success in reaching the target group. Another successful program is the “rural maintenance program,” which also targets poor women (Masum, 1996).

In the wake of the Asian economic crisis and its adverse effects on employment, almost all the crisis-affected countries implemented public works programs as a means of employing and providing safety nets to the poor. One common problem faced by most of them was that of targeting. The self-targeting mechanism was unsuccessful in most cases because wages were set at too high a level for self-targeting to work.¹

¹ This information came from country studies presented at an international seminar in Tokyo.

b. Impact on the incomes of the poor

The impact of the direct employment programs with respect to the incomes of the poor also shows considerable variation. Two major programs in Bangladesh, the Grameen Bank and BRAC, stand out as having a positive impact on the incomes of the poor. An early evaluation of the former (Hossain, 1984) shows that the beneficiary households were able to raise their incomes by 33 percent within less than three years. Another study (Alam, 1989) shows that the beneficiaries of various poverty alleviation programs (including the Grameen Bank) have also raised their incomes significantly. A recent evaluation shows that income and consumption of the beneficiaries of government and nongovernment organization (NGO) programs have increased. The experiences of the Grameen Bank and BRAC show that the probability for improvement in household consumption and welfare is considerably higher in cases where women rather than men obtain the credit and undertake income-generating activities. This phenomenon occurs because women spend their earnings more prudently for the welfare of their families (Masum, 1996).

The wage employment programs of Bangladesh have also made useful contributions in raising the incomes of the poor. Despite some limitations, the food for work program has provided much-needed employment and income-earning opportunities to the poor during lean periods of agricultural activity. This program played an especially valuable role in the years when Bangladesh was hit by natural calamities. Likewise, the rural maintenance program and the vulnerable group development program made notable contributions in raising the incomes of destitute women (Masum, 1996).

On the other hand, there has been considerable debate about the effectiveness of India's IRDP in raising the incomes of the poor. Although some evaluations say that 30 percent to 40 percent of the beneficiaries have been able to cross the poverty line, others claim that this figure is much too high. Indeed, an earlier study (Rath 1985) maintains that seven years after the introduction of IRDP, only about 3 percent of the beneficiaries had crossed the poverty line. One recent study (Thamarajakshi, 1996) argues that the credit provided by the IRDP is lower than the investment needed for generating sufficient income to cross the poverty line. This study further points out that of the government subsidy that was supposed to have been provided along with the credit fund, the beneficiaries received 20 percent less than government accounts said they did. The above point implies that a large amount of money, which the beneficiaries should have received as subsidies, simply cannot be accounted for.

There is also a good deal of debate concerning the success of India's wage employment programs. One evaluation of the Jawahar Rojgar Yojana says that in selected villages, 36 percent of the people were interested in jobs; but in 1990/1991, only 14 percent of them got work. While the poor needed at least 100 days of work per person, what they actually got was 16 days per person. Moreover, the share of wages in the program's total cost was only 20 percent to 50 percent, although it should have been at least 60 percent. The Maharashtra employment guarantee scheme, however, has a better reputation for raising the incomes of the poor. While complaining of mistargeting, Gaiha (1996) points out that this program indeed raised poor people's incomes.

In the absence of in-depth evaluations of the recent employment programs in the East Asian and Southeast Asian countries that were affected by economic crisis, it is difficult to say anything confidently about their effectiveness in maintaining or augmenting the incomes of the poor (or those in danger of falling back into poverty); their problems in reaching their target groups have already been mentioned. Despite such problems, however, the programs appear to have demonstrated their potential in providing safety nets during periods of economic crisis.

c. Coverage of the programs

Except in India, the coverage of the self-employment programs compared to the number of poor in the respective countries seems rather limited. In Bangladesh, for example, the Grameen Bank and all other NGOs together cover approximately 3 million borrowers. The largest government program, run by the Bangladesh Rural Development Board, has reached only a little more than 100,000 borrowers. Assuming one borrower per household, six members per household, and 40 percent of the 120 million people living below the poverty line (18 million is 15 percent of the 120 million poor), it is clear that the programs mentioned above covered a little more than a third of the poor in that country. In comparison, the coverage of the wage employment programs is much broader: the food for work program covers the entire country, and the vulnerable group development program is implemented in all local administrative regions, although the number of beneficiaries of the latter is higher in the distressed regions.

Among the recent programs, the public works programs in Indonesia in 1998 covered all Indonesian provinces. In the Republic of Korea, such programs covered over 70 percent of the unemployed. The programs in the Philippines and Thailand were also quite large in terms of the number of people covered. In comparison, the coverage of the self-employment and microcredit programs was more limited (Betcherman and Islam, 2000).

Mention of the limitations of direct programs for poverty alleviation does not mean to deny the important contributions made by them, especially in situations where poverty is acute, growth is sluggish, or economies are in recession due to economic crisis. Indeed, in countries with acute and widespread poverty as well as severe constraints on boosting output growth, there is a definite place for direct interventions for poverty alleviation. With more careful targeting, program design, and program implementation, interventions can be more effective in achieving their desired objectives.

4. Employment and Labor Market Policies for Poverty Alleviation²

In the literature on poverty alleviation as well as among development practitioners, it is possible to find two broad strands representing two different approaches to the problem.

² Parts of this section, especially sections 4c, 4d, and the discussion on the informal sector, draw on Rodgers (1995).

One of these maintains the importance of interventions aimed at bringing about structural changes in economic organization that could contribute to poverty alleviation through a redistribution of productive assets in favor of the poor. A variant of this approach focuses on the need to reorient macroeconomic and sectoral policies with a view to facilitating pro-poor, employment-intensive economic growth, thereby making possible a broad-based sharing of its benefits. The second approach is to implement policies and programs directly aimed at the poor. Advocates of the latter usually are skeptical 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 approaches, in order to achieve a faster and more sustained rate of poverty reduction, it is essential to adopt an integrated program, because the two approaches can complement each other effectively. For example, since the benefits of a reoriented development strategy with a conducive macroeconomic policy environment may take time to reach the poor, direct programs can provide them with much-needed interim support. This issue can be important, especially in situations of acute poverty, which often get aggravated by external shocks, causing crisis situations. Direct programs 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) poor people through such programs. More important, major changes in policies are often required in order to ensure that direct programs achieve their objectives fully. Indeed, programs 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 conducive to their operation. The two approaches 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 could contribute to the objective of poverty reduction: greater pro-poor orientation in macroeconomic and sectoral policies as well as in public investment programs, promotion of productive employment in sectors where the poor could benefit, improved labor market regulations, reduced vulnerability in the labor market, and enhancement of the capabilities of the poor through human resource development.

a. Macroeconomic policies and public investment programs

Macroeconomic policies can affect the levels of income and living conditions of the poor by changing any of the following: (i) access to productive assets (e.g., land, equipment and machinery, knowledge and information); (ii) returns on productive assets; (iii) employment opportunities; and (iv) access to social services (e.g., education and health care). These in turn can influence the quality of the labor supply. Indeed, there are studies (Islam, 1990; Khan 1997) 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. The process of formulating such policies, therefore, needs to be more sensitive to their potential impact, either on the labor market or directly. Likewise, public investment programs 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.

b. Promotion of productive employment for the poor

i. The informal sector

While the informal sector is heterogeneous, 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 these poor people 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, or low levels of education and skills. 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 sector into the formal economy, together with the application of the protective measures articulated in international labor standards. It is important, however, to remain aware of the difficulty of applying universal labor 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 sector 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 sector, even in its present form, perhaps provides the poor with some cushion.³ An ILO study summarizes the situation as follows:

Analysis of the constraints imposed upon the informal sector by existing institutional, legal and regulatory structures suggest[s] 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 labor 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 labor 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 (Rodgers, 1995: 41).

It is thus clear that in order to achieve the goal of reducing poverty in the informal sector, 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 a fund of useful experience exists, 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

³ Indeed, an ILO instrument, Employment Policy (Supplementary Provisions) Recommendation No. 169, 1984, does recognize the need to maintain the employment-creating potential of the sector.

ii. The rural economy

A large number of the rural poor in Asia are engaged in agriculture (including fishing and livestock raising) either as wage laborers or as marginal farmers and self-employed. Interventions needed to alleviate their poverty should include both policies and programs to raise productivity in such activities and labor market interventions, such as wage protection through legislation, increasing the negotiating power of the poor by promoting organization.

It needs to be noted, however, that a sustained reduction of rural poverty hinges critically on the growth of a productive and dynamic nonfarm sector. Experience in Asia and elsewhere shows that rural nonfarm activities can be of two broad types: first, activities where the rural poor turn as a desperate measure to eke out a living when there is very little alternative; and second, activities (often strongly linked to agriculture) where productivity and wages are no lower than in agriculture and that have a dynamic growth potential.⁴ Promoting the latter type of activities can make a significant contribution to the goal of poverty reduction.

In formulating strategies for reducing rural poverty through the promotion of nonfarm 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 second 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) are also critical. Policies and action to promote rural nonfarm activities with the goal of poverty alleviation should take this into account. However, as in the case of the urban informal sector, means to undertake large-scale programs will have to be found.

c. Infrastructure and labor-based approaches⁵

The critical importance of infrastructure in catalyzing 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 nonfarm activities. There are at least two more reasons for providing 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 percent of total investment and 40–60 percent of public investment are allocated to infrastructure in developing countries. Second, 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. At the same time, carefully planned infrastructure can help the growth of economic activities that would benefit the poor. That can often be done without compromising on quality and cost

⁴ There is a large body of literature on this topic. For studies on Asia, one could refer to, for example, Islam (1984, 1987) and Shand (1986).

⁵ For a good discussion of how public works and credit programs can be more effective antipoverty measures, see Lipton (1998).

effectiveness. In fact, labor-based approaches could also be applied in urban situations where they would contribute simultaneously to an improvement in the living conditions of the urban poor and in the urban environment. Upgrading urban slums (through clearing and paving of roads or improving drainage), and management of solid wastes are examples of such activities.

While the approach outlined above is often taken as synonymous with public works programs, experience (especially with ILO's programs 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 labor standards (e.g., those relating to forced and child labor, nondiscrimination, wages, safety requirements) in their execution. Thus, although many experiences with public works programs have been rather disappointing, that need not be an argument against such an approach. Rather, that should be an argument for devising and implementing programs that can more successfully contribute to poverty reduction. Indeed, evaluations show that with good program design, especially that based on decentralized planning and community involvement, and effective implementation, labor-based approaches in infrastructure can make valuable contributions to the goal of poverty reduction.

d. Labor market regulations

Regulation of contractual relations in employment can cover a variety of aspects like wages, other terms and conditions such as those relating to the basis of wage calculation, type and duration of contract, 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 only 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 that are potentially important in action against poverty. This is particularly true of regulation of wage setting, although it must be mentioned that the relationship between minimum wages and poverty may not be so obvious. Whether the potential role of minimum wages in reducing poverty can be realized depends on several factors, including the extent of coverage, the extent of compliance, the indirect effects of minimum wages on overall labor demand, and effects on labor productivity. For minimum wages to be effective in action against poverty, they have to be widely applied and complied with.

Regulations relating to other aspects of the labor market, such as employment security and forms of contractual arrangements (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.

e. 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 through enhancing the willingness to innovate and the capacity to absorb information about new techniques of production. More generally, it also enhances the capacity to respond to market opportunities in both farm and nonfarm rural activities, and offers 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 alleviation suggests that policy interventions are required at several levels. At the macro level, policies should 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 alleviation. At the meso level, policy interventions should 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 enrollment and attendance by the poor will also often be required. At the same time, labor 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 labor force: those 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 sector and rural nonfarm activities of the type that can raise the productivity and incomes of the poor.

f. Reducing labor market vulnerability

To the extent that poverty is due to labor market outcomes, vulnerability in the labor market should be an immediate target issue for policy and action to reduce poverty. Vulnerability in the labor market can be related to a variety of factors, such as age, gender, ethnic group, or household status. While all these factors are important and need to be addressed, this paper is focusing only on gender-related vulnerability.

Women face a disadvantageous situation in the labor market, due to lack of control over assets, competing domestic and labor-market demands on their time, lack of access to training, and discrimination. Different types of interventions will be needed to address these factors. For example, fundamental legal and institutional reforms may be required in many countries to provide women with access to control over certain types of assets. Further, the problem of discrimination will have to be addressed through legislative action, combined with monitoring of compliance as well as awareness raising.

Legislative action will need to be supplemented by developmental action to bring about a greater degree of empowerment of women, especially through increased access to skill and entrepreneurship training, technology, and markets, as well as credit. For certain groups that are especially vulnerable to exploitative practices (like home-based workers), additional interventions aimed at strengthening their bargaining power, such as the promotion of organizations, will be required.

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