

## IV. CREATING JOBS FOR THE POOR

In this session, three presentations were made describing experiences of poverty alleviation programs across Asian cities.

Mr. Weng Fulin described the efforts of the Fuzhou Municipal Government in keeping urban unemployment below 2 percent, largely through direct interventions for employment and income generation. The city is encouraging scientific research personnel to start their own enterprises and trying to expand and develop regional labor markets to promote the reemployment of laid-off workers. There is also special emphasis on the problems of vulnerable groups. Basic living allowances are provided to these groups to guarantee their livelihoods.

Ms. Jayshree Vyas presented the mechanisms developed for bringing about improvements in the living and working conditions of marginalized poor, especially women, and mainstreaming them into the formal economy of the city. She described the activities of Mahila Sewa Bank, a cooperative bank originally set up by 4,000 women who contributed Rs10 each (about US\$0.25) in 1974. It provides banking services to poor illiterate women and has become a viable financial venture. The most important achievement of Sewa Bank, however, has been the transformation it has helped bring about in the perception of policymakers regarding microfinance. She emphasized the fact that slum dwellers make a substantial contribution to cities and have a rightful place within them. Efforts must be intensified, therefore, to integrate them within

the cities in which they live, with respect to economic activity, service delivery systems, and social fabric.

Mr. Benjamin R. Quiñones Jr. gave a broad overview of the role of microfinance institutions across Asia and analyzed the long-term impact of microfinance initiatives on employment, production, and income. He described the evolution of microfinance programs into their present form and the increasingly significant role being played by micro-enterprises in creating urban employment.

The focus of discussions was on the impact of the programs described, the opportunities and constraints, sustainability, and replicability. Interventions from the floor dwelt upon the need to encourage self-employment, and consequently the requirement for training and "re-skilling". The need for a shift from traditional welfare-oriented credit schemes to contemporary microfinance and employment-generation programs was also recognized. The common thread running through various cities' experiences with employment and income generation is that the cities need to move from being providers of employment to becoming facilitators, creating enabling environments for upgrading skills, creating opportunities, and increasing access to investment capital.

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**WENG FULIN**

Mayor, Fuzhou Municipality  
People's Republic of China

Solving unemployment is a common issue faced by city mayors worldwide. A new round of unemployment always follows reform and changes of economic structure, and may be caused by various factors. One is industrial upgrading, which has deprived laborers with obsolete knowledge and skills of job opportunities. Another is the deepening

reform of state-owned enterprises, which has made unemployment more visible. Similarly, the increasing number of young people of working age is forcing the city government to create more job opportunities.

In order to solve the unemployment problem effectively, the Fuzhou Municipal Government (FMG) has spared no effort to promote economic growth and encourage foreign and local investments. Particular emphasis has been on developing and upgrading labor-intensive industries to create more job opportunities. Based on the different requirements of job hunters, the FMG has integrated government guidance and the role of the market mechanism to create more job channels; efforts were also made to achieve a balance of supply and demand, and promote full employment. Through arduous and painstaking work, the FMG has kept the unemployment rate in the city below 2 percent. Following are some of FMG's ways of effectively tackling the unemployment problem in the city.

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### **Encouraging Scientific Research Personnel to Start Their Own Business**

With their good knowledge and expertise, scientific research personnel have a great advantage in the job market. The reasons for failing to bring them into full play in the labor force and their temporary unemployment may lie in the fact that they lack necessary links and contacts with enterprises, and lack the pioneering orientation necessary to start a business related to their expertise.

To tackle this problem, the FMG is promoting contact between scientists and business by sponsoring regular job fairs and establishing a talents market through the Fuzhou Talents Reserve Center. The Center is responsible for examining and recommending registered clientele. It provides such

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services as free supply-demand information on the labor market and job consultations. The establishment of this Center ensures that scientists have enough time to find a job tailored to their expertise. FMG also provides a monthly living allowance to graduates for up to one year and a dormitory financed from the local budget.

The FMG also encourages scientists to start their own business by giving them preferential treatment in business and tax registration. Enterprises set up by scientists in line with the industrial policy of the city are given further support, such as by reduction in loan interest.

The city government provides financial aid for high-tech projects developed by scientists, a subsidy of up to 60 percent of needed funds, as long as the projects are examined and affirmed by the local scientific and technological administration.

### **Reemployment of Laid-off Workers**

Throughout the PRC, state-owned enterprises are currently experiencing strategic adjustment and restructuring. The radical changes involved bring commensurate increase in numbers of laid-off workers. To solve this problem, the FMG initiated in 1994 a project of reemploying laid-off workers and has encouraged government at various levels and the entire community to promote and take part in this project.

First, the FMG has actively promoted the establishment of a labor market and a reemployment service network. In addition, job fairs and job information briefings are held to provide reemployment opportunities.

Second, the FMG has encouraged laid-off workers to work in the foreign and private sectors, rather than relying on state-owned enterprises. The community service and other tertiary industries have been greatly developed so that some laid-off workers

*FMG has actively promoted the establishment of a labor market and a reemployment service network.*

have become street cleaners, green-space protectors, guards for households, and guardians of children going to and from school.

Third, the FMG has encouraged laid-off workers to start their own business by giving them preferential treatment and policies for securing a permit to enter the market, applying for certificate and license, paying less taxes and charges, etc. FMG has also provided services to them in various fields including information exchange, technological support, administration guidance, and financing. A relaxed and better environment for laid-off workers to start their own business has been formed and a situation of "the employed help the unemployed" has become normal in Fuzhou City.

### **The Newly Emerged Urban Labor Force**

The population in the baby boom of the 1960s and 1970s has reached or is reaching employment age now. The FMG has made great efforts to mitigate the resulting employment pressure in different ways. School education has been prolonged. The FMG has popularized junior middle-school education, developed specialized vocational middle-school education, and supported universities in Fuzhou City to expand their enrolment. Also, courses in schools have been regulated. FMG requires middle schools at municipal level to make a strict market investigation before offering enrolment.

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The education administration regularly issues predictions on employment status and provides guidance for setting up departments, majors, and courses in schools to ensure that the courses meet the market demands. Consequently, the employment rate for the past four years has been higher than 90 percent. Further, schools have strengthened teaching in professional skills that will enable students to improve their abilities to become self-employed. For students unable to study at

universities, the middle schools have set up professional skill-learning teams and have enhanced training through course design and probation, so that students can find jobs that match their hobbies and skills.

### **Living Allowances for Laid-off Workers, the Retired and Other Vulnerable Groups**

It is extremely difficult to tackle the unemployment of vulnerable groups such as old-aged or disabled people and those without technical skills. For them, the FMG established in 1999 a social relief system, in which three types of guaranteed basic allowances are provided, covering respectively, pension insurance, basic living allowances for laid-off workers, and minimum subsistence allowances for residents and the unemployed. In this way, the needs of vulnerable groups in the city are guaranteed.

#### **JAYSHREE VYAS**

Managing Director  
Mahila Sewa Sahakari Bank Ltd.  
Ahmedabad, India

Like many other cities in the world today, Ahmedabad has been a victim of the problems of rapid urbanization and overpopulation. In addition, Ahmedabad is facing a serious problem of increasing unemployment because of the closure of a large number of textile mills in the city over the last two decades.

About 1.2 million, or 42% of the total population are poor. They live mainly in informal, often illegal, settlement clusters and are engaged in petty vending, home-based activities or manual labor services. A recent report on Ahmedabad City has found the population within these informal settlements to be growing faster than the overall

population. In general, they are unorganized, invisible, marginalized, exploited by traders and moneylenders, have very low bargaining power, no social security protection, and are very vulnerable.

### **Participation in the Urban Economy**

However, what municipalities and governments often forget to consider is the contribution of informal residents to the city's economy. A recent survey by the Gujarat Institute of Development Research showed that despite rapid industrial development, the informal sector continues to dominate the urban economy. The study revealed that in 1997-98, the informal sector accounted for 77 percent of total employment and 46 percent of the income generated in Ahmedabad. Although the economic contribution of the poor is enormous, they do not receive commensurate civic facilities as do the nonpoor. Most often, they are bypassed from participating in city planning and management activities.

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### **The Self-employed Women's Association (SEWA) Trade Union**

The Self-employed Women's Association (SEWA) decided to form a trade union of poor, urban women workers, who are significant and active contributors to the city economy, to reclaim their rightful place in the economy and in the city. The trade union, registered in 1972, was aimed at mainstreaming the marginalized poor into the formal economy of the city. The approach of SEWA includes

- capital formation at the microlevel to own assets;
- capacity formation to stand firm in increasingly competitive markets;
- access to social security to combat the chronic problems arising from inadequate

- child care, health care, shelter, and insurance facilities; and
- building collective and organized strength to negotiate, participate, and represent their own interests at various levels of the policymaking processes.

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SEWA has been helping its 220,000 members to form their own organizations. These organizations exist for the benefit of the self-employed women members of SEWA, are owned and democratically managed by self-employed women, and aimed at self-reliance of women—both financially and managerially. Over the last 28 years, SEWA has been instrumental in bringing about notable improvements in the living and working conditions of ready-made garment workers, bidi-rollers (cigarette rollers), vegetable vendors, waste-paper pickers, and home-based workers.

For instance, through organizing and collective bargaining, the wages of the ready-made garment workers have been included in the minimum wages schedule of the Gujarat Government. The bidi-rollers have been recognized by the Government as legitimate workers, and issued identification cards. They have become entitled to minimum wages and are provided with direct access to scholarship schemes for their children. The vegetable vendors have been recognized by the Supreme Court of India, and accorded with the right to work and a space in which to work. The Government also supported the waste-paper pickers by giving them the right to collect waste paper from government offices, while the home-based workers were granted full rights as workers by virtue of an International Labour Organisation declaration.

## The Mahila Sewa Bank

The members of SEWA Union were caught in the vicious circle of poverty due to lack of capital, low income, indebtedness, and lack of assets. Because of lack of financial support from formal financial institutions, they had to borrow from moneylenders at very exploitative rates. Thus, these women decided in 1974 to form their own financial institution, which is not exploitative, uses a suitable mechanism, and treats them with respect. Around 4,000 women contributed Rs10 each (around US\$0.25) to form the Mahila Sewa Bank. It was registered as an urban bank under the dual control of the Reserve Bank of India and the Gujarat Government. It provides banking services to poor illiterate women and has become a viable financial venture.

Twenty-five years ago, women who did not have the confidence to give their correct names to bankers because they were considered "nonbankable", today sit on the Board of the Bank, take important policy decisions, and monitor and review its performance. To date

- 125,000 poor women of Ahmedabad City are saving regularly and have built collective savings of Rs250 million;
- 30,000 poor women have borrowed for business capital, buying trade equipment, exporting goods, improving or buying houses, etc. for a total disbursement of Rs350 million; and
- total cash turnover by all such poor women is Rs200 million.

Nearly half of Sewa Bank's loans have been provided to wives of laid-off textile workers so they could start their own business.

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I remember quite clearly that when we registered as a bank we were advised by many that a bank owned by and catering to the credit needs of poor women was a "suicidal venture." Today, due to sustained efforts of the Sewa Bank, the perception of policymakers regarding microfinance has also changed. The Central Bank of India has declared a policy of mainstreaming microfinance activities in the country. Many of the microfinance institutions are linked with formal banks under government programs.

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Sewa Bank has also been very active in providing housing finance to women living in *kuccha* (mud) houses without collateral, through simple procedures and door-to-door service. Such inputs help, especially the home-based workers, to increase their productivity and income, bargaining power, volume of business, savings in recurring expenses, and working hours. Better housing and working conditions enable them to improve the quality of their product, own assets, and ultimately provide sustainable employment not only for themselves, but for others as well.

## **Slum Improvement**

Sewa Bank has been an integral partner of the slum improvement program called *Parivartan*, meaning transformation, which is being implemented by the Ahmedabad Municipal Corporation (AMC).

The *Parivartan* scheme transforms the physical habitat of informal-sector workers by providing internal paved roads, individual toilets, water supply, sewerage connection, stormwater drainage, street lighting, and solid waste management/landscaping. These services are provided on an equitable cost-sharing basis, which requires residents to deposit a minimum of Rs500 (approximately US\$12) before AMC undertakes the physical work. However, community members were

hesitant to hand over their money until they saw actual results. The Sewa Bank not only provides financial and credit-related services in the program, but also serves as a trusted financial intermediary for *Parivartan*, playing the dual role of centralized cash collector prior to hand-over to the AMC, and providing credit to meet individual contributions where required.

Sewa Bank's other sister organization, Mahila Housing Trust (MHT), which provides technical assistance for housing services, is also a partner in the *Parivartan* process. MHT motivates the communities to participate in the process and facilitates the formation of registered community associations to represent the interests of residents and help them in building direct links with the municipality. MHT also builds the capacity of communities to elect leaders, register and run their own associations, and provide better health and child care; and trains them in other skills so they are able to maintain effectively the newly acquired infrastructure. There are 20 areas currently under the *Parivartan* process, covering approximately 5,000 families.

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## **Insurance**

Our working experience made us realize that the economic life of the poor is frequently disturbed due to sickness, accidents, maternity, death of family members, flood, riots, cyclones, and other contingencies. In the formal sector, they would have been covered/protected by social security schemes. With the objective of helping them during these crises and ensuring that their capital formation process is not hindered, SEWA linked its members with insurance companies and started providing integrated insurance service in 1991.

We also realized the benefit of preventive action. For instance, while analyzing health

insurance claims, we found out that some illnesses were caused by drinking water within one geographical area. Our linkage with the municipal corporation helped us in rectifying the problem and in reducing sickness. Similarly, damage to mud houses formed the highest number of claims during floods. We designed a special housing loan scheme named *Pakki Bhint* i.e. "cement walls", for converting mud houses into cement houses.

### **Other Support Services**

*Health Care:* The SEWA health cooperative runs a central drug store in the city, which is recognized by the municipal corporation as a distribution center for low-cost, generic life-saving drugs. The city health care system and the poor health care clients are linked up and teams of barefoot doctors, midwives, and community health workers are trained and managed by SEWA's health cooperative to extend basic health care to 60,000 families annually.

*SEWA's child care cooperative is providing education as well as nutrition to the children of poor families.*

*Child Care:* Around 50 child care centers in Ahmedabad City are run by SEWA's child care cooperative, which is providing education as well as nutrition to the children of poor families.

*Design and Marketing Support:* SEWA is conducting market research and preparing designs for individual members, groups, and women's cooperatives that are promoted by SEWA. It also conducts exhibitions and seminars on marketing.

*Training:* Leadership, managerial, and skills training are provided by the SEWA Academy, SEWA's training unit.

**BENJAMIN R. QUIÑONES, JR.**

Programme Coordinator

Asian and Pacific Development Centre, Malaysia

The traditional concept of credit for poverty alleviation has a strong welfare orientation. This approach has not been very effective in making poor people bankable. It failed to provide credit access for a significant number of poor households. Financing institutions hardly recovered their costs from operating revenues because interest rate ceilings prevented them from charging market rates. Credit discipline deteriorated as the outreach of government-supported credit programs increased in the initial years, then lost momentum, and eventually sank under the weight of loan arrears.

The welfare-oriented approach also failed to strengthen people's organizations. Rather, dependency on government handouts weakened many cooperatives by spawning corruption, mismanagement, and inefficiency. Most of those that survived were taken over by local elite who redirected the flow of subsidized credit to themselves.

Successful microfinance programs of the 1990s drew valuable lessons from the mistakes of welfare-oriented credit to the poor and took measures to avoid them. Two fundamental measures adopted by contemporary microfinance programs are worth mentioning. The first is the design of the institutional delivery mechanism with a cost-effective instrument for targeting the poor, which should comprise

- an instrument for defining, characterizing, or identifying poor households, e.g. a housing index;
- an organizational structure for cost-effective delivery of financial products and services, e.g. self-help groups, group centers;

*Dependency on government handouts weakened many cooperatives by spawning corruption, mismanagement, and inefficiency.*

- financial products and services suited to the needs of poor households, e.g. progressively increasing loan size, payable on a weekly basis; and
- capable staff committed to poverty-oriented lending.

The second measure is the design of the terms and conditions of the financial service that enable an institution to recover operating costs from operating revenues. This involves

- setting interest rates on loans such that they cover the cost of funds, the administrative and operating expenses, and losses arising from loan defaults;
- avoiding recruiting expensive staff when jobs can be done by less expensive workers;
- instilling credit discipline in order to achieve a repayment rate of at least 95 percent;
- embarking on savings mobilization as early as possible to reduce dependence on external donor agencies, and to build institutional capacity for self-reliance; and
- establishing an appropriate legal personality of the organization to deal with the poor.

### **Impact of Credit on the Poor**

There is widespread belief that credit used in productive activities contributes directly to an increase in output, income, and employment. It is for this reason that policymakers in many developing countries have anchored their poverty alleviation programs on the provision of credit resources to the poor.

If indeed it can be shown empirically that credit directly increases output, income, and employment, then the impact of credit on the poor can be inferred from the breadth and depth of

outreach of microfinance institutions (MFIs). The breadth of outreach refers to the number of customers and the amount of financial services, particularly the number of depositors and borrowers and the amounts of deposits and loans outstanding. The depth of outreach is the extent to which lower-income segments of the population have access to financial institutions and their services.

A survey by the World Bank's Sustainable Banking for the Poor (SBP) Program in September 1995 of around 1,000 MFIs in 101 developing countries reported a combined outreach of 46 million active savings deposit accounts and 14 million active loans. Around 80 percent of MFI outreach in the SBP survey was in Asia, 15 percent in Latin America, and the balance in Africa.

Very few MFIs can boast of client numbers in excess of 100,000, and most of these MFIs are found in Asia. Table IV.1 summarizes the outreach figures provided by 92 MFIs in Asia and the Pacific generated in a 1996 survey by the Asian and Pacific Development Centre (APDC) Bank Poor '96 Programme. Their combined outreach in 1996 was 26.28 million individual clients. Excluding the Grameen Bank and other big MFIs of Bangladesh and Bank Rakyat Indonesia (BRI), the average MFI in Asia had less than 3,000 clients. On average, each client received US\$28 in loans and deposited US\$9.

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From these figures, one can deduce the employment impact of microfinance. As credit enables a household to operate an income-generating project, a microcredit program that allows continuing access to credit resources actually sustains self-employment of the household members. Assuming an average household has 3 to 4 working members engaged in the household enterprise, the microfinance programs of the 92 MFIs surveyed by APDC would benefit between 78 to 104 million self-employed individuals in the Asia-Pacific region.

**Table IV.1. Outreach of MFIs in Asia-Pacific Countries, by Number of Clients and Activity, 1996**

Country	No. of MFIs* Reporting	No. of Clients (million)	Total Value of Loan Portfolio (US\$ million)	Average Size, Loans Disbursed (US\$)	Average Size, Deposits (US\$)
Bangladesh	10	5.74	218.23	38.0	10.1
PRC	5	0.08	0.93	11.2	0.2
India	15	2.49	6.87	2.8	2.9
Indonesia	3	16.75**	2.03	612.0	180.0
Malaysia	6	0.08	11.80	149.7	85.0
Nepal	9	0.06	1.80	31.0	4.8
Pakistan	6	0.34	6.20	18.3	24.4
Philippines	16	0.04	7.98	191.6	30.7
Sri Lanka	7	0.33	4.90	14.8	10.3
Thailand	3	0.30	2.25	7.4	0.6
South Pacific	3	0.01	0.35	46.7	53.3
All Asia-Pacific	92	26.28	269.17	28.0***	9.0***

\* Includes only those reporting to APDC Bank Poor '96 survey.  
\*\* Composed of 2.3 million credit accounts and 14.5 million deposit accounts.  
\*\*\* Excludes Indonesia. Including Indonesia, the figures are US\$225.3 and US\$112.3, respectively.

Source: Getubig, Remenyi and Quiñones. 1997. Creating the Vision: Microfinancing the Poor in Asia-Pacific. Kuala Lumpur: APDC. Table 6, p. 44-5, supplemented with data supplied to APDC by Bank Rakyat Indonesia for Indonesia.

In terms of the depth of outreach, the vast majority of the clients of MFIs in Asia can be classified as income-poor, or those whose incomes fall below the national poverty line as defined by their respective countries. An exception is Sri Lanka, where MFIs tend to cater more to households that are not poor than with those that fall below the poverty line.

But does microfinance actually create employment? An analysis of large MFIs in several countries showed that the impact of credit on employment was directly related to the volume of

investments in new technology employed by the households in their enterprise. Compared to a control sample of nonborrowers, the borrowers with the highest income growth had highest rates of investment in technology and of hiring family members. However, the difference in employment between borrowers and the nonborrowers was less than one person on average. Amongst the big MFIs, only the BRI *unit desa* scheme, which caters to businesses larger than the sample average, recorded employment increases larger than this (i.e. 5.8 persons). Significant hiring of nonfamily members was carried out only by larger enterprises.

*The difference in employment between borrowers and the nonborrowers was less than one person on average.*

## Conclusions

These findings indicate that borrowers from the poorer sections of society tend to give priority to household survival needs over enterprise development. Thus, when credit programs do not provide a facility to address consumption or emergency needs, available cash will always be used to meet those needs rather than to purchase new technology or to gain access to training or to markets. Nevertheless, credit for microenterprises can be an effective instrument for creating jobs for the poor because microenterprises are labor intensive. They use less capital, which implies a more efficient use of the scarce factor of production.

It is important that microfinance programs supported by local governments are designed to reach significant numbers of poor households. Too many development-oriented projects initiated as "pilot" projects disappear after the project period. For sustainability, both the operations of the MFI and the enterprises financed have to be profitable. It is also important that the partner MFI has financial products suited to both the household consumption and enterprise development needs of the poor.

*Providing capacity-building support to MFIs for the development of technology-oriented financial products is probably the most important contribution that local governments can provide.*

MFIs that have been operating for a considerably long period of time have developed financial products that enable the poor to purchase a specified technology, such as minor irrigation equipment, motorized sewing machine, solar panels for drying agricultural products, or even cell phones. By making these technology-oriented financial products available to poor households, the MFI expands its portfolio while contributing to an increase in the poor household's production possibilities. Providing capacity-building support to MFIs for the development of technology-oriented financial products is probably the most important contribution that local governments can provide for the institutional development of MFIs in their constituencies.

Finally, local governments should provide a policy environment that is conducive to MFIs. Supporting subsidized credit programs implemented by local government personnel or by other government line agencies will do great harm to the financial viability and sustainability of MFIs.