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Poverty Alleviation, Employment, and the Labor Market:

Lessons from the Asian Experience

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1. Introduction

The record of poverty alleviation in Asia seems better than that of other developing regions (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 at 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 has 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 which achieved notable success in poverty alleviation (viz., the People's Republic of China, Indonesia, the Republic of Korea, Malaysia, and Thailand) are also the ones who attained high rates of GDP growth. It must, however, be noted 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, which in turn are influenced by a host of factors, e.g., technology, inputs used, and prices of inputs and outputs. Employment, thus, is the key link between output growth and poverty alleviation. Monitoring and analysis of the growth-employment-poverty nexus is, therefore, crucial in the fight against 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, Southeast Asia, and the less successful ones of South Asia. In the former, high output growth was accompanied by employment growth at high rate, 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 Organization (ILO)'s *World Employment Report for 1996/97* 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 annum, while in countries like India and Pakistan, employment performance was weaker. The contrast in this respect is sharper for employment in manufacturing (Table 1). During 1986-92, 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 1975-80. 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.

Table 1: Growth and Elasticity of Employment in Manufacturing in Selected Countries of Asia

Country	1975-80	1981-85	1986-92
Bangladesh	-	-	3.07
China, PRC	-	-	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	6.47 (0.39)
Thailand	4.01 (0.61)	3.29 (0.68)	3.76 (0.38)

Note: Figures within 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 at the Bangladesh Bureau of Statistics, *Statistical Yearbook of Bangladesh*, 1997. The figure for China, PRC represents the period 1986-90, and has been calculated from data in *China Statistical Yearbook 1999*. The rest of the figures are from ILO, *World Employment Report 1996/97*, Geneva, 1996.

Another aspect of the labor market, which 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 to the modern (primarily manufacturing) sector, wage rates in the latter would also be important in achieving poverty reduction. In addition, a large number of the poor could be engaged in rural non-farm 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.

However, 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 not often covered by a systematic practice of collecting data on wages. What is thus available is usually fragmentary, non-standardized, and hence, often non-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 2, although rather dated, can help us examine differences in the growth of real wages between countries that attained an impressive reduction in poverty, and also between those countries where poverty reduction was rather modest. Both Indonesia and the Republic of Korea achieved high rates of real wage growth in manufacturing as well as agriculture (the former during the 1970s and 1980s, but Korea starting from the 1960s). And the record of poverty reduction was impressive in both countries (though at different levels). Growth in real wages in agriculture was high in Malaysia also (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 is 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 countries is much less impressive than those in the East Asian and Southeast Asian countries.

Table 2: Growth Rates of Real Wages in Agriculture and Manufacturing in Selected Asian Countries (% per year)

Country	Growth of agricultural wages		Growth of manufacturing wages	
	period	growth rate	period	growth rate
Bangladesh	1960-91	-0.73	1967-89	-1.05
India	1960-90	1.82	1963-90	1.74
Indonesia	1976-88	3.74	1970-91	5.52
Korea, Republic of	1960-78	7.06	1966-91	9.09
Malaysia	1971-92	3.96	1968-92	2.18
Pakistan	1970-92	2.94	1963-88	4.89
Philippines	1960-77	-1.10	1963-91	0.89
Sri Lanka	1980-90	-1.06	1966-90	1.03
Thailand	N/A.		1970-90	3.00

Source: World Bank, *World Development Report*, 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 3 shows that real wage rates declined in all five countries that were seriously affected by that crisis. In the extreme case of Indonesia, the economic 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 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 also (especially Korea and Thailand), declines in real wages and increases in unemployment were reflected in increases in poverty (Lee, 1998).

Table 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
Rep. 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: Betcherman and Islam (2000).

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 with many of them providing returns/incomes above the 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 which 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 non-farm activities (either self-employed or wage workers), and so on. They are “employed” in some sense; but the incomes of many of them are below the 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 growth can be 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 that has been followed by the East Asian countries that have been successful in alleviating poverty. And as mentioned earlier, policies can be geared towards 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 in raising 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, therefore, necessary 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.

6. 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 high 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. Also, the conditions necessary for the benefits of growth to trickle down to the poor are 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 employment 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 containing food, clothing, and shelter - is met mainly through one's individual (or private) income and consumption. And 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 - often cannot be satisfied through increases in individual income alone. Social welfare programs can be important in that regard. While such programs often are not targeted at the poor, to the extent they are designed to cover specific areas, e.g., slum areas in cities, villages in backward regions, the poor are likely to benefit more.

Programs of employment and income generation can also be of two types: (i) income generation through self-employment and (ii) wage-employment programs. Self-employment programs usually target the poor and assist them in undertaking income generating activities by providing them with micro-credit. 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: (i) how successful have the programs been in targeting the poor? (ii) how effective have they been in raising the incomes of the poor? and (iii) 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.)

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 in which large proportions of the beneficiaries are not poor. For example, in Bangladesh, credit and other assistance programs of 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 which 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 1992/93, 22% of the beneficiaries were close to the poverty line while another 4% did not even meet the criteria for inclusion in the program (Thamarajakshi, 1997). In the People's Republic of China, loans from the credit program for poor "collectives" often went to non-poor 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.

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

A well-known example of wage employment programs targeted at the poor is the "Employment guarantee scheme" in the Maharashtra State of India; and there is a good deal of debate regarding its success with respect to targeting. While a number of evaluations point to the success of the program in this regard, 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 non-poor beneficiaries was 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 much as 57% of the program participants were above the poverty line, and another 25% were quite close to that level. Only 5% belonged to the poorest of the poor.

In Bangladesh, the “food for work” program has been going on for many years now. And 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 the 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 employment generation and safety net provision to the poor. And one common problem faced by most of them was that of targeting. The mechanism of self-targeting could not work in most cases because wages were set at too high a level compared to that needed for self-targeting to work¹.

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% within less than three years. Another study (Alam, 1989) shows that the beneficiaries of other 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 NGO programs have increased. The experiences of Grameen Bank and BRAC

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

show that the probability for improvement in household consumption and welfare is especially higher in cases where women get 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 works program has provided much-needed employment and income earning opportunities to the poor during the lean periods of agricultural activities. 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 a considerable amount of debate about the effectiveness of India's IRDP in raising the incomes of the poor. Although some evaluations say that 30% to 40% of the beneficiaries have been able to cross the poverty line, others claim that this figure is much lower. Indeed, an earlier study (Rath 1985) maintains that seven years after the introduction of IRDP, only about 3% of the beneficiaries crossed the poverty line. One recent study argues (Thamarajakshi, 1996) that the credit provided by the IRDP is lower than the investment needed for generating sufficient income to cross the poverty line. This study points out further that when it comes to the government subsidy provided along with the credit fund, the beneficiaries received 20% less than what they should have received according to government accounts. The above point implies that a large amount of money, which the beneficiaries should have received as a subsidy, 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% of the people were interested in jobs; but in 1990/91, only 14% of them got work at the rate of 16 days per person. While the poor needed at least 100 days of work, what they actually got was much lower. Also, the share of wages in total cost was only 20% to 50%, although it should have been at least 60%. The "Maharashtra employment guarantee scheme," however, has a better reputation in terms of

raising incomes of the poor. While complaining of mistargeting, Gaiha (1996) points out that this program raised the incomes of the poor.

In the absence of in-depth evaluations of the recent employment programs in the countries of East Asia and Southeast Asia, which 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). The problems faced by these programs in reaching their target groups have been mentioned earlier. Despite such problems, however, the programs appear to have demonstrated their potential in providing safety nets during periods of economic crisis.

Coverage of the programs

Except in India, coverage of the self-employment programs seems rather limited compared to the number of poor in the respective countries. In Bangladesh, for example, the Grameen Bank and all other NGOs together cover approximately three million borrowers. Assuming one borrower per household, six members per household, and 40% of the 120 million people living below the poverty line, one can see that the programs mentioned above covered a little over a third of the poor in that country. The largest government program, run by the Bangladesh Rural Development Board, has covered a little over 100,000 borrowers. In comparison, the coverage of the wage employment programs is much broader. While the food for work program covers the entire country, 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.

Amongst the recent programs, the public works programs in Indonesia covered all Indonesian provinces in 1998. In the Republic of Korea, such programs covered over 70% 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 micro-credit 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 role

of 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. One of these maintains the importance of interventions aimed at bringing about structural changes in economic organization which could contribute to poverty alleviation through a redistribution of productive assets in favor of the poor. A variant of this approach focuses on the need to reorient macroeconomic and sectoral policies with a view to facilitating a pro-poor, employment-intensive growth of the economy, thereby making possible a broad-based sharing of the benefits of economic growth. 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 the approaches mentioned above, in order to achieve a faster and more sustained rate of poverty reduction, it is essential to adopt an integrated approach because the two approaches can complement each other effectively. For example, direct programs can provide much needed interim support to the poor, as the benefits of a reoriented development strategy with a conducive macro-economic policy environment may take time to reach the poor. This issue can be important especially in situations of acute poverty, which often get aggravated by external shocks causing crisis situations. Direct 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 of) the poor people through such programs. More importantly, 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

² Parts of this section, especially sections 4.3, 4.4, and the discussion on the informal sector, draw on Rodgers (1995).

macro policy environment which is conducive to their operation. The two approaches mentioned earlier should, therefore, be adopted and applied in such a manner as to derive the maximum benefit from their complementarity. Keeping the above in view, the rest of this section enumerates policy reforms in a few areas that would contribute to the objective of poverty reduction: (i) greater pro-poor orientation in macroeconomic and sectoral policies as well as in public investment programs; (ii) promoting productive employment in sectors where the poor could benefit; (iii) labor market regulations; (iv) reducing vulnerability in the labor market, and (v) enhancing the capabilities of the poor through human resource development.

4.1 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: (a) access to productive assets (e.g., land, equipment and machinery, knowledge and information, etc.); (b) returns on productive assets; (c) employment opportunities; and (d) access to social services (e.g., education and health) which in turn can influence the quality of labor supply. Indeed, there are studies showing that appropriate policies in the areas of trade, exchange rates, taxation, credit, subsidies, and pricing have played an important role in alleviating poverty in Asia through the channels mentioned above (Islam, 1990; Khan 1997). The process of formulating such policies, therefore, needs to be more sensitive to their potential impact (either via the 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.

4.2 Promotion of productive employment for the poor

The informal sector

While the informal sector is known to be characterized by a degree of heterogeneity, not only in terms of the type of activities, but also in terms of their productivity and returns, it is true that a large number of the so-called “working poor” are engaged there. Many of these poor are self-employed; and their low income could be due to a variety of factors, e.g., limited access to finance and productive assets due to their initial poverty, low levels of education and skills, etc. A

large number of them are in exploitative or coercive external economic relationships (e.g., with the suppliers of assets, inputs or credit or with purchasers of output). Policies and action to fight against their poverty will need to be based on a clear understanding of such varied factors.

There is, understandably, a degree of anxiety to put an end to the poverty of such people who work hard and yet are unable to generate enough income for a decent living. And the ultimate goal in that context is seen as the progressive integration of the informal sector into the formal economy, together with the application of the protective measures articulated in international labor standards. It is, however, important 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 their 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 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, p. 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 we do have useful

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.

experience based on work in these areas by government agencies, NGOs and multilateral agencies, what is important is to look for means of action through which such work can be replicated on a larger scale in order to have a significant impact on overall levels of poverty.

The rural economy

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

It needs to be noted, however, that a sustained reduction of rural poverty hinges critically on the growth of a productive and dynamic non-farm sector. Experience in Asia and elsewhere shows that rural non-farm activities can be of two broad types: (i) activities where the rural poor turn to as a desperate measure to eke out a living when there is very little alternative; and (ii) activities (often with strong linkage with agriculture) where productivity and wages are no less than agriculture and which have a dynamic growth potential.⁴ It is through the promotion of the latter type of activities that one can make a significant contribution to the goal of poverty reduction.

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

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).

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 non-farm activities. There are at least two more reasons for providing a particular attention to investment in this sector (from the point of view of poverty reduction). The first relates to the weight of this sector in a typical developing country economy. According to a World Bank report (World Bank, 1994), some 20 per cent of total investment and 40 to 60 per cent of public investment are allocated to infrastructure in developing countries. Secondly, given the range of technological options that are available for this sector, it is possible to use investments here as a means of generating much needed employment for the poor (while at the same time, carefully planned infrastructure can help growth of economic activities that would benefit the poor). And that can often be done without compromising on quality and cost-effectiveness. In fact, labor based approaches could also be applied in urban situations where they would contribute simultaneously to an improvement in conditions of living of the urban poor and improvements in urban environment. Upgrading urban slums (through clearing and paving of roads, improving drainage), 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, non-discrimination, wages, safety requirements, etc.) 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 successfully contribute to poverty reduction. Indeed, evaluations show that with good program design, especially based on decentralized planning and community involvement, and effective implementation, labor based approaches in infrastructure can make valuable contribution to the goal of poverty reduction.

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

4.3 Labor market regulations

Regulation of contractual relations in employment can cover a variety of aspects like wages, other terms and conditions (e.g., those relating to 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 a small part of the economy in developing countries, and where poverty is less) and as such may not be directly concerned with poverty, there are aspects which are potentially important in 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, e.g., the extent of coverage, the extent of compliance, the indirect effects of minimum wage on overall labor demand, effects on labor productivity, etc. 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, e.g., employment security, forms of contractual arrangement (especially, measures designed to put an end to exploitative practices) can also contribute to the fight against poverty. But in order to be effective, they also need to be applied widely.

4.4 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 on new techniques of production. More generally, it also enhances the capacity to respond to market opportunities in both farm and non-farm 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 are required to 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 are required to ensure that school fees and other cost-recovery measures do not prevent access by the poor to education and training. Positive measures to promote greater school enrolment and attendance by the poor will also often be required. At the same time, 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 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 non-farm activities of the type that can raise the productivity and incomes of the poor.

4.5 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, e.g., age, gender, ethnic groups, or household status. While all these factors are important and need to be addressed, here we are focussing only on gender-related vulnerability.

Women face a disadvantageous situation in the labor market due to a variety of factors, e.g., lack of control over assets, competing domestic and labor market demands on time, lack of access to training, and discrimination in the labor market. Different types of interventions will be needed to

address these various factors contributing to vulnerability. 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. On the other hand, 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, markets as well as credit. For certain groups which are especially vulnerable to exploitative practices (like home workers), additional interventions (e.g., promotion of organizations) aimed at strengthening their bargaining power will be required.

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