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**Promoting Employment through EU Development Cooperation**

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## COMMISSION STAFF WORKING DOCUMENT

### Promoting Employment through EU Development Cooperation

#### 1. INTRODUCTION<sup>1</sup>

##### 1.1. Why employment is important for development

Globalisation has undoubtedly led to economic growth and brought many other benefits. However, these benefits are not always shared equally across all countries and groups. To ensure a more balanced distribution of income and resources it is necessary to promote decent work for all.

Growth is a necessary condition for sustained job creation and poverty reduction. But strategies aimed only at boosting growth may miss opportunities to create employment and to reduce poverty. High, and sometimes increasing, income inequality dampens the poverty-reducing effect of growth. Growth delivers poverty reduction more effectively when it occurs in sectors and regions where most of the poor live and earn their incomes, and when it results in more and better jobs. In the long run, however, growth and job opportunities are likely to be stronger outside agriculture and in cities which requires geographical and sectoral labour mobility. Employment can therefore be seen as the bridge between growth and poverty reduction. People can earn the income needed to lift themselves and their families out of poverty only if sustained growth is translated into productive employment opportunities for all, without discrimination. This is the case especially for young people and women. In this way, economic growth can result in greater social cohesion as well as assist in eliminating an important push factor for migration.

There is now an increased international acknowledgment of the need to step up efforts to promote employment through development cooperation. Although employment as such is not one of the Millennium Development Goals (MDGs)<sup>2</sup>, there are many ways through which it contributes to reaching the MDGs. The importance of employment is reflected in the Millennium Declaration and in section 47 of the 2005 World Summit Outcome Document, which represents an important step towards a more integrated way of reaching the MDGs.

In the European Consensus on Development (2005)<sup>3</sup>, employment and social cohesion constitute one of the nine recognised areas of Community action and are also central to the EU regional strategies and the thematic programme “Investing in People”<sup>4</sup>. In May 2006 the European Commission adopted a Communication on Decent Work<sup>5</sup>, which was followed by Conclusions of the EU Council of Ministers, a Report by the European Parliament and an Opinion by the European Economic and Social Committee.

Decent work calls for the integration of economic and social objectives and for a combination of measures in the areas of productive employment, rights at work, social protection and social dialogue. Gender equality is integrated in all dimensions. In the context of globalisation, the promotion of decent work should also be considered as a contribution to the improvement of all the social models in the world. Decent work for all must be our goal. However, in promoting decent work for all, the EU has to take into account the characteristics and diverse nature of the economic and social situations across the world. The challenges are not the same in all countries, and what works in one country will not necessarily be successful in another. Many low-income countries might initially have to focus on the creation of new

productive jobs in the formal economy, on improving the poor living and working conditions in the informal economy and on integrating the informal economy into the formal. In other countries the focus can be on other elements such as better addressing skills shortages and transitions in the labour market. However it should be highlighted that the promotion of the effective application of core labour standards should be taken up by all countries in line with their international commitments. This Staff Working Paper focuses primarily on issues related to employment and the labour market. However, it takes into account the other pillars of decent work as these are interconnected.<sup>6</sup> After outlining the main problems facing developing countries in the area of employment, it provides guidance on how to start addressing the main challenges at country and regional level and how EU development policies can contribute to promote employment. An objective of the paper is to trigger a broader debate with EU Member States on how best to promote employment through development policies within the overall framework of decent work. At a second stage the conclusions of this Paper should also feed into the programming of EU aid.

## **1.2. The added value of the European Union**

The European experience shows that social development and social cohesion are in fact drivers of economic growth, and not a hindrance. This has also been recognised by the World Commission on the Social Dimension of Globalisation (2004). The EU therefore provides specific added value in promoting the social dimension of globalisation not only in the EU but throughout the world.

The mutually reinforcing policy objectives of economic growth, full and productive employment, social development and environmental protection require full synergy between the different policy areas. There also has to be strong interplay between efficient, transparent and accountable ministries of labour, social affairs, gender equality, education, environment, planning and finance, and related national research institutions, as well as the private sector and other key stakeholders. While the European models provide benchmarks for all of these aspects, it is clear that the building of equivalent governance structures in developing countries will require significant time, resources and, above all, political commitment and will. The EU's economic and social models cannot simply be transposed to other parts of the world.

As reflected in the European Consensus on Development, the EU working together is an important catalyst for positive change. The political dialogue with partner countries is a key dimension as it paves the way for a constructive and wider dialogue with partner countries on their policy priorities.<sup>7</sup> The EU is also the most important economic and trade partner for developing countries, offering specific trading benefits.

The recent EU commitment to substantially increase ODA in the next few years provides an important opportunity to address employment. The EU, as the world's largest provider of ODA and with its experience in combining economic development with social justice, has a particular responsibility in this regard. However, given that only a limited part of the proposed increase in EU development funding will be channelled through the European Commission<sup>8</sup>, mobilising increased European support for promoting employment issues will require close collaboration between the Commission and EU Member States.

## **2. THE MAIN PROBLEMS FACING DEVELOPING COUNTRIES**

### **2.1. Population and demographic challenges**

While Europe is confronted by an ageing population, many developing countries, not least in Africa, face population growth leading to a big youth cohort. For example, today more than 200 million people in sub-Saharan Africa are aged between 12 and 24. Although the rate of population growth has slowed down, this number is still expected to rise and to peak in about 15 years (IUSSP 2005). These numbers underline the challenges facing developing countries in the coming years in terms of their ability to create enough jobs to absorb the big youth cohort into their labour markets. However, this demographic transition also presents a window of opportunity for these countries to invest in their youth, in terms of basic health, education and the improvement of their skills (World Bank 2007).

Less experience and inadequate or lacking education put young people at a disadvantage. During periods of economic upturn they are the last to be hired, and during economic downturns they are often the first to be fired. In Chile, for example, the employment rate of young men (aged 15–24) declined at least twice as much as for adult males during economic slowdowns (World Bank 2007). Globally, half of the unemployed are young people, who are three times more likely to be unemployed (ILO 2006). The problems related to youth employment are partly due to low quality of education and high drop-out rates as well as to a mismatch between educational outcomes and changing skills demanded by the labour market. Many workers lack the skills to integrate into the labour market in the formal economy. One of the main challenges is the absence of direct links between vocational education and training (VET) and the demands of the labour market. This is at least partly due to policy-makers' lack of access to reliable labour market information (quantitative and qualitative) and capacity gaps in planning and policy formulation.

HIV/AIDS and the brain drain are causing human capital to diminish in many developing countries, not least in Africa, and the people affected are among the countries' most productive workers. The brain drain reduces the supply of skilled and professional workers, which in turn reduces employment opportunities for semi-skilled and unskilled labour. In addition, the workers leaving are usually young, highly motivated and the best educated, and the countries are thereby deprived of their most creative force. This loss hampers the creation of a more dynamic private sector.<sup>9</sup> The problem of brain drain is especially severe in the health sector. In recent years thousands of doctors and nurses have left developing countries for more lucrative positions in developed countries, leaving many regions unable to provide access to basic life-saving services or to utilise the resources being mobilised to fight HIV/AIDS, TB and malaria. This problem is being addressed by the EU Programme for Action on Human Resources for Health.

### **2.2. Underemployment and the working poor**

The relevance of concepts like employment or unemployment has a different dimension in developing countries. In most developing countries very few can "afford" to be unemployed and must therefore take whatever job they can get in order to survive (Osmani 2005). Such jobs are often in the informal economy with very poor working conditions and low earnings and with no or little social protection. Official unemployment rates are therefore often of little relevance since the relationship between the formal and informal economy is not taken into account. The main problems tend to be underemployment and the high number of working

poor (individuals who are working but still fall within the category of poverty by earning less than US\$2 per day) with women and young people making up the majority of these.

### Gender discrimination

Almost half of the world's workers (approx. 1.37 billion people), the majority of them women, are unable to earn enough to lift themselves and their family members out of poverty (ILO 2007).

As set out in the recent European Commission Communication on "Gender Equality and Women Empowerment in Development Cooperation", trade liberalisation has had a positive impact on economic growth and job creation in the long-term but, if not managed appropriately, may also result in short-term negative consequences for vulnerable men and women. At the same time, trade liberalisation has provided new opportunities for many women in developing countries, providing new employment, and in many cases reducing the gender gap in wages, leading to greater empowerment and social standing of women in society.

Women are also still discriminated against in the labour markets of every society of the world, particularly severely in many developing countries. Women's access to the labour market faces many constraints. Less is invested in the education of girls. From their youngest age, women devote a large amount of their time at home in domestic chores, which impedes their involvement in education. 57% of the school age children not in school are girls and almost two thirds of the world's illiterate people are women. Women are also disproportionately involved in unpaid work. Also, if they are paid, they earn less and their jobs are often confined to areas traditionally identified with women where they earn lower wages.

Low female participation in the labour market can be one of the major causes of poverty. Conversely, women's empowerment and employment helps to raise economic productivity and contributes to reaching the MDGs. Women do however not only work to get an income. They can also achieve higher levels of autonomy and enjoy a better self-esteem if they enjoy an adequate education and if their skills are not under-utilised. Thus, the inclusion of women into the labour market is a key issue. However, they may find themselves with less free time and a deteriorated quality of life if their role within the household is not reconsidered. The design of employment policies thus have to take into account the complex effects of the incorporation of women into the labour markets.

### **2.3. The large informal economy**

In most developing countries there is a large informal economy where most jobs and job creation are concentrated. SMEs – including many informal ones – contribute to job creation to a considerable extent. 50–60% of the labour force is working in small private entities (ILO 2005b) and in Africa and Latin America the informal economy contributes 41% of the GDP (ILO 2005b). According to a study conducted in seven African cities<sup>10</sup>, 76.2% of the urban labour force is employed in the informal economy (Brilleau, Alain; STATECO, 2004). This percentage is often higher in rural areas. It is therefore important to reflect on the challenges posed by the informal economy.

There is a high degree of non-conformity with laws and regulations (e.g. health and safety) in the informal economy. Workers tend to have lower salaries (or even no cash salary at all), poor working conditions with limited or no social protection compared to workers in the

formal economy and thus face a substantially higher prevalence of poverty and greater vulnerability to risks. Also, the informal economy contributes relatively little to government revenues due to the fact that tax legislation seldom applies or is not enforced. In addition, enterprises in the informal economy are in unfair competition with formal enterprises as they avoid business costs linked to registration and regulation. The significance of these challenges is underlined by the fact that, in most developing countries, the majority of all new employment opportunities are created in the informal economy (ILO 2006b).

The informal economy does, however, give income-earning opportunities to those who would otherwise be without any means of livelihood and it offers potential for entrepreneurship, innovation and creativity, as well as scope for operating with a high degree of flexibility. Any formalisation of the informal economy must therefore be done in such a way that it does not jeopardise the only means of livelihood for millions of people.

#### **2.4. Weak governance, inadequate labour regulations, lack of indicators, data and labour market research**

Poorly adapted labour market regulations and poor social protection coverage are also major problems in most developing countries. Few rules apply in the informal economy and many workers and their families live and work in very poor conditions. This is especially the case in rural areas. Few labour ministries are able to ensure enforcement and compliance with labour regulations and occupational safety and health standards, including the protection of pregnant workers, through adequate inspection of working conditions. Employment agencies and placement services also lack adequate resources to ensure correct matching of labour demand and supply.

On the other hand, the formal economy is sometimes subject to overly rigid regulation. Although protecting labour is important, overprotection can raise the real cost of labour and thereby discourage investment. Such policy failures can also have an unintended impact on youth employment. Labour market restrictions and employment protection laws can impede young people from entering the job market. The lack of adequate and sustained social protection, limited coverage and poor governance of social protection can also discourage workers and their organisations from adapting to change and to agree with more effective labour regulations.

Countries with integrated and efficient labour markets that combine flexibility with security (including well designed employment regulations and contractual arrangements, adequate employment oriented social protection as well as effective active labour market and training, retraining and guidance policies) are best placed to maximise the opportunities and benefits of globalisation and more open trade. While developed countries have started implementing such policies, many developing countries risk losing out on the potential benefits of more open trade while at the same time facing the costs of protectionism and of an uncompetitive business environment.

There is often a lack of horizontal cooperation between and within relevant institutions responsible for economic growth and employment performance. Therefore, in addition to carrying out necessary reforms in the labour market, labour market policies must be integrated with other policy issues relevant to employment, such as education, economic, financial, social and environmental policies. There is a need for parallel progress in both labour and product markets and related regulations.

Also, entrepreneurship is often insufficiently encouraged. The cost of registering a company is one of the main reasons why many small businesses remain informal (World Bank 2005a) and why private investment is lagging. Many informal enterprises fail to grow and succeed in the formal economy because the credit system is rigid, costly and inaccessible to start-ups (World Bank 2006b) and because the entrepreneur lacks accounting and market analysis skills. Women are in all these respects more disadvantaged than men. They are often discriminated against in terms of inheritance rights, in ownership of property and face difficulties in access to credit. Moreover, bribes are a major impediment to business and the incidence of corruption is often linked to unpredictable and non-transparent interpretation of regulations.

Yet another problem is the lack of empirical analyses and of policy-relevant research. Many poverty reduction strategies are silent on employment. Systematic reliable and relevant labour market data in many developing and emerging economies are rarely available, which undermines the capacity to translate political agreements regarding the importance of employment into concrete development strategies, programmes and budgets. Although international institutions such as the ILO, the World Bank and regional development banks have launched initiatives on improving knowledge on the labour market<sup>11</sup>, there is a need for more systematic collection of data that should be broken down by sex, for analysis and research to address underemployment and decent work deficits and for these to inform the poverty reduction and development policies of our partner countries.

### **3. POLICIES CONDUCIVE TO EMPLOYMENT**

In this chapter the focus is on how best to address some of the most urgent challenges at country and regional level and on how EU development policies could contribute.

#### **3.1. Country level**

##### *3.1.1. Fostering employment through the development of the private sector*

The private sector, in both the formal and the informal economy, is the primary engine for growth. A modern economy must be based on a strong well-functioning formal economy that creates jobs. An advantage of a strengthened private sector in the formal economy is that the benefits from formal private-sector activity consist not only of income for the employers and employees but also of contributions to government revenues and therefore to public expenditure.

In many developing countries, however, the public sector has traditionally been the key formal employer. The public sector is often more attractive as regards wages, security, status etc. compared to the private sector. Highly-qualified school leavers may choose to remain unemployed while waiting for lucrative positions within the public administration (World Bank 2007).

This tendency has been compounded by the fact that the formal private sector has so far been unable to create enough jobs to absorb all new entrants to the labour market. To increase employment opportunities for women and men in the formal economy, governments must therefore enhance efforts to create an enabling environment for private-sector development. In this context it is relevant to emphasise the importance of overall macroeconomic stability for investment, growth, poverty reduction and employment.



## – **Removing barriers to formalisation**

The informal economy largely remains informal because it provides economic advantages to many actors. To enable the gradual formalisation of the informal economy, it is therefore necessary to create incentive systems to stimulate and encourage formalisation.

There is a continuum between informality and formality in the market. Few companies follow all the rules governing the private sector and few follow none at all. Companies tend to calculate the costs and benefits of following the rules, and only do so as long as the potential benefits outweigh the costs. Where regulations are expensive and heavy, companies often operate in the informal economy, remain small and create few jobs (OECD 2006).

For governments to understand the specific constraints facing informal companies and why there is sometimes resistance to formalisation, it is necessary to maintain a regular dialogue with actors in the formal as well as the informal economy because they can assist in identifying the most necessary reforms. Barriers to formalisation include not only regulatory and administrative constraints, including lack of formal residence status for migrant workers but also less tangible matters such as socio-cultural attitudes and the prevalence of corruption. Overcoming these barriers will allow companies to grow faster and create more formal jobs. More formal jobs will mean that more workers are protected by social protection mechanisms and safety at work regulations. Female and young workers have the potential to benefit the most from these changes as they are over-represented in the informal economy. In the formal economy companies also have a role to play through Corporate Social Responsibility initiatives.

Attracting companies into the formal economy through easier start-up procedures has several advantages. First, formally registered companies grow in size and efficiency because they have less need to hide from inspectors and the police. Second, formal companies pay taxes, thus increasing the tax base for government revenue. As more companies move into the formal economy, governments can lower the corporate tax burden. This gives every business more incentive to produce (World Bank 2006d).

## – **Improving the business environment and encouraging entrepreneurship**

Improving the general investment climate is essential for strengthening the long-term development of the private sector. Reforms will help to attract investors. India's economic boom in the 1980s, for example, started by introducing reforms creating a favourable climate for investment (World Bank 2007b), resulting in significant job creation.<sup>12</sup>

To harness the job-creating potential of SMEs, it is necessary to promote a culture of entrepreneurship where starting a business is not perceived as a second-best option to finding employment in the public sector. There is already a high degree of energy and entrepreneurship in the informal economy which can be tapped into.

Predictable rules, low entry and exit barriers, secure property rights and enforceability of contracts are essential conditions for promoting investment and stimulating entrepreneurship. For example, securing property rights can reduce costs for businesses and increase efficiency. Many countries have already embarked on reforms. El Salvador, for example, reduced the time needed to start a business from 115 to 26 days in two years. This was even achieved without changes to the law (World Bank 2007b). Reform is, however, still urgently needed in many countries worldwide, not least in Africa. Entrepreneurs face more regulatory hurdles in

Africa than in any other region. Yet in 2004 reform was slower there than in other regions (World Bank 2006d). Entrepreneurship can also be encouraged through education and training and by including the teaching of entrepreneurial/business skills at secondary school and at university.

#### – **Promotion of competitive markets**

Competitive markets are more likely to provide the poor with opportunities to be employed or to start their own business. If a company operates in a competitive national market, it increases the likelihood that the firm is competitive internationally. This is important since it is especially the labour-intensive, export-oriented industries that have the highest potential to create jobs for the poor.

A well-defined competition policy is needed in order to avoid the negative effects on employment sometimes associated with unregulated markets.<sup>13</sup> One of the most urgent areas for attention is in those sectors where barriers to entry are high. It is, however, important to proceed with caution where there are substantial vested interests that might oppose change. This means that support from politicians, consumers and social partners is often crucial.

The taxation system is important for competition policy. The tax system must be simple, transparent and free of distortionary tax exemptions. However, the tax system is an important policy instrument for promoting investment and stimulating employment creation.

#### – **Reforming the financial sector**

In many developing countries, banks are reluctant to lend to SMEs. Small-scale loans tend to be high risk, to carry high transaction costs, and to produce low returns for the bank. Evidence from Africa shows that, the smaller the firm, the less likely it is to obtain formal loans (Economic Report on Africa 2005). As pointed out by De Soto, a key problem is that the lack of access to finance is closely associated with the absence of formal property rights. Although the poor hold assets in the form of land, houses and small businesses, these holdings are often not adequately documented and thus cannot easily be used as collateral for a loan. The situation is even worse for women who often lack the legal right to own property. Registering and legalising the extra-legal property of the poor would provide them with easier access to finance and thus promote local investment.

Microfinance institutions have developed innovative products and mechanisms that overcome the constraints of rigid collateral systems and high lending costs. They are therefore able to broaden access to credit by SMEs and the poor, especially women. These institutions complement the formal banking sector in extending financial services to the poor.<sup>14</sup> Funds have been allocated from the EDF to establish an Investment Facility, implemented by the European Investment Bank, which uses a system of global loans via financial intermediaries and other financial instruments to help improve SMEs' access to finance, including micro credit.

#### *3.1.2. Governance: establishing a broad partnership and building institutional capacity*

As we saw in section two, employment is also very much a governance issue. Effective labour market policies require appropriately managed institutions. Building these institutions is, however, not an easy task and will require time and political will. Progress will be gradual and the goals outlined below will only be achievable in the long term.

Strong, responsive, transparent and accountable labour market institutions are crucial for setting a good balance between labour market flexibility and worker security. It is therefore important for donors to support capacity-building for labour and social ministries, related research institutions, employment/placement services, labour market players and social partners.<sup>15</sup> Macroeconomic policies must be designed in such a way that they enhance the competitiveness of the overall national economy in general and of local companies in particular while improving the employment situation.

Budget support opens the door to a constructive and wider dialogue with partner countries on their policy priorities. The EC and a number of EU Member States are currently strong proponents of budget support. It is therefore essential that the EU increasingly includes employment in its political dialogue with partner countries linked to budget support. This issue is addressed more thoroughly in Annex II.

Building institutional capacity in developing countries and promoting a broad partnership of relevant stakeholders is essential. In order to achieve sustainable employment growth, prioritising not only more but better jobs, it is necessary to establish a comprehensive employment strategy which coordinates the actions of all relevant ministries, social partners and other actors responsible for economic, industrial, educational and social policies and employment creation (including entrepreneurship). Employment policies should also take account of social and territorial cohesion issues at national and local levels.

#### – **Labour market policies**

A well-functioning labour market policy must be based on reliable labour market information, a comprehensive labour market assessment and/or a decent work country programme. The main deficits and bottlenecks in the labour market concerned need to be known, as it is necessary to examine whether these relate primarily to the areas of education and skills development, placement and consultancy services or to the lack of adequate jobs. These bottlenecks must be identified before any major interventions in the area of employment can start.

Social and labour ministries must be empowered to argue successfully for the inclusion of employment policies in national poverty reduction strategies and to liaise effectively with other ministries on such topics as vocational education, management of labour-intensive public works programmes<sup>16</sup>, financial and social transfers and the monitoring thereof, etc. To improve data collection national statistical programmes should also be strengthened.

#### **Box 1**

##### **Improving the knowledge base**

Better data and analysis on employment issues is crucial. To improve the knowledge base, the EU should consider supporting the following initiatives:

Indicators and assessment of trade on labour markets: The ILO is currently working on developing reliable decent work indicators, including specific indicators related to formal and informal labour market functioning and adapted to the specific situation in individual developing countries.<sup>17</sup> The ILO also intends to develop tools for assessing the effects of international trade on the labour market and social adjustment in developing countries. These projects build on an EU-sponsored ILO study: “Using Decent Work Indicators to Measure the Impact of Trade on Labour” (2006), which examined and further developed existing methodologies and checked the availability of data in two countries representing LDC and MIC (Uganda and Philippines). Further support for this work is being considered through the new Thematic Programme Investing in People.

Labour market research for better policy-making for job creation in developing countries: The World Bank is

setting up a new Trust Fund to support cutting-edge research by the global academic and research community on key policy issues related to job creation and the reduction of inequality and social exclusion.<sup>18</sup> UN DESA is also strengthening its activities on employment and social policy analysis.

Training: It is important that EU staff in Headquarters and in Embassies and Delegations are aware of the importance of employment in reducing poverty and that they have access to information on how to design projects and programmes with employment as the primary or secondary objective. The Commission will therefore continue its initiative to organise training seminars in EC Delegations.<sup>19</sup> The EU should also consider financing the development of a toolkit on how to integrate employment in infrastructure, rural development and private-sector development projects and programmes.

Promotion of the Core Labour Standards (CLS)<sup>20</sup> must be a fundamental element of any employment strategy. To eliminate the worst aspects of exploitation and inhuman working conditions, and to ensure non-discrimination in respect of employment, the EU must continue its long-standing commitment to the promotion of CLS and support of the ILO.

In this context it is relevant to draw attention to an EU initiative that aims to create incentives for developing countries to improve governance. In the context of the 10th European Development Fund, the Commission has proposed an Incentive Tranche (global figure approx. €3 billion for the period 2008-2013). Good performance on a number of governance-related issues, including signature and ratification of the eight fundamental ILO Conventions, will be encouraged through this Incentive Tranche. It is believed that this initiative will be central in promoting governance, including better ratification and implementation of the CLS.<sup>21</sup>

Recently the international community has also strengthened, with strong EU support, its efforts to promote health and safety at work, with particular attention being paid to developing countries.<sup>22</sup> The EU must also support better application of labour regulations and standards by contributing to capacity-building efforts for labour inspections in line with international standards.

Regulation n° 1905/2006 establishing a financing instrument for development cooperation imposes an obligation on companies submitting tenders for contracts financed by the Community budget to respect core labour standards.<sup>23</sup> The EC is currently discussing with ACP partners to extend this obligation to contracts financed under the European Development Fund. As stressed in the Decent Work Conclusions of the EU Council of Ministers, this obligation should be applied by all EU donors. It will be important to evaluate the impact of this new rule to ensure that it has not had the unintended effect of excluding developing country contractors.

#### – **Education, Vocational Education and Training (VET), science and technology**

In line with the MDGs, special efforts need to be directed at primary and secondary education and at the successful participation of girls and women at all education levels. Such investments will have multiplier effects for developing countries in terms of both employment and development.

Mismatch between skills offered (labour supply) and skills required (labour demand) in an ever-changing labour market is a common problem. VET is the entry point to address issues of labour supply and improve employability, productivity and competitiveness. Apart from some courses designed to promote trainees from the informal economy to the formal economy, relatively few VET programmes currently address the needs or training potential of the informal economy (AFD 2005). There is also a need to build upon “informal” skills.<sup>24</sup>

In today's globalised world, intangible elements such as the capacity to generate and use scientific and technological knowledge, access to information and human creativity will give countries a competitive edge and a chance for socio-economic development and decent work. By successfully developing their human and institutional resources, developing countries can reduce poverty, and achieve increased economic growth and job creation. To achieve this, investment in education, science and technology for development is important.

A comprehensive national education strategy is the best way to address all the concerns mentioned above. Such a strategy will cover all the levels and types of education and training in a balanced way and be guided by a lifecycle approach to lifelong learning. Specific measures for women and young people should be incorporated into the VET and skills development component of such a strategy, in particular through the development of non-formal VET.

#### – **Employment placement/guidance services**

For VET to be efficient it needs to be accompanied by active labour market policies linking the development of skills with other labour market actions such as employment services. These services are crucial for a well-functioning labour market. National agencies, including national employment services, should be reinforced to link supply of labour with demand.<sup>25</sup> These services, such as job brokerage and counselling offices, could also become key factors in protecting core labour standards and promoting health and safety at work through information and awareness-raising activities.

Both public and private employment services may therefore be promoted by the EU, as they facilitate a dynamic labour market and can be comparatively effective and inexpensive. It should be noted, however, that these services are most relevant in countries where the demand for labour is high.

#### – **Social Protection and better functioning of labour markets**

The lack of adequate and sustained social protection, limited coverage and poor governance of social protection can also discourage workers and their organisations from adapting to change and to agree with labour regulations that combine flexibility and security. Therefore social protection, together with flexible and secure contractual arrangements, active labour market policies and life long learning, is part of the efforts to better combine flexibility and security.

Social protection is not effective in many developing countries because of poor governance of social protection institutions and systems and limited coverage. Initiatives to strengthen the institutional capacity and the increased participation of external stakeholders should therefore be developed. The approach should take into account the different systems and funding modalities (universal basic coverage, transfers in cash, contributive systems or combination of these) with a view to strengthen the coverage and to ensure sustainable and adequate resources. The initiatives could also contribute to strengthen transparency, financial management and collection of contributions.<sup>26</sup>

#### – **Social dialogue**

Since many labour regulations are contested and the interests of employers and employees sometimes differ, social dialogue and transparency are needed to find compromise and build

consensus. To this end, freedom of association for employers and unions is essential. The cost of not engaging in social dialogue includes production losses due to labour disputes and conflicts. Prevention and resolution of labour disputes must also be strengthened by establishing mediation and conciliation mechanisms. Efficient resolution of legal disputes must be facilitated by strengthening judicial institutions that are easily accessible both for workers and for employers.

National social partners must be encouraged to achieve their potential to become key players in the development process. This would also reinforce governance. In light of the large informal economy in many developing countries, it would be especially important to strengthen the organisation and representation of workers and employers in the informal economy.

Involvement of social partners is key in shaping labour market measures. Business representatives' awareness of the importance of skilled employees and human resource management for higher productivity and improved market share needs to be strengthened. Public/private partnerships should be consolidated for systematic co-designing, co-managing and co-financing of vocational training and labour market information systems.

## **3.2. Regional level**

### *3.2.1. Trade*

The EU has been developing a coherent policy framework for development, employment and trade. Initiatives in the Doha Development Agenda include "aid for trade", duty free and quota free access of goods from LDCs to developed country markets, trade facilitation and other measures. EU bilateral trade policy includes the Generalised System of Preferences which are linked to ILO core labour standards, as well as commitments to CLS in all Free Trade Agreements and the implementation of EU Trade Sustainability Impact Assessments. Other bilateral and multilateral trade initiatives for promoting decent work for men and women, alleviating poverty and promoting the social aspects of sustainable development are set out in the EC Communication on Decent Work.

#### **– Economic Partnership Agreements (EPAs)**

The small size of the domestic market is a major obstacle to expanding formal-sector employment in many developing countries. This prevents firms from exploiting economies of scale and acts as a disincentive to market-seeking foreign direct investment. One of the main objectives of negotiation of the Economic Partnership Agreements between the six ACP regions and the EU is to create integrated regional markets within those regions to attract foreign investment. By their greater market size and the predictable application of sets of homogeneous rules EPAs will further the creation of new jobs and assist in poverty alleviation. EPAs go far beyond preferential market access, complementing the WTO multilateral process by helping to integrate the ACP into the world trading system. They aim to turn the existing ACP economic dynamics, characterised by contraction of trade, ever diminishing world market share and negative employment consequences, into a positive one of expanding trade opportunities, investment, jobs and development. EPAs should also help to lower production input costs and thus enhance the competitiveness of domestic production and employment. EPAs can help remove some of the bureaucracy that often prevents formalisation, expansion of new businesses and associated jobs. Changes therefore need to be introduced gradually, and exposed sectors may need assistance to adjust smoothly. The EU is

committed to help. Nevertheless, it should be clear that whilst EPAs ought to provide a positive contribution, their overall effect on employment will depend on their interaction with domestic policies of the ACP countries themselves, such as those outlined elsewhere in this Paper, starting with the incorporation of trade into national development policies.

The effect of this combination of rules, preferences, aid and integration is far greater than the effect of each individual element. This is why the EU places great emphasis on the package of EPA measures that comprises:

- Regional integration: EPAs will be region to region agreements, supporting ACP regional integration to build competitive markets and remove barriers to trade within the ACP.
  - Rules: The EU believes that the EPAs will promote trade and investment in the ACP countries by providing a transparent and predictable rule-based framework in key areas such as investment, competition, trade facilitation, public procurement and intellectual property.
  - Services: EPAs will provide ACP countries with the opportunity to strengthen and diversify their economies and promote sustainable development and employment growth through appropriate and timely removal of barriers to trade in services.
  - Market access: The EU will maintain and, wherever possible, improve current market access for the ACP countries.
  - Social sector support and environment: Through the EPAs the EU aims to promote decent work including the ILO core labour standards and international environmental standards.
- **Aid for Trade**<sup>27</sup>

With increasing globalisation, trade has become an important driver of sustainable economic growth. Following the recommendations of the World Commission on the Social Dimension of Globalisation, policy-makers have a responsibility to maximise the employment benefits that come from trade liberalisation while ensuring that employment and social policies help labour markets adjust smoothly in the short term, providing more vulnerable workers with basic social protection and opportunities to retrain and reskill. Coherence of development, employment and trade policies is central to maximising the employment benefits of global trade and to increasing the quantity and quality of jobs in developing countries. This is a challenge for public authorities, social partners and other stakeholders in all countries worldwide.

Support provided under aid for trade may contribute to tackling some of these challenges in developing countries. The ILO intends to develop tools for assessing the effects of international trade on social adjustment in developing countries, following the EU-sponsored ILO study in 2006 on “Using Decent Work Indicators to Measure the Impact of Trade on Labour” (see Box 1 for details). The EU could back this up with aid for developing policy measures to help vulnerable workers and the un(der)employed in developing countries, including policy frameworks for the provision of social protection, strengthening general education, vocational education and training and retraining in new skills.

Concerning the EPA negotiations, the Community is committed to help the ACP countries ensure that the appropriate development strategies are in place to facilitate the necessary economic, social and environmental adjustment as well as the required flanking policies, thereby promoting sustainable development in the ACP countries. In order to better fulfil these objectives, the Community has initiated sustainability impact assessments prior to the start of negotiations. These assessments aim at providing a better understanding of trade, development and environment linkages and identifying the best policy mix.

### 3.2.2. *Mobility and migration*

Mobility and migration, both within countries and across borders, is a normal phenomenon. Historically it has generated benefits for both sending and receiving countries. Mobility per se has a positive effect on the supply and quality of the labour force within a given internal and regional labour market, while remittances back home contribute to economic growth and poverty reduction in countries of origin.

Significant regional imbalances with labour supply not matching demand can be tackled among others through worker mobility. The EU has experience with internal EU labour mobility. Greater workforce mobility, both between jobs (occupational mobility) and within and between countries (geographical mobility), is considered to be the key to combating skills shortages and bottlenecks which might act as a brake on the economy. The real question is how to manage international migration so as to maximise the positive and minimise the negative impacts (such as brain drain, or illegal migration that often leads to situations of illegal work and exploitation). Illegal and uncontrolled migration can have adverse consequences for both the home and the host country and needs to be fought. It is therefore important to integrate migration, education and employment policies. Policy dialogue on migration with countries of origin and transit, including at regional level, can help to fight illegal migration and, more generally, achieve better management of migratory flows. Providing information on the implications of illegal migration is also important. In this regard, the EU has funded information campaigns in countries of origin and transit to highlight the risks of illegal migration, for example through the AENEAS programme.

It is important to mention that, in many parts of the developing world, migration is above all a regional phenomenon that, if well managed, can help address imbalances between national labour markets. For example, out of the 4 million Malian migrants to various regions, 3.5 million are living in other countries of the West African sub-region as against approx. 200 000 in Europe.

The main reason why people migrate, sometime illegally, is the lack of employment, opportunity and security in their country or region of origin. In order to tackle the root causes of illegal migration it would therefore be necessary to help low-income countries to provide jobs for their people and especially their youth. In particular, the availability of credible employment opportunities – where necessary in the framework of partnerships between institutions in developing and in developed countries – for the highly skilled, seems to offer the best response to brain drain. Efforts to boost local and regional development should be reinforced and a positive environment for employment creation needs to be encouraged to brighten the future of young people. Without the possibility of a decent life in countries of origin, people will continue to migrate, including through illegal ways. Half the migrants in the world are women. Although mobility per se may have positive effects and can help women challenge restrictive gender roles, migration can also lead women into domestic service or into sex work against their will.



One important aspect of managing migration is to offer viable legal migration alternatives to illegal migration. The Policy Plan on Legal Migration<sup>28</sup> outlines the Commission's view on how to further develop common policies on legal immigration, in particular on economic immigration. Several legislative and operational measures have been and will be presented according to a precise timetable, including proposals for the admission into the EU of certain categories of migrant workers. Other aspects must be taken into account:

- enhancing the contribution of diasporas and immigrant associations in the host countries to the development of countries of origin, and supporting their links to the communities of origin;
- facilitating, improving and promoting access to remittances, and enhance their impact on development;
- promoting circular movement of skilled migrants, enhancing their role in transferring know-how, skills, technology, expertise and new ways of thinking to their countries of origin and providing greater mobility of those competencies having an impact on the country of origin;
- providing incentives and alternatives to mitigate the loss of highly skilled people in countries of origin, particularly the outflow of highly skilled workers from the health and education sectors;
- reinforcing administrative services responsible for labour migration management;
- building capacities of the national employment services and support the development of intermediation establishments;
- the provision of professional and linguistic training to potential migrants;
- the creation of administrative services that ensure the protection of migrants and their families;
- the promotion and facilitation of temporary and circular migration, including supporting the social and economic reintegration of returning migrants, wherever possible, on a voluntary basis;
- maximising the human, technical and financial development input of the diasporas to the country of origin; including supporting co-development activities between sending and receiving countries.

For several years now, these elements have increasingly been taken into account in EU cooperation and immigration policies with third countries. For instance, since 2003 the EU has been supporting the institutional and administrative reinforcement of the Moroccan National Agency for Promoting Employment and Competencies (ANAPEC) as well as its activities, especially as regards the management of legal migration. More recently, the Commission also defined a pilot project in Mali which will be funded by the EU as the first step of a wider network of migration centres in West Africa. See annex III for more information on these projects.

### 3.3. European level

#### 3.3.1. *Promoting employment through development policy*

It is important for donors to directly support the policies outlined in the previous chapters at country and regional level. For a list of most typical current interventions by the EC in areas related to employment see annex IV.

In addition, the thematic programme “Investing in People” will provide funding for actions in the areas of “decent work and social cohesion”, “education, knowledge and skills” and “youth and children”.<sup>29</sup> Other relevant thematic programmes for some of the pillars of decent work are "Non State Actors in Development" (social dialogue), "Migration and Asylum" (better managing labour migration and decent work for migrant workers in third countries) and "Democratisation and Human Rights" (core labour standards, indigenous people).<sup>30</sup> Interventions funded under these programmes will focus on innovation, global partnerships and action in critical areas of human and social development. In particular, they will provide a thematic framework for sharing know-how, good practice and experience, support for global or multi-country campaigns and awareness raising for monitoring, data collection and analysis, for innovative approaches and pilot projects in the areas which directly affect people’s lives around the world.

In addition to promoting employment directly, it is necessary to include employment as a cross-cutting issue in other areas of the EU's development aid. The EC and many Member States already integrate employment into their education policy, mainly through programmes on VET. Employment is also pursued more widely in the context of education where the Commission is encouraging partner countries to think about the relevance of learning and how it should be adapted to societal needs. Employment concerns should however also be integrated in other development policies (see some examples below). A more systematic approach could also help to increase demand for local labour through EU development programmes. This could also be achieved by increasing the capacity of local consultants and companies in competing in calls for tender for the implementation of EU-funded projects and programmes.

#### Post-conflict reconstruction and youth employment

As the former UN Secretary-General Kofi Annan has stated, youth employment offers "the most obvious bridge between the development and the security agenda embodied in the Millennium Declaration". Because the lack of jobs fosters conditions in which young women and men may be recruited or forced into armed conflict, youth employment is important to prevent conflicts and in post-conflict reconstruction. West Africa, for example, has experienced deep regional instability due to civil wars and cross-border violence. These conflicts have become large "employers" of the region's youth. Currently therefore, youth employment represents one of the most important challenges for post-conflict countries and regions because it has implications for the political stability of the countries and regions concerned. Without employment for young women and men, establishing genuine peace, security and development will be extremely difficult. Addressing these challenges will require concerted efforts by governments, the private sector and the young people themselves. The EU, however, has an important role to play in ensuring the link between humanitarian and post-conflict interventions and through including youth employment as a vital element in the latter.

## Creating jobs through infrastructure

Promoting employment in the sustainable infrastructure sector (energy, transport and water) and more particularly in the transport sector, in areas such as road maintenance, is an important objective in terms of the number of jobs generated and sustained. The impact of road projects within local communities and the working opportunities available to young people and women through the Labour Based Approach are considerable. The ILO experience shows that labour-based infrastructure programmes can cost 10-30% less than capital-intensive methods, depending on the cost of local labour. Hence, it is possible to opt for labour-based methods without jeopardising the principle of free competition. Moreover, foreign exchange requirements can be reduced by up to 50-60% and, for the same amount of investment, a labour-based technology can create 2-5 times more employment.<sup>31</sup> More information on infrastructure and Labour Based Methods can be found in Annex V.

Information and Communication Technologies (ICTs) offer a key contribution to better employment opportunities in developing countries through improved labour market facilitation and direct employment. Beyond the job creation directly related to the IT industry, infrastructures and services deployments, ICTs offer a number of opportunities including the outsourcing of services-related jobs to developing countries (e.g. tele-centres), the integration in local, regional and global e-business and e-commerce networks, as well as new possibilities for the self-employed and entrepreneurs.

### **Box 2**

#### **Example of increasing demand for local labour through EU development programmes**

In response to the recent phenomenon of increased illegal migration from Senegal towards Europe, the EC is planning a major programme that is meant to offer more employment opportunities for the potential migrants through income-generation at the local level. The programme, funded under the 9th EDF for an amount of 27.6 millions €, will consist of street and main access road rehabilitation, including the drainage structures, in urban and sub-urban areas. The programme is aiming at the creation of about 13 100 quarterly full-time jobs. In the past, the focal sector "transport infrastructure" under the joint EU-Senegal country strategy has provided mostly main-road rehabilitation projects designed to reduce the cost of transport and to improve access.

In order to prepare the local workforce for potential jobs, on-the-job training and introduction to labour-based methodologies will be provided by a local specialised organisation (AGETIP). Once implemented, the project should boost domestic economic activity owing to extension and perfection of infrastructure and an increase in productivity, greater labour force participation in the job market, not least for young people, and increased skill levels of the workers.

## Agriculture, rural development and environment

The majority of the poor in most developing countries live in rural areas. Their employment situation is often characterised by low productivity, self-employment and/or underemployment. Increasing employment for rural inhabitants, as well as raising individual productivity and thereby incomes, is central to better living standards and poverty reduction. In the long term, this process could also be a driver of structural change within the entire economy. It is therefore crucial to promote employment through agriculture and rural development policies. The Indian Rural Employment Guarantee Act is an interesting innovative initiative in this context (see Annex VI).

Environmental protection is recognised as key for the sustainable development of a country or a region. Considered earlier, rather than later when it is costly to repair environmental

damage, it is a driver for economic growth and employment, providing employment opportunities such as in environmentally-friendly technology, renewable energy, eco-tourism, waste management, and sustainable management of water, forests and chemicals.

### *3.3.2. Policy coherence for development*

Employment is amongst the 12 policy areas<sup>32</sup> identified by the Council as being of particular relevance to Policy Coherence for Development (PCD)<sup>33</sup>, and in respect of which the EU has made specific commitments. The coherence of EU policies beyond development is an issue of growing importance for the EU. This is based on the recognition that progress towards the Millennium Development Goals (MDGs) does not only depend on the level of ODA and on development programmes. The idea is thus to exploit synergies between non-aid policies and development policy, in order to maximise the positive impact on developing countries' progress towards the MDGs. The EU PCD commitment regarding employment is "to contribute to strengthening the social dimension of globalisation in order to ensure maximum benefit for all, men and women". To this end, the EU "will promote employment and decent work for all as a global goal".

Other EU policies can make an important contribution to creating jobs in developing countries, too. Through its fisheries partnership agreements the EU helps developing countries to manage their fisheries resources in order to ensure the sustainability of the resources occurring in their waters. These agreements make sure that the European fleet does not enter into competition with the national fleet in third countries and that the European fleet only has access to stocks which are not fully exploited by third countries. Intensified human and institutional capacity building through development cooperation in conjunction with greater opportunities for international scientific and technological cooperation through the 7th Research Framework Programme (FP7: 2007-2013) holds very good potential for lasting employment effects. In addition, joint research programmes with developing countries and the increased use of ICT will make it possible for researchers from developing countries to be integrated into global research communities without having to leave their countries.

### *3.3.3. Coordination and joint programming with Member States*

At the High-Level Forum in Paris in 2005, the EU presented a work plan with practical commitments for rapid and collective implementation of the principles spelled out in the Paris Declaration. One of the key elements of this voluntary contribution is the commitment to increase coordination and the division of labour, and gradually introduce joint multiannual programming by revising the framework for the 2000 country strategy papers. A proposal for a voluntary EU Code of Conduct on Division of labour in Development Policy was presented by the Commission 28 February 2007.

Coordination, division of labour and joint programming between the Commission and the Member States as well as coordination between the Community budget and the EDF will be a key element in the effective promotion of employment through development cooperation. Coordination between donors and joint programming contributes to the increased efficiency of development aid, to the reduction of transaction costs, and to the avoidance of duplication. The EC plays a particular role in this respect, based on its unique capacity to act as a broker and a facilitator with Member States.

The Commission will therefore continue to organise regular meetings of Member States' employment experts in the area of development cooperation and, together with the Member

States, will seek to increase EU-wide coordination on the promotion of employment in the EU's external relations. The preparation of country strategies will provide a focus for enhanced coordination efforts and for joint programming on employment issues. Furthermore, EC Delegations and EU Member State Embassies will be able to use existing coordination mechanisms to address employment activities in the field.

#### *3.3.4. The EU's global voice on employment*

The EU is increasingly active in the international debate and actions on employment. For instance, it had a substantial say in the outcome of the UN 2005 September Summit and of the July 2006 High Level segment of the UN Economic and Social Council (ECOSOC), affirming that the goal of full and productive employment and decent work for all has to be a central objective of relevant national and international policies as well as development and poverty reduction strategies. The EU has also strongly supported the 2004 recommendations of the World Commission on the Social Dimension of Globalisation and the ILO Decent Work concept including the establishment of regional and country decent work programmes or similar roadmaps. The EU has consistently highlighted the importance of an integrated approach to employment and of developing working life in a socially sustainable manner, and the need to pursue mutually reinforcing economic, employment, social and environmental policies. The EU has also firmly contributed to the affirmation by the G8 Employment Ministerial of the objective of more and better jobs, the importance of efficient and inclusive labour markets and of adequate and effective social protection both in industrialised and developing countries. The EU has consistently insisted on stronger cooperation between the WTO and the ILO. In February 2007, this resulted in the first joint ILO and WTO report on trade and employment. This is only a first step and the Commission has called on both institutions to build further on this initiative.

The EU is also engaged in bilateral dialogue on these issues with all regions, including the African Union, Asia (ASEM in September 2006) and Latin America (EU-Latin America Summit of 2004 and 2006). Social sector development, particularly the promotion of social cohesion and social protection, has also been identified as a focal area for 2007-2013 in a number of bilateral and regional cooperation programmes with Latin American, Asian and ENP partner countries. For a more detailed overview see annex VII.

## **4. CONCLUSION**

To lift poor women and men and poor households out of poverty it is essential to raise the quantity and the quality of employment. Investment in employment with a focus on youth and women is the foundation for sustainable development and sound societies of tomorrow. If countries and donors do not scale up investment in this field, we run the risk of increasingly divided societies where economic growth does not benefit the poor, leading to social unrest and increased illegal migration. These are the strongest arguments for increased EU engagement in promoting this issue through development cooperation.

The fundamental concern in many developing countries is their failure to create more and better paid jobs for a substantial part of their growing populations. A key challenge is to formalise the informal economy without taking away the only means of livelihood for millions of people. Within the formal economy the focus must be on creating more jobs, whereas the centre of attention in the informal economy should be to raise earnings and productivity and improve the, very often poor, working conditions and to increase social

protection coverage. Particular attention should be given to the situation of women and young people. Fostering private-sector development, improving governance, supporting primary and secondary education and providing vocational education and training must be crucial elements of such a strategy. Since the capacity to design and deliver employment programmes in many low-income countries is weak, there will be a need for donors to provide technical assistance and capacity-building support. This is likely to be most effectively provided if it is done in connection with broader budget support.

A key objective of this staff working paper is to stimulate a more general reflection among all EU Member States on how to promote employment through development cooperation within the overall goal of decent work for all. Social protection, social dialogue and rights at work also constitute crucial elements of any long-term strategy to improve concurrently growth, poverty reduction, social cohesion and employment.

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<sup>1</sup> Basic concepts and definitions can be found in Annex I.

<sup>2</sup> However, indicator 11 "Share of women in wage employment in the non-agricultural sector" and indicator 45 "Unemployment rate of young people aged 15 – 24 years" under target 16 "In cooperation with developing countries, develop and implement strategies for decent and productive work for youth" deal specifically with employment.

<sup>3</sup> This document for the first time commits the whole Union, meaning the Community and Member States not only as Members of the Council but also as bilateral donors.

<sup>4</sup> See bibliography for references.

<sup>5</sup> The annex to the decent work communication includes examples of actions for promoting decent work that can be developed in the context of development programmes.

<sup>6</sup> The issue of rights at work was specifically addressed in the 2001 EC Communication "Promoting Core Labour Standards and improving social governance in the context of globalisation".

<sup>7</sup> A more detailed overview of relevant policy dialogues is included in Annex VII.

<sup>8</sup> With the 10th EDF fixed in monetary terms, and the recent budget settlement fixing the size of the external budget to 2013, there seems to be little scope for the EC to obtain its share of increasing aid volumes and its relative share is therefore likely to decrease.

<sup>9</sup> However, migrants also devote part of their income to families back home. These remittances contribute to livelihoods and are an important source of income for the affected families (EC Communication on Migration and Development 2005). The volume of remittances has increased considerably over the last few years. In 2005 remittances amounted to \$167 billion (World Bank 2006a).

<sup>10</sup> The cities are: Abidjan, Bamako, Cotonou, Dakar, Lomé, Niamey, Ouagadougou.

<sup>11</sup> Such as the KILM (Key Indicators of the Labour Market) and the ILO project on socio-economic security data.

<sup>12</sup> The exponential rise in India's information technology industry has resulted in strong employment growth in the country. The total number of professionals employed in this sector rose by approx. 1 million from 1999 to 2006.

<sup>13</sup> A regional competition law will often enhance the impact of the domestic law. This is especially the case for small countries.

<sup>14</sup> Dr. Muhammad Yunus was awarded the Nobel Peace Prize in October 2006 for his pioneering work on microfinance. Microfinance has played a major role in reducing poverty to 40% in Bangladesh. Access to finance is also an effective tool to empower women and promote gender equality.

<sup>15</sup> In addition, the inclusion of labour market issues in national policies should be promoted through capacity-building in other government agencies such as Ministries of Planning, the Economy and Finance.

<sup>16</sup> Increasing demand for labour through public works programmes is one route to direct employment generation that can be used to provide job opportunities as an anti-poverty measure or during economic crises and to keep workers in direct contact with the labour market, thereby reducing the chance that they become stigmatised by being without work for too long. Public works should mainly be used as a short-term employment measure (e.g. during seasonal slumps in the demand for labour or in post-conflict countries) since it does not reduce long-term unemployment.

<sup>17</sup> UN, ILO, EUROSTAT and other EC services are also working on the issue of employment indicators.

<sup>18</sup> The seven main topics for research are: Diagnosis of labour market conditions and vulnerability in middle and low income countries; links between the business environment, labour demand and poverty reduction;

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benefits/costs of structural reforms and globalisation for workers; causes and consequences of formality and informality; effects of labour market policy and institutions; best practices in skills development and skills upgrading; international migration and labour markets in origin and host countries.

<sup>19</sup> A first training seminar for the EC Delegations in Asia has already taken place. Other regions will follow in 2007-8.

<sup>20</sup> Conventions on freedom of association and collective bargaining (Conventions 97, 98), on elimination of forced and compulsory labour (Conventions 29, 105), on elimination of discrimination in respect of employment (Conventions 100, 111), on abolition of child labour (Conventions 138, 182).

<sup>21</sup> Stop of child labour is especially important. The forthcoming EC Action Plan on children in the external action will deal with this issue in detail. Currently the Commission is working with the ILO and the ACP group through the International Programme on the Elimination of Child Labour (IPEC) strategy in the ACP region. This strategy links the rehabilitation of children at work with basic education and vocational training aimed at providing life skills.

<sup>22</sup> Convention and recommendation of 2006 on a promotional framework for occupational safety and health, Safework programme: <http://www.ilo.org/public/english/protection/safework/index.htm>

<sup>23</sup> Article 31(11), OJ. L 378. 27/12/2006, p. 41

<sup>24</sup> Life skills should also be part of this approach since life skills are important not only at work but also in relation to sensitive issues such as HIV/AIDS, which primarily affects young people and, increasingly, women. Programmes should help raise awareness and build skills for reducing the risk of HIV, to promote care and oppose stigmatisation.

<sup>25</sup> Examples include: matching people searching for employment with job vacancies, helping job-seekers to improve their CV, do their first interviews, etc. Special assistance for disadvantaged groups (e.g. young people, women, the disabled and the elderly) can also be envisaged.

<sup>26</sup> See also suggestions for external assistance programmes in relation to social protection on page 9-10 of the annex to the decent work communication.

<sup>27</sup> See also the recent EC Communication "Towards an EU Aid for Trade strategy – the Commission's contribution", COM (2007) 163 final

<sup>28</sup> COM(2005)669 final of 21.12.2005

<sup>29</sup> Regulation 1905/2006 establishing a financing instrument for development cooperation. Other priority areas in this thematic programme (Regulation 1889/2006, OJ L 368, 29.12.2006) include “good health for all”, “gender equality” and “culture”.

<sup>30</sup> Regulation 1889/2006, OJ L 368, 29.12.2006.

<sup>31</sup> There is no method encouraging the implementation of actions supporting employment as a cross-cutting issue in energy and water sub-sectors. These sub-sectors located in the field of utilities and services do not entail a large number of jobs, except during installation and for the maintenance of powerlines and powerplants. Nevertheless, the increase of security in workplace and gender concerns should be taken into consideration as transversal infrastructure issues and on a permanent basis.

<sup>32</sup> The 12 policy areas relevant to PCD are: trade; environment; climate change; security; agriculture; fisheries; employment, the social dimension of globalisation and decent work; migration; research and innovation; information society; transport; and energy.

<sup>33</sup> May 2005 General Affairs and External Relations Council (GAERC) Conclusions on the Millennium Development Goals (Doc. 9266/05).

## ANNEX I

### **Basic concepts and definitions**

Decent Work: The decent work agenda is the key policy agenda of the ILO, endorsed by the UN, and based on an integrated approach covering<sup>i</sup>:

- Productive and freely chosen work (employment)
- Rights at work
- Social protection
- Social dialogue

Employment: Any kind of activity for which a person either receives wages – in the public or private sector – or earns some income, in cash or kind, by working in enterprises (in either the formal or the informal economy) owned by themselves or their family.

Formal economy: Official economy, as recognised by the government and based on paid employment. Work recorded in official statistics.

Informal economy:<sup>ii</sup> The informal economy can be defined in terms of lack of governmental regulation or lack of institutions that provide job security and benefits. Comprising the largest part of the economies of developing countries, the sector depends on small-scale individual entrepreneurship, almost always without the benefit of official support or services. Jobs in the informal economy characteristically have no, or very limited, social protection such as health insurance, sick leave, pensions and unemployment insurance.

Unemployment:<sup>iii</sup> A person is said to be "unemployed" if he or she is not employed, actively looking for a job and available to take up a job.

Underemployment: Refers to people who are unable to find a full-time job (working only part of the day or part of the year) or who work full-time but at low intensity by sharing work.

Working poor: A categorisation that refers to individuals who are employed (often underemployed) but still fall within the category of poverty (less than US\$2 per day).

Social Cohesion: The concept of social cohesion relates to poverty, inequality and social exclusion. In the European Union's Social Policy Agenda, social cohesion is defined as an objective: "To prevent and eradicate poverty and exclusion and promote the integration and participation of all in economic and social life."

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<sup>i</sup> The gender dimension is integrated into all four areas.

<sup>ii</sup> The 15th ICLS defined the informal sector as units of production within unincorporated enterprises owned by households. Those employed in the informal economy comprise all persons who, during a given reference period, were employed in at least one production unit that meets these informal sector guidelines, irrespective of their status in employment and whether it was their main or a secondary job (KILM).

<sup>iii</sup> The resolution concerning statistics of the economically active population, employment, unemployment and underemployment, adopted by the 13th ICLS, defines the unemployed as all persons above a specified age who, during the reference period, were without work, currently available for work and seeking work. However, it should be recognised that national definitions and coverage of unemployment can vary with regard to factors such as age limits, criteria for seeking work, and treatment of, for example, persons temporarily laid off, discouraged about job prospects or seeking work for the first time (KILM).



## ANNEX II

### **Budget support**

The Paris Declaration on Aid Effectiveness makes it clear that development aid must be driven by the concept of partnership between donors and recipient countries. This implies the genuine ownership of the development process by recipients. This conceptual shift is mirrored in the preferred new mechanisms for aid delivery, i.e. budget support and sector-wide approaches, as opposed to support via ad-hoc projects and programmes. Budget support opens the door to a constructive and wider dialogue with partner countries on their policy priorities. Accordingly, the EC and a number of EU Member States are currently strong proponents of budget support, whether general or sectoral, as an effective means of channelling development aid.

Employment must therefore become increasingly important in the political dialogue linked to sector and general budget support in all EU partner countries.

#### (1) General budget support

Pro-poor growth has to be the overall goal of macroeconomic policies. That implies a focus on increasing employment opportunities and labour productivity as well as creating conditions to enable the poor to participate in the economy. Other important aspects, such as maintaining macroeconomic stability, should be regarded as means of achieving the long-term goal of pro-poor growth.

In the recent EC Communication on Decent Work, it is stated that the EC will support "the gradual inclusion of the decent work objective in budget support measures". The EC CSP programming guidelines already use two indicators related to employment when analysing a partner country's macroeconomic framework (Indicator 19: Unemployment (in % of labour force, ILO definition) and Indicator 20: Employment in agriculture (in % of total employment), which are to be monitored in subsequent annual reports. The unemployment indicator is significant, because unemployment and underemployment may highlight the need for employment creation and more labour-intensive growth. Including the labour force participation rate as an additional indicator could be necessary in many countries, since low participation rates would indicate the need for efforts to eliminate obstacles to labour market access, typically for women and young people (SIDA 2006). These three employment-related indicators will be reflected in the macroeconomic policy annex of the new GBS guidelines currently being finalised. The EC will report on these indicators whenever data are available.

#### (2) Employment in sector budget support programmes

Sector budget support is delivered to support national sector policies that already exist. Many EU partner countries choose human resource development as a focal area for cooperation with EU donors. Human resource development, however, only deals with the supply side of the labour market. In order to develop a more coherent approach to the challenges linked to the labour market, it may be beneficial for both sides to focus also on the demand side of the labour market. For the 10<sup>th</sup> EDF, Botswana and the EC have agreed to enlarge the scope of the policy dialogue on human resource development to include not only supply side issues, but also other employment-related issues related to the demand side of the labour market.

## ANNEX III

### **EU Programmes on mobility and migration**

#### Institutional support project on migration with Morocco

In 2006 the Commission launched, in partnership with Morocco, an institutional support project on migration. This initiative of € 5 million is intended to encourage legal migration for labour purposes through support to the Moroccan National Agency for the Promotion of Employment and Competences (ANAPEC). The project has three main components:

- Institutional support for ANAPEC and financing the establishment of an international unit and that of four regional centres;
- Training of migration candidates in the following three fields:
  - Language
  - Preparing for cultural integration
  - Professional Training  
(responding to demands and in coordination with the European employers)
- Communication and information on the topic "it is possible to migrate legally without risking one's life".

This innovative project, expected to last until the end of 2008, constitutes an essential element in the strategy of the Commission aiming to assist capacity-development in third countries and to support their initiatives for better managing legal migration, in particular towards the European Union. This project is expected to deliver interesting results with important multiplier effects.

In addition, the Commission will consider the potentials of synergies between this initiative and the migration centres project in Mali (see example below), in order to develop a three-way cooperation between the European Union, the countries of the South Mediterranean and the countries of sub-Saharan Africa around the topic of legal migration, in the spirit of the Rabat Conference on migration and development in July 2006.

#### Pilot project in Mali: Migration and Labour Mobility Centres

In a speech at the Tripoli Ministerial Conference on Migration and Development in November 2006, Commissioner Louis Michel presented a proposal to establish centres in countries of origin with the aim of promoting labour mobility between countries in Africa and between Africa and the EU to contribute to the regulation of supply and demand of labour between African and European countries. The first centre will be set up in Mali.

In order to perform its primary function of informing and supporting labour migrants, the Mali-based office "Maison des Maliens de l'Exterieur et Centre d'Information et de Gestion des Migrations" is to provide information both on job opportunities along with labour conditions and on training opportunities in neighbouring countries and in the EU. Labour mobility – more than migration – will be the focus of the centre's activities. Awareness-raising on the hazards of illegal migration and support to returning migrants will also be part

of its mission. The centre will furthermore compile and distribute data on migration. In order to promote the transfer of human, technical and financial capital from the Malian Diaspora, the agency will also:

- support co-development projects;
- promote links between second-generation youth in Europe and their country of origin;
- facilitate the transfer of the Diaspora's savings, pensions and remittances;
- encourage partnerships between scientific, medical, educational and technical institutions both within the region and between Mali and Europe;
- facilitate citizens' savings in order to make them eligible for financial services such as savings accounts and micro-credits.

National agencies will be more operational and efficient if all the countries of the region share the same approach. An operational network of 15 Labour Mobility Agencies in the ECOWAS region will therefore be the long-term objective to guide actions at both the national and the regional level.

## ANNEX IV

### Most typical intervention areas by region related to employment

| Region               | Thematic areas   |
|----------------------|--|
| <b>ACP</b>           | <p>Socio-economic reintegration assistance to vulnerable groups<br/>(women, returnees, displaced people, demobilised soldiers, indigenous people)</p> <p>Training for employment and employment generation</p> <p>Education and training sector policy support programmes</p> <p>VET and labour market skills development programme</p> <p>Non-university tertiary education</p> <p>Intra-regional programmes to support employment and VET &amp; skills development,</p> <p>Combating child labour</p> <p>Assistance to food security and gender based income generation activities</p> <p>Support to reform of sugar, cotton and banana sectors (social impact components)</p> |
| <b>ASIA</b>          | <p>Support to reform of VET systems</p> <p>Labour market information system and human resource development</p> <p>Combating child labour</p> <p>Social partnership in education and training</p> <p>Assistance to food security and gender based income generation activities</p>  |
| <b>ENP</b>           | <p>Support to labour market/demand driven reorientation of VET</p> <p>Support to social funds (pro-poor local income generation activities, local development capacity building, non formal training, labour market settings improvement)</p> <p>Improving labour market information system/employment services</p> <p>Intra-regional programme for education and training</p>   |
| <b>Latin America</b> | <p>Support to initiatives proposed in policy dialogue on social issues</p> <p>Support PRPs with employment components</p> <p>Support to VET systems</p> <p>Support to urban social inclusion programmes addressing disadvantages children and youth at risk of further social exclusion</p> <p>Social cohesion and promotion of young people</p> <p>Regional programme EUroSociAL, including employment pillar (with ILO)</p>  |

## ANNEX V

### **Infrastructure and Labour Based Methods (LBM)**

There is significant opportunity to create employment through infrastructure programmes and, within a well-defined maintenance strategy, the jobs created can be sustained where such a strategy exists.

#### (1) Facts favouring the development of LBM at country level:

- Countries that have taken a proactive approach to reforming their sectoral strategies and to introducing the principles and practices of the Sub Saharan Africa Transport Policy Programme (SSATP) are generally more aware of the benefits of LBM. Several of these countries already practice LBM, for example, Namibia, Ghana, Congo, Lesotho, (...).
- Countries pursuing sectoral reform and establishing sector-wide programmes are likely to have dedicated road maintenance funds and semi-autonomous road agencies in charge of managing the road network. These sectoral changes provide a more predictable flow for maintenance and construction work, which is almost entirely carried out by the private sector. In such an environment, many small contractors are emerging that need skilled or semi-skilled workers and casual labourers.
- Some countries show real interest in LBM by establishing specific departments or cells (Madagascar, Senegal, Rwanda, Namibia, Lesotho, Ghana, Congo ...). Consequently, key private-sector agents (SMEs, consulting offices, local communities), agents from national road agencies and civil servants from ministries need (i) support and training in the use of LBM, and (ii) wider knowledge to improve security at the workplace.

#### (2) EU strategy and experience

The EU strategy presented in the EC Communication No 422 (2000) specifically recommends:

*“4.5.3 Creating job opportunities and tackling redundancy: the increase of private-sector involvement in transport management and operations needs to create more jobs as the public sector withdraws. (...) Small and medium-sized contractors, therefore, need support and training in the use of labour-based methods. Such training must include knowledge of national labour practices and standards laid down by the ILO for providing equal opportunities for women and avoiding misuse of labour, particularly children”*.

The EU experience in LBM is relatively limited. Nevertheless, there are some projects/programmes based on LBM methods such as a road rehabilitation programme using labour-intensive techniques in Lesotho (9<sup>th</sup> EDF) and in Congo Brazzaville. As regards Congo, within the Sectoral Transport Policy Declaration (STPD) and the National Indicative Programme (NIP), the government underlines the need to promote private initiative and to encourage labour-based methods in road maintenance as a key element for the stabilisation of the country. In 2001, the EU promoted micro projects for the benefit of small and medium-sized contractors and employment-generating LBM programme implementation (UNDP/UNOPS were the implementing agencies). The LBM programme concerned the rehabilitation of 250 km of rural roads favouring the involvement of local resources together with training courses for the improvement of technical and managerial capabilities of the

SMEs and NGOs involved. The Congo maintenance programme has involved 60 SMEs or local NGOs and, in accordance with LBM, a methodology to sustain the road works was elaborated.

(3) The experience and proposals of the ILO's Employment-Intensive Investment Programme

The main thrust of the ILO's EIIP is to help governments to define policies and implement practical approaches to optimise the developmental impact of their infrastructure investments. Experience shows that employment-intensive approaches to infrastructure construction and maintenance create between two to five times more employment than capital-intensive approaches. The most obvious social advantages of employment-intensive programmes lie in the distribution of wages and incomes to a largely unskilled and poor workforce. But there are more social advantages. First, the wages distributed create a multiplier effect, stimulating consumption, investment and savings, thus boosting the local economy (over and above the benefits derived from the infrastructure itself). The indirect employment generated by labour-based methods has been estimated to range between 1.5 to 3 times the number of directly generated jobs. Second, the promotion of small-scale contractors in employment-intensive programmes (through, for instance, training and modifications to the tendering system) helps to expand the domestic construction industry, to make it more dynamic with better developed backward and forward linkages, and hence to create more jobs, and more sustainable jobs, in this sector. However, the objective is not only to create more jobs but also, equally importantly, better jobs. In this context, an important aspect of the EIIP programme is to develop strategies and activities to ensure that standards and conditions for workers on labour-based infrastructure projects are applied in line with relevant national labour legislation and the policies and practices described in an ILO guide on this subject. There are, of course, also the benefits derived from the infrastructure itself. When basic infrastructure is provided and functioning, poor people improve their access to productive resources, goods and basic social services and feel proud that they too have the assets that they are entitled to. Particularly when they have managed or otherwise participated in the building of those assets, their confidence in their capabilities is boosted, their skill levels are raised and their sense of community is reinforced. New infrastructure has a profound, positive effect on the individual and collective outlook (ILO 2004).

## ANNEX VI

### **The Indian Rural Employment Guarantee Act**

Inspired by Maharashtra's State Employment Guarantee Act in 1976, a national programme was enacted in September 2005 to combat high unemployment rates and increasing rural-urban migration in the country (<http://rural.nic.in/rajaswa.pdf>). The programme is the main strategy to fight poverty in rural India, making it mandatory for the Indian State to provide at least 100 days of wage employment to every rural household in which adult members volunteer to do unskilled manual work. Any adult who applies for work under the Act is entitled to be employed on public works within 15 days. Thus, the Employment Guarantee Act provides a universal and enforceable legal right to basic employment. The programme is starting in 200 districts, to be expanded to all 600 districts of India in five years. State governments, Panchayat Raj institutions as well as NGOs are involved in implementation. It is expected that the programme will cost approx. 1-2% of GDP and have a significant positive impact in protecting rural households from poverty and hunger, reducing rural-urban migration, and fostering a more equitable social order in rural areas.

Source: UN DESA 2006

## ANNEX VII

### **EU dialogue with other regions on employment and social cohesion**

Most regional groups or organisations (the EU being a notable exception) are primarily economic and trade-oriented with very little collaboration in the field of employment and social policy. This means that national policy-makers have only limited scope to mitigate any adverse effects of globalisation and more open trade. This is one of the reasons why the World Commission on the Social Dimension of Globalisation underlined the importance of incorporating a social dimension in regional formations across the world. Civil society organisations are also increasingly demanding that social issues be considered by emergent regional formations. Drawing on its broad experience in this area, the EU is increasingly supporting regional organisations' efforts to cooperate on employment and social issues.

#### Asia

Under the title "More and Better Jobs – Working Jointly to Strengthen the Social Dimension of Globalisation" the first EU-ASEM Labour and Employment Ministers' Conference was held in Potsdam, Germany, on 3-5 September 2006. It was attended by the Labour and Employment Ministers from the ASEM Member Countries and by the Commissioner for Employment, Social Affairs and Equal Opportunity of the European Commission.

The meeting reflected the growing importance of a close and productive dialogue and cooperation between Asia and Europe on employment and social policy underlining the key role of full and productive employment, decent work for all, and social cohesion for sustainable socio-economic development, as recognised notably in the 2005 UN Summit conclusions. Making globalisation a success for all requires good governance, effective social protection and effective policies to address the challenges posed by adjustment costs, to mitigate economic and social imbalances both within and among countries, to promote access to decent work for all, including for women and young people and to seize the opportunities provided by globalisation.

Ministers called for the exchange of best practices regarding labour market and employment policies and social protection in the ASEM context. They addressed concrete ways to strengthen the social dimension of globalisation and promote decent work for all, such as high and sustainable economic growth and sound economic framework conditions being the key for the creation of more and better jobs; the role of migration as a major element of globalisation which can be an important factor for economic growth and employment; employment and social policies to promote sustainable employment creation, the strengthening of corporate social responsibility as well as the importance of education/lifelong learning. ASEM Ministers called for co-operation with international fora such as ILO, Bretton Woods institutions and WTO and they will continue the process with the second ASEM Labour and Employment Minister Conference in Indonesia in 2008.

In the context of globalisation and in response to the rapid political, economic and social transformations in Asia, the EU has reviewed its Asia strategy over recent years, strengthening the strategic partnership with China and India at bilateral level. Since 2005, Joint Action Plans and a Memoranda of Understanding on cooperation in the area of employment and social policy have been signed with China and India (each of which will have to be reviewed after four years). They foresee regular policy dialogue and exchange of information and best practice, annual joint seminars, joint studies as well as technical



assistance on social security reform in the case of China and exchange programmes for dialogue partners (including social partners) in the case of India.

### Latin America and the Caribbean

In the political dialogue between the European Union and Latin America and the Caribbean employment issues are addressed within the broader framework of social cohesion. The Commission has made social cohesion in Latin America a priority theme of its political dialogue with the region and a focal sector in the European Commission's cooperation programme with Latin America for the period 2007 – 2013, both at the national and regional level. Besides the EC has set up bilateral dialogues on social policies, notably with Chile and Brazil and is about to launch one with Mexico. The dialogue with Chile is focused on employment issues. On 22 March 2007 an EU-Chile Seminar on Public Employment Services took place in Brussels.

At the EU-LAC Summit in Guadalajara in 2004, Heads of State and Government from both regions set social cohesion as a shared goal and priority area for their relations. One of the concrete outcomes of the Guadalajara Summit was the launching of the EUROsociAL programme, an initiative to develop effective public policies and to promote analysis and exchanges of good practices in the field of social cohesion. Employment is one of the five thematic sectors of EUROsociAL. In the preparation for the EU-LAC Summit in Vienna (May 2006), the Commission organised a High Level Conference in Brussels on 27 and 28 March 2006 to discuss efforts to combat social inequality, poverty and exclusion in Latin America, the Caribbean and the European Union. The next Forum on Social Cohesion will take place in Santiago de Chile in September 2007.

In the broader context of the biregional dialogue on social cohesion, employment is one of the key areas. The EU-LAC cooperation addresses the issue of employment by promoting decent work, with a view to combating unemployment and incorporating the informal economy into the formal economy.

### Africa

In September 2006 the EDF Committee endorsed a Support Programme of €55 million for the African Union (AU). This Programme provides support to AU capacity-building in several areas. Although employment is not one of the earmarked areas, support in this area is envisaged. At the latest Joint AU–EU Task Force meeting it was agreed that the key priorities for further cooperation on employment and social policy and related EU support (possibly in cooperation with the ILO) are:

(i) follow-up and implementation of the 2004 Ouagadougou Declaration and Action Plan on Employment and Poverty Alleviation in Africa, with its focus on decent work;

(ii) expert advice to and support of the ongoing development of regional frameworks for integrated policy programmes in Africa.

(iii) to develop the policy dialogue on employment and social policy issues, including on labour migration, possibly involving (a) the exchange of best practices (notably on the coordination of national employment and social policies, peer review mechanisms, mutual learning events, etc.) and (b) joint informal consultations and seminars at technical level to exchange knowledge, results of recent studies and consultations and experience.

## **ANNEX VIII**

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