Chronic Poverty Advisory Network
Getting to Zero

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Policy Brief

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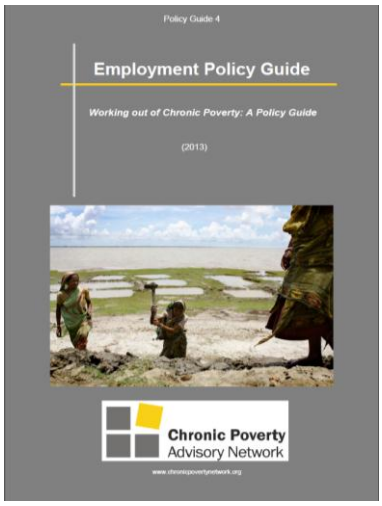
Working out of Chronic Poverty



This policy brief is based on a CPAN Policy Guide: Employment Policy Guide: Working out of Chronic Poverty

- Many chronically poor people are economically active but the poor quality of that work, including its low-pay, dangerous conditions and insecurity means that this work frequently maintains people in poverty rather than enabling poverty escapes.
- The majority of chronically poor work in the informal economy. Governments should formally recognise different types of informal wage employment and officially acknowledge the contributions of informal workers to the overall economy. This places different types of informal wage employment under legal frameworks governing labour markets.
- Governments can play an active role in increasing the quantity and quality of work for chronically poor people including through investments in human capital, infrastructure and social protection.

Jobs are increasingly centre-stage in national and international policy debates, in recognition of the transformative role employment and decent work can play in poverty reduction, development and social stability.

This policy brief makes the case that providing additional employment opportunities and improving the conditions of existing jobs are both essential for chronically poor households to escape poverty. The focus here is on informal wage employment, on workers without employment-based social protection including casual labourers, industrial outworkers and unprotected contract workers.

Until recently the informal economy was viewed exclusively as a stage on the development trajectory; as countries further develop and industrialise so workers shift to the formal economy. Further, informal employment was seen as largely self-employment in informal enterprises. For these two reasons, little effort was made to include informal wage employment within policy frameworks.

The rigid distinction between the formal and informal economy and the types of employment these include is also increasingly breaking down, with informal and casual workers being employed within 'formal' enterprises. A growing body of evidence suggests that the informal labour force is here to stay and indeed informal wage employment is increasing as companies strive to reduce obligations to their workers (ILO 2002). Policymakers can do more to understand the informal economy and include it in policy frameworks.

Both the quantity and the quality of the growth process affect the generation of productive employment. While sustained economic growth is certainly important to generate productive employment, it may not be sufficient to tackle the challenge of increasing the quantity and quality of work for chronically poor people. On their own, labour market policies are also insufficient to address the employment challenge facing developing countries. Tackling this challenge requires investments in human capital, infrastructure and social protection. The involvement of all government ministries and public institutions is therefore crucial. Within this framework, policy makers need to analyse the specific context in which they work.

Framed in this way, the overall policy objectives are to increase the creation of transformative jobs and to improve the access of chronically poor to these jobs.

The Chronic Poverty Advisory Network (CPAN) ensures that chronically poor people are not overlooked by policy-makers and disseminates evidence to improve the effectiveness of policies and programmes at reducing the poverty of the poorest people.

CPAN has partners in 10 countries and builds on the work of the Chronic Poverty Research Centre (CPRC).

Formal Recognition of Informal Work

As a first step to improving the quality of work, governments need to formally recognise different informal job types and officially acknowledge their contribution to the overall economy. An official recognition by the government entails that the workers in informal wage employment fall under the legal framework governing labour markets. This also implies their explicit freedom of association and organisation.

Collecting data on the incidence and nature of informal wage employment can be a tool to promote its official acknowledgement in policy frameworks and institutions. Including informal jobs in official labour market statistics, derived from national labour force surveys, can help create this awareness amongst policy-makers, identify the different types of informal jobs held by the working poor and their policy requirements.

Promoting Rural Areas and Supporting Internal Migration

Investments in rural areas are essential to improve the quality and quantity of jobs for chronically poor people. Increased investments in agriculture can also stimulate more dynamic employment opportunities in future. CPAN's Agriculture Policy Guide points to the importance of investments in roads, particularly rural feeder roads in increasing productivity. CPAN's Energy Policy Guide meanwhile, highlights the role of rural electrification, both to increase the productivity of agriculture and also to spur job creation in the nonfarm economy; a key pathway out of poverty. Improving access to credit for sectors with productivity growth potential in rural areas, possibly through national development banks, credit guarantees or improved competition in the financial sector can all help to generate new jobs.

For some remote rural regions it may not be viable to promote a profitable agricultural and non-farm economy and may make policy sense also to support seasonal migration for work. Seasonal internal migration, particularly during agricultural lean periods, is an important risk reduction mechanism for chronically poor households and a potential route out of chronic poverty. However, it is either ignored in national plans or implicitly or actively discouraged. It is important that policies reduce the costs and risks of migration and maximise its returns. Central to this is that governments recognise and promote internal migrants as a valuable human resource and view migration as an opportunity to improve the conditions of the poorest people. Policies and programmes can also help migrants to maintain financial links with their sending areas, in order to avoid informal channels for remittances which can be expensive and risky. In addition supporting poor migrant workers can include providing skills training and information for future migrants in their sending areas (Box 1).

Box 1: The Migrant Labour Support Programme (MLSP), India

The MLSP supports poor tribal migrants at both source and destination areas, through migrant support centres or Palayan Seva Kendras (PSK). PSKs provide a variety of services including informal identity cards which help against official harassment, job information, telephone messaging services, awareness creation on rights and government welfare programmes, communication with families left behind and remittance services.

The MLSP has successfully increased the social and economic returns from migration. Almost 65% of migrants felt that the telephone messaging service has eased anxiety about family members left behind. Nearly 11% said that they had been able to obtain useful information on employment at the PSKs which reduced idle waiting time at the destination. 28% of migrants who had an identity card mentioned respite from police harassment including demand for bribes.

Source: Prasad and Deshingkar (2006).

In general, poorer groups tend to migrate shorter distances because of limited resources, skills, networks and market intelligence and the poorest may not migrate at all. In many contexts, for chronically poor people, rural areas (including local agricultural migration particularly during periods of planting and harvesting and for weeding) and secondary towns are the most common destinations rather than migration to large cities. Urbanisation policies should therefore be national and systematically promote urbanisation in poor regions, to promote a more even distribution of urban activity.

Some governments are also investing in employment-intensive approaches to rural infrastructure construction and maintenance. If these programmes are timed to take place during the agricultural slack season, well-targeted, offer a guarantee of employment and provide a prolonged period of wage employment they can bring short-term benefits to chronically poor people in rural areas.

Protecting a Casual Workforce: Regulating Labour Contractors

National labour regulations have, until now, largely been designed for a permanent work force. Legislation needs to catch up with the global expansion of a vulnerable and disenfranchised workforce.

Formalising contracts, including clarifying the employer-employee relationship when workers are recruited through intermediaries (contractors), is important to protect informal workers. For domestic workers and homeworkers, in particular, the requirement of a written contract provides them with legal recognition as a profession. China's New Labour Contract Law (Box 2) extends labour legislation to labour contractors. South Africa has also expanded

the scope of its legislation to cover all workers, and so not just those employed under permanent contracts.

Box 2: The 2008 New Labour Contract Law in China

Under this law employers are required to give their workers a written employment contract. For those working without a written contract, one has to be created within one month of starting work. These written contracts can be fixed-term or permanent and should specify the quantity of work.

The law also outlines the regulations which dispatching companies must comply with and delimits the responsibilities of the dispatching agency and the employer in terms of labour standards. Under the law the dispatching company is the legal employer and is therefore responsible for compliance with labour laws

Source: Lan and Pickles (2011).

Formalising contracts though, is insufficient to address the power imbalances in employment relationships and improve the situation of the poorest workers. Formalising contracts needs to be combined with actions to promote the collective representation of informal wage workers and legal sector reforms which give informal wage workers more rights to contest unfair labour conditions in courts.

Enforcement of labour legislation is also a top priority. Many countries already have a raft of labour legislation but these laws are rarely enforced, particularly in the agricultural sector. Enforcement agencies need to be properly resourced. Aid could play a role in building the labour law enforcement machinery.

There is an unresolved international debate about whether minimum wage legislation does in fact improve the earnings of the poorest people. One issue is whether legislation can be enforced, especially for informal wage employment. Evidence for domestic workers in South Africa (a largely law-abiding society) highlights the success of minimum wages legislation in improving wages even without widespread enforcement (Dinkelman and Ranchhod 2012). It does also seem that minimum wages in the formal economy can establish a 'reference wage', or set a wage floor for informal wage workers (World Bank 2012).

Limited enforcement of labour laws, particularly among mobile and geographically disbursed workers, has contributed to international pressure for large companies (predominantly multinational corporations) to uphold labour standards in their own value chains. The Ethical Trading Initiative (ETI) is an alliance of companies, trade unions and non-government organisations existing to improve working conditions in global supply chains. ETI company members require their suppliers to comply with the ETI Base Code, a code of labour practice based on international labour standards. This has been successful in improving the health and safety situation for workers and increasing their wages (IDS 2006).

Private, corporate and social standards can play an important role in improving labour conditions and may be able to strengthen existing labour laws and their enforcement. However, they are no substitute for government regulation and may only be appropriate for certain value chains. In particular it has proved easier to generate consumer demand for higher social standards in international, as opposed to national, value chains.

Supporting Collective Representation of Chronically Poor Labourers

There is strong evidence that strengthening the organisational capacity of chronically poor people to engage in collective action can improve the terms in which they engage in the labour market. As a result, the development of democratic, representative membership-based organisations - trade unions, associations and cooperatives - is essential. The collective strength of organising can also enable chronically poor people to gain representation in local and national policy-making arena, and allow them to use their power and influence to make changes to overall legal frameworks that govern labour markets (Box 3).

Box 3: Organising domestic workers in Brazil

In Brazil domestic work has been recognised by national labour laws since 1973 and spurred the formation of associations and unions of domestic workers. The result was the creation of 45 unions in different regions of the country and umbrella organisations at the national level. It also illustrates that voice of the working poor within the informal economy is often rooted in grassroots-level associations that can eventually forge networks and umbrella organisations reaching national level decision-making. Being formally recognised and using the civic space to engage with other civil society organizations, domestic workers were able to influence the reform of the Brazilian constitution in 1988. The new constitution provided domestic workers with new labour rights such as a minimum wage, maternity leave, or a fixed set of paid-leave days.

Source: Cornwall et al. (2013).

Indonesia has opened up the civic space for workers' organisations through changes to the legal framework that governs the labour market. As part of its constitutional reform process, Indonesia also ratified the ILO Convention No 87 on Freedom of Association and Protection of the Right to Organise in 1998. As a consequence, the number of trade unions proliferated from 1 at the national level and around 1000 unions at the enterprise level in 1997 to around 87 trade union federations registered nationally and more than 11,000 enterprise level unions registered at local level in 2006 (Palmer with Noriel 2009).

Conventional trade unions organised around an employer-employee relationship though, are less suited to providing a voice for chronically poor informal wage workers. This has created an impetus for innovative mechanisms of collective representation. These institutions are often organised to represent members' interests with a particular municipal authority or local government and are organised around local priorities and agenda, which may be broader than economic demands. Because of this, the role of external agencies in supporting collective organisation is that of facilitation, including financing and capacity building, rather than actively setting the agenda.

Delivering Social Protection: Arguments For and Against

There is enough evidence now for policy makers to be enthusiastic about the effects of social protection on the labour market. The evidence (from Oportunidades in Mexico and the social grants in South Africa) is that cash transfers during childhood or youth help poor people into the labour market with better wages, through their effects on achieving better education and health (Barrientos and Nino-Zarazua 2011). Studies also suggest they can often liberate household members to migrate and find better work.

However, some scepticism remains given that cash transfers do not by themselves enable 'graduation' from poverty. Complementary measures are needed. Labour markets have to be capable of absorbing people; and people also need to be adequately skilled for the opportunities which are created, and to be able to migrate to get better jobs. Skills, literacy and health are all critical to obtaining better jobs and escaping poverty.

Box 4: Expanding Social Protection Systems

In 2010, the Rwanda Social Security Board (RSSB) reviewed and examined strategies on how to extend coverage to the informal economy. These strategies included establishing joint working partnerships with key institutions dealing with the informal economy, designing appropriate benefit packages, simplifying administrative procedures to reduce compliance costs and strengthening decentralisation of services. The implementation of the above strategies has resulted in an increase in coverage (from 7% to 18%) in just one year and contributions have increased by 35%. The programme is expected to achieve the objective of 70% coverage by 2015.

Source: ISSA (2011).

The main arguments against social protection are that it generates dependency; and encourages withdrawal from the labour market. There is plenty of evidence against the dependency argument however, particularly in developing countries, where transfers tend to be small and time-limited, so households are not able to become dependent. What is needed in a largely informal economy is a system which offers a guarantee, at scale, to a large number of people, whether this is through cash transfers, public works or social insurance. The Rwanda Social Security Board has had some success at expansion (Box 4).

Conclusions

A household member gaining new or additional employment or improving the conditions under which they work are important for chronically poor households to escape poverty. In essence, there are three broad lines of enquiry for policymakers to ensure that the poorest people can work out of poverty: generating sufficient employment opportunities; improving wages and conditions of employment; and increasing the access of chronically poor people to these opportunities.

In addition to a policy focus on demand for labour, as important should be a consideration of the supply of labour to the labour market. Cross sector alliances need to come together to improve education and training which, as well as being crucial to increase the opportunity for chronically poor people to gain better quality employment, also delay the entry of young people into the labour market and so contribute to tightening labour markets. The eradication of child labour as well as social protection can further tighten labour markets, thereby increasing the position and power of adult labourers to negotiate their wage rates. In the long-term, family planning policies are important in reducing future supply of labour. The challenge of enabling chronically poor people to access quality work is far too important and extensive just to be left to ministries of labour.

Written by Alison O'Connell

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