

Local Economic and Employment Development (LEED)

Job-rich Growth in Asia

STRATEGIES FOR LOCAL EMPLOYMENT, SKILLS
DEVELOPMENT AND SOCIAL PROTECTION



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Foreword

Developing Asia is currently leading the world's economic rebound from the global economic and financial crisis. The region has been hailed as the quickest to emerge, with the recovery marking a clear V-shape while in other parts of the world the final shape still remains uncertain. This strong recovery is largely due to China's rapid return to high growth rates, from its lowest point at 6.2% in the first quarter of 2009 to more than 11% in the first half of 2010. China's huge stimulus package and its growing demand for imports provided a significant boost to regional exporters from neighbouring economies. Economic growth also regained strong momentum in the other large emerging economies of the region. If economic recovery is well on its way, lagging employment growth and widespread underemployment and poverty put strains on labour markets and pose significant social challenges. The least developed economies of the region remain particularly vulnerable to a volatile international economic environment.

There is widespread consensus that Asia will no longer be able to rely on exports as the key driver to sustain future growth but will need to move towards a more balanced economy. The research and experience of both the ILO and OECD show that less dependence on external markets alone does not make economies more resilient to recessions or make them more robust. But the strategies towards a more rebalanced growth do offer untapped opportunities to accelerate social progress and human development in the region. As the economy increasingly caters to domestic and regional markets, new opportunities arise for sustainable local development and employment generation, with waves of new entrepreneurs ready to meet new needs. Governments will no doubt wish to facilitate this process by means of maintaining sound macroeconomic frameworks; fostering entrepreneurship and an enabling business environment; opening up opportunities for social dialogue; and activating local actors to respond to broadening economic and social demands.

This report reviews some of the main labour market and social policy challenges that developing Asia faces. It proposes a development approach that integrates skills, employment and social protection within local development strategies in order to achieve more "sustainable and balanced" patterns of growth. The report emphasises the need to address workforce development within a broad approach which takes into account local enterprise development and new economic opportunities. It provides guidance on how to implement employment and skills policies to maximise their impact on job creation and quality employment. It considers the development of social protection systems to make the economy both more productive and inclusive. And it addresses critical issues of vertical and horizontal co-ordination to design and implement effective policies and strategies.

The recommendations presented in this volume resonate with the measures that countries in the region are adopting to sustain growth and development in the aftermath of the global crisis. In response to the call by the ILO for a Global Jobs Pact to promote a job-rich recovery, countries throughout Asia are multiplying their efforts to establish employment services and national employment and skills strategies; introduce unemployment insurance

schemes and other measures of social protection; and strengthen local capacities for the collection and analysis of labour market data and the design of sound strategies. These policy measures are concrete steps ahead, which contribute to address imbalances in both the economy and the labour market and help to set solid foundations for balanced long-term growth and development.

In this context, it is essential for countries to share policy experience to develop a good understanding of what works best and how obstacles can be overcome. With the Employment and Skills Strategies in Southeast Asia (ESSSA) initiative which we together lead, we are glad to be able to stimulate this learning process. In guiding policy makers in the design of policy approaches able to tackle complex cross-cutting issues and building the capacity of practitioners in implementing effective local employment and skills development strategies, ESSSA provides an essential contribution to achieving our fundamental goal of sustainable and growing prosperity in the region.



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Executive summary

In developing Asia, which is generally recognised to be leading the global recovery from the financial crisis, decentralisation has increasingly transformed the role of local government from implementers of national strategies to equal partners with national government in the design and implementation of social and economic initiatives. Nonetheless, given the initial signs of financial overheating in the larger countries of China, India and Indonesia, and the uneven recovery in the smaller, less developed countries, local governments across the continent are facing growing pressure by their constituents to take direct action in addressing the effects of the crisis on their local economies. Local agents (*e.g.* government, civil society, private sector) who have a “ground eye view” are better able to assess the economic opportunities and challenges of their community; are more cognisant of the community’s priorities; and are better positioned to mobilise local resources to ensure the initiative sustains its impact over the long term. Local governments, civil society organisations (CSO) and the private sector play a critical role in national and local dialogue as they are able to provide real-time feedback for existing initiatives, and information on new opportunities and challenges that might have arisen after the initiative was set up.

Developing policy coherence between national and local levels of government (vertically) and co-ordination across different ministries (horizontally) can improve the effectiveness of programmes and the quality of services provided. Whole-of-government approaches are needed to promote local development strategies that integrate employment, skills and social protection goals. Across the region, enhancing the decent work content of employment, whilst ensuring continued economic growth, is a priority.

Promoting job-rich recovery and growth in Asia requires on the one hand employment-friendly macroeconomic frameworks and stronger and more comprehensive national systems of social protection. On the other hand, it is equally important to activate local policy actors, enterprises and stakeholders to respond flexibly and effectively to the impact of global trends on local economies and the local labour markets. This is a difficult task, as in many cases, local institutions and stakeholders have limited capacity or knowledge to sustain policies and programmes to respond to structural breakthroughs such as the recent global financial crisis, the impacts of climate change, demographic change and the rapid ageing of societies. However, several elements are within the reach of local public policy:

1. Facilitating efficient local labour market adjustments through employment services and labour market intelligence.
2. Fostering the development of local sustainable enterprises.
3. Developing skills strategies, at the local and regional level, towards increasing productivity and equipping the workforce to exploit new opportunities in the green and silver economy.

4. Ensuring good targeting and effective delivery of social protection interventions that provide a cushion for market shocks, peaks of unemployment and contribute to eradicating poverty.
5. Designing local economic strategies that are sustainable and inclusive of all stakeholders, through consultation and partnership.

Pathways to job-rich recovery and sustainable development in Asia need to address the complexity of global, regional and national factors and their interaction with the local level. Ten broad strategies to encourage local job creation, skills development and social protection are proposed.

OECD-ILO strategies for local job creation, skills development and social protection in Developing Asia

There is an emerging consensus that shifting from export-led recovery and growth towards greater reliance on domestic and regional sources of demand will be critical to sustain economic prosperity in Asia as well as globally. A new pattern of economic growth is emerging in Asia, characterised by vigorous policies to support domestic consumption and investment, active employment and labour market policies to facilitate industrial and labour market adjustments, and stronger social protection measures to accelerate inclusive growth and poverty reduction. In this new paradigm the strategies and policies of local governments take centre stage. A set of 10 principles and policy suggestions for governments and socio-economic actors to accelerate this transition are outlined below.

1. Shaping the path to job-rich growth.
2. Supporting labour market adjustments to greater trade integration and openness.
3. Strengthening local institutions through policy coherence between national and local governments.
4. Equipping Public Employment Services with the right tools to generate Labour Market Intelligence.
5. Maximising skills development and training.
6. Developing systems of social protection.
7. Anticipating the impact of demographic changes in local development.
8. Harnessing infrastructure development with local economic and employment strategies.
9. Enabling a sustainable business environment focusing on Micro, Small and Medium Enterprises.
10. Accelerating the transition to a low-carbon economy and sustainable local development.

A full description of the principles is outlined in Chapter 5, “Consolidating a job-rich growth: Strategies for local job-creation, skills development and social protection”.

Part I

Asia's macroeconomic setting and policy implications

Chapter 1

Building a new model in developing Asia

by Sylvain Giguère and Aurelio Parisotto

Chapter 1, “Building a new model in developing Asia”, discusses the new opportunities and challenges within Asian economies after the economic crisis. The chapter highlights a potential new model to make the recovery job-rich and sustainable, focusing on skills development and employment policy; sustainable enterprise development; and social protection which is further examined later in the book. The chapter identifies the key priorities for labour market policy, social protection and economic development from a survey conducted by the OECD, in collaboration with ASEAN, among Ministries of Labour and Economic Development in countries of Southeast Asia in 2008 and outlines the book structure.

Introduction

The global economic crisis has revealed weaknesses in the economy of many countries across the world. In several OECD countries its outcomes have highlighted not only financial imbalances but also failures in the way economies adjust to emerging comparative advantages. Abundant liquidities and credit helped to keep afloat parts of the productive system during the boom years which would have probably disappeared otherwise. Many jobs have been destroyed during the downturn, notably in the manufacturing sector, and few expect them to return.

Asian economies have also shown vulnerability during the crisis, though of a different sort: a dependence on external markets mainly, which in turn lift the veil on weak social protection systems and poor institutional capacity. China and others have led a robust recovery thanks to fiscal and monetary stimulus and a growing domestic market, though it remains to be seen if current levels of growth are sustainable. Speculative pressures have remained on parts of the economy, and notably the housing sector. Many countries, in Southeast Asia and elsewhere, have learned lessons from the economic downturn, and rebalancing growth is now a priority.

New opportunities and challenges

While the economy has picked up again and strongly in several countries of developing Asia, a new consensus has emerged on the need to develop the economy in a more balanced way, which builds on stronger domestic and regional markets. Greater dependence on domestic markets as such does not make economies more resilient to recessions or make them more robust. But the pathway leading to it offers significant opportunities in terms of social and human development as it stimulates new process of economic development and job creation. It also entails a number of challenges for policies, institutions and governance. In addressing those, a formidable learning opportunity opens up to enhance collaboration and experience sharing with other countries which are addressing similar issues or experienced such transformation in the past.

Like OECD countries, developing Asia will need to place an emphasis on increasing the quality of jobs in the long term to put the economy on a sustainable path. Employers need to better utilise the human resources available in view to boost local productivity at the same time as they create better working conditions and generate higher wages. The importance of enhancing institutional capacities in this respect is huge: experience from OECD and other countries shows that agencies of various types can contribute significantly to this process by developing and using various instruments, such as incentives for employers to invest in new technology and the promotion of more effective forms of work organisation.

Anticipating future areas of growth is also strategic in the process of putting the economy on a sustainable growth path. There are areas of the economy which will undoubtedly grow in coming years, and for which countries of developing Asia, like OECD countries, would be wise to prepare their workforce. In the context of climate change, the economic opportunities offered by the green sector may be considerable in the future, as discussed in Chapter 3. Another expanding area in the context of the ageing population is health and social care. Outside of these key sectors, spotting new opportunities will be a continual process, and attention needs to be paid to both external trends and local comparative advantage in the development of entrepreneurship and the MSME sector.

An economy increasingly dependent on domestic and regional markets may translate into greater opportunities for endogenous development and employment generation as new entrepreneurs emerge to meet emerging needs. Governments will no doubt facilitate this process by fostering an enterprising spirit while ensuring that the business environment provides incentives to participate in the formal economy. Nurturing a vibrant sector of small businesses which can grow and provide quality jobs certainly raise challenges when business services and access to finances are not equally accessible throughout the country. Furthermore, to be effective, support to enterprise development needs to be modulated across regions to match disparities in education, skills, demography and industry. Building qualified and competent management requires dedicated entrepreneurship skills development activities.

Focusing on new sectors and adopting new forms of work organisation will also require an adaptable workforce. Asian workforce will need to be equipped with high-level generic skills, so that individuals can transfer between sectors, and innovate in response to changing markets. This requires strong investment in early years and school-age education. In parallel, workers will need to be able to access employment and training systems throughout their working lives to adapt to new and emerging skills requirements through flexible systems of “life-long learning”. Effective skills upgrading mechanisms will be essential to address skills gaps resulting from migration of labour from poor, rural to more developed, urban areas.

As many of these changes happen at the local level, where economic strategies are delivered, education and training is provided and people live and work, new challenges will emerge in local labour markets. Building a skilled and adaptable labour pool is not a simple task, especially as communities become vulnerable to demographic change and rising mobility. It is essential to design joined-up local skills strategies, which balance different objectives and link up education and training systems into a responsive and clear road map for people to build their skills and contribute more to their local economies.

Enhanced capacities will be needed to address social problems that can accompany transformation to a more skills-based economic development. Increased living standards will accompany upgraded production processes and higher productivity; greater investment in education and training will generate improve career and pay prospects. But individuals, families and communities will fall through gaps in the system, especially when different policy responsibilities are assumed by different tiers of government. Initiatives will be required on the ground; across-the-board social protection systems will need to be reinforced.

These tasks raise new governance challenges. Policies delivered in silos are inefficient when it comes to address employment and skills issues, to solve complex social problems or to nurture sustainable development. Developing Asia will need to develop strong local governance mechanisms that integrate different policy strands towards a common objective. They will need to foster the development of effective cross-sector strategies with a reduced set of clear priorities based on a strong local evidence base of information and data. They will need to develop broad partnerships between public and private sector actors in the field of both strategic development and delivery, and build capacity at the local level. Ultimately new governance forms will need to emerge, enabling greater local participation, responsibility and empowerment.

A new model yet to emerge

Thus to make the recovery job-rich and sustainable, adjustments are required in economic development models, in the management of labour market and social policies, and in the corresponding institutional frameworks. These adjustments will have major implications for the role of the local level in ensuring the optimal mix of measures to support employment creation, skills development and social protection. Greater understanding of the local dimension of policies in Asia is needed to foster broad-based and inclusive growth and development. In this context, the key role of local actors would need to be reinforced in shaping and implementing strategies to stimulate economic activity, skills development and social inclusion in a specific locality or area with the aim of maximising the benefits for the local firms and populations in terms of employment, income and better social protection.

In particular there are three major policy aspects which will be analysed by the book:

- **Skills development and employment policy** as intertwined elements for fostering inclusive labour market and quality employment that is able to respond to the challenges imposed by global forces and internal and external markets.
- **Sustainable enterprise development** as the focus of local development strategies, inter alia through support to Micro, Small and Medium Enterprises (MSMEs) and infrastructure development linked to value chain upgrading in leading or potential economic sectors.
- **Social protection** as a set of measures that support social inclusion and address poverty in a region that despite successful economic growth still hosts the largest number of the world's poor and has wide gaps in its labour market and social protection systems.

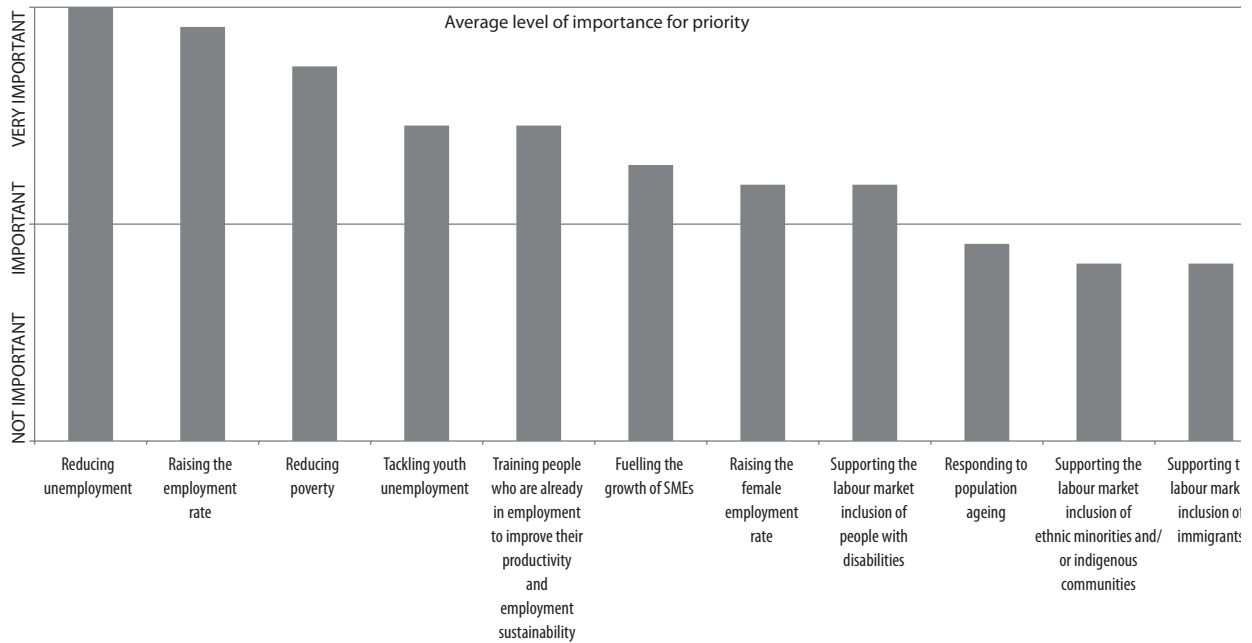
For economic growth to be sustainable and inclusive it should be based on an integrated approach involving coherent policy development along the three dimensions above. Yet, apart from these orientations, it remains open to see what will be the content of Asia's balanced growth framework. The experience of OECD countries and others will be helpful for Asian economies in establishing the policy and governance framework which enable them to attain their own objectives in a sustainable growth model. But a wide range of preoccupations will enter such development, which will need to suit the characteristics and diversity of Asia's cultures and contexts. It is likely that the social, employment, skills and enterprise development model that will emerge in developing Asia will differ significantly from other models in place in OECD countries.

Key priorities for labour market policy, social protection and economic development

A survey conducted by the OECD, in collaboration with the ILO and ASEAN, during 2008-09 among Ministries of Labour and Economic Development in countries of Southeast Asia* confirms that the concerns and preoccupations nurturing the development of new policies and approaches are wide and diversified. Overall they demonstrate a broad preoccupation by developing economies in this region of Asia to focus on good quality job creation, which is also inclusive and provide career opportunities. The survey also provides insight on policy concerns specific to the region.

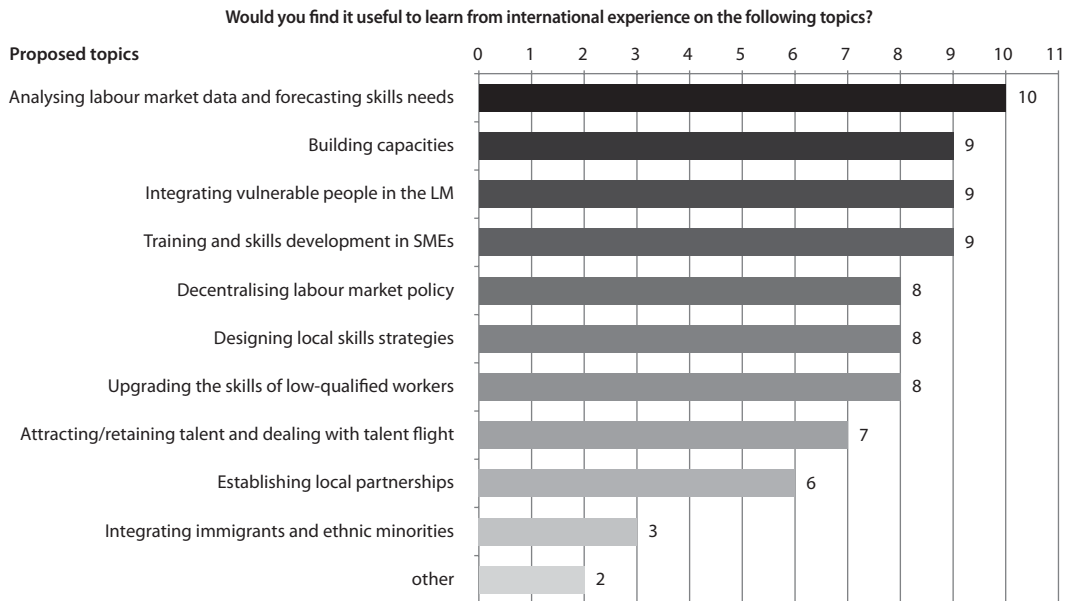
* Brunei Darussalam, Cambodia, Indonesia, Thailand, Laos, Malaysia, Myanmar, The Philippines, Singapore, Viet Nam.

Figure 1.1. Policy priorities



Source: OECD (2009a), OECD LEED ESSSA questionnaire, June 2008-November 2009.

Figure 1.2. Interest in international sharing and learning



Note: LM=Labour Market.

Source: OECD (2009a), OECD LEED ESSSA questionnaire, June 2008-November 2009.

The survey indicates the following priorities for labour market policies: reducing unemployment and raising the employment rate; reducing poverty; training people who are already in employment to improve their productivity and employment sustainability; tackling youth unemployment; fuelling the growth of SMEs; supporting labour market inclusion of people with disabilities; and raising the female employment rate. The average level of importance for each priority is summarised in Figure 1.1.

In the process of developing new policy approaches, Southeast Asia demonstrates a strong interest in learning from other countries. Awareness of the need to improve capacity, governance and develop new tools and policy instruments for employment and training to be used at the local level is shown by Figure 1.2. The most pressing learning need noted by the countries surveyed is “analysing labour market data and forecasting skills needs” followed by “integrating vulnerable people in the labour market”, “training and skills development in SMEs” and “building capacities”.

This report

This report attempts to identify some of the most concrete challenges in the transition to a more balanced growth path for developing Asia. It seeks to provide issues for consideration for both national government and local stakeholders in the definition of new framework for social, employment, skills and enterprise development which takes into account the governance complexities of today’s world. It is hoped that the report will provide at least partial answers to questions on “what model for developing Asia now?”, “what role for governments?” and “what role for local stakeholders?”

The report is divided into two parts. Part I is introductory and discusses macroeconomic settings in the Asian region and some policy implications of moving towards more balanced patterns of development and growth. Part II analyses the role of national governments and local stakeholders in contributing to inclusive job-rich recovery and growth, building on international experience and good practice identified across the region.

Chapter 2 presents key trends of the economic recovery and labour market adjustment in developing Asia and an overview of the impact of the crisis on the economy and the labour market in the region. It reviews policy development in three areas critical to a recovery path leading to long-term growth and social progress and discusses the scope for employment, labour market and social policies in the aftermath of the global financial and economic crisis, suggesting that if industrial and competitiveness strategies were the overriding concern in the prior decades of sustained export-driven growth, employment and labour market concerns should now be more at the forefront.

Chapter 3 discusses key elements that advance greater policy coherence and effectiveness and the importance of local strategies to achieve this goal. The chapter argues that national, regional and local levels of government need to align their various strategies to develop a consistent direction in meeting development objectives, leverage economies of scale, and reap the dividends of joint initiatives that share knowledge and reduce operational overhead. The chapter further explores policy coherence between national and local levels of government (vertically) and co-ordination across different ministries (horizontally) as a way to improve a programme’s delivery effectiveness and quality of services provided. The importance of local strategies to the jobs creation and economic recovery effort is emphasised.

Chapter 4 discusses key areas of policy for accelerating local job creation and explore the role of national and local stakeholders. The chapter argues that job creation does not respond to the same strategies everywhere; places with little technological absorption and innovation capacity can be especially handicapped in the process of sustainable job creation. Therefore, public policy can have a crucial role to facilitate and accelerate sustainable pathways for local areas. Several elements are within the reach of public policy: (1) providing public employment guidance through employment services; (2) fostering sustainable enterprise development; (3) developing skills strategies at the local and regional level towards increasing productivity and equipping the workforce to exploit new opportunities in the green economy; (4) producing social protection schemes that provide a cushion for peaks of unemployment and fight poverty; and (5) designing local economic strategies that build on sustainable foundations and are inclusive of all stakeholders through partnership mechanisms. The chapter illustrates how innovative practices are already taking place in localities across the region.

Chapter 5 brings together the arguments presented in this volume for realising a job-rich recovery and social protection through a combination of sound policies and practices. The chapter presents a set of policy proposals and strategies for the strategic development of skills, employment and social protection in Asia with implications for both the national and local levels.

Chapter 2

Economic recovery and labour market adjustment in developing Asia

by Aurelio Parisotto

Chapter 2, “Economic recovery and labour market adjustment in developing Asia”, provides an overview of the impact of the financial crisis on the economy and the labour market in the region. It reviews policy development in three areas critical to long-term growth and social progress: fiscal support to economic recovery, the range and coverage of social protection and trade orientation. The chapter also examines the scope for employment, labour market and social policies in the aftermath of the global financial and economic crisis, suggesting that if industrial and competitiveness strategies were the overriding concern in the prior decades of sustained export-driven growth, employment and labour market concerns are now at the forefront.

Introduction

Developing Asia¹ is leading the world's economic rebound from the global economic and financial crisis, but the pace of recovery varies considerably between countries. The large economies of China, India and Indonesia are rapidly regaining their soaring pre-crisis growth rates, with some initial signs of financial overheating. Fast restocking has occurred within the export-oriented global production networks spanning most of East and Southeast Asia. But smaller, least developed countries remain vulnerable to unsteady fiscal positions, growing debt and shrinking financial resources. Strong economic growth accounts for some job generation, with unemployment rates in some countries declining from the peaks of the crisis. Overall, however, the bulk of the new jobs are generated in the informal economy. Underemployment and vulnerable employment remain high. New and old vulnerabilities are largely unattended to as a result of widespread informality, chronic poverty, large gaps in labour market policies, and inadequate systems of social protection. This undermines the prospects to achieve internationally agreed development goals, including the Millennium Development Goals, and leaves many countries in Asia – particularly those with large, underdeveloped rural areas – with economic and social scars.

Across the region, enhancing the employment and decent work content of recovery is a priority. The key challenge for policy makers in Asia is twofold: (a) avoid a premature unwinding of fiscal stimulus measures while ensuring macroeconomic stability and viable public finances; and (b) maximise employment and decent work outcomes, strengthening sectoral policies and labour market institutions to make growth more inclusive and more balanced. Looking ahead, the challenge is to handle economic restructuring in order to best take advantage of regional and domestic demand as long-term drivers of growth, promoting broader-based economic structures and greater resilience to economic and social shocks. Labour market and skills policies to equip firms and workers for new growth patterns and structural reforms to extend social protection are crucial, as many countries lack the systems which could prevent millions from being trapped into unremitting poverty.

This chapter provides a short overview of the impact of the crisis on the economy and the labour market in the region. It reviews policy development in three areas critical to long-term growth and social progress: fiscal support to economic recovery, the range and coverage of social protection and trade orientation. The final section reviews the scope for employment, labour market and social policies in the aftermath of the global financial and economic crisis, suggesting that if industrial and competitiveness strategies were the overriding concern in the prior decades of sustained export-driven growth, employment and labour market concerns are now at the forefront.

The impact of the global financial and economic crisis and the prospects for recovery in Asia

Varied economic impact

Given the region's significant integration into the global economy, the crisis resulted in a sharp deceleration of growth – down from the region's long-term path of very high-growth – but not an overall decline (Table 2.1). Economies in Asia and the Pacific were impacted through several channels, with wide differences depending upon varying initial conditions. The transmission of the global financial turmoil to the real economy through trade linkages was the main factor in slowing growth rates. Recovery was generally fast, prompted by a swift and strong fiscal policy response as well as sound macroeconomic

Table 2.1. Real GDP growth in selected Asian economies, 2007-10 (%), ranked by 2009 growth rates

	A	B	C	D	
	2007	2008	2009	2010 (projections)	Population growth rate 2008 (%)
Robust 2009 growth (+4%)					
China	14.2	9.6	9.1	10.5	0.5
India	9.9	6.4	5.7	9.7	1.3
Bangladesh	6.3	6.0	5.6	5.8	1.4
Viet Nam	8.5	6.3	5.3	6.5	1.2
Nepal	3.4	6.1	4.9	3.0	1.7
Indonesia	6.3	6.0	4.5	6.0	1.1
Positive 2009 growth					
Sri Lanka	6.8	6.0	3.5	7.0	0.7
Pakistan	5.6	1.6	3.4	4.8	2.2
Philippines	7.1	3.7	1.1	7.0	1.8
Negative 2009 growth					
Malaysia	6.5	4.7	-1.7	6.7	1.7
Cambodia	10.2	6.7	-2.0	4.8	1.7
Thailand	4.9	2.5	-2.2	7.5	0.6

frameworks and excesses in reserves – a legacy of the conservative financial and regulatory policies that followed the Asian crisis of the late 1990s.

The 12.2% reduction in world trade in 2009 had deep effects on the economic performance of Asia's exporters of durable manufacturing goods. Malaysia and Thailand, two of the region's most open economies as measured by trade as a percentage of GDP, both registered negative growth in 2009 – 1.7% in Malaysia and 2.3% in Thailand. Slumping demand from the United States and other developed country destinations contributed to a drop in exports to levels nearly twice as large as during the previous Asian crisis of 1997 (UN ESCAP, 2010). Cambodia also experienced one of the larger GDP contractions (2.5%) among developing Asian countries in 2009, as the textile industry suffered heavily from the crisis, with nearly 80% of Cambodian exports destined for the US and European markets (UN ESCAP, 2010).

The largest Asian economies (China, India and Indonesia) were relatively insulated from the global downturn, to a large extent due to the resilience of their domestic economies and strong fiscal stimulus measures. Tight regulatory oversight – a lesson learned during the Asian financial crisis of the late 1990s – cushioned the impact on the financial and banking sectors compared to more advanced economies. Vietnamese GDP expansion also remained strong, as the country embarked on massive monetary and fiscal measures. Given their size, the impressive performance of China and India is providing some momentum for global growth, particularly for neighbouring countries.

Some economies experienced strains on their current account deficits as the crisis unfolded, lessening the amount of fiscal space to counter its effects. Weak account positions led Sri Lanka and Pakistan to search support from the IMF, as was the case for Mongolia as a result of declining prices of commodities. Capital outflows in Sri Lanka

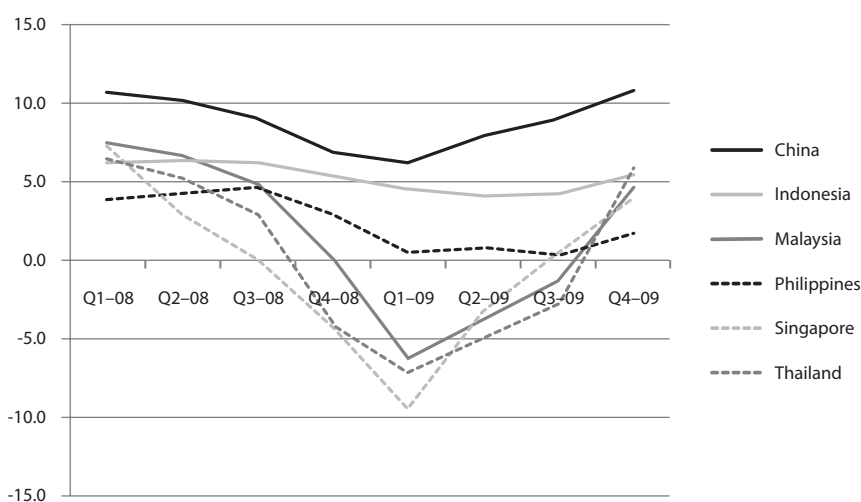
and Pakistan were of particular concern before flows returned in the second half of 2009 following renewed investor confidence, the approval of IMF programmes and increasing political stability (World Bank, 2010b).

An unexpected development was the positive contribution from inflows of remittances, which have proven to be more resilient than FDI and portfolio investment. In Pakistan, remittances for the first eight months of the fiscal year (July 2009-February 2010) increased over 17% compared to the same period in the previous year (Khaleej Times Online, 2010a). Remittances to India topped USD 55 billion in 2009, the largest amount of any country worldwide and also 7% higher than its 2008 remittance totals (Khaleej Times Online, 2010b). Overall, South Asian remittance receipts continued to rise during the crisis, albeit at a slower rate, with East Asia experiencing a similar rise, though to a smaller degree. Among Southeast Asian countries, record remittance totals of USD 17 billion were received in the Philippines (UNESCAP, 2010).

Swift but uneven recovery

The Asia and Pacific region has been hailed as the quickest to emerge from the financial and economic crisis, marked by a “V-shaped” recovery, much of which is attributed to China’s rapid return to high-growth rates (see Figure 2.1) (World Bank, 2010b). Chinese GDP growth slowed to its lowest point at 6.2% in the 1st quarter of 2009, before its infrastructure-led stimulus package began to take effect. By the 4th quarter of 2009, the country’s GDP growth rate had reached 10.7%. China’s growing demand for imports provided a significant boost to regional exporters from neighbouring economies, as intermediate goods exporters and value chains in the region are closely integrated. Emerging signs of growth from major export destinations by late 2009 and early 2010, chiefly the United States, also provided a boost to several countries. Among the destination markets in the Philippines, exports were greatest to the US in March 2010, and sales rose nearly 40% year-on-year. The effects of restocking and the turning of the inventory cycle has benefitted exporters throughout the region, as in Malaysia where 2010 1st quarter sales of manufacturing goods were up 24.5% year-on-year (Department of Statistics Malaysia, 2010).

Figure 2.1. Quarterly GDP growth rates for 2008-09 in selected countries



Source: World Bank (2010c), East Asia and Pacific Economic Update 2010, Volume 1.

After a sudden decline at the burst of the crisis, buoyant net capital inflows accrued in the region, largely centred in China and to a lesser extent Indonesia and India. Investors are drawn to these countries by strong growth forecasts and improved expectations for returns compared to markets in other regions. Growing concern is emerging regarding massive capital flows to the region as possibly posing risks of instability, inflation and exchange rate pressures, and asset bubbles unless managed carefully. This is prompting the Asian Development Bank, among other institutions, to suggest that countries introduce measures in order to manage possible financial turbulence and sudden massive reversals (UNESCAP, 2010; ADB, 2010b; IMF, 2010b).

Overall, the state of the recovery remains uneven. The turning of the inventory cycle and recovery in export markets has provided a lift to exporters thus far, yet it is hard to see how overreliance on exports of consumer goods to the advanced economies could remain the driving factor behind long term sustainable growth and employment generation. Large, targeted fiscal stimulus packages have been prominent in dampening the worst of the crisis in 2009. The winding down of these measures, already taking effect in countries including Malaysia, China and India, could pose challenges and will require careful balancing. The implications for stimulus measures are further examined in Section 4 of this chapter, as varying levels of fiscal policy space and macroeconomic conditions will engender differing strategies. Further threats may loom on the horizon as the European sovereign debt crisis deepens, bringing risks to developing Asia through increased market volatility, weakened global demand and fluctuations in prices of oil and food. These developments are re-focusing attention on the need for domestic demand to figure more prominently as a driver of growth, in light of increasing discussion among policy makers of redressing global imbalances pre-dating the crisis.

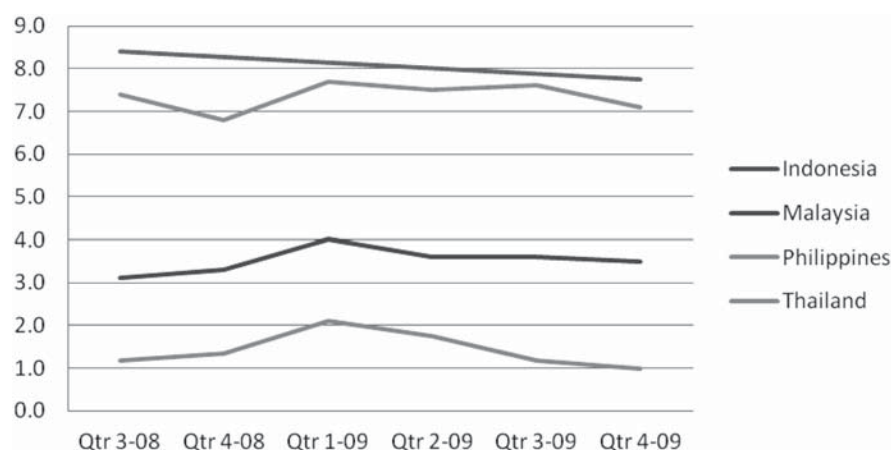
Resilience and vulnerabilities of labour markets

Employment and unemployment

Employment declines were slower in Asia and the Pacific compared with other developing regions, yet labour markets did not escape the impact of the crisis (see Figure 2.2). Measures of open unemployment alone fail to capture the dynamics of distress to the region's labour markets, as formal employment covers but a small portion of the workforce. Registered unemployment did rise in several countries as workers in hard-hit industries were laid off, *e.g.* export manufacturing, tourism and construction, particularly in urban areas. These developments especially affected Southeast Asian countries: industry employment in Malaysia, the Philippines, and Thailand decreased over the course of the crisis. In Cambodia, the textile and clothing industry is estimated to have contracted by 4%, with 27 000 jobs being lost in 2008 (Chandrarat, Sina and Dannel, 2009). As the crisis deepened, 18% of the industry's workforce was reported to have been laid off during the period between September 2008 and May 2009 (Tong, 2010). By April 2009, the automotive industry in Thailand experienced its lowest level of production since the 1997 Asian financial crisis, with businesses adjusting accordingly through a 23% decrease in employment between June 2008 and June 2009 (Kohpaiboon, 2009).

Contrary to regional trends, unemployment levels in Indonesia consistently fell during the crisis (see Figure 2.2). However, labour market adjustment through rising informal employment in the country, suggests deterioration in the quality of jobs, as the number of informal workers has grown at a faster rate than formal employees (see Table 2.2). Many other workers across the region have been affected by the crisis indirectly, *i.e.* self-employed

Figure 2.2. Unemployment rate in selected countries



Source: ILO LABORSTA Database.

workers, contributing family workers, and workers in small scale suppliers and informal enterprises. The decline in these forms of vulnerable employment, which had been occurring in the ASEAN region from 2003 through 2008, is expected to have reversed due to the crisis. In Thailand the share of workers in vulnerable employment notably increased. The number of private employees fell by 206 000 individuals from the 2nd quarter of 2008 to the 2nd quarter of 2009. In contrast, own-account workers increased by 509 000 during this period, with overall growth in vulnerable employment rising by 882 000 (ILO, 2010a). Increased employment in agriculture and services, predominantly in the informal economy, was seen in the Philippines in the 2nd quarter of 2009 (ILO, 2009b).

Job losses have shown varying impacts on different groups in the labour market. The most vulnerable workers have generally proven to be temporary workers, youth, low-skilled workers, women, and internal and international migrants in specific sectors. Youth unemployment

Table 2.2. Informal employment and employment by status in Indonesia, 2008 and 2009 (millions)

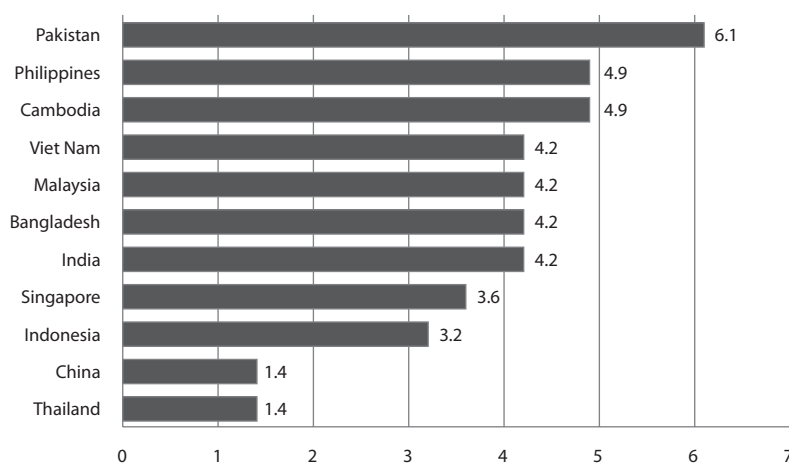
	August 2008	August 2009	Change (%)
Informal employment			
Number of workers in informal employment	63.82	67.86	8.0
Share of informal employment in total employment (%)	61.3	64.7	
Employment by status			
Own-account worker, working alone	20.92	20.05	0.6
Own-account worker, assisted by temporary/unpaid family workers	21.77	21.93	0.7
Employer	3.02	3.03	0.3
Employee	28.18	29.11	3.3
Casual employee in agriculture	5.99	5.88	-1.8
Casual employee not in agriculture	5.29	5.67	7.2
Unpaid worker	17.38	18.19	4.7
Total	102.55	104.86	2.3

Source: BPS-Statistics Indonesia (ILO, 2010c).

rates already stood at three times the rate of adult workers before the crisis, and have not improved in the current situation. In the Philippines, youth unemployment rose 5.9% by January 2009 (Sziraczki *et al.*, 2009). Youth unemployment for South-East Asia in 2009 stood at 15.3%, far exceeding the 3.4% unemployment rate of prime-age workers (ILO, 2010a)

The dangers of long-term periods of joblessness among youth are well documented, with deleterious effects for both the individual's career prospects for the rest of their working lives and in the society at large through productivity losses and potential societal unrest. Labour force growth over 2009-10 is estimated to demand the creation of a further 51 million jobs in the Asia and Pacific region (UN ESCAP, 2010). In China, approximately 2 million university students became unemployed in 2009 due to the crisis (UN ESCAP, 2010). These workers will face further pressure in 2010, as an expected 6.3 million additional college graduates enter the labour market (Feng and Johnson, 2010). Figure 2.3 highlights the projected growth in the labour force for selected countries in the region, underscoring the need for policy makers to focus greater attention towards creating decent work opportunities in the years ahead. Policy implications for youth unemployment are further discussed in Chapter 3.

Figure 2.3. Projected labour force growth (%), 2008-10



Source: Sziraczki *et al.*, (2009), *The Global Economic Crisis: Labour Market Impacts and Policies for Recovery in Asia*, ILO.

The decline in employment in manufacturing following the crisis greatly affected women as they make up a large share of the workforce in export-oriented activities. Female manufacturing employment in the 4th quarter of 2008 in Thailand is reported to have fallen by nearly 130 000 year-on-year, representing 63.2% of all contractions in the industry (Sziraczki *et al.*, 2009). The bias against female employment might have been exacerbated by the fact that new employment generation was often in the male-dominated construction industry, prompted by fiscal stimuli and the growth of public spending for infrastructure. A greater percentage of women also tend to be engaged in forms of vulnerable employment (65% of women compared with 58% of men in ASEAN) with higher participation in the informal economy where jobs are less productive, lower in quality and pay, and with fewer opportunities or employability leverage. Apart from the lack of social protection for these jobs, they also have a negative impact on the growth of domestic and regional markets (Sziraczki *et al.*, 2009).

Internal and international migrant workers have been vulnerable to labour market downturn through their concentration in industries hard-hit by the crisis. Major migrant-receiving countries in the region, including Malaysia, reported such developments in 2008 (Awad, 2009). Massive returns to countries of origin however did not occur. Many workers, upon making the investment to reach their destination countries, instead entered into more vulnerable forms of employment with the hope of eventually returning to higher-paying jobs once the crisis subsides.

The sectoral composition of migrant employment, mainly in personal services and domestic industries, initially fared well during the crisis in some destination countries, leaving migrants from Asia better protected from adverse employment effects. This seemed to be the case for South Asian migrants working in the Middle East and Gulf Coast countries (Awad, 2009). One area emerging as a concern for international migrant workers during the crisis is the long-standing issue of their vulnerability to excessive recruitment fees, exploitation and abuse in the absence of safeguards and proper mechanisms. Policy implications for vulnerable groups, mobility of workers and youth unemployment are further discussed and recommendations listed in Chapter 3.

Demographic changes and the labour market

Demographic change and relentless rural-urban migration represent some of the key challenges that labour market policies need to address. The rates of population growth are declining very rapidly in several countries. However, the high rates of the past and social factors, such as increasing participation of women in the labour market, account for high rates of growth of the labour force. Combined with migration from rural to urban areas and increased urbanisation, this result in large pools of semi and unskilled workers engaged in informal economic endeavours. The failure to provide this group with appropriate skills and/or adequate opportunities for upgrading represents a major barrier to development and growth. The policy implications in the area of demographic change are further expanded upon in Chapter 3 of this book.

Working conditions, wages and earnings

The effects of the global downturn on the labour markets were not limited to job losses. Responses occurred through reductions in working hours, decline in earnings, reverse rural-urban migration and a sectoral shift toward casual and informal work services, a traditional buffer of labour market shocks.

Thai automotive manufacturers reported cutting the number of available working shifts from two 8 hour per day shifts of 5.5–6 days per week down to a single 8 hour shift and only 3 to 5 days per week (Kohpaiboon *et al.* 2009). Flexible working arrangements were enacted for 35 000 workers in the Philippines' electronic sector, in response to a 17% year-on-year decline in exports by November 2008 (Lopez, 2010). Bans on overtime and reduced working hours have beset workers in the garment industry in Cambodia.

Declines in wages occurred throughout several countries in the region. Real wages in Thailand fell more than 5% from the 3rd quarter of 2008 to the 2nd quarter of 2009, with an even greater drop in the agricultural sector, where wages were down more than 16% (ILO, 2009b). This has also been a factor in areas experiencing the return of migrant workers from cities to rural areas in Cambodia, Thailand and Viet Nam (Tuck and Mason, 2010). Informal workers experienced similar adjustments in working conditions and declining earnings, with income insecurity increasingly becoming a concern, as demands for their services dried up.

Reverse migration from urban to rural areas took place in several countries, notably in China, where twenty million internal migrants were reported unemployed in early 2009 as a result of the crisis (BBC, 2009). A major effort was undertaken by the Chinese authorities to provide workers returning to rural areas with appropriate skills. Chinese migrant workers leaving the cities and returning home to rural areas are reported to have put downward pressures on off-farm rural wages (World Bank, 2010b). In the urban areas of China, real wage growth increased over the first three quarters of 2009 by 15% year-on-year however wages were still lower than in the pre-crisis years of 2006 and 2007 (ILO, 2009e). Although figures are difficult to collect, the upward trend in urban wages and the wages of the large pools of internal migrant workers seems to continue as recovery strengthens. This has major implications given the role of China as a manufacturing production centre for the whole world (ILO, 2011).

Poverty and setbacks in achieving the Millennium Development Goals (MDGs)

The region's sustained economic growth of the past decades has helped achieve unprecedented gains in poverty reduction but it has left inequalities and widespread vulnerability, with the crisis proving to be highly detrimental to the many workers at the border of poverty in Asia. Estimates suggest an extra 21 million more individuals in the region having incomes of less than the USD 1.25 in 2009-10 as a result of the crisis (UNESCAP, ADB and UNDP, 2010). The crisis has affected first the middle class and the near-poor in urban areas, more outward-oriented, but as it unveiled, the direct and indirect effects of the widespread deceleration of the level of economic activity were felt throughout the population.

The impact on the working poor is of particular concern since a minor decline in income can have long-term scarring effects on poor households. Moreover, labour market institutions are weak, with safety nets and public expenditure for social protection lower in Asia in comparison with other regions. The large prevalence of working poor, as defined by those employed individuals earning less than USD 2-per-day, is a widespread phenomenon. South Asia accounts proportionally for the greatest share of working poor, with four-fifths of workers estimated to live on less than USD 2-per-day, and 11% at less than USD 1.25 per day. In Southeast Asia, more than half still earn under USD 2-per-day (ILO, 2010b).

Food prices moderated significantly at the height of the food crisis in 2008, an important development from a poverty-reduction standpoint as the poor are greatly affected by high food prices. In Indonesia this development, in tandem with government cash transfers to poor households, is cited as helping to reduce poverty incidence in the country by 1 percentage point since March 2009 (ADB, 2010a). Despite the near 30% reduction in food prices during the first half of 2009 compared to the previous year, recent pressures are driving food prices up once more in 2010. India, which suffered from a weak monsoon season during the summer of 2009, has been particularly susceptible, registering food price inflation of up to 20% in December 2009. Droughts spreading across Southeast Asia in the spring of 2010 are also affecting important crops and livelihoods in countries including Thailand, Viet Nam, Cambodia, and Bangladesh (FAO/GIEW Update, 2010).

In September 2000, the UN Millennium Summit introduced several measurements committing the world to reducing poverty through targets known as the Millennium Development Goals (MDGs), to be achieved by 2015.² In the subsequent years, the Asia and Pacific region as a whole has made impressive strides in lifting large numbers of its population out of poverty, improving primary school access, increasing gender parity in primary and secondary schools, strengthening basic health services and reducing the prevalence of HIV and tuberculosis (Table 2.3). Despite these achievements, discrepancies are seen across countries, at the local level within countries, and between richer versus poorer households.

Table 2.3. Progress towards achievement of the MDGs in selected countries

Goal	1		2			3			4		5		6			7					
	USD 1.25/day poverty	Underweight children	Primary Enrolment	Reaching last grade	Primary completion	Gender primary	Gender secondary	Gender tertiary	Under-5 mortality	Infant mortality	Antenatal care	Births by skilled professionals	HIV Prevalence	TB incidence	TB prevalence	Forest cover	Protected area	CO ₂ emissions	ODP substance consumption	Water, total	Sanitation, total
Bangladesh	+/-	+			-		++	+/-	+	+	+/-	+/-	+	++	++	-	++	-	++	+/-	+/-
Cambodia	+/-	+/-	+/-	+/-	+	+	+	+/-	+/-	+/-	+/-	+/-	++	++	++	-	++	-	++	++	+/-
China	++	++			++	++	++	++	+/-	+/-	+/-	+	+	++	++	++	++	-	++	++	+/-
India	+/-	+/-	+	+/-	+/-	++	+	+/-	+/-	+/-	+/-	+/-	++	+	++	++	++	-	++	++	+/-
Indonesia		+/-	++	+	++	++	++	++	+	+	+	+	-	++	++	-	++	-	++	+/-	+/-
Malaysia	++	++	++	-	++	++	++	++	+/-	+/-		+	-	++	++	-	++	-	++	++	-
Nepal	+/-	+/-	+/-	+/-	+/-	++	+	+/-	+	+	+/-	+/-	+	++	++	-	++	++	++	++	+/-
Pakistan	++	-	+/-			+	+	+	+/-	+/-	+/-	+/-	+	+	++	-	++	-	++	+/-	+
Philippines	+/-	+/-	-	-	-	++	++	++	+	+/-	+/-	+/-	+	++	++	-	++	++	++	++	+
Sri Lanka	+/-	+	++		++	++	++		+/-	+/-	++	+	+	++	++	-	++	-	++	+	++
Thailand	++	++			++	++	++	++	++	++	++	-	++	+	++	-	++	-	++	++	++
Viet Nam	++	++	+	+		+			++	++	+	+	-	++	++	++	++	-	++	++	++

++ Early achiever + On track +/- Slow – Regressing/No progress

Source: UNESCAP, ADB and UNDP (2010), “Achieving the Millennium Development Goals in an Era of Global Uncertainty”, *Asia-Pacific Regional Report 2009/10*.

China’s early achievement of reducing the target of extreme poverty masks the slower progress attained thus far in other Asian countries, for example in more populous South Asian countries such as India and Bangladesh. Under-five and infant mortality rates exhibit much slower progress in several countries in the region. In the Philippines, the income disparity in under-five mortality rates is starkly apparent, as the rate of deaths per thousand live births among the poorest quintile is over three times that of the richest quintile (UNESCAP, ADB and UNDP, 2010). Another area exhibiting no progress throughout the region is a lack of reduction in CO₂ emissions, which policy makers must confront moving forward, in efforts to put the region on a path towards more environmentally sustainable development.

Depressed labour market conditions and declining poverty rates feed into other MDGs in areas such as access to healthcare and education, and the elimination of hunger. For example, over an estimated 70 million people per year in the region are pushed into poverty due to health spending; in some countries 60% of healthcare costs are borne out-of-pocket (World Health Organisation, 2010). Trends towards reducing world hunger were already threatened by the 2008 food crisis; analysis suggests that the world’s undernourished population increased by 63 million people compared to 2007 figures. The economic crisis may be responsible for an additional 41 million undernourished in 2009 (World Bank and IMF, 2010).

The full impact of the crisis upon the achievement of the Millennium Development Goals remains to be seen, yet clearly the adverse economic conditions have slowed progress and left major gaps particularly for populations of the world's smaller and more vulnerable countries. It is in this context that localisation of the MDGs can play an important role in working to achieve these and other internationally agreed development goals. Localisation of the MDGs refers to the design or adjustment of local development plans to reflect local MDG targets, increasing local ownership and ensuring needs are met at the community level (UNDP-SNV Netherlands Development Organisation, 2009). Local government authorities can often better identify key areas of concern particularly for regions or groups at risk that may be overlooked at the national level when measuring overall progress in MDG attainment, as strong regional differences often emerge. Chapter 4 highlights this in action in Viet Nam.

Fiscal policy responses

Asia's fast and strong economic rebound was fuelled by accommodative monetary policies and robust fiscal stimulus packages in the main countries of the region, in particular China. The distinctive features of the regional fiscal policy response are well known.

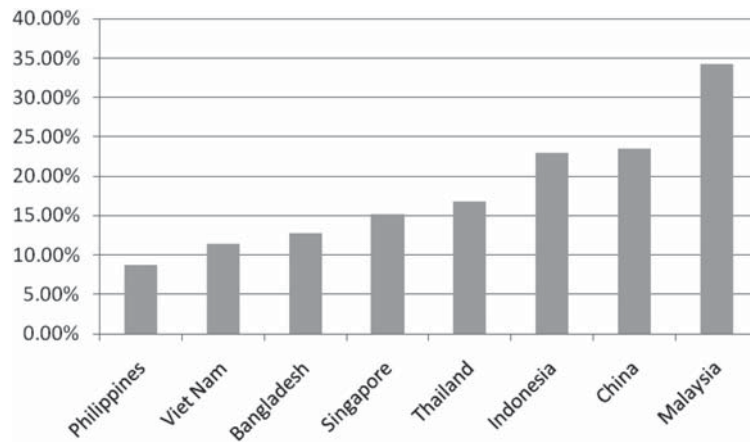
Hefty stimulus measures were in place within a few months of the meltdown of export markets in the industrialised nations – the engine of growth for most Asian economies. A swift response helped contain the depth of the contraction in domestic markets even in the general absence of automatic stabilisers. Speed of action was prompted by the bitter lesson of the Asian financial crisis in the late 1990s and it was facilitated by competent macroeconomic management and generally sound fundamentals such as high growth, low inflation, substantial foreign exchange reserves, low fiscal deficits and public debt, and sound and well regulated domestic financial institutions.

The size of the packages also contributed to their success. In East Asia and the Pacific (including China) the fiscal stimulus averaged 2% of GDP, a higher level than the G20 group of countries, and it was supplemented by significant quasi-fiscal easing.³ India invested 1.8% of GDP on stimulus measures in 2009, with measures to support the financial system accounting for an additional 6.4% (Chhibber *et al.* 2009).

Finally, although cuts in corporate and income taxes were noticeable components of stimulus measures, the bulk was represented by spending, especially spending for infrastructure which has large domestic multiplier and employment effects. Public spending accounted for 90% of the stimulus package in China, over 65% in Thailand and Viet Nam and over 40% in Malaysia (Sziraczki *et al.* 2009). Spending in infrastructure was also very significant in the Philippines and Indonesia, where stimulus measures focused mainly on tax cuts.

Large investments in infrastructure had important social and labour market effects. In many countries, investment addressed urgent social housing needs (China, India, and Viet Nam). In some cases (China), it included green components. Often, it catered to the rural sector, opening up new opportunities for local development, the use of local resources and enhanced agricultural productivity. In Indonesia, the USD 1.3 billion infrastructure investment package concentrated on road and bridge works, water and sanitation development, and irrigation and water resource development. It created new jobs for an estimated 1 million people, the large majority of whom being the unemployed, youth (15-29) and uneducated (Co-ordinating Ministry for Economic Affairs Indonesia, 2010).

Figure 2.4. **Social protection expenditure as a percentage of total stimulus plans in selected Asian economies**



Source: Zhang, Y., N. Thelen and A. Rao (2009), “Social Protection in Fiscal Stimulus Packages: Some Evidence,” *UNDP/ODS Working Paper*.

Overall, the expenditure for social protection measures was a significant percentage of the total (Figure 2.4), although it hardly reached the estimated 25% world average (Zhang *et al.* 2009).

Interventions included greater access to basic health, education and social security services for the most vulnerable (China, Indonesia, Philippines and Thailand) and the strengthening of targeted programmes for poverty alleviation such as the National Rural Employment Guarantee Scheme of India and conditional and unconditional cash transfers programmes (Bangladesh, Indonesia, Pakistan and the Philippines), further discussed in Chapter 3. Even in those countries that had limited fiscal and policy space to launch vigorous stimulus measures, efforts were made to address the new vulnerabilities created by the crisis through the reshuffling of social expenditures, the encouragement of community-driven programmes and better targeting and monitoring of social programmes, in some cases shifting away from food and fuel subsidies. In some instances, emergency assistance from the World Bank and IMF helped to ease the pressure on social programmes.

In all of the above, preparedness and timeliness helped make a difference: countries where safety net schemes were in place and could be rapidly scaled up were better able to cushion the effects on vulnerable groups. Altogether, spending for the poor and vulnerable remained modest but it increased in many countries. The introduction of stronger social protection measures was an important departure, and bound to grow. It also provided some ground for policy innovation in Chapter 3.

Active labour market policy measures similar to those adopted in OECD countries were used in a number of middle income and lower-middle income countries that were experiencing job losses in their formal economy, often in export-oriented sectors. Those measures included job search assistance and skills training for retrenched workers (Malaysia and Thailand) or returning migrants (China and Philippines); subsidies to assist laid-off workers (Viet Nam); and cuts in payroll taxes to encourage job retention (Indonesia) (Sziraczy *et al.* 2009). Basic forms of work-sharing or working time adjustments were also introduced at national and company level (Philippines and Indonesia).⁴

Those interventions had at times a distinctive territorial dimension, as manufacturing production for exports is often clustered in special processing zones – for instance, special one-stop workers’ assistance centres were established in those export processing zones in the Philippines where companies were most affected (ILO, 2010e).

Tripartite mechanisms and social dialogue consultations at national and local levels were used to encourage and facilitate the introduction of active labour market and workplace measures. National and sectoral consultations in the Philippines culminated in a jobs summit and the adoption of a national Economic Resilience Programme (ERP). In Malaysia, tripartite committees helped in managing retrenchment concerns and were used to explore options for a retrenchment fund initiative.

The scope of these initiatives and its positive impact may lead to a further strengthening of the practice as well as the institutional and legal frameworks for industrial relations in the region, in a similar way to what took place in the aftermath of the Asian financial crisis in 1997-98, when significant improvements were suddenly made, *e.g.* through the introduction of agreements broadening the respect of basic rights at work or the establishment of tripartite commissions and social dialogue institutions in the Republic of Korea, Singapore, Philippines, Malaysia and Indonesia. Regrettably, in a few cases measures to restrict or discourage migrant work were part of the policy response to the crisis, with a risk of putting additional pressure on an already vulnerable group of workers.

The capacity to sustain expansionary fiscal policies and leverage those policies in order to implement structural reforms and economic restructuring to stimulate private sector investments is a critical determinant of the prospects for growth of the countries in the region. The largest economies, particularly China, should have enough reserves and domestic market opportunities to maintain their recovery momentum over the medium-term – their extraordinary fiscal policy effort has not yet produced a major deterioration of debt and deficits figures. Smaller, export-oriented middle-income countries may have to adopt a more balanced macroeconomic management stance and embark vigorously on industrial restructuring and sectoral policies. The small low-income countries of the region will need appropriate international support to avoid being trapped into a spiralling circle of economic downturn and social unrest.

Social protection for all

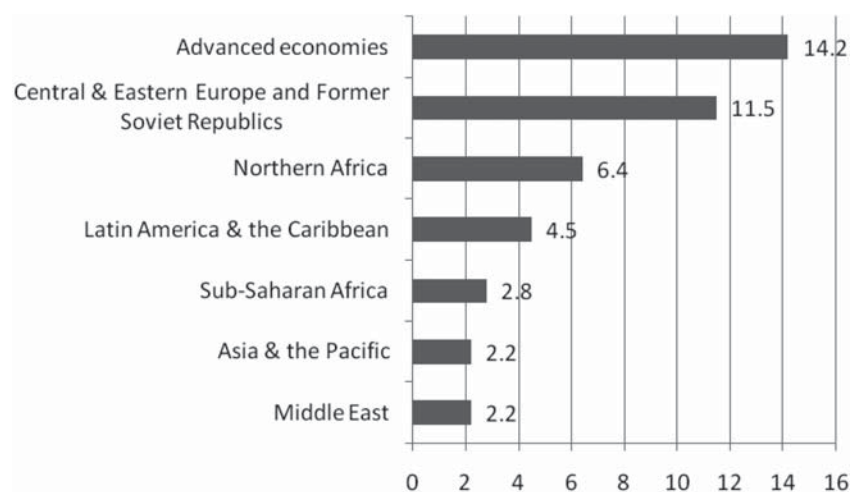
Though still a hesitant move in several respects, the introduction of measures to strengthen safety nets and social protection within the fiscal stimulus packages was a significant departure from the pattern of response to the Asian crisis in the late '90s.⁵ At that time, governments in many countries in the region quickly implemented a wide range of structural reforms and restrictive macroeconomic measures. But they had no or limited instruments to deal with the social costs of the crisis. The weaknesses of the existing social safety nets amplified the social distress of the financial turmoil caused by the crisis of the Baht, leading to a sharp reversal of the impressive trends in poverty reduction the region had achieved. Those weaknesses prompted many demands for stronger social assistance programmes and other measures to complement traditional community and household coping mechanisms to shelter the impact of economic disruptions on communities and individuals (OECD, 2002). The need for stronger social measures led to policy and institutional changes in some countries.

The Republic of Korea, for instance, reinforced its new unemployment insurance scheme and introduced a Minimum Living Standards Guarantee. Thailand – to mention

another example – expanded access to employment schemes, health and education services and social security. But most other countries, while introducing some temporary means of social assistance, reacted mainly by reverting to traditional self-reliance and family networks. As economic circumstances improved, the policy attention in most of Asia rapidly turned away from social protection to the endeavour to fully benefit from the expansion of export markets in industrialised nations, usually through a mix of industrial policies, wage compression and competitive exchange rates.

This “neglect” of social policy still characterises the region. After several decades of sustained economic growth, even the poorest countries in Asia have rudimentary and fragmented systems of social insurance and social assistance. For example, it is estimated that only 20% of workers in Asia have access to any form of unemployment benefits, training and skills development, or other forms of labour market programmes (UNESCAP, ADB and UNDP, 2010). Those systems, moreover, only cater to formally employed workers, who constitute a small proportion of the total workforce in the region. The very large number of workers who are in the informal and rural segments of the economy, often in a situation of poverty and deprivation, must mainly rely on traditional safety nets provided by families or communities, supported at times by national subsidies for the consumption of basic food items and other products (Whiteford and Föster, 2002). Altogether, governments provide a relatively small share of social protection: the levels of social spending are significantly low in Asian developing economies compared with countries in the other developing regions (see Figure 2.5).

Figure 2.5. Social protection expenditures by region (share of GDP, %)



Source: ILO (2009a), *The Financial and Economic Crisis: A Decent Work Response*, ILO, Geneva.

If it is not new, the debate on the role of social protection in supporting economic and social resilience and long-term social development in Asia is gaining new momentum in the wake of the current global economic crisis. Many experts and observers argue that the recovery provides an opportunity to close the region’s gap in social protection (Asher, 2010). There are several underlying driving factors.

A main driver is the knowledge gained from the experience of the current global economic crisis as well as in previous crises. Country experiences show the importance of social protection as an economic stabiliser and not just as a welfare or redistributive mechanism.

In times of crisis, transfer incomes – notably social assistance and social security benefits paid to unemployed workers and other vulnerable recipients – not only prevent people from falling further into poverty, they also limit the contraction of aggregate demand thereby curtailing the potential depth of a recession. A recent review of the employment and social protection measures introduced in the G20 countries in 2008-09 pointed out that social protection brings a triple benefit (ILO, 2010b). In addition to protecting people from being trapped in debilitating poverty, social protection empowers them to maintain their human capital and seize market opportunities – ensuring workers remain productive and possibly even leading to the formation and upgrading of microenterprises. At the same, social transfers contribute to aggregate demand, creating more space for new and old enterprises to prosper and generate jobs.

Short-term measures to guarantee income replacement and in-kind transfers are therefore essential to curtail the immediate effects of a crisis. They are particularly effective if they are implemented rapidly by means of scaling-up or adapting existing programmes rather than creating new ones. Short-term countercyclical measures should thus be integrated in broader systems of social protection in order to ensure the capacity and flexibility to react fast to future crises. Developing Asia remains exposed to the fluctuations of the international economy. Fuel and food prices have descended from their pre-crisis historic high levels of 2007-08, but the situation remains volatile. As the recovery gains momentum, signs emerge of increases in food prices that could have a detrimental impact on the large vulnerable segments of the population.

Over the long-term, the build up of comprehensive mechanisms to provide a minimum set of basic social services, social insurance and assistance – a “system” and not just a bunch of impromptu social safety net measures – is a fundamental element of a development strategy leading to the permanent reduction of poverty and insecurity.⁶

In Asia, such an endeavour has a distinctive macroeconomic dimension. Similarly to their governments, who accumulate large reserves of foreign exchange to make up for the lack of international countercyclical finance, households in Asia maintain high levels of precautionary savings to counter the hazardous costs of health and education and the lack of adequate pension remunerations. This precautionary motive, together with other factors such as rapid GDP growth and the slow development of domestic financial markets, is held to account for high financial and current account surpluses of the region. Stronger social policies and structural reforms to provide families with health, education, pensions and better collective management of risks could play a role in influencing the tendency of households to maintain high levels of savings and give them the confidence to bolster consumption. By this token, those policies could set conditions for a sustained increase of private consumption, leading to a more balanced pattern of growth, less reliant on exports, for the region as a whole.⁷

With the strengthening of social welfare systems, another forceful structural factor which adds to the mounting concern is the fast ageing of the population as a result of increased life expectancy and reductions in fertility rates (higher than world average) (see Table 2.4). Many of the large developing economies of Asia (China, Indonesia, Thailand and Viet Nam) are expected to register increases in the old-age dependency ratios of 3 to 4 times between 2005 and 2050. With the main exceptions of India and Philippines, the region will account for dependency ratios significantly higher than the world average in 2050. Such prospects have obvious implications for the design of pension and health systems.

Table 2.4. **Old-Age Dependency Ratios**

Country	Old-Age Dependency Ratio	
	2005	2050
World	11	25
China	11	39
India	8	21
Indonesia	8	29
Malaysia	7	25
Philippines	6	19
Singapore	12	59
Sri Lanka	9	36
Thailand	11	38
Viet Nam	9	30

Source: Asher, M. (2010), “The Global Economic Crisis: An Opportunity for Strengthening Asia’s Social Protection Systems?”, *Asian Development Bank Institute (ADBI) Working Paper Series*, No. 198, February.

The drive towards stronger social protection will differ across countries, according to growth patterns, fiscal situations, demographic profiles and economic and social structures. Nonetheless, there are likely to be common streams in policy development, which may have implications for the decentralisation of governance structures and the role of local authorities and stakeholders in delivering economic and social services.

One main issue will be enhancing the coverage and improving the efficiency of social security systems and various other forms of workplace interventions in the formal sectors of the economy, including steps towards the consolidation of multiple schemes into more coherent programmes. China, India, Indonesia, Thailand and Viet Nam are moving in that direction, integrating programmes in different areas and encouraging greater voluntary participation. In the wake of the crisis, the Philippines is planning to introduce an unemployment insurance scheme for workers in the formal economy, while other strong exporters from the region are strengthening their systems for the design and delivery of active labour market policies, from training and support for jobseekers, to job retention and measures to enhance workplace productivity.

The construction of more complex and better integrated systems will imply the need for greater professionalism in the delivery of social policy and social services especially when done through decentralised local structures, including mechanisms to address issues of transparency, accountability, evaluation and fine-tuning of measures.

Another main area for policy development will concern the need to extend a minimum of socio-economic security to the large numbers of people in the informal economy who live in a situation of poverty or near-poverty. New momentum here is being provided by the region’s introduction to innovative and targeted poverty alleviation programmes such as employment guarantee schemes and conditional cash transfers, prompted by – among other things – international support for the MDG objectives to lift people out of poverty and reinforced in the wake of the global food and financial crises. As will be discussed Chapter 3, although they may have high initial administrative costs, these schemes very effectively achieve their poverty reduction and local development objectives and provide skeleton structures to use as building blocks in setting up full-fledged systems. Strengthening the

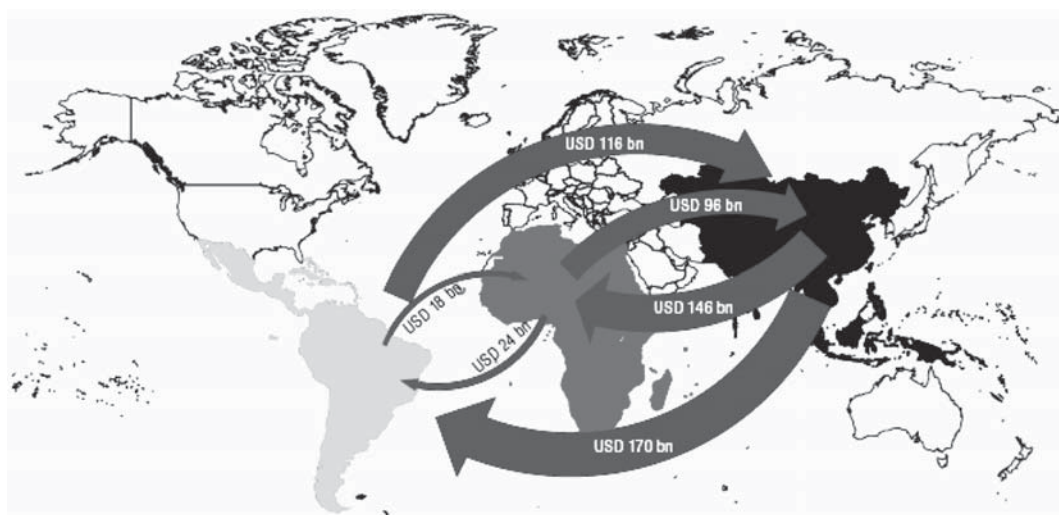
involvement and capacity of local actors is particularly important since these schemes usually target distinctive geographical regions – either urban or rural and remote – where poverty is high and the outreach of central administration usually weak.

Trade integration, skills and employment

Greater trade integration within developing Asia is going to be an increasingly important avenue for the future economic expansion of the region and the emergence of new production networks and linkages driven by emerging consumer markets in China and India. Regional openness is important for longer-term development, but the effects of trade reform on the labour force should be taken into account. The impact of Free Trade Agreements (FTAs) on labour markets and particularly on skills requirements and mobility of workers remains largely unknown. Trade has been a major source of prosperity in the Asian region, but it also generates shocks on the labour market as jobs are created and lost and, indeed, it can exacerbate regional inequalities. Moreover, while market access provides opportunities for new jobs, only jobs for which skills exist might be created. This section discusses how FTAs in the region might impact job creation and skills development and the increasing role of labour and social policies to provide some balance or prevention of the negative effects in local labour markets.

On the positive side, trade liberalisation is a direct channel of interaction between industrialised countries and emerging economies and increasingly, between emerging economies and poor countries. Developing countries now account for about 37% of global trade, with south-south flows making up about half of that total (see Figure 2.6) which is a clear indication of how south-south is a dynamic force in the new global economy. This phenomenon, recently analysed by the OECD, shows the changing nature of the world's economic centre of gravity moving towards the east and the south and creating a new geography of growth where “shifting wealth” is becoming an increasingly visible process (OECD, 2010). Such trade potential needs to be fostered in order to support the process of wealth creation in the south.

Figure 2.6. Regional south-south trade flows in 2008



Source : OECD (2010), *Perspectives on Global Development: Shifting Wealth*, OECD, Paris.

Mainstream trade literature emphasises the reasons why trade has a positive impact on the business environment. Open trading systems generate greater competition compared to closed trading regimes, while also providing positive exposure to international best practices. This raises productivity in open countries and makes imports as beneficial in this regard as exports. For labour abundant poor countries, trade provides employment opportunities through the emergence of export industries in which unskilled workers can benefit, allowing these countries to utilize their comparative advantage in this area. These developments have been seen in the rapid growth of many countries in East Asia, where, as workers gain more skills through greater growth, producers can thus advance towards higher value-added goods further along the value chain, creating strong integrated linkages across countries and raising overall growth and productivity.

Alternative theories account for a less idyllic view of the benefits of trade. They underlined that not all regions can benefit from a rapidly expanding global demand for their products and that much of Asia's export success was linked to the unsustainable debt-driven pattern of expansion of imports of consumer goods in the industrialised economies. They also underline that the adoption of modern manufacturing techniques in low-income countries accounted for high-growth and high productivity but relatively limited employment generation and declining wage shares (UNCTAD, 2010). Behind the controversies,⁸ the fact remains that trade reforms both create and destroy jobs in tradable and non-tradable sectors; with expansion of high-productivity firms and shrinkage or disappearance of low-productivity firms, the negative impacts fall mainly on SMEs unable to enter foreign markets and locked-into domestic demand where skills might be lower and largely rely on the informal economy. The proliferation of FTAs in the Asian region has led to multiple trade issues and recurring implementation problems for the enterprise sector and chiefly for SMEs. In most East Asian countries FTAs have dominated trade policy while the full extent of exporting firms using FTAs tariff preferences is still unknown. Information on FTAs is still scarce for small firms and available data suggest that governments in the Asian region need to put more emphasis on disseminating information on FTAs among SMEs and particularly in rural areas and among non-members of business associations where information asymmetries are higher (Ratananarumitsorn, *et al.* 2008). Equally important are interventions to: support small firms, or clusters of small firms; reach the volume and quality demanded by global supply chains; be familiar with standards required in advanced markets; and be financially resilient to bear the ups and downs of volatile markets. The risk for SMEs of being locked-in domestic markets and sectors at the low-end of the value-chain can be a further barrier for country competitiveness and therefore active policies are required to prevent trade-shocks following reform.

From a more challenging point of view, while trade liberalisation can contribute to growth and local development, it also increases exposures to trade shocks which can differ depending on national and local conditions and the extent of export infrastructure. A recent ILO report analysing the effects of the global crisis on trade and employment (Jansen and von Uexkull, 2010) reviews the employment effects of trade shocks. First, these effects are more pronounced on those countries where exports concentrate on sectors with the largest drop in trade – such as iron and steel and durable products. Second, the employment effects rapidly expand to other sectors of the economy through a reduced demand for inputs by exporting companies and a reduction of consumer demand due to employment and income losses. Third, volatility in global markets is likely to have long-term negative growth effects due to negative effects on investment decisions (Jansen and von Uexkull, 2010).

Sectoral shocks are not only the result of a financial crisis; they can also be a consequence of the adjustment process needed by labour markets following trade openness.

Indeed, not all companies will be able to become strong exporters or integrated into global value-chains that bring them into the centre of an integrated world. On the contrary, those countries where the level of skills is low and absorption of technological change is also low face greater barriers to make a smooth transition following trade openness (WTO and ILO, 2007). Therefore labour market policies facilitating the transition following trade reform become key to the process. Passive income support during periods of unemployment is one of the options, but active labour market programmes or social protection policies can effectively strengthen the capacity of developing and emerging economies to cope with trade reform as well as increasing popular support for the reforms (WTO and ILO, 2007).

Discussion of the benefits of trade liberalisation in the countries of developing Asia must also take in to account the high degree of informal employment that exists in the region's labour markets. Research from the ILO and WTO (2009) shows that countries with large numbers of informally employed can have difficulty in accruing benefits from trade liberalisation, making harmonisation of trade and labour market policies crucial to avoid increased poverty incidence in this context.

Southeast Asia FTAs need to progress on the implementation schedule, reduction of negative lists and addressing non-tariff barriers to trade. There is also a need to better understand the extent of trade in services, and facilitate investment and industrial co-operation while moving towards the goals of financial and monetary co-operation. However, regional co-operation should not just be on trade, it should rather cover a variety of developmental dimensions. Coherent linkages between trade and labour market and social policies to facilitate deepening of trade linkages and cushioning undesired employment effects need to be well designed and implemented at local levels to maximise investment on local skills development and small suppliers. A job-rich recovery requires the benefits of FTAs to maximise creating better quality of jobs.

At the employment and skills development level, FTAs can demand and introduce new and specific skills into the workforce if an integrated policy approach for agile training systems is in place. On the other hand, import-oriented production sectors risk to lose employment with a workforce that is not easily absorbed by other sectors due to lack of appropriate skills. Countries where skills are low and technological absorption capacity is low suffer most from the adverse consequences of trade reform. Active labour market and social protection policies can be put in place to better equip the workforce in the transition, together with facilitating flexible training and skills development systems that can adjust to future skills needs. Policy implications relating to skills and employment, enterprises and infrastructure, and social protection are further explored in the following chapter.

Shaping the path to job-rich and sustained recovery and growth

Responses to the Asian crisis of the late 1990s shaped development strategies for the region, prompting financial and fiscal conservatism coupled with aggressive export and industrial policies and low wages. In the aftermath of the current global financial and economic crisis, a new pattern is emerging, characterised by vigorous policies to support domestic consumption and investment, active employment and labour market policies to facilitate industrial and labour market adjustments, and stronger social protection measures to accelerate inclusive growth and poverty reduction.

There is an emerging consensus that shifting from export-led growth towards greater reliance on domestic and regional sources of demand will be critical to sustaining economic prosperity in Asia, as well as globally. This debate – on a non-deflationary

redressing of global imbalances – focuses mainly on macroeconomic policies – financial, trade and exchange rate – that can help the process of rebalancing to take place in an ordered and painless manner. Yet there is an important social side as well. Employment and labour market policies and institutions could be instrumental in reaching optimal rebalancing.

In addition, other structural changes are likely to shape adjustments in the labour markets of the region: persisting poverty, climate change, and the ageing of populations. Those adjustments will need to be accommodated through appropriate policies.

In this evolving scenario, employment and labour market policies and institutions have a distinctive role in:

1. Facilitating adjustment and restructuring of production networks and supply chains to the needs of local sources of demand, the continuing trends towards greater regional integration and regional value chains, and the untapped opportunities from free trade agreements. This calls for new marketing and distribution channels, new logistics and legal agreements etc. Rebalancing will have profound implications for the geography of production and thus significant implications for local policy-making.
2. Contributing to stimulate productivity and investment in domestic sectors, especially agriculture and green industries, in order to reduce environmental strains and alleviate poverty in rural areas – this can have a strong employment creation effect thanks to greater focus on micro, small and medium enterprises and the broadening of opportunities for the upgrading of informal producers as a result of higher productivity and incomes in rural areas.
3. Smoothing transitions across sectors by means of providing relevant skills to workers and enterprises to keep pace with market changes – it will be especially important to upgrade and develop new skills in order to harness employment opportunities emerging in new “green” industries and facilitate the wider shift to greener technologies.
4. Sustaining purchasing power of households and reducing excessive precautionary savings by means of better social protection systems, greater funding and coverage of social insurance mechanisms, minimum wage policies, unemployment insurance, basic pensions and a social protection floor, to better protect workers against poverty and the risks of employment shocks that arise from financial volatility and economic downturns.

Notes

1. The IMF definition of Developing Asia includes 26 countries from the region, from Afghanistan to Vanuatu, IMF (2010a). The chapter will mainly focus on the major countries, in particular Bangladesh, India, Nepal, Pakistan and Sri Lanka (South Asia); Cambodia, Indonesia, Malaysia, Philippines, Thailand and Viet Nam (ASEAN-6) and China.
2. Further information can be found at the UN website devoted to the MDGs: www.un.org/millenniumgoals/bkgd.shtml.
3. Government-led investment in China reached 6% of GDP in 2009 while bank lending – mainly to finance government-led projects – reached 30%; in Viet Nam, including off-budget spending, the fiscal deficit reached 10% of GDP, see World Bank, 2010b. Stimulus measures exceeding 3% of GDP were also announced in the Republic of Korea, Japan, Malaysia, Philippines, Singapore, Taiwan POC and Thailand, see Zhang *et al.*, 2009.
4. In the Philippines, it is estimated that flexible working arrangements helped preserve almost 60% of some 213 000 crisis-affected workers in export-processing zones (ILO, 2010e).
5. Social protection broadly refers to policies and actions which enhance the capacity of people to better manage risks and shocks and escape from poverty. According to the OECD, “Social Protection Measures Include Social Insurance, Social Transfers and Minimum Labour Standards” (OECD, 2009). For the ILO, social protection (or social security) refers to a set of institutions, measures, rights, obligations and transfers whose primary goal is to guarantee access to health and social services and to provide income security to help to cope with important risks of life (inter alia, loss of income due to invalidity, old age or unemployment) and prevent or alleviate poverty (ILO, GB.294/ESP/4, Geneva, November 2005). The ILO concept of social protection is also reflected in its international labour standards.
6. The case for the “transformative” power of social protection in directly reducing poverty and contributing to sustainable economic development, social cohesion and social stability is well documented in OECD, 2009.
7. The implications this could have on the reduction of the so-called global imbalances and thereby on the expansion of global growth are discussed in Blanchard and Milesi-Ferretti, 2009.
8. For an extended literature review of classical trade theory and new-new trade theory see WTO and ILO, 2007.

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Part II

Job recovery and growth: the role of government and local stakeholders

Chapter 3

What role do local governments and local stakeholders have in an inclusive job-rich recovery?

by Cristina Martinez-Fernandez, Kees Van Der Ree,
Aurelio Parisotto, Annie Van Klaveren and Sylvain Giguère

Chapter 3, “What role do local government and local stakeholders have in an inclusive job-rich recovery?”, discusses the key issues for the recovery and highlights local initiatives that are driving the recovery in the Asian region. The chapter examines three sets of critical elements that are within the reach of public policy: (1) Fostering the dynamics between skills and employment focusing on demographic change, migration and mobility of workers in Asia, enhancing skills development and utilisation, building labour market intelligence for more strategic services, and greening jobs, skills and firms; (2) Creating jobs through enterprise and infrastructure development, focusing on recovery and post-recovery measures to promote investment in infrastructure using local resource-based approaches; and (3) Developing social protection schemes highlighting key features of two types of programmes, viz. conditional cash transfers and employment guarantee scheme. The chapter concludes with policy concerns and recommendations.

Introduction

Trade and financial recovery from the crisis might be easier than employment recovery, particularly at the local level where some places might stagnate and decline for a long time. Job creation does not respond to the same strategies everywhere and usually those places with little technological absorption and innovation capacity will have fewer opportunities for recovery. The role of policy is therefore crucial to facilitate and accelerate sustainable pathways for local recovery. This chapter discusses key issues for the recovery and illustrates with local initiatives how this recovery is being driven in the Asian region.

Promoting a job-rich recovery through policy requires a focus on the management of global impacts in local economies and labour markets. A difficult task, as global impacts affect both the private and the public sector and, in many cases, local institutions and stakeholders do not have the capacity or knowledge to propose policies and programmes for effective management of global issues such as the recent financial crisis or the impact of climate change, demographic change and ageing of societies. However, several elements are within the reach of public policy: (1) fostering the dynamics between skills and employment; (2) creating jobs through enterprise and infrastructure development; and (3) developing social protection schemes. These elements are discussed further in the three sub-sections of this chapter. The importance of local strategies in achieving greater policy coherence and effectiveness is examined in the following chapter.

Fostering the dynamics between skills and employment

There are four important aspects associated the role of local governments and stakeholders in skills and employment: (1) Demographic change, migration and mobility of workers in Asia; (2) Enhancing skills development and utilisation; (3) Building labour market intelligence for more strategic employment services and (4) Greening jobs, skills and firms.

Demographic change, migration and mobility of workers in Asia

Demographic change is one of the key challenges that labour market policies need to address today. The challenge is global but the impact is felt in some places more than others in the form of population shifts, population ageing, and workforce ageing in different industry sectors. Certain groups are also more affected than others such as women and youth. These elements add complexity to changes to the labour market and the composition of the workforce. For example, to respond to the skills development needs of migrants and intra-regional migration, current training systems might need to be streamlined to make them more relevant as to *what* needs to be trained for and *who* should be trained. The organisation and management of training systems to cope with these changes also needs to be examined to understand the requirements of delivering quality outputs. Unemployed youth and the low-skilled, ageing workers, national and international migrants are some of the key groups that would need to be analysed as demographic change settles and the need for new skills or the transformation of skills gains clarity.

Initial analysis suggests that across the region, population growth combined with migration from rural to urban areas and increased urbanisation has resulted in large pools of semi and unskilled workers, many of whom are unable to integrate socially, politically or economically into mainstream society. The failure to provide this group with the appropriate skills, or support the upgrading of their existing ones, represents a loss of potential talent across a generation and could lead to greater barriers for modernisation of a skilled workforce. This section discusses key challenges of demographic change, migration and mobility of workers in Asia.

Key policy concerns

The economic crisis has a widespread effect on labour markets in Southeast Asian countries. However, job losses have an unequal impact on different groups in the labour market. First, the most affected were young people aged 15-24. Second, there has been a continuing decline in industry manufacturing while the trend of growth in services continues (especially in Malaysia, Philippines and Thailand). The decline in manufacturing has affected women more than men given their larger participation in manufacturing activities (ILO, 2010a). Key policy issues relate to (1) vulnerable groups; (2) mobility of workers; (3) ageing of the workforce; and (4) youth unemployment.

Vulnerable groups

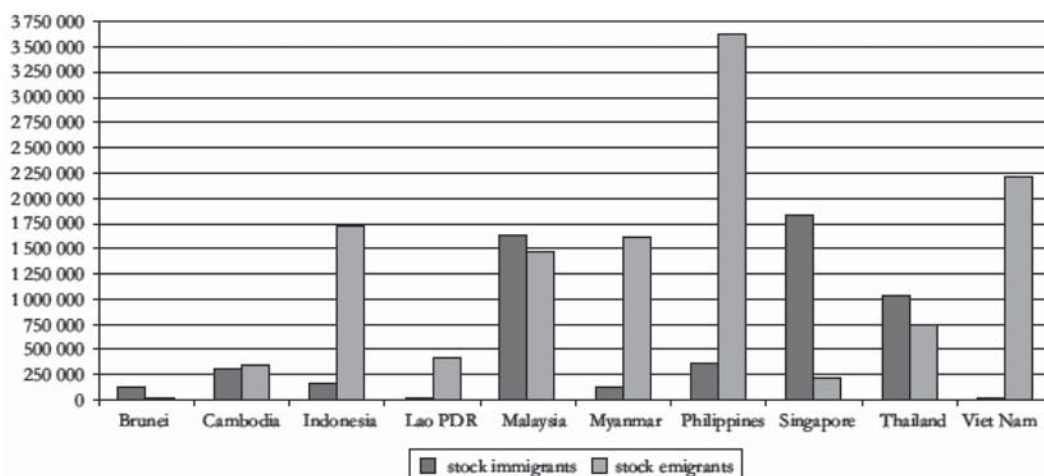
Informal and vulnerable employment continues to expand within the low and middle income ASEAN member countries as discussed earlier in Chapter 2. In Indonesia, for example, informal workers have grown at a faster rate than formal employees. In Thailand the share of workers in vulnerable employment notably increased. Women have a greater share of vulnerable employment (65% of women compared with 58% of men in ASEAN). Vulnerable employment has a higher participation in the informal economy where jobs are unproductive, low-quality, low-paid and with little opportunities or employability leverage. Apart from the lack of social protection for these jobs, also has a negative impact on the growth of domestic and regional markets (ILO, 2010a).

Mobility of workers

The mobility of workers in Southeast Asia shows labour market demographic change as a key component of regional integration. The ILO (2010a) has estimated 13.5 million migrants in the region and around 39% of them (chiefly from Indonesia, Lao PDR, Myanmar, the Philippines and Viet Nam) are working in other ASEAN member countries chiefly in Singapore and Brunei Darussalam but also Cambodia, Malaysia and Thailand which are both labour receiving and sending countries (see Figure 3.1).

The Asia-Pacific region has 59% of the world's working age population and increasing levels of labour mobility. The dominant mode of international labour migration is "temporary

Figure 3.1. Immigration and emigration in ASEAN, 2005



Source: ILO (2010a), *Labour and Social Trends in ASEAN 2010: Sustaining Recovery and Development through Decent Work*, ILO Regional Office for Asia and Pacific, Bangkok.

low-skilled contract migration” (Hugo, 2009) which presents eight types of temporary labour migration in the region (see Table 3.1), these range from low and high skilled temporary labour migration, seasonal migration, working holiday makers, student and trainee migration, border commuters, and project-tied labour migration. The potential for temporary labour migration to have positive development impact in origin areas is considerable not only because of their large numbers but also because they retain a strong commitment to their home communities since they leave their families. However there are a number of barriers including the transaction costs to migration; the high costs of sending remittances and some areas of origin lack the infrastructure and potential for productive investment (impact of remittances is compromised).

Table 3.1. A typology of temporary migration in Asia and the Pacific

Type	Status in destination	Potential to move to permanent residence	Ability to bring family	Rights
Low-skilled contract labour	Documented and undocumented	Very low	Not possible	Very limited
High-skilled temporary	Mostly documented	High	Allowed	Substantial
Low-skilled seasonal labour migration	Documented and undocumented	Low	Not possible	Very limited
Working holiday makers	Mostly documented	Moderate	Possible	Substantial
Student migration	Documented	High	Allowed	Substantial
Trainee migration	Initially documented although many become undocumented	Low	Not necessary	Limited
Border commuters/ circulators	Undocumented	Low	Not necessary in many cases	Limited
Project tied labour migration	Documented	Low	Possible	Limited

Source: Hugo, G. (2009), *Labour migration for development: best practices in Asia and the Pacific*, ILO Asian Regional Programme on Governance of Labour Migration Working Paper No. 17, ILO, Bangkok.

There is a lack of information on migration and the impact of the crisis on migration in the region. However, the concern is that those workers who did migrate have invested heavily in getting recruited, in the travel and accommodation in the new country and establishing themselves. In many cases returning to their home country is not often an option and they may accept almost any conditions just to retain their jobs. In cases where they have lost their job and work permits, they become undocumented and may move to the informal economy (Hugo, 2009), in many cases this results in increased vulnerability to abuse or trafficking.

According to the ILO (2010a), although the crisis may have temporarily slowed down the flow of migrant workers, migration is likely to grow even quicker over time due to an uneven labour supply and persistent income differentials between labour receiving and sending countries in the ASEAN+3. Japan, the Republic of Korea and Singapore all have ageing workforces and therefore should have an increasing demand for labour from other countries. Conversely countries such as Cambodia, the Lao PDR and the Philippines have an oversupply of young workers and so opportunities may exist for increasing migration. However the social impacts of labour migration are also high, such as social costs of dependency on remittances, children left at home, brain drain as skilled workers seek opportunities elsewhere and the focus on education for migration.

Ageing of the workforce

Ageing of the workforce is also starting to be analysed by countries with strong focus on skills development such as Singapore where it is expected that one in six Singapore residents will be 65 years or older compared to one in nine today (2010). Rather than raising the retirement age, Singapore has chosen to legislate re-employment beyond retirement age so as to give flexibility to employers in their manpower planning and development. Therefore, employers can retain their valued older employees by offering them a different job based on their manpower needs, on different salary and employment terms based on the value of the job and the contribution of the individual employee. Also the government will help older low-wage workers through their Workfare scheme, which rewards work by supplementing workers' incomes. A new Workfare Training Scheme is designed to encourage older low-wage workers to participate in training and upgrading, and to motivate their employers to send them for training (Gan Kim Yong, 2010).

Youth unemployment

A joint study by the United Nations Educational, Scientific and Cultural Organisation (UNESCO); Food and Agriculture Organisation of the United Nations (FAO); and the International Labour Organisation (ILO) (2009) examined the training and employment opportunities to address poverty among rural youth in the Philippines, Thailand and Viet Nam. Table 3.2 shows the approximate population in 2005 and the percentage of youth.

Table 3.2. Population and percentage of youth (Philippines, Thailand and Viet Nam – 2005)

Country	Population (approx.)	Youth (%)
Philippines	86 million	19.8
Thailand	65 million	15.3
Viet Nam	86 million	20.5

Source: UNESCO, FAO and ILO, 2009.

Table 3.3. Gross domestic product – Growth of output/poverty

	1990	1995	2000	2005
Philippines				
GDP growth	3.0	4.7	4.4	4.9
Agriculture (% of GDP)	21.9	21.6	15.8	14.3
Industry (% of GDP)	34.5	32.1	32.3	31.9
Services (% of GDP)	43.6	46.3	52.0	53.7
Thailand				
GDP growth	11.2	9.2	4.8	4.5
Agriculture (% of GDP)	12.5	9.5	9.0	10.2
Industry (% of GDP)	37.2	40.7	42.0	44.1
Services (% of GDP)	50.3	49.7	49.0	45.7
Viet Nam				
GDP growth	5.1	9.5	6.8	8.4
Agriculture (% of GDP)	38.7	27.2	24.5	21.0
Industry (% of GDP)	22.7	28.8	36.7	41.0
Services (% of GDP)	38.6	44.1	38.7	38.0

Source: UNESCO, FAO and ILO (2009), *Training and Employment Opportunities to Address Poverty among Rural Youth: A Synthesis Report*, UNESCO, Bangkok.

In Thailand and Viet Nam, the highest share of the youth is employed in the agricultural sector (43% and 58% respectively). In the Philippines, the highest share of youth employment is in the service sector accounting for 48%, while agriculture is second with 37%. Despite high rates of employment in agriculture the GDP share of agriculture has been relatively low and has been declining (Table 3.3).

Table 3.4 illustrates the youth labour force participation rates (LFPR) and the youth employment-to-population ratio for the total youth population, disaggregated by gender for the Philippines, Thailand and Viet Nam. Youth LFPR refers to the sum of persons aged 15-24 in the labour force as a percentage of the working-age population. The youth employment-to-population ratio, also referred to as the youth employment rate, is the number of employed persons aged 15-24 as a percentage of the working-age population. In the Philippines and Thailand, the female youth LFPR and employment-to-population ratio is lower than that of males. The difference is larger in the Philippines than in Thailand. In Viet Nam, the young female LFPR is higher than that of males (UNESCO, FAO and ILO, 2009).

Table 3.4. **Youth labour force participation rates and employment to population ratio**

Country	Youth LFPR, 2007 (%)	Employment to Population, Ratio, 2006 (%)	Youth unemployment rate (%)
Philippines			(2005) 16.4
Total	47.2	44.3	
Male	56.5	53.8	
Female	37.6	34.4	
Thailand			(2005) 4.8
Total	48.8	46.3	
Male	56.3	52.6	
Female	41.1	39.8	
Viet Nam			(2004) 4.6
Total	54.9	66.1	
Male	55.6	64.5	
Female	54.1	67.7	

Source: UNESCO, FAO and ILO (2009), *Training and Employment Opportunities to Address Poverty among Rural Youth: A Synthesis Report*, UNESCO, Bangkok.

A report by UNESCO, FAO and ILO (2009) highlights ways to promote employment and training opportunities among youth with the aim of reducing poverty (see Box 3.1).

Enhancing skills development and utilisation to boost productivity and job quality

Raising the skills levels is one of the surest ways to contribute to future prosperity in all countries. Investing in human capital, yields returns in the form of higher growth and competitiveness. Education and training have the potential to transform lives and relieve people of poverty through matching them with more rewarding jobs. Raising skills levels is of particular importance in Asia's emerging economies which are currently seeking to rebalance growth towards greater reliance on domestic and regional demand.

Higher skills levels do not automatically translate into higher productivity and better jobs, however. An integrated approach to both the supply and the demand of skills is required to make sustained and lasting progress, and this has been made more urgent by the recent crisis. As this section will show, such an approach entails a range of new and challenging tasks for all stakeholders involved.

Box 3.1. Promoting employment and opportunities for the youth

- **Employment and income generation** – rural youth face an ongoing struggle to find decent work opportunities. A large number of them habitually migrate to urban areas only to find limited chances of finding meaningful employment. An alternative is to create employment opportunities in rural areas by reinforcing on, off, and non-farm income generating opportunities in line with the local context. This concerns improving productivity in the agricultural sector and exploring effective livelihood diversification. It also concerns the promotion of youth entrepreneurship, which in turn can provide greater opportunities for employment, skills development and innovation in products and services.
- **Training** – In order to enhance the quality and relevance of training and encourage families and the rural youth to recognise the benefits of training, it is important to access labour market needs in the given local context, and formulate training needs and preferences of the rural youth. A lack of information and awareness among the youth, their families and communities on the availability and usefulness of training (particularly those meeting labour market demands) is a major problem. The media, such as newspapers, television and radio, can be utilised to communicate the benefits of training, in addition to broader dissemination of information on available training opportunities, scholarships, youth programmes and job fairs.
- **Formal education** – access, affordability, quality and relevance are the four key barriers to promoting education, which in turn enhances employment opportunities for the rural youth. It is essential to realise equality among migrant, minority and otherwise marginalised, disadvantaged groups, as well as gender parity. Greater investment is needed to ensure adequate materials, safe and well-maintained school environments, quality of teachers, along with better remunerations and incentives. Specific efforts must be made to stem the drop-out rates in schools by emphasizing the importance of education, improving its relevance and quality, and mitigating the associated costs.
- **Labour market information** – There is a scarcity of labour market information in general, particularly in rural areas. This hampers a government’s ability to devise informed policies. It also makes it harder for the rural youth to make informed decisions on employment and training. In addition, it provides challenges to matching the supply and needs of the rural youth with the demands of their respective labour markets. It is important to further disseminate information on the opportunities and services available to the rural youth as well as the risks and benefits associated with migration to urban areas, or abroad, while also enhancing employment assistance and career guidance (UNESCO, FAO and ILO, 2009).

Key policy concerns

Skills utilisation: A key strategic goal in the post-crisis

Improving skills utilisation is particularly urgent in the context of the post-crisis. To counteract rising unemployment there has recently been a drive towards job creation support measures at the local level in several countries. Temporary jobs in the public sector, for example, have been seen as important means of maintaining labour market attachment until the downturn is over. However in the longer term it will be important to create real and sustainable jobs, not just any jobs. Careful investment in human resource development on both the supply and demand side of the labour market can create the conditions for future competitiveness and therefore prosperity, leading to a job market which provides better quality and decent jobs.

Matching business' skills needs already represents a significant challenge for the education and training system. The Asian economy is being transformed quickly under the pressure of globalisation and technological change, and new skills needs constantly appear in various sectors. Moreover, the education and training system is often slow to adapt to new situations. There are rigidities inherent to the system which relate to the time required to translate new needs into concrete curricula, identifying training providers, preparing logistics, financing, recruiting participants, etc.

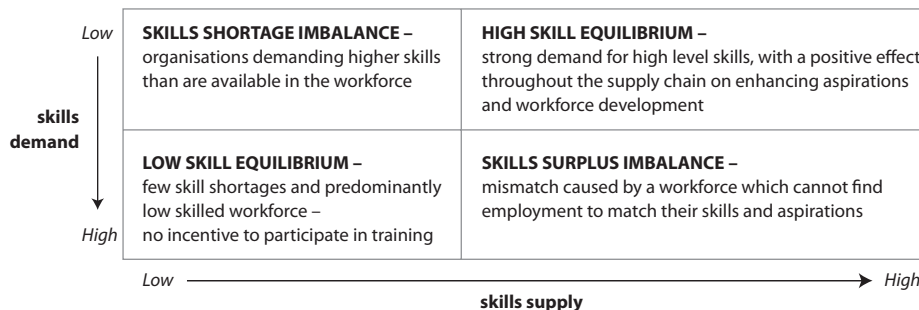
In many Asian countries those challenges are made more acute by low capacities on technical vocational education and training (TVET). In Indonesia, 2% of the secondary TVET graduates learn agricultural techniques whereas the share of the agricultural employment is about 40%. Seven percent of TVET graduates obtained skills in tourism while the share of tourism employment is only around 2%. The current vocational education and training (VET) system generates relatively low-skilled workers. An ILO survey (Skaerlund, 2009) on the tourism sector in Surabaya revealed that hotels hired VET graduates as unskilled workers on contract basis and paid them as such. Many TVET graduates do not obtain formal employment, especially in areas where economic growth is stagnant.

As a result, meeting business needs quickly is an objective that has been given high priority in many countries. In order to speed up adjustment, authorities have been launching ambitious policies and encouraging local initiatives. Education and training managers have established local partnerships with the business sector in order to quickly identify new needs and deliver new courses. A good example is Penang Skills Development Centre in Malaysia. Set up in 1989 to provide a more rapid response to business needs, the training centre is jointly led by the local industry, government agencies and a local university. It offers a wide variety of training for both member companies (from whom it receives fees) and the unemployed (through government grants) (Froy, Giguère and Hofer, 2009). The local education and training system is keen to seize opportunities that arise to contribute more to attainment of local and national employment and job targets.

But because these initiatives are often driven by the urgency to meet immediate business needs, they sometimes ignore the fact that not all businesses are as effective as they could be in utilising the skills of their labour force to remain productive in a changing industrial context. Within an increasingly knowledge-based economy, it is important that local industries fully exploit the skills and potential of their workers by applying effective management methods. Skills not only need to be supplied locally but also effectively absorbed. The OECD experience is rich in cases of local economies which have fallen into low-skills equilibrium (bottom left hand corner of Figure 3.2) because they have not adapted to globalisation challenges and have failed to upgrade their skills demand.

Despite the availability of new technology and local pool of talent, companies often choose to stay at the low end of the market. There are multiple reasons for this, in addition to constant availability of low-skilled workers. Relatively unproductive firms can still make a profit for their owners, and fill a market need for commodity products, even if they do little to raise the incomes of their workers. Some companies are not aware of best practice in the industry, or the latest technological innovations which can take a long time to spread and be absorbed. And some companies know what they would like to (and should) do but cannot take those steps, either for cultural reasons, shortages of capital or lack of know-how. In Indonesia there is a general reluctance among local companies to invest in efficiency, for example, in family-owned small-scale businesses this is due to debt-aversion. The vast majority of enterprises are traditional micro, small and medium enterprises.

Figure 3.2. **Low skills equilibrium and alternative scenarios in the context of the balance between skills demand and supply**



Source: Green, A.E. and L. E. Martinez-Solano (forthcoming), *Leveraging Training: Skills Development in SMEs. An analysis of West Midlands, England, UK*. OECD.

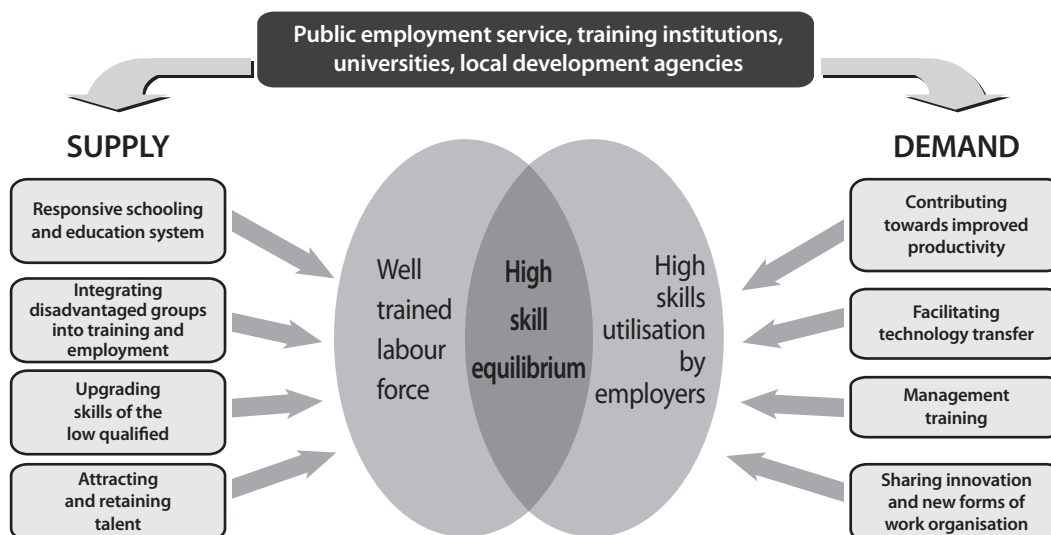
The low-skills equilibrium situation has important local consequences. Because young educated people do not find appropriate employment to make use of their skills and potential locally, they frequently leave to work abroad or in other regions, thereby depriving the region of talent which could help develop the local economy. In parallel these situations have been accompanied by in-migration of foreign workers to take up low paid, low quality jobs leading to high turnover in firms. Frequently such foreign workers are overqualified for the work they carry out leading to skills mismatch.

Deciding on the best policy response to such situations is challenging. Local economies investing in the supply of skills, such as those with a regional university, but which pay sufficient attention to the skills demand and utilisation of the local pool of talent, may see a situation of skills surplus, often characterised by a combination of high unemployment and brain drain (bottom-right corner of Figure 3.2). Conversely, local economies which strongly emphasise the demand for skills, for example with a bold innovation policy and invest significantly in R&D, but which do not deploy matching efforts in supplying the skills required, are likely to find themselves in a situation of skills shortages (top-left corner of Figure 3.2). In these cases, economic development is slowed by skills gaps, and growth is unstable. These unstable situations may end up in low-skills equilibrium as workers, or firms, leave the region.

When regions invest in both the supply and demand of skills, they tend to concentrate more on the high skills, high productivity equilibrium (top-right corner). To get there, it is advisable to take a longer-term, more proactive and strategic approach. Such an approach needs to take into account the strengths and weaknesses of local industry. It should seek to foresee the challenges and threats ahead for the local economy and identify the skills which could help make firms more resilient and more competitive in the future. And most importantly, incentives should remain for firms to upgrade their production processes and fully exploit the potential of their workers, raising both job quality and incomes.

The public sector, including employment services and training organisations, has a significant role to play in improving this situation (see Figure 3.3). Employment agencies, together with education and training institutions and others, can help localities move towards a high-skills equilibrium. Collaboratively, they need not only to better adapt the supply of skills to the demands of the local economy but also to improve local skills utilisation through: providing incentives for employers to invest in new technology, helping local enterprises to identify weaknesses in their production processes, promoting effective and innovative forms of work organisation, facilitating technology transfer and encouraging uptake of training for both managers and workers. By improving both productivity and

Figure 3.3. Combining a supply and demand side approach to raising skills levels



Source: Froy, F. and S. Giguère (2010), *Putting in Place Jobs which Last – A Guide for Rebuilding Quality Employment at the Local Level*, OECD Publishing, Paris.

skills levels employers will maximise the utilisation of the local pool of talent and improve job opportunities, at the same time as improving the competitiveness of the local economy.

In the context of Asia's emerging economies, a number of specific issues need to be addressed for skills development policies to adopt this integrated approach: involve employers in the decision of training programmes, decentralisation and financing and building labour market information.¹

Involving employers in the design of training programmes

Meaningful participation of employers and workers in designing skills training programmes is crucial to take a more strategic approach to skills development. The Skills Development Council in Pakistan, a self-sustained private organisation, illustrates this point. The council's board consists of four employer members, one worker representative and five government officials. The board regularly meets and evaluates the existing training programmes together with the Employer Federation of Pakistan. Based on the assessment results, they develop and implement short training programmes to fill the identified skills gaps. The council's financial position allows the body to provide training for the poor free of charge. Centres of excellence in Indonesia also offer good examples of facilitating dialogue between TVET institutions and industries. These developments echo the case of the United States, where employer-driven training boards (the Workforce Investment Boards) was introduced about twenty years ago. The lesson from these experiences is that substantive leadership by employers as stakeholders, investors and consumers is important irrespective of the governance structures in place.

The United States have also pioneered a new method of getting companies into action after receiving training: the US Department of Commerce's Manufacturing Extension Partnership Programme, with its partners, provides three one-day sessions on exporting products, spacing a month between sessions. Trained participants bring the new knowledge obtained from each session back to their company where they are expected to discuss action plans. In this way, after the third session all participants could develop concrete plans of action to export their products and services to new markets, aiding the growth of the company.

It is also important to design training activities on the basis of a long-term local economic strategy, itself fed by relevant local data. In Viet Nam a project funded by the European Commission seeks to link labour market information with skills development. It adopts an ILO-developed method, Community-Based Training for Rural Economic Empowerment (CBTREE), which is implemented in around 20 countries. The sequence of the project is: (1) capacity building of implementing partners; (2) identifying training needs in communities and develop training packages; (3) post-training support to trainees (*i.e.* self-employment creation, job placement services and introducing micro-finance institutions); and (4) monitoring and evaluation (tracer studies). The method was adopted by the government in its training programme which intends to train 1 million farmers per year between 2011 and 2020. Community-based training is of particular importance in Viet Nam since more than 50% of Viet Nam's GDP is generated in the agricultural sector that employs about 70% of the country's workforce. Implementation of the programme, however, remains a challenge, due to limited capacity of local administration.

Decentralisation and financing

Matching national guidelines to local needs calls for flexibility in policy design at the central level so that the leeway in guidelines can accommodate and reflect local conditions (Giguère, 2008). In the case of Asian economies, decentralisation has often given a large scope of decision-making to the region, such as the case in Indonesia. The problem that then arises is that of institutional capacity and funding. In Indonesia, the whole TVET system is severely underfunded, and TVET institutions are dependent on budget coming from the central government, raising a number of issues. Lack of funding negatively affects teacher's qualifications and motivation. Training advisor's boards have little incentives to seek what customers want and reflect market demand in their training programmes. This problem is further compounded by the lack of competence of employment services centres that fail to channel VET graduates to employment or further training.

In the United States a concept has been gaining popularity among development and training practitioners in this regard. Resource mapping identifies funding available for a specific purpose (*e.g.* workforce development) that various parties receive from the central government, local government, NGOs and other sources in a region. This exercise helps level funding surplus and deficit of programmes since some funds are flexible in its usage.

Building labour market intelligence for more strategic employment services

Investing in understanding the dynamics of labour markets and the roles both the private and public sectors play is a powerful tool for helping local and national economies to adjust to changes in working practices, advances in technology, and challenges associated with globalisation and demographic change. Successful management of these processes and customisation to the needs of local communities and markets is a complex task, but certainly one that will result in advancing growth rates and employment levels. More importantly, providing professionals in private and public organisations with the knowledge to collect and analyse relevant labour market information and the capacity to put strategic plans into place to address emerging issues can help to prevent stagnation of economic sectors, underemployment, rising unemployment levels and social exclusion. Industry transformation towards a low-carbon economy challenges traditional labour market measures and emphasises new needs and priorities to be taken into account for workforce development and for the support provided by strategic employment services.

This section discusses barriers to constructing Labour Market Intelligence (LMI) in Public Employment Services (PES), both from urban and rural areas, in selected countries in Asia. Understanding labour markets is complex and the needs for data building and analytical capacity is significant. The aim here is to reflect on the barriers local labour market professionals and institutions encounter in their daily work and possible strategic approaches to overcome these challenges. The section also discusses examples of best practices in Asia for the design of employment services to meet post-crisis and growing employment needs.

Key policy concerns

There are a number of key issues impacting the production of labour market information. First is the lack of official statistical data that can potentially generate local market information. Sampling methods of national household surveys are not done in such a way as to enable disaggregation of statistics. When data is generated it is fragmented in different departments and not consolidated for access through one single point. Furthermore, public organisations lack capacity and skills to gather, collate and analyse data, especially at the local level. The problem is more acute in countries where there is an extensive informal economy. For example in the Philippines, low income municipalities might collect data only with the help of volunteering students. In other countries such as Timor Leste lack of Information and Communication Technology (ICT) infrastructure and of equipment and power to support computers make it impossible to collect and process LMI.

Second, information at the local level is scarce. In Viet Nam there is little information available regarding which jobs have been lost and how revenues have been reduced. Policies are designed based on estimations which do not always reflect the extent of the problem in localities, especially those which are more isolated.

Third, there is a need for professional development of employment services in order to address skills and jobs mismatch. As an illustration of structural unemployment, a coastal area in China registers high unemployment for unskilled workers at the same time that companies in the same area search for skilled workers without much success.

Fourth, there is a need to provide income protection and social insurance for displaced workers. How labour market information could contribute to the design of various employment services is likewise a challenge given the wide-ranging services involved: job matching, vocational guidance, information dissemination, organising job fairs, subsidies for unemployed workers, wage subsidies, and on-the-job training.

Fifth, no indicators exist for public agencies to monitor effectiveness, efficiency and quality of employment services or how countries are adapting labour market intelligence in the face of the crisis.

Finally, labour market information is also critical for the delivery of programmes in the most effective way. Flexibility in the management of labour market policies and programmes is central to optimising their contribution to competitiveness, inclusion and prosperity at the local level. OECD research shows that flexibility is not necessarily correlated with particular forms of labour market decentralisation or devolution, but can form part of any institutional reform designed to encourage policy co-ordination and adaptation to strategic objectives at the local level. Flexibility can take the form of the involvement of local offices in the design of programmes, freedom to choose how to spend budgets, the possibility to negotiate performance targets and choose target groups for programmes, and the opportunity to collaborate with other actors (see Box 3.2). In each of these management

Box 3.2. What do we mean by flexibility?

Programme design: Do sub-regional offices have any input into the design of policies and programmes? Are they consulted? Are they free to determine the programme mix and even adapt design features of programmes, including target groups, or are these largely centrally determined? May local PES offices implement innovative programmes outside the standard programme portfolio? Do they design local employment strategies?

Financing: Do sub-regional actors have flexible global budgets or line item budgets for active measures? Are they free to allocate resources flexibly between budget items for active measures?

Target groups: Are local offices free to decide on the target groups for their assistance locally or do programmes already specify particular target groups?

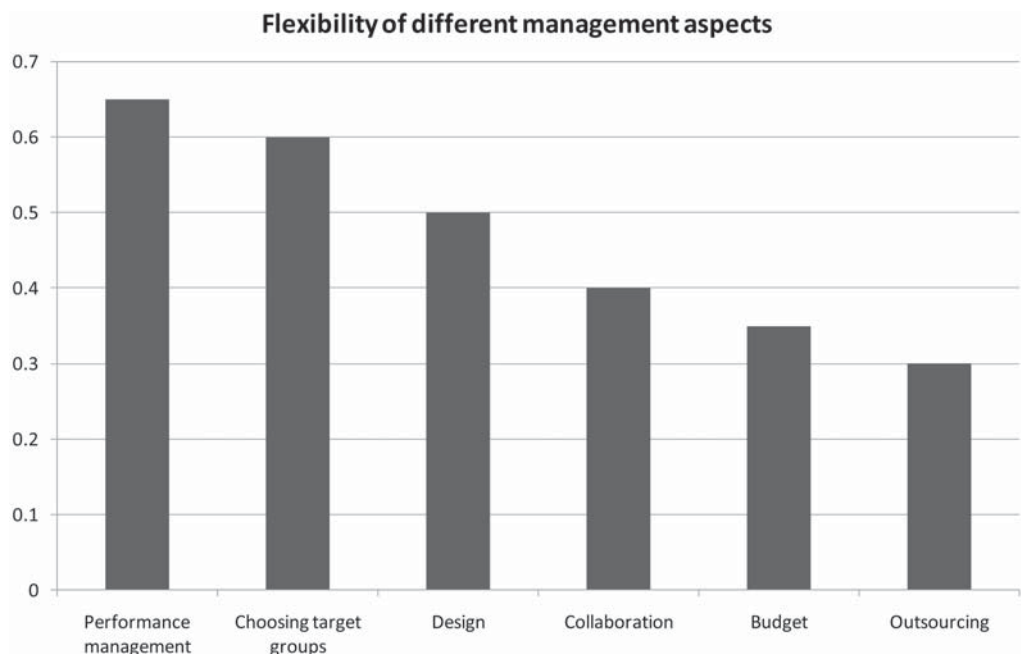
Goals and performance management: To what extent are organisational goals and targets centrally determined? Do they allow room for sub-regional goals and hence flexibility in adapting goals to local circumstances? Are targets and indicators hierarchically imposed or negotiated with regional and local actors? Is performance assessment based solely on quantitative criteria? Are sanctions imposed if targets are not met?

Collaboration: Are local offices free to participate in partnerships and do they collaborate with other actors? Can local offices decide who they collaborate with locally?

Outsourcing: Are local offices responsible for outsourcing services to external providers?

Source: Giguère, S. and F. Froy (2009), *Flexible Policy for More and Better Jobs*, OECD Publishing, Paris.

Figure 3.4. Degree of flexibility in the delivery of different management aspects of the labour market in Southeast Asian countries by local employment agencies



Source: OECD (2009a), OECD LEED ESSSA questionnaire, June 2008–November 2009.

areas, local actors can have greater or lesser freedom to implement policy as they see fit to meet local needs, and to contribute effectively to local² strategies.

To build up a picture of the flexibility available for labour market agencies in Southeast Asian countries, the survey asked national ministries on different aspects of the management of labour market policies and programmes.³ An overall index of local flexibility between 0 and 5 for each country, which has been used to perform an initial comparison between countries as summarised in Figure 3.4.⁴

Labour market policy appears to be relatively decentralised in Southeast Asian countries, with only Singapore having a completely centralised system (which is explained by the small population and size of this country – approx 4.5 million in 693 sq km). With the exception of Brunei Darussalam (which has a total population equivalent to the sub-regional level in many countries), Laos has the most decentralised system with the nine local public offices (each proportionally serving a population of roughly 725 000 people) being able to design their own employment programmes, decide how to spend their budgets, decide on target groups and set their own employment targets. Indonesia and the Philippines, followed by Malaysia and Thailand, are also relatively decentralised. In Indonesia, while budgets are decided on and managed centrally, the local offices (441 offices serving roughly 530 000 people) input into the design of employment programmes, can choose target groups and set their own performance targets as well as contract out services. In the Philippines and in Malaysia local offices can design programmes and choose target groups, however they only have partial freedom in the operation of budgets (they can move funds between different budget lines) and can only negotiate (rather than set) performance targets. In the Philippines both local and sub-national offices have the ability to outsource some services, whereas this is not possible in Malaysia. In Thailand all programmes are designed at the national level and the national level also decides on the target groups for employment policy. However, local officials (in 75 provincial offices serving 867 500 people) have some freedom to move funds between different budget lines, negotiate performance targets and contract out services (OECD, 2009a).

In Cambodia there is significantly less flexibility for local offices which have no flexibility around designing programmes, budgets and the choice of target groups but they can set their own performance targets, collaborate with other actors at local level and also contract out the delivery of selected services. Viet Nam has allocated greater powers at the regional level (64 regional offices each serving roughly 1.3 million people), but has no offices at the local/sub-regional level. In Myanmar local offices (77 at township level) have no freedom to input into programme design, manage budgets or define target groups, but performance targets are negotiated locally and the offices have the ability to collaborate with other agencies. Singapore has no employment offices at the regional or local level (OECD, 2009a).

When comparing different management tools, the most flexibility appeared to be allocated around the setting of performance targets in Southeast Asian countries. This represents a departure from the norm in OECD countries studied, where the greatest flexibility is allocated in respect to programme design and collaboration with other actors. It is rare in OECD countries for local employment offices to set their own performance targets (as happens in Cambodia, Indonesia and Laos), though they do negotiate these in just under half of all cases (48%) (OECD, 2009a).

Examples of promising initiatives

Several Asian countries are designing information collection systems and employment services to anticipate changes in the labour market.

To align social insurance policies to the threat of job loss, the Department of Insurance in China is piloting a system in 18 cities (in 6 provinces) to monitor unemployment and labour markets where companies report their recruitment and downsizing plans in order to help to collect comprehensive data, generate employment trends and anticipate insurance protection needs. This dynamic monitoring system will be expanded to 200 cities in China.

Viet Nam has carried out LMI projects in 15-20 provinces where data is collected from the village level. However expertise is lacking at the local level as well as a systematic approach to collecting data from enterprises.

In the wake of the global crisis where 70 000 workers had been retrenched from garment factories in Cambodia (or 20% of the sector's workforce). The ILO, in collaboration with the Labour Ministry and the ADB has set up a tracking system which followed 2 000 displaced workers over a period of six months. The tracking system followed where they went, how they searched for new jobs, whether and where they found new work, how much they earned, etc. The results of this study could shed light on where opportunities are found, on coping patterns, and subsequently contribute to the design of employment services.

Also in Cambodia the Labour Ministry will set up the National Employment Agency which will provide employment services to job seekers, policy makers and training providers. In particular it will: (a) develop employment services based on customer or industry demand; (b) collect, analyse and disseminate LMI for improved policy design; (c) raise public awareness of labour market information; and (d) enhance and align skills with labour market demand.

In Timor Leste, employment centres face challenges reaching out to those who need to find a job most, as workers in the informal economy do not recognise PES as relevant because these organisations only focus on the formal sector. There is a need for national policy makers and for international organisations to foster labour market intelligence strategies and programmes.

Greening jobs, skills and firms

The global economic crisis has put pressure on local government to create sustainable jobs as one of the principal agents in the recovery process. Local government in collaboration with civil society and the private sector must seek out avenues that create new jobs for the newly unemployed, new entrants into the workforce, returning migrants and those in poverty. In previous chapters, the role of government social protection schemes and local-based infrastructure was discussed as mechanisms to effectively create large quantities of jobs in a relatively short period of time. The bulk of those programmes are designed to provide temporary relief during economic downturns or as part of a government poverty alleviation programme. However, even when Asian economies are exiting the crisis with strong recovery there are still projections for job shortfall.⁵

The crisis also has forced governments to take a fresh look at strategies used for addressing job creation and income generation. Not only do job-rich strategies need to create immediate relief, they need to be lasting opportunities that extend beyond the crisis, and are robust to face future economic shocks. Green jobs promise to be one of those strategies.

The green jobs sector intends to create significant quantities of decent work opportunities that preserve or restore the environmental quality by protecting ecosystems and biodiversity, reduce energy, materials, and water consumption, and reduce waste and pollution (UNEP, ILO, IOE, ITUC, 2008). Green jobs seek to simultaneously create high quality jobs through the managed use of the environment while protecting it for future generations.

The widespread belief that “green growth”⁶ can act as an antidote to unemployment in the aftermath of the economic and financial crisis has added momentum to existing trends to strengthen climate change regulation frameworks. Considerable sums have been allocated to climate policy objectives as part of the stimulus packages adopted by countries around the world in response to the financial crisis. Green funds in the European Union countries count for up to 8.5% of stimulus funds and worldwide this increases to 15.6% (HSBC Global Research, 2009). Despite the strong presence of green funds in stimulus packages, the job of “greening the economy” is vast and poorly understood – chiefly in Asian economies. It implies not just creation of new jobs, but also the transformation of jobs, skills and firms (Martinez-Fernandez et al, 2010).

From the local dimension, the promotion of green sector jobs may fall into the two categories below. To illustrate the richness of local initiatives this section discusses key policy concerns and examples across the region that better show how Asian economies are moving towards a greener future.

1. Transition of existing enterprises to become more environmentally sustainable; and
2. Fostering new categories of green sector enterprises (*i.e.* waste reclamation, eco-tourism).

Key policy concerns

Recovery in Asia is taking place at a strong pace. Many Asian countries have developed green growth strategies or forward-looking climate-related plans. At present, at least forty countries all over the world – in Europe, the Americas, Asia and Africa – have established such plans. Korea, Denmark and Ireland have called their plans “green growth strategies”. Korea is a particularly notable example – having designated green growth as the centrepiece of its economic development planning. Korea’s strategy calls for spending 2% of GDP per year over the five year period from 2009-13 to achieve ten policy priorities – from effective mitigation of greenhouse gas emissions to the development of green technologies to becoming an international role-model as a green growth leader.

Energy industries in particular are increasing their potential in Asian economies. China in particular, are spending hundreds of billions of dollars annually to gain a competitive advantage in a wide range of energy efficient and lower pollution intensity technologies such as renewable energy, public transport and electric vehicles. The opportunity is further evidenced by projections that, in 2020, clean energy will be one of the world’s largest industries, totalling as much as USD 2.3 trillion (Australian Conservation Foundation and ACTU, 2010).

The strong growth in the green sector is posing new challenges for local areas and local businesses. There are three key policy concerns for short-term strategic development: (1) connection to the green global grid; (2) green skills development; and (3) carbon disclosure.

Connecting to the green global grid

The challenge ahead for local areas is to take part in global developments – a “green revolution” that, as with the “digital divide”, could produce a “green divide” if territories are disconnected from the “green global grid”. For example, international transfer of low-carbon⁷ technologies is taking place at an increasing pace. Some interesting trends emerge from recent OECD work analysing the transfer of low-carbon technologies during the last three decades. The largest inventing countries are Japan, US and the EU (particularly

Germany, the UK, France and Italy). While inventive activity in developing countries remains relatively low in absolute terms, in some areas remarkable growth has occurred. In addition, the clean technology sector is globalised. The largest recipient countries of clean energy technologies actually include many of the same countries that are innovators, as well as emerging economies including China, Korea, Brazil, Mexico and South Africa. For example, Figure 3.5 shows OECD estimates of international flows of wind power technologies from Annex I countries (*i.e.* industrialised countries under the UN Framework Convention on Climate Change) to non-Annex I countries between 1988 and 2007. We can see that in this case China was by far the largest recipient of wind power technologies from Europe. However, the pattern of transfer differs by type of technology (*e.g.* solar power, “clean” coal, etc.).

Figure 3.5. **Transfer of wind power technologies, 1988-2007**



Source: OECD 2010b. Based on data extracted from EPO/OECD Worldwide Patent Statistical Database (PATSTAT).
 Note: 1988-07, only major flows identified. Transfer is measured as the relationship between source country of inventions (“inventor country”) and countries in which protection of the intellectual property has been sought. See also ENV/EPOC/WPNEP(2009)1/FINAL (www.oecd.org/environment/innovation).

International research co-operation can also strengthen domestic innovative capacity. Figure 3.6 shows the extent of international research co-operation among inventors in different countries, taking the example of solar photovoltaic technologies. The high level of co-operation among Annex I and non-Annex I countries shows that inventors in these countries have much to learn from each other. Increased involvement of non-Annex I countries in co-operative research programmes will help to stimulate innovation that meets local needs.

In addition to such collaboration, special mechanisms may be needed to accelerate technology transfer to developing countries. These will need to balance the interests of businesses as well as governments. In specific circumstances, transaction costs for transfer are very high, such as when there are overlapping patents on complementary technology components. In such a case, financing of intellectual property-related costs (*e.g.* application, examination, and registration fees) could be subsidised if it helps to increase technology transfer. Education and training may also be required to protect intellectual property rights. A global fund could provide

financing for such measures, but this would require additional resources. Revenues for such a fund might be raised, for example, through carbon-taxes or auctioned emission rights under cap-and-trade systems. The ongoing discussion on mechanisms for international technology transfer under the UN Framework Convention on Climate Change is critical in this regard.

Figure 3.6. **International research co-operation in solar photovoltaics: 1988-07**



Source: OECD (2010b), *Perspectives on Global Development 2010: Shifting Wealth*, OECD, Paris.

Note: 1988-07, only the most important relationships identified. The map shows how frequently inventors from different countries co-operate in the development of patented technologies. Based on data extracted from EPO/OECD Worldwide Patent Statistical Database (PATSTAT). See also ENV/EPOC/WPNP(2009)1/FINAL (www.oecd.org/environment/innovation).

Green skills development

Another concern is in the area of skills. Many countries in the Asian region and beyond are reporting skills shortages and the green area is expected to increase the shortages in the near future. Moving towards cleaner production and environmental friendly development is altering patterns of energy use, affecting how industries are operating and raising demand for new “green skills” across a broad range of industries. In the area of climate change mitigation for example, areas such as engineering, construction and manufacturing for better energy efficiency will continue to grow; examples include solar panels and insulation. Adaptation to the impact of climate change will also increase in importance and in turn have potential impacts on relevant skills in the areas of agriculture including irrigation, coastal management, resilient infrastructure, public goods and productive assets and water course management. In preparing for a greener economy, countries face two major skill challenges (ILO, 2010a):

- To re-skill workers to “green” existing jobs, enterprises and industries;
- To educate new generations of students and young workers to take up appropriate skills to meet the rising demand for skilled workers in renewable industries and new green technologies.

Business adaptation towards a greener economy is not new for large firms, chiefly those operating in the resources industries but Small and Medium Enterprises (SMEs) are more often than not, relatively unaware of the technological and operational adaptations required by low-carbon development. Furthermore, they are often poorly linked to the more savvy larger corporations. SMEs have the additional challenge of a low participation in training and skills development programmes and the extent of this participation is usually unknown at the local or regional level. Therefore, reaching and greening SMEs remains a significant challenge for the transformation ahead.

The pool of SME workers requiring further education, training and skills upgrading is significant and in ways still poorly understood for the transformation to a low-carbon economy. Of growing relevance is the impact that eco-innovation has on sustainable manufacturing and manufacturing firms (the majority being SMEs), a sector of key importance in the Asian region. Innovation is recognised as a significant driver of economic growth, but industry leaders and policy makers have also looked at innovation as a key to making radical improvements in corporate environmental practices and performance. Beyond the context of the crisis, green innovation (eco-innovation) is accelerating in certain areas where SMEs participation and labour intensity is higher; e.g. for the majority of renewable energy activities such as energy efficiency, smart metering, renewable energy production, building refurbishment, the switch to cleaner cars, wind and solar installations, and battery development (IEA, 2009). Challenges for SMEs transition to a low-carbon economy in Asia remain significant and public policy is of great importance for enabling a business environment that fosters growth while preserving the environment.

Carbon disclosure

China has become the biggest CO₂ emitter in the world, contributing one-fifth of the world total and surpassing the US (IEA, 2009). However, carbon disclosure information in Asia still has its shortcomings. As stated in the Association for Sustainable & Responsible Investment in Asia's (ASRIA) report, one major reason cited is the risk of extreme weather, which has been recognised as a potential physical risk to companies operating in the region. Most experts agree that Asia still has a way to go in reporting their carbon emissions compared to their counterparts in the west. The number of companies disclosing their carbon emissions is still relatively small. In Asia, the awareness and sponsorship of carbon disclosures leave much room for improvement. Most experts will agree that the data quality and complexity of measurement will also need to be refined in order to ensure quality and reliability (Luan, 2010). The regulatory environment impacts disclosure practices and can act as a barrier for development of green growth commitment in the private sector. For example, Chinese climate policies are strongly based on economic growth; policies are not driven by moral obligations but embedded in national energy security terms; and administrative rationalism dominates rather than the voice of citizens (Schoroeder, 2008).

Examples of promising initiatives: Nurturing new categories of green sector enterprises

A series of green initiatives undertaken by various governments in a number of the more advanced economies in Asia clearly indicate the commitments and, more importantly, the resolution to not miss out on the opportunities of the low-carbon economy. The challenge is whether private sector entrepreneurs and business managers will embrace this change that includes disclosing and measuring their greenhouse gas emissions as part of their enterprise performance improvements (Luan, 2010).

Governments in China, India, Korea, Malaysia and Singapore have all made a low-carbon economy one of their strategic priorities and plans. Post-Copenhagen, the expectations particularly among the high energy consuming nations have been that a low-carbon economy is not only welcomed by their citizens but provides fresh business opportunities and investment especially in low-carbon technologies. For example, in Singapore, a number of firms now see the proposed Energy Conservation Act – to take effect in 2013 – as the impetus towards an increase in carbon management. The proposed act contains similar proposals that were tabled by the European nations. When it comes into force, the act will require companies to submit energy improvement plans, introduce labelling of energy consumption and standards on energy use, and appoint a trained professional in high-energy consumption companies (Luan, 2010).

The case of Singapore enterprises is not unique; business owners are increasingly recognising the value of becoming environmentally responsible. One clear example is the way food with organic certification are commanding higher prices in the market. Another example is developers asking that their new construction comply with Leadership in Energy and Environmental Design (LEED) green building certification.⁸ However, very often when entirely new categories of businesses emerge into the marketplace they have yet to become financially sustainable ventures. Governments should foster these fledgling green sub-sectors until they have matured enough to take flight.

Throughout the Asia-Pacific Region there have been examples of successful green jobs initiatives that are presented in this section. Up to a certain extent, these initiatives are paving the way to address the concerns discussed earlier although the challenges ahead, especially regarding the informal sector are substantial.

China's transition to a low-carbon economy – Tangshan's Caofeidian project

The Chinese Government is investing USD 738 billion over the next decade on clean energy as part of the fiscal stimulus package focusing on infrastructure development. Among the many initiatives that can be found in China's approach to green growth, the city of Tangshan provides a notable example portrayed by the Chinese Government as a model of a new type of industrialisation based on the concept of the circular economy (Caofeidian Forum, 2009).

Tangshan is located in the centre of the Bohai Sea-rim region, 13 472 square kms and a total population of 7.29 million people (the urban area is 3.06 million). "Caofeidian" is located in the South coastal area of Tangshan and considered the main driver of the economic developing area of the Circum-Bohai-Sea region. This region is one of 3 of China's triangle economic developing growth poles together with the Pearl River Delta (South) and the Changjiang River Delta (further North).

Tangshan has coal, iron and oil mining fields and processing related industries such as iron and steel processing, coal electric power, building materials (cement), machinery, petrochemicals, and ceramics. It is a major centre for energy and raw materials in the country. A 250 000 ton ore port terminal is under construction. Oil fields reserves account for 1 billion tons. The challenge taken up by the city of Tangshan and Chinese authorities is to transform heavy industry practices into sustainable forms of operation.

Caofeidian is a new coastal eco-city planned as a dual-core development with the existing Tangshan City. Caofeidian is under construction on previous wastelands in an island now linked to the mainland by a sand-filled road. The city is built under international principles of sustainable development, it is expected to have 1 million people and a total

investment of 1 trillion RMB is expected by 2020 (Sweden, Japan and Singapore organisations are investing). This development is featured as a national demonstration project for the circular economy and “scientific development” under the principles of “reduce, reuse and recycle” that applies to both residential and industry development. Industry agglomerations in Caofeidian development zone will be developed in 5 industry zones for: (1) modern logistics, (2) iron and steel, (3) petrochemicals, (4) equipment manufacturing, and (5) high and new technologies (Caofeidian Forum, 2009).

The concept of circular economy basically aims for zero green house emissions (GHE) production and the reuse of waste through a regional industry system that requires careful planning in the territory so that industries can complement and take advantage of each others’ production cycles, waste and technological development (this is labelled as “new-type industrialisation”). Not all businesses can be part of the new type of industrialisation; chiefly very inefficient enterprises might need to be closed, as was the case for 26 inefficient cement factories that were destroyed at the outskirts of Tangshan prior to the Olympic Games in order to reduce pollution. In fact, many well funded industry projects have been rejected because they do not fit the principles of circular economy or sustainability. The Chinese Government is strengthening knowledge development in the subject via investment in research and development for the circular economy, equipping researchers in the region with grants to develop this project (Caofeidian Forum, 2009).

Community-based solid waste management in India

In Bangalore, decades of rapid economic growth and industrialisation have resulted in increased urbanisation. The sheer volume of people in cities has outpaced the public sector resources available to provide for basic services. In particular, the lack of solid waste management in cities has posed a serious environmental and health concern. In Bangalore, India, community-based waste management is proving to become an attractive alternative to government or large corporation administered waste services. Community-based and micro-enterprises operate waste collection services for their immediate community (Zurbrugg, 2002). These local initiatives offer four major benefits. First, the initiative addresses the serious health and safety hazards by providing a scalable approach at solid waste management. Secondly, it directly creates durable employment opportunities for individuals in the community. Third, it reduces and/or eliminates local government’s expense on solid waste management. Fourth, it reduces landfill usage as some of the waste can be reclaimed and processed as biomass briquette, an alternative fuel source that burns more cleanly than charcoal or wood.

The community-based solid waste management approach is increasingly being implemented in Bangladesh, the Philippines, Indonesia and in other countries in Asia.

Reforestation and eco-tourism in Nepal

ILO Nepal’s Employment and Peace Building through local development integrates green jobs into its programming and has contributed to improving agricultural productivity, building the eco-tourism sector, and protecting local watersheds. Local infrastructure in the form of canals, walking trails, and rural roads were built with labour-based methods and community contracting. The immediate impact came in the form of 25 000 paid workdays for 400 vulnerable households. More lasting contributions include enhanced crop yields for farmers, the creation of an eco-tourism sector for the locality valued at NRs 12.6 million and 14 700 workdays for the local community, and reforestation of denuded areas to protect the watershed and to enable sustainable land management by local community forest user groups (UNDG 2010).

Micro-irrigation in Pakistan

In Pakistan, MicroDrip, a for profit venture supported by the Acumen Fund and Thardeep Rural Development Program, has designed a micro-irrigation product designed to address severe food insecurity, and water conservation needs of communities living in the Tharparkar Desert of Sindh Province. The Southern Pakistan region is one of the driest and poorest in the country.

The for-profit drip irrigation system is being marketed to farmers to boost crop yields by 40% and reduce water usage by 50%. Microdrip is an example of environmental conservation and enhancement of economic productivity occupying the same space. Moreover, the social entrepreneurial nature of the venture allows for the scalability of the project and thereby its commercial success results in more Pakistanis being employed by the venture.

Innovation of fuel efficient biomass stoves in China

China possesses a vibrant industry for fuel-efficient stoves. The development of fuel efficient stoves has been spurred by the need to create cleaner burning stoves to combat indoor air pollution, conserve natural resources, and reduce household expenditures such that it might be reallocated to other sectors (e.g. health, education).

High levels of particulates, NO_x, SO₂ and CO due to burning of fossil and biomass fuels are correlated with higher incidences of higher and lower respiratory conditions, oesophageal and lung cancer as well as ischemic heart disease. In Mongolia, respiratory diseases are the fifth leading cause of death for the overall population. According to recent estimates in India, indoor exposures to particulates are responsible for more than 7% of the national burden of disease. A similar magnitude of damage to health is observed in China.

In March 2007, the Shell Foundation in co-operation with the University of California, Berkeley's Center for Entrepreneurship in International Health and Development and the China Association of Rural Energy Industry held an international competition to promote and award innovation of fuel-efficient biomass stoves. The private sector foundation coupled with public sector institutions encouraged competitive innovation between nine of the country's leading manufacturers to better stove designs. The impact of the competition resulted in three major impacts:

1. Improve public health, especially in urban areas, through the reduction of indoor and outdoor pollution.
2. Reduce the environmental impact by curtailing household fuel requirements for cooking and heating.
3. Tendency towards Clean Development Mechanism (CDM) registration process and capitalise on Certified Emission Reductions (CERs) in the carbon market.

Early in its infancy, the fuel-efficient stove industry was supported in part by the Government of China and the international donor community. In its current stage, it is a self-sufficient, multi-million dollar industry employing several thousand in the manufacturing process, and impacting tens of millions of households in China through better health.

Recommendations for effective policies and strategies for skills & employment development

Local areas need to develop labour market information mechanisms to capture changes produced by demographic change and forecast medium-term impacts in labour markets. A “demographic check” system should monitor and anticipate changes from lowering fertility rates, increasing ageing of population, increasing youth unemployment, and the complexity of urban-rural shrinkage. Recommendations include:

- Designing sustainable planning models for shrinking communities, assuring public finances remain sustainable to address the growing needs of an ageing society and provision and maintenance of current and new infrastructure of communities experiencing a disappearing financial base;
- Promoting tailored quality employment, raising labour force participation and facilitating entrepreneurship providing new opportunities for the +65 group to engage in employment that is adapted to their age characteristics and that takes advantage of the accumulative knowledge acquired during their working history;
- Developing the silver economy. Some Asian countries are fast becoming an elderly society. Japan, for example, will top 25% of the population aged sixty-five or over by 2015. In light of this rapid demographic change new opportunities emerge in the areas of the so called “silver economy” where new technologies, products and services are being designed for and, sometimes by, the senior population.

Local areas need to establish policy instruments and joined-up strategies to address skills utilisation issues at the local and regional level. This is particularly important in regions experiencing low-skill equilibrium. Recommendations include:

- Establish area-based partnerships at the sub-regional level: Rather than create either “supply-led” or “demand-led” partnerships it will be important to develop boards that take a balanced approach to employment and economic development locally;
- Support technology transfer and provide technical assistance to improve human resource management and work organisation: this is particularly important in sectors experiencing high staff turnover due to low wages and poor working conditions;
- Encourage take-up of training for both managers and workers: better trained managers are likely to create more productive working environments for their staff. Work with unions and intermediaries: Not only are unions increasingly involved in co-ordinating training for their members, they also have an interest to see that work organisation and employment conditions improve for skilled staff.

Public employment services in Asia need to re-think and re-design their services to rapidly respond to the recovery trend of Asian economies and, at the same time, equip their workforce and offices with the right tools to face new global challenges. Recommendations can be drawn at three levels: local, national and international organisations.

- Local governments and stakeholders should create partnerships to integrate data and information from different administrative sources and also to better carry out employment services and improve awareness of the roles and benefits of employment services for the local economy;

- National governments and stakeholders should provide capacity building training for staff on collecting and analyzing labour market information. Also support acquisition of office equipment for conducting this analysis and conduct impact studies on what works and what does not work in relation to LMI. At the same time they need to co-ordinate different ministries and public offices at the national and local levels in relation to LMI data collection that includes the informal sector;
- International organisations should support evaluation and LMI as integral part of donor programmes and develop systematic approaches to labour market intelligence (*e.g.* technical assistance towards common national indicators and local customisation). It would be important also to organise and support forums on employment services and LMI to exchange practices and promote knowledge sharing and to organise study tours to analyse best practice initiatives of LMI strategies.

The transition to a low-carbon economy and its implications for local labour markets requires a multi-dimensional analysis that goes beyond traditional sectoral thinking. The need to match future skills needs with the demand for businesses to produce greener products and services will be a challenge for businesses and the labour market in general. Labour market institutions at the local level will bear the price of having to cope, on one side, with overarching regulations (*e.g.* national) that will impose restrictions in terms of production processes and economic activity, while seeking to implement incentives to modify consumer habits and therefore stimulate greener business activity.

The transformation of jobs and the emerging skills requirements in the context of a greener economy will have to be identified and supported to achieve economic growth, by both firms and the labour market. Local authorities have an important role to play in assisting businesses in anticipating their skills needs and in putting in place the right programmes for workforce development in order to match human capital supply and demand in a given locality. As labour markets evolve, businesses and other stakeholders will have to adjust their production methods and outputs. Public authorities could play a key role in assisting economic agents to adapt their activities in order to maintain and create more and good quality jobs that are relevant to the current situation. Recommendations include:

- Strengthen institutions to enable local government, civil society and the private sector to absorb new technology knowledge and implement it with green job strategies that are sustainable for their locality. Chiefly strengthen vocational training centres to train displaced workers in new skills as is demanded by the green sector;
- Develop indicators to conduct environmental audits of the green sector to quantify the positive externalities not captured or recognised by the private sector and provide temporary stimulus to accelerate those green job sub-sectors that are most socially beneficial. Assist environmentally damaging enterprises in the transition;
- Utilise local development networks and forums to seed the green jobs concept to local entrepreneurs and stimulate locally relevant green job opportunities (*e.g.* entrepreneurs green businesses, government reforestation programmes), and foster networks that actively pursue green job strategies in the community;
- Leverage urban policies so that environmental and sustainability initiatives in fields such as urban planning, waste management, public utilities, public transportation, all of which are part of the realm of responsibilities of local governments, would also contribute to public efforts in the transition to a low-carbon economy.

Creating jobs through enterprise and infrastructure development

Although several countries in developing Asia have reduced their unemployment rates since the recovery took hold, this recovery has been widely uneven, varying across countries and sectors. Jobs in manufacturing, for example, have yet to recover pre-crisis levels in most countries in Asia. Jobs in the service sector, however, have risen in countries such as Malaysia, Philippines and Thailand (ADB, 2010a).

Job creation is certainly a priority in times of crisis, but, the quality of these – and the existing – jobs cannot be overlooked. Vulnerable employment continues to be high in the region. Own-account workers in several countries, such as India, Philippines and Bangladesh comprise the largest share of employment. Many of them are concentrated in agriculture or in informal activities, which normally take place under precarious conditions (ADB, 2010b).

In response to these challenges, two main approaches to foster job creation and to improve the quality of existing jobs can be adopted. Firstly, targeting recovery and post-recovery measures at developing sustainable enterprises helps them to foster job creation and improve the quality of existing jobs. Secondly, using investments in infrastructure as a means to create jobs when and where they are most needed, and simultaneously contribute to building and maintaining much needed productive and social infrastructure, particularly in rural and isolated areas.

Developing sustainable enterprises in Asia: recovery and post-recovery measures

In developing Asia, the crisis has revealed the risks of economies heavily reliant on exports to developed economies, such as Japan, Australia, New Zealand, United States and the European Union. Following the global economic and financial crisis and the overall decline in demand for goods and services, several industries which employ a large share of the working force have been forced to lay off significant numbers of workers. The effects however are not confined to export-oriented large and medium enterprises. The impact has trickled down through the supply chain, affecting smaller-sized enterprises and rural poor and low skilled workers. Facing the crisis, micro, small and medium enterprises (MSMEs) are trying to cope with weaker demand for goods and services, tighter credit and reduced orders from large companies. The negative impact has been manifest in a wide range of sectors and types of enterprises.

MSMEs in developing Asia, as in other regions, are highly varied, ranging from self-employed workers and informal micro enterprises to dynamic growth-oriented and export-led medium enterprises.⁹ In most countries, MSMEs outnumber large enterprises in the share of labour force they employ. In India, for example, 84.0% of manufacturing employment is created by micro and small enterprises; in Philippines, the figure is 69.6%, while in Indonesia is 64.7% (ADB, 2009a). As an effect of the crisis, many of the region's MSMEs have been forced to cut production and to lay off workers, who are forced to accept less pay or work under poor conditions often in the informal market (ADB, 2009b). This further stresses economic conditions in both urban and rural areas.

During years of economic growth, small-sized enterprises have greatly contributed to Asia's economic dynamism and entrepreneurial activity. The crisis therefore has provided an opportunity to evaluate which policies are effective in fostering dynamism among MSMEs. In the wake of the economic rebound, the role of MSMEs will remain and

perhaps become even more crucial in terms of employment creation and their potential to generate a greater domestic demand.

This section will discuss short term recovery measures that have been put in place by governments as well as long-term policies that can help MSMEs to sustain growth. The section will then outline a set of policy strategies that can help national and local policy makers to create a more enabling environment for MSMEs to operate in.

Main constraints and immediate measures to assist Micro, Small and Medium Enterprises in crisis

MSMEs have been hit hard by the economic and financial crisis, although the impact varies per country and per sector. The manufacturing sector, for example, has been hit one of the hardest, with employment rates declining by about 2% to 7% between 2008 and 2009. The construction sector has been affected as well, due to reduced or halted investment plans. Job losses in the service sector have also been significant in countries such as Indonesia and China (ADB, 2009a).

While most workers have been affected by layoffs following and reduced demand for goods and services following the crisis, the impact in certain sectors can be felt more greatly by women. According to the ILO,¹⁰ women employees outnumber men significantly in industries such as garment, textile and electronics in Thailand, Philippines and Viet Nam. A reduced global demand is likely to continue affecting other export-oriented MSMEs, putting more women at risk.

Acknowledging the role that MSMEs play in local and national economies, several stimulus packages in Asian countries have included measures to help them to continue operating in the face of reduced international trade, tightened availability of credit and downward pressure on remittances, often used by entrepreneurs to meet capital needs and to fund investments. Here we discuss two main constraints faced by MSMEs following the crisis, namely limited access to finance and taxation, and skills development, and provide examples of recovery measures that have been put in place to address them.

Limited access to finance and taxation

It is a well known fact that MSMEs, even under normal circumstances, face greater constraints than large enterprises accessing formal finance, which is crucial for enterprises not only to grow and develop but also to adopt new technologies and foster dynamism in their sector. During the crisis, access to finance was tightened even more for small-sized businesses in many regions, and developing Asia was no exception. Many governments responded by loosening monetary policy and providing stimulus through fiscal policies and tax reductions, in order to help enterprises maintain working capital and retain workers.

In India for example, MSMEs are estimated to employ 59.7 million persons (MSME Ministry of India, 2007). Policy measures have been put in place to assist MSMEs access credit through loans for small sized businesses. Credit guarantees and fund trusts for micro and small enterprises have also been set up, as well as duty reductions and the elimination of tax refunds. China has made available credit to small-sized businesses and has increased lending quotas. VAT has been reduced by allowing companies to deduct the full cost of their capital equipment. In Philippines, small-sized enterprises are exempt from income tax for six years (ADB, 2009a).

Precarious working conditions and limited skills development strategies

Taking into account their the share of the work force employed in MSMEs, improving the performance of small-sized businesses arises as a key policy concern that cannot be overlooked in times of crisis. Working conditions in small-sized enterprises tend to be lower than in large-sized ones around the globe. Microenterprises, which often operate in the informal economy, are likely to generate only low levels of earnings for their owners and workers, who often have low skills and use limited technology, if any. This situation is likely to change as the size of the enterprise increases. Point in case, the productivity of small enterprises is only around 20-40% that that of large ones in countries such as India, Indonesia and Philippines (ADB, 2009a). Boosting workers' skills to increase productivity becomes a key policy concern. Vocational training and technical support for MSME's have been included in recovery packages in some countries.

In China for example, a vocational training program is funded from unemployment benefits, targeting the training of unemployed and migrant workers. In Singapore, a new Jobs Credit scheme is providing employers of all sizes a cash grant for each regular employee (ILO, 2009), in order to allow enterprises to retain workers with know-how of their industries.

These types of measures can help MSMEs to avoid layoffs during crises and come up with solutions in order to retain workers, such as reduced working hours, temporary wage reductions, shifting workers to other tasks, work-sharing, etc. At the enterprise level, every measure should be discussed through social dialogue among workers and employers and with due respect for International Labour Standards.

Box 3.3. ILO's five-point Crisis Response for MSMEs

- i. Rapid assessment of factors that make enterprises vulnerable
- ii. Advice through examples for policy makers on enterprise financing strategies
- iii. Advice on public procurement programmes
- iv. Advice on training on business development services
- v. Advice and training on strengthening small business associations

Source : ILO (2009a), Micro, Small and Medium-sized Enterprises and the Global Economic Crisis. Sustainable Enterprises Programme, ILO.

Long term policies to help MSMEs sustain recovery

While the measures mentioned above have been set up as a crisis response, several of the problems affecting MSMEs were there before and are likely to continue in the wake of recovery. The crisis therefore has provided an opportunity to focus the attention on the needs of MSME's. Policies put in place as a crisis response provide fertile ground for more sustainable and long term programmes to support these enterprises. Acknowledging that the crisis impact has differed by sector and by location, countries such as China, Viet Nam and Indonesia have implemented both top-down and bottom-up approaches, in order to address location-specific factors that can boost productivity and competitiveness. Bottom up strategies have allowed local governments to tailor rescue policies to the needs of local MSMEs, but perhaps more importantly, it sets a precedent for policy coordination at the national and local levels.

Creating a long-term vision of local development and putting the right regulations and policies in place to achieve it

Since most of the interaction between businesses and government take place where enterprises operate, local governments – whether municipalities, provinces or regional authorities – have an important role to play in creating an enabling environment for private sector development. Poorly designed regulations and policies, and inadequate institutions can create unnecessary bureaucratic burdens and increase the cost of doing business, hindering enterprise start-ups and their ability to adapt to market changes. The benefits of an enabling environment for business at the enterprise level include increased productivity and competitiveness and enhanced job creation capacity, among others. At the local level, it can foster spur enterprise start-ups, attract domestic and international investment, contribute to upgrade skills and reduce the unemployment rate, as well as helping enterprises move from the informal economy to the mainstream economy.

The provinces of Vinh Phuc and Binh Duong, in Viet Nam, provide a good example of how a strategic vision guiding their development can not only help MSMEs to recover but also plant the seeds to sustain a job-rich recovery. Both provinces are considered to be success stories in terms of FDI attraction and business development. Also, both have similarities: their proximity to the country's economic hubs of Hanoi and Ho Chi Minh City, rapid industrial development during the last decade, a provincial economy dominated by industrial production, and well articulated policies to welcome investors (Binh, 2009). Another important common element to consider is the fact that both provinces have dynamic and proactive local leaderships, which have been crucial in fostering an enabling environment for private sector development. In fact, both provinces have consistently been ranked among the highest performers in the Provincial Competitiveness Index (PCI),¹¹ which is a tool for measuring and assessing the standards of economic governance in Viet Nam's 64 provinces from the perspective of the private sector. In the cases of Vinh Phuc and Binh Duong, the role of the local government has been an important driver in attracting FDI and enabling local businesses start-up and growth.

Due to their reliance on FDI, it is not surprising that when the economic and financial crisis hit the country, both provinces were among the first to be affected. Both were hit hard by the end of 2008 and early 2009, when their economic growth rates decreased and unemployment rates increased. In response, both took a two-pronged approach: to implement stimulus packages launched by the central government, and to undertake province-designed initiatives to respond to specific local needs.

In regards to the Vietnamese nation-wide stimulus package, two elements have been central in helping these provinces to recover: first, the existence of soft loans to enterprises and household businesses. Through this scheme, banks lend at an interest rate of 4%, the rest being subsidised by the government. Although this has been criticised by some, as it may erode market principles, others argue that the loans provide much needed working capital to small-sized enterprises which have seen their foreign payments delayed and demand diminished.

Secondly, the implementation of a policy of exemption of income taxes, and deferred payment of VAT and corporate income taxes had brought about benefits to more than 3 000 domestic enterprises and 75 FDI enterprises in Vinh Phuc and to 7 000 domestic enterprises and almost 200 FDI projects in Binh Duong (Binh, 2009).

At the local level, the provinces of Binh Duong and Vinh Phuc have taken a proactive role towards putting in place mechanisms to help MSMEs cope with the crisis, introducing

simplification reforms, such as a one-stop-shop for business registration, in the case of Binh Duong, and an online business registration system, in the case of Vinh Phuc. In addition, the two provinces have streamlined their FDI portfolio, giving a preference to value added industries which can contribute to skills upgrading and greening business practices.

Measures described in the case presented above, which ease the access to finance and reduce the cost of regulations, are crucial to help MSMEs to cope better with the crisis, but if maintained in the long-term, they are likely to contribute to a more enabling environment for private sector development.

Fostering quality entrepreneurship education and business training

A key constraint for MSMEs relates to skills upgrading, which includes basic management and information and communication technologies (ICT) skills. To help MSMEs grow and undertake new ventures, it is imperative that managers are equipped with the necessary skills to thrive in a competitive and changing market.

Further, due to massive layoffs in medium-sized and large enterprises, many workers unable to find stable jobs turn to entrepreneurship or self-employment as a survival strategy. The availability of adequate business training for MSME managers and workers stands as an important element to help entrepreneurs to cope not only with the effects of the crisis but also with increasing national and regional competition.

Both entrepreneurship education and business training however work more effectively as part of an integrated enterprise development strategy, when these initiatives are complemented with others that link entrepreneurs with financial schemes and services available. These include loans but also insurance, savings and other services. A value chain analysis, understood as the analysis that assesses “the full range of activities that are required to bring a product or service from conception, through the intermediary phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use” (Kaplinsky, 2004) can be a powerful tool to identify which skills are needed in the value chain and to target initiatives and policies accordingly.

In Nepal, the ILO implemented project Creation and Peace Building through Local Economic Development (EmPLED) has focused on upgrading value chains with growth potential, namely tourism and agribusinesses in under-served provinces, characterized by various challenges. The economy of both districts is predominantly agricultural and has suffered from the decade-long conflict. Danusha has a significant share of landless people and labour migration is strong. The population of Ramechhap is made up largely of marginalised groups, with limited income opportunities.

The upgrading of skills in sectors with economic potential therefore stands not only as an imperative to cope with the effects of the crisis but also to bring about sustainable local development. Through a value chain analysis undertaken by stakeholders involved in different links of the chain, skills needs were identified in a number of areas, namely generic business management skills and sector specific skills, such as wholesale market upgrading and packing standards for farmers in the case of certain agriculture products value chain, and trekking guide skills and delivery of cultural performances in the case of the tourism value chain. Initial impact assessments (ILO, 2010b) show positive figures in terms of job opportunities and income increase for the stakeholders of both value chains.

The ILO tools and approaches to promote entrepreneurship such as Start and Improve Your Business (SIYB) have been applied widely and have been expanded in countries affected by the economic and financial crises. This has helped previously employed workers take up entrepreneurship and set up small businesses as an income generating alternative. The Know About Business (KAB) programme, an in-school entrepreneurship education curriculum which educates youth on entrepreneurship as a career option, has been widely used in Asia. In Indonesia, more than 45 945 youngsters have been trained. In Sri Lanka, the figure is 32 843 and in Lao PDR, 23 044 (ILO, 2009b). Programmes such as KAB contribute to strengthen positive personal attitudes towards business and to foster an entrepreneurship culture.

The quest for innovation, product diversification and added value

Reports by ILO and the ADB, among others, analyzing the effects of the economic and financial crisis in Asia have coincided in highlighting the fact that MSMEs have much to gain from increasing productivity and innovation. As an export-oriented region, Asia has to place due importance in adding value to their exports. The place and contribution of local MSMEs in global value chains or global production networks needs be better understood so that owners and workers can fend their interests and work towards sustaining their recovery and future growth. The ILO and others have, in recent years, developed analytical tools and created local capacity in Asia to assist the business community in enterprise upgrading and expansion using a value chain approach (ILO 2010e).

While innovation, product diversification and added value are concepts often associated with large enterprises, growth-oriented MSMEs have much to gain from adopting practices in this direction. Their size often makes them more flexible to adapt to changes in their environment, adopting quickly new technologies and identifying market niches. Innovation can also increase prospects for regional and international trade. Strategies to foster innovation can include: the identification of factors to accelerate innovation, including the utilisation of Intellectual Property Rights; the promotion of innovation as a key competitive advantage for SMEs; and raising awareness on the benefits of the adoption and dissemination of new technologies, including ICTs (APEC, 2009).

In Indonesia, for example, the economic and financial crisis heavily affected the furniture sector in Central Java. This provided a push for innovation and diversification. Response strategies at the enterprise level included conducting research on the value added of wood furniture end-products, including a shift to greener production techniques (ILO, 2010c).

Employment creation through investing in infrastructure using local resource-based approaches

The construction and maintenance of infrastructure can be an adequate means to create short-term jobs and build long-term capacity for local development. Investment that deploys local resource-based approaches builds upon the assets of communities and increase multipliers for local development. Typically, this involves labour-intensive construction, the procurement of local materials procurement and service sub-contracting to locally based enterprises. In the planning and implementation of basic infrastructure (such as rural road, dams and irrigation works) a careful choice must be made to the level and type of machinery required, with a view to maximizing the employment impact. Construction of rural roads in the mountainous or remote regions, for example, can encompass high machinery transportation and maintenance costs. While a low cost and locally abundant workforce makes

labour-intensive construction an attractive option (Tajgman and de Veen, 2009). Moreover, long term maintenance with labour-based approaches means that the resources for rehabilitation are in the immediate area. Transportation and maintenance of machinery is no longer an issue.

Direct job creation

The construction and maintenance of community infrastructures are rich sources of practical and sustainable employment. They are an effective means for direct employment creation especially compensating for income losses among the poor or a population that has been affected by man-made or natural disaster. A typical form of this investment is in community infrastructure development. In this approach employment is created, access to livelihood opportunities increased, practical skills are taught and transferred and local entrepreneurial skills induced. All together, this pushes local development, esp. when the new or improved infrastructure enhances access to markets and facilitates business development.

Thus, creating and maintaining infrastructure using local resource-based approaches presents several key benefits for local development. These approaches have the ability to create large quantities of employment during times of crisis, stimulating the local economy, improving local productivity and land value, and creating infrastructure in a cost effective manner.

Labour intensive initiatives have been designed by governments to create large quantities of temporary jobs to cushion unemployed workers from income loss due to a man-made crisis (*i.e.* global economic crisis) or to provide relief to individuals in the event of a nature induced disaster. After the 2004 Indian Ocean tsunami, employment intensive infrastructure reconstruction initiatives were widely implemented in Indonesia, Sri Lanka and other affected regions. Through these initiatives, communities had access to immediate relief through cash-for-work opportunities and began the rebuilding process of damaged infrastructure and other community assets (ILO, 2005).

In Cambodia, the initiatives to improve access to rural areas have been undertaken through employment-intensive infrastructure development utilising labour-based approaches. The local governments worked with the communities on infrastructure development, providing training on basic engineering and accountancy. Capacity building of community and small sub-contractors has been critical in ensuring that the outcome of the activity is high quality, efficiently uses resources, and, in the case of public tendering, transparent in the selection process (as earlier described by Bentall, Beusch, and de Veen, 1999). A main concern for up-scaling and sustainability is how best to engage other national and supporting UN agencies along with the approach, so that follow up and larger initiatives are developed.

During the global economic crisis, India, Indonesia, and several other countries used large scale, local level infrastructure programmes primarily to generate significant volumes of short-term employment opportunities to cushion unemployed workers, and build productive assets like rural roads, hospitals, irrigation canals. India's National Rural Employment Guarantee Act (NREGA) links a national level social security programme with local governments to successfully scale up employment-intensive infrastructure creation and maintenance as a mechanism for social protection and employment generation (See also Section 3.4 of this report). Since 2005, NREGA's has benefited forty-five million households who have contributed in excess of 2 billion days of labour (World Bank, 2010). National poverty alleviation programmes such as these have held a dual-purpose in labour intensive approaches for both temporary crisis relief and long-term poverty reduction.

Long term local development

Infrastructure investment that primarily aims at improving accessibility and basic service provision can also be used as leverage for local development at long term. The economic benefits of inward investments from construction projects can be retained and maximized through employing local labour, local materials procurement and local service sub-contracting. When cash is injected into local businesses (*i.e.* sub-contracts) and workers (*i.e.* wages) there is a cascading effect whereas money is likely to be spent on goods and services from other local businesses. The money multiplier effect from cash infusions into lagging communities can create a virtuous circle of economic growth.

Building physical assets that increases economic productivity and land value

When the government employs individuals to construct and repair canals, roads, schools, hospitals and other infrastructure, the result is employment creation and the creation of assets that increase economic productivity, heighten land values, and improve the quality of life. Roads and canals increase the agricultural productivity and land values. Previously isolated herders will be able to command a higher price for their goods and children will have improved access to educational facilities. Additionally, in the context of sustainable, “green” sector development, labour-intensive techniques have been used with success in reforestation, watershed management and erosion control initiatives for improved husbandry and agriculture. Environmental conservation projects coupled with sustainable land management have played a critical role in supporting the small and medium sized forest enterprise (SMFE). At the global level, SMFE employs at least 20 million persons and contribute USD 130 billion to the economy. SMFEs is a labour intensive sector that employ significant numbers of people in rural areas, and as the sector continues to grow show itself invaluable in generating rural employment and alleviating poverty (UNEP, 2008).

Main constraints and policy measures

Several key challenges and policy concerns must be addressed to ensure that infrastructure creation via local methods are effective and do not distort the labour market.

Weak technical management of initiatives

Decentralisation has increased the role of local government to manage community based infrastructure development. The case for locally directed development strategies is strong. Local government can best identify community needs and opportunities and seek out strategies that are locally appropriate.

However, effective administration requires strong, competent local governments to ensure that the public work projects deliver on high quality construction, job creation and sufficient local procurement and sub-contracting to prime and accelerate local economic growth. Local government needs to have managerial training and/or technical experts at their disposal to administer public work projects. Technical workshops, transferring national staff to local administrative offices, and study trips improve local management.

Lack of transparency in the public tendering and local hiring process

Improving transparency in the public tendering and hiring process can reduce corruption when soliciting local bids and hiring workers from the immediate community. The introduction of a formal oversight committee from regional government to carry out local

audits is encouraged. When such formal structures are not feasible (*i.e.* activity too small to warrant costs), local development forums have proved to be a successful mechanism for both oversight, as well as creation of a public venues where all community stakeholders can bring forth recommendations for new projects and grievances. Public forums are a step in making local government more accountable to their constituents.

Ensuring adequate labour conditions and returns

Labour intensive approaches, such as many of the activities employed by India's National Employment Guarantee Scheme, provide legal minimum wages although these may be less than the prevailing market rate. The work itself is often physically laborious (*i.e.* clearing top soil and grading for road construction). They are essentially jobs of last resort. They provide temporary income relief for unemployed workers without an alternative livelihood and for the vulnerable in deep poverty. As a result, labour intensive jobs are self-targeting and workers opt out of labour intensive work when opportunities in the private sector arise. An appropriate legal framework must exist and be effectively monitored to if employment guarantee schemes are being considered and designed.

Challenges from practice

In the case of Indonesia, the use of the community contracting approach is a challenge for local governments given that there is an established system of infrastructure improvement. Local governments' attitudes on their acceptance of the approach vary, especially if local funds need to be utilised. The City of Malang has limited financial capacity, especially for road maintenance and construction. Under partnership arrangements, the government shoulders 60% of the cost while the community covers 40%. This sometimes jeopardizes the principle of paid work.

Infrastructure development must not only be resource-based but also local knowledge-based and sensitive to cultural values; through partnerships, opportunities are provided for the people and government to work together to build capacity through knowledge gained (proceedings of the ILO-OECD Expert Meeting, Malang, Dec. 2010).

Bangladesh applied labour-based works in the late 1970s, with the Local Government Engineering Department (LGED) taking care of all rural roads in the country. Maintenance and construction of roads became a special employment programme of local governments. The engagement of community contractors has led to concerns in regard to quality of construction, leakages, monitoring and supervision. Moreover, a lack of co-ordination between different levels of government agencies responsible for road construction, such as the regional development authority, the Roads and Highways Department and the Local Government Engineering Department, has in some cases resulted in the sub-standard maintenance of roads (Pandy, 2006) This also created an additional workload for the Public Works Department.

Nepal's Kamala Irrigation Project has used labour-based methods and community contracting in upgrading irrigation infrastructure (*e.g.* erosion control measures, construction of dikes, and awarding of cleared lands to farmers). This resulted in more direct income generated by increased farmland and better access to the market. The infrastructure construction unlocked and put into motion broader local development processes in the area, including planting of new crops and the establishment of a farmers' co-operative. The Kamala Irrigation Project working in concert with other components of the ILO Nepal's Employment and Peace Building through Local development contributes to a larger regional

development strategy that integrates agricultural productivity upgrading with strengthening the emerging job-rich eco-tourism sector, and sustainable land management to protect watersheds and the livelihoods of local community forest user groups (UNDG 2010).

Overall, it appears that community involvement in infrastructure development and contracting is occurring in many countries, but on a small scale. Examples of scaling up and institutionalisation need to be documented for the benefit of countries wishing to apply the approach in their response to the crisis.

Recommendations for effective policies and strategies for creating jobs through enterprise development and infrastructure development

- Enterprises come in all sizes and forms. Much too often different types of enterprises are grouped together and their constraints and needs are assumed to be relatively homogenous. Taking into account the diversity of MSME's and distinguishing carefully between their different needs is crucial if policies are to assist and benefit them directly.
- National and local Governments should facilitate a sustainable business environment with due regard to the significance of micro, small and medium enterprises (MSMEs). Poorly designed regulations and red tape can greatly constrain MSME's by imposing an unnecessary regulatory burden. Measures such as the set-up of one stop shops for business registration can help address inefficiencies in business licensing.
- When undertaking reform of the business environment it is essential to ensure the conditions for decent work such as adequate pay, equality between women and men, and freedom of association. To this effect it is crucial that social dialogue takes place between worker organisations, employers associations and government at the national and at the local level. This will greatly maximize the impact of crisis responses and the design effective policies for long term development of MSMEs.
- Government should work with the financial sector to easing access to finance in the region. Access to finance was affecting MSME's before and during the crisis, and if action is not taken, it is likely to continue being a mayor constrain for their sustained development and further growth.
- If community contracting and local-resource based methodologies were to be broadly and sustainably adopted, the following actions are suggested:
 - i. National and local Governments should mainstream the use of labour-based and community contracting approaches as preferred local development options.
 - ii. National and local Governments should review and, if required, reform the rules and procedures related to the transfer of public funds, procurement of services and auditing procedures that affect the use of community approaches; these should include participatory and transparent project monitoring and evaluation procedures.
 - iii. Seek out green jobs and emerging job-rich sectors that may benefit from labour intensive strategies to accelerate the sectors' growth (*i.e.* reforestation utilising government supported labour intensive techniques which may later employ those workers as part of a long-term community forest management initiative, and national park infrastructure upgrading as part of a eco-tourism growth strategy).

- iv. Local implementing agencies should conceive and undertake comprehensive programmes for community contracting and the use of labour-based methods for infrastructure development, incorporating soft skills development (HIV, literacy, women's rights).
- v. International agencies and national institutions should standardise and promote materials on good practices for labour-based infrastructure development.

Developing social protection schemes

Stronger social policy measures to address vulnerabilities and poverty were distinctive features of the response to the global economic crisis in Asia. Unlike what happened in the late 1990s, when Asian governments severely cut national budgets in reaction to regional financial turmoil, most governments made efforts to maintain or even increase their social spending in the wake of the global economic crisis.¹² Measures involved, among others, the strengthening and scaling up of on-going programmes for poverty alleviation, in particular innovative programmes that had been launched recently, that proved successful and could be replicated rapidly and with minimum administrative costs.

Drawing on the recent experience of a few countries (mainly India, Indonesia, Pakistan and the Philippines), this section reviews the key features of two sets of programmes – conditional cash transfers and employment guarantee schemes – that provide cutting edge templates for policies to alleviate poverty, cushion the social effects of economic downturns and foster long-term sustainable growth and development.¹³ Lessons learnt from the implementation of those two sets of programmes provide valuable insights into longstanding issues of targeting and monitoring interventions as well as on the conditionality to attach to the granting of benefits and its impact on the beneficiaries. Both approaches, moreover, build on the common underlying notion that social insurance and social assistance are not just redistributive welfare measures but are integral to economic growth and social development. In other words, they are about investment as much as about consumption. This evolving view of social protection as bringing a triple benefit – sheltering people from debilitating poverty, empowering them to seize opportunities, and sustaining aggregate demand – is a main tenet of the recent development discourse and is receiving great attention in light of the experience of dealing with the social impacts of the global economic crisis (OECD, 2009b). It conveys an important message to Asian countries undergoing economic restructuring in the post-crisis global scenario.

The section also makes an attempt at exploring some of the linkages between the implementation of both sets of programmes and the efforts to promote local development. Although this theme has been largely neglected in the vast literature on either conditional cash transfers or employment guarantee schemes, local authorities and local stakeholders have an important role to play in ensuring the success of large and centrally driven programmes for poverty alleviation and eradication, through more efficient delivery and administration of benefits and longer lasting impact on local livelihoods.

Conditional cash transfer programmes (CCTs)

Conditional cash transfer programmes (CCTs) make small, regular payments to very poor households conditional on parental investments in the education and health of their children. The cash payments are made directly to the families, often to the mothers, without intermediaries and leave the beneficiaries free to use the money the way they want.

The scope and features of the programmes vary across countries, but generally CCTs have two main objectives. First, they seek to reduce poverty by providing poor households with a minimum consumption floor. Second, in making transfers conditional, they seek to encourage behavioural change leading to some accumulation of human capital in order to break a vicious cycle whereby poverty is transmitted across generations. Conditionality is instrumental in achieving given development goals including some of the Millennium Development Goals (MDGs). CCTs usually come with strong targeting, monitoring and evaluation mechanisms that help to reduce leakages but account for complex administrative requirements relative to the conditions prevailing in the remote, rural areas of developing countries where poverty is widespread (Fiszbein and Schady, 2009).

Interest in cash transfer programmes has grown enormously among policy makers, development practitioners and experts in recent years. One main reason behind the contagious enthusiasm with CCTs is their widespread success in many countries in Latin America. The “Bolsa familia” programme in Brazil and the “Oportunidades” programme in Mexico have been running for years, have reached almost full national coverage, and have made a significant and tested dent on poverty in both countries, filling wide gaps in national social policies. International organisations such as the World Bank have helped disseminate and replicate the approach as one of the principal tools to attain the MDGs (Fiszbein and Schady, 2009).

In Asia, there are many initiatives such as food-for-work, public works and other targeted workfare programmes for poverty alleviation, but the experience with CCTs is relatively new. Pakistan and Indonesia have in place large unconditional cash transfers schemes, which in the latter country has been recently transformed into a conditional programme. Cambodia has a conditional scholarship programme to reduce dropout risk in lower secondary schools. Other countries, e.g. Mongolia, have recently introduced direct cash payments

Table 3.5. **Cash transfer and employment guarantee programmes in selected Asian countries, 2009**

Country	Amount of Cash Grant	Target	Budget	Funding
India <i>National Rural Employment Guarantee Programme</i>	100 days of unskilled work per year at a stipulated wage	45 million rural families	0.3 % equivalent of the national GDP	Government of India
Indonesia <i>Program Keluarga Harapan</i>	IRs 200 000 – 800 000 per child) average per household per year USD 140 maximum for 6 years	6.5 million households with pregnant women and children between 0-14		Implemented by several Ministries through the Annual Budget for Ministry
Pakistan <i>Benazir Income Support Programme</i>	Rs. 2 000 (about USD 22) every alternate month for families earning Rs. 5 000 per month	Families with household income less than Rs. 6000 (USD 67) per month	Rs. 34 billion for the year 2008/09 (USD 404 M) targeting 5 million households	Government of Pakistan
Pakistan <i>Employment Guarantee Scheme</i>	Minimum Wage	200 000 poor families (pilot scheme) in 12 least developed districts	5 billion rupees	Government of Pakistan
Philippines <i>Pantawid Pamilyang Pilipino Program (4Ps)</i>	Php 6 000 (USD 130) per year per household for health and nutrition, PHP 3000 (USD 65) per school year (10 months) per child for education, a maximum of 3 children are eligible	Lower 40% of households below the poverty line	Php 10 billion/year (USD 2 million) for 700 000	Government of the Philippines World Bank

Source: Asian Development Bank (2009); Department of Social Welfare and Development of the Philippines; National Informatics Centre India, www.nic.in; EGS Concept Note, ILO, 2010.

to vulnerable groups as part of the measures to mitigate the impact of the crisis. In that regard, the most interesting experience is in the Philippines, where a CCT programme was launched with World Bank funding and technical assistance in the last quarter of 2007 and has been scaled up vigorously in connection with the economic crisis (Fiszbein and Schady, 2009).

The Pantawid Pamilyang Pilipino Programme (4Ps) in the Philippines

The *Pantawid Pamilyang Pilipino Programme (4Ps)* started as a pilot project covering 4 589 households in 4 municipalities and 2 cities spread across 3 regions – Caraga, Region X and National Capital Region. The programme subsequently went through a phase of rapid expansion and is set to reach the ambitious target of 700 000 households up to 1 million households for 2010. The programme is run by the Department of Social Welfare and Development (DSWD) under the oversight of a high-level inter-ministerial National Advisory Committee. The cash transfer is paid to the most responsible adult person in the household and is based on a set of conditions including completing pre-natal and post-natal care courses, parenthood sessions, preventive child health check-up, vaccination, de-worming, and at least 85% of school attendance. Conditionality is a critical strategic instrument to attain development targets in the health and education sectors linked to the MDGs, namely MDG 1: Eradicate Extreme Poverty and Hunger, MDG 2: Achieve Universal Primary Education, MDG 3: Reduce Child Mortality, Improve Maternal Health, and MDG 5: Promote Gender Equality.

The Philippines' 4Ps programme has introduced innovative mechanisms to ensure that the grants reach the intended beneficiaries and conditions are achieved. This includes a detailed targeting system to identify the poorest households on the basis of objective parameters, a computerised system to verify compliance installed in schools and health centres, and a two-pronged monitoring and evaluation system to ensure effective implementation and assess impact on beneficiaries. Once fully in place, such mechanisms could be used to ensure greater coherence of the country's social protection system, fragmented into many, small and unconnected programmes.

Some initial evaluation of the implementation in the pilot areas has recorded high compliance on conditions concerning education relative to non-project areas. For example, child enrolment in primary education reached 90-95% in the Municipalities of Sibagat and Esperanza in Agusan del Sur in CARAGA region and Bonifacio in Misamis Occidental. Furthermore, there were marked improvements in compliance concerning pregnant women and children 0-5 years old attending the local health centres. A decisive factor was the strong support provided by local governments in strengthening "supply side" factors (e.g. local schools and health facilities) and ensuring the active participation of key community players, including midwives and "*barangay*" health workers, teachers and school heads. Some municipalities in the pilot areas also hired additional municipal staff to assist with the CCT programme and provided facilities such as transportation allowances, school furniture, fixtures, books and supplies. Regional and Municipal Advisory Committees were also set up to facilitate the involvement of stakeholders and partner agencies in the implementation of the programme and ensure co-ordination with national bodies.

It is too early to evaluate the long-term development impact of the programme, but there are growing anecdotes giving evidence of greater economic dynamism and the mushrooming of microenterprises and informal livelihood generating activities, often led by women. This is creating room for new government programmes to support the diversification of livelihood opportunities and rural incomes in very poor localities (Esquerra, 2010).

The Program Keluarga Harapan (PKH) in Indonesia

Originally an unconditional cash transfer programme introduced in 2005 to compensate poor households for the removal of highly popular fuel subsidies, Indonesia's Program Keluarga Harapan (PKH) was remodelled along the lines of the "Oportunidades" programme by means of redefining benefit levels and targeting methods; introducing conditions concerning human capital bottlenecks in health, education and nutrition; and developing strong monitoring and evaluation components and a management information system. PKH grants poor families with an annual cash transfer ranging from USD 60 to 220, provided they abide by a number of conditions concerning parental care visits for pregnant women, taking iron tablets during pregnancy, delivery assisted by trained professional, postnatal care visits, childhood immunisation, and monthly weight increase for infants. Benefits accrue to the mother or another adult woman in the household for a maximum of 6 years and are paid quarterly through the post offices.

The target beneficiaries are chronically poor households selected through proxy means-testing (*i.e.* proxy indicators for income such as structure and size of house, presence of electrical appliances and other assets, sanitary facilities, etc.). From an initial pilot coverage of 380 000 poor households in 7 provinces in 2007, the programme reached some 720 000 households in 13 provinces in 2009. PKH is mainstreamed within the national strategy for poverty reduction, education promotion and child labour elimination. It is run by the Ministry for Social Affairs with strong inter-agency support and a network of district and provincial action committees.

Initial assessments are showing the complexity of ensuring regular payments and verifying the respect of conditions. Co-ordination across provincial and district levels can also be problematic. But the preliminary data on the results also show concrete progress: for instance, the proportion of fully immunised children has increased in target areas of Gorontalo and West Java provinces, enrolment is up in North Sulawesi, and malnutrition of children 0-3 years old is decreasing in Jakarta (Drez and Khera, 2009).¹⁴

Overall, in both countries the initial experience confirms the positive results achieved by CCTs in other regions, including their potential to accelerate progress in attaining the MDGs. Conditionality helps to make recipients more responsible and better aware of the developmental implications of their behaviour and focuses the attention of national and local authorities on the provision of education and health services. Accurate targeting and monitoring make public spending more effective and more pro-poor. The direct empowerment of mothers also has broader developmental impact on children and poor communities.

The institutional arrangements, concerning the co-ordination across national and local agencies and the creation of administrative capacities at different levels, remain a challenge. CCTs are also complex to design and, although modern information management systems do help, they are complex to monitor and evaluate. Such institutional and design complexities are an initial fixed cost that can be recuperated over the long-term as the programmes lead to more structured systems of social protection. Indeed, governments in Asia that were hit by the crisis found it highly convenient to have CCT programmes in place that could provide minimum immediate relief to the poorest populations.

However, CCTs per se are not countercyclical social protection instruments. They primarily address issues of chronic poverty, rather than the vulnerabilities created or exacerbated by sudden shocks in income. In ordinary conditions, thanks to the CCT, targeted poor households can maintain some investment in human capital that contributes to development outcomes over the long term. In the immediate term, the income support accounted

for by a CCT is likely to be too small to help families coping with major income reversal. In order to equip poor and vulnerable groups to best cope with economic volatility, CCTs need to be complemented by other “on demand” income support programmes that can better address unexpected income disruptions. The National Rural Employment Guarantee Act of India is a main example of such an approach, as will be discussed below.

Employment Guarantee Schemes (EGSs) (Drez and Khera, 2009)

Employment Guarantee Schemes (EGSs) are public employment programmes where temporary work is delivered “on-demand” to those who have an urgent need to earn an income. EGSs embed the notion of a rights-based approach to work. They are very powerful tools for poverty eradication as they are based on the principle that the most effective way to achieve a guaranteed living wage for unskilled work – often the only source of earning for the poorest in the developing world – is where the government acts as an “employer of last resort”, thereby committing to employ the entire excess supply of unskilled labour at a given minimum wage.

EGSs can be designed to be self-targeting by means of stipulating conditions about the kind of work on offer and setting a minimum wage rate that serves as an income floor. No one who has a market alternative should find it convenient to take up an EGS job. This is specifically intended to make EGS a non-competitive player in the labour market and avoid crowding out the private-sector for skilled labour. The scheme is on demand: beneficiaries enrol when they need extraordinary income support and drop out when better opportunities come up. By this token, an EGS has an inherent countercyclical impact. At the individual/ household level, it offers an extent of relief that varies with the extent of the income shock. At the aggregate level, demand for EGS jobs increases during downturns and decreases as recovery takes off.

The most notable example of an EGS is the National Rural Employment Guarantee Act (NREGA) of India.¹⁵ Adopted in 2005 as a main electoral promise, NREGA is a law whereby any adult member of a poor household who is willing to do unskilled manual work at the statutory minimum wage is entitled to be employed on local public work for a maximum of 100 days per household per year. If employment is not provided within 15 days of applying, the applicant is entitled to an unemployment allowance that is equal to one fourth of the minimum wage for the first 30 days and at least one half of the minimum wage thereafter. Workers are also entitled a series of worksite facilities including water, shade, medicines and nursery schools. At least one third of the workers should be women, paid the same wage as men.

The rationale for the introduction of the act was twofold: to provide a social safety net to poor rural households (some 60% of India’s population is dependent on agriculture for their livelihood) and to create assets to strengthen the agricultural productive base. Implemented initially in 200 districts across the country, the act was notified to another 200 districts in 2008 and it now operates in all of rural India accounting for a total expenditure equivalent to 0.3 of the national GNP. NREGA is now the world’s biggest “right to work” programme and providing work opportunities for some 45 million poor rural households. In the wake of the global economic crisis, the number of days of work to which beneficiaries are entitled was increased from 100 to 200. By this token, NREGA contributed to buffer the effects of slower economic growth on the poorest households, in particular for those workers returning to rural areas after they lost their jobs in the cities.

The institutional and implementation challenges have been the subject of much controversy but the impact of NREGA on the lives of the rural poor in India has been remarkable.

According to a survey conducted in 2008, the large majority of NREGA workers were from the most disadvantaged social groups, almost 80% of them actually living in places without electricity. The scheme had an influence in providing “livelihood security” for large numbers of people and in ensuring that minimum wages are actually paid for unskilled, casual agricultural work – by far the primary source of earnings for poor households. Improved opportunities in the rural sector thus contributed to ease the pressure to migrate to urban areas. Most of the employment was seasonal, mainly to confront the vagaries of the monsoon as an overwhelming share of the cropped areas is rain-fed, and the actual number of days of employment remained at 45 days in 2008-09. On a different ground, some 69 million new bank and post office accounts were opened to make payments to NREGA workers – an unprecedented move towards greater financial inclusion for the large numbers of marginalised workers. In remote areas, NREGA is also supporting the use of smart cards and biometric signatures for wage payments. Over the medium-term, the programme is being aligned with other parallel large social programmes, namely a social security scheme for the informal economy and a national health insurance scheme for informal workers, providing building blocks to progressively extend a social protection floor to the whole population.

NREGA also provided a unique opportunity for women to earn their own income, hence making an important contribution to their well-being and their status in society – NREGA women workers have the same pay as men and collect their own wages by themselves. Although the kind of work is pretty hard, the actual share of women workers in a sample of NREGA workers was found to be 48% in 2009 (Drez and Khera, 2009).

An important outcome is the impact of NREGA on enhancing the productivity of the local economies. The large majority of work relates to water conservation (46% in 2008-09), irrigation (20%), rural roads (18%) and land development (15%). Many of NREGA jobs are therefore “green jobs” and account for improvement in ground water, greater cropping intensity and enhanced agricultural productivity. The construction of rural roads increased access to public services (e.g. schools, hospitals), reduced commerce transaction costs, and increased property values. As indicated by a range of independent studies, by means of providing a basic income floor the scheme is indirectly contributing to livelihood diversification in poor rural areas.

There remain of course several concerns. The determination of the wage rate in NREGA and the impact it has on mandated minimum wage levels and market wage rates as well as on the bargaining power of workers is a highly contested issue. Critics have also pointed to issues of corruption in the selection of the beneficiaries and inefficiencies in the choice and implementation of projects such as irregular payments and delays in starting the work. As in most welfare and workfare programmes, there is always a possibility that the benefits may accrue to people who are not entitled. The practice with NREGA, however, is showing that those leakages can be reduced by ensuring transparency and fairness in work assignments through a double layered central-local mechanism. At the central level, thanks to the National Right to Information Act, all public documents concerning NREGA are made available through the NREGA web-based management information system and can be easily consulted by the public (Ministry of Rural Development, Government of India, 2010). In addition, the programme has institutionalised compulsory social audits (*i.e.* a mandatory local social audit forum every six months with a mandatory set of questions), a grievance procedure and a national help-line. At the local level, an independent ombudsman is appointed in each district and participatory processes are stimulated in order to ensure strong local advocacy. Local NGOs, trade unions and other organisations are playing an important role in ensuring that information on demands, registration of workers, works completed, funding etc. are actually made available to the beneficiaries, who might not be aware of their entitlements or lack the skills and courage to set forth a complaint.

In regard to the productivity of the work projects, subsidiarity is critical. The “Grama Panchayat Raj Institutions”, local political bodies typical of South Asia, already have a principal role in planning and directly implementing NREGA projects. To reinforce the capabilities of local authorities and local stakeholders in formulating and implementing a portfolio of projects that fit within local strategies for economic development is central to ensure that local resources are used optimally for the purpose of employment and asset creation, addressing critical supply constraints to agricultural productivity and diversification of livelihoods. The funding mechanism of NREGA is such that the central government is responsible for the payment of wages, but state governments are liable to pay unemployment insurance if they are not able to provide work within the 15 days. This creates a performance incentive for state governments to strengthen their planning capacities to develop a “shelf” of projects, granting employment in accordance to anticipated demand.

The Indian experience remains quite unique, but a few countries in the region are setting up or considering pilot projects, *e.g.* Nepal and Bangladesh. The government of Pakistan has asked for technical assistance from the ILO in the design and implementation of an EGS that will aim to provide for an employment floor and an income support mechanism in districts most affected by the ongoing conflict and social unrest. The proposed programme would ensure that one adult from any poor household who is willing to do unskilled manual work at the statutory minimum wage will be entitled to employment for 100 days on local public works financed by the state. The beneficiaries will undertake small local level works with a guaranteed daily wage equal to the minimum wage. The pilot scheme will be in 120 union councils in the 12 least developed districts, which are also the areas most affected by the conflict. The scheme will also include a training component that will facilitate absorption of the beneficiaries into the labour market. A total of 5 billion Rupees will be allocated by the government of Pakistan to the pilot scheme that aims to benefit a total of 200 000 households for 2010 – 2011.

The local dimension

Conditional cash transfers and employment guarantee schemes have a strong territorial dimension. They mainly cater to geographical areas with high levels of poverty and deprivation, often rural remote localities. The rationale for both programmes is the need to bring in outside inputs to complement scarce local resources and help overcome bottlenecks and constraints to the optimal use of those resources. Ultimately, the yardstick for success is the level of welfare benefits that accrue to poorest populations as well as the potential of the programme to bring about positive transformation of the local economies where those populations live. Diversified and more shock-resistant livelihoods provide the necessary foundation for sustainable development and poverty eradication. Large scale CCTs and EGSs rely on policy direction, legislation and guidance from central government in order to function well, including institutionalised centrally-driven mechanisms for monitoring, evaluation and accountability. But, as the quick review above is suggesting, the capacity and commitment of local players are central to attain the ultimate goals.

Good vertical co-ordination between different tiers of governments – from the central to the local – is a main challenge for the effective administration of CCT programmes in Indonesia and the Philippines, particularly in ensuring that targeting and monitoring are appropriate. Strong local authorities that can facilitate horizontal co-ordination across different departments are equally critical. The experience in the Philippines indicates that the CCT objectives were achieved more effectively when local governments (provincial, district, municipal) were able to play a catalytic role and mobilise resources from different

quarters in order to overcome bottlenecks in the supply of basic health, education and other social services. The success of NREGA also clearly relies heavily on capacity at the local level. The poorest states where the system of local government is weak and fiscal decentralisation is limited have made the least use of the funds made available by the central government, although the need is higher.

Good governance of the programmes does not just depend on competent local administrators. Community organisations, trade unions, local NGOs and other groups for citizens action are important to ensure transparency and fairness of public policy. Those groups also act as facilitators in encouraging fuller participation of the ultimate beneficiaries in the programmes, thereby contributing to the ultimate development outcomes. In this regard, the legal entitlement to work stipulated under the NREGA and the Right to Information Act have strong empowering effects that complement grassroots forms of social accounting.

Finally, capacities for good local economic planning are important ingredients in ensuring that the economic space opened up by additional sources of income for poor communities, albeit limited, is used as a catalyst for local economic transformation. There is scope for synergy and convergence between social protection interventions, the climate change agenda, programmes for food security and the rehabilitation and diversification of the local agricultural base. Programmes such as NREGA that directly affect local productive assets and provide “on demand” shelter from economic risk for poor households¹⁶ can better spur strategies for local development that tap into those opportunities.

Recommendations for effective policies and strategies for social protection

Policy measures that address the concerns of the poor and the vulnerable are key to inclusive and sustainable economic recovery, in Asia and elsewhere. As the emergencies created by the global economic downturn leave room for new opportunities for growth and development, the need to provide a basic social protection floor remains a main policy priority, as large numbers of poor and vulnerable populations remain highly exposed to economic fluctuations and the volatility of international and domestic prices. In the G20 Labor and Employment Ministers’ Meeting, recommendations to the G20 Leaders noted that measures needed to ensure that employment recovers quickly. Employment and poverty alleviation must be prioritised as they lay the foundation for strong, sustained and balanced growth that is beneficial to all.

The positive experience with conditional cash transfers and employment guarantee schemes is likely to gain further momentum, with the potential to become a driving force to encourage a major transformation of economic and social structures in several countries in the region. Early results have been very encouraging, and lessons have been learned that can improve future programme design to maximise the development gains and cost efficiency of these efforts and lead to sustainable long-term growth. These programmes have reduced the economic security of poor households and allowed them to increase current consumption and productive investments, including in health and in education. They also help the global economy by avoiding further contractions in domestic demand and increasing domestic consumption.

In the context of the response to the global economic crisis, the lessons learnt point to the importance of having in place automatic income stabilisers that rapidly cushion the effects of economic downturns on affected groups; the impact of combining modern information technologies with grassroots activism on good governance; and the need of multi-tiered schemes to protect vulnerable people from different forms of economic risks

– cutting edge policy development is indeed looking at the opportunity of complementing long-term poverty alleviation programmes such as the CCTs with on-demand temporary public works schemes to address income shocks due to job loss or sudden drops in the price of crops.

Lessons learnt also point to the potential impact of those schemes on local economic diversification and to the critical role played by local actors in ensuring success, particularly in linking economic and social interventions and making them more coherent and more mutually supportive. As the scope for social protection programmes expand, it creates a specific incentive for governments to invest in local capacities as a key component of their employment and social policies and their development strategies. The following chapter examines policy coherence and the importance of local strategies to job creation.

Notes

1. This issue will be discussed in the next section.
2. By local, we mean here the level of local labour markets – sometimes known as “travel to work areas”, where economic development strategies are frequently designed and where local policy makers have the opportunity for a strong level of contact with local businesses, sectors and clusters in addition to non-governmental organisations and community groups. This does not necessarily correspond to the municipal level, where the public employment service has its antennas. Such municipal offices are often merely delivery agencies with low critical mass and strategic capacity, except in urban centres. In the latter, one office is often given more significant administrative responsibilities and a co-ordinating role. In less urban areas, these responsibilities are more frequently found at a sub-regional level OECD (2009a).
3. In Brunei employment services are offered by the Public Service Department, the Prime Minister’s Office which handles the Human Resources Management in the public service only. This department operates a district office in the Brunei-Muara district (with a population of roughly 200 000). As the total population of Brunei is only 388 190 (equivalent to the sub-regional level in other countries) the PES was considered to have maximum flexibility for the purposes of this study. Data from Malaysia is subject to confirmation as no information was available about the average population served by offices at each governance level. The provincial level in Thailand has a relatively small population size (just above 867 500 average population), so we included this as the “local level” for the purposes of this analysis (2009a).
4. In each case, one of three scores was awarded for each country on the basis of the degree of flexibility (1.0 flexibility, 0.5 some flexibility, 0 no flexibility). All accountability mechanisms were given equal weight in the resulting analysis, except for *(e)* collaboration and *(f)* outsourcing which were allocated a total possible score of 0.5. Local officers can in some cases collaborate without altering the delivery of policies and programmes, and flexibility in outsourcing is often restricted through national contracting regulations (Giguère and Froy, 2009).
5. New entrants into the workforce each year exceed the current annual job creation capability of most developing nations.
6. OECD (2010a) defines Green Growth as a way to pursue economic growth and development, while preventing environmental degradation, biodiversity loss and unsustainable natural resource use. It builds on existing sustainable development initiatives in many countries and aims at identifying cleaner sources of growth, including seizing the opportunities to develop

- new green industries, jobs and technologies, while also managing the structural changes associated with the transition to a greener economy.
7. “Low-carbon” refers to economic activities that have low Green House Emission or even a “carbon neutral” pathway (Martinez-Fernandez *et al.* 2010).
 8. LEED is an internationally recognised green building certification system, providing third-party verification that a building or community was designed and built using strategies aimed at improving performance across all the metrics that matter most: energy savings, water efficiency, CO₂ emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts. Developed by the U.S. Green Building Council (USGBC), LEED provides building owners and operators a concise framework for identifying and implementing practical and measurable green building design, construction, operations and maintenance solutions. www.usgbc.org/Default.aspx (US Green Business Council, accessed 23 July 2010).
 9. Although the definitions of enterprise sizes varies across the world and across the Asian region, in this section we will consider as micro and small enterprises those that have between 1 and 49 workers; medium enterprises will be those with 50 to 199 workers and large enterprises, those that have more than 200 workers.
 10. Asia in the Global Economic Crisis: Impacts and Responses from a Gender Perspective. Technical Note for Responding to the Economic Crisis – Coherent policies for Growth, Employment and decent Work in Asia and the Pacific, 18-20 February, Manila, Philippines 2009
 11. The PCI has been developed by the USAID-funded Viet Nam Competitiveness Initiative (VNCI) together with the Viet Nam Chamber of Commerce and Industry. Since its launch in 2005, the PCI has been widely utilised by provincial governments to inform their economic governance reforms and has served to set a standard, represented by “star performer” provinces. The index has also been used for private businesses to advocate for local initiatives intended to foster an enabling environment for enterprises.
 12. Social protection expenditure levels have been maintained or increased in 12 out of 14 national fiscal stimulus packages surveyed by the ADB, UNDP and UNESCAP, 2010.
 13. The importance of social protection measures in crisis responses is acknowledged in the ILO Global Jobs Pact. The Pact addresses the social and employment impact of the international financial crisis and economic crisis. It promotes productive recovery centred on investments, employment and social protection. It is a set of balanced and realistic policy measures that countries can adopt to ease the impact of the crisis and accelerate recovery in employment (www.ilo.org/jobspact).
 14. K. S. Bloom, 2009. There is some indirect evidence of a positive impact on the local economy from reports of an increase in the sales of motorcycles in remote target areas, where better transportation means is a conduit to the expansion of economic activities.
 15. There are similar schemes in Uruguay and Argentina where the *Jefes y Jefas de Hogar Desocupados* was introduced to the serious economic crisis the country experienced in 2001. The Community Works Programme of South Africa (CWP SA) also provides a guarantee of 2 work days per week to its beneficiaries. Kate Philips. Presentation of CWP SA. International Training Center Validation Workshop on Public Employment Programmes, April 2010.
 16. In the absence of any form of insurance against income loss, poor people may refrain from adopting new farm and non-farm income generating activities that are perceived as being too risky.

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Chapter 4

From national to local, from local to national: towards greater policy coherence and effectiveness

by Kees Van Der Ree

Chapter 4, “From national to local, from local to national: towards greater policy coherence and effectiveness”, explores policy coherence and the importance of local strategies for job creation and the economic recovery effort. The chapter examines (1) Opportunities for effective local strategies which focus on greater flexibility to changing local opportunities and challenges, improved utilisation of scarce resources through better targeting and greater support for national plans through local leveraging; (2) Challenges to local strategies highlighting the need to find common ground among actors for effective policy implementation, improve managerial and technical capacities, and expand local financial space; and (3) Recommendations for effective policies and strategies to achieve greater policy coherence.

Introduction

The global economic crisis has required a coherent policy response from national and local governments to maintain existing jobs, generate new employment, and protect vulnerable households. National governments' responses to the crisis have been diverse from broad-based social security support mechanisms to focused interventions targeting affected micro, small and medium sized enterprises of particularly affected sectors. Just as the crisis has impacted countries differently, the impact and response on specific localities have not been uniform. National, regional and local levels of government need to align their various strategies to develop a consistent direction in meeting development objectives, leverage economies of scale, and reap the dividends of joint initiatives that share knowledge and reduce operational overhead.* This chapter explores policy coherence and the importance of local strategies to the jobs creation and economic recovery effort.

In Asia, decentralisation has increasingly transformed the role of local government from being primarily the implementers of national government's strategies to acting as an equal partner with national government in the design and implementation of social and economic initiatives. Local governments have faced significant pressure by their constituents to take direct action in addressing the affects of the crisis on their local economies. Local agents (*e.g.* government, civil society, private sector) who have a "ground eye view" are better able to assess the economic opportunities and challenges of their community, more cognisant of the community's priorities, and better positioned to mobilise local resources to ensure the initiative sustains their impact beyond the period of the project. Local governments, civil society organisations (CSO) and the private sector play a critical role in national and local dialogue as they are able to provide real-time feedback for existing initiatives, and information on new opportunities and challenges that might have arisen after the initiative's planning.

Improving the policy coherence between national and local levels of government (vertically) and co-ordination across different ministries (horizontally) (Figure 4.1) can significantly increase the effectiveness of delivery of programmes and the quality of services provided.

Vertical alignment between national and local government

The interests of national and local government may not always be harmonised. National considerations, such as increased gross domestic product or improved foreign exchange flows, may not always be prioritised in the same manner as local government's concerns for local job creation, infrastructure development and social protection programmes.

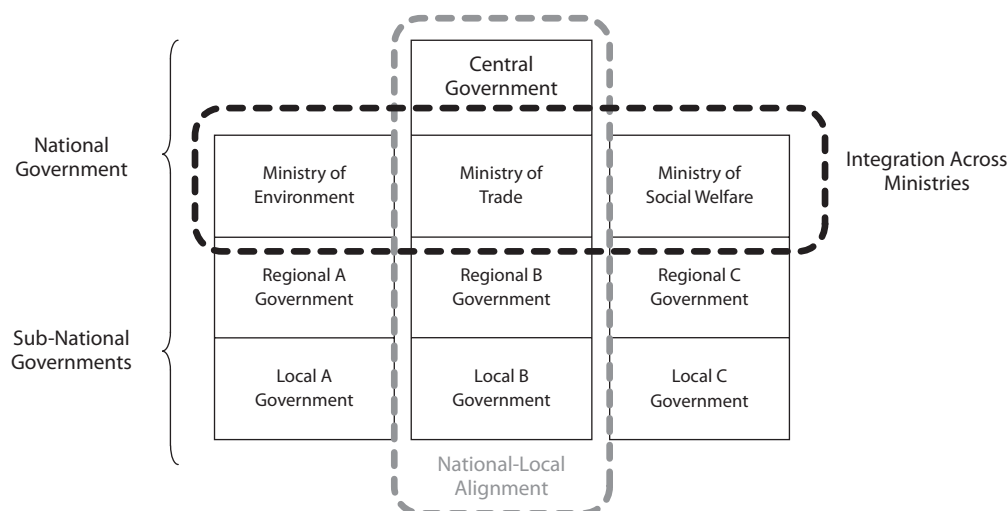
National and local governments need to harmonise development objectives (*e.g.* enhanced rural access) to avoid redundant programmes and heighten the effectiveness of programmes occupying shared geographic and technical space (*e.g.* poverty, environment), while identification of conflicting national-local objectives (*e.g.* the planning of rural roads for extractive industries rather than for improving market access of remote rural producers) can result in national-local dialogue to develop innovative win-win situations (*e.g.* an area-based approach with main grid and feeder roads enabling backward and forward linkages of investments in plantations and mining).

* For the purposes of this chapter, government and civil society organisations (CSO) can be categorised by their operational space into three groups. "National" is in reference to central administrative bodies, ministries, and CSOs that operate and implement on a countrywide level. "Regional" denotes sub-national agents that operate at the state or provincial level. Those closest to the beneficiaries are the "local" agents at the municipal, district, and village levels.

Horizontal integration of separate initiatives to create greater synergies

Ministries and civil society organisations operate at times within their distinct practice areas (*e.g.* economic growth, environment, utilities). A holistic development approach that integrates economic growth, health, education and other needs can produce higher quality outputs than standalone projects operating on a narrow spectrum of deliverables. Increasing interaction across the wide spectrum of ministerial and civil society initiatives can broaden location and project specific knowledge (Walzer, 1991).

Figure 4.1. Vertical alignment and horizontal integration of government



Translation of national frameworks into local action plans

Local actors can aid in the localisation of national frameworks and policy (*e.g.* labour standards) into locally implementable action plans. Transforming broad national goals into concrete local objectives indicators was evident in UNDP-SNV’s 17-country initiative on the localisation of Millennium Development Goals. The initiative set an example of how a national framework (*e.g.* Viet Nam’s MDGs) can guide a country’s development goals, while a complementary localised strategy provides a precise set of objectives and local action plan to achieve them (UNDP-SNV, 2009).

At the UNDP-SNV site in A Luoi District, Viet Nam, a participatory approach involving local government and civil society developed district-specific indicators and objectives in three key areas: universal education, gender equality and female empowerment, and child welfare (UNDP-SNV, 2009). Precise targets, such as “by 2010, the rate of the net enrolment in primary school is higher than 90%” and “by 2010, the rate of female pupils is 50%”, were viewed as more tangible by the community and in that sense it was something that the community had control over. Whereas, national MDG goals are so large in scope and scale that local communities felt less able to directly influence the attainment of the targets. Creating national-local policy coherence in achieving MDG goals at both the country and district level, required re-scoping national goals and presenting them in a manner that is relevant and actionable by members within the district (UNDP-SNV, 2009).

Localisation also creates a channel for dialogue between national and local policy makers. As a result, local strategies can form a feedback gateway where the “adaptation

of national policies to local priorities can promote ownership by local communities and governments, and contribute to improved implementation at the local level. ... Learning from local experiences can also improve policy making at the national level by highlighting barriers to more effective and equitable service delivery” (UNDP-SNV p.10, 2009).

Opportunities for effective local strategies

There are significant opportunities for local strategies to play a deciding factor in the success of national social and economic programmes. The core advantages of including a local dimension into a national strategy are manifold. Key gains are: (1) greater flexibility to changing local opportunities and challenges, (2) improved utilisation of scarce resources through better targeting, and (3) greater support for longer term, national strategic plans through leveraging local quick wins.

i. Greater flexibility to changing local opportunities and challenges

Local institutions are able to react with greater speed and finesse than their larger national counterparts in adapting novel current strategies to existing programmes to address a changing set of priorities, challenges and opportunities that may present themselves. When small windows of opportunity present themselves, local governments can best adjust local regulations and resources to capture them. Policy frameworks at national level provide overarching goals and targets for local actors, but should be flexible and accommodating to the avenues by which those goals are reached, locally unique challenges met and opportunities seized. Greater autonomy enables local authorities to identify and take advantage of “green shoots” or new opportunities that arise from economic crises.

The global economic crisis has put pressure on local government to seek out new employment strategies. While sectors, such as manufacturing, have relocated to lower cost regions, new sectors such as green jobs are emerging to become major employment and income generating sectors. Innovative approaches and strong public-private partnerships will be key in identifying and converting opportunities into concrete results. In the face of a dynamic environment, the local governments who maintain their flexibility will also be the ones who are best able to capitalise opportunities and cope with shocks.

The Government of Thailand in collaboration with UNDP’s Global Environment Facility developed an innovative local strategy to address the national concerns of outdoor air pollution, and high unemployment. Through small grants to local stakeholders, a series of locally owned and operated biomass power plants were built. These plants generate clean, renewable energy and have, to date, displaced 1 999 722 tons of carbon dioxide while generating 398 megawatts of power for the local power grid (UNDP, 2009). The project demonstrates that small-scale renewable energy enterprises are financially viable, can generate employment, and ameliorate the environment. Thus the approach chartered a potential entry point for large scale private sector investment in the promising renewable energy sector.

ii. Improved utilisation of scarce resources through better targeting

In addition to greater responsiveness to local changes, local actors are more capable in identifying the priorities of the community (e.g. road, sanitation, school, hospital) and provide the appropriate level of resources to target priority sectors. From the commanding heights of a ministerial office in the capital city, a national government official may be

able to glean broad trends that the manufacturing sector of a particular province is experiencing serious unemployment. However, the composition of the municipalities' economic sectors may vary greatly and the municipal governments would be in the best position to determine which sector would get the limited economic stimulus and in what amounts. Some municipalities may be heavily vested in agriculture or tourism with little stake in manufacturing. Local agents can more finely tune resource allocation than officials who are more removed from the beneficiaries. An intimate knowledge of the local landscape may enable local governments to utilise funds with higher efficiency by targeting high priority areas to maximise job creation, alleviating poverty for the transitory, working and chronic poor, and fostering nascent industries, such as green jobs, that may be undervalued by the private sector.

This point is demonstrated by the case of Viet Nam's local governments in the provinces of Vinh Phuc and Binh Duong, developing local responses to the global economic crisis, mostly independent of national government stimulus measures. In both provinces, local government implemented an integrated labour enhancement initiative that included doubling the local budget towards vocational training of unemployed workers, doubling the local budget for SME promotion, creation of local forums for dialogue between local government leaders and workers, and local job bazaars to match employee's with prospective employers (Binh, 2009).

iii. Greater support for national plans through local leveraging

Local leadership, confidence, and accountability are important in garnering the local support for long-term, national strategic plans. A local initiative that engages local government, civil society, and the private sector in the planning through to the implementation process lends itself greater credibility in mobilising local stakeholders (e.g. private sector, CSOs) than those managed afar by national government or line ministries that may be perceived by local stakeholders as disconnected from local concerns. Employment-intensive infrastructure projects that immediately increase land values, enhance agricultural productivity and commerce, and other high visibility activities can win over local support for both local and national plans.

The ILO's Kamala Irrigation Project in Nepal is an example of an integrated local economic development intervention that utilised infrastructure to create a labour-rich environment, improve rural roads and increase agricultural productivity (Khanal, 2009). These quick wins earn the trust of local stakeholders and enabled the project to phase in longer-term vocational training and value chain development to enable sustainable employment opportunities in Kamala as part of the larger peace building and reconsolidation process.

This points to the key role of initiating and maintaining an effective social dialogue at local level to identify stakeholder interest and to reconcile diverging or conflicting interest to the extent possible. The crisis and ensuing recovery measures represent an impetus to convene the local partners and lead the dialogue process towards crafting the best possible response.

Challenges for local strategies

The harmonisation of national-local strategies and inter-ministerial co-operation can yield significant efficiency dividends. A successful alignment and division of roles hinges, naturally, on the effective degree of decentralisation. Across countries with different

Government systems, there are common challenges that may impede government synchronisation and policy alignment. These are: (i) local government's priorities do not coincide with national priorities, (ii) the lack of experienced local managers or technical experts to address new local mandates, and (iii) the limited local financial space that restricts local government's ability to mobilise resources for their initiatives.

i. Finding Shared Space

The impact of the Global Economic Crisis has affected countries and their localities unevenly. In The Philippines, for example, the information technology industry is experiencing a sustained though reduced rate of growth through the Global Economic Crisis. In 2007, 2008, and 2009, Philippines information technology business process outsourcing sector achieved employment growth rates of 27%, 24% and 19% respectively (World Bank, 2010, as cited in National Statistical Coordination Board). In contrast, low-value added industries, such as textiles, furniture, and basic assembly in the electronics industry have been more susceptible to the Crisis as customers seek even lower cost locations (e.g. low manufacturing shift from China to Viet Nam and Cambodia). The Philippines electronics sector has contracted by 20-30% for 2009 (Hurst *et al.* 2009). Local governments that have a geographic concentration of IT workers in their districts may object to a national stimulus plan that is aimed at textile or others sectors that do not positively impact their constituents.

The ability for local government to negotiate with national, regional, other also local governments and create “shared space” where economic and social interests complement each other rather than compete will result in greater national-local and local-local policy alignment. Local governments need to prepare their officials to strongly champion local interests, but also be diligent in exploring all dimensions where there maybe common interests (*i.e.* improving the regulatory environment to increase inter-provincial trading).

ii. Improving Managerial and Technical Capacities

As political and fiscal power increasingly decentralise, local mandates have widened to assume As political and fiscal power increasingly decentralise in many countries, local mandates have widened to include responsibility over social services, driving local economic performance, and other functions once performed by the national government. Local governments are sometimes charged with mandates that exceed their managerial capacity and technical expertise. The pace and methods of transferring officials across the country may in some cases exacerbate this problem. Local governments require both the financial resources and the technical expertise to execute projects well. Strong government capacity is a critical characteristic in sustaining local economic development (Walzer, 1991).

Local government needs to be able to communicate to national level counterparts when a mandate exceeds their capacity to re-assess the expectations and review their request for additional resources, be it technical expertise or additional funds, so that local capacity will be brought in line with local responsibility and accountability. Overtime local capacity needs to be strengthened through training of local staff and improved knowledge management amongst local governments, for example through their associations.

Indonesia's experience illustrates this point. Since the early 1960s under REPLITA (1963-73), the country has continually moved forward with executive decentralisation in an effort to more equitably spread resource and power, and give local governments greater authority to implement employment-intensive agricultural infrastructure and rural industrial development projects on their own accord. The Decentralisation Laws 22 and 25/1999,

which went into effect in 2001, strengthened local authorities' autonomy and fiscal decentralisation. Roughly, 2 million of the 3.4 million civil servants were to be transferred from central government offices in Jakarta to local government in district areas (World Bank, 2004). Law 25/1999 mandates at least 25% of national revenue to be shared with district and provincial governments. As a result, both fiscal and human capital resources of local government have increased as their mandates increased.

iii. Expanding Local Financial Space

Local governments require the financial resources to implement economic development and social protection programmes. Resources to fund these programmes are sourced from either the national government reserves or self-generated. Increasing the financial space and capability of local governments by raising taxes, issuing bonds, accessing loans, and other options allows local government to be more proactive in developing innovative partnerships with open markets, foundations and development banks.

With added financial space, improved oversight will be needed to guard against corruption, ensure that the returns on investment (*e.g.* roads, public health, education) are greater than the cost of the capital, and that the fiscal measures taken do not threaten local and national economic stability (Heller, 2005).

The provincial government of East Java in Indonesia is engaged with sub-district of the sub-district of Poncokusumo in Malang and the sub-district of Nongkojajar in Pasuruan in the local tourism development of the Bromo Tengger Semeru National Park. The global economic crisis has accelerated the development of the region's tourism sector to reduce rural poverty through income generation and job creation and absorb migrants returning to rural villages from abroad or urban areas (Cognac and Wei., 2009). The Province of East Java, Poncokusumo Sub-District, and Nongkojajar Sub-District are working in concert to seek out a public-private partnership with tourism and resort developers to co-finance the development of the region. While the province and sub-districts may not be cash rich, the provincial government has signalled that it will invest in a form of infrastructure upgrades (*e.g.* roads, utilities) to improve accessibility to more remote parts of the region. In-kind investment, such as employment intensive infrastructure, can provide the necessary incentive to attract financing from the private sector and provide temporary jobs for the government's social protection initiatives.

The UNDP-SNV MDG localisation initiative noted that allocations of resources by national government to local government were based on set measure standards irrespective of actual needs required to complete the initiative. Localised reporting of performance and milestones enable local governments to better advocate for national government resources (UNDP-SNV, 2009).

Whereas local public sector expenditure exceeds revenue, local government needs to mobilise additional resources (*i.e.* increase tax, development loans) or scale back initiatives. Local agents need to find alternative sources of revenue when resources are not available through primary channels (*e.g.* national government contributions). As a result, local government needs the flexibility to raise revenue, directly seek out developers, and co-finance regional infrastructure and social protection programmes with neighbouring provinces.

Statutory controls and other restrictive measures on local fiscal space inhibit innovative financing of local initiatives. When there are little or no resources from national government, local government needs to be able to seek out alternative financing. Otherwise local government must rely on national government funds which are generally earmarked for a

defined set of activities. This prescriptive set of activities may not suit all localities equally well. Local government with their own financial resources are more likely to take initiative in addressing local problems with local best practices.

Recommendations for effective policies and strategies to achieve greater policy coherence

Improved coordination and policy coherence between national and local governments will yield economic and social dividends in the form of better designed and more effective strategies that combat the immediate effects of high unemployment, mitigation of future economic shocks and building accountable, competent institutions that can meet the growing set of mandates.

Table 4.1. Selection of challenges, responses and coherence measures

Challenges	National Response	Local Response	National-Local Coherence
Social protection for vulnerable households and recently unemployed through the provision of temporary employment.	National Rural Employment Guarantee Act (NREGA) of India is a social protection programme designed to guarantee employment to one member of every rural household for no fewer than 100 days per year at the minimum wage of 60 rupees per day (Matta, 2009).	Implementation of national EGS framework in the field. Local adaptation and targeting of EGS to suit unique local challenges, vulnerabilities and opportunities, prioritising types of hard and soft infrastructure projects (<i>i.e.</i> roads, hospitals).	National-Local Government Policy Coherence can provide (1) grassroots feedback for midcourse revisions; and (2) ensure that complementing supports maximise project potential (<i>i.e.</i> when EGS projects build educational infrastructure there are additional teachers available for them).
Job creation through growing nascent and expanding existing sectors that have high-employment potential (<i>e.g.</i> Green Jobs).	Foster a business enabling environment for desirable, potentially job-rich sectors, such as green jobs, through business friendly regulations, tax holidays and other incentives. National Youth employment programme	i) Vocational skills upgrading to meet the forecasted employment needs of each sector (<i>i.e.</i> Philippines Business Process Outsourcing, Thailand's Green Energy) ii) Entrepreneurship training and youth business creation campaigns.	i) Dialogue and labour market intelligence to best tune vocational training services to match actual requirements by sector. National advocacy campaigns reinforce local initiatives for starting enterprises by youth
Responding to returning economic migrants (urban-rural and international) in need of jobs.	Accommodate by expanding labour markets to absorb migrants, identifying new destinations for migrants, and protecting migrants rights (Awad, 2009).	Temporary job creation to provide relief until the economy recovers and re-skilling workers for new sectors; Building effective employment agencies and partnerships with industry	National governments working with local governments and social partners in vocational training and job matching, addressing remittance reductions via alternative livelihoods.

The following are policy recommendations that are aimed at strengthening national and local institutions to enable them to more successfully reach their objectives.

1. Upgrading local managerial and technical capacities across the public and the private sector. Creating an atmosphere where strong local institutions and development can be achieved by strengthening local public sector management and accessibility to technical resources (*e.g.* experts for infrastructure, toolkits for social protection). As decentralisation increases, local institutions must be prepared to complete a new and ever broadening set of mandates entrusted to them. The capacity building of local civil society, the private sector and other local partners will prove to be critical in the success of local social and economic objectives. This may prove more difficult in rural areas with low population density. Distance learning including through radio may be effective in addressing this challenge.

2. Expanding the space that enables local governments to fund local initiatives. In the current environment, many local governments are increasingly given the task of implementing a greater set of public services and economic programming, but without the resources to achieve them. Increasing the local governments authority to seek out responsible and secure sources of financing among development banks, foundations, and in the open market can reduce the incidence of projects that have stalled or been truncated due to a lack of funds.
3. Promoting inclusive and participatory forums for social dialogue. Strengthening local government and civil society organisations dialogue with national counterparts enables national framework to be adjusted according to actual capacities and limitations of implementing agents. A clear, regular dialogue between national and local government increases opportunities for win-win situations that enhance national and local interests, as they are not always the same. Local organisations can contribute to how to best implement national frameworks at the local level, and provide feedback for future national frameworks. In Nepal, the ILO Employment Creation and Peace Building based on Local Economic Development Project has demonstrated that local economic development forums do create a bridge between the local population and planners. The civic voice is being heard and development strategies are shifting from household targeting – with limited potential for growth and job creation – to more encompassing community and district wide development plans that have the ability to build momentum and create local synergies (ILO, 2009).
4. There must be a deliberate effort to ensure that local strategies receive input from all stakeholders. In the mid-1980s, Bangladesh under President Ershad carried forth decentralisation in part to legitimise a military regime. The resulting power base comprised mainly of landed elites. The poor and vulnerable were marginalised (Crook and Sverrisson., 1999).
5. Utilisation of strong public-private partnership. A strong partnership between government, the private sector and CSO can create local ownership, share location specific knowledge, and provide a forum for stakeholders. Strong local institutions and partnerships can carry the initiative's activities when government funding has ceased.
6. Increasing domestic demand for goods and services through interregional co-operation. The global economic crisis has shown that sectors, such as manufacturing, that have a high reliance on exports are vulnerable to global shocks. With the increasing demand for goods and services in Asia, local governments should be prepared to assist their enterprises in shifting their focus towards more robust, home markets (Economist Intelligence Unit, 2010). Increasing the manufacturing blend from the needs of the international towards domestic and regional markets can create more robust economies, promote inward investments, spur local demand, and generate a virtuous circle of local economic growth. National governments and regional trading blocs (*e.g.* ASEAN) have an important role to play, *e.g.* by improving the regulatory environment for trade and commerce.
7. Labour market intelligence and quality data capture. A close partnership between the labour market intelligence unit, local vocational centres, and firms can enable more accurate forecasts of labour demand. Subsequently, industry can then be more easily involved in addressing skills gaps through school-based on-the-job training. An intelligence unit that aggregates and interprets vast quantities of labour market data into intelligible, timely findings can be utilised by partners

in achieving the optimal blend of skilled workers for each sector, and can reduce labour slack (*e.g.* unemployment) and worker shortages (*i.e.* firm production below optimal).

In conclusion, it is clear that the crisis has presented a unique opportunity to rethink traditional modalities of development planning and implementation. The need for greater coherence between national policies and local strategies has become more visible and good practices are emerging that merit wider dissemination across Asia and elsewhere. Conversely, Asia can learn from international experience with building the capacity of the social partners, like in South Africa and Brazil.

In the learning process among countries an agreed framework may emerge for the roles of national and local government in enhancing policy coherence – from both sides. National government would focus on their task to draw up enabling policies, legislate, enact and facilitate the financing of local development plans. Local governments can use their position to create public-private partnership and actively promote investments in infrastructure, enterprise development and skill upgrading. Closer to the realities on the ground, they would also be entrusted with monitoring and results-based measurement. National governments, in turn, would keep a strategic focus and create aggregate statistics to be used as feedback to adjust and improve macroeconomic and sector-specific policies.

As decentralisation increases in Asia, local strategies will prove to be the driving force for not just the region's economic recovery efforts, but also for supporting new job-rich sectors, combating climate change, community health and education provision, and strengthening social protection for the vulnerable. Locally-led interventions, as experienced by Indonesia's community based tourism, Viet Nam's job bazaars, and Nepal's employment-intensive infrastructure, demonstrate the effectiveness of local-national policy co-ordination to provide immediate crisis relief and longer-term sustainable development. The crisis has shown that few countries can fully insulate themselves from global economic shocks and the response to preserving and creating jobs in times of crisis rests with innovative and dynamic strategies developed by local government and CSO in close collaboration with national government. The following chapter lists OECD-ILO strategies for local job-creation, skills development and social protections in realising a job-rich recovery.

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Chapter 5

Consolidating a job-rich growth: strategies for local job-creation, skills development and social protection

by Cristina Martinez-Fernandez and Kees Van Der Ree

Chapter 5, “Realising a job-rich recovery: strategies for local job-creation, skills development and social protection”, outlines the main elements analysed throughout the report focusing on the dimensions of the crisis, the role of local governments, and recovery strategies towards a more sustainable development path. The Chapter outlines development strategies to promote a job-rich recovery and the capacities that countries need to build to implement them with success. A set of ten principles and policy suggestions for governments and socio-economic actors to accelerate this transition conclude the chapter.

Introduction

This volume has discussed the challenges and opportunities for local actors in Asia to combine job creation and social protection policies. Examples of local initiatives across the region show that action is already taking place but also underscore the need to have a stronger focus on facilitating sustainable development through policy. This chapter will wrap up the elements analysed throughout the report regarding strategic development of skills, employment and social protection in Asia. In particular the chapter outlines development pathways to promote a job-rich recovery and the capacities that countries need to build to implement them with success.

Dimensions of the crisis

Developing Asia is currently leading the world's economic rebound from the global economic and financial crisis. The region has been hailed as the quickest to emerge, with the recovery marking a clear “V-shape”. However the pace of recovery varies considerably between countries. The largest economies are rapidly regaining their soaring pre-crisis growth rates while some smaller, more vulnerable countries are facing problems and show unsteady fiscal positions, growing debt and shrinking financial resources for development.

Despite this rebound and the strong continued economic growth, the region has been affected by the crisis, often affecting most those who were already in a precarious situation. Positive rates of growth have to be viewed against large pockets of underemployment and poverty. In the region, the limited availability of consistent labour markets indicators and timely statistics, particularly at the local level, has not aided the understanding of the extent and impact of the crisis.

The first to be affected by the global downturn in export-led economies were industrial workers in the formal economy – those above the poverty line. However, the effects have spread out among the poorer populations. Furthermore, the impact of the crisis on the poorer households will be felt the years to come, as many families have been forced to reduce their investments in nutrition, education and health. This situation is aggravated by structural problems in the labour market and the food crisis that several countries are facing in the region.

In conclusion, it can be stated that the impact of the crisis in the Asia Pacific has been rather diverse. Some countries have had a high exposure to the crisis, such as the Philippines, Indonesia, Viet Nam and Cambodia, while others have had relatively less exposure, such as Bangladesh. Others have experienced decelerated growth, such as Malaysia and Singapore, whereas the impact on some other countries has been sector-specific. For example, in Cambodia 10% of factories have closed; in Viet Nam MSMEs are being hit by critical access to finance; in Malaysia exports have declined by 16% and in the Philippines 40% of exports were affected. Chiefly, the crisis has exposed longstanding vulnerabilities, something which has been often overlooked given Asia's significant growth in the past years. This growth had been fuelled by dependence on exports and in a few sectors, which made many countries and populations vulnerable to external shocks. The crisis therefore provided the occasion to consider the importance of internal markets and the need to develop robust social protection systems for future growth within the region.

The role of local governments

There is no question that the effects of the crisis have posed a great challenge for many local governments, which are placed under increasing pressure to deliver effective policies and services. Particularly in those countries with higher levels of decentralisation, such as

Indonesia, Philippines and China, the challenge and tasks for local governments is enormous. Even though they can act to shield the poor from the crisis through emergency measures and mobilise resources to enable a sustainable recovery, much too often, however, the absence of reliable labour market intelligence and the lack of a genuine skills policy makes it hard to devise a job-centred local economic recovery strategy.

The crisis has emphasised the importance of finding robust underpinnings of future growth, cultivating local assets and internal markets, and away from the previous overreliance on exports and foreign investments. It has also led to the realisation that national governments cannot solve the crisis alone, let alone gather divergent local interests into a much-needed consensus. A wide range of the government interventions are required in skills upgrading, infrastructure development, enterprise/sector development and support to social protection.

Although the transfer of good practices among local governments emerges as an important mechanism for knowledge sharing, city-to-city co-operation and capacity building, policies need to be assessed in the light of their advantages and limitations for their replication. In addition, both the short and long term impact of policies need to be considered, particularly when sustainable recovery is at stake. There may be a temptation of doing things that are effective in the short term but are neither strategic nor sustainable in the long term. Case in point, fiscal measures are carried out on the principle of increasing purchasing power, but for this to succeed, firms must have the capacity to weather the crisis and meet local demand.

For a sustainable and job-rich recovery, there has to be a shift in the approach from focussing solely on local governments to broadening the scope to inclusive local governance – that is, engaging the entire network of local stakeholders from the public, private and civic society and stimulate effective, employment-centred dialogue.

Towards a more sustainable development path

The focus of recovery strategies, including that of fiscal stimulus, must be on rethinking and shaping more comprehensive strategies, such as focussing more on generating domestic demand and addressing equity issues. Economic growth can be fostered significantly by small-sized enterprises, thus policy measures in place to help these to develop need to be maintained and strengthened in times of crisis.

Special attention must be paid to coherence between policies and their long term effects, ensuring that the solutions of today do not become problems of tomorrow. This therefore calls for comprehensive strategies that are also socially and environmentally sustainable. These policy choices have to be anchored on reliable data and sound analysis. For instance, fiscal policies must be informed by data on their productive impact; reduced taxes for the middle class must be assessed against their impact on improving purchasing power; cash transfers must be able to reach their target groups and objectives.

The crisis can emerge as an opportunity for national and local governments to streamline their priorities and put in place new initiatives, bridging hitherto unrelated sector approaches. They can cement together local economic development support with health delivery, social services and education. The threat of growing inequality can thus be met and poverty can still be effectively reduced. This brings into play a much needed national-local policy alignment and effective policy co-ordination mechanisms not only between line ministries and local governments, but also among local stakeholders, including extra-governmental institutions. Participatory consultations and policy-making arises as an opportunity to ensure co-ordination, coherence and long-term commitment by all actors involved.

OECD-ILO strategies for local job creation, skills development and social protection

There is an emerging consensus that shifting from export-led recovery and growth towards greater reliance on domestic and regional sources of demand will be critical to sustain economic prosperity in Asia as well as globally. A new pattern of economic growth is emerging in Asia, characterised by vigorous policies to support domestic consumption and investment, active employment and labour market policies to facilitate industrial and labour market adjustments, and stronger social protection measures to accelerate inclusive growth and poverty reduction. In this new paradigm the strategies and policies of local governments are more at the centre-stage. A set of 10 principles and policy suggestions for governments and socio-economic actors to accelerate this transition are presented in this section.

1. Shaping the path to job-rich growth

- Facilitate restructuring of production networks and supply chains to the needs of local sources of demand and the continuing trends towards greater regional integration;
- Contribute to productivity and investment in domestic sectors via a greater focus on micro, small and medium enterprises and fostering opportunities for upgrading informal producers in rural areas through higher productivity and incomes. Target interventions especially to agriculture and green industries, in order to reduce environmental strains and alleviate poverty;
- Provide relevant skills to workers and enterprises to enable smooth transitions across sectors. Upgrading the skills necessary to harness employment opportunities emerging in new green industries and the learning of new skills as sectors and industries move towards greener technology;
- Sustain purchasing power of households and reduce excessive precautionary savings by means of better social protection systems, with greater funding and coverage and extensive social insurance, minimum wage policies, unemployment insurance, basic pensions and a social protection floor to protect workers against the risks of employment shocks that arise during periods of crisis.

2. Facilitating adjustments to greater trade integration and openness

- Design a common framework for skills and qualifications that facilitates skills recognition between sending and receiving countries of labour force, chiefly in the proliferation of frameworks established under the Free Trade Agreements (FTAs);
- Cushion the negative effects of trade reforms with specific programmes for SMEs. Trade openness can result in the expansion of high-productivity firms but also in failures across low-productivity firms, especially SMEs unable to enter foreign markets and locked-into domestic demand;
- Develop labour market intelligence to understand FTAs demand for new and specific skills in the workforce so that training systems can be quickly put in place, facilitating flexible training and skills development systems that can adjust to future skills needs and better equip the workforce in the transition;
- Implement active labour market and social protection policies and programmes for import-oriented production sectors that risk job losses for a workforce that will not be easily absorbed by other sectors due to lack of appropriate skills. Asian countries where

skills are low and technological absorption capacity is low can suffer the most from the adverse consequences of trade reform.

3. Strengthening local institutions through policy coherence between national and local governments

- Upgrade local managerial and technical capacities so that local institutions can play a stronger role in economic development as decentralisation increases. The capacity building of local civil society, the private sector and other local partners will be critical in the success of local social and economic objectives;
- Improve the fiscal space to enable local governments to fund local initiatives through development banks, foundations, and in the open market so as to reduce the incidence of projects that have stalled or been truncated due to a lack of funds;
- Promote inclusive and participatory forums to strengthen local government and civil society organisations dialogue with national counterparts and to enable national frameworks to be adjusted according to local needs and local implementation capacities. There must be a deliberate effort to ensure that local strategies benefit from inputs from all stakeholders;
- Increase domestic demand for goods and services through interregional co-operation so as to create more robust economies, promotes inward investments, spur local demand, and generate a virtuous circle of local economic growth. National governments and regional trading blocs (*e.g.* ASEAN) can improve the regulatory environment for trade and commerce;
- Utilise strong area-based partnerships to create local ownership, share location specific knowledge, and provide a forum for stakeholders. Strong local institutions and partnerships can carry the initiative's activities when central government funding has ceased. Rather than create either “supply-led” or “demand-led” partnerships it will be important to develop boards that take a balanced approach to employment and economic development locally;
- Labour market intelligence and quality data capture. A close partnership between labour market intelligence units, local vocational centres, and firms can enable more accurate forecasts of labour demand. An intelligence unit that aggregates and interprets vast quantities of labour market data into intelligible, timely findings can be utilised by partners in achieving the optimal blend of skilled workers for each sector that can reduce labour slack (*e.g.* unemployment) and worker shortages (*e.g.* firm production below optimal).

4. Equipping Public Employment Services with the right tools to generate Labour Market Intelligence

- Create partnerships to integrate data and information from different administrative sources and also to better carry out employment services. Co-ordinate different ministries and public offices at the national and local levels in relation to LMI data collection;
- Remove local disincentives to a focus on quality and sustainability in the labour market: this may include changing incentive structures for local employment agencies so that they concentrate on the quality and not just the quantity of job-matches;

- Provide capacity building training for staff on collecting and analysing labour market information and support acquisition of office equipment for generating labour market information;
- Conduct impact studies on what works and what does not work in relation to LMI and improve the role of employment services to ease the transition from the non-formal to the formal economy;
- Differentiate LMI by gender as this impacts decision-making of rescue packages and investments for both women and men;
- Collect information in new areas of growth. There is a field of opportunities in regards to the green economy emerging from the crisis. Measures that could be taken to strengthen initiatives in this area are: investing in increasing the capacities of staff in employment services to understand and tap into opportunities in the green economy; align national policies to local initiatives; raise awareness among small entrepreneurs as they often lack knowledge of new and greener technologies, promote green procurement by government institutions.

5. Maximising skills development and training

- Link labour market information with skills development to produce more compact economic development strategies that focus on industry innovation;
- Establish joined-up strategies locally that link supply and demand approaches to skills and employment, particularly in areas facing low-skilled equilibrium; focus training efforts on such long-term strategies involving employers in the design of training programmes as a more strategic approach to skills development. Engage industry to deliver training to reduce specific industry-type skill gaps;
- Foster skills utilisation of the local workforce by investing in human resource development on both the supply and demand side of the labour market leading to a job market which provides better quality and decent jobs.
- Foster workforce development and skills recognition as a priority so that countries in Asia should ensure that all forms of skills development, as well as strategies for employment and entrepreneurial development, are linked to areas of growth or industrial development. Governments, together with social partners, must carefully define areas for industrial development at the national and local levels. Once priority areas have been identified, it will be possible to ensure that synergies occur between strategies for employment and skills development as they do between industrial development and skills development;
- Pursue strong commitment from government, at all levels, in the process of skills formation. This includes ensuring that the education system produces young people with strong intermediate level skills, especially in the areas of science, math, IT and literacy. Employers in strategic economic sectors need to commit to developing high-level science and technology skills. Workers' organisations also need to commit to high skill development and continuing life-long learning, while tertiary level education institutions need to provide appropriate academic knowledge in order to underpin practical skill formation in the workplace.

6. Developing systems of social protection

- Prioritise decent work and poverty alleviation by providing a basic social protection floor to mitigate the exposure of poor and vulnerable populations to economic fluctuations and the volatility of international and domestic prices;
- Develop programmes of conditional cash transfers and employment guarantee schemes to help poor households maintain and develop their human capital and avoid falling into systemic poverty traps. This is a major driver towards significant economic and social progress in several countries in the region. It is important to have in place automatic income stabilisers that rapidly cushion the effects of economic downturns on affected groups and vulnerable groups; to develop good governance of social protection systems combining modern information technologies with grassroots activism; and to design multi-tiered schemes to protect vulnerable people from different forms of economic and social risks;
- Integrate social protection systems and conditional cash transfer in local employment and social development strategies to strengthen local purchasing power and economic diversification, ensuring that economic and social interventions are more coherent and mutually supportive.

7. Anticipating the impact of demographic changes in local development

- Develop labour market information mechanisms (demographic check) to capture changes produced by demographic trends and forecast their medium-term impacts in labour markets;
- Design sustainable planning models for shrinking communities, taking into account the impact of declining population and economic activity on urban and industrial infrastructure;
- Promote tailored quality employment for the +65, adjusting jobs and training systems to the needs of an older workforce also including specific programmes to confront the new imperatives of a low-carbon economy;
- Develop the silver economy to adjust to new demands for welfare services and social inclusion from elderly citizens. Encourage the growth of new opportunities as technologies, products and services are specially designed for and, sometimes by, the senior population;
- Integrate migrants in ageing labour markets beyond the traditional low-paid jobs in geriatric care and into high-knowledge intensity jobs in leisure, healthcare and medical devices innovation. Develop and foster new skills in the area of multi-cultural awareness and cross-cultural communication in both public and private organisations;
- Promote sustainable public finance to meet higher demand for pensions, health and long-term care and the maintenance of infrastructure in declining areas;
- Develop specific programmes for youth employment that take into account skills development and provide career ladders for the youth. At the same time youth amenities need to be considered as an important component of retaining youth.

8. Harnessing infrastructure development with local economic and employment strategies

- Develop comprehensive Local Economic Development (LED) strategies, involving the private sector and communities more closely to the design, creation and maintenance of infrastructure;
- Advocacy at both national and local levels on mainstreaming the use of labour-based and community contracting as local development options;
- Co-ordination of social security programmes that employ labour intensive activities with labour market intelligence units, the firms, and other agents to transition workers as quickly as possible back into the private sector;
- Seek out green jobs and emerging job-rich sectors that may benefit from labour intensive strategies to accelerate the sectors' growth (*i.e.* reforestation utilising government supported labour intensive techniques which may later employ those workers as part of a long-term community forest management initiative, national park infrastructure upgrading as part of an eco-tourism growth strategy);
- Develop a comprehensive programme for implementers of community contracting and the use of labour-based methods for infrastructure development. This would include soft skills development (HIV, literacy, women's rights), gender equality, wage standardisation and good labour practices;
- Decentralisation of the national government's decision-making role on resource use. Review of the rules and procedures related to the transfer of public funds, procurement of services and auditing procedures that affect the use of community approaches. Flexibilise the management of active labour market policy at the local level;
- Develop and apply participatory and transparent project monitoring and evaluation procedures. Standardise promotional/advocacy materials on good practices for labour-based infrastructure development.

9. Enabling a sustainable business environment focusing on Micro, Small and Medium Enterprises

- Integrate policies to support Micro, Small and Medium Enterprises by creating an enabling environment to foster the start up and growth of dynamic MSMEs which can take opportunities in the market as they arise, provide jobs and contribute to the overall development of localities. Coherent policies at the national level and in the local realm are needed to reinforce quality business training, access to micro-finance, capacity building of local service providers, local governments and business associations;
- Tap into the potential of public-private partnerships. The private sector and strong workers' and employers' organisations need to be involved in developing a strong business environment if benefits from business are to reach all and work for the poor, raising their living standards and enhancing social inclusion. Programmes to help build the capacities of these organisations are crucial for them to represent their stakeholders and voice their concerns, challenges and opportunities;
- Concentrate efforts to reach out to those working in the informal economy, who are often less organised but with a high entrepreneurial spirit that can be nurtured through skills development programmes and social protection strategies;

- Ensure the conditions for decent work when undertaking reform of the business environment such as adequate pay, equality between women and men, and freedom of association. To this effect it is crucial that social dialogue takes place between worker organisations, employers associations and government at the national and at the local level. This will greatly maximize the impact of crisis responses and the design of effective policies for long term development of MSMEs.

10. Accelerating the transition to a low-carbon economy and sustainable local development

- Build institutional knowledge to enable local government, civil society and the private sector to absorb new technological knowledge and embed it within green job strategies that are sustainable for their locality. Focus on eco-innovation as one of the key drivers of green growth;
- Strengthen vocational training centres through technical assistance to enhance and offer new individual skills of displaced workers, as demand for the green sector grows, thus ensuring the existence of adequate skills within the local labour force;
- Develop indicators to conduct environmental audits of the green sector to quantify the positive externalities not captured or recognised by the private sector and provide temporary stimulus to accelerate those green job sub-sectors that are most socially beneficial;
- Assist environmentally damaging enterprises or occupations in the transition into those that are more socially responsible and that balance the communities' environmental and economic priorities. Provide technical support for adjustments and, where needed, offer conditional cash stimulus to soften the transition for particular enterprises;
- Provide systems that support entrepreneurship in green sectors, including augmenting training provision for green skills development that would foster new ideas for business start-up;
- Utilise local economic development networks and forums where local governments can plant the green jobs concept among local entrepreneurs, stimulate locally relevant green job opportunities, and foster networks that actively pursue green job strategies in the community;
- Communicate why green growth is important: the public sector can define and implement a communication strategy in order to raise awareness of the need to move to a low-carbon economy. Such a strategy would facilitate the transition to a low-carbon economy while stimulating the demand for greener products and services;
- Leverage urban policies for environmental and sustainable initiatives in fields such as urban planning, waste management, public utilities, public transportation, all of which are part of the realm of responsibilities of local governments.

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Job-rich Growth in Asia

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