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# **WORLD EMPLOYMENT SOCIAL OUTLOOK**

**2016 Transforming jobs  
to end poverty**

# WORLD EMPLOYMENT SOCIAL OUTLOOK 2016

Transforming jobs to end poverty

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First published 2016

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*World Employment and Social Outlook 2016: Transforming jobs to end poverty*  
International Labour Office – Geneva: ILO, 2016

ISBN 978-92-2-130387-9 (print)  
ISBN 978-92-2-130388-6 (pdf)  
ISBN 978-92-2-130389-3 (epub)  
ISBN 978-92-2-130390-9 (Kindle)

employment / labour policy / poverty alleviation

13.01.3

*ILO Cataloguing in Publication Data*

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This publication was produced by the Document and Publications Production,  
Printing and Distribution Branch (PRODOC) of the ILO.

*Graphic and typographic design, layout and composition,  
proofreading, printing, electronic publishing and distribution.*

PRODOC endeavours to use paper sourced from forests managed  
in an environmentally sustainable and socially responsible manner.

Code: CAF-CORR-WEI-REPRO

# Preface

This edition of the *World Employment and Social Outlook* report, devoted to the issue of poverty, comes at a critical juncture. The very first goal of the recently adopted Agenda for Sustainable Development is to end poverty by 2030 “in all its forms everywhere”. In addition, the Agenda devotes significant attention to the importance of decent work. In particular, it aims to “promote inclusive and sustainable economic growth, employment and decent work for all”.

The main finding of this report is that decent work is a necessary precondition for ending poverty. Thus, without decent work, it will not be possible to meet the first goal of the Sustainable Development Agenda. Indeed, relying on economic growth alone will not be enough to eradicate poverty. The report demonstrates that the recent pattern of growth, associated with inequitable transfers of natural resource wealth, low productivity gains and lack of attention to the agricultural sector – where around two-thirds of the world’s poor work – has only served to widen the gap between the rich and the poor and prolong the incidence of poverty. Worryingly, the rate of poverty is rising in developed countries – so the goal of ending poverty is relevant to all regions.

The report also examines how decent work can contribute to the goal of ending poverty. It shows that, first and foremost, there is a need to implement the foundations of a rights-based approach to poverty reduction. This entails the ratification of those international labour standards which are most relevant to poverty alleviation. Moreover, the extension of labour, social and other regulation in order to achieve the broadest coverage possible provides a means of maximizing the poverty-reducing effects of standards.

Second, economic growth should be broad-based. This can be facilitated by policies that support transitions into formal enterprises and decent jobs. In this regard, it is important to create an enabling environment for sustainable enterprises, notably small and medium-sized enterprises, which are the main engine for job creation and thus the conduit for lasting poverty reduction. This can be achieved by promoting sound business regulation, introducing more effective and equitable tax regimes and implementing efficient business registration. The rural economy also represents substantial untapped potential that, duly recognized and developed through decent work, can make an important contribution to poverty alleviation.

Third, carefully designed employment and income policies are necessary to support individuals and to help broaden the productive base by raising skill levels, boosting participation in the labour market and facilitating transitions into formal employment. As imperative as it is to enable employers to create jobs in new sectors, workers also need to be equipped with the tools necessary to take up these jobs. At the same time, the role of social protection is central within each of these policy areas and is particularly relevant in alleviating poverty among those who are not able to work or are not of working age.

Finally, the report highlights the importance of adequate funding of poverty alleviation strategies. This calls for renewed efforts to improve the tax base – which can be supported through the creation of decent jobs. The fight against tax evasion and excessive income inequalities must also be seen in that light. Indeed, the rich have a certain responsibility in addressing the situation facing the poor.

These findings are rooted in a major empirical analysis, which draws on detailed data for most countries. It also presents numerous examples of policies that are effective in ending poverty through transforming jobs.

As far back as 1944, the Declaration of Philadelphia noted that “poverty anywhere constitutes a threat to prosperity everywhere”. That is no less true today. I therefore hope that this important study can help policy-makers succeed in their fight against poverty, which remains one of the most urgent tasks of our time.



Guy Ryder  
ILO Director-General

## Acknowledgements

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This edition of the *World Employment and Social Outlook 2016: Transforming jobs to end poverty* was prepared by the staff of the ILO Research Department, under the responsibility of its Director.

The chapter authors are Florence Bonnet, Uma Rani and Marianne Furrer (Chapter 1); Florence Bonnet (Chapter 2); Santo Milasi, Veda Narasimhan, Sameer Khatiwada and Stefan Kühn (Chapter 3); Johanna Silvander and Rafael Peels (Chapter 4); Tom Lavers and Eleanor Tighe (Chapter 5); and Richard Horne and Santo Milasi (Chapter 6). Raymond Torres was responsible for the Executive Summary.

Steven Tobin coordinated the report under the supervision of Moazam Mahmood and Raymond Torres. Research assistance was provided by Ana Podjanin, Judy Rafferty, Eleanor Tighe and Zheng Wang.

We are grateful to James Howard, Special Adviser to the ILO Director-General, for his guidance and comments.

We would like to thank those members of the ILO Research Review Group who attended a meeting on 18–19 January 2016 to discuss the report, for their insights and counsel, namely Professors Iain Begg, Jayati Ghosh, Nouri Mzid, Lord Robert Skidelsky and Alain Supiot.

The ILO Regional Offices for Africa, Arab States, Asia and the Pacific, Europe and Central Asia, and Latin America and the Caribbean provided valuable comments and inputs.

We would like to thank the following department directors of the ILO for their feedback on the report: Azita Berar Awad, Employment Policy Department; Rafael Diez de Medina, Department of Statistics; Isabel Ortiz, Social Protection Department; Moussa Oumarou, Governance and Tripartism Department; Stephen Pursey, Department for Multilateral Cooperation; Manuela Tomei, Conditions of Work and Equality Department; Alette Van Leur, Sectoral Policies Department; Vic Van Vuuren, Enterprises Department; and Corinne Vargha, International Labour Standards Department. The Bureau for Employers' Activities and the Bureau for Workers' Activities also provided constructive insights. We would also like to thank the ILO Publishing Committee Secretariat for its support.

Finally, thanks to our Research Department colleagues and other ILO staff who provided helpful comments and drafting suggestions: Mariya Aleksynska, Christina Behrendt, Patrick Belser, Janine Berg, El'vis Beytullayev, Marva Corley-Coulibaly, Verónica Escudero, Eric Gravel, Carla Henry, Steven Kapsos, Waltteri Katajamäki, Takaaki Kizu, Frédéric Lapeyre, Sangheon Lee, Loretta de Luca, Elizabeth Echeverria Manrique; Philippe Marcadent, Rossana Merola, Elva López Mourelo, Michael Mwasikakata, Irmgard Nübler, Clemente Pignatti, Peter Poschen, Naren Prasad, Ksenija Radojevic Bovet, Diego Rei, Daniel Samaan, Valerio de Stefano, Guy Tchami and Christian Viegelahn.

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# Executive summary

## **Poverty has been reduced in the majority of countries over the past two decades ...**

Over the past two decades, significant progress has been made in reducing poverty in the majority of countries. In emerging and developing countries, taken as a whole, it is estimated that nearly 2 billion people live on less than \$3.10 per day (adjusted for cost-of-living differences across countries). This represents around 36 per cent of the emerging and developing world's population, which is nearly half the rate that was observed in 1990, when the initial international commitments to reduce poverty were undertaken. During the same period, extreme poverty – defined as people living on less than \$1.90 per day – declined at an even faster rate to reach 15 per cent of the total population of emerging and developing countries in 2012, the latest available year.

## **... but the gains have been uneven and fragile, particularly in developed countries where an increase in poverty has been recorded.**

Progress, however, has been uneven. While improvements have been significant in a number of countries, notably China and much of Latin America, the incidence of poverty remains stubbornly high in Africa and parts of Asia. Moreover, in developed countries, an increase in poverty has been recorded, especially in Europe. It is estimated that, in 2012, over 300 million people in developed countries were living in poverty (defined in relative terms on the basis of incomes representing less than 60 per cent of the median income).

The gains have also been uneven across population groups. Poverty affects women disproportionately, and children to an even greater extent. In emerging and developing countries, more than half of all children under the age of 15 live in extreme or moderate poverty. In developed countries, 36 per cent of all children live below the relative poverty line.

Even where progress has been made, gains remain fragile. A significant proportion of those who moved out of poverty continue to live on just a few dollars per day, often with limited access to essential services and social protection which would allow them to exit precarious living conditions on a more permanent basis. Also, in those developed countries where quality jobs are scarce, there is growing anxiety among middle-class families about their ability to sustain their income position.

Similarly, the recent deterioration of economic prospects in Asia, Latin America, the Arab region and those countries rich in natural resources has begun to expose the fragility of the recent employment and social advances. Already, in a number of these countries, income inequality has begun to rise after being in decline for decades and thus a reversal of some of the progress made to date in tackling poverty is not inconceivable. Likewise, latest trends suggest a further escalation in relative poverty levels in Europe and other developed countries.

## **Without further progress in creating quality jobs, the goal of ending poverty by 2030 will not be met.**

A continuation of the uneven and fragile progress in reducing poverty may compromise the achievement of the Sustainable Development Goals (SDGs) adopted by the United Nations in September 2015, including both SDG 1 – to end poverty in all its forms and everywhere by 2030 – and many of the other SDGs. Furthermore, the poor may completely miss out on the technological revolution which is transforming today's economies and societies. Already, although they represent 30 per cent of the world's population, the poor receive less than 2 per cent of the world's income. So, unless action is taken, poverty will tend to perpetuate itself across generations. This may exacerbate socio-economic instability and erode support for pro-growth policies.

A key finding of the study is that it will not be possible to reduce poverty in a lasting manner without decent work. In other words, decent work is a necessary (though not sufficient) condition for eradicating poverty. ILO estimates suggest that nearly \$10 trillion is needed to eradicate extreme and moderate poverty by 2030. However, this cannot realistically be achieved by income transfers alone. The solution requires more than simply the availability of resources. Indeed, the ability of people to sustain themselves through good jobs will need to be enhanced. Almost one-third of the extreme and moderate poor in emerging and developing countries actually have a job. However, these jobs are vulnerable in nature: they are sometimes unpaid, concentrated in low-skilled occupations and, in the absence of social protection, the poor rely almost exclusively on labour income. In addition, two-thirds of the jobs are in typically low-productivity agricultural activities.

Among developed countries, a greater number of workers have wage and salaried employment, but that does not prevent them from falling into poverty. In fact, more than 80 per cent of the working poor in developed countries are in wage and salaried employment. Without an adequate supply of decent work opportunities, it will be difficult for the working poor to improve their working conditions, acquire a career and thus lift themselves and their families out of poverty.

## **It is therefore crucial to tackle the obstacles to ending poverty through a transformation of jobs ...**

The report highlights the fact that a number of key structural obstacles are impeding quality employment creation and poverty reduction.

First, a narrow economic base has impeded the pace of poverty reduction. In fact, countries whose exports depend on natural resources and primary goods have seen the smallest improvements in this regard. And, in some of these countries, economic growth actually seems to have exacerbated poverty. This is mainly due to the fact that exports of primary products, especially those related to extractive industries, typically have limited spillover effects on the rest of the economy. As a result, their direct impact on job creation and poverty reduction, if any, remains modest. Narrowly based economic growth also exacerbates income inequality, as the benefits are concentrated among small groups of people who are better placed to capture the gains. The presence of a large informal and rural economy compounds the problem of the weak link between the exploitation of natural resources and poverty reduction.

Second, widening income inequality – resulting from a number of factors in addition to those already discussed – has tended to dampen growth and its impact on poverty reduction. More specifically, in a world of limited resources, as greater gains from growth go to the rich, so the scope for reducing poverty is reduced. This finding points to the fact that the rich must assume a certain responsibility for the perpetuation of poverty.

Third, poverty is often the product of a weak institutional set-up, which effectively marginalizes vulnerable groups. Such weaknesses include a combination of limited worker rights, insufficient progress in setting up solid labour market institutions, inadequate environments for enterprise development and inefficient or corrupt governance arrangements. In many instances, employment and social programmes have failed to make significant progress in reducing poverty because, lacking adequate implementation capacity, they were unable to reach the poor. This is increasingly becoming a problem in some developed countries as well.

The report shows that each of these three obstacles can be addressed through decent work and by enhancing the ability of enterprises to create quality jobs.

### **... first, by broadening the productive base through the promotion of sustainable enterprises ...**

For economic growth to facilitate poverty reduction, it needs to be broad-based and avoid the neglect that has sometimes characterized policy-making towards sectors such as agriculture. Raising the productivity of independent smallholder farmers is a key policy lever in tackling this issue and requires a range of interventions, including research and development, the supply of agricultural inputs and improved access to credit services, transport links and markets. Agricultural cooperatives can make important contributions in this respect. In Ethiopia and Nicaragua, for example, such arrangements have improved the connections between agriculture and the rest of the economy, while also strengthening the position of farmers in negotiating market access.

Boosting development of the rural non-farm economy is another key factor. Many households in extreme poverty lack the resources to take advantage of opportunities for agricultural productivity growth, but are well placed to diversify their livelihoods by establishing small off-farm businesses. A combination of initiatives is required to stimulate rural enterprise creation, in particular by helping small businesses to grow and upgrade their activities. Much of the progress in reducing poverty in China reflects such an approach to rural development. Of course, unless this is accompanied by improvements in working conditions in general, and in the rural economy in particular, any reduction in poverty will remain incomplete and fragile.

Promoting the transition to the formal economy and formal employment arrangements is the sine qua non for ending poverty. This will ensure that individuals have access to social protection, minimum wages and other employment and income support, which is central to poverty reduction. It will also help to strengthen the links between growing, export-oriented sectors and the rest of the economy.

In general, boosting sustainable enterprises is key. This calls for major adjustments in business regulations and a sound environment for facilitating the setting-up of new enterprises as well as the growth of existing ones. Moreover, the formalization of economic activities and jobs will boost the tax base, which is needed to fund poverty-reducing programmes. The report provides examples of country initiatives in this area, such as in some Central and Eastern European countries, Ghana and Uruguay.

### **... second, by strengthening rights ...**

Although broad-based growth provides the economic foundation to improve the income of the poor, it is not enough. The poor and vulnerable groups need to be in a position to benefit from those opportunities in the manner that best suits their needs and aspirations. At the individual level, people should have some choice with respect to the type of job they perform and, in particular, they should be able to refuse unacceptable forms of work. On a collective level, the poor and vulnerable should have a voice and the capacity to influence policy-making in favour of measures that support their livelihoods, such as skills development, health and safety measures, collective bargaining, social protection and anti-discrimination. In short, fighting poverty requires both individual and collective capabilities.

International labour standards are of paramount importance in this regard. They are intended to equip workers with rights entitling them to claim a fair share of economic growth, thus tackling working poverty and inequality. The report identifies a number of key standards that are of particular relevance in the fight against poverty. They include, among others, the eight ILO fundamental Conventions, which provide framework conditions for fair income distribution. The UN Declaration on the Rights of Indigenous Peoples is another case in point as it can empower local communities if properly observed. Standards are also necessary for social dialogue, so that employer and worker organizations can express their views and help design effective policies for ending poverty.

Yet, the report points to gaps in ratification and compliance with some of the most vital Conventions, in both developing and developed countries. Coverage of certain workers and enterprises – such as unpaid family work and informal businesses – is limited in a number of cases, with consequent implications for effective poverty reduction.

So, it is crucial for poverty reduction to ensure that international labour standards reach the poor. The recently adopted ILO Convention on Domestic Workers (No. 189) is an example of what can be done in this respect. Private businesses also have an important role to play in enhancing the potential of standards to reduce poverty and there is further scope to engage them more actively. Furthermore, by enhancing the capacity of labour inspectorates and by promoting collaboration between enforcement institutions and other government services, as well as private entities, governments can improve the reach of rights.

### **... and labour market institutions ...**

Labour market institutions are an essential complement to international labour standards in terms of reaching the poor. These efforts must be supported through effective labour administrations and inspections, and enhanced access to justice. Various countries have effectively covered traditionally vulnerable groups by implementing legislation consistent with international labour standards, such as in the case of contributing family workers in Honduras. In Mozambique, the labour inspectorate works closely with governmental legal assistance services and, in Brazil, the Labour Prosecution Service works to improve access of the most vulnerable to judicial systems. Furthermore, labour inspectorates can link with technical services to provide advice to enterprises on productivity improvement, as in the case of the WIND project in Thailand.

Another central channel is through the establishment of an enabling environment for representative employer and worker organizations. This enabling environment includes, as an essential element, freedom of association, which also helps to ensure a more effective and inclusive process leading to the achievement of the SDGs, as strong social partners are able to contribute to improving the accountability of government policies. By extending their reach to emerging forms of work, both worker and employer organizations can play a crucial role in the design of poverty eradication strategies. Tunisia provides a recent illustration of the strategic role of social partners in formulating youth employment strategies, which are essential for ending poverty.

### **... third, by enhancing the effectiveness of employment and social policies and extending their reach ...**

Employment and social policies can help individuals to find a job, improve their existing working and income conditions and assist them in transitioning to new – and better – jobs. The report provides many examples of such policies, in both developed and developing countries. One general lesson that emerges is that it is crucial to conceive these policies as part of a strategy with a view to improving synergies between the different tools.

For instance, the Ethical Family Income programme (*Ingreso Ético Familiar*) is a key component of Chile's strategy to eradicate poverty by 2018. The programme aims to expand the coverage and increase the values of transfers but it also incorporates new forms of employment support and thus places greater recognition on the importance of enabling households to lift themselves out of poverty and to sustain themselves by their own means. The achievement of relatively low poverty rates in some developed countries (Japan and certain northern European countries, for example) has been aided by the implementation of a well-designed package of employment and social policies. Such policies often have a targeted component (e.g. lone-parent families) to address groups disproportionately hit by poverty.

Social dialogue can strengthen policy synergies. Through social dialogue, policies can be put in place and enforced to ensure that responsibility is shared and accountability boundaries drawn between different actors. Social dialogue may also serve as a device to counter corruption and to promote solid governance structures.

### **... and, finally, by devoting sufficient resources to the strategy.**

Many of the policy tools identified in this report entail a reorientation of existing efforts, rather than new resources. A policy focus on decent and productive jobs, improvements in regulatory and implementation tools and making international trade and investment more socially inclusive with a view to tackling inequalities may be complex tasks, but they do not require significant additional government resources.

Nevertheless, there are cases where public funds are called for, such as the extension of social protection floors and the reinforcement of labour market institutions. Yet, in many instances, measures can be fiscally neutral or even positive. For example, formalizing the informal economy may usefully broaden the tax base. In the case of some Latin American countries, the introduction of a simplified tax collection scheme (known as *monotributo*) has proved to be an effective instrument for promoting the formalization of micro and small businesses, which has, in turn, significantly contributed to the creation of formal jobs and the extension of social security. This process raises government receipts, which enables the implementation of additional poverty-reducing efforts.

This approach may still prove to be insufficient in developing countries, which highlights a new role for development aid, with greater focus on programmes to generate decent work. The fight against international tax competition and tax evasion should also be regarded as an opportunity to fund poverty-reducing programmes. And those who benefit from such tax practices should be made fully aware of the gravity of their responsibility.

### **The future of work and the end of poverty: Two faces of the same coin.**

Finally, the fight against poverty should take into account developments which are currently shaping the world of work. Rapid technological change and the emergence of new patterns of globalization, including the extension of global value chains, offer new opportunities for reaching remote areas, making policy tools more responsive and improving institutional frameworks. The proliferation of mobile devices and their use in enterprise development in Africa provides a ray of hope in the fight against poverty.

However, these potential benefits will not be realized automatically and do entail new risks, especially for vulnerable groups, which may lack adequate skills or sufficient bargaining strength to share in the gains. It is therefore a matter of urgency for countries to move ahead with the kind of strategy advocated in this report, adapting it to the ongoing transformations in the world of work. Provided this path is followed, the dynamics within the future of work could prove a major driver in ending poverty and thereby make a vital contribution to the realization of the 2030 Agenda for Sustainable Development.

# Introduction

This edition of the *World Employment and Social Outlook (WESO)* examines the relationship between decent work and poverty reduction. It starts by documenting trends in poverty around the world while paying close attention to the types of jobs and incomes the poor rely on and the process of structural transformation required to end poverty (Part I). The report then examines how decent-work-friendly policies can contribute to the eradication of poverty (Part II). In particular, it analyses the poverty reduction role of (i) labour standards and rights; (ii) measures to raise productivity in agriculture where most of the poor work; and (iii) labour market and social policies.

The main finding of this analysis is that decent work – including both productive employment and social protection – is a necessary condition for ending poverty in all its forms in developed countries as well as emerging and developing countries. Without productive jobs, enterprise development, social protection and rights, efforts to reduce poverty will be either incomplete or unsustainable. The report stresses, however, that to be effective in ending poverty, decent work policies need to be well designed and adapted to country circumstances.

The finding lends support to ILO's mandate to support constituents in their efforts to provide decent work for all and is at the heart of achieving the newly adopted Sustainable Development Agenda for the next 15 years. The ILO's work is of particular relevance to Goal 8 to “Promote inclusive and sustainable economic growth, employment and decent work for all”, but – as demonstrated throughout this report – productive employment and decent work are central to achieving many of the Sustainable Development Goals (SDGs), including Goal 1 of “ending poverty in all its forms everywhere”.

## PART I. JOBS AND EARNINGS OF THE POOR

### 1. Poverty and the world of work: A global overview of trends

The first chapter of the report reviews trends in poverty levels over the past two decades. It uses the poverty lines as recently revised by the World Bank – \$1.90 PPP per capita per day to measure extreme poverty, \$3.10 for moderate poverty and \$5 as complementary poverty measures in Latin America and the Caribbean and Europe and Central Asia. In light of the salience of the SDGs also for developed countries, the report looks at poverty in high-income countries by using 60 per cent of median income as the threshold.

The chapter then analyses how the poor are positioned in terms of both demographic structure (incidence of child and elder dependants in poor households, gender, etc.) and employment. In particular, the chapter looks at the incidence of wage and salaried employment, self-employment, unpaid family work, unemployment and inactivity, as well as the skill, sectoral and occupational composition of jobs held by the poor. It considers various income sources of the poor, including both labour and non-labour incomes and discusses non-income dimensions of poverty such as access to essential services.



## 2. Addressing the income gap

The second chapter estimates how much income would be needed in order to end poverty in all countries – the so-called “income gap”. It provides a link between, on the one hand, the labour market, income and non-monetary patterns described in Chapter 1 and, on the other, the policies to tackle poverty discussed in Part II of the report. The chapter examines how demographic and economic dependency ratios and decent work deficits contribute to explain the income gap. In particular, the extent to which social protection and decent jobs can be expected to reduce the income gap is analysed. While employment tends to reduce the risk of poverty, it is clearly not enough. The types of jobs performed by poor people and the income and non-monetary benefits derived from labour – as well as rights in general – are of paramount importance in this respect.

## 3. Transforming growth and jobs to reduce poverty

Chapter 3 discusses the role of economic growth in poverty reduction. It presents an empirical analysis of how different growth patterns may be associated with poverty trends, including how the impact of growth on reducing poverty is impeded by rising income inequality. With two-thirds of extreme poor employed in the agriculture sector most poor tend to be in vulnerable employment where self-employment and unpaid family work are the norm. Productivity gains within sectors – notably agriculture – and across sectors (i.e. structural transformation of the economy) are essential in lifting the poor out of poverty. The chapter also presents findings on the linkages between international trade and investment on the one hand, and poverty on the other. In general, structural transformation is essential for transforming jobs and lifting people permanently out of poverty. This tends to happen with trade openness and greater connectivity to global markets. However, trade openness and the fragmented nature of production have created several labour market and social challenges.

# PART II. POLICIES TO TRANSFORM JOBS AND INCOMES TO END POVERTY

Drawing on the empirical findings of Part I, the second part of the report discusses how decent work policies can contribute to the end of poverty. The role of labour standards and rights as framework conditions for enhancing individual and collective capabilities – key engines of poverty reduction – is considered in Chapter 4. The report then looks at how particular patterns of economic growth, notably in agriculture and the rural economy, can provide pathways out of poverty (Chapter 5). Lastly, the role of labour market and social policies in eradicating poverty is examined in detail (Chapter 6). This examination draws on a broad range of country examples and policy initiatives. It also highlights the role of good policy design and solid implementation of institutions.

## 4. A rights-based approach to poverty reduction

One of the founding documents of the ILO states that “poverty anywhere constitutes a threat to prosperity everywhere” (Declaration of Philadelphia, 1944). With this in mind, Chapter 4 starts by examining how the achievement of SDGs is linked with legally enforceable rights and internationally agreed standards. It analyses the role of international labour standards (ILS) – operational under all four pillars of the Decent Work Agenda – in the eradication of extreme poverty and reduction of poverty in all its forms. It discusses the key requirements of the most relevant standards having specific poverty reduction impacts, notably through enhanced worker rights and productivity of enterprises. This analysis focuses in particular on the applicability of ILS in the informal economy (where large numbers of poor individuals are found). The chapter also looks at the importance of enforcement of labour standards and their efficacy in addressing the needs of the most vulnerable workers.

## **5. The role of decent work in ending poverty in the rural economy**

Chapter 5 considers decent work policies in the context of the rural economy – comprising the agricultural sector and the rural non-farm economy – and how these can contribute to the eradication of extreme poverty. This analysis follows from the conclusion in Chapter 1 that extreme poverty is a predominately rural phenomenon, with two-thirds of the extreme poor employed in agriculture. The chapter examines the potential for addressing poverty either through increases in agricultural productivity that benefit the poor or through transitions out of the agricultural sector into more profitable activities and improved working conditions outside smallholder agriculture. It also reviews potential pathways out of rural poverty and the policies that might support these transitions. Renewed interest in agriculture in recent years and inclusion in the SDGs, along with increased funding for agriculture from traditional donors and more recent initiatives such as the Alliance for a Green Revolution in Africa, all raise the prospects for agriculture in emerging and developing countries.

## **6. Supporting people and promoting quality jobs**

This chapter discusses ways to address poverty via the labour market and social lens. It begins by assessing the role of social protection in alleviating poverty, particularly among those who are not able to work or are not of working age. The chapter then looks at a range of measures that are needed to help reduce poverty among the unemployed and assist them in finding sustainable employment in new and growing sectors. Indeed, this approach will be fundamental to supporting structural transformation. Policy avenues to support the working poor, and ways of improving their work quality, notably their incomes, to avoid poverty are explored. Lastly, Chapter 6 examines the importance of cross-cutting policies and the role of effective labour market institutions as central levers for successful policy implementation. In each of these areas, a number of examples are introduced highlighting lessons learned in an effort to improve the design of existing arrangements so they may be better leveraged in countries where policies or programmes of this nature may not yet exist.

Part I  
**Jobs and earnings of the poor**

# 1 Poverty and the world of work: A global overview of trends

This chapter provides a comprehensive overview of poverty in the world today – covering both recent trends and the current situation – taking into consideration income-based poverty as well as non-income dimensions, such as access to basic services. It also examines the incidence of poverty across a range of socio-economic groups, geographic regions, employment statuses and skill levels. Estimates of poverty used in this chapter have been compiled for over 100<sup>1</sup> countries across developed, emerging and developing countries, representing around 85 per cent of the global population. This is the first time that data of this nature have been collected for such a wide range of countries, permitting a novel analysis of the role of decent work in tackling poverty in all its dimensions.<sup>2</sup>

More specifically, the chapter reviews the trends over the past two decades in income-related poverty (section A). It then examines the employment dimension of poverty by analysing the incidence of working poverty and the types of jobs that the poor rely on compared with the non-poor (section B). This involves decomposing the population of the poor and non-poor according to their relationships to the labour market, as well as creating a breakdown of poverty in terms of employment status, sector, skills and nature of occupation. The sources of income among the poor are also investigated, with particular attention paid to the extent to which households are reliant on labour versus non-labour incomes for their livelihoods (section C). Finally, non-monetary dimensions of poverty are discussed (section D) and concluding remarks are presented (section E).

## A. Overview of poverty trends

### Measuring poverty

In 2000, at the outset of the Millennium Development Goals, world leaders agreed to halve extreme poverty worldwide over the period 1990–2015 (United Nations, 2000). This target was achieved. Indeed, the rate of extreme poverty (measured from 2008 as living on less than \$1.25 per day in 2005 purchasing power parity (PPP) terms) reached 10 per cent in 2015, compared with 30 per cent in 1990. The decline in extreme poverty was particularly pronounced in developing countries, where the rate fell from 47 per cent in 1990 to 14 per cent in 2015 (United Nations, 2015a).

In the context of the 2030 Agenda for Sustainable Development, the poverty alleviation objective has been updated and carried forward. The first Sustainable Development Goal (SDG 1) is to “End poverty in all its forms everywhere” (United Nations, 2015b). It includes several poverty-related targets, including ensuring appropriate social protection, equal rights to economic resources and access to basic services for all men and women.<sup>3</sup>

The SDG 1 targets highlight that there are different ways to measure poverty. In the context of this report, the income or consumption poverty approach is principally used (box 1.1). In particular, for emerging and developing countries, the report uses the World Bank’s updated international poverty lines (based on 2011 PPP), which incorporate new information on differences in the cost of living between countries and preserve the real purchasing power of the previous lines of \$1.25 a day

and \$2 a day (both based on 2005 PPP), for extreme and moderate poverty, respectively (Cruz et al., 2015). Accordingly, in this report, extreme poverty is defined as living on a household per capita income of less than \$1.90 PPP per day.<sup>4</sup> Moderate poverty is defined as living on between \$1.90 PPP and \$3.10 PPP per capita per day.

In the case of developed countries, a relative measure is used, which is set at 60 per cent of a country's respective median disposable income.<sup>5</sup> Given these differences in definitions and approaches, notably between developed, emerging and developing countries, direct international comparisons should be avoided.

It is important to recognize that such monetary measures fail to reflect wider spectrums of poverty and deprivation, such as child mortality, primary school completion rates and undernourishment (Bourguignon and Fields, 1990). In fact, incorporating various dimensions through which the poor experience social exclusion has led to the emergence of alternative measures, such as the Multidimensional Poverty Index (MPI). No measure is without its drawbacks, of course. For instance, the MPI is sensitive to choices of weights, and data are often limited to one point in time. Nonetheless, a comparison between incidence rates of multidimensional and monetary poverty shows strong (and statistically significant) correlations between the various measures (Ballon and Chatterjee, 2016).<sup>6</sup>

#### Box 1.1

##### Selected measures of poverty: Definitions and considerations

###### **Income- or consumption expenditure-based thresholds:**

The poverty rate is measured as the number of people living below a certain threshold according to household per capita income or consumption expenditure. The World Bank provides internationally comparable estimates according to different monetary poverty lines (for instance, as used in SDG target 1.1), but these often differ from national estimates (as per SDG target 1.2).

**Absolute thresholds:** Absolute poverty lines are anchored to an absolute standard to which households are able to meet their basic needs. For monetary measures, absolute poverty lines are often based on estimates of the cost of basic food needs (i.e. the cost of a nutritional basket considered to be the minimum required for the healthy survival of a typical family), to which a provision is added for non-food needs. For emerging and developing countries, where large shares of the population survive on the bare minimum or less, it is often more relevant to rely on an absolute rather than a relative poverty line.

###### **Multidimensional Poverty Index (MPI):**

This measure takes into account three dimensions of poverty: health, education and standard of living, as measured by ten indicators. It does not include an income measure and is seen as an improved measure of poverty. MPI is increasingly

used in policy circles alongside the first two measures of poverty (the UNDP has been the pioneer in the use of multidimensional measures of poverty and human development).

###### **Per capita versus adult equivalent scale:**

While consumption per capita is among the most commonly used measures of welfare, some countries or country groups (e.g. OECD) use consumption or income per adult equivalent, in order to capture differences in need by age, and economies of scale in consumption. Most of the results presented in this report are on a per capita basis, with the exception of those based on statistics from the OECD and Eurostat.

**Poverty gap ratio:** The average shortfall of the population from the poverty line, expressed as a percentage of the poverty line. This measure allows researchers to assess the intensity of poverty as it shows the depth of poverty, rather than just the number of people living below the poverty line (as above).

**Relative thresholds:** These benchmarks are most commonly used for developed countries. They reflect the assertion that important deprivations should be judged relative to the well-being of society at large, as approximated by the income level of the household at the mid-point of the income distribution.

## Trends in poverty

### Poverty has declined rapidly in middle-income countries, but to a lesser extent in low-income countries

The incidence of poverty in emerging and developing countries, regardless of the threshold, has declined considerably over the past two decades (table 1.1). Among 107 emerging and developing countries<sup>7</sup> in 2012 – the latest year for which data are available for the vast majority of countries – the share of the total population in extreme poverty was just under 15 per cent. This was down significantly from 46.9 per cent in 1990 and 25.2 per cent in 2005, yet it still translates into the fact that close to 1 billion (i.e. 940 million) people were living in extreme poverty in 2012 globally. Moreover, if the poverty line is raised to include the moderate poor, i.e. people with income or consumption below \$3.10 PPP per day, the number is more than doubled, reaching 2 billion people, or 36.2 per cent of the emerging and developing world's population, in 2012 (although this was significantly down from the 67.2 per cent recorded in 1990).

Middle-income countries accounted for much of the decline in extreme and moderate poverty. Whereas the pace of poverty reduction was slower among low-income countries and, as a result, the shares of those on less than \$1.90 PPP per day and less than \$3.10 PPP per day remained high in 2012, at 47.2 and 73.6 per cent, respectively (compared with 69.0 per cent and 86.8 per cent in 1990). The marginal improvements in extreme and moderate poverty are likely to be an indication that some individuals moved from extreme poverty to moderate poverty.

Looking at poverty trends across broad geographical regions, excluding developed countries, reveals that improvements in Asia and the Pacific have been exceptional. For instance, the share of people in extreme poverty dropped by over 46 percentage points between 1990 and 2012, to reach 12.2 per cent in 2012. This was driven in particular by China and, to a lesser extent, India. Similarly, countries in

Table 1.1

#### Poverty rates by country grouping and ILO region, 1990–2012 (percentages)

	Extreme poverty ( $< \$1.90$ PPP per capita per day)			Extreme and moderate poverty ( $< \$3.10$ PPP per capita per day)			
	1990	2005	2012	1990	2005	2012	2014
<b>Major country groupings</b>							
Total emerging and developing countries	46.9	25.2	14.9	67.2	50.4	36.2	
Middle-income countries	44.7	23.0	12.6	65.2	48.2	33.3	
Low-income countries	69.0	59.2	47.2	86.8	81.9	73.6	
<b>ILO regions (excluding developed countries)</b>							
Africa	52.4	48.3	40.7	71.7	75.0	64.2	
Asia and the Pacific	58.7	25.4	12.2	82.0	54.3	36.2	
Europe and Central Asia	2.5	9.1	3.9	7.7	18.2	11.2	
Latin America and the Caribbean	21.2	10.2	5.9	35.8	21.4	13.0	
<b>Relative poverty line at 60 per cent of median income</b>							
Developed countries (equivalent adult scale) <sup>1</sup>					20.0	20.1	
European Union					16.5	16.8	17.2
United States					23.8	24.6	24.6
Japan					21.7	22.1	
Other developed					20.7	20.3	
Developed countries (per capita) <sup>2</sup>						22.0	

Note: Data for the Arab States ILO region are not presented because of the limited survey data coverage. <sup>1</sup> Based on 37 developed countries calculated on the basis of an equivalent adult scale. <sup>2</sup> Based on 37 developed countries using a per capita basis. Figures refer to the total population. European Union: data for 2005 refer to the EU-27, whereas those for 2012 and 2014 to the EU-28. Japan: data for 2005 refer to 2006 and data for 2012 refer to 2009. United States: data for 2014 refer to 2013.

Source: ILO calculations based on Povcalnet database for figures in emerging and developing countries. For developed countries (equivalent adult scale): ILO calculations based on OECD Income Distribution Database (IDD) and Eurostat for non-OECD European countries (Croatia, Cyprus, Latvia, Lithuania, Malta). For developed countries (per capita): ILO calculations based on national household surveys for developed countries.

Latin America and the Caribbean made significant progress towards the eradication of extreme poverty, with the share of people living in extreme poverty falling from 21.2 per cent in 1990 to 5.9 per cent in 2012. In both instances, however, the shares of the population living on less than \$3.10 PPP per day – 36.2 per cent and 13 per cent, respectively – indicate that challenges remain. Progress among African countries was less pronounced, as more than 40 per cent of the African population continued to live in extreme poverty and some 64 per cent in extreme or moderate poverty.

### **Poverty has increased in developed countries**

Meanwhile, according to ILO estimates based on household survey data, poverty (defined as the share of individuals with an income below the 60 per cent of the national median income per capita) in a sample of 37 developed countries stood at 22 per cent in 2012 (equivalent to over 300 million individuals). Similarly, the relative poverty rate in developed countries as derived from other sources (defined as the share of those with an income below 60 per cent of the median equivalized income), at 20.1 per cent in 2012, has remained relatively stable in recent years (table 1.1).<sup>8</sup> The at-risk-of-poverty rate in the European Union (EU) (defined as the share of the population with an income below the 60 per cent of the median equivalized disposable income) remained rather stable, at around 16.5 per cent, in the years leading up to the 2008 global financial crisis. Since then, this rate has trended upwards, reaching 17.2 per cent of the EU population by 2014 (table 1.1).

## **B. Who are the poor and what types of jobs do they have**

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This section looks at the characteristics of the poor compared with the non-poor in terms of their relationship to the labour market. It is based on a detailed analysis of household surveys in 103 countries, including 66 emerging and developing countries and 37 developed countries, and aims to provide a better understanding of the types of jobs that the poor have come to rely on, including sectoral and skill differences.

### **Poverty has a significant demographic dimension**

As demonstrated in table 1.2, a significant portion of the poor are outside the scope of the labour market, i.e. they are either children or above the age of 65. In fact, among emerging and developing countries, 43 per cent of the extreme poor were below the age of 15 or above the age of 65 in 2012, compared with 30 per cent of the non-poor. Children constituted the largest portion of those of non-working age in extreme poverty, at 38 per cent, compared with 24 per cent for the non-poor. In fact, in 2012, one in four children were in extreme poverty and one in two children were in extreme or moderate poverty. The situation was particularly critical in low-income countries (45 per cent of all children lived in extreme poverty and nearly 77 per cent in extreme or moderate poverty in 2012). In middle-income countries, the incidence of poverty among children was lower, but still close to one in four (22 per cent) children lived in extreme poverty and nearly one in two (just under 50 per cent) lived in extreme or moderate poverty.<sup>9</sup>

In developed countries, similar trends have prevailed: 37 per cent of the poor were either children or aged 65 or above (compared with 32 per cent among the non-poor), with children accounting for the vast majority among this group. With respect to rates of poverty, in developed countries one-third of all children lived in poverty (measured as less than 60 per cent of national median income per capita).

**Table 1.2****Distribution of poverty and poverty rates by population group, poverty and labour market status, 2012 (percentages)**

	Emerging and developing countries				Developed countries	
	Extreme poor (< \$1.90 PPP per day)	Non-poor (≥ \$1.90 PPP per day)	Extreme and moderate poor (< \$3.10 PPP per day)	Non-poor (≥ \$3.10 PPP per day)	Poor (relative)	Non-poor
<b>Share in total (% of the population)</b>						
Non-working age	42.8	29.8	38.9	27.2	37.4	32.4
Children (aged 0–14)	38.3	23.6	34.1	20.6	27.9	18.4
Elderly (aged 65 or over)	4.5	6.2	4.8	6.6	9.5	14.0
Working age (15–64)	57.2	70.2	61.0	72.8	62.6	67.6
Active	31.3	40.0	33.1	42.4	37.7	51.6
Inactive	25.9	30.2	27.9	30.4	24.9	16.0
<b>Geographical area</b>						
Rural	87.8	59.1	83.3	41.2	21.1	18.0
Urban	12.2	40.9	16.7	58.8	78.9	82.0
<b>Poverty rates (%)</b>						
Non-working age	22.3		48.8		24.5	
Children (aged 0–14)	24.5		52.5		35.9	
Elderly (aged 65 or over)	12.8		32.7		12.7	
Working age (15–64)	14.0		35.9		20.7	
Active	13.5		34.3		17.0	
Inactive	14.6		38.0		30.4	
Total population	16.7		40.0		22.0	

*Note: The relative poverty rate for developed countries is defined as the share of those with an income below 60 per cent of the national median household income. Consumption and income are calculated on a per capita basis, including for developed countries. Based on 103 countries (66 emerging and developing countries and 37 developed countries). See detailed results in appendix B, tables 1B.1 to 1B.3.*

*Source: ILO calculations based on national household surveys.*

### **The poor are principally of working age, especially in emerging and developing countries, and so can ill afford to be inactive**

Across the range of country groupings, in 2012 the majority of the poor were of working age, i.e. between the ages of 15 and 64. Among them, those who were active, i.e. either employed or looking for work, made up a slightly higher share of the poor (table 1.2). In emerging and developing countries, 57 per cent of the extreme poor and 61 per cent of the moderate and extreme poor were aged 15–64 (compared with 70 per cent and nearly 73 per cent, respectively, among the non-poor). However, the incidence of poverty was lower among people of working age (14 per cent were extreme poor and 36 per cent were extreme or moderate poor) than among children or elderly.

Interestingly, in the case of emerging and developing countries, the rates of poverty for inactive and active poor were broadly similar, with the incidence of poverty slightly higher among the former. Yet, inactivity among the poor tended to be lower when compared with the non-poor. For instance, in emerging and developing countries, inactivity among the extreme poor stood at 26 per cent in 2012, compared with 30 per cent for the non-poor. The same pattern is found when examining moderate and extreme poverty together. These trends highlight the fact that the poor can ill afford to be inactive, especially in emerging and developing countries. This is likely to be a reflection of the phenomenon that, in the absence of adequate social protection, the driving compulsion of the poor is to work, and in some instances to accept any job even though the conditions of work may continue to mire them in poverty.

In developed countries, the majority of the poor were of working age (63 per cent) and, in contrast to emerging and developing countries, the poor were more likely to be inactive than the non-poor. Moreover, the poverty rate for the inactive in this group of countries (30 per cent) was significantly higher than for those who were either employed or looking for work (17 per cent).



## Jobs that the working poor have come to rely on

A number of significant results emerge when examining the extent to which workers are exposed to poverty, based on their employment status, sector of employment, occupation and skill level.<sup>10</sup> In emerging and developing countries, for instance, in 2012 13.7 per cent of workers were in extreme poverty, representing some 367 million people living on less than \$1.90 PPP per capita per day (table 1.3). The share of employed people living on less than \$3.10 PPP per day remained comparably higher, however, accounting for over one-third (34.9 per cent) of the employed population across emerging and developing countries (more than a quarter across middle-income countries and almost 70 per cent among low-income countries). Overall, this means that in emerging and developing countries, over 1.2 billion workers were in extreme or moderate poverty in 2012 (for trends in working poverty for persons aged 15 and over, see box 1.2). In developed countries, the incidence of relative working poverty (on a per capita basis) among 37 developed countries stood at around 15.0 per cent of the employed population in 2012, affecting over 70 million workers. Figures for European countries only which are not presented in table 1.3 – based on an adult equivalent scale – show that working poverty in the EU increased from 11.9 per cent in 2005 to over 13.3 per cent in 2012.<sup>11</sup>

**Table 1.3**

### Distribution of poverty and poverty rates among the labour force aged 15–64, 2012 (percentages)

	Emerging and developing countries				Developed countries	
	Extreme poor (< \$1.90 PPP per day)	Non-poor (≥ \$1.90 PPP per day)	Extreme and moderate poor (< \$3.10 PPP per day)	Non-poor (≥ \$3.10 PPP per day)	Poor (relative)	Non-poor
<b>Share in total population (%)</b>						
<b>Unemployed</b>	<b>0.9</b>	<b>1.8</b>	<b>0.9</b>	<b>2.2</b>	<b>7.1</b>	<b>2.7</b>
<b>Employed</b>	<b>30.4</b>	<b>38.2</b>	<b>32.2</b>	<b>40.2</b>	<b>30.6</b>	<b>48.9</b>
Wage and salaried	7.1	20.8	8.8	25.4	24.9	42.9
Self-employed	23.2	17.3	23.3	14.7	5.4	5.6
Own-account	16.6	12.0	16.6	10.0	3.9	3.9
Employer	0.7	1.7	1.0	1.9	0.8	1.2
Contributing family worker	5.9	3.7	5.7	2.8	0.7	0.6
Other employed	0.2	0.1	0.1	0.1	0.3	0.4
Total labour force (15–64)	31.3	40.0	33.1	42.4	37.7	51.6
<b>Poverty rates (%)</b>						
<b>Unemployed</b>	<b>8.7</b>		<b>22.5</b>		<b>42.7</b>	
<b>Employed</b>	<b>13.7</b>		<b>34.9</b>		<b>15.0</b>	
Wage and salaried	6.4		18.7		14.0	
Self-employed	21.1		51.5		21.4	
Own-account	21.7		52.6		22.0	
Employer	8.1		26.3		16.8	
Contributing family worker	24.3		57.7		25.8	
Other employed	24.1		39.6		17.5	
Total labour force (15–64)	13.5		34.3		17.1	

Note: The relative poverty rate for developed countries is defined as the share of those with an income below 60 per cent of the national median household income. Consumption and income are calculated on a per capita basis. Based on 103 countries (66 emerging and developing countries and 37 developed countries). See detailed results in appendix B, tables 1B.1 to 1B.3.

Source: ILO calculations based on national household surveys.

## Box 1.2

### Trends in the working poor: Estimates for persons aged 15 and over in emerging and developing countries, 1991–2015

In emerging and developing countries, the share of workers in extreme working poverty in total employment fell from 48.6 per cent in 1991 to 12 per cent in 2015 (table 1.4). The reduction in extreme working poverty among middle-income countries is particularly notable, with the share falling more than 40 percentage points to reach just under 10 per cent in 2015. Improvements were less impressive among low-income countries, where the incidence of working

poverty reached just over 37 per cent in 2015, compared with more than 67 per cent in 1991.

In examining extreme and moderate working poverty together, a similar declining trend is present. However, it is estimated that in 2015, 57.8 per cent of the employed population in Africa, 26.4 per cent in Asia and the Pacific, and 22.0 per cent in the Arab States were still classed as working poor, living on less than \$3.10 PPP per day.

Table 1.4

#### Working poverty rates in emerging and developing countries by country grouping and ILO region, 1991–2015 (percentages)

	Extreme poverty ( $< \$1.90$ PPP per day)				Extreme and moderate poverty ( $< \$3.10$ PPP per day)			
	1991	2005	2012	2015	1991	2005	2012	2015
<b>Major country groupings</b>								
Total emerging and developing countries	48.6	22.2	13.7	12.0	67.3	44.7	31.2	27.9
Middle-income countries	51.1	20.6	11.8	9.9	71.3	44.3	28.8	25.0
Low-income countries	67.2	55.1	41.5	37.5	83.6	81.7	73.2	69.8
<b>ILO regions (excluding developed countries)</b>								
Africa	48.8	40.0	32.8	29.8	69.0	65.6	59.8	57.8
Arab States	7.8	5.0	4.1	4.6	31.1	22.2	19.4	22.0
Asia and the Pacific	59.4	23.2	12.7	10.4	80.1	48.8	31.2	26.4
Europe and Central Asia	2.8	3.6	1.9	1.5	8.8	9.0	5.5	4.7
Latin America and the Caribbean	9.1	6.6	3.7	3.5	20.5	14.6	8.6	8.2

Note: Country coverage is different from tables 1.2 and 1.3 as is the reference population. Data refer to persons aged 15 and over. 2015 values are estimated.

Source: October 2015 update of the model in Kapsos and Bourmpoula (2013).

### In emerging and developing countries, the poor tend to hold vulnerable jobs

In terms of employment status among the working poor, table 1.3 highlights that in emerging and developing countries, own-account workers and contributing family workers made up nearly three-quarters of the extreme working poor (close to a quarter of total poverty) in 2012. Only 7 per cent of the poor were wage and salaried workers (compared with 21 per cent in the case of the non-poor). In addition, extreme poverty rates among own-account workers and contributing family workers were three times those of wage and salaried workers or employers. In fact, less than 10 per cent of wage and salaried workers (6.3 per cent) and employers (8.1 per cent) lived in extreme poverty, compared with 21.7 per cent of own-account workers and 24.3 per cent of contributing family workers. Nearly one-third of all women were employed as contributing family workers, which was roughly 10 percentage points higher than for men, for both the poor and the non-poor.<sup>12</sup>

## In developed countries, the poor are more likely to be unemployed and less likely to be in wage and salaried employment

Unlike in emerging and developing countries, the incidence of unemployment is relatively high among the poor in developed countries.<sup>13</sup> In 2012, this translated into relatively high poverty rates of 42.7 per cent among the unemployed compared with a total average poverty rate of 22 per cent when determined on a per capita basis. Wage and salaried workers were less affected by relative poverty than the self-employed. Among the self-employed, the poverty incidence ranges from 16.8 per cent among employers to 25.8 per cent among contributing family workers. Similar trends are observed when examining Eurostat data, which use an equivalent income approach (box 1.3).

### Box 1.3

#### The at-risk-of-poverty rate in the EU by labour market status

According to Eurostat data (which are based on relative poverty at 60 per cent of the median disposable equivalized household income, i.e. on an adult equivalent scale rather than a per capita approach), the at-risk-of-poverty rate among those in employment stood at a relatively low 9.5 per cent in 2014 – up from 8.5 per cent in 2009 (table 1.5). However, there was a considerable difference between employees and other employed within this category. In fact, for the category of other employed, the rate was above 22 per cent in 2014, compared with 7.4 per cent for employees.

The at-risk-of-poverty rate remained higher for those not employed, reaching 23.4 per cent in 2014. Yet, across this group, the risk of poverty also varied considerably. For instance, in 2014 almost half of the unemployed people in the EU found themselves below the poverty line, compared

with 27.3 per cent and 12.7 per cent of the inactive (other than retired) and the retired, respectively. In addition, the at-risk-of-poverty rate among the unemployed varied considerably across EU Member States in 2014, ranging from 27.4 per cent in Denmark to over 67 per cent in Germany.

It is important to keep in mind that these figures refer to the incidence of poverty relative to the 60 per cent of median income level and, as such, they are sensitive to changes in incomes at both the bottom of the distribution and at the median. Taking out the latter effect – i.e. fixing the benchmark median income at pre-crisis level – may give a better picture of the absolute change in the living standards of the poor. Indeed, the at-risk-of-poverty rate “anchored” at the 2008 median income level rises to 18.9 per cent in 2014, up from 15.9 in 2009.

Table 1.5

#### At-risk-of-poverty rate in the EU by most frequent activity in the previous year (percentages)

	2001	2009	2014
<b>Total population</b>	<b>15</b>	<b>15.5</b>	<b>16.5</b>
<b>Employed</b>	<b>8</b>	<b>8.5</b>	<b>9.5</b>
Employees	6	6.4	7.4
Other employed	17	21.0	22.5
<b>Not employed</b>	<b>23</b>	<b>23.0</b>	<b>23.4</b>
Unemployed	41	45.4	47.4
Inactive (other than retired)	25	25.9	27.3
Retired	16	15.6	12.7

*Note: Figures refer to the population aged 16 years and over. Data for 2001 refer to the EU-25, whereas those for 2009 and 2014 refer to the EU-27 and EU-28, respectively. Relative poverty threshold of 60 per cent of median household equivalent disposable income.*

*Source: ILO calculations based on Eurostat.*

### Most of the working poor are employed in agriculture and rural areas

Poverty in emerging and developing countries is predominately a rural phenomenon, although not exclusively (Lipton and Ravallion, 1993; Odhiambo and Manda, 2003). In 2012, 88 per cent of the extreme working poor were in rural areas (table 1.6). In fact, extreme poverty rates were four times higher in rural areas than in urban areas. And the rural/urban divide becomes even more apparent when considering poverty rates for people in employment. Nearly 20 per cent of people employed in rural areas were living in extreme poverty, compared with just over 4 per cent in urban areas (rising to 48.5 per cent and 13.9 per cent, respectively, when considering extreme and moderate poverty). In developed countries, the majority of the working-age population live in urban areas. However, the incidence of poverty across inactive, unemployed and employed, was slightly higher in rural areas than in urban areas.

The trends in emerging and developing countries are partially a reflection of the sectors in which the poor are employed. According to estimates based on 43 emerging and developing countries, nearly two-thirds of all the working extreme poor were employed in agriculture (figure 1.1) – the figure declined somewhat (to nearly 60 per cent) when considering moderate and extreme poverty together. The share of the poor in agriculture was also broadly consistent across gender, albeit slightly higher for men than for women.

In terms of rates of poverty, a quarter of those employed in agriculture were in extreme poverty, compared with just 12 per cent of those employed in industry, and only 7 per cent of those employed in services. The strong incidence of poverty in agriculture is a common feature of all developing regions (table 1B.4 in appendix B).

**Table 1.6**

#### Distribution of poverty and poverty rates by area of residence, 2012 (percentages)

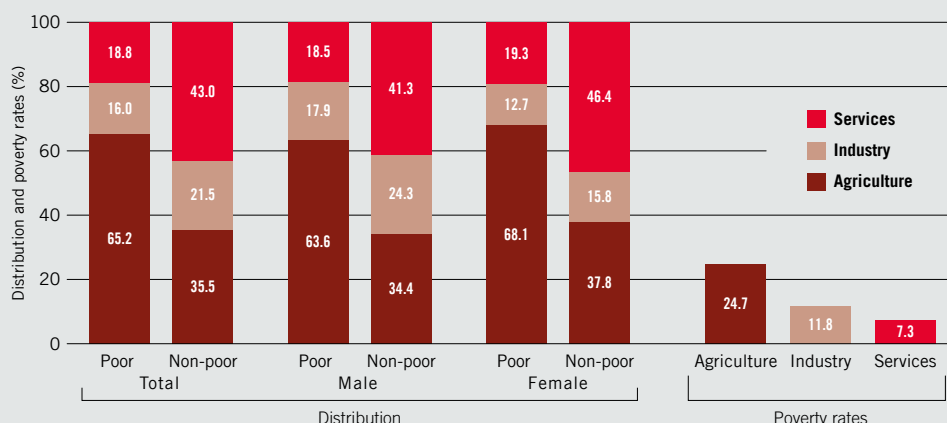
Population groups	Area	Emerging and developing countries				Developed countries	
		Extreme poor ( $< \$1.90$ PPP per day)	Non-poor ( $\geq \$1.90$ PPP per day)	Extreme and moderate poor ( $< \$3.10$ PPP per day)	Non-poor ( $\geq \$3.10$ PPP per day)	Poor (relative)	Non-poor
<b>Share in total population (%)</b>							
Inactive	Rural	88.5	62.6	84.6	53.6	20.8	19.1
	Urban	11.5	37.4	15.4	46.4	79.2	80.9
Unemployed	Rural	68.1	30.5	60.5	25.2	25.8	23.4
	Urban	31.9	69.5	39.5	74.8	74.2	76.6
Employed	Rural	88.6	57.4	84.4	48.0	21.4	16.9
	Urban	11.4	42.6	15.6	52.0	78.6	83.1
Wage and salaried	Rural	87.5	46.7	83.3	40.9	19.1	16.5
	Urban	12.5	53.3	19.7	59.1	81.	83.5
Self-employed	Rural	89.2	70.2	86.0	60.3	31.4	19.8
	Urban	10.8	29.8	14.0	39.5	68.6	80.2
<b>Poverty rates (%)</b>							
Inactive	Rural	19.5		49.2		32.4	
	Urban	5.0		16.9		29.9	
Unemployed	Rural	17.6		41.0		45.1	
	Urban	4.2		13.3		42.0	
Employed	Rural	19.7		48.5		18.2	
	Urban	4.1		13.9		14.3	
Wage and salaried	Rural	11.3		31.2		15.9	
	Urban	1.6		7.1		13.6	
Self-employed	Rural	25.4		60.1		30.2	
	Urban	8.8		27.3		18.9	

Note: The relative poverty rate for developed countries is defined as the share of those with an income below 60 per cent of the national median household income. Consumption and income are calculated on a per capita basis. Based on 103 countries (66 emerging and developing countries and 37 developed countries).

Source: ILO calculations based on national household surveys.

**Figure 1.1**

**Extreme poverty by broad economic sector of employment in emerging and developing countries, 2012 (percentages)**



Note: Extreme poverty is defined as per capita income of less than \$1.90 PPP per day. Based on 43 countries (excluding developed countries). See note to table 1B.4 in appendix B for a list of countries.

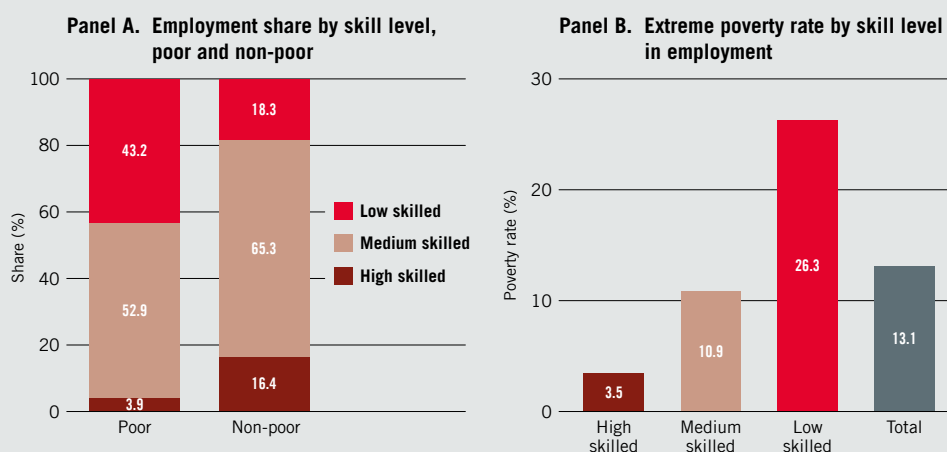
Source: ILO calculations based on national household survey data.

**The poor are disadvantaged in terms of skilled occupations\***

Based on a smaller set of countries (due to limitations in data availability), the evidence shows that the working poor tend to hold jobs that require low skills (figure 1.2, panel A and table 1B.5 in appendix B). In fact, in 2012, in the 17 emerging and developing countries for which detailed estimates were available, 43 per cent of workers in extreme working poverty were employed in occupations that typically require low skills, i.e. equivalent to primary education or less. In contrast, among the non-poor, only 18 per cent worked in occupations that required low skills. Not surprisingly, the rate of extreme poverty among the low skilled, at 26.2 per cent, was more than double and nearly ten times the rates for medium and high-skilled workers, respectively (figure 1.2, panel B).

**Figure 1.2**

**Extreme poverty by skill level in emerging and developing countries, 2012 (percentages)**



Note: Extreme poverty is defined as a per capita income of less than \$1.90 PPP per day. Based on 17 countries. Africa (4): Egypt, Ghana, Namibia, South Africa; Asia and the Pacific (5): Bhutan, Cambodia, India, Pakistan, Thailand; Latin America and the Caribbean (6): Plurinational State of Bolivia, Brazil, Costa Rica, El Salvador, Guatemala, Paraguay; and Europe and Central Asia (2): Serbia; Turkey.

Source: ILO calculations based on household survey data.

\* Analysis carried out by Evangelia Bourmpoula.

## C. Income sources of the poor

While the previous section examined the labour market position of the poor, this section looks at their sources of income. This analysis is important because it sheds light on the kind of policy levers needed to reduce poverty. It therefore paves the way for the discussion of income gaps in Chapter 2, and also for Part II, which considers the various potential policy avenues in some detail.

More specifically, this section examines the extent to which the poor, both moderate and extreme, depend on labour and non-labour incomes for their livelihoods. The major income sources considered in this section are wage and salaried income, income from self-employment, including production for own consumption,<sup>14</sup> capital<sup>15</sup> or investment income (rents, profits, dividends), private/community transfers (inter-household transfers, alimony, remittances) and social transfers (contributory, e.g. retirement pensions and unemployment insurance benefits; and non-contributory, e.g. child allowances, unemployment assistance and social pensions).

For the purposes of the analysis, income sources are analysed for the extreme poor, which includes households living below the threshold of 30 per cent of the median income adult equivalent scale in developed countries or \$1.90 PPP per capita per day in emerging and developing countries; and the moderate poor, which includes households living between the thresholds of 30 per cent and 60 per cent of the median income adult equivalent scale in developed countries or between \$1.90 and \$3.10 PPP per capita per day income in emerging and developing countries.

### **The poor rely less on labour income than the non-poor, and more on social transfers, especially in developed countries**

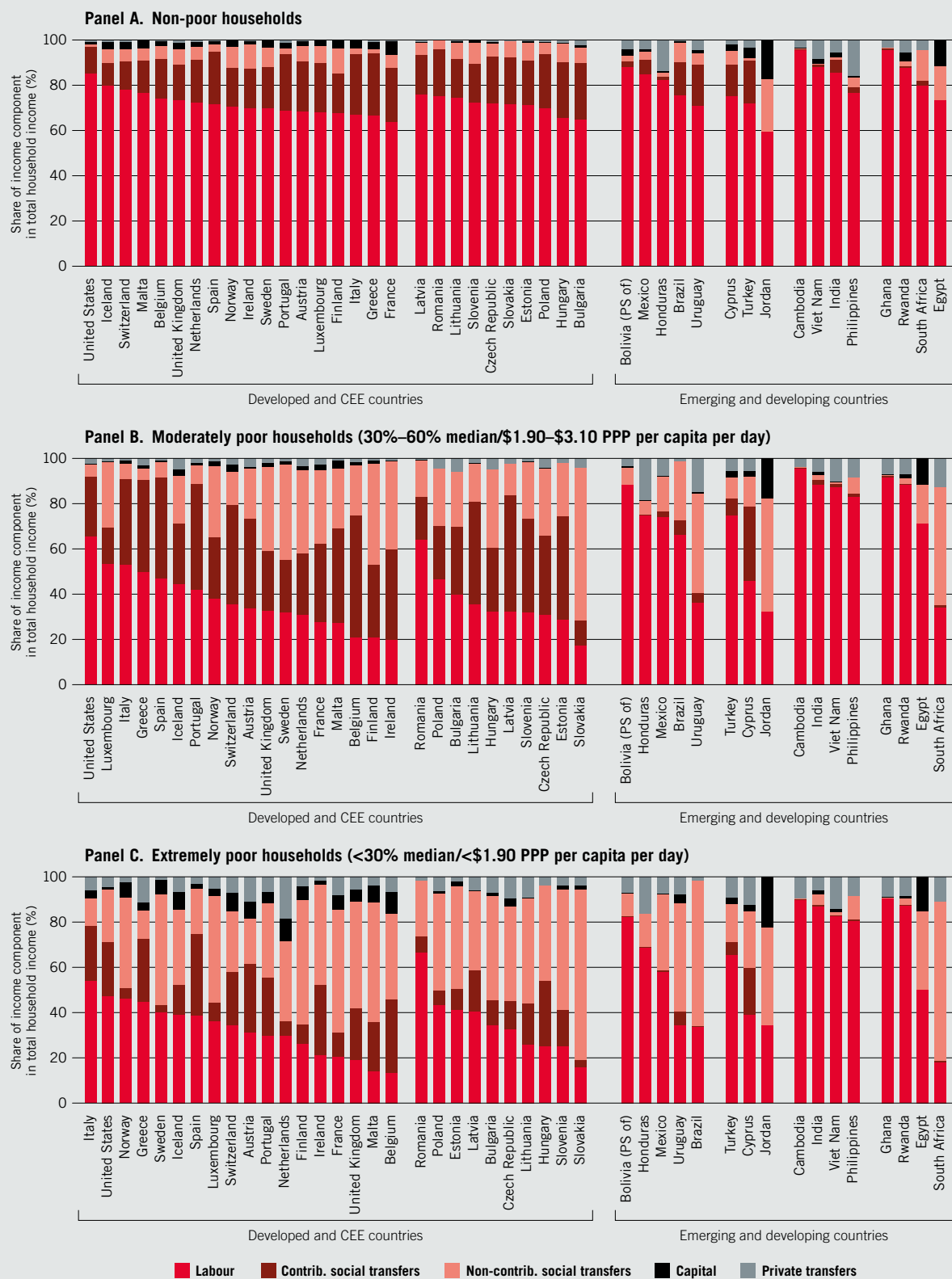
The share of labour income in total household income is highest for the non-poor, lower for the moderate poor, and is lowest for the extreme poor (figure 1.3). The share of labour income in total income of the poor is seen to be particularly high in emerging and developing countries for which data exist. Non-poor households largely rely on labour income, while poor households depend upon multiple sources of income to meet their consumption and material needs. These sources of income include: income from social transfers (contributory and non-contributory), income from private transfers (including remittances, alimony) and capital income. However, there is significant cross-country heterogeneity among the households regarding their dependence on different sources of income.

Among moderately poor households, the share of labour income in total household income is lower than that of non-poor households in developed countries and Central and Eastern European (CEE) countries, ranging between 20 per cent (Ireland) and 66 per cent (the United States). In the Southern European countries (Greece, Italy, Portugal and Spain), labour income constitutes over 40 per cent of the total household income. Contributory social transfers are the second most important source of income for such households in these countries, and non-contributory social transfers only make up a comparatively small part of their incomes. Among the Nordic countries (Finland, Iceland, Norway and Sweden) there is a large variation in the contribution of labour income to household income. In Finland, non-contributory social transfers are the most important source of income for moderately poor households, followed by contributory social transfers. In Sweden and Norway, contributory and non-contributory social transfers constitute about 60 per cent of the household income for moderately poor households, with the share of non-contributory social transfers being almost twice that of contributory transfers in Sweden (figure 1.3, panel B).<sup>16</sup> In CEE countries, contributory social transfers are an important source of income in all the countries except Hungary, Poland and Slovakia, followed by non-contributory social transfers and private transfers.

In the emerging and developing countries the picture is quite varied across the different regions. Labour income constitutes more than 80 per cent of the income in Asia, while in Latin America it ranges between 36 per cent (Uruguay) and 88 per cent (Plurinational State of Bolivia) of the total income for moderately poor households. In Africa it ranges between 34 per cent (South Africa) and 92 per cent (Ghana). In Turkey, labour income constitutes about 75 per cent, while in Jordan it is about 32 per cent. In Asian countries and in Rwanda and Ghana in Africa, private transfers are the next most important source of income and comprise about 4–10 per cent of the household income. In South Africa, non-contributory social transfers (52 per cent) and private transfers are also an important source of income for poor households. In Jordan, non-contributory social transfers and capital are the most important source of income for the poor. In Latin America, the contribution of other sources of income is quite varied: non-contributory social transfers are predominant in Brazil, Mexico and Uruguay, while private transfers are important in Honduras (figure 1.3, panel B).

**Figure 1.3**

**Sources of income of households by poverty status, latest year available (percentages)**

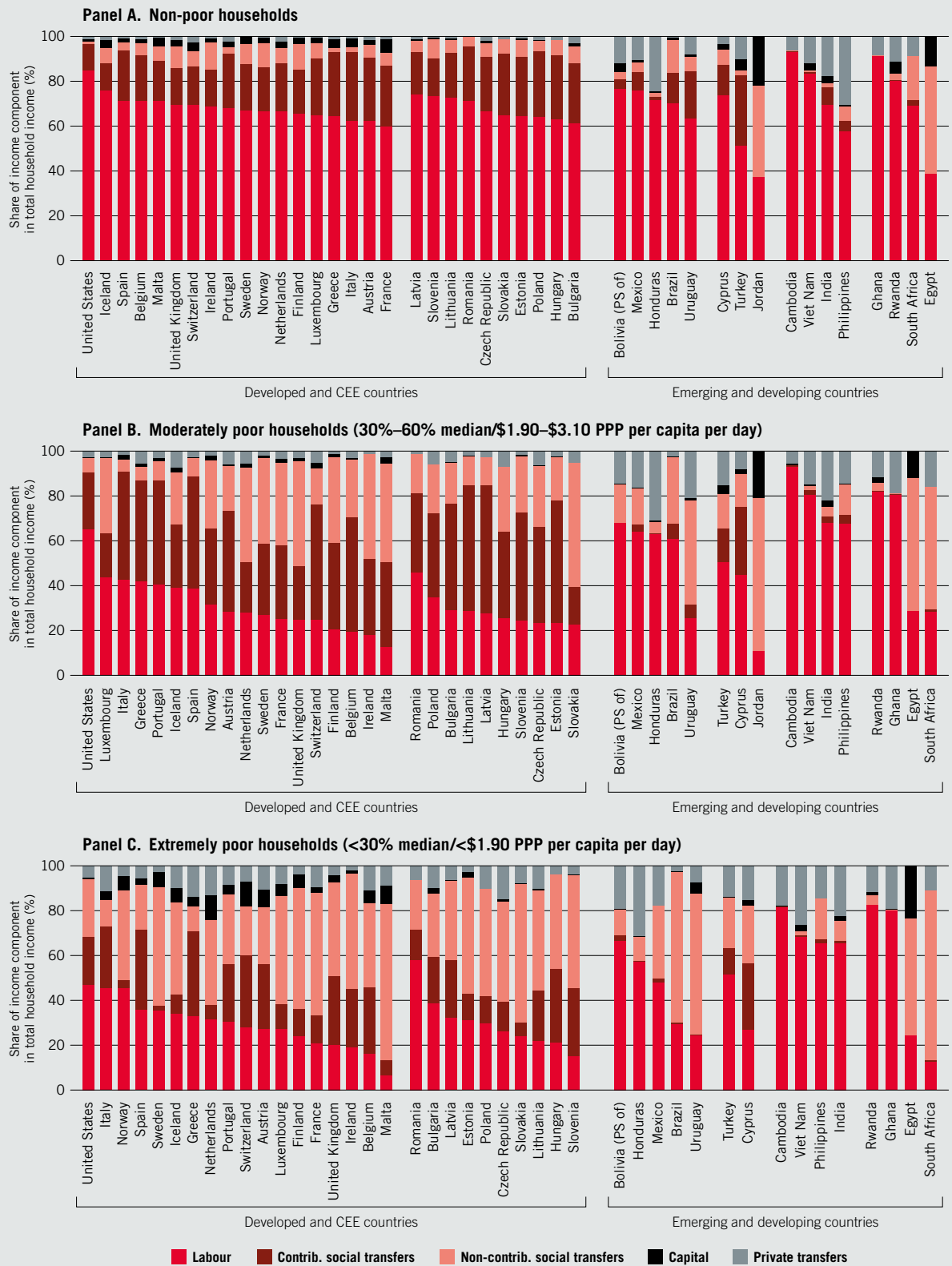


Note: Cyprus and Uruguay are categorized as emerging and developing in order to make comparisons with countries in close geographic proximity.

Source: ILO calculations based on household surveys (see appendix C, table 1C.1).

Figure 1.4

Sources of income of female-headed households by poverty status, latest year available (percentages)



Note: Cyprus and Uruguay are categorized as emerging and developing in order to make comparisons with countries in close geographic proximity.

Source: ILO calculations based on household surveys (see appendix C, table 1C.1).



The share of labour income in total household income is lower for extremely poor households than for moderately poor households in all the countries. In the developed and CEE countries, these households also have a much lower share of contributory social transfers. However, non-contributory social transfers account for a comparatively higher share. In emerging and developing countries, labour income constitutes a lower share of total income for extremely poor households than for moderately poor households. However, labour income still forms the most important income source for these households, except in Brazil, South Africa and Uruguay (where non-contributory social transfers dominate), and Egypt and Jordan (where non-contributory social transfers and capital income are the most important source) (figure 1.3, panel C).

The sources of income for male-headed households resemble those of the overall households, as presented in figure 1.3, whereas for female-headed households the share of labour income in total household income is lower in comparison for non-poor, moderately poor and extremely poor households in most countries, regardless of the region. In particular, in developed countries, female-headed moderately poor households have a higher dependency on contributory and non-contributory social transfers and private transfers than their male-headed counterparts (figure 1.4, panel B). Extremely poor female-headed households in these countries also have higher shares of contributory social transfers and private transfers (figure 1.4, panel C). In CEE countries, female-headed moderately poor households rely to a lesser extent on non-contributory social transfers than male-headed ones, but to a much larger extent on contributory social transfers (figure 1.4, panel B). Similarly, among the extremely poor households in CEE countries, the male-headed ones depend to a large extent on non-contributory social transfers, while the female-headed ones rely on a combination of contributory and non-contributory social transfers and private transfers (figure 1.4, panel C). In Latin American, Asian and African countries, female-headed households tend to depend more on private transfers than male-headed ones, regardless of their income level. However, they rely more on a mix of labour income, non-contributory social transfers and private transfers when they are moderately or extremely poor.

Across the different work types, households with a household head in permanent/formal employment<sup>17</sup> have a higher proportion of labour income than those with a head working in a temporary/informal job or who is self-employed, regardless of the region and income levels (see appendix D and figure 1D.1). Also, the share of labour income in total income is lower for moderately poor households than for non-poor households across all three work categories. Nevertheless, in almost all countries and across all work categories, labour income remains the most important income source, and is supplemented by contributory, non-contributory and private transfers. Among the moderately poor households with an unemployed head, non-contributory transfers play a much larger role than contributory social transfers in most of the countries across the different regions, except for some of the developed countries (e.g. Austria, Belgium, Greece, Ireland, Italy, Malta, Portugal and Spain). In addition to non-contributory social transfers and private transfers, labour incomes from other household members constitute a substantial part of the household income in Latin American, Asian and African countries.

The analysis for this report has also looked at how labour and non-labour income have contributed to the change in the incidence of poverty, the size of the poverty gap and the severity of poverty over the past decade (see appendix E). It shows that, irrespective of the poverty measure, contributory social transfers are an important factor in reducing poverty in developed countries. In emerging and developing countries, depending on the country, it is labour incomes (both wages and from self-employment), private transfers and non-contributory social transfers that are important factors in reducing poverty. However, this does not imply that labour incomes and social security alone are sufficient to reduce poverty. Labour income is an important factor, which indicates that there has to be access to opportunities to work, as well as an enabling environment, while at the same time it is equally important that the basic needs of workers, such as access to proper shelter, adequate food, water, sanitation, health care and education are also met. Limited access to basic needs can effectively constrain the capabilities of poor households. This requires a strong focus on more sustainable social, economic and institutional structures, which could generate jobs and provide social protection to workers.

## D. Non-income dimensions of poverty

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Though income is important, poverty is often a product of both monetary and non-monetary factors. Households might have an income that is above the poverty level, but they can still be deprived of sufficient food and be malnourished, lack decent housing and sanitation, and have inadequate access to safe drinking water and services such as education and health. Looking at a number of different poverty dimensions<sup>18</sup> and their interlinkages could therefore help in designing policies that can create an enabling framework for tackling poverty. This section briefly describes some of the non-monetary forms of poverty and their indirect implications for work.

### **Hunger and malnutrition: The most destitute dimensions of poverty**

It is estimated that about 795 million people in the world suffered from undernourishment in 2014–16 (FAO, IFAD and WFP, 2015). Most of these live in developing countries, and particularly in areas vulnerable to consecutive droughts. In sub-Saharan Africa, one in four people remain undernourished, and although the prevalence rate has come down by 10 percentage points over the past two decades, the number of undernourished people has not declined (ibid.). In South Asia – Bangladesh, India and Pakistan – little progress has been made with regard to reducing undernourishment over the past two decades and hunger continues to be a major issue (ibid.).

Availability and access to food are key in addressing the issues of malnutrition and hunger around the world, especially in the low-income countries. The dramatic rise in food prices over the past decade and economic volatility have put a strain on households and have had an adverse impact on their employment and incomes, especially since a large proportion of their incomes is typically spent on food (ILO, 2011 and 2015a). There is no doubt that food security is linked to economic growth and employment, since the health of the population is an important determinant of workforce productivity. Undernourishment can constrain workers' capabilities and it has been estimated that poor diets of workers "may cost countries up to 20 per cent in productivity loss" (ILO, 2015a, p. 3).

Therefore, efforts are required (i) to improve access to food at affordable and stable prices, and (ii) to ensure access to decent opportunities to work. To ensure that food is available at affordable prices, food subsidies can be a useful means of income support, to help boost the purchasing power of the poor (see [table 1F.1](#)). However, universal subsidies often have substantial leakages to the non-poor population, which undermines the extent of their pro-poor impact.<sup>19</sup> The creation of decent work in the agricultural sector and in rural areas entails increased investment in agriculture (e.g. expansion of irrigation). Increases in productivity and improvements in the ratios of food crops to cash crops would help to improve food security and contribute to the much needed employment growth (see Chapter 5 for a detailed discussion). The agriculture-led broad-based economic development with forward and backward linkages could also spur growth of decent work to tackle poverty.

## **Lack of shelter, drinking water and sanitation amplify the vulnerability of the poor**

The increase in urbanization over the past decades has created a major challenge for housing in urban areas, with the majority of the poor often without access to adequate housing. Housing is fundamental to the health and well-being of people and the right to adequate housing is embedded in the United Nations Universal Declaration of Human Rights and in the International Covenant on Economic, Social and Cultural Rights (WHO and UN-Habitat, 2016). People living in poor or inadequate housing conditions are particularly vulnerable to disease and lack resilience to natural disasters. Furthermore, making repairs to housing entails financial expenditure (putting additional pressure on already tight budgets) and can also lead to a loss in working time and income, particularly when household members use their own labour to carry out the work. In a sample of household survey data, insecure dwellings (classified in this context according to construction materials<sup>20</sup>) were found to account for between 2 per cent (Uruguay) and 32 per cent (Ghana) among non-poor households; between 10 per cent (Uruguay) and 60 per cent (Rwanda) among moderately poor households; and between 6 per cent (Uruguay) and 82 per cent (Rwanda) among extremely poor households.

Around 2.4 billion people lived without access to improved sanitation in 2015, of whom almost 40 per cent practised open defecation (UNICEF and WHO, 2015). Sanitation is fundamental to the world's health, education and productivity. In particular, open defecation sustains the vicious cycle of disease and poverty and is associated with higher levels of child mortality, undernutrition and monetary poverty, as well as large inequalities between the rich and poor (WHO and UNICEF, 2014). The situation is particularly severe in sub-Saharan Africa and southern Asia, where around 70 per cent and 53 per cent of the population, respectively, do not have access to improved sanitation (ibid.). Improved sanitation is linked to fewer health problems, which reduces time spent sick or taking care of the sick and increases time for productive activities.

Fetching water is another important aspect of access to water and sanitation. Not only does this chore reduce time for productive/income-related activities, it also reduces the time and energy that could otherwise be spent at school or other activities. It is often the responsibility of women and young girls, causing them physical and health problems due to the weight they carry and raising their vulnerability to physical and sexual violence while fetching water from distant places (UNICEF and WHO, 2015). In a number of countries where survey data are available, the proportion of extremely poor households fetching water from outside their dwelling is substantial (61 per cent in India, 81 per cent in Cambodia, 84 per cent in Viet Nam and 98 per cent in Rwanda).

Between 2010 and 2012, around 1.1 billion people worldwide had no access to electricity, and a further 2.9 billion relied on biomass for cooking and heating (World Bank, 2015). Biomass, like other pollutant cooking fuels,<sup>21</sup> poses serious health risks, particularly of a respiratory nature, and may account for as many as 4.3 million deaths per year (WHO, 2016). Households, especially poor ones, often do not have a choice as to which type of cooking fuel to use given their economic situation. An analysis based on household survey data showed that biomass and pollutant cooking fuels are often used by extremely poor households (between 7 per cent in Egypt and Uruguay and almost 100 per cent in Rwanda), implying that their members, especially women, are directly exposed to harmful fumes. This exposure to fumes can result in health problems, which in turn reduces an individual's productivity, implying less income for the household. The collection of firewood and other biomass fuels is time-consuming and is often done by women and girls. For example, in India, based on 2011/12 household survey data, around 50 per cent of households who collected biomass fuels did so from a place that was at a distance of 30 minutes, while 15 per cent took an hour or more to reach the collection area. The collection of firewood could easily take up half a day, thus depriving those involved of being engaged in productive or other activities.

## Access of the poor to public health provisions

Inadequate access to public health provisions can constrain the productivity of the poor and reduce the purchasing power of household budgets, leading to a health poverty trap (McIntyre et al., 2006). Health-care spending for illness disproportionately impacts poor households (Wagstaff, 2002), forcing them to cut their expenditure on other necessities, such as food, and to forgo productive activities, thus perpetuating the cycle. The analysis for this report again confirms that the poor experience severe constraints in access to public health provisions. A key outcome indicator for health is the child mortality rate. For the bottom quintile, child mortality was significantly higher than for the rest of the population, for all countries reported, except the Syrian Arab Republic and the Maldives. Both the highest mortality rates and the largest differences were found in sub-Saharan Africa, notably in Cameroon and Guinea, although wide gaps were also found in Asia, notably in India and Pakistan (see appendix F, [figure 1F.1](#)).

## Inadequate access to education

Education is one of the main instruments for lifting people out of poverty, such that the lack of access constitutes a deprivation and a dimension of poverty. Given the widespread sectoral shifts in employment, away from agriculture and towards low- and high-skilled services, education is one of the most central assets for finding work. Education also has intergenerational effects for households, helping to break the chains of poverty that have lasted across generations.

Household data on selected countries show that children from poor households are more likely to have lower attendance rates than their non-poor counterparts. Brazil has very low non-attendance rates for both poor and non-poor children, which is partly an achievement of the *Bolsa Família* social welfare programme, which includes school attendance as a requirement to receive benefits. Attendance rates are also found to be improved by the provision of subsidized or free school meals, as evident in India and Uruguay. However, improvements in attendance rates do not always mean that the education that is imparted is of good quality. Studies have shown that while conditional cash transfers have helped in improving attendance rates, they have not necessarily addressed supply-side issues relating to the quality of educational facilities and pupil-to-teacher ratios (Stampini and Tornarolli, 2012). In general, there are a number of reasons why children do not attend school, such as paid work, household tasks (unpaid family help), financial problems, health problems, lack of access to educational facilities or lack of interest in education as they do not see it as beneficial for future work. These issues are quite complex and require a number of structural and supply-side problems to be addressed, which could help in ending intergenerational poverty.

Overall, this section has shown that the poor often suffer from deprivations that extend beyond monetary measures and that non-monetary poverty affects those both above and below the monetary poverty line. Despite this, it shows that all these non-monetary dimensions of poverty still disproportionately impact the poorest. Accordingly, this section emphasizes the importance of treating poverty as a multifaceted phenomenon and stresses the importance of pursuing policies that improve access to basic needs and opportunities for all.

## E. Concluding remarks

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This chapter has provided an overview of recent trends in poverty based primarily on standard income-based poverty lines. Within this framework, the chapter has presented the labour market determinants and components of poverty and, in doing so, it has underlined the importance of productive employment and decent work in achieving the goals of the post-2015 Development Agenda, notably the goal of ending poverty “in all its forms everywhere” (SDG 1). The chapter has shown that improving the quality of employment and incomes of the poor is central to tackling poverty in a sustainable manner.

In particular, the chapter has found that the vast majority of the poor – across the range of country groupings – are of working age. Yet, the poor either do not have jobs or are engaged in low-paid employment, such as own-account or unpaid family work which is typically low skilled. This makes it difficult for the working poor to improve their working conditions (e.g. within agriculture, where close to two-thirds of the poor are economically engaged), or to find quality employment, acquire a career and thus move out of poverty. Poor households in emerging and developing countries are found to rely more on labour incomes (both from wage employment and self-employment) and, to a lesser degree, on private transfers and non-contributory social transfers. Meanwhile, the poor in developed countries are most reliant on social protection (an issue investigated in more detail in Chapter 2).

Addressing decent work deficits, therefore, is essential for ending poverty. This will require a strong focus on creating sustainable social, economic and institutional structures that can improve existing working conditions, support quality job creation and ensure the provision of social protection floors. It will also entail providing supportive policies to enable individuals to improve their own labour market outcomes and creating an enabling environment for employers, allowing them to promote decent work (these policies are addressed in Chapters 3, 5 and 6). Yet, decent work is not enough. It has to be accompanied by broader policies, policies that tackle the non-monetary dimensions of poverty, including the lack of access to adequate housing, food and essential services. As emphasized in Chapter 4, decent work is essentially a rights-based agenda.

That said, decent work can help promote these broader pro-poor policies. To start with, the creation of decent jobs will broaden the funding base for key government interventions and institutional build-up. Similarly, empowering workers and entrepreneurs – especially those that wish to innovate and respond to the needs of the poor – will help to strengthen the voice of the most vulnerable. In this regard, decent work can become a powerful driver of policies that aim to end poverty in all its dimensions.

## Appendix A. Regional, country and income groupings

### Africa

#### Northern Africa

Algeria  
Egypt  
Libya  
Morocco  
Sudan  
Tunisia  
Western Sahara

#### Sub-Saharan Africa

Angola  
Benin  
Botswana  
Burkina Faso  
Burundi  
Cameroon  
Cabo Verde  
Central African Republic  
Chad  
Comoros  
Congo  
Congo, Democratic Republic  
of the  
Côte d'Ivoire  
Djibouti  
Equatorial Guinea  
Eritrea  
Ethiopia  
Gabon  
The Gambia  
Ghana  
Guinea  
Guinea-Bissau  
Kenya  
Lesotho  
Liberia  
Madagascar  
Malawi  
Mali  
Mauritania  
Mauritius  
Mozambique  
Namibia  
Niger  
Nigeria  
Réunion  
Rwanda  
Sao Tome and Principe  
Senegal  
Seychelles  
Sierra Leone  
Somalia  
South Africa  
South Sudan  
Swaziland  
Tanzania, United Republic of  
Togo  
Uganda  
Zambia  
Zimbabwe

### Americas

#### Latin America and the Caribbean

Antigua and Barbuda  
Argentina  
Bahamas  
Barbados  
Belize  
Bolivia, Plurinational State of  
Brazil  
Chile  
Colombia  
Costa Rica  
Cuba  
Dominica  
Dominican Republic  
Ecuador  
El Salvador  
French Guiana  
Grenada  
Guadeloupe  
Guatemala  
Guyana  
Haiti  
Honduras  
Jamaica  
Martinique  
Mexico  
Netherlands Antilles  
Nicaragua  
Panama  
Paraguay  
Peru  
Puerto Rico  
Saint Kitts and Nevis  
Saint Lucia  
Saint Vincent and the  
Grenadines  
Suriname  
Trinidad and Tobago  
United States Virgin Islands  
Uruguay  
Venezuela, Bolivarian  
Republic of

#### Northern America

Canada  
Greenland  
United States

#### Arab States

Bahrain  
Iraq  
Jordan  
Kuwait  
Lebanon  
Oman  
Qatar  
Saudi Arabia  
Syrian Arab Republic  
United Arab Emirates  
West Bank and Gaza Strip  
Yemen

### Asia and the Pacific

#### Eastern Asia

China  
Hong Kong, China  
Japan  
Korea, Democratic People's  
Republic of  
Korea, Republic of  
Macau, China  
Mongolia  
Taiwan, China

#### South-Eastern Asia and the Pacific

Australia  
Brunei Darussalam  
Cambodia  
Cook Islands  
Fiji  
French Polynesia  
Guam  
Indonesia  
Kiribati  
Lao People's Democratic  
Republic  
Malaysia  
Marshall Islands  
Micronesia, Federated  
States of  
Myanmar  
Nauru  
New Caledonia  
New Zealand  
Palau  
Papua New Guinea  
Philippines  
Samoa  
Singapore  
Solomon Islands  
Thailand  
Timor-Leste  
Tonga  
Tuvalu  
Vanuatu  
Viet Nam

#### Southern Asia

Afghanistan  
Bangladesh  
Bhutan  
India  
Iran, Islamic Republic of  
Maldives  
Nepal  
Pakistan  
Sri Lanka

### Europe and Central Asia

#### Northern, Southern and Western Europe

Albania  
Andorra  
Austria  
Belgium  
Bosnia and Herzegovina  
Channel Islands  
Croatia  
Denmark  
Estonia  
Finland  
France  
Germany  
Greece  
Iceland  
Ireland  
Italy  
Latvia  
Liechtenstein  
Lithuania  
Luxembourg  
Macedonia, the former  
Yugoslav Republic of  
Malta  
Monaco  
Montenegro  
Netherlands  
Norway  
Portugal  
San Marino  
Serbia  
Slovenia  
Spain  
Sweden  
Switzerland  
United Kingdom

#### Eastern Europe

Belarus  
Bulgaria  
Czech Republic  
Hungary  
Moldova, Republic of  
Poland  
Romania  
Russian Federation  
Slovakia  
Ukraine

#### Central and Western Asia

Armenia  
Azerbaijan  
Cyprus  
Georgia  
Israel  
Kazakhstan  
Kyrgyzstan  
Tajikistan  
Turkey  
Turkmenistan  
Uzbekistan

**Developed countries  
(high income)**

Andorra  
Antigua and Barbuda  
Argentina  
Australia  
Austria  
Bahamas  
Bahrain  
Barbados  
Belgium  
Brunei Darussalam  
Canada  
Channel Islands  
Chile  
Croatia  
Cyprus  
Czech Republic  
Denmark  
Equatorial Guinea  
Estonia  
Finland  
France  
French Guiana  
French Polynesia  
Germany  
Greece  
Greenland  
Guam  
Hong Kong, China  
Hungary  
Iceland  
Ireland  
Israel  
Italy  
Japan  
Korea, Republic of  
Kuwait  
Latvia  
Liechtenstein  
Lithuania  
Luxembourg  
Macau, China  
Malta  
Martinique  
Monaco  
Netherlands  
Netherlands Antilles  
New Caledonia  
New Zealand  
Norway  
Oman  
Poland  
Portugal  
Puerto Rico  
Qatar  
Russian Federation  
Réunion  
Saint Kitts and Nevis  
San Marino  
Saudi Arabia  
Seychelles  
Singapore

Slovakia  
Slovenia  
Spain  
Sweden  
Switzerland  
Taiwan, China  
Trinidad and Tobago  
United Arab Emirates  
United Kingdom  
United States  
United States Virgin Islands  
Uruguay  
Venezuela, Bolivarian  
Republic of

**Emerging countries  
(middle income)**

Armenia  
Bangladesh  
Bhutan  
Bolivia, Plurinational State of  
Cameroon  
Cabo Verde  
Congo  
Côte d'Ivoire  
Djibouti  
Egypt  
El Salvador  
Georgia  
Ghana  
Guatemala  
Guyana  
Honduras  
India  
Indonesia  
Kenya  
Kiribati  
Kyrgyzstan  
Lao People's Democratic  
Republic  
Lesotho  
Mauritania  
Micronesia, Federated States  
of  
Moldova, Republic of  
Morocco  
Myanmar  
Nauru  
Nicaragua  
Nigeria  
Pakistan  
Papua New Guinea  
Philippines  
Samoa  
Sao Tome and Principe  
Senegal  
Solomon Islands  
Sri Lanka  
Sudan  
Swaziland  
Syrian Arab Republic  
Tajikistan  
Timor-Leste

Ukraine  
Uzbekistan  
Vanuatu  
Viet Nam  
West Bank and Gaza Strip  
Western Sahara  
Yemen  
Zambia  
Albania  
Algeria  
Angola  
Azerbaijan  
Belarus  
Belize  
Bosnia and Herzegovina  
Botswana  
Brazil  
Bulgaria  
China  
Colombia  
Cook Islands  
Costa Rica  
Cuba  
Dominica  
Dominican Republic  
Ecuador  
Fiji  
Gabon  
Grenada  
Guadeloupe  
Iran, Islamic Republic of  
Iraq  
Jamaica  
Jordan  
Kazakhstan  
Lebanon  
Libya  
Macedonia, the former  
Yugoslav Republic of  
Malaysia  
Maldives  
Marshall Islands  
Mauritius  
Mexico  
Mongolia  
Montenegro  
Namibia  
Palau  
Panama  
Paraguay  
Peru  
Romania  
Saint Lucia  
Saint Vincent and the  
Grenadines  
Serbia  
South Africa  
Suriname  
Thailand  
Tonga  
Tunisia  
Turkey  
Turkmenistan  
Tuvalu

**Developing countries  
(low income)**

Afghanistan  
Benin  
Burkina Faso  
Burundi  
Cambodia  
Central African Republic  
Chad  
Comoros  
Congo, Democratic Republic  
of the  
Eritrea  
Ethiopia  
The Gambia  
Guinea  
Guinea-Bissau  
Haiti  
Korea, Democratic People's  
Republic of  
Liberia  
Madagascar  
Malawi  
Mali  
Mozambique  
Nepal  
Niger  
Rwanda  
Sierra Leone  
Somalia  
South Sudan  
Tanzania, United Republic of  
Togo  
Uganda  
Zimbabwe

## Appendix B. Distribution of the poor and non-poor and poverty rates

**Table 1B.1**

### Regional and total population decomposition, emerging and developing countries, <\$1.90 PPP, 2012

		Total	<15	Employed					Unemployed 15–64	Inactive 15–64	65+	
				Total	Wage and salaried	Employers	Own- account workers	Contributing family workers				Other
<b>1. Distribution of the poor and non-poor populations</b>												
<b>Total</b>	<b>Total</b>	<b>100</b>	<b>26.1</b>	<b>36.9</b>	<b>18.5</b>	<b>1.5</b>	<b>12.8</b>	<b>4.0</b>	<b>0.1</b>	<b>1.7</b>	<b>29.5</b>	<b>5.9</b>
	Poor	100	38.3	30.4	7.1	0.7	16.6	5.9	0.2	0.9	25.9	4.5
	Non-poor	100	23.6	38.2	20.8	1.7	12.0	3.7	0.1	1.8	30.2	6.2
<b>Africa</b>	<b>Total</b>	<b>100</b>	<b>40.2</b>	<b>33.1</b>	<b>9.9</b>	<b>1.3</b>	<b>14.7</b>	<b>7.1</b>	<b>0.2</b>	<b>2.0</b>	<b>20.4</b>	<b>4.3</b>
	Poor	100	47.7	29.7	3.0	0.4	17.4	8.8	0.2	1.2	17.4	4.0
	Non-poor	100	36.6	34.7	13.1	1.7	13.4	6.3	0.2	2.4	21.9	4.5
<b>Latin America and the Caribbean</b>	<b>Total</b>	<b>100</b>	<b>26.3</b>	<b>43.9</b>	<b>28.4</b>	<b>2.3</b>	<b>10.2</b>	<b>2.4</b>	<b>0.6</b>	<b>2.5</b>	<b>19.4</b>	<b>7.9</b>
	Poor	100	45.3	27.0	6.2	1.3	10.2	5.9	3.5	3.3	20.8	3.6
	Non-poor	100	25.4	44.6	29.4	2.3	10.2	2.2	0.5	2.5	19.4	8.1
<b>Arab States*</b>	<b>Total</b>	<b>100</b>	<b>39.0</b>	<b>23.2</b>	<b>15.8</b>	<b>1.1</b>	<b>5.7</b>	<b>0.1</b>	<b>0.4</b>	<b>3.0</b>	<b>31.2</b>	<b>3.6</b>
	Poor	100	51.6	18.3	7.9	0.4	9.3	0.0	0.8	3.3	24.4	2.4
	Non-poor	100	38.7	23.3	16.0	1.1	5.6	0.2	0.4	2.9	31.4	3.7
<b>Asia and the Pacific</b>	<b>Total</b>	<b>100</b>	<b>22.3</b>	<b>37.2</b>	<b>19.2</b>	<b>1.5</b>	<b>13.0</b>	<b>3.5</b>	<b>0.0</b>	<b>1.3</b>	<b>33.3</b>	<b>5.9</b>
	Poor	100	32.7	31.0	9.4	0.9	16.4	4.2	0.0	0.6	30.8	4.9
	Non-poor	100	20.5	38.3	20.9	1.6	12.4	3.4	0.0	1.5	33.8	6.0
<b>Europe and Central Asia</b>	<b>Total</b>	<b>100</b>	<b>22.0</b>	<b>36.0</b>	<b>24.9</b>	<b>1.1</b>	<b>5.9</b>	<b>4.0</b>	<b>0.1</b>	<b>3.6</b>	<b>28.2</b>	<b>10.3</b>
	Poor	100	30.8	27.6	6.0	0.2	12.4	7.8	1.2	6.3	32.2	3.2
	Non-poor	100	21.8	36.2	25.2	1.1	5.8	3.9	0.1	3.5	28.1	10.4
<b>2. Poverty rates by sex</b>												
<b>Total</b>	<b>Total</b>	<b>16.7</b>	<b>24.5</b>	<b>13.7</b>	<b>6.4</b>	<b>8.1</b>	<b>21.7</b>	<b>24.3</b>	<b>24.1</b>	<b>8.7</b>	<b>14.6</b>	<b>12.8</b>
	Male	16.5	24.0	13.4	6.7	8.3	21.1	23.4	27.4	9.6	14.8	13.1
	Female	16.9	24.9	14.3	5.8	7.7	22.8	25.0	21.9	7.8	14.5	12.6
<b>Africa</b>	<b>Total</b>	<b>32.0</b>	<b>38.0</b>	<b>28.8</b>	<b>9.8</b>	<b>9.7</b>	<b>37.9</b>	<b>39.7</b>	<b>31.7</b>	<b>18.8</b>	<b>27.3</b>	<b>29.4</b>
	Male	31.8	38.3	25.6	9.3	7.6	38.8	37.5	28.5	19.3	31.2	30.8
	Female	32.2	37.7	32.8	10.9	16.7	36.9	41.4	33.2	18.4	25.1	28.0
<b>Latin America and the Caribbean</b>	<b>Total</b>	<b>4.4</b>	<b>7.6</b>	<b>2.7</b>	<b>1.0</b>	<b>2.6</b>	<b>4.4</b>	<b>10.9</b>	<b>23.3</b>	<b>5.9</b>	<b>4.7</b>	<b>2.0</b>
	Male	4.4	7.6	3.0	1.1	2.7	5.0	12.8	32.0	6.1	4.0	2.2
	Female	4.5	7.7	2.4	0.7	2.3	3.4	9.5	17.3	5.7	5.0	1.9
<b>Arab States*</b>	<b>Total</b>	<b>2.6</b>	<b>3.4</b>	<b>2.0</b>	<b>1.3</b>	<b>0.9</b>	<b>4.2</b>	<b>...</b>	<b>5.0</b>	<b>2.9</b>	<b>2.0</b>	<b>1.7</b>
	Male	2.5	3.4	1.9	1.4	0.9	3.3	...	3.7	3.5	1.7	1.4
	Female	2.6	3.4	2.8	0.3	...	7.5	...	7.9	0.6	2.1	1.9
<b>Asia and the Pacific</b>	<b>Total</b>	<b>15.1</b>	<b>22.2</b>	<b>12.6</b>	<b>7.4</b>	<b>9.3</b>	<b>19.1</b>	<b>18.3</b>	<b>0.5</b>	<b>6.3</b>	<b>14.0</b>	<b>12.7</b>
	Male	14.9	21.4	13.1	7.7	9.7	19.4	18.1	0.5	7.9	13.1	12.4
	Female	15.3	23.0	11.6	6.8	7.3	18.1	18.5	0.4	4.5	14.4	12.9
<b>Europe and Central Asia</b>	<b>Total</b>	<b>1.5</b>	<b>2.1</b>	<b>1.1</b>	<b>0.4</b>	<b>0.3</b>	<b>3.1</b>	<b>2.9</b>	<b>12.4</b>	<b>2.6</b>	<b>1.7</b>	<b>0.5</b>
	Male	1.5	2.0	1.1	0.4	0.2	3.1	3.2	11.5	3.1	1.9	0.5
	Female	1.5	2.1	1.2	0.4	0.8	3.2	2.7	13.1	1.9	1.6	0.4

\* Arab States: global estimates based on three countries and not representative of the region. Note: Based on 66 emerging and developing countries. "...": no data available.

Source: ILO calculations based on national household survey data.



Table 1B.2

## Regional and total population decomposition, emerging and developing countries, &lt;\$3.10 PPP, 2012

		Employed										
		Total	<15	Total	Wage and salaried	Employers	Own-account workers	Contributing family workers	Other	Unemployed 15-64	Inactive 15-64	65+
<b>1. Distribution of the poor and non-poor populations</b>												
<b>Total</b>	<b>Total</b>	<b>100</b>	<b>26.0</b>	<b>37.0</b>	<b>18.7</b>	<b>1.5</b>	<b>12.6</b>	<b>4.0</b>	<b>0.1</b>	<b>1.7</b>	<b>29.4</b>	<b>5.9</b>
	Poor	100	34.1	32.2	8.8	1.0	16.6	5.7	0.1	0.9	27.9	4.8
	Non-poor	100	20.6	40.2	25.4	1.9	10.0	2.8	0.1	2.2	30.4	6.6
<b>Africa</b>	<b>Total</b>	<b>100</b>	<b>40.1</b>	<b>33.1</b>	<b>9.9</b>	<b>1.3</b>	<b>14.7</b>	<b>7.1</b>	<b>0.2</b>	<b>2.0</b>	<b>20.5</b>	<b>4.3</b>
	Poor	100	46.0	30.8	4.6	0.6	16.8	8.6	0.2	1.4	17.8	4.0
	Non-poor	100	32.7	36.0	16.6	2.1	12.0	5.2	0.2	2.7	23.9	4.7
<b>Latin America and the Caribbean</b>	<b>Total</b>	<b>100</b>	<b>26.3</b>	<b>43.9</b>	<b>28.4</b>	<b>2.3</b>	<b>10.2</b>	<b>2.4</b>	<b>0.7</b>	<b>2.5</b>	<b>19.4</b>	<b>7.9</b>
	Poor	100	43.3	29.3	10.0	1.3	10.8	5.1	2.0	3.0	20.1	4.3
	Non-poor	100	24.1	45.8	30.7	2.4	10.2	2.0	0.5	2.4	19.3	8.3
<b>Arab States*</b>	<b>Total</b>	<b>100</b>	<b>39.0</b>	<b>23.2</b>	<b>15.8</b>	<b>1.1</b>	<b>5.7</b>	<b>0.1</b>	<b>0.4</b>	<b>3.0</b>	<b>31.2</b>	<b>3.6</b>
	Poor	100	47.7	19.9	10.7	0.4	8.2	0.0	0.6	3.1	26.8	2.5
	Non-poor	100	37.2	23.9	16.9	1.3	5.2	0.2	0.4	2.9	32.1	3.9
<b>Asia and the Pacific</b>	<b>Total</b>	<b>100</b>	<b>22.2</b>	<b>37.3</b>	<b>19.5</b>	<b>1.5</b>	<b>12.8</b>	<b>3.4</b>	<b>0.0</b>	<b>1.4</b>	<b>33.3</b>	<b>5.9</b>
	Poor	100	29.4	32.9	10.2	1.2	16.8	4.8	0.0	0.7	31.9	5.1
	Non-poor	100	17.1	40.4	26.1	1.8	10.0	2.5	0.0	1.9	34.3	6.4
<b>Europe and Central Asia</b>	<b>Total</b>	<b>100</b>	<b>21.7</b>	<b>36.2</b>	<b>25.2</b>	<b>1.1</b>	<b>5.9</b>	<b>3.9</b>	<b>0.1</b>	<b>3.5</b>	<b>28.1</b>	<b>10.4</b>
	Poor	100	34.8	25.1	8.2	0.4	9.4	6.7	0.4	5.0	30.2	5.0
	Non-poor	100	20.9	36.9	26.3	1.1	5.6	3.7§	0.1	3.4	28.0	10.7
<b>2. Poverty rates by sex</b>												
<b>Total</b>	<b>Total</b>	<b>40.0</b>	<b>52.5</b>	<b>34.9</b>	<b>18.7</b>	<b>26.3</b>	<b>52.6</b>	<b>57.7</b>	<b>39.6</b>	<b>22.5</b>	<b>38.0</b>	<b>32.7</b>
	Male	39.9	52.0	35.7	20.2	27.1	53.7	58.6	41.7	25.6	36.3	33.2
	Female	40.2	53.1	33.4	16.2	23.5	50.2	56.9	38.1	19.1	38.8	32.2
<b>Africa</b>	<b>Total</b>	<b>55.9</b>	<b>64.1</b>	<b>52.0</b>	<b>26.0</b>	<b>26.9</b>	<b>64.1</b>	<b>67.7</b>	<b>58.9</b>	<b>39.7</b>	<b>48.6</b>	<b>52.0</b>
	Male	55.5	64.2	48.0	26.1	23.2	64.3	67.5	56.3	39.8	52.9	53.4
	Female	56.4	64.0	57.2	25.7	39.1	64.0	67.9	60.1	39.6	46.3	50.5
<b>Latin America and the Caribbean</b>	<b>Total</b>	<b>11.2</b>	<b>18.5</b>	<b>7.5</b>	<b>4.0</b>	<b>6.5</b>	<b>11.8</b>	<b>24.1</b>	<b>34.2</b>	<b>13.6</b>	<b>11.6</b>	<b>6.2</b>
	Male	11.2	18.5	8.1	4.6	6.7	13.1	27.0	42.1	14.9	9.6	6.7
	Female	11.3	18.4	6.6	3.0	6.0	9.9	22.0	28.8	12.3	12.4	5.8
<b>Arab States*</b>	<b>Total</b>	<b>17.3</b>	<b>21.1</b>	<b>14.8</b>	<b>11.7</b>	<b>6.8</b>	<b>24.6</b>	<b>1.8</b>	<b>23.5</b>	<b>18.1</b>	<b>14.8</b>	<b>12.0</b>
	Male	17.1	20.7	14.9	13.2	6.9	21.6	2.5	22.3	21.4	12.6	11.6
	Female	17.5	21.6	14.3	3.3	5.5	36.5	0.9	26.4	5.7	15.4	12.3
<b>Asia and the Pacific</b>	<b>Total</b>	<b>41.6</b>	<b>55.1</b>	<b>36.8</b>	<b>21.8</b>	<b>31.1</b>	<b>54.6</b>	<b>57.8</b>	<b>3.1</b>	<b>19.7</b>	<b>39.9</b>	<b>36.3</b>
	Male	41.4	54.1	38.7	23.3	32.4	56.3	58.6	3.4	25.4	36.2	35.7
	Female	41.8	56.2	32.9	19.2	25.7	49.7	57.1	2.8	13.7	41.6	36.9
<b>Europe and Central Asia</b>	<b>Total</b>	<b>5.9</b>	<b>9.5</b>	<b>4.1</b>	<b>1.9</b>	<b>2.1</b>	<b>9.5</b>	<b>10.1</b>	<b>17.5</b>	<b>8.3</b>	<b>6.3</b>	<b>2.9</b>
	Male	5.8	9.1	4.0	2.1	2.1	9.3	10.9	16.5	10.1	6.8	2.8
	Female	6.0	9.9	4.2	1.6	2.1	9.8	9.7	18.3	6.1	6.1	2.9

\* Arab States: global estimates based on three countries and not representative of the region. Note: Based on 66 emerging and developing countries.

Source: ILO calculations based on national household survey data.

**Table 1B.3****Population decomposition, developed countries, 60 per cent of median household income, 2012**

		Employed										
		Total	<15	Wage and salaried		Employers	Own-account workers	Contributing family workers	Other	Unemployed 15–64	Inactive 15–64	65+
<b>1. Distribution of the poor and non-poor populations</b>												
<b>Total</b>	<b>Total</b>	<b>100</b>	<b>17.1</b>	<b>44.9</b>	<b>39.0</b>	<b>1.1</b>	<b>3.9</b>	<b>0.6</b>	<b>0.3</b>	<b>3.6</b>	<b>18.0</b>	<b>16.4</b>
	Poor	100	27.9	30.6	24.9	0.8	3.9	0.7	0.3	7.1	24.9	9.5
	Non-poor	100	14.0	48.9	42.9	1.2	3.9	0.6	0.4	2.7	16.0	18.4
<b>2. Poverty rates by sex</b>												
<b>Total</b>	<b>Total</b>	<b>22.0</b>	<b>35.9</b>	<b>15.0</b>	<b>14.0</b>	<b>16.8</b>	<b>22.0</b>	<b>25.8</b>	<b>17.5</b>	<b>42.7</b>	<b>30.4</b>	<b>12.7</b>
	Male	21.7	35.9	15.4	14.3	17.9	22.2	27.2	17.8	44.5	28.5	12.3
	Female	22.2	36.0	14.5	13.7	13.8	21.8	25.0	17.2	40.7	31.5	13.0

Note: Based on 37 developed countries. Poverty measures calculated on a per capita basis.

Source: ILO calculations based on national household survey data.

**Table 1B.4****Distribution of the poor and non-poor and poverty rates among emerging and developing countries by sector, 2012 (percentages)**

	Extreme poverty		Extreme and moderate poverty (<\$3.10 PPP)		Poverty (<\$5.00 PPP)	
	Poor	Non-poor	Poor	Non-poor	Poor	Non-poor
<b>Distribution of the poor</b>						
Agriculture	65.2	35.5	58.3	26.6	52.4	18.1
Industry	16.0	21.5	18.3	22.4	19.3	23.0
Services	18.8	42.9	23.4	51.0	28.3	58.8
<b>Poverty rate</b>						
Agriculture	24.7		59.1		82.7	
Industry	11.8		35.1		58.0	
Services	7.3		23.3		44.3	

Note: Based on 43 developing and emerging countries (Africa (18): Benin, Burkina Faso, Cameroon, Congo, Egypt, Gabon, Ghana, Mali, Morocco, Mozambique, Namibia, Niger, Nigeria, Senegal, Sierra Leone, South Africa, Togo and Uganda; Arab States (1): Jordan; Asia and the Pacific (9): Bhutan, Cambodia, India, Indonesia, Pakistan, Philippines, Thailand, Timor Leste, Viet Nam; Latin America and the Caribbean (11): Bolivia, Plurinational State of, Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay; and Europe and Central Asia (4): Armenia, Serbia, Tajikistan, Turkey).

Source: ILO calculations based on national household survey data.

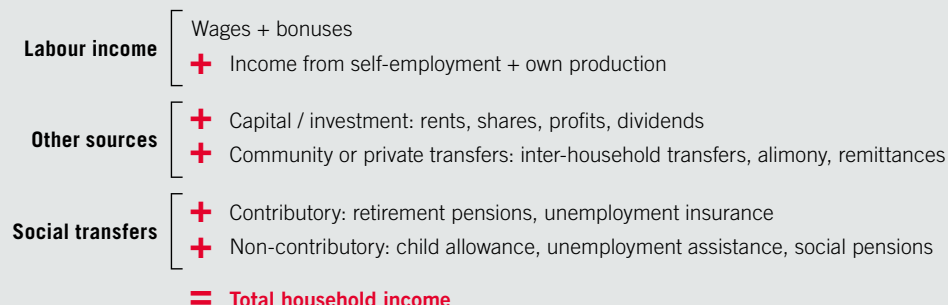
**Table 1B.5****Skill level classification**

Skill level	Occupation category	Education level
<b>High skilled</b>	(1) Legislators, senior officials and managers; (2) Professionals; (3) Technicians and associate professionals	Second stage of tertiary education (leading to an advanced research qualification); or first stage of tertiary education, first degree (medium duration); or first stage of tertiary education (short or medium duration) (14 years and more)
<b>Medium skilled</b>	(1) Clerks; (2) Craft and related trades workers; (3) Plant and machine operators and assemblers; (4) Service workers and shop and market sales workers; (5) Skilled agricultural and fishery workers	Post-secondary, non-tertiary education; or upper secondary level of education; or lower secondary level of education (9 to 12 years)
<b>Low skilled</b>	Elementary occupations	Primary level of education (6 years)

## Appendix C. Income sources of the poor

**Figure 1C.1**

### Different components of income used for the analysis



Source: Authors' definitions based on the literature.

**Table 1C.1**

### Data sources and limitations

Country	Data source	Years covered
Austria, Malta	EU Statistics on Income and Living Conditions (EU-SILC), Eurostat	2007, 2013
Bulgaria, France, Greece, Italy, Latvia, Lithuania, Portugal, Romania	EU Statistics on Income and Living Conditions (EU-SILC), Eurostat	2006, 2013
Cyprus, Czech Republic, Estonia, Finland, Hungary, Iceland, Ireland, Luxembourg, Netherlands, Norway, Poland, Slovakia, Sweden, United Kingdom	EU Statistics on Income and Living Conditions (EU-SILC), Eurostat	2005, 2013
Belgium	EU Statistics on Income and Living Conditions (EU-SILC), Eurostat	2005, 2011
Slovenia	EU Statistics on Income and Living Conditions (EU-SILC), Eurostat	2005, 2012
Spain	EU Statistics on Income and Living Conditions (EU-SILC), Eurostat	2006, 2011
Switzerland	EU Statistics on Income and Living Conditions (EU-SILC), Eurostat	2007, 2012
Bolivia, Plurinational State of	Encuesta de Hogares, Instituto Nacional de Estadísticas, Estado Plurinacional de Bolivia	2005, 2013
Brazil	Pesquisa Nacional por Amostra de Domicílios (PNAD), Instituto Brasileiro de Geografia e Estatística (IBGE)	2005, 2013
Cambodia	Cambodia Socio-Economic Survey (CSES), National Institute of Statistics, Ministry of Planning, Cambodia	2007, 2012
Egypt	Household Income, Expenditure and Consumption Survey (HIECS), obtained through the Economic Research Forum (ERF)	2004/05, 2012/13
Ghana	Ghana Living Standards Survey (GLSS), Ghana Statistical Service	2005/06, 2011/12
Honduras	Encuesta Permanente de Hogares de Propósitos Múltiples (EPHPM), Instituto Nacional de Estadística (INE) Honduras	2006, 2013
India	India Human Development Survey (IHDS)	2004/05, 2011/12
Jordan	Household Income and Expenditure Survey (HEIS), obtained through the Economic Research Forum (ERF)	2006, 2010
Mexico	Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH), Instituto Nacional de Estadística y Geografía (INEGI)	2006, 2014
Philippines	Family Income and Expenditure Survey (FIES), Philippine Statistics Authority	2003, 2009
Rwanda	Integrated Household Living Conditions Survey (EICV), National Institute of Statistics of Rwanda	2005/06, 2011
South Africa	General Household Survey and Labour Force Survey, Statistics South Africa	2007, 2012
Turkey	Income and Living Conditions Survey, Turkish Statistical Institute	2005, 2011
Uruguay	Encuesta Continua de Hogares, Instituto Nacional de Estadísticas	2006, 2014
United States of America	Consumer Expenditure Survey, Bureau of Labor Statistics (BLS)	2005, 2012
Viet Nam	Household Living Standard Survey (HLSS), General Statistics Office of Viet Nam	2006, 2010

Note: The authors are particularly grateful for data provided by Eurostat and the Turkish Statistical Institute. The responsibility for all conclusions drawn from these data and other sources listed above lies entirely with the authors.

## Data limitations and related methodological issues

In a comparative analysis across countries with completely different data sources, there are a number of potential data limitations and methodological issues. Some of these relate to the comparability of data across countries: the method used to collect the data, the way in which the data are reported, and the variables collected – all of which can differ by country, while others relate to comparability across time and disaggregation differences.

In the case of European countries, EU-SILC data have been used. Even though this data set is harmonized to a degree – all countries are asked to provide the same set of “target variables” to Eurostat – the methods of data collection and reporting can differ substantially by country (see Wolff et al., 2010). For example, some countries use register data while others collect data using country-specific surveys.

This directly links to the second issue, the variables collected. Not all countries collect all variables required for a complete analysis of each income component presented in [figure 1C.1](#). For example, South Africa lacks information on capital income. This lack of data prevents a complete analysis in some parts of section C.

The third issue relates to the way in which the data are treated or harmonized. As Verma and Betti (2010) note, for the EU-SILC data set there is no standardized procedure across countries regarding the manner in which negative, zero and very large values are treated. The United States is the only country in the sample that already provides top- and bottom-coded variables. However, top or bottom coding of income variables leads to lower inequality figures. On the other hand, the presence of some very high or very low values on the income variables can affect the precision of results. In order to take account of both these issues, households were deleted on a case-by-case basis by looking at the distributions of the income variables, although generally not more than ten households per country-year were deleted.

A fourth issue relates to the comparability across time periods. As countries adapt their survey methodologies over time there can be changes in variables, additions of new variables or omissions of previously existing variables. In countries where any such changes are observed, efforts were made to be as consistent as possible over time.

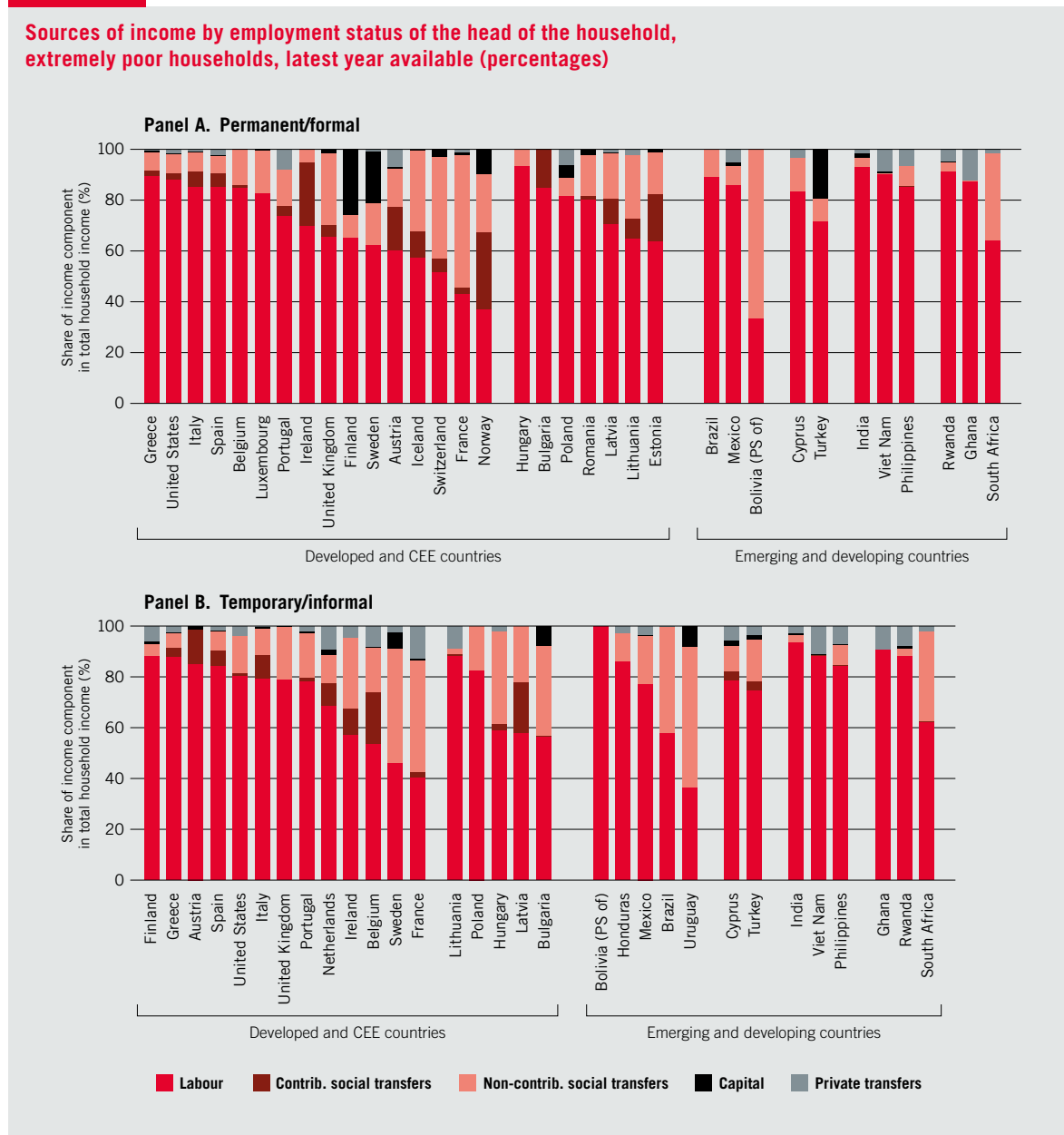
A final issue relates to the disaggregation of income components. For example, with regard to social transfers, Eurostat requests that countries provide aggregate variables for the EU-SILC database. It follows the approach of the European System of Integrated Social Protection Statistics (ESSPROS; see Eurostat, 2008), in which social benefits are classified by function rather than by the basis on which a person is eligible for benefits (contributory vs. non-contributory schemes). However, from 2013 the approach has been changed and it is possible to distinguish between contributory and non-contributory as well as means-tested or non-means-tested benefits (EU-SILC 2014) in most countries. Similarly, in the data sets for Egypt and Jordan (provided by the Economic Research Forum, ERF) it is not possible to distinguish between contributory and non-contributory social transfers. As a result, in some cases, this leads to a mix of contributory and non-contributory benefits, and it becomes difficult to separate the effects.

## Appendix D. Income sources of the poor by employment status

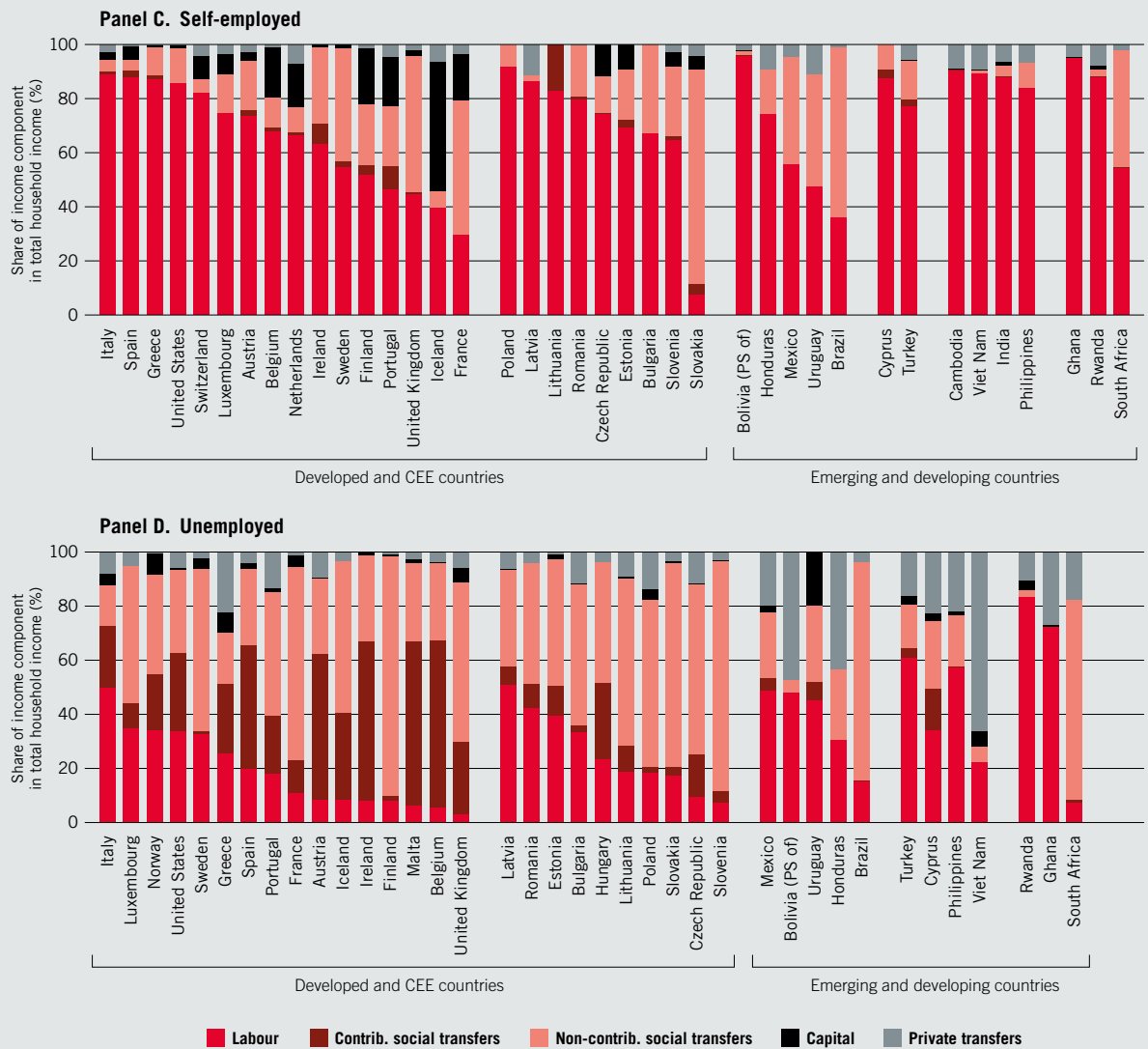
If the income sources of the poor are looked at by employment status of the head of the household, in developed and CEE countries there is a higher dependence on non-contributory social transfers in households whose heads are permanent or temporary workers, while capital income is also important for households headed by a self-employed worker. In Latin American, Asian and African countries, non-contributory social transfers and private transfers play an important role across the different work types (figure 1D.1, panels A, B and C). Among households with an unemployed head, in developed and CEE countries there is more dependence on non-contributory social transfers, except in a few countries (Austria, Belgium, Ireland, Malta and Spain). In emerging and developing countries, non-contributory transfers and private transfers are a substantial part of household incomes (figure 1D.1, panel D).

Figure 1D.1

Sources of income by employment status of the head of the household, extremely poor households, latest year available (percentages)



**Figure 1D.1 (cont'd)**



Note: Cyprus and Uruguay are categorized as emerging and developing in order to make comparisons with countries in close geographic proximity.  
 Source: ILO calculations based on household surveys (see appendix C, table 1C.1).

## Appendix E. Change in poverty

This appendix analyses the contribution of labour and non-labour income to changes in the incidence of poverty, the size of the poverty gap and the severity of poverty over the past decade. The analysis is done for all poor households. This helps to identify differences across regions in labour and social policies that may help households to rise above the poverty line.

For the analysis, country-level microdata are relied upon, from household surveys such as income and expenditure surveys or other similar types of survey. The database consists of 44 countries from different regions of the world (28 from Europe/North America; five from Latin America; seven from Asia and Central Asia; four from Africa). For each country, two years are analysed, one from the mid-2000s and the other being the most recent year for which comparable data are available.

### Methodology

To analyse the contributions of different factors to the changes in different poverty measures within countries over two time periods, the decomposition method of Azevedo et al. (2013) is used. This methodology allows for the analysis of the contribution of labour incomes and non-labour incomes (which is further subdivided into different income components) to the changes in different measures of poverty. It also allows a quantification of the contributions of different factors to changes in poverty across countries. Three different measures of poverty are used:  $FGT_0$ , which is the incidence of poverty;  $FGT_1$ , which is the poverty gap (i.e. the distance of the incomes of the poor from the poverty line); and  $FGT_2$ , which is the severity of poverty (giving higher weight to those further away from the poverty line).

The starting point of this methodology is that any measure of poverty depends on the cumulative density function  $F(\cdot)$  of income across households:

$$\theta = \phi(F(Y(y_1, y_2, \dots, y_k)))$$

where  $Y$  is the total household income per capita, comprising  $f = 1, \dots, K$  different income sources  $y_f$ , such that  $Y = \sum_{f=1}^K y_f$ . Following Barros et al. (2006), the distribution of income is simulated by changing each of the income sources one at a time. Given that the distributions of household income for periods 0 and 1 are known, a counterfactual distribution for period 1 can be generated by substituting the observed level of a given income source for period 0. For each counterfactual distribution, the poverty measure is calculated. These counterfactuals can be interpreted as the level of poverty that would have prevailed in the absence of a change in the given indicator. For instance, to see the impact of the change in the distribution of income source 1, we compute  $\hat{\theta}_1$ , where the value for  $y_1$  is substituted by its value in period 0,  $\hat{y}_1$ :

$$\hat{\theta}_1 = \phi(F(Y(\hat{y}_1, y_2, \dots, y_k)))$$

The effect of the change in income source 1 can then be calculated as  $\hat{\theta}_1 - \theta$ . Similarly, the contribution of each income component to the change in poverty can be computed, as shown in table 1E.1. The assignment of values from period 0 to period 1 uses a rank-preserving transformation. In particular, households are ordered by their household income, and then the average value of each income source for each quantile in period 0 is assigned to each household in the same quantile in period 1.

Table 1E.1

Proposed methodology along one possible path	
$\theta = \phi(F(Y(y_1, y_2, \dots, y_k)))$	Initial poverty rate
$\hat{\theta}_1 = \phi(F(Y(\hat{y}_1, y_2, \dots, y_k)))$	Contribution of income source 1: $\hat{\theta}_1 - \theta$
$\hat{\theta}_2 = \phi(F(Y(\hat{y}_1, \hat{y}_2, \dots, y_k)))$	Contribution of income source 2: $\hat{\theta}_2 - \hat{\theta}_1$
...	...
$\hat{\theta}_k = \phi(F(Y(\hat{y}_1, \hat{y}_2, \dots, \hat{y}_k)))$	Contribution of income source K: $\hat{\theta}_k - \hat{\theta}_{k-1}$

The computation as suggested in [table 1E.1](#) is path-dependent; the effect of an income source depends on the ordering of the sources. With  $K$  income sources, there are  $K!$  potential decomposition paths. In order to address this path-dependency, we calculate the decomposition for all possible paths and take the average of the effect (Shapely, 1953; Shorrocks, 2013). Whereas the problem of path-dependency can be addressed this way, one caveat remains: as one element at a time is changed, the counterfactuals are not the results of an economic equilibrium, but rather a fictitious exercise that suffers from equilibrium-inconsistency.

Using this methodology, we analyse the contribution of labour incomes and non-labour incomes, which are further subdivided into different income components. Depending on which measure of poverty is used, this analysis allows us to quantify each factor's contribution to the change in the incidence of poverty ( $FGT_0$ ), and also to the change in the poverty gap as well as the change in the severity of poverty.

## Findings

The results of the analysis of the changes in the incidence of poverty ( $FGT_0$ ) for poor households since the mid-2000s are presented in [figure 1E.1, panel A](#). Looking first at the developed countries, in the countries in which a decline in poverty incidence was observed, wages contributed the most in Norway and (though to a lesser extent) in France, the Netherlands and Sweden. In all four countries, contributory social transfers made the second biggest contribution. Contributory social transfers were the most important for reducing the incidence of poverty in Austria, Malta and Switzerland. In Finland, self-employment incomes were the most important factor, followed by contributory social transfers. There are large differences between the developed countries with regard to the contribution of contributory social transfers to reducing poverty ratios. These differences are due to the diversity of the social protection systems, and the demographic, social and institutional structures in these countries.

Among the CEE countries, in all countries except for Poland, contributory social transfers contributed the most to the decline in poverty incidence. In Poland, wage and self-employment income contributed the most to poverty reduction. Non-contributory social transfers were an important factor in Estonia and Slovakia.

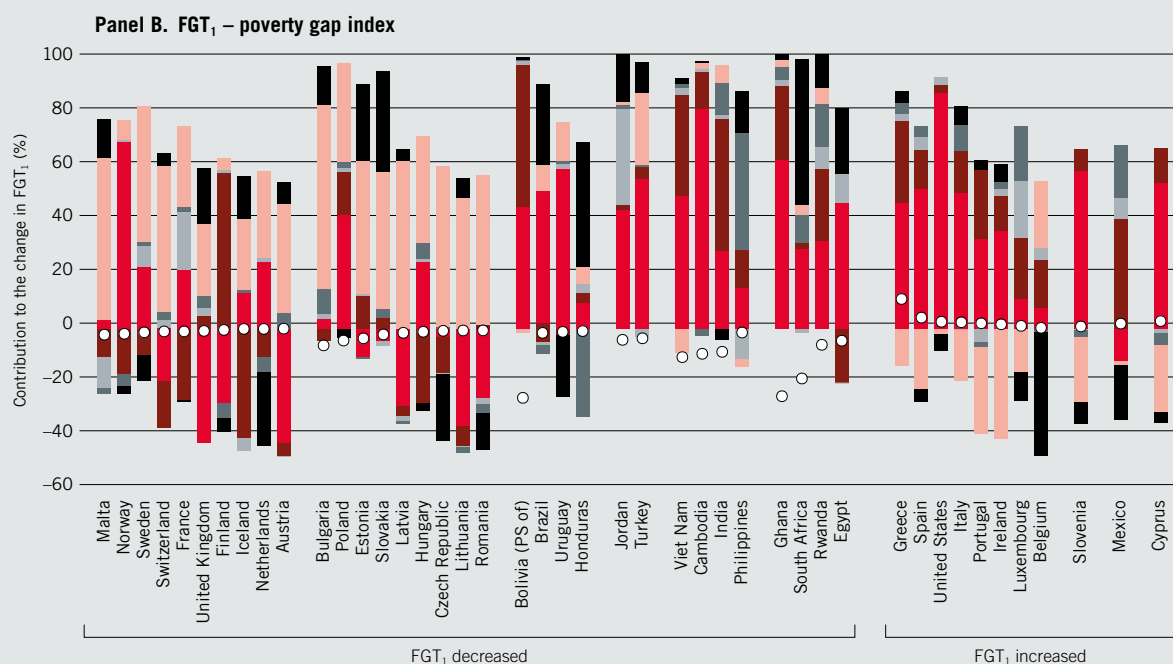
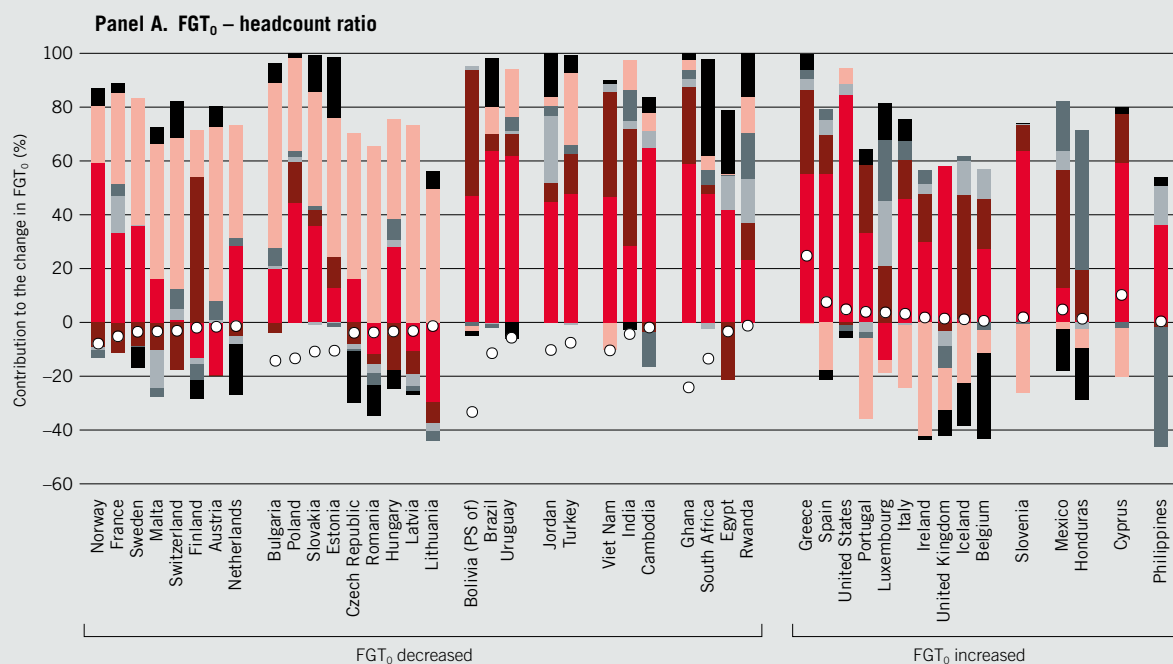
In all Latin American countries where the incidence of poverty declined (Plurinational State of Bolivia, Brazil and Uruguay), wages contributed the most. In these countries, regular revisions of minimum wages have induced average real wages to rise, which has helped to reduce poverty (ILO, 2015b). The other sources of income that contributed to the decline were self-employment incomes in the Plurinational State of Bolivia; non-contributory social transfers in Brazil; and contributory social transfers in Uruguay. In Asian countries, wages contributed the most in Cambodia, and wages and self-employment incomes in India and Viet Nam, which have observed a decline in the incidence of poverty over the past decade. In the Asian countries, social transfers only played a very small role in reducing poverty incidence. In Jordan, wages, capital incomes and non-contributory social transfers contributed most to the decline in poverty, while in Turkey it was wages and contributory and non-contributory social transfers. In Africa, the factors were varied: in South Africa, wages contributed the most to the decline in poverty, followed by non-contributory transfers; in Ghana, wages and self-employment income contributed the most; while in Egypt and Rwanda there was no dominant factor – it was a combination of labour and non-labour incomes that contributed to the decline ([figure 1E.1, panel A](#)).

In countries where the incidence of poverty ( $FGT_0$ ) increased, irrespective of the region, labour incomes (wages and self-employment) were the most important contributing factor, except in Honduras and Luxembourg. Some of the Southern European countries (Greece, Portugal, Spain) and Ireland have observed a decline in real wages since the crisis of between 2 per cent and 5 per cent per year on average, particularly affecting the low-paid workers and increasing their vulnerability to poverty (OECD, 2014). However, social transfers (both contributory and non-contributory) have had a moderating effect, as a result of which the impacts are lower in all countries except for Greece, the Philippines and the United States. In Greece, the effect of contributory social transfers was quite small due to the cuts in social protection expenditure; in the Philippines, private transfers played an important role in moderating the effects and as a result the incidence of poverty only increased marginally; and in the United States, self-employment incomes, private transfers and non-contributory social transfers had a very small poverty-reducing effect ([figure 1E.1, panel A](#)).



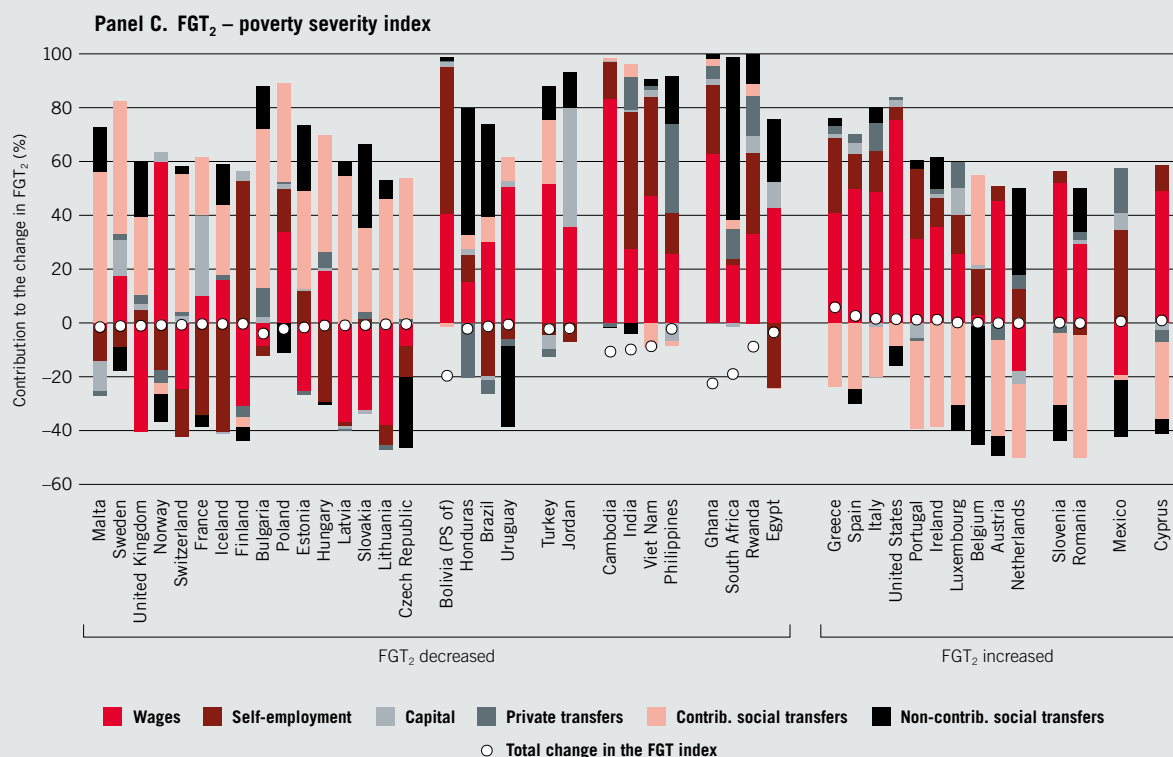
Figure 1E.1

Decomposition of the change in poverty (<60% of median income/<\$3.10 per day), mid-2000s to latest year available (percentages)



Looking at FGT<sub>1</sub>, which measures the gap between the incomes of the poor and the poverty threshold, the gap was reduced in about half of the developed countries (figure 1E.1, panel B). These are the same set of countries in which a reduction in the incidence of poverty (FGT<sub>0</sub>) was observed, except for Iceland and the United Kingdom. The factors that contributed to the reduction in the poverty gap are quite varied among these countries: contributory social transfers played an important role in most countries; wages played an important role in France, the Netherlands, Norway and Sweden; and self-employment incomes played an important role in Finland. Capital income also contributed

Figure 1E.1 (cont'd)



Source: ILO calculations based on household surveys (see appendix C, table 1C.1).

to reducing the poverty gap in France. The role of non-contributory social transfers was an important factor in Iceland, Malta and the United Kingdom, while the importance of private transfers was quite limited in these countries.

Among the CEE countries the poverty gap (FGT<sub>1</sub>) reduced in all countries except Slovenia (figure 1E.1, panel B). The countries that observed a decline in the poverty gap had also observed a decline in the incidence of poverty. In all the countries except Poland the most important factor contributing to the reduction in the poverty gap was contributory social transfers. In Poland, labour incomes, largely wages and self-employment incomes, contributed to reducing the poverty gap. All developing and emerging countries under analysis except for Mexico experienced a reduction in the poverty gap. Labour incomes (wages and self-employment) played an important role in reducing the poverty gap in all these countries, except for the Philippines, where private transfers were the dominant factor, and Honduras and South Africa, where non-contributory transfers were the most dominant factor. Private transfers also played an important contributing role in India, Rwanda and South Africa. Non-contributory social transfers were an equally important factor in reducing the poverty gap in Brazil, Egypt, Honduras, Jordan, the Philippines, Rwanda, South Africa and Turkey.

In countries where the poverty gap increased, it was due to labour incomes, largely wages; except in Mexico, where self-employment incomes also contributed to the increase (figure 1E.1, panel B). Social transfers (both contributory and non-contributory) were important in equalizing the effects in all countries.

Looking at changes in the severity of poverty (FGT<sub>2</sub>), there was a decline in fewer than half of the developed countries (figure 1E.1, panel C). In Finland, the most important contributing factor was self-employment incomes; in Malta, Sweden, Switzerland and the United Kingdom, it was contributory social transfers; in Norway, it was solely wage incomes; in France and Sweden, wages, capital incomes and contributory social transfers were important factors. Non-contributory social transfers were also an important factor in reducing the severity of poverty in Iceland, Malta and the United Kingdom. In most of the CEE countries there was a reduction in the severity of poverty. Contributory social transfers were an important factor contributing to this decline in all these countries. In Poland, contributory social transfers, wages and self-employment incomes played important roles. Non-contributory social transfers contributed to reducing the severity of poverty in Bulgaria, Estonia and Slovakia.

All emerging and developing countries except for Mexico saw a reduction in the severity of poverty. Wages played an important role in reducing the severity of poverty in all countries. Self-employment incomes were also important in the Plurinational State of Bolivia, Ghana, India, Rwanda and Viet Nam. Capital income was important in Jordan, while private transfers were important in India, the Philippines, Rwanda and South Africa. Non-contributory social transfers were the most important factor in Brazil, Honduras and South Africa, and were also important in Egypt, Jordan, the Philippines, Rwanda and Turkey. In countries where the severity of poverty index (FGT<sub>2</sub>) increased, it was due to the decline in wages in most countries except for Iceland and Mexico, and social transfers (both contributory and non-contributory) played an important role in moderating the effects. Generally, the results regarding the decomposition of the severity of poverty index (FGT<sub>2</sub>) are very similar to those for the poverty gap index (FGT<sub>1</sub>).

## Appendix F. Non-income dimensions of poverty

Table 1F.1

### Impacts of food subsidies on poverty reduction

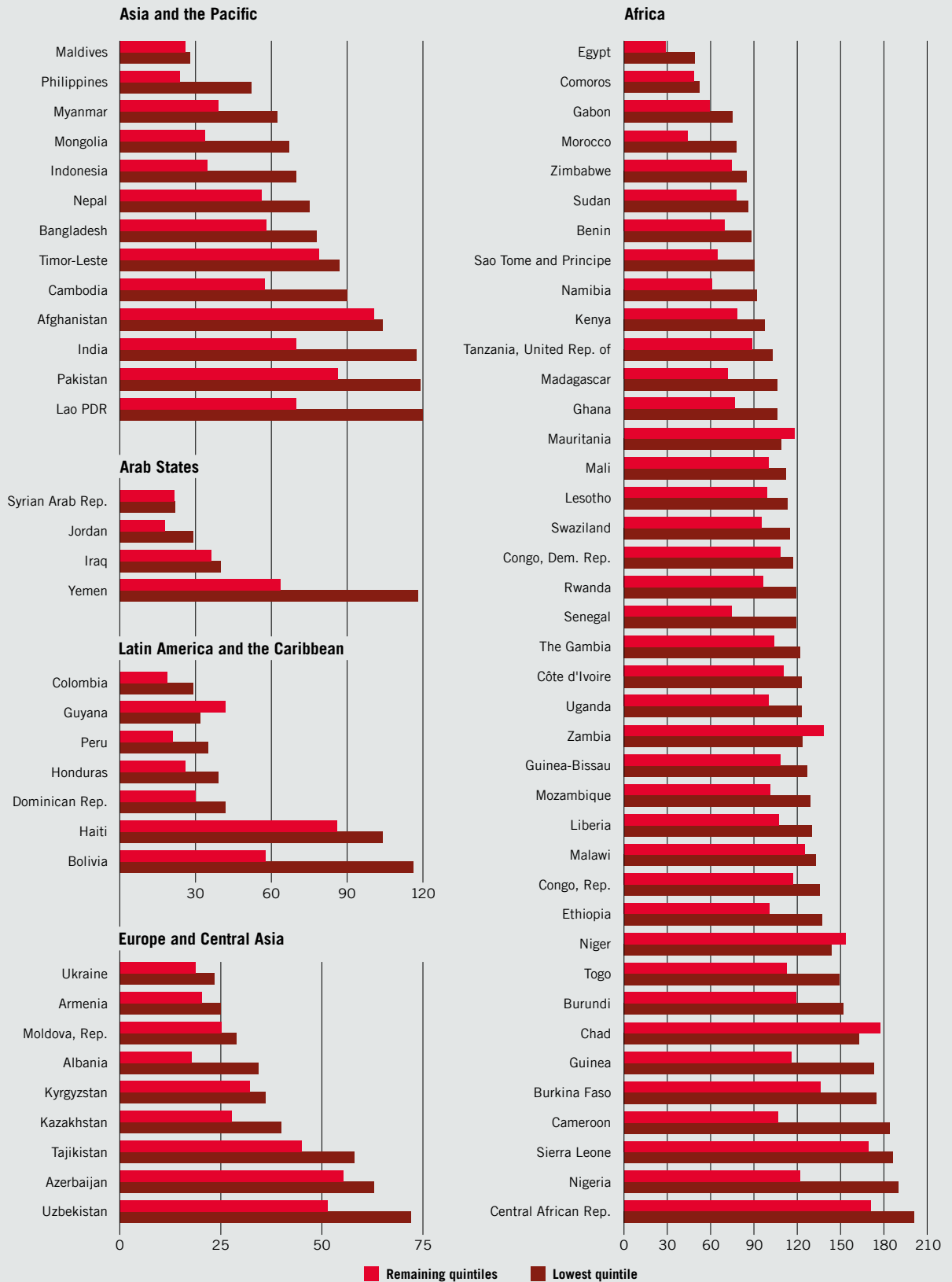
Country	Year	Subsidy programme and product	Poverty rate with food subsidies (A) (%)	Poverty rate without food subsidies (B) (%)	Impact of food subsidies on poverty reduction (B-A) (%)	% of the subsidies received by the poor	% of the poor who received any subsidies	Expenditure (% of GDP)	Description of the programme
Indonesia <sup>1</sup>	2010	Raskin (rice)	15.90	17.14	1.24	20.88	79.86	0.25 (2010)	Eligible households can purchase a maximum of 15 kg per month at 75%–80% less than the market price.
Philippines <sup>1</sup>	2009	NFA (rice)	11.98	12.46	0.48	20.78	54.27	0.05 (2009)	The NFA (National Food Authority) sells rice about 20% cheaper than non-NFA ordinary rice. NFA rice subsidies are universal with unlimited purchase.
Iraq <sup>2</sup>	2007	PDS (a basket of goods <sup>4</sup> )	3.37	7.43	4.06	3.23	99.71	3.30 (2011)	The PDS is an in-kind ration card system through which the government provides a list of subsidized commodities to almost 20% of the population.
Egypt <sup>3</sup>	2005	i. Ration cards (sugar, oil, rice and tea) ii. Baladi bread	19.60	26.60	7.00	18.00	i. Subsidized flour: 40 ii. Baladi bread: 70	1.70 (2005)	i. In 2005, ration cards allowed about 60% of Egyptian households to buy set quotas of specific commodities at subsidized prices from specific outlets. ii. Baladi bread is sold at 5 piasters (about \$0.01) per loaf, with no entitlement restrictions and distribution is on a first-come, first-served basis.

Note: <sup>1</sup> Poverty rate at < \$1.90 2011 PPP per day. <sup>2</sup> Poverty rate at < \$1.25 2005 PPP per day. <sup>3</sup> Poverty rate at moderate poverty line defined in World Bank (2007).  
<sup>4</sup> In 2007, this included wheat flour, rice, sugar, vegetable oil, chickpeas, white beans, lentils, tea, milk (powdered), salt, soap, detergent, infant formula (powdered), weaning cereal, tomato paste and white flour, 16 items in total.

Source: Indonesia: ILO calculations (for expenditure as a percentage of GDP); Philippines: ILO calculations and IMF, 2011 and Philippines National Food Authority, 2016 (for expenditure); Iraq: ILO calculations and Sdravovich et al., 2014 (for expenditure); Egypt: World Bank, 2007.

Figure 1F.1

Under-five mortality rates, latest year available (per 1,000 live births)



Source: World Bank (2016).

## Notes

1. All surveys (most of which are income or expenditure surveys) are nationally representative, with the exception of that from Argentina, which only covers urban areas.
2. The chapter also takes into consideration the diverse set of country contexts and attempts, to the extent possible (based on data availability), to employ different measures of poverty depending on the ILO classification of countries.
3. SDG 1 comprises five targets, which include: the headcount measure of poverty according to the extreme poverty rate (target 1.1); poverty in all its forms according to national definitions (target 1.2); appropriate social protection systems and coverage and measures for all, including floors (target 1.3); and equal rights to economic resources and access to basic services (target 1.4) (ILO, 2015b). The breadth of these targets reflects the multidimensionality of poverty, particularly with regard to social exclusion.
4. This extreme poverty threshold of \$1.25 per day in 2005 PPPs is subject to revision and change, for instance with updated PPP conversion rates or consumer price indices, which can significantly alter estimates of poverty (Deaton, 2010). The estimates are in 2011 PPPs.
5. In section C, several relative poverty lines are used, including 30 per cent and 60 per cent of median disposable household income.
6. Similar findings were observed by region, in the Americas, Europe and Central Asia. In Asia and Africa, however, multidimensional poverty measures tended to be higher than monetary poverty measures.
7. Emerging countries correspond to middle-income countries in World Bank income classification. Developing countries correspond to low-income countries and developed countries to high-income countries. See country regional and income groupings in Appendix A.
8. The difference in poverty rates between ILO calculations and OECD or Eurostat proportions of people at risk of poverty stands not only on the different set of countries considered but also in the different method used to determine the consumption of income per person, namely per capita basis or per adult equivalent.
9. Same source as for table 2.
10. Results by sector and by level of skill are based on a more limited set of countries. Estimates of poverty rates by broad sector are based on 43 developing and emerging countries, and those by level of skill are based on 17 countries.
11. Eurostat (poverty measures based on equivalized median household income).
12. Contributing family workers represented 29.0 per cent of female employment and 13.5 per cent of male employment among the extreme poor and, respectively, 15.5 per cent of female employment and 6.8 per cent of male employment among the non-poor. ILO calculations based on household survey data covering 66 emerging and developing countries.
13. A higher share of the poor are unemployed, at 7 per cent of their population, compared to the non-poor at under 3 per cent.
14. This includes income and own production from both agricultural and non-agricultural work.
15. The monetary revenues included in capital income are those that are regular in nature. One-time revenues or receipts (cash inheritances, capital gains, gambling, lottery, etc.) are not included in this analysis. “Stocks” or “assets” are not considered as such in this analysis and only income flows are covered.
16. In Iceland, non-contributory and contributory social transfers constitute a smaller proportion of the total household income than in other Nordic countries, and labour income constitutes the most important source of income (figure 1.3, panel B).
17. For all countries, two groups of employees are distinguished. For European countries, the distinction is between permanent and temporary employees; for emerging and developing countries, the distinction is between formal and informal employees.
18. There are a number of approaches to measuring poverty from a multidimensional perspective. The Multidimensional Poverty Index (MPI; Alkire and Santos, 2010) uses ten indicators for the three dimensions of poverty – education, health and living standards – to identify the multidimensionally poor. Another index that is frequently used in the context of multidimensional poverty is the Human Development Index (HDI; Anand and Sen, 1994). While the level of analysis for the MPI is the household, the HDI appraises the achievements in the key dimensions of human development (long and healthy life, access to knowledge and decent standard of living) on the national level.
19. However, given the scale of these programmes (for instance, nine out of 28 subsidy programmes – both for food and fuel – examined by the IMF (2008) had costs of over 3 per cent of GDP), the administrative and financial costs of shifting to a targeted programme may not be an option.

20. Materials used for the construction of walls, roofs and floors of dwellings were classified into solid and weak. Dwellings with walls and/or roof constructed with weak materials were classified as insecure. The type of floor was recorded in case information on either the wall or the roof was missing. Examples of weak wall materials are mud, poor-quality wood, cardboard, and wattle and daub. Solid wall materials include burned bricks, cement, concrete and tiles. Solid roof materials include tiles, metal and concrete slabs. Weak roof materials include straw, palm leaves and poor-quality wood.
21. "Biomass" includes wood, dung and crop residues or by-products. Kerosene/paraffin and coal/charcoal are classified as "pollutants". Gas, biogas and electricity are classified as "non-pollutants", as they produce significantly lower emissions for the end user.

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# 2 Addressing the income gap

## Introduction

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This chapter discusses the income gap, an estimate of how much additional income from labour and how much additional spending on social protection would be needed, at a minimum, to eliminate poverty. The chapter examines how the income gap varies depending on the demographic and labour market position of the poor. This analysis is essential for understanding the relative importance of a number of policy tools, notably social protection and employment policies, which will be reviewed in detail in Part II of this report.

Eliminating poverty, however, calls for a broad range of policies such as governance arrangements, access to basic services and well-designed rural development strategies, which cannot be directly captured through an analysis of the income gap. With these limitations in mind, this chapter provides estimates of the income gap for countries at different levels of economic development (section A). The main determinants of income gaps are then described (section B). In particular, the extent to which poor households are primarily affected by high demographic and economic dependency ratios or by decent work deficits is assessed; such an analysis should be helpful in the process of formulating the most appropriate combination of policy responses. Based on the assessment of individuals' and households' demographic and economic characteristics, section C discusses different cases where, as part of combined policies, social protection or improved labour incomes might play a major role in filling the income gap, and section D concludes.

## A. Estimating the income needed to eliminate poverty

### The amount of income needed to eliminate extreme poverty in emerging and developing countries represents less than 1 per cent of global income

Estimates conducted for the purposes of this report suggest that, in 2012, US\$120 billion would have been needed to eliminate extreme poverty in the world (box 2.1).<sup>1</sup> The income gap for eliminating extreme poverty represents 0.16 per cent of total income available in the world and 0.31 per cent of total income available in emerging and developing countries, but over 5 per cent in developing countries alone. Although the income gap seems small when viewed from a global standpoint, it still represents a relatively high proportion of countries' government expenditure and social protection budgets in emerging and developing countries (table 2A.1, appendix A).<sup>2</sup>

To eliminate both extreme poverty and moderate poverty (defined as incomes or consumption expenditure below \$3.10 purchasing power parity (PPP) per day), nearly US\$600 billion would be needed (table 2A.2, appendix A). This represents 0.8 per cent of global income, 1.7 per cent of the income available in emerging and developing countries, 1.4 per cent in emerging countries and 21 per cent of gross domestic product (GDP) in developing countries alone. The amount of income needed to eliminate poverty (defined at \$5 PPP per day) is in excess of US\$2 trillion.

In developed countries, the income needed to bring all the poor above the relative poverty line<sup>3</sup> (defined as 60 per cent of median household income) is estimated at US\$850 billion, or 1.7 per cent of the total income of developed countries in 2012 (table 2A.4, appendix A). This amount represents 4.2 per cent of total government expenditure and 7.8 per cent of public social protection expenditure.<sup>4</sup>

#### Box 2.1

##### Estimates of the global income gap

The global income gap or global aggregate poverty gap is the minimum amount of income needed to bring all poor people out of poverty. It is estimated as the sum of the differences for all poor people between their current per capita expenditure on consumption or income (depending on the country) and the respective poverty lines. The global income gap therefore provides a minimum estimate of the amount by which labour incomes and social protection transfers should increase to end poverty, based on a static perspective. The term "minimum" means that, as far as social protection transfers are concerned, the interpretation of this gap is only reasonable if the transfers could be made perfectly efficiently, which is highly implausible (Haughton and Khandker, 2009). The analysis of the income gap takes on board the depth of poverty (or distance to the poverty line) not assessed when considering poverty rates for different groups. The estimate of the income gap for different population groups (such as in figure 2.2) considers the distance to the poverty line for each individual below the poverty line according to her or his demographic and labour market position.

The analysis of the gap – total and for population groups – is based on national household surveys from 103 countries representing close to 85 per cent of the world population from the different regions, including 37 developed countries. Data for the majority of countries (more than 80 per cent) refer to the period 2010–13.

The resulting distribution of the income gap for the different population groups (children less than 15 years old, employed aged 15–64 by employment status, unemployed, inactive able and unable to work and persons aged 65 and over) calculated for each country for the latest year available was applied to the 2012 data adjusted on the World Bank's interactive computational tool, PovcalNet (World Bank, 2016a) and extrapolated to the world and regional populations.

The comparison of the estimated total income gap presented in this report – based on extrapolated results from 103 countries – with derived estimates from the broader set of countries available in the World Bank PovcalNet database, highlights a difference of less than 0.02 per cent of GDP for the global income gap to end extreme poverty, the World Bank estimate being higher.

Table 2.1

## Global income gap, by region and level of the poverty line, 2012 (percentages)

	Distribution (%)				Income gap (% of GDP)				Income gap (% government expenditure)			
	\$1.90 PPP	\$3.10 PPP	\$5 PPP	Relative	\$1.90 PPP	\$3.10 PPP	\$5 PPP	Relative	\$1.90 PPP	\$3.10 PPP	\$5 PPP	Relative
<b>Emerging and developing</b>	<b>88.6</b>	<b>96.5</b>	<b>98.1</b>		<b>0.31</b>	<b>1.65</b>	<b>5.72</b>		<b>1.46</b>	<b>7.27</b>	<b>24.34</b>	
Africa	48.6	36.1	28.8		1.67	5.85	15.82		9.03	31.30	82.97	
Latin America and the Caribbean	6.3	4.6	4.8		0.10	0.36	1.28		0.35	1.27	4.58	
Arab States	0.1	0.4	1.2		0.03	0.44	4.41		0.08	1.03	10.33	
Asia and the Pacific	33.3	55.0	62.6		0.19	1.49	5.75		0.74	5.84	22.55	
Europe and Central Asia	0.2	0.4	0.7		0.01	0.09	0.53		0.04	0.30	1.76	
Rural	85.8	84.1	80.7		0.27	1.39	4.61		1.25	6.11	19.64	
Urban	14.2	15.9	19.3		0.04	0.26	1.10		0.21	1.16	4.70	
Emerging Developing	75.7	82.5	86.3		0.25	1.40	5.05		1.14	6.02	20.95	
	24.3	17.5	13.7		5.48	20.75	55.95		25.57	101.36	279.62	
<b>Developed</b>	<b>11.4</b>	<b>3.5</b>	<b>1.9</b>		<b>0.02</b>	<b>0.03</b>	<b>0.05</b>	<b>1.67</b>	<b>0.04</b>	<b>0.06</b>	<b>0.12</b>	<b>4.15</b>
Rural	20.1	19.0	20.0	15.0	0.00	0.01	0.01	0.25	0.01	0.01	0.02	0.62
Urban	79.9	81.0	80.0	85.0	0.02	0.02	0.04	1.42	0.03	0.05	0.10	3.53
<b>World</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>0.16</b>	<b>0.80</b>	<b>2.74</b>		<b>0.72</b>	<b>3.49</b>	<b>11.63</b>	
Rural	76.7	80.9	79.1		0.12	0.65	2.17		0.55	2.82	9.19	
Urban	23.3	19.1	20.9		0.04	0.15	0.57		0.17	0.67	2.44	

Note: Global and regional estimates based on 103 countries representing close to 85 per cent of the world population. See appendix A for detailed regional aggregates and appendix G for data sources. Extreme poverty is defined as the share of those with per capita income or consumption below \$1.90 PPP per day; extreme and moderate poverty is defined as the share of those with per capita income or consumption below \$3.10 PPP per day; the relative poverty line for developed countries refers to 60 per cent of median household income or consumption expenditure.

Source: ILO calculations based on national household survey data.

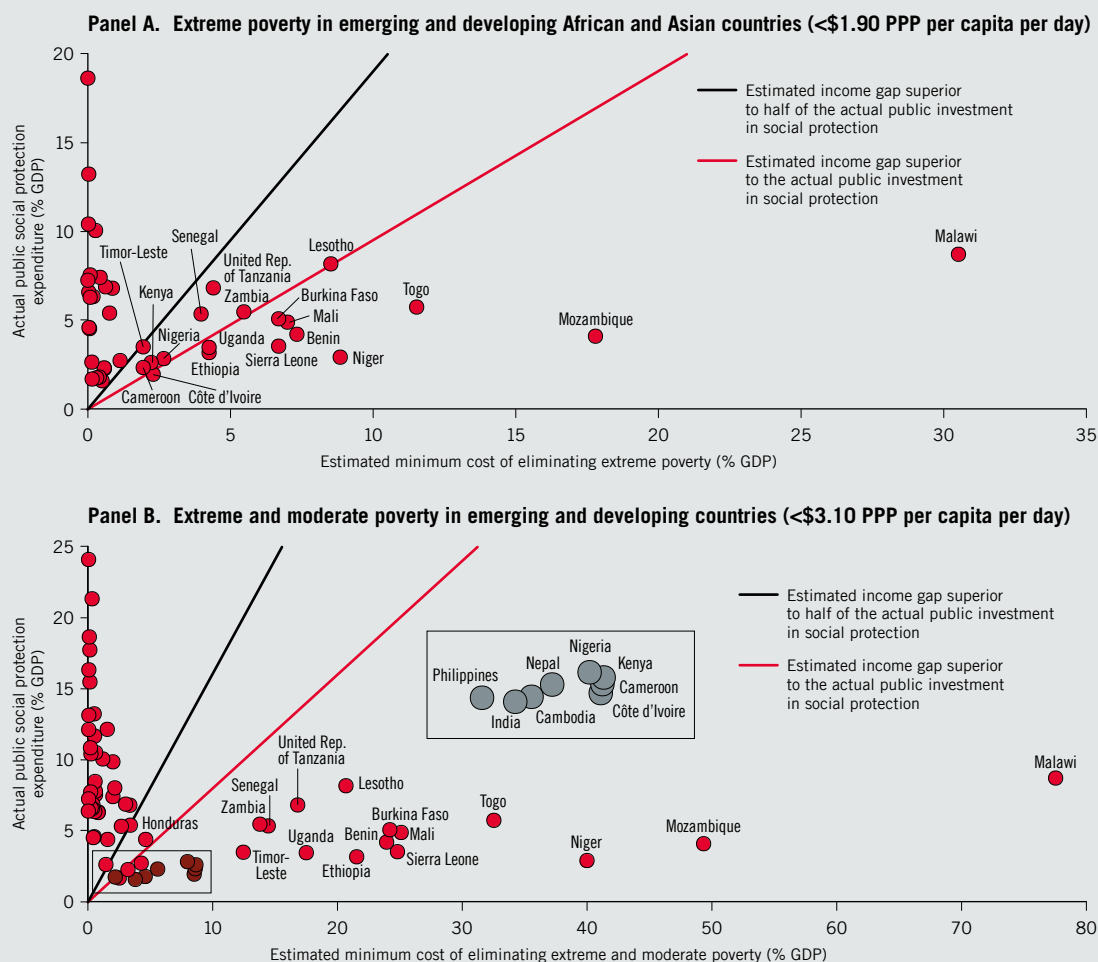
This global picture masks significant differences both between and within countries (see country results in appendix B).<sup>5</sup> Emerging and developing countries account for almost 90 per cent of the global income gap for eliminating extreme poverty and Africa alone accounts for 48.6 per cent (table 2.1). Asia, however, represents 55 per cent of the global income gap for eliminating both extreme and moderate poverty and more than 60 per cent when the per capita poverty line is fixed at \$5 PPP per day. Rural areas represent nearly 85 per cent of the global income gap for eliminating both extreme and moderate poverty in emerging and developing countries and 15 per cent of the income gap in developed countries.

### The income gap represents over half of social protection budgets in many emerging and developing countries

Eliminating poverty through social transfers alone cannot be considered as the solution (ILO, 2001 and 2003) and would represent a major challenge. Indeed, the total cost of eliminating extreme poverty represents more than half of total expenditure on public social protection (illustrated by the black line in figure 2.1, panel A) in nearly one out of three emerging and developing countries, in 60 per cent of the countries in Africa and in 85 per cent of low-income countries.<sup>6</sup> On average, the income gap for eliminating both extreme and moderate poverty represents nearly 70 per cent of total spending on social protection in the emerging and developing countries for which data are available (figure 2.1, panel B). The figure comes to 73 per cent in Asia and 163 per cent in Africa.

**Figure 2.1**

**Total income gap and expenditure on public social protection, 2012 (percentage of GDP)**



Note: Panel A, in countries on the right side of the red line, the estimated income gap to eliminate extreme poverty in emerging and developing African and Asian countries is superior to the actual total public investment in social protection. In countries on the right side of the black line the estimated income gap accounts for more than half of actual public social protection expenditure which is still above the proportion of social protection that reaches the poor in many countries (see section B). Country data are available in figure 2C.1 in appendix C. Panel B considers the cost of eliminating extreme and moderate poverty and includes emerging and developing countries from all regions. Country data are available in figure 2C.2 in appendix C.

Source: ILO calculations based on national household survey data for the income gap and ILO (2015a); OECD (2015a); ADB (2015); Eurostat (2015a) for social protection expenditure data.

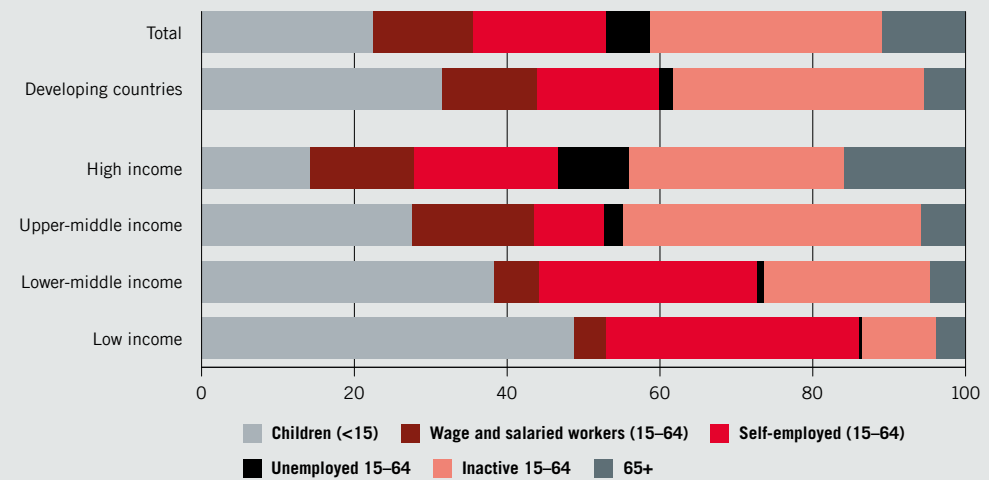
**High demographic and economic dependency ratios are important determinants of poverty**

The analysis of the composition of the income gap by age group and economic status confirms the importance of demographic factors as major determinants of poverty (figure 2.2). Children under 15, people aged 65 and over and people aged 15–64 outside the labour force represent nearly 70 per cent of the global income gap for eliminating both extreme and moderate poverty.

Child poverty accounts for 32 per cent of the income gap in emerging and developing countries. Employed people, whether in emerging and developing or in developed countries, represent 30 per cent of the total gap; the self-employed (employers, own-account workers and contributing family workers) account for more than 80 per cent of the income gap associated with working poverty in low- and lower-middle income countries.

**Figure 2.2**

**Composition of the total income gap (extreme and moderate poverty: <\$3.10 PPP per capita per day), 2012 (percentages)**



*Note: Global estimates based on 103 countries representing close to 85 per cent of the world population. Detailed country data are available in appendix B and global estimates in appendix A.*

*Source: ILO calculations based on national household survey data.*

People aged 65 and over represent 5.3 per cent of the total income gap to end extreme and moderate poverty in emerging and developing countries and 8.5 per cent in developed countries for the relative poverty line of 60 per cent of median income. People with disabilities and unable to work (identified in national household surveys as those with disability being outside of the labour force and unable to work because of their disability) represent 0.5 per cent of the total income gap in emerging and developing countries for extreme and moderate poverty and 5.2 per cent in developed countries for the relative poverty line of 60 per cent of median income. Altogether, the minimum financial implications of measures to eliminate extreme and moderate poverty for these two groups, which should be able to count on social protection – ensured either through previous employment or their eligibility for tax-financed social protection schemes – represent 0.08 per cent of GDP in emerging and developing countries (at \$3.10 PPP per capita per day) and 0.2 per cent of GDP in developed countries (for the relative poverty line).

For most other groups, including children (through an improvement in their parents' working conditions), ending poverty requires a combination of increased labour incomes and social transfers. The extent of the need for income from social protection in these groups depends on the economic dependency ratio in the household and on current working conditions of the labour income earners. It also depends on employment opportunities for people in the household able and willing to work. All these factors determine the potential for a real improvement in labour incomes and their effective impact on poverty reduction for all household members.

Working poor people may benefit from decent working conditions and still be below the poverty line, not because they earn less than the poverty line but because they share this labour income with many dependants. In such situations, social protection might be the sole or best answer at least in the short run. Section B analyses the socio-demographic and economic features of individuals and households in which the poor are living, which are both important elements to be kept in mind in the discussion, in section C, of what could be an appropriate mix of social protection policies and policies that boost labour incomes from the point of view of individuals' needs and features.

## B. Demographic and economic dependency ratios and decent work deficits

### First, poor people live in larger households with a limited number of members with labour incomes

Poverty is strongly affected by household size and composition (OECD, 2009a). Compared to the non-poor, the poor tend to live in relatively large households, often without access to paid employment and in particular to wage and salaried employment, placing a heavy burden on labour income earners.<sup>7</sup> On average, people in extreme or moderate poverty live in households that have 6.2 persons, compared to 5.0 persons for the non-poor (table 2.2).<sup>8</sup>

Globally, one-quarter of the extreme and moderate poor live in households without labour income earners, compared to 15 per cent for the non-poor.<sup>9</sup> The deficit of labour income earners of working age in poor households is common to all regions, whatever the level of development or poverty lines. The extreme poor in emerging and developing countries live in households with on average 25 per cent of their working age members in paid employment (see box 2.2) compared to a proportion of 35.3 per cent for

**Table 2.2**

#### Size of household and percentage of household members in paid employment, latest year available

	Average household size		% of household members in paid employment		% of household members in wage and salaried employment		% of household members own-account workers or employers	
	Poor	Non-poor	Poor	Non-poor	Poor	Non-poor	Poor	Non-poor
<b>Extreme poverty: &lt;\$1.90 PPP per capita per day</b>								
<b>Emerging and developing countries</b>	<b>7.2</b>	<b>5.7</b>	<b>25.3</b>	<b>35.3</b>	<b>10.3</b>	<b>19.6</b>	<b>15.0</b>	<b>15.7</b>
Africa	8.4	6.4	19.8	27.8	4.8	11.2	15.0	16.6
Latin America and the Caribbean	5.9	4.4	17.3	41.9	6.1	29.4	11.2	12.5
Arab States	11.4	8.0	16.7	22.8	9.0	16.0	7.7	6.8
Asia and the Pacific	7.1	5.7	28.1	36.5	12.4	20.3	15.7	16.2
Europe and Central Asia	7.2	4.4	20.1	35.1	9.2	28.7	11.2	6.6
<b>Developed countries</b>	<b>3.4</b>	<b>3.4</b>	<b>15.4</b>	<b>44.1</b>	<b>10.4</b>	<b>39.2</b>	<b>5.4</b>	<b>5.0</b>
Americas	3.6	3.5	8.8	47.8	7.8	43.0	1.9	5.0
Asia and the Pacific	4.3	4.2	33.3	44.5	24.4	40.0	8.9	4.6
Europe and Central Asia	3.0	3.1	16.1	41.6	9.3	36.5	7.1	5.1
<b>World average</b>	<b>6.5</b>	<b>5.2</b>	<b>23.4</b>	<b>37.0</b>	<b>10.3</b>	<b>23.4</b>	<b>13.1</b>	<b>13.6</b>
<b>Extreme and moderate poverty: &lt;\$3.10 PPP per capita per day</b>								
<b>Emerging and developing countries</b>	<b>6.8</b>	<b>5.5</b>	<b>27.0</b>	<b>37.1</b>	<b>11.4</b>	<b>22.2</b>	<b>15.6</b>	<b>15.0</b>
Africa	7.9	5.9	21.3	30.2	5.7	13.8	15.6	16.5
Latin America and the Caribbean	5.8	4.3	21.7	43.1	10.2	30.6	11.5	12.5
Arab States	10.5	7.6	17.5	23.4	10.5	16.8	7.0	6.6
Asia and the Pacific	6.6	5.5	29.5	38.3	13.1	23.1	16.4	15.2
Europe and Central Asia	6.5	4.2	21.6	36.1	10.6	30.1	11.3	6.2
<b>Developed countries</b>	<b>3.7</b>	<b>3.4</b>	<b>19.6</b>	<b>44.2</b>	<b>13.0</b>	<b>39.3</b>	<b>6.9</b>	<b>5.0</b>
Americas	3.9	3.5	10.0	47.9	8.4	43.1	2.1	5.0
Asia and the Pacific	4.7	4.2	35.0	44.6	26.3	40.0	8.8	4.6
Europe and Central Asia	3.3	3.1	22.8	41.7	13.3	36.6	9.7	5.1
<b>World average</b>	<b>6.2</b>	<b>5.0</b>	<b>25.6</b>	<b>38.5</b>	<b>11.7</b>	<b>25.5</b>	<b>13.9</b>	<b>13.0</b>
<b>Relative poverty: &lt;60 per cent of median household income</b>								
<b>Developed countries</b>	<b>4.0</b>	<b>3.2</b>	<b>28.4</b>	<b>46.9</b>	<b>23.0</b>	<b>41.9</b>	<b>5.6</b>	<b>5.1</b>
Americas	4.2	3.2	29.1	53.0	25.5	47.7	4.0	5.4
Asia and the Pacific	4.6	4.2	33.9	44.6	27.8	40.0	6.1	4.6
Europe and Central Asia	3.7	3.0	26.9	43.4	20.4	38.4	6.6	5.0

Note: Global estimates based on 103 countries representing close to 85 per cent of the world population. Weighted by total population. Paid employment includes wage and salaried employment, own-account workers and employers. See appendix G for detailed data sources.

Source: ILO calculations based on national household survey data.

the non-poor (see Chapter 1, section D). Lack of paid employment among poor households is even more striking in developed countries. Considering the relative poverty line of 60 per cent of median household income, the proportion of people in paid employment is 28.4 per cent for the poor and 46.9 per cent for the non-poor.<sup>10</sup> In all regions, both developed and developing, poverty is associated with a deficit of wage and salaried employment. Indeed, the incidence of wage and salaried employment is 2.5 times higher among the non-poor than among the poor.

## Box 2.2

### Definition of terms

**Demographic dependency ratio:** the demographic dependants include those under the age of 15 (child dependency) and over the age of 64 (old-age dependency). The productive part is made up of the population considered to be of working age, between 15 and 64 years. The ratio is expressed as a percentage. Total demographic dependency ratio = (number of people aged 0–14 and those aged 65 and over)/number of people aged 15–64 × 100. A high demographic dependency ratio may be an increased burden on the income earners within households and in a country.

**Economic dependency ratio (EDR):** this is based on the actual activity status of the household members rather than on their ages. A first version is calculated as the ratio of the household members outside the labour force (children, inactive aged 15–64 and people aged 65 and over) to those actually working or unemployed aged 15–64. A second and third versions consider the ratios between those outside employment or outside paid employment and those in employment or in paid employment aged 15–64. Hence the EDR measures the number of inactive household members for each active member or, alternatively, in its second and third versions, the number of non-working household members or non-labour income earners to household members in employment or in paid employment (15–64 years old).

**Persons in employment** are defined as all those of working age who, during a short reference

period, were engaged in any activity to produce goods or provide services for pay or profit (see below). Persons in employment are wage and salaried workers and the self-employed. Self-employed persons include employers, own-account workers and contributing family workers.

**Paid employment** in this chapter includes all persons in employment except contributing family workers.

**For pay or profit** refers to work done as part of a transaction in exchange for remuneration payable in the form of wages or salaries for time worked or work done, or in the form of profits derived from the goods and services produced through market transactions, specified in the most recent international statistical standards concerning employment-related income (ILO, 2013a). Contributing family workers are included as part of the employed, as persons who work for pay or profit payable to the household or family in market units operated by a family member living in the same or in another household.

**Permanent contracts** are defined as open-ended contracts, or as contracts of unlimited duration (ILO, 2015c). They are considered as more secure as they allow visibility regarding the future evolution of work and income. Such arrangements still cover more than 50 per cent of all wage and salaried workers but just above one out of four workers (including both wage and salaried workers and those in self-employment) (ILO, 2015b).

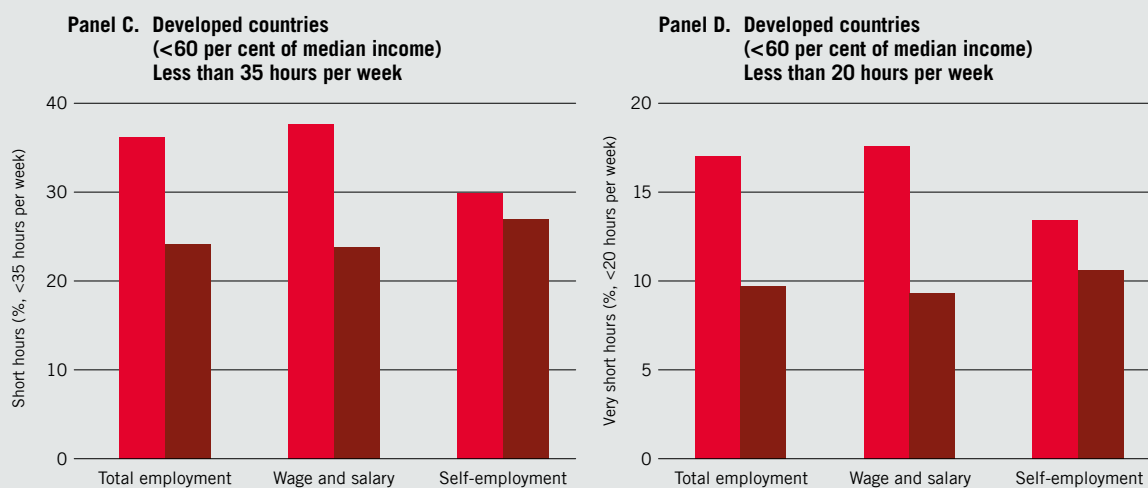
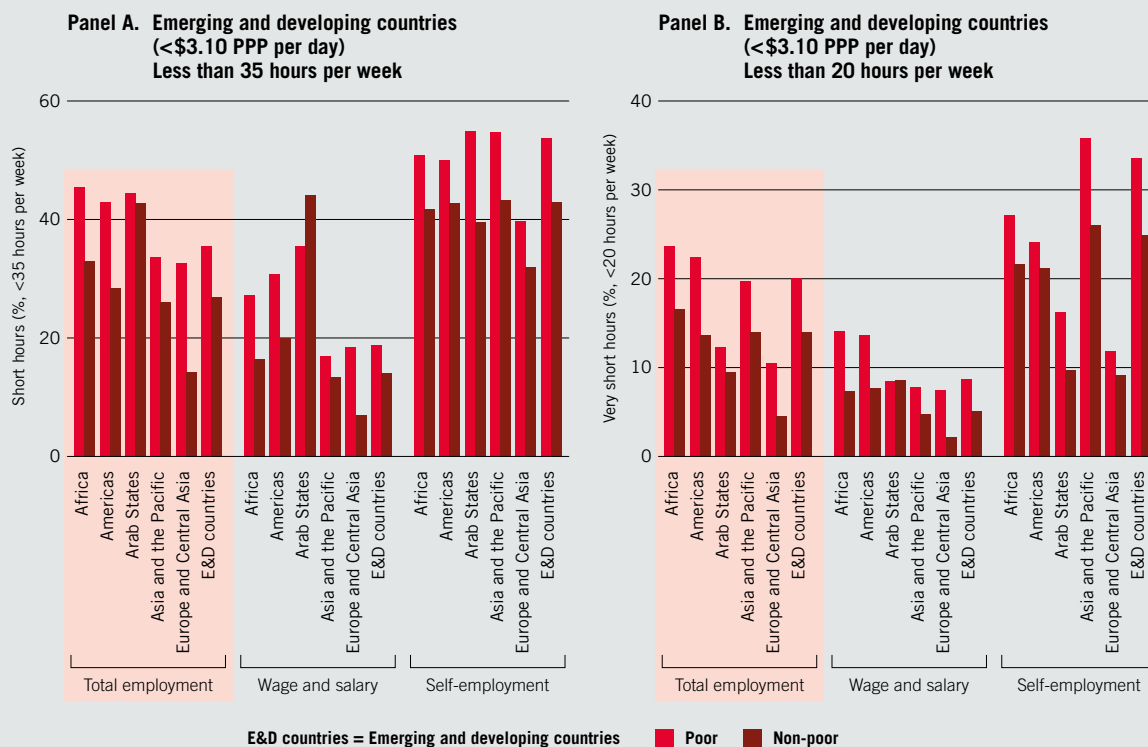
## Second, the poor face significant working-time deficits

The proportion of workers working short hours for pay or profit (less than 35 hours per week) or very short hours (less than 20 hours per week)<sup>11</sup> is systematically higher among the poor compared to the non-poor. This is true for both wage and salaried workers and for the self-employed, in both emerging and developing (figure 2.3, panels A and B) and developed countries (figure 2.3, panels C and D).

In emerging and developing countries, low rates of unemployment and the absence of unemployment protection in the majority of countries<sup>12</sup> tend to be associated with high levels of informal employment and widespread time-related underemployment (Heshmati, Maasoumi and Wan, 2015). The lack of

**Figure 2.3**

**Short hours of work and poverty in emerging, developing and developed countries, latest year available (hours per week)**



*Note: Global weighted estimates based on 82 countries (47 emerging and developing countries and 37 developed countries) representing more than 75 per cent of total employment (74 per cent in emerging and developing countries and 85 per cent in developed countries). The Arab States are not represented in the figure as they have a representation of less than 50 per cent. Hours of work refer to usual hours of work from all jobs when available, otherwise from main and second jobs. Panels A and B: common poverty line of \$3.10 PPP per day and per capita; panels C and D: relative poverty line of 60 per cent of median household disposable income or household expenditure on consumption. The population of reference covers people in employment aged 15–64. Data are for the latest year available, which ranges between 2005 and 2013. One-fourth of the country data refer to 2005–09 and nearly 60 per cent of country data are for 2012 or 2013.*

*Source: ILO calculations based on national household survey data.*



access to piped water and the reliance on firewood as a source of energy affect the poor more than the non-poor (see Chapter 1, section D). Time poverty underscores the capabilities of the poor and their opportunities for time spent of work for pay or profit (Chant, 2010). Over 35 per cent of the working poor in extreme or moderate poverty work less than 35 hours per week for pay or profit (taking into account all their usual jobs), compared to 27 per cent of the non-poor. The poor in self-employment are particularly badly hit by short working hours: more than half (54 per cent) usually work less than 35 hours per week, compared to 19 per cent of wage and salaried workers below the poverty threshold.<sup>13</sup>

In the case of developed countries, it is the wage and salaried workers, rather than the self-employed, who are most affected by short working hours. Evidence from selected developed countries shows an increase in the prevalence of very short hours of work and the associated increase in the incidence of working poverty<sup>14</sup> and exclusion from coverage by employment-related social protection benefits<sup>15</sup> (ILO, 2015b).

In developed, emerging and developing countries alike, it is women in particular who work short or very short hours for pay or profit, often for low pay. At the same time they face longer working days, when both paid and unpaid work are considered. Women are more time-poor than men (Chant, 2010). Indeed, gender gaps in the distribution of unpaid household and care work also mean that women are more likely to work shorter hours for pay or profit (ILO, 2016a). In developed countries, more than 50 per cent of all working poor women work less than 35 hours per week for pay or profit and more than one-fourth work less than 20 hours per week. These proportions are higher among wage and salaried workers<sup>16</sup> and in all cases exceed the proportions observed among the non-poor. In emerging and developing countries, those affected the most are self-employed women.<sup>17</sup>

### **In Asia, the poor are also subject to excessive working hours**

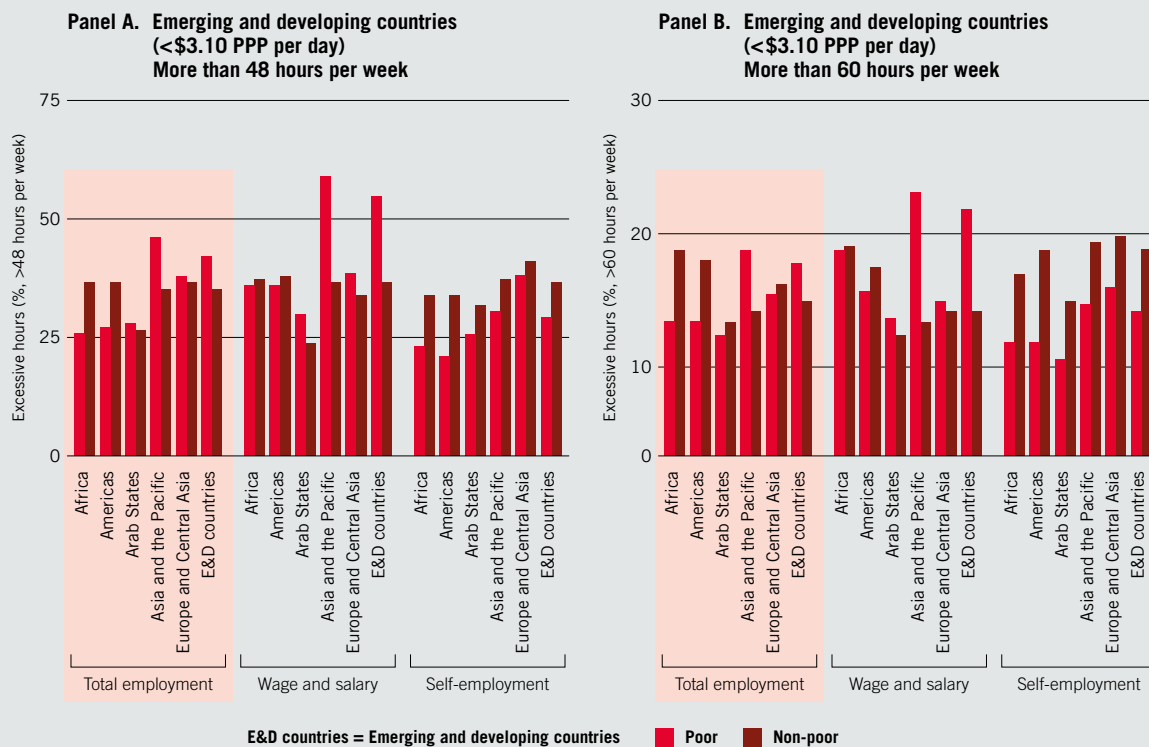
While the practice of working excessive hours can improve earning potential and career prospects, it can also expose workers to safety and health risks (ILO, 2011a and 2011b; Lee, McCann and Messenger, 2007). Working hours tend to be more polarized for the poor than for the non-poor, whose working hours tend to cluster around standard working hours, in line with national regulations. In addition to being more likely to be in underemployment, the poor in emerging and developing countries are also more likely than the non-poor to face the risks associated with excessive hours without having the opportunity to gain from those extra hours.

Asia is the region where the phenomenon of excessive working hours is most common, in particular for wage and salaried workers (figure 2.4; ILO, 2016a; Clean Clothes Campaign, 2014). In the emerging and developing countries of Asia and the Pacific, almost 60 per cent of the extreme and moderate poor in wage and salaried employment routinely work more than 48 hours per week and more than 22 per cent work more than 60 hours per week (figure 2.4, panels A and B). In other regions, the proportion of working poor who work excessive hours is typically lower than in Asia. Outside developing Asia, 27 per cent on average of the extreme and moderate working poor work more than 48 hours compared to 36 per cent of the non-poor.

The characteristics of workers working excessive hours are significantly different in developed countries (figure 2.4, panels C and D). The differences are more marked between employment statuses than between the poor and the non-poor. The self-employed below the poverty threshold are the most exposed to long working hours. One-third of the working poor in self-employment work more than 48 hours per week compared to 11.7 per cent of the poor in wage and salaried employment. National regulations primarily cover those who have an employment contract. The self-employed do not usually fall under the scope of working-time regulations resulting in a higher proportion of self-employed working excessive hours compared to those in wage employment. Even though not all wage and salaried workers in developed countries benefit fully from such protection, the protection of their rights is still more effective than in the developing world where informal employment is widespread among wage and salaried workers, especially among the poor (ILO, 2013b and 2015a; Vanek et al., 2014).

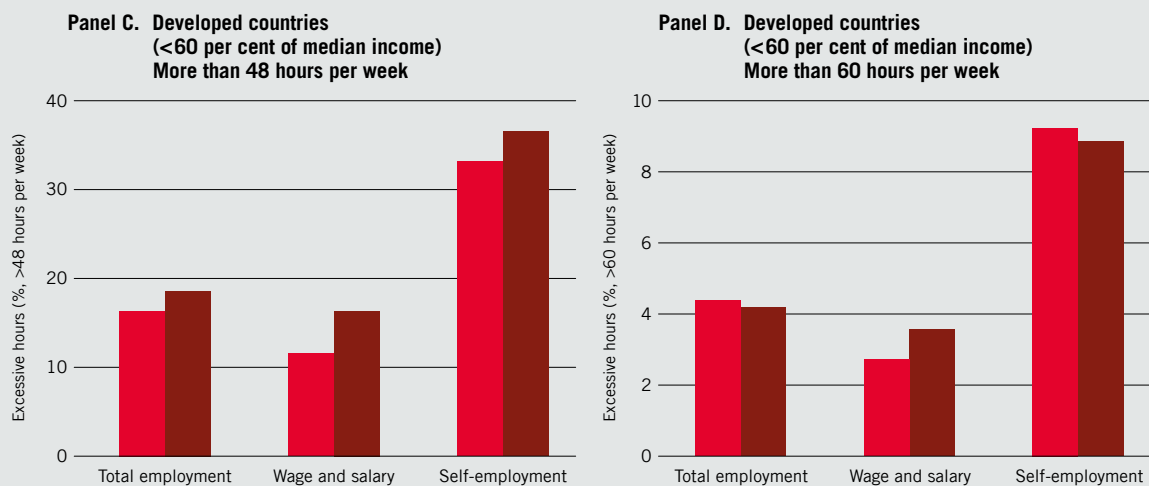
**Figure 2.4**

**Excessive hours of work and poverty in emerging, developing and developed countries, latest year available (hours per week)**



E&D countries = Emerging and developing countries

■ Poor ■ Non-poor



Note: Global weighted estimates based on 82 countries (47 emerging and developing countries and 37 developed countries) representing more than 75 per cent of total employment (74 per cent in emerging and developing countries and 85 per cent in developed countries). The Arab States are not represented in the figure because of a representation of less than 50 per cent of total employment in the region. Hours of work refer to usual hours of work from all jobs when available, otherwise from main and second jobs. The population of reference covers people in employment aged 15–64. Data are for the latest year available, which ranges between 2005 and 2013. One-fourth of the country data refer to 2005–09 and nearly 60 per cent of country data are for 2012 or 2013.

Source: ILO calculations based on national household survey data.

### Third, jobs of the poor are often less protected than those of the non-poor

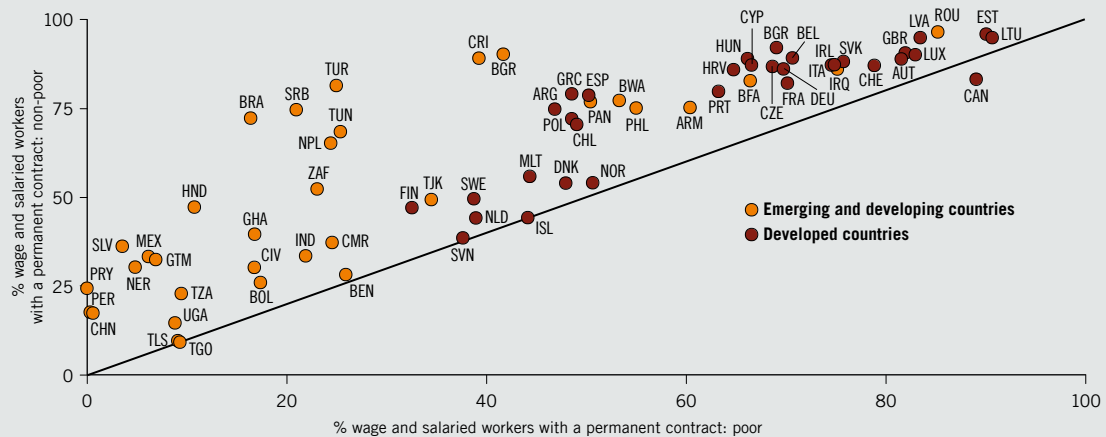
Employees without a permanent employment contract are often found to have less job stability and lower pay than those in regular full-time employment.<sup>18</sup> In addition, they suffer frequent periods of unemployment, which leads to sharp income fluctuations that endanger their economic self-sufficiency. Without exception, workers in unregulated, insecure employment arrangements, who are more likely to work without a contract and even more likely to work without a permanent contract, are also those most likely to be among the working poor. This is because such employment arrangements offer less pay (ILO, 2015c). Without a formal employment contract, workers are more vulnerable to the non-application of employment laws and regulations and are also more likely to face difficult working conditions.

In 34 emerging and developing countries for which relevant data are available, poor wage and salaried workers are three times less likely to have a permanent contract than their non-poor counterparts. Where extreme poverty is concerned, less than 8 per cent of the extreme poor have a permanent contract compared to more than 30 per cent of the non-extreme poor. As for extreme and moderate poverty, 10 per cent of the poor in wage and salaried employment compared to 33 per cent of the non-poor have a permanent contract. The poor and non-poor fare better in urban areas, where the proportion of regulated and secure employment is significantly higher. In emerging and developing countries, at \$3.10 PPP per day, less than 10 per cent of the poor in wage and salaried employment work under a permanent employment contract in rural areas compared to 23 per cent in urban areas. The proportions for non-poor are 21 per cent in rural areas and 39 per cent in urban areas.

In 33 developed countries with data, the working poor are also the ones who are more often found in temporary employment. Around 66 per cent of the wage and salaried poor have a permanent employment contract, compared to 81 per cent of non-poor (figure 2.5).

Figure 2.5

#### Permanent contracts among wage and salaried workers: comparison between poor and non-poor (extreme and moderate poverty: <\$3.10 PPP per capita per day), latest year available (percentages)



Note: This figure covers wage and salaried workers aged 15–64. The dark red dots for developed countries refer to the relative poverty line of 60 per cent of median disposable household income or consumption expenditure on a per capita basis and the orange dots for emerging and developing countries refer to the extreme and moderate poverty line of \$3.10 PPP per capita per day. Any dot above the diagonal means that the proportion of the non-poor in wage and salaried employment with a permanent contract is higher than the corresponding proportion among the poor. Country names associated with ISO3 codes and detailed data sources are presented in appendix G. Data are for the latest year available, which ranges between 2005 and 2013. One-fourth of the country data refer to 2005–2009 and nearly 60 per cent of country data are for 2012 or 2013.

Source: ILO calculations based on national household survey data.

#### **Fourth, poor people are less covered by employment-related social protection**

Affiliation to social protection gained through employment often depends on an explicit contract in formal enterprises or on a formally defined employment relationship between a dependent worker and an employer (ILO, 2013c). As noted above, in emerging and developing countries only a minority of workers, especially among the poor, are covered by formal employment contracts that would normally entitle them to social protection (figure 2.6, panel A).<sup>19</sup> The high incidence of non-standard forms of employment among the poor – which includes widespread time-related underemployment – is a major factor behind the lack of social protection coverage (ILO, 2015b).<sup>20</sup>

Less than 8 per cent of the working extreme or moderate poor contribute to a pension scheme in emerging and developing countries, compared to 37.2 per cent of the non-poor<sup>21</sup> (figure 2.6, panel B). In rural areas, 7.0 per cent of the working poor and 17.4 per cent of the non-poor are affiliated to a pension scheme in emerging and developing countries. The proportions are three to four times higher in urban areas. Everywhere those proportions are higher for wage and salaried workers than for other employment statuses. With the exception of a few countries (in particular in Latin America or in developed countries), most self-employed workers do not contribute to a pension scheme. In emerging and developing countries, on average 15.9 per cent of the extreme and moderate poor in wage and salaried employment contribute to a pension scheme, compared to less than 3 per cent of the self-employed.<sup>22</sup>

In developed countries the poor also face significant deficits in coverage by contributory social protection gained through employment. At the relative poverty line of 60 per cent of median income, less than half of the working poor contribute to a pension scheme, compared to 81.8 per cent of the non-poor. The worst affected are the poor in self-employment. Among the working poor, affiliation rates of the self-employed are 4.5 times lower than for wage and salaried workers (figure 2.6, panel B). Affiliation rates are also more than four times higher among the self-employed above the poverty threshold.

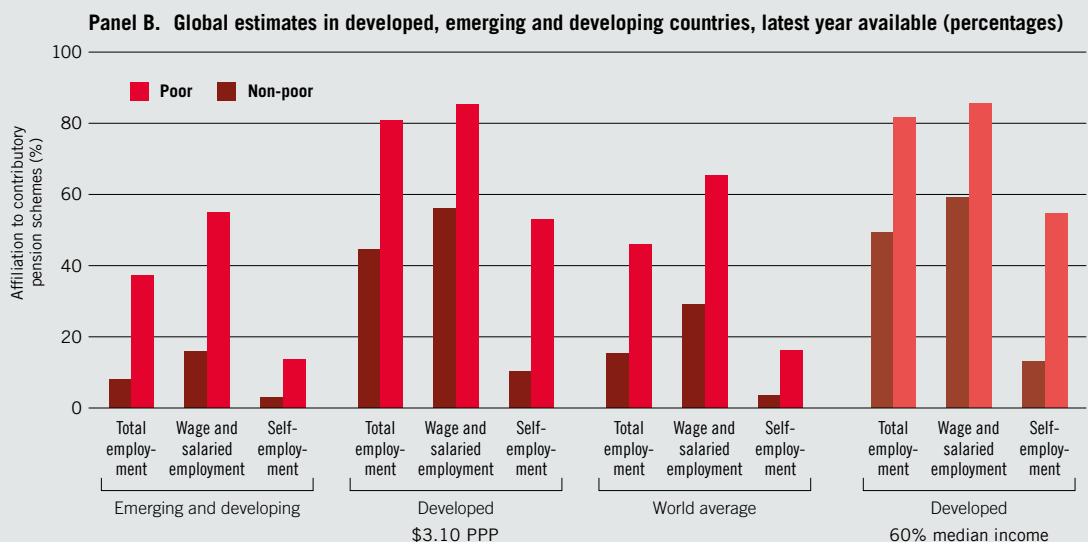
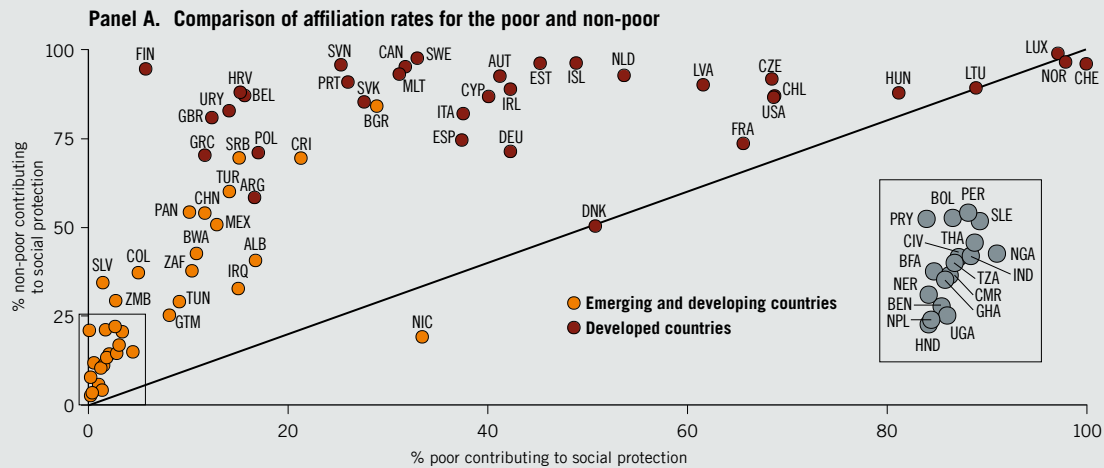
Affiliation rates among the extreme and moderate working poor are more than 20 per cent in Argentina, Brazil, Chile, Costa Rica and Uruguay,<sup>23</sup> including, notably, the self-employed. This was brought about by addressing several of the main determinants of non-coverage. Besides the extension of legal coverage to groups previously not covered (ILO, 2015b), of particular interest for the working poor, several approaches were adopted. Some focused on reducing the cost of affiliation to social security,<sup>24</sup> offering flexible rules and procedures, and manageable financing mechanisms to make this coverage effective; others aimed at increasing productivity<sup>25</sup> (ILO, 2014d). For own-account workers and small and micro-enterprises with profits or sales below a certain level, reducing the cost of formalization often resulted in simplifying registration procedures, combining social protection contributions and fiscal obligations into a single package<sup>26</sup> (ILO, 2015b). For undeclared employees, including irregular migrant workers, incentives in the form of reductions in social contributions for recruitment have been adopted in several European countries and in Argentina,<sup>27</sup> for example. There are clear limitations in extending contributory social protection to the poor, owing to the obvious lack of capacity to contribute. To be effective among the poor, extension of the coverage by contributory schemes often requires contributions to be subsidized, as is the case in the extension of health insurance coverage. This also needs to be accompanied by the establishment of non-contributory schemes as part of the setting up of national social protection floors (ILO, 2014a and 2014c).

#### **Fifth, the deficit in employment-related social protection is partially compensated by the development of non-contributory schemes or other mechanisms dissociated from the employment relationship**

Considering all types of social protection benefits, either in cash or in kind, contributory and non-contributory, the proportion of the poor relying on social protection benefits<sup>28</sup> is on average lower than that of the non-poor. Based on a set of 30 emerging and developing countries (representing nearly 70 per cent of the population in the developing world), 47.3 per cent of the poor received some social protection benefits, compared to 56.8 per cent of the non-poor (figure 2.7, panel A).

**Figure 2.6**

**Affiliation to contributory social protection (pension mainly), poor and non-poor workers, latest year available (percentage of total employment)**



Note: Contribution to social protection (at least for pensions). Panel A: Dark red dots for developed countries refer to the relative poverty line of 60 per cent of median disposable household income or consumption expenditure following a per capita basis and orange dots for emerging and developing countries refer to the extreme and moderate poverty line of \$3.10 PPP per capita per day. Any dot above the diagonal means that the proportion of the non-poor contributing to social protection (at least for pensions) is higher than the proportion among the poor. Country names associated with ISO3 codes and detailed data sources are presented in appendix G. Panel B: Global estimates based on 66 countries representing 70 per cent of total employment. The population of reference covers people in employment aged 15–64. Data are for the latest year available, which ranges from 2007 to 2013. More than 65 per cent of country data are for 2012 or 2013.

Source: ILO calculations based on national household survey data.

On the other hand, in 21 out of 30 emerging and developing countries the proportion of the extreme and moderate poor receiving benefits is higher than the proportion of the non-poor benefiting from social protection. The situation is totally different regarding the extreme poor. In that case the proportion of the poor receiving benefits exceeds the proportion of the non-poor in only 14 out of 30 countries, which could be considered an indication of the difficulties of public institutions and networks to effectively reach the poorest of the poor.

Moreover, the poor receive a small share of the spending on social protection, significantly lower than their representation in the population.<sup>29</sup> On average the extreme and moderate poor, who constitute 42.0 per cent of the total population, receive 21.1 per cent of the total social protection benefits expenditure (figure 2.7, panel B). The amount of social protection benefits received by the poor is on average seven times lower than the amount per beneficiary for the non-poor.

Some countries have very limited social protection provisions and associated resources for the poor in particular but also for the non-poor. This characterizes most African countries with available data. For instance, coverage of the poor is less than 10 per cent in Cameroon, Ethiopia, Ghana, Malawi, Nigeria, Sudan, Uganda and Zambia; coverage of the non-poor is barely any higher. Those countries combine the highest poverty incidence (more than 60 per cent<sup>30</sup>), a limited investment in social protection (usually less than or around 5 per cent of GDP) and among the lowest proportion of social protection resources going to the poor, compared to their representation in the population. In Ethiopia, Malawi, Uganda, the United Republic of Tanzania and Zambia, extreme and moderate poverty rates are greater than 70 per cent but the benefits received by the poor represent in some cases less than 25 per cent of the total amount of social protection benefits.

South Africa stands apart as one of the few exceptions. There, nearly 90 per cent of the extreme and moderate poor receive social protection benefits, compared to 50–60 per cent of the non-poor. As in other middle-income countries from Latin America or Eastern Europe and Central Asia, in South Africa the incidence of poverty is lower than in most low- and middle-income countries. More importantly, the proportion of those living below the poverty line and receiving social protection benefits is greater than 60 per cent and higher than the proportion of beneficiaries among the non-poor. What characterizes these countries is the broader scope of their national social protection systems, the significant amount of resources invested in social protection and, over recent decades, the extension of social protection through mechanisms coping with high informality or low activity rates (ILO, 2015b).<sup>31</sup>

In developed countries, for the relative poverty line of 60 per cent of median household income, 79.7 per cent of the poor receive some kind of social protection benefits, compared to 67.8 per cent of the non-poor.<sup>32</sup> The significantly higher coverage of the poor in Australia, Chile and Uruguay, and also in the United States and some Eastern European countries (Croatia, the Czech Republic, Poland and the Russian Federation), demonstrates deliberate strategies adopted by governments to extend coverage to the poor, and to redesign social protection systems to concentrate resources on targeted benefits (figure 2.7, panel C). With the exception of Australia and Chile,<sup>33</sup> social protection benefits are not reaching the poor in accordance with their proportion of the population: 21 per cent of the population living below the relative poverty threshold receive less than 12 per cent of total social protection benefits expenditure. In developed countries, the poor receive on average 2.8 times less social protection benefits than the non-poor.

## Sixth, contrasting impacts of social protection on poverty prevention and reduction

Social protection benefits play an important role in preventing and reducing poverty. The correlation between higher spending on social protection and lower poverty rates is positive. However, significant differences regarding the impact on poverty of social protection can be observed across countries with similar levels of spending on social protection (figure 2.8). The main factors for the varying impacts include: societies' objectives of social protection<sup>34</sup> (such as income maintenance versus poverty reduction); the difference in coverage and levels of benefits received by the poor and the non-poor; and the trade-off between the proportion of people covered and the level of benefit received, especially when resources are limited.

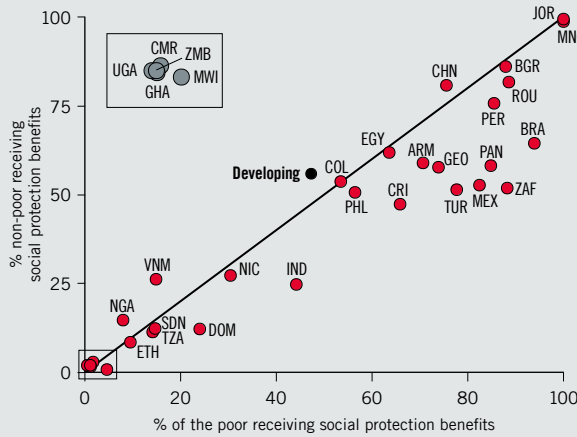
The impact of social protection on poverty is significant in all developed countries (figure 2.8, panels A and B for total population and people aged 65 and over respectively; and country results in appendix D). Differences in poverty rates before and after social protection transfers range from 12–14 percentage points in Argentina, Chile, Israel and Japan to above 30 percentage points in countries such as Austria, Finland, France, Germany, Hungary, Slovenia and Sweden. Poverty rates before social transfers in developed countries are on average 22.2 percentage points higher than after social transfers (poverty rate of 42.8 per cent before transfers, compared to 20.6 per cent after transfers).

**Figure 2.7**

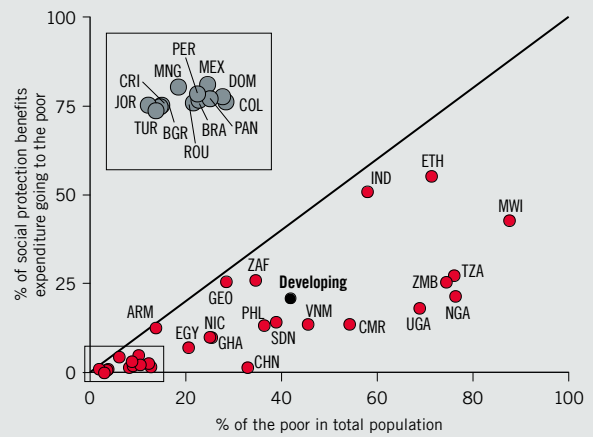
**Percentage of the poor and non-poor receiving benefits and proportion of social protection benefits expenditure going to the poor, latest year available**

**Emerging and developing countries (extreme and moderate poverty: <\$3.10 PPP per capita per day)**

**Panel A. Percentage of the poor and non-poor receiving benefits**

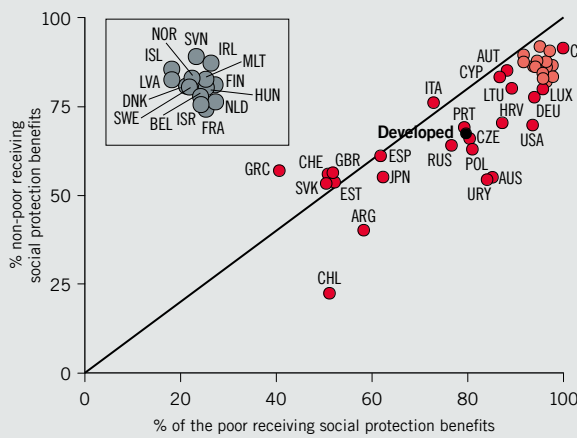


**Panel B. Incidence of poverty and proportion of social protection benefits expenditure going to the poor**

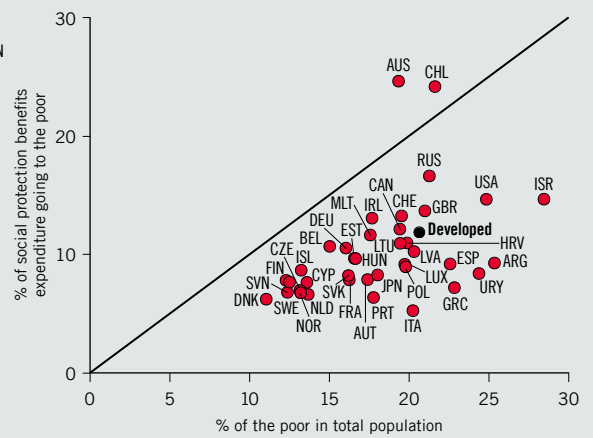


**Developed countries (relative poverty: <60 per cent of median income or consumption expenditure)**

**Panel C. Percentage of the poor and non-poor receiving benefits**



**Panel D. Incidence of poverty and proportion of social protection benefits expenditure going to the poor**

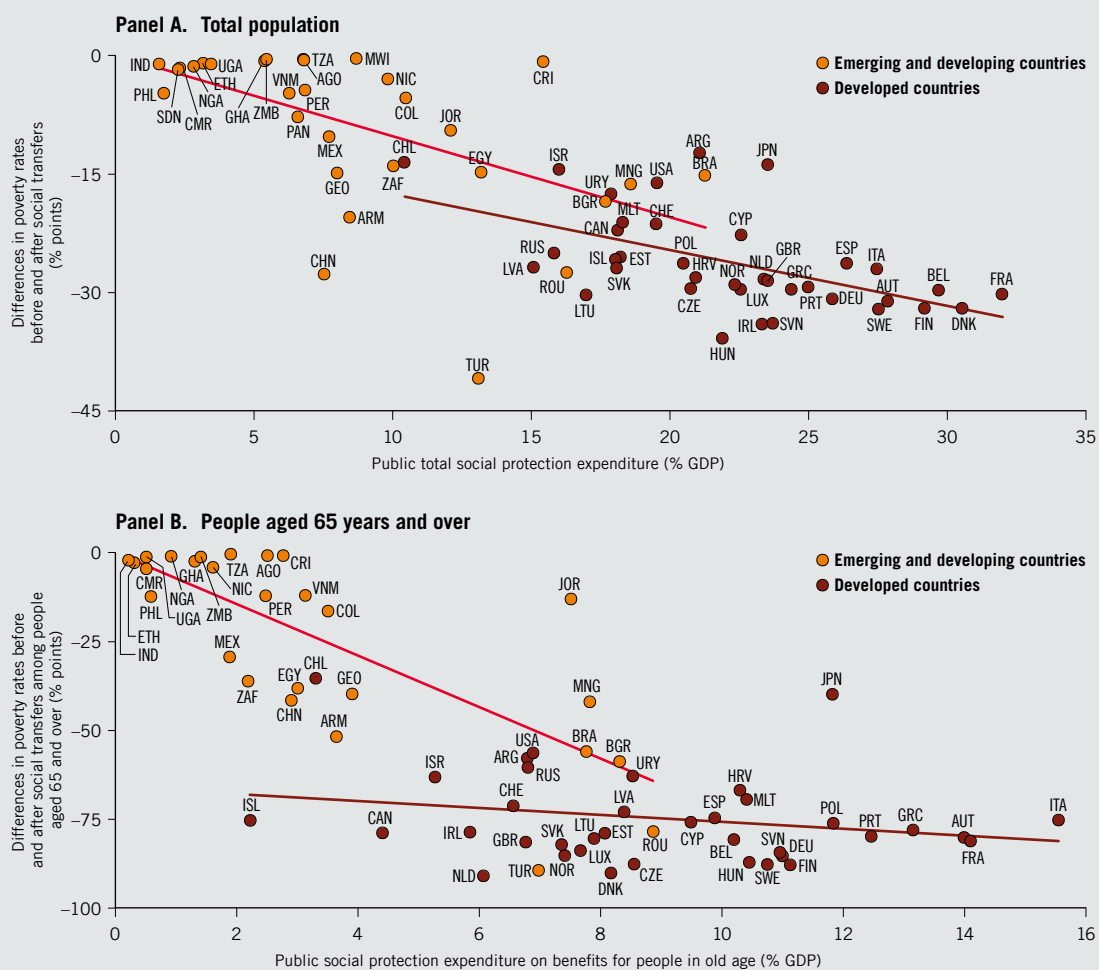


Note: The analysis of the shares of public expenditure on social protection benefits going to the poor versus the non-poor should take into consideration that many people are above the poverty threshold because they receive social protection benefits. Panels A and C compare the proportions of the poor (horizontal axis) and non-poor (vertical axis) receiving social protection benefits. Any dots below the diagonal highlight a situation where the percentage of the poor receiving benefits (independently of the level of benefit received) exceeds the proportion of the non-poor. Panels B and D consider the incidence of poverty (or the proportion of the poor in total population, horizontal axis) compared to the share of the total value of social protection benefits going to the poor (vertical axis). Any dot below the diagonal means that the cumulative value of benefits from social protection received by the poor is lower than their representation in the total population and that the level of benefit per beneficiary is lower for the poor than for the non-poor. Country names associated with ISO3 codes and detailed data sources are presented in appendix G.

Source: ILO calculations based on the analysis of national household survey data.

Figure 2.8

Public social protection expenditure (percentage of GDP) and impact of social transfers, latest year available (percentage points)



Note: The impact of social protection transfers is measured as the difference between poverty rates before and after social protection transfers. Only the direct reduction of income poverty through the transfer of purchasing power to the beneficiaries is considered here. Different poverty lines are used for emerging and developing countries (\$3.10 PPP per capita per day) and developed countries (60 per cent of median household income or consumption expenditure per capita). In panel A, the figures relate total public social protection expenditure as a percentage of GDP to the impact for individuals of social protection transfers on poverty reduction (differences in poverty rates before and after social transfers in percentage points). In panel B, the horizontal axis presents public social protection benefits for older persons (either in cash or in kind) as a percentage of GDP and the vertical axis the differences (in percentage points) in poverty rates resulting from the income received from social protection (all types of benefits) for people aged 65 and over. In the latter case all social protection transfers are taken into account and not only old-age or survivors' pensions or benefits in kind directed specifically to the elderly. Detailed country results may be found in appendix D. Country names associated with ISO3 codes and detailed data sources are presented in appendix G.

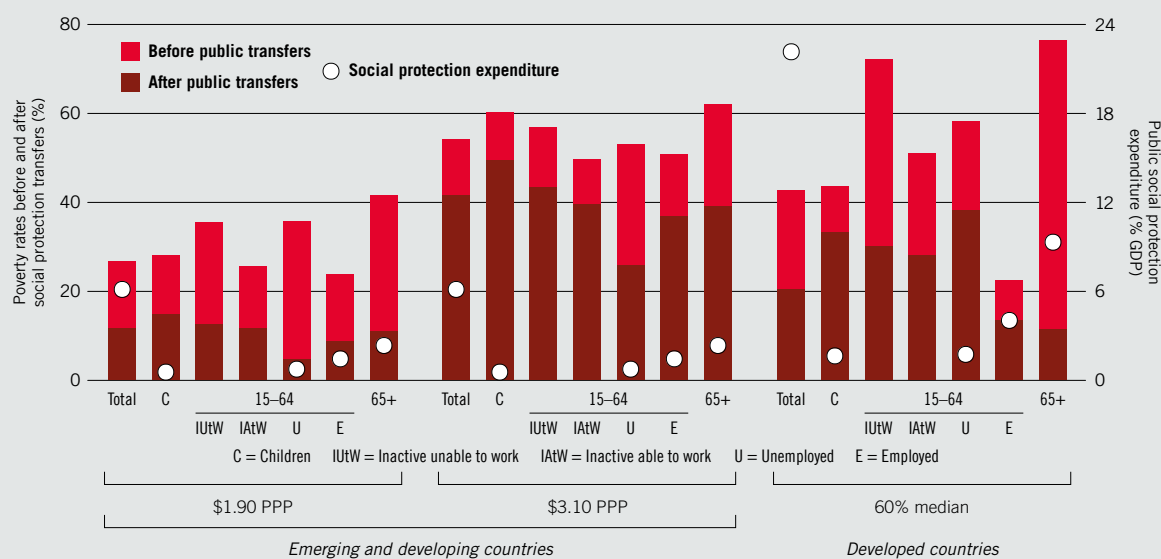
Source: ILO calculations based on the analysis of household survey data.

The role played by social protection in poverty prevention and reduction is crucial and effective for people who should be able to rely on social protection as the main source of income, in particular the elderly (figure 2.8, panel B and appendix D, figure 2D.1 panel F) and people unable to work either permanently or temporarily (appendix D, figure 2D.1 panel C). Considering the impacts of social protection for different groups of the population, the differences in poverty rates before and after social protection transfers range from 8.3 percentage points for those in employment to 42.1 percentage points for people of working age with disabilities and unable to work, and reach as high as 65.2 percentage points for people aged 65 and over (figure 2.9). These significant impacts represent the effective coverage of the population in need and a level of benefits that is sufficient to escape and remain out of poverty.



Figure 2.9

Impact of social protection investment on poverty reduction and prevention, latest year available (percentages)



Note: Global estimates based on 37 developed countries and 31 emerging and developing countries representing 72.1 per cent of total population – 89 per cent in developed countries and 69 per cent in emerging and developing countries. The impact of social protection benefits on poverty reduction and prevention in the various subgroups of the population results not only from specific benefits targeting those groups but from all social protection benefits received by household members and equally shared between them. Public social protection expenditure in total or for specific groups (white dots) covers all measures that provide benefits, whether in cash or in kind, to secure protection from a lack of work-related income (or insufficient income) caused by sickness, disability, maternity, employment injury, unemployment, old age or death of a family member; lack of (affordable) access to health care; insufficient family support, in particular for children and adult dependants; general poverty; and social exclusion (ILO, 2014a). Data are for the latest year available, which ranges from 2007 to 2013. Nearly 70 per cent of country data are for 2012 or 2013.

Source: ILO calculations based on the analysis of household survey data.

Unemployed people face a more acute situation; for them, social transfers<sup>35</sup> are responsible for reducing the incidence of poverty by 20 percentage points. Nonetheless, the unemployed encounter the highest poverty rates after social protection transfers to all other groups of working-age people. In the majority of developed countries the proportion of the unemployed receiving benefits has declined since 2009,<sup>36</sup> as have the levels of benefits. A growing share of the unemployed have exhausted their rights to unemployment insurance and at best receive social assistance benefits, usually at lower levels (ILO, 2015b; ILO/EC, 2015).

In emerging and developing countries, the last decade has shown an encouraging expansion in the number of countries that have established cash transfer programmes focusing on low-income and excluded groups (Hanlon, Barrientos and Hulme, 2010; ILO, 2014a; Fiszbein, Kanbur and Yemtsov, 2013). Spending on social protection is, however, usually lower than in developed countries. Moreover, in many countries, social protection reaches a small proportion of the population, sometimes not primarily the poor. Even though it plays a role in reducing the income gap (reducing the distance to the poverty line) for direct beneficiaries, it does not necessarily significantly reduce the incidence of poverty. In the absence of social protection, extreme poverty would be, on average, 15.1 percentage points higher and extreme and moderate poverty would be 12.6 percentage points higher.

These aggregated numbers hide significant disparities between countries and between population groups. Those benefiting the most are people aged 65 and over. For the 31 countries for which the information is available, extreme poverty rates among those aged 65 and over are 30 percentage points lower after social protection transfers and 23 percentage points lower when considering both extreme and moderate poverty. A number of emerging and developing countries have extended or reformed social protection programmes as part of their overall development strategy. In Brazil, Mongolia, South Africa and Turkey, and more recently in China, the impact on poverty reduction has been relatively high compared to that in other countries with similar proportions of GDP invested in social protection (see appendix D).

## C. Mix of policy responses needed to close the income gap

This section discusses two sets of cases representative of different types of households and the most appropriate policy responses. Those different cases are presented in detail in appendix E. In the first set of cases, high demographic and economic dependency ratios are the main determinants of poverty (cases 1–3 in [box 2.3](#)). In the second set, decent work deficits for those in employment and unemployed are the main poverty determinants (cases 4 and 5 in [box 2.3](#)). Each case calls for combined policies that include the extension of social protection and measures to improve labour incomes. In the first set of cases, social protection might play the major role, while employment policies should ideally be emphasized in the second set of cases. Finally, the role of social protection and labour incomes in addressing the income gap is quantified.

### **Social protection and an increase in labour incomes as the main answer: a simplified case-by-case analysis**

#### **High demographic and economic dependency ratios as the main determinants of poverty and social protection as the main policy response (cases 1–3)**

This concerns poor people whose reliance on incomes from labour is either non-existent (case 1) or limited (cases 2 and 3). People living in this situation represent the majority of the extreme and moderate poor and most of the income gap.<sup>37</sup>

These three cases cover the poor who are the most exposed to high income gaps (see comparison of [figures 2E.1](#) and [2E.2](#) in appendix E). In these cases, poverty arises mainly as a result of a high incidence in households of children, and people of working age who are inactive (able or unable to work), unemployed and elderly. In such situations, social protection is probably the most immediate appropriate policy response. For those that face poor working conditions (cases 2 and 3) and for those unemployed or inactive but able and willing to work, decent work deficits have to be addressed but, given the limited number of people concerned within the household, any employment-related policy should be combined with social protection transfers to ensure a sufficient impact on poverty reduction for the workers, the unemployed and their families.<sup>38</sup>

Households in which less than 25 per cent of the working-age members are in paid employment (cases 2 and 3; [figure 2E.1](#), panels B and C in appendix E) have a combination of high child demographic and economic dependency ratios and, obviously, significant decent work deficits for their unemployed members or those who are in employment. Measures to favour more and better jobs are clearly required but the number of people concerned within the household is insufficient to provide income security for workers, the unemployed and their dependants. For a significant impact on poverty reduction, social protection transfers are necessary – at least in the short run – to affect the income gap directly and to enhance individuals' skills and capabilities and, it is hoped, to improve school attendance for the numerous children concerned (Aizer et al., 2016; Alderman and Yemtsov, 2012). Complementary measures should ideally tackle the situation of the unemployed and of those who are inactive but able and willing to work, to enhance their access to employment through active labour market policies, training and skills development or asset accumulation, and be set out in the objectives and design of social protection programmes (McCord, 2011; ILO, 2014b; Bonnet, Saget and Weber, 2012; Aleksynska et al., 2013; Alderman and Yemtsov, 2012).

#### **Decent work deficits as the main poverty factor and policies enhancing full and productive employment and decent work supported by social protection measures (cases 4 and 5)**

In cases 4 and 5, the majority of the working poor have jobs that are predominantly informal and with individual income from labour that is insufficient to take care of more than two or three dependants. In comparison to the first set of cases, the higher proportion of people in paid employment within households translates into lower levels of exposure to high income gaps, but the quality of employment<sup>39</sup> becomes an essential factor (compare panels A and B in [figure 2E.2](#) in appendix E). The first situation – people living in households where the working poor are self-employed – concerns a minority of the poor in developed countries but is one of the most common situations for those living below the poverty line in emerging and developing countries. By contrast, people living in households relying mainly on wage and salaried employment represent a minority of the poor in emerging and developing countries (14 per cent versus 28 per cent among the non-poor) and one of the main groups (including among the poor) in developed countries (30.5 per cent, compared to close to 55 per cent among the non-poor).

**Simplified cases and most appropriate mix of policy responses**

The five cases presented below are defined according to two dimensions: first, the proportion of household members aged 15–64 in paid employment (see definition in box 2.2) and, second, the status in employment with a distinction between people living in households relying solely on wage and salaried employment and those living in households relying exclusively

on profit as employers or own-account workers.<sup>1</sup> Figure 2.10 presents for the different cases the proportions of people concerned, their relative exposure to the higher income gap<sup>2</sup> and the policy response that may play a major role as part of the mix of policy answers (“■” for social protection and “□” for increase in labour incomes).

**Figure 2.10**

		1. Proportion of household members aged 15–64 in paid employment		
		None	Less than 25 per cent	More than 25 per cent
2. Relative exposure to high income gap <sup>2</sup>	High	<b>Case 1</b> <ul style="list-style-type: none"> <li>17.4 per cent of the extreme and moderate poor in emerging and developing countries</li> <li>30 per cent in developed countries</li> </ul>	Wage and salaried <b>Case 2</b> <ul style="list-style-type: none"> <li>13.8 per cent of the extreme and moderate poor in emerging and developing countries</li> <li>23.1 per cent in developed countries</li> </ul>	Wage and salaried <b>Case 3</b> <ul style="list-style-type: none"> <li>21.0 per cent of the extreme and moderate poor in emerging and developing countries</li> <li>4.7 per cent in developed countries</li> </ul>
	Moderate	Main component of the mix of policy responses: <ul style="list-style-type: none"> <li>■ High demographic and economic dependency ratios as the main determinants of poverty and social protection as the main policy response, at least in the short run combined with measures to address decent work deficits in cases 2 and 3.</li> <li>□ Deficits in labour incomes as the main determinant of poverty calling for policies enhancing full and productive employment and decent work.</li> </ul>		Wage and salaried <b>Case 4</b> <ul style="list-style-type: none"> <li>13.9 per cent of the extreme and moderate poor in emerging and developing countries</li> <li>30.5 per cent in developed countries</li> </ul>
				Self-employed <b>Case 5</b> <ul style="list-style-type: none"> <li>21.0 per cent of the extreme and moderate poor in emerging and developing countries</li> <li>3.8 per cent in developed countries</li> </ul>

<sup>1</sup> An additional 12.8 per cent of the poor in emerging and developing countries and 7.9 per cent in developed countries live in households with labour incomes from both self-employment and wage and salaried employment. These are not included in the above cases. <sup>2</sup> The relative exposure to the high income gap is considered as high when the share of their income gap in the total income gap is superior to the proportion of the group in the poor population; and is considered as moderate otherwise.

Deficits in labour incomes among the working poor result from widespread underemployment (see section B), in particular among the self-employed in emerging and developing countries, and among wage and salaried workers in developed countries for whom the risk of poverty is related far more to short hours of work than to the hourly wage.<sup>40</sup> In the case of wage and salaried workers, minimum wage policies are necessary but cannot constitute the main element of an effective strategy to alleviate in-work poverty. There is a need here for policies which address the absence of a formally defined employment relationship through a contract and the increasing number of weak employment relationships with derogations regarding protections and entitlements (ILO, 2015b).

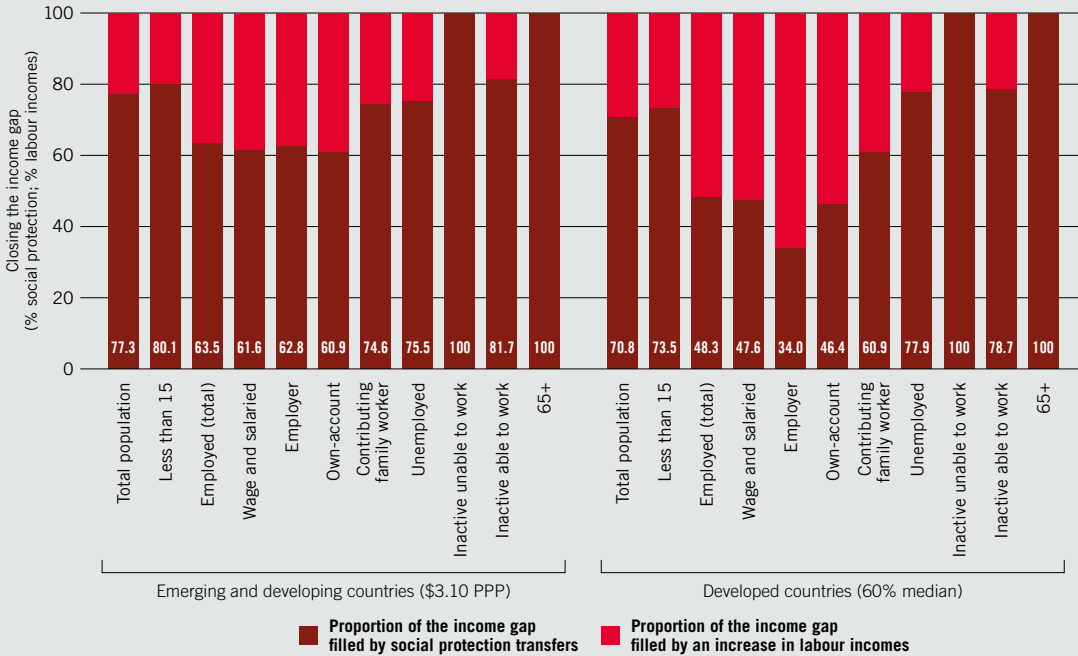
For all the working poor (either in wage employment or self-employment), the deficits in labour incomes are associated with the high proportion of working poor in informal employment and the need for combined measures to enhance formalization and to reduce decent work deficits in the informal economy (ILO, 2014c). In reality, informal employment also means an absence of employment-related social protection, with catastrophic financial consequences for workers and their families. The effective implementation of national social protection floors to reduce deficits in the informal economy and support the transition to better jobs and the gradual extension of coverage by contributory schemes should form part of targeted responses to this problem (see Chapter 6), together with policies to raise productivity, notably as a means of reducing poverty in the rural economy (Chapter 5) and development strategies to promote employment-intensive structural transformation (Chapter 3).

**An estimated 71–77 per cent of the income gap to be filled by social protection**

Based on the above analysis, it can be asserted that social protection remains a key tool for tackling poverty. The proportion of the total income gap to be filled by social protection is determined on the basis of the economic dependency ratio within each household and the distance to the poverty line or poverty depth (see methodology and assumptions in appendix F), as well as the fact that social protection is considered the sole option for people aged 15–64 with disabilities and unable to work and for people aged 65 and over. The amount of money necessary to raise all other population groups to the poverty line might then be found through a combination of social protection transfers and improvement in labour income either directly or indirectly (as, for instance, for children).

**Figure 2.11**

**Proportions of the gap respectively filled by social protection transfers and increases in labour earnings (calculation for \$3.10 PPP in emerging and developing countries and 60 per cent of median income in developed countries), 2012 (percentages)**



Note: 103 countries covered representing 85 per cent of the global population. The proportion of the income gap calling for social protection transfers is determined for each household and applied to its household members. The share to be covered by an increase in labour income is the complement to 100 per cent. See methodological appendix F for more details.

Source: ILO calculations based on household survey data.

In emerging and developing countries, more than 75 per cent of the gap would have to be filled by social protection, with variations depending on population groups. The contribution of social protection ranges from 61–63 per cent for wage and salaried workers, and own-account workers and employers, to around 80 per cent for children and inactive people able to work and to 100 per cent (by definition) for the elderly and people with disabilities who are unable to work (figure 2.11).<sup>41</sup>

The situation is slightly different in developed countries, where an improvement in labour income would play a greater role, especially for the working poor. The working poor in these countries tend to share their income with fewer dependants than in emerging and developing countries. In this configuration, the reduction of decent work deficits has a high potential impact on per capita income within the households concerned. Globally, 71 per cent of the total gap would be covered by social protection transfers. These proportions are significantly lower among the working poor (less than 50 per cent of the gap to be covered by social protection).<sup>42</sup>

### **An estimated additional cost for social protection of 1 per cent of GDP to eliminate both extreme and moderate poverty in emerging and developing countries**

A minimum of US\$120 billion in total would have been required to end extreme poverty in 2012 and nearly US\$600 billion to end extreme and moderate poverty. While part of this total income gap has to be met by improving labour incomes, it is estimated that the minimum global additional cost for social protection, assuming an unrealistic perfect targeting and delivery, would amount to less than US\$85 billion to eliminate extreme poverty and to US\$400 billion to eliminate both extreme and moderate poverty (appendix A, tables 2A.1 and 2A.2). This represents 0.1 per cent of global GDP and 0.2 per cent of GDP in emerging and developing countries, respectively, to end extreme poverty, and 0.5 per cent of global GDP and 1 per cent of GDP in emerging and developing countries alone to end extreme and moderate poverty.

In low-income countries, where extreme poverty predominantly occurs (see Chapter 1), the additional estimated cost for social protection to end extreme poverty represents a minimum of 4.0 per cent of GDP and 18.4 per cent of government expenditure (table 2.3 and appendix A, table 2A.1 for regions). The end of extreme and moderate poverty means a minimum additional cost of more than 75 per cent of current government expenditure in low-income countries, and one-fourth of current government expenditure in Africa as a whole (23.4 per cent). In developed countries, for the relative poverty line of 60 per cent of median income, this additional investment in social protection represents 1.2 per cent of GDP or 3 per cent of current government expenditure.

Whatever their level of income, countries have some discretion over the size of government expenditure (figure 2.12) (ILO, 2010a and 2010b), which translates into a weak correlation between levels of GDP and the size of government. A very small government may mean a low capacity on the part of the authorities to raise and collect taxes and other revenue, usually concomitant with a high share of informal employment. It can, however, also be seen as offering room for improvement in government revenue and expenditure (relative to other countries of a similar level of development but higher levels of government expenditure). See for instance the situation in Mongolia, compared to that in India: for a similar level of per capita GDP, the proportion of GDP going to government expenditure and specifically to social protection expenditure is significantly higher in Mongolia. The introduction and enforcement of tax reforms to increase fiscal resources, including, in particular, enhancing the effectiveness and efficiency of tax collection, are part of the challenge. This may also call for revised spending programmes, making them more adequate to societal preferences in order to increase the willingness of the taxpayer to pay taxes (ibid.). Then, countries with a similar size of government resources may take very different decisions as to the share of these resources allocated to social protection (orange dots on figure 2.12). The figure shows that some countries with relatively small governments (20 per cent of GDP or less) decided to devote a significant share of these resources to financing social security programmes, in some cases through innovative approaches (ILO, 2014a and 2015a; HelpAge International, 2011; Ortiz, Cummins and Karunanethy, 2015).

**Table 2.3**

**Additional investment in social protection to close the income gap, 2012 (percentages)**

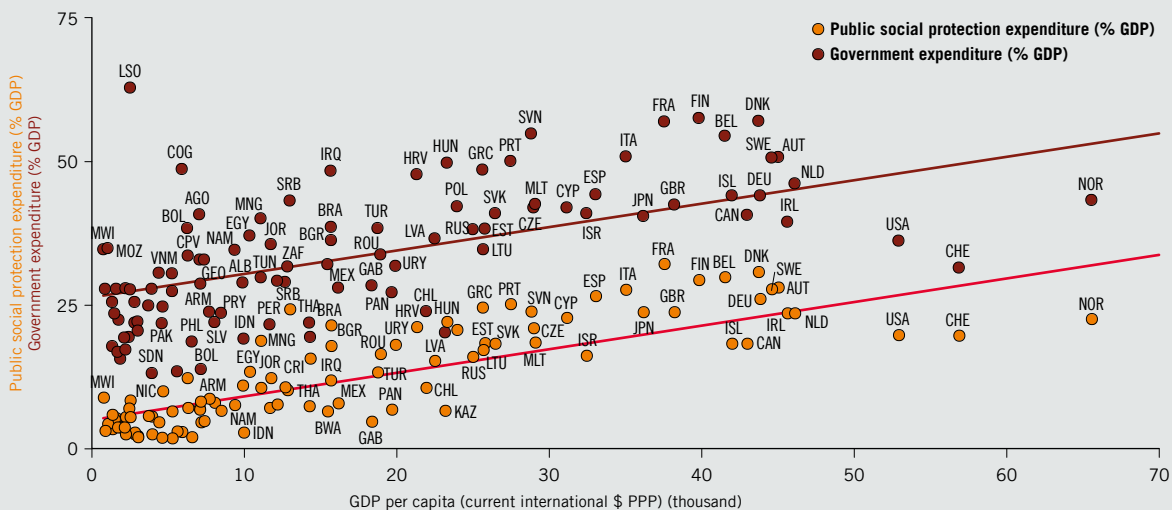
Income groups	Income gap and minimum additional cost for social protection	Extreme poverty (<\$1.90 PPP)		Extreme and moderate poverty (<\$3.10 PPP)		Relative poverty (<60 % of median income)	
		% GDP	% government expenditure	% GDP	% government expenditure	% GDP	% government expenditure
Emerging and developing	Total income gap	0.31	1.46	1.65	7.27		
	... additional cost for social protection	<b>0.22</b>	<b>0.99</b>	<b>1.13</b>	<b>4.84</b>		
Low income	Total income gap	5.48	25.57	20.75	101.36		
	... additional cost for social protection	<b>3.94</b>	<b>18.37</b>	<b>15.72</b>	<b>76.78</b>		
Lower-middle income	Total income gap	0.56	2.83	3.21	14.66		
	... additional cost for social protection	<b>0.39</b>	<b>1.97</b>	<b>2.15</b>	<b>9.82</b>		
Upper-middle income	Total income gap	0.08	0.27	0.47	1.60		
	... additional cost for social protection	<b>0.06</b>	<b>0.18</b>	<b>0.30</b>	<b>1.02</b>		
Developed	Total income gap	0.02	0.04	0.03	0.06	1.67	4.15
	... additional cost for social protection	<b>0.02</b>	<b>0.04</b>	<b>0.02</b>	<b>0.05</b>	<b>1.20</b>	<b>3.01</b>
World	Total income gap	0.16	0.72	0.80	3.49		
	... additional cost for social protection	<b>0.11</b>	<b>0.51</b>	<b>0.55</b>	<b>2.55</b>		

Note: 103 countries covered representing 85 per cent of the global population. The “additional cost for social protection” corresponds to a minimum assuming an unrealistic perfect targeting and delivery. See methodological appendix F for more details.

Source: ILO calculations based on household survey data.

**Figure 2.12**

**Size of government expenditure and public social protection expenditure (% of GDP) and GDP per capita (current international \$ PPP), latest year available**



Note: For a given level of GDP per capita, figure 2.12 displays both the size of government expenditure (dark red dots) and, as part of it, public social protection expenditure (orange dots), the two indicators expressed as a percentage of GDP. Taking the examples of Brazil and Mexico, their GDP per capita are comparable (around \$16,000 PPP per capita per year) but both total government expenditure and public social protection spending are significantly lower in Mexico than in Brazil. The total size of government expenditure as a percentage of GDP amounts to 39 per cent in Brazil compared to 28 per cent in Mexico. While public social protection expenditure in Brazil constitutes more than half of the amount of government expenditure (55 per cent), in Mexico, this ratio is lower by half (28 per cent). Country names associated with ISO3 codes are presented in appendix G.

Source: IMF (2016); ILO (2015a); OECD (2015a); ADB (2015) and Eurostat (2015a).

## D. Concluding remarks

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This chapter finds that, while 30 per cent of the world's population lives in poverty, they receive only 2 per cent of the world's income. Against this backdrop, the chapter documented how much additional income is needed to eliminate poverty, finding that some US\$120 billion a year is needed to eradicate extreme poverty globally and some US\$600 billion a year – or nearly US\$10 trillion by 2030 – to eradicate extreme and moderate poverty. In global terms, US\$600 billion represents less than 1 per cent of global GDP per year. However, there are significant disparities between regions and countries; for instance, among developing countries, the amount needed represents more than 20 per cent of their annual GDP. This would entail, on average, current government expenditures to be more than doubled among this group of countries.

As mentioned in Chapter 1, in emerging and developing countries, almost one-third of those living in extreme and moderate poverty actually have a job, but these are often vulnerable in nature. Own-account workers and contributing family workers make up nearly 70 per cent of the extreme or moderate working poor, with poverty rates in these two groups standing at three times those of wage and salaried workers. Chapter 2 shows that the poor suffer from a combination of low labour incomes and limited access to social protection. The lack of social protection associated with informal and precarious employment is only partially compensated by the development of non-contributory schemes: the amount of social protection benefits received by the poor is, on average, seven times lower than the amount per beneficiary among the non-poor. In developed countries, the poor are overrepresented in part-time and temporary employment; arrangements that offer lower pay and expose workers to a higher risk of non-application of employment and social protection laws and regulations (see Chapter 4).

Results from this chapter suggest that the income gap cannot be addressed by income transfers alone. Clearly, those most exposed to poverty and wide income gaps often face significant decent work deficits combined with high dependency ratios (both demographic and economic). As will be discussed in Chapters 5 and 6, social protection measures, coupled with efforts to boost job quantity and quality, are essential to lift individuals and their families out of poverty on a sustainable basis.

## Appendix A. Minimum amount to eliminate poverty (total and composition)

**Table 2A.1**

### Extreme poverty (<\$1.90 PPP per capita per day)

		Total	Less than 15	Employed 15–64			Unemployed 15–64	Inactive 15–64	65+
				Total	Wage	Non-wage			
<b>1. Total income gap as a percentage of GDP</b>									
<b>Emerging and developing countries</b>									
<b>Total</b>	<b>Total income gap</b>	<b>0.314</b>	<b>0.133</b>	<b>0.087</b>	<b>0.015</b>	<b>0.072</b>	<b>0.004</b>	<b>0.076</b>	<b>0.013</b>
	... filled by social protection	0.221	0.096	0.056	0.008	0.049	0.003	0.052	0.013
	... filled by labour earnings	0.093	0.037	0.031	0.007	0.023	0.001	0.024	0.000
<b>Africa</b>	<b>Total income gap</b>	<b>1.672</b>	<b>0.851</b>	<b>0.459</b>	<b>0.042</b>	<b>0.416</b>	<b>0.018</b>	<b>0.274</b>	<b>0.070</b>
	... filled by social protection	1.240	0.597	0.325	0.024	0.300	0.012	0.236	0.070
	... filled by labour earnings	0.432	0.254	0.134	0.018	0.116	0.006	0.038	0.000
<b>Latin America and the Caribbean</b>	<b>Total income gap</b>	<b>0.105</b>	<b>0.043</b>	<b>0.021</b>	<b>0.004</b>	<b>0.017</b>	<b>0.008</b>	<b>0.028</b>	<b>0.005</b>
	... filled by social protection	0.089	0.035	0.017	0.003	0.014	0.007	0.026	0.005
	... filled by labour earnings	0.016	0.008	0.005	0.001	0.003	0.001	0.002	0.000
<b>Arab States</b>	<b>Total income gap</b>	<b>0.032</b>	<b>0.021</b>	<b>0.005</b>	<b>0.003</b>	<b>0.002</b>	<b>0.002</b>	<b>0.004</b>	<b>0.001</b>
	... filled by social protection	0.013	0.006	0.002	0.001	0.001	0.000	0.003	0.001
	... filled by labour earnings	0.020	0.015	0.003	0.002	0.001	0.001	0.001	0.000
<b>Asia and the Pacific</b>	<b>Total income gap</b>	<b>0.192</b>	<b>0.063</b>	<b>0.056</b>	<b>0.015</b>	<b>0.041</b>	<b>0.001</b>	<b>0.064</b>	<b>0.008</b>
	... filled by social protection	0.121	0.045	0.031	0.007	0.024	0.001	0.036	0.008
	... filled by labour earnings	0.070	0.018	0.024	0.007	0.017	0.000	0.028	0.000
<b>Europe and Central Asia</b>	<b>Total income gap</b>	<b>0.011</b>	<b>0.004</b>	<b>0.002</b>	<b>0.001</b>	<b>0.001</b>	<b>0.001</b>	<b>0.004</b>	<b>0.001</b>
	... filled by social protection	0.009	0.002	0.001	0.001	0.000	0.001	0.004	0.001
	... filled by labour earnings	0.002	0.001	0.001	0.000	0.001	0.000	0.000	0.000
<b>Developed countries</b>									
<b>Total</b>	<b>Total income gap</b>	<b>0.018</b>	<b>0.002</b>	<b>0.006</b>	<b>0.002</b>	<b>0.004</b>	<b>0.002</b>	<b>0.005</b>	<b>0.003</b>
	... filled by social protection	0.016	0.002	0.004	0.001	0.003	0.002	0.005	0.003
	... filled by labour earnings	0.002	0.000	0.001	0.001	0.001	0.000	0.000	0.000
<b>World</b>									
	<b>Total income gap</b>	<b>0.159</b>	<b>0.065</b>	<b>0.044</b>	<b>0.008</b>	<b>0.036</b>	<b>0.003</b>	<b>0.039</b>	<b>0.008</b>
	... filled by social protection	0.113	0.047	0.029	0.004	0.025	0.002	0.027	0.008
	... filled by labour earnings	0.045	0.018	0.015	0.004	0.011	0.000	0.012	0.000
<b>2. Total income gap as a percentage of government expenditure</b>									
<b>Emerging and developing countries</b>									
<b>Total</b>	<b>Total income gap</b>	<b>1.461</b>	<b>0.666</b>	<b>0.410</b>	<b>0.066</b>	<b>0.344</b>	<b>0.014</b>	<b>0.304</b>	<b>0.066</b>
	... filled by social protection	0.985	0.457	0.253	0.032	0.221	0.010	0.198	0.066
	... filled by labour earnings	0.476	0.209	0.156	0.034	0.122	0.004	0.106	0.000
<b>Africa</b>	<b>Total income gap</b>	<b>9.032</b>	<b>4.454</b>	<b>2.452</b>	<b>0.202</b>	<b>2.251</b>	<b>0.078</b>	<b>1.663</b>	<b>0.385</b>
	... filled by social protection	6.877	3.195	1.778	0.118	1.660	0.052	1.468	0.385
	... filled by labour earnings	2.155	1.259	0.674	0.084	0.591	0.026	0.196	0.000
<b>Latin America and the Caribbean</b>	<b>Total income gap</b>	<b>0.352</b>	<b>0.144</b>	<b>0.077</b>	<b>0.017</b>	<b>0.060</b>	<b>0.021</b>	<b>0.093</b>	<b>0.017</b>
	... filled by social protection	0.307	0.121	0.061	0.012	0.050	0.019	0.089	0.017
	... filled by labour earnings	0.045	0.023	0.015	0.006	0.010	0.002	0.004	0.000
<b>Arab States</b>	<b>Total income gap</b>	<b>0.076</b>	<b>0.049</b>	<b>0.011</b>	<b>0.007</b>	<b>0.004</b>	<b>0.003</b>	<b>0.010</b>	<b>0.002</b>
	... filled by social protection	0.030	0.015	0.004	0.002	0.002	0.001	0.008	0.002
	... filled by labour earnings	0.046	0.034	0.007	0.005	0.002	0.002	0.003	0.000
<b>Asia and the Pacific</b>	<b>Total income gap</b>	<b>0.737</b>	<b>0.287</b>	<b>0.226</b>	<b>0.066</b>	<b>0.160</b>	<b>0.004</b>	<b>0.182</b>	<b>0.037</b>
	... filled by social protection	0.412	0.176	0.109	0.028	0.080	0.002	0.088	0.037
	... filled by labour earnings	0.325	0.111	0.118	0.038	0.080	0.002	0.095	0.000
<b>Europe and Central Asia</b>	<b>Total income gap</b>	<b>0.038</b>	<b>0.012</b>	<b>0.005</b>	<b>0.003</b>	<b>0.002</b>	<b>0.002</b>	<b>0.018</b>	<b>0.002</b>
	... filled by social protection	0.031	0.008	0.002	0.002	0.000	0.002	0.017	0.002
	... filled by labour earnings	0.007	0.003	0.003	0.001	0.002	0.000	0.001	0.000



**Table 2A.1 (cont'd)**
**Extreme poverty (<\$1.90 PPP per capita per day)**

	Total	Less than 15	Employed 15–64			Unemployed 15–64	Inactive 15–64	65+	
			Total	Wage	Non-wage				
<b>Developed countries</b>									
<b>Total</b>	<b>Total income gap</b>	<b>0.040</b>	<b>0.005</b>	<b>0.013</b>	<b>0.005</b>	<b>0.008</b>	<b>0.005</b>	<b>0.011</b>	<b>0.006</b>
	... filled by social protection	0.036	0.005	0.010	0.003	0.007	0.004	0.011	0.006
	... filled by labour earnings	0.004	0.000	0.003	0.002	0.001	0.000	0.000	0.000
<b>World</b>									
	<b>Total income gap</b>	<b>0.716</b>	<b>0.319</b>	<b>0.202</b>	<b>0.034</b>	<b>0.168</b>	<b>0.009</b>	<b>0.151</b>	<b>0.035</b>
	... filled by social protection	0.533	0.220	0.127	0.017	0.110	0.007	0.144	0.035
	... filled by labour earnings	0.182	0.099	0.075	0.017	0.058	0.002	0.007	0.000
<b>3. Total amount in million US dollars at current values (2012)</b>									
	<b>Total income gap</b>	<b>116,430</b>	<b>47,510</b>	<b>32,553</b>	<b>6,159</b>	<b>26,395</b>	<b>2,126</b>	<b>28,594</b>	<b>5,646</b>
	... filled by social protection	83,167	34,356	21,289	3,230	18,059	1,762	20,115	5,646
	... filled by labour earnings	33,262	13,154	11,264	2,929	8,336	364	8,480	0
<b>4. Total amount in million PPP (current international \$, 2012)</b>									
	<b>Total income gap</b>	<b>153,217</b>	<b>62,522</b>	<b>42,839</b>	<b>8,105</b>	<b>34,734</b>	<b>2,798</b>	<b>37,629</b>	<b>7,429</b>
	... filled by social protection	109,445	45,212	28,016	4,251	23,765	2,319	26,470	7,429
	... filled by labour earnings	43,772	17,310	14,823	3,854	10,969	480	11,159	0

**Table 2A.2**
**Extreme and moderate poverty (<\$3.10 PPP per capita per day)**

	Total	Less than 15	Employed 15–64			Unemployed 15–64	Inactive 15–64	65+	
			Total	Wage	Non-wage				
<b>1. Total income gap as a percentage of GDP</b>									
<b>Emerging and developing countries</b>									
<b>Total</b>	<b>Total income gap</b>	<b>1.653</b>	<b>0.650</b>	<b>0.488</b>	<b>0.111</b>	<b>0.377</b>	<b>0.017</b>	<b>0.422</b>	<b>0.076</b>
	... filled by social protection	1.134	0.452	0.307	0.055	0.252	0.011	0.288	0.076
	... filled by labour earnings	0.518	0.198	0.181	0.056	0.125	0.006	0.134	0.000
<b>Africa</b>	<b>Total income gap</b>	<b>5.853</b>	<b>2.968</b>	<b>1.649</b>	<b>0.187</b>	<b>1.462</b>	<b>0.074</b>	<b>0.917</b>	<b>0.245</b>
	... filled by social protection	4.396	2.096	1.207	0.104	1.103	0.048	0.800	0.245
	... filled by labour earnings	1.458	0.872	0.442	0.083	0.359	0.026	0.117	0.000
<b>Latin America and the Caribbean</b>	<b>Total income gap</b>	<b>0.358</b>	<b>0.155</b>	<b>0.088</b>	<b>0.025</b>	<b>0.063</b>	<b>0.018</b>	<b>0.082</b>	<b>0.016</b>
	... filled by social protection	0.285	0.120	0.064	0.016	0.048	0.014	0.071	0.016
	... filled by labour earnings	0.073	0.034	0.024	0.009	0.015	0.004	0.011	0.000
<b>Arab States</b>	<b>Total income gap</b>	<b>0.442</b>	<b>0.275</b>	<b>0.076</b>	<b>0.053</b>	<b>0.023</b>	<b>0.017</b>	<b>0.059</b>	<b>0.015</b>
	... filled by social protection	0.170	0.081	0.028	0.014	0.014	0.005	0.041	0.015
	... filled by labour earnings	0.272	0.194	0.048	0.039	0.009	0.012	0.018	0.000
<b>Asia and the Pacific</b>	<b>Total income gap</b>	<b>1.495</b>	<b>0.488</b>	<b>0.459</b>	<b>0.129</b>	<b>0.330</b>	<b>0.010</b>	<b>0.466</b>	<b>0.072</b>
	... filled by social protection	0.961	0.330	0.262	0.062	0.200	0.006	0.292	0.072
	... filled by labour earnings	0.534	0.159	0.197	0.067	0.130	0.004	0.174	0.000
<b>Europe and Central Asia</b>	<b>Total income gap</b>	<b>0.090</b>	<b>0.034</b>	<b>0.016</b>	<b>0.009</b>	<b>0.007</b>	<b>0.006</b>	<b>0.029</b>	<b>0.005</b>
	... filled by social protection	0.067	0.023	0.008	0.005	0.003	0.005	0.027	0.005
	... filled by labour earnings	0.023	0.011	0.008	0.004	0.004	0.001	0.002	0.000
<b>Developed countries</b>									
<b>Total</b>	<b>Total income gap</b>	<b>0.026</b>	<b>0.004</b>	<b>0.008</b>	<b>0.003</b>	<b>0.005</b>	<b>0.003</b>	<b>0.007</b>	<b>0.004</b>
	... filled by social protection	0.023	0.004	0.006	0.002	0.004	0.003	0.007	0.004
	... filled by labour earnings	0.003	0.000	0.002	0.001	0.001	0.000	0.000	0.000
<b>World</b>									
	<b>Total income gap</b>	<b>0.800</b>	<b>0.311</b>	<b>0.236</b>	<b>0.054</b>	<b>0.182</b>	<b>0.010</b>	<b>0.204</b>	<b>0.038</b>
	... filled by social protection	0.551	0.217	0.149	0.027	0.122	0.007	0.141	0.038
	... filled by labour earnings	0.249	0.094	0.088	0.028	0.060	0.003	0.064	0.000

**Table 2A.2 (cont'd)**
**Extreme and moderate poverty (<\$3.10 PPP per capita per day)**

		Total	Less than 15	Employed 15–64			Unemployed 15–64	Inactive 15–64	65+
				Total	Wage	Non-wage			
<b>2. Total income gap as a percentage of government expenditure</b>									
<b>Emerging and developing countries</b>									
<b>Total</b>	<b>Total income gap</b>	<b>7.271</b>	<b>3.043</b>	<b>2.209</b>	<b>0.468</b>	<b>1.741</b>	<b>0.070</b>	<b>1.603</b>	<b>0.347</b>
	... filled by social protection	4.844	2.046	1.348	0.223	1.126	0.044	1.059	0.347
	... filled by labour earnings	2.427	0.996	0.861	0.246	0.615	0.026	0.544	0.000
<b>Africa</b>	<b>Total income gap</b>	<b>31.304</b>	<b>15.254</b>	<b>8.939</b>	<b>0.886</b>	<b>8.053</b>	<b>0.312</b>	<b>5.484</b>	<b>1.314</b>
	... filled by social protection	24.394	11.135	6.792	0.509	6.283	0.208	4.945	1.314
	... filled by labour earnings	6.910	4.119	2.147	0.377	1.770	0.104	0.539	0.000
<b>Latin America and the Caribbean</b>	<b>Total income gap</b>	<b>1.267</b>	<b>0.543</b>	<b>0.328</b>	<b>0.097</b>	<b>0.232</b>	<b>0.051</b>	<b>0.286</b>	<b>0.058</b>
	... filled by social protection	1.032	0.434	0.243	0.062	0.181	0.041	0.255	0.058
	... filled by labour earnings	0.235	0.109	0.085	0.034	0.051	0.010	0.030	0.000
<b>Arab States</b>	<b>Total income gap</b>	<b>1.035</b>	<b>0.637</b>	<b>0.179</b>	<b>0.122</b>	<b>0.056</b>	<b>0.039</b>	<b>0.147</b>	<b>0.034</b>
	... filled by social protection	0.407	0.190	0.068	0.033	0.035	0.011	0.104	0.034
	... filled by labour earnings	0.628	0.447	0.111	0.090	0.021	0.027	0.043	0.000
<b>Asia and the Pacific</b>	<b>Total income gap</b>	<b>5.836</b>	<b>2.091</b>	<b>1.885</b>	<b>0.551</b>	<b>1.334</b>	<b>0.042</b>	<b>1.509</b>	<b>0.307</b>
	... filled by social protection	3.484	1.298	0.987	0.243	0.744	0.023	0.868	0.307
	... filled by labour earnings	2.352	0.794	0.899	0.308	0.590	0.019	0.641	0.000
<b>Europe and Central Asia</b>	<b>Total income gap</b>	<b>0.304</b>	<b>0.108</b>	<b>0.053</b>	<b>0.029</b>	<b>0.023</b>	<b>0.017</b>	<b>0.110</b>	<b>0.017</b>
	... filled by social protection	0.240	0.078	0.026	0.016	0.010	0.014	0.105	0.017
	... filled by labour earnings	0.064	0.030	0.026	0.013	0.013	0.002	0.005	0.000
<b>Developed countries</b>									
<b>Total</b>	<b>Total income gap</b>	<b>0.061</b>	<b>0.009</b>	<b>0.019</b>	<b>0.007</b>	<b>0.012</b>	<b>0.007</b>	<b>0.017</b>	<b>0.009</b>
	... filled by social protection	0.055	0.009	0.014	0.004	0.010	0.006	0.017	0.009
	... filled by labour earnings	0.006	0.001	0.005	0.003	0.002	0.001	0.000	0.000
<b>World</b>									
	<b>Total income gap</b>	<b>3.489</b>	<b>1.451</b>	<b>1.060</b>	<b>0.227</b>	<b>0.834</b>	<b>0.037</b>	<b>0.771</b>	<b>0.170</b>
	... filled by social protection	2.548	0.977	0.649	0.108	0.541	0.025	0.727	0.170
	... filled by labour earnings	0.941	0.474	0.412	0.119	0.293	0.012	0.044	0.000
<b>3. Total amount in million US dollars at current values (2012)</b>									
	<b>Total income gap</b>	<b>586,993</b>	<b>228,384</b>	<b>173,509</b>	<b>39,971</b>	<b>133,538</b>	<b>7,151</b>	<b>150,023</b>	<b>27,927</b>
	... filled by social protection	404,451	159,081	109,235	19,674	89,561	4,992	103,216	27,927
	... filled by labour earnings	182,542	69,303	64,273	20,297	43,976	2,159	46,807	0
<b>4. Total amount in million PPP (current international \$, 2012)</b>									
	<b>Total income gap</b>	<b>772,462</b>	<b>300,545</b>	<b>228,331</b>	<b>52,600</b>	<b>175,731</b>	<b>9,411</b>	<b>197,425</b>	<b>36,751</b>
	... filled by social protection	532,243	209,345	143,750	25,890	117,859	6,569	135,828	36,751
	... filled by labour earnings	240,219	91,200	84,581	26,710	57,871	2,841	61,596	0

Table 2A.3

## Poverty (&lt;\$5 PPP per capita per day)

		Total	Less than 15	Employed 15–64			Unemployed 15–64	Inactive 15–64	65+
				Total	Wage	Non-wage			
<b>1. Total income gap as a percentage of GDP</b>									
<b>Emerging and developing countries</b>									
<b>Total</b>	<b>Total income gap</b>	<b>5.717</b>	<b>2.101</b>	<b>1.757</b>	<b>0.511</b>	<b>1.246</b>	<b>0.063</b>	<b>1.511</b>	<b>0.285</b>
	... filled by social protection	3.968	1.446	1.124	0.250	0.874	0.040	1.073	0.285
	... filled by labour earnings	1.749	0.655	0.633	0.261	0.372	0.024	0.438	0.000
<b>Africa</b>	<b>Total income gap</b>	<b>15.817</b>	<b>7.952</b>	<b>4.508</b>	<b>0.660</b>	<b>3.847</b>	<b>0.234</b>	<b>2.448</b>	<b>0.676</b>
	... filled by social protection	12.003	5.618	3.397	0.354	3.043	0.150	2.163	0.676
	... filled by labour earnings	3.814	2.334	1.110	0.306	0.804	0.084	0.285	0.000
<b>Latin America and the Caribbean</b>	<b>Total income gap</b>	<b>1.276</b>	<b>0.541</b>	<b>0.357</b>	<b>0.142</b>	<b>0.215</b>	<b>0.050</b>	<b>0.269</b>	<b>0.059</b>
	... filled by social protection	0.974	0.410	0.244	0.088	0.156	0.036	0.226	0.059
	... filled by labour earnings	0.302	0.131	0.114	0.054	0.059	0.014	0.043	0.000
<b>Arab States</b>	<b>Total income gap</b>	<b>4.410</b>	<b>2.509</b>	<b>0.902</b>	<b>0.711</b>	<b>0.191</b>	<b>0.168</b>	<b>0.678</b>	<b>0.152</b>
	... filled by social protection	1.740	0.753	0.311	0.188	0.123	0.049	0.475	0.152
	... filled by labour earnings	2.669	1.756	0.591	0.524	0.067	0.119	0.203	0.000
<b>Asia and the Pacific</b>	<b>Total income gap</b>	<b>5.753</b>	<b>1.769</b>	<b>1.840</b>	<b>0.611</b>	<b>1.229</b>	<b>0.043</b>	<b>1.797</b>	<b>0.305</b>
	... filled by social protection	3.841	1.196	1.105	0.294	0.810	0.025	1.209	0.305
	... filled by labour earnings	1.912	0.573	0.735	0.317	0.418	0.017	0.588	0.000
<b>Europe and Central Asia</b>	<b>Total income gap</b>	<b>0.529</b>	<b>0.198</b>	<b>0.113</b>	<b>0.060</b>	<b>0.052</b>	<b>0.028</b>	<b>0.157</b>	<b>0.033</b>
	... filled by social protection	0.387	0.137	0.060	0.033	0.028	0.022	0.135	0.033
	... filled by labour earnings	0.142	0.061	0.052	0.028	0.025	0.007	0.022	0.000
<b>Developed countries</b>									
<b>Total</b>	<b>Total income gap</b>	<b>0.049</b>	<b>0.009</b>	<b>0.014</b>	<b>0.006</b>	<b>0.008</b>	<b>0.006</b>	<b>0.014</b>	<b>0.006</b>
	... filled by social protection	0.042	0.008	0.009	0.003	0.007	0.005	0.013	0.006
	... filled by labour earnings	0.007	0.001	0.005	0.003	0.001	0.001	0.001	0.000
<b>World</b>									
	<b>Total income gap</b>	<b>2.742</b>	<b>1.003</b>	<b>0.842</b>	<b>0.246</b>	<b>0.596</b>	<b>0.033</b>	<b>0.725</b>	<b>0.139</b>
	... filled by social protection	1.907	0.691	0.539	0.120	0.419	0.022	0.517	0.139
	... filled by labour earnings	0.835	0.311	0.303	0.126	0.177	0.012	0.209	0.000
<b>2. Total income gap as a percentage of government expenditure</b>									
<b>Emerging and developing countries</b>									
<b>Total</b>	<b>Total income gap</b>	<b>24.342</b>	<b>9.378</b>	<b>7.763</b>	<b>2.085</b>	<b>5.678</b>	<b>0.256</b>	<b>5.710</b>	<b>1.234</b>
	... filled by social protection	16.640	6.344	4.919	1.003	3.916	0.158	3.985	1.234
	... filled by labour earnings	7.701	3.034	2.844	1.082	1.762	0.098	1.725	0.000
<b>Africa</b>	<b>Total income gap</b>	<b>82.975</b>	<b>39.796</b>	<b>24.372</b>	<b>3.031</b>	<b>21.341</b>	<b>0.973</b>	<b>14.321</b>	<b>3.512</b>
	... filled by social protection	62.969	29.318	19.298	1.695	17.602	0.650	13.194	3.512
	... filled by labour earnings	20.006	10.478	5.075	1.336	3.739	0.323	1.128	0.000
<b>Latin America and the Caribbean</b>	<b>Total income gap</b>	<b>4.576</b>	<b>1.916</b>	<b>1.328</b>	<b>0.519</b>	<b>0.808</b>	<b>0.152</b>	<b>0.961</b>	<b>0.220</b>
	... filled by social protection	3.570	1.484	0.927	0.328	0.599	0.112	0.826	0.220
	... filled by labour earnings	1.006	0.431	0.401	0.191	0.209	0.039	0.135	0.000
<b>Arab States</b>	<b>Total income gap</b>	<b>10.330</b>	<b>5.798</b>	<b>2.110</b>	<b>1.642</b>	<b>0.468</b>	<b>0.390</b>	<b>1.679</b>	<b>0.352</b>
	... filled by social protection	4.171	1.764	0.747	0.440	0.307	0.116	1.192	0.352
	... filled by labour earnings	6.159	4.034	1.364	1.203	0.161	0.274	0.487	0.000
<b>Asia and the Pacific</b>	<b>Total income gap</b>	<b>22.553</b>	<b>7.366</b>	<b>7.601</b>	<b>2.532</b>	<b>5.069</b>	<b>0.182</b>	<b>6.145</b>	<b>1.259</b>
	... filled by social protection	14.365	4.735	4.338	1.160	3.178	0.103	3.931	1.259
	... filled by labour earnings	8.188	2.631	3.264	1.373	1.891	0.079	2.214	0.000
<b>Europe and Central Asia</b>	<b>Total income gap</b>	<b>1.761</b>	<b>0.629</b>	<b>0.376</b>	<b>0.207</b>	<b>0.170</b>	<b>0.089</b>	<b>0.556</b>	<b>0.111</b>
	... filled by social protection	1.365	0.447	0.207	0.115	0.092	0.070	0.530	0.111
	... filled by labour earnings	0.396	0.182	0.169	0.092	0.078	0.019	0.025	0.000
<b>Developed countries</b>									
<b>Total</b>	<b>Total income gap</b>	<b>0.119</b>	<b>0.022</b>	<b>0.035</b>	<b>0.015</b>	<b>0.020</b>	<b>0.013</b>	<b>0.034</b>	<b>0.016</b>
	... filled by social protection	0.105	0.020	0.024	0.007	0.017	0.012	0.034	0.016
	... filled by labour earnings	0.014	0.002	0.011	0.008	0.003	0.001	0.000	0.000
<b>World</b>									
	<b>Total income gap</b>	<b>11.628</b>	<b>4.466</b>	<b>3.707</b>	<b>0.998</b>	<b>2.708</b>	<b>0.129</b>	<b>2.731</b>	<b>0.595</b>
	... filled by social protection	8.605	3.026	2.350	0.480	1.870	0.082	2.552	0.595
	... filled by labour earnings	3.023	1.440	1.357	0.519	0.838	0.047	0.179	0.000

**Table 2A.3 (cont'd)****Poverty (<\$5 PPP per capita per day)**

	Total	Less than 15	Employed 15–64			Unemployed 15–64	Inactive 15–64	65+
			Total	Wage	Non-wage			
<b>3. Total amount in million US dollars at current values (2012)</b>								
<b>Total income gap</b>	<b>2,012,926</b>	<b>735,960</b>	<b>618,139</b>	<b>180,593</b>	<b>437,546</b>	<b>24,475</b>	<b>532,359</b>	<b>101,994</b>
... filled by social protection	1,400,045	507,343	395,685	88,313	307,371	15,857	379,167	101,994
... filled by labour earnings	612,882	228,617	222,454	92,280	130,174	8,619	153,192	0
<b>4. Total amount in million PPP (current international \$, 2012)</b>								
<b>Total income gap</b>	<b>2,648,937</b>	<b>968,496</b>	<b>813,448</b>	<b>237,653</b>	<b>575,794</b>	<b>32,209</b>	<b>700,565</b>	<b>134,220</b>
... filled by social protection	1,842,408	667,644	520,706	116,217	404,489	20,867	498,970	134,220
... filled by labour earnings	806,530	300,852	292,741	121,436	171,305	11,342	201,595	0

**Table 2A.4****Relative poverty (<60 per cent of median disposable household income / consumption expenditure)**

	Total	Less than 15	Employed 15–64			Unemployed 15–64	Inactive 15–64	65+	
			Total	Wage	Non-wage				
<b>1. Total income gap as a percentage of GDP</b>									
Developed	<b>Total income gap</b>	<b>1.666</b>	<b>0.488</b>	<b>0.462</b>	<b>0.369</b>	<b>0.094</b>	<b>0.123</b>	<b>0.450</b>	<b>0.142</b>
	... filled by social protection	1.205	0.363	0.219	0.170	0.049	0.100	0.382	0.142
	... filled by labour earnings	0.460	0.125	0.243	0.199	0.045	0.024	0.068	0.000
<b>2. Total income gap as a percentage of government expenditure</b>									
Developed	<b>Total income gap</b>	<b>4.154</b>	<b>1.211</b>	<b>1.153</b>	<b>0.930</b>	<b>0.227</b>	<b>0.287</b>	<b>1.146</b>	<b>0.358</b>
	... filled by social protection	3.007	0.900	0.546	0.428	0.119	0.231	0.971	0.358
	... filled by labour earnings	1.147	0.311	0.607	0.501	0.108	0.055	0.174	0.000
<b>3. Total amount in million US dollars at current values (2012)</b>									
Developed	<b>Total income gap</b>	<b>849,529</b>	<b>248,908</b>	<b>235,872</b>	<b>188,074</b>	<b>47,798</b>	<b>62,930</b>	<b>229,636</b>	<b>72,183</b>
	... filled by social protection	614,818	185,146	111,853	86,758	25,094	50,800	194,837	72,183
	... filled by labour earnings	234,710	63,762	124,020	101,316	22,704	12,130	34,799	0
<b>4. Total amount in million PPP (current international \$, 2012)</b>									
Developed	<b>Total income gap</b>	<b>855,313</b>	<b>250,603</b>	<b>237,478</b>	<b>189,355</b>	<b>48,124</b>	<b>63,358</b>	<b>231,199</b>	<b>72,674</b>
	... filled by social protection	619,005	186,407	112,614	87,349	25,265	51,146	196,163	72,674
	... filled by labour earnings	236,309	64,196	124,864	102,006	22,859	12,212	35,036	0
<b>5. Distribution of total amount (percentage based on US dollars at current values)</b>									
Developed	<b>Total income gap</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	... filled by social protection	72.4	74.4	47.4	46.1	52.5	80.7	84.8	100.0
	... filled by labour earnings	27.6	25.6	52.6	53.9	47.5	19.3	15.2	0.0

Note: See detailed sources in appendix G. Results extrapolated to total population for each region and globally.

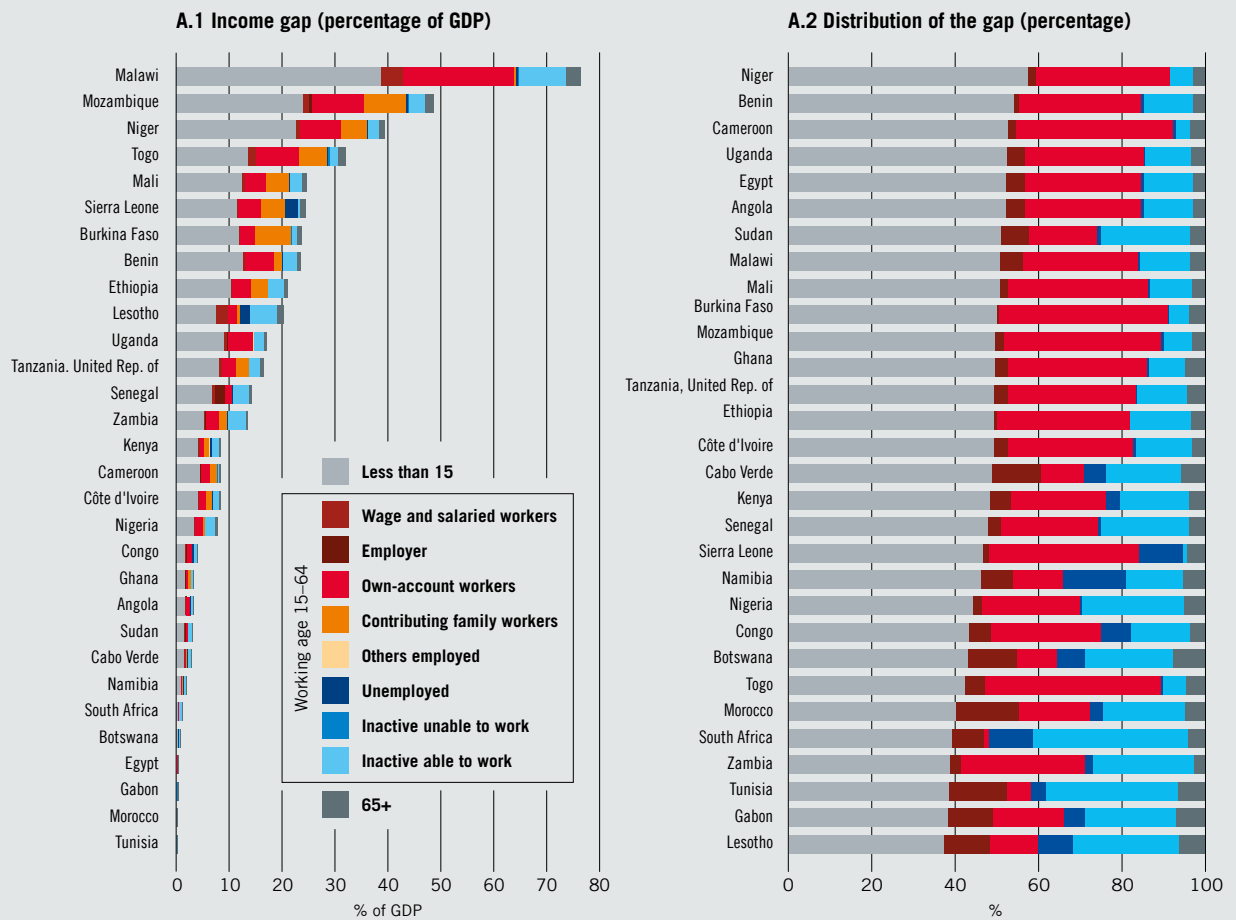
Source: ILO calculations based on data from 103 national household surveys.

# Appendix B. Aggregate poverty gaps by country: level and composition (extreme and moderate poverty), 2012

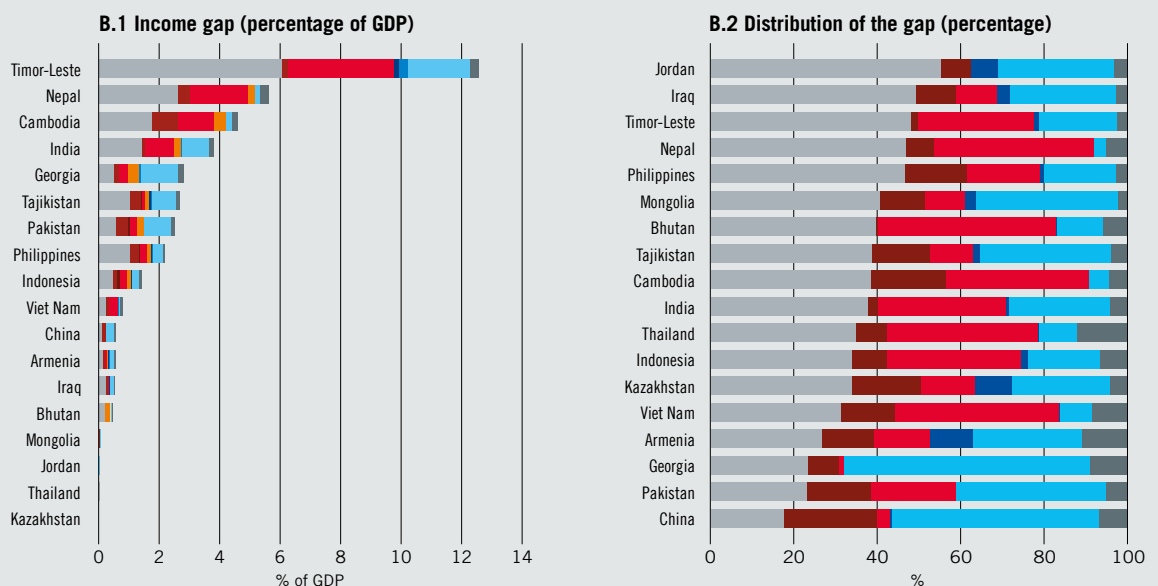
Figure 2B.1

Income gap (percentage of GDP) and distribution of the income gap (percentages), 2012

Panel A. Africa (extreme and moderate poverty: <\$3.10 PPP per capita per day)



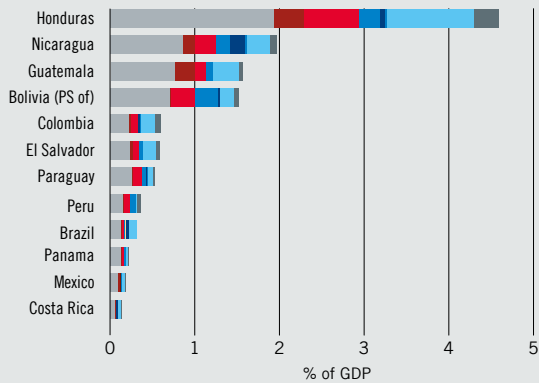
Panel B. Selected Asian emerging and developing countries (extreme and moderate poverty: <\$3.10 PPP per capita per day)



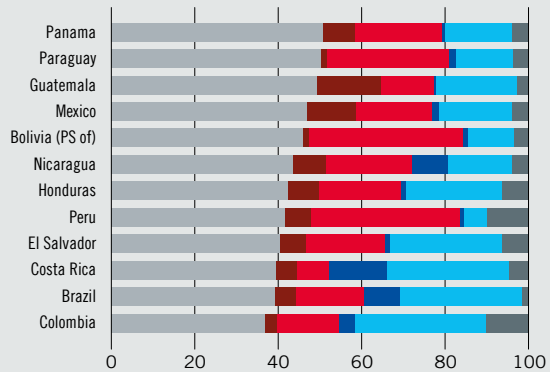
**Figure 2B.1 (cont'd)**

**Panel C. Selected Latin American emerging and developing countries (extreme and moderate poverty: <\$3.10 PPP per capita per day)**

**C.1 Income gap (percentage of GDP)**

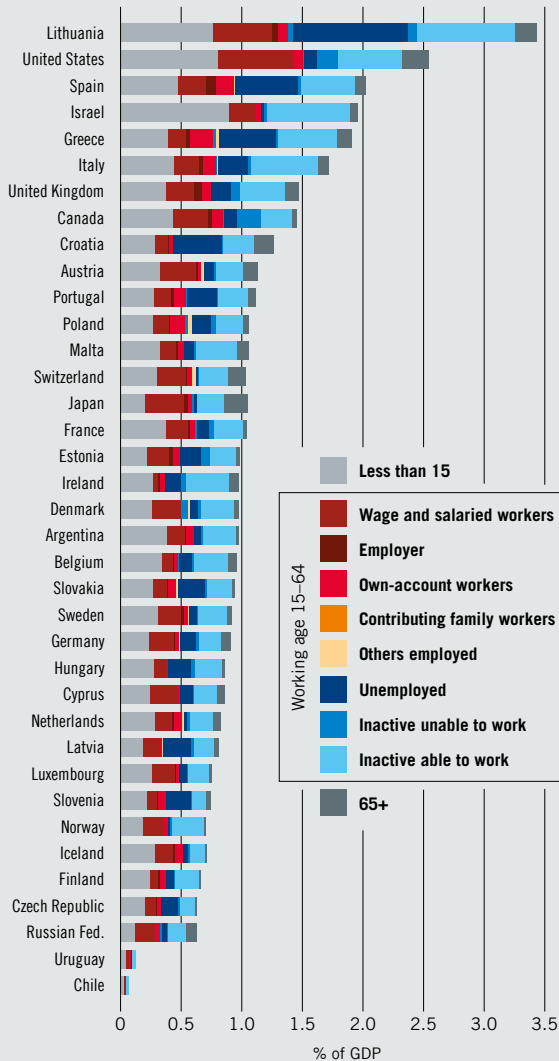


**C.2 Distribution of the gap (percentage)**

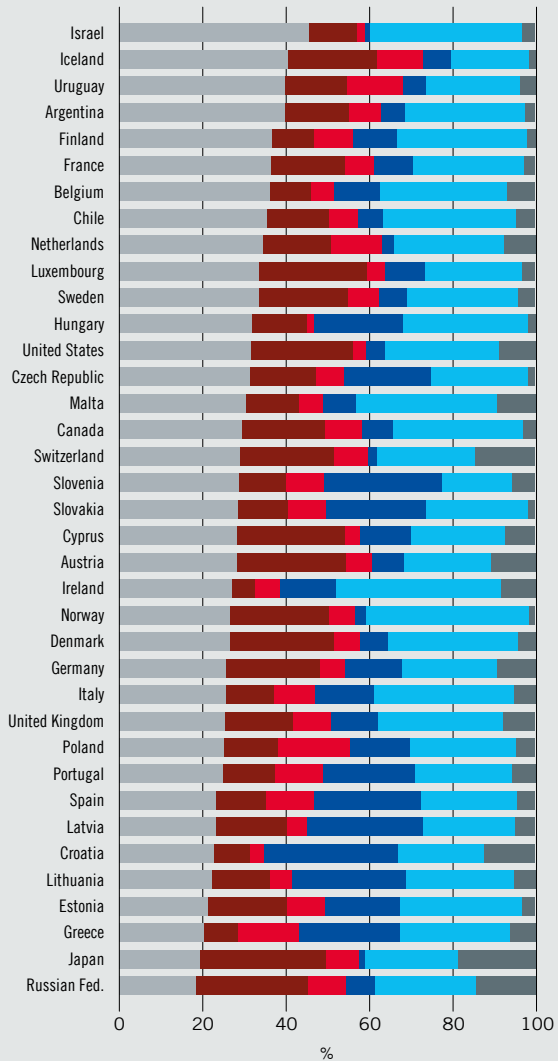


**Panel D. Selected developed countries (relative poverty: <60 per cent of median disposable household income or consumption expenditure)**

**D.1 Income gap (percentage of GDP)**



**D.2 Distribution of the gap (percentage)**

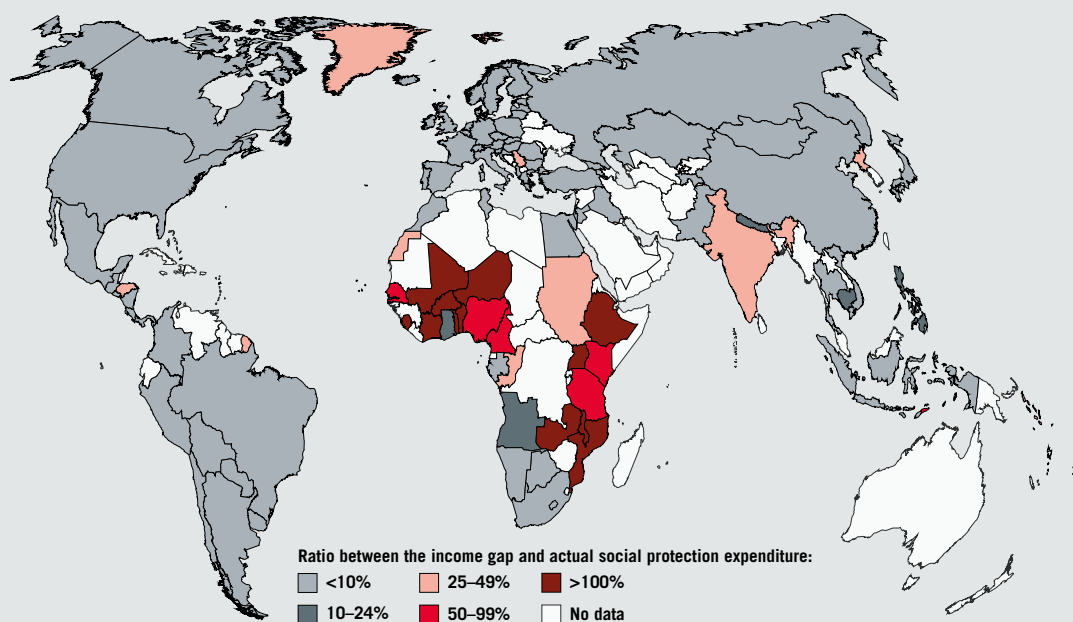


Source: ILO calculations based on the analysis of microdata from 103 national household surveys.

## Appendix C. Total income gap as a percentage of current public social protection expenditure (various poverty lines), 2012

Figure 2C.1

Total income gap to eliminate extreme poverty: ratio between the income gap and actual social protection expenditure, 2012 (percentages)

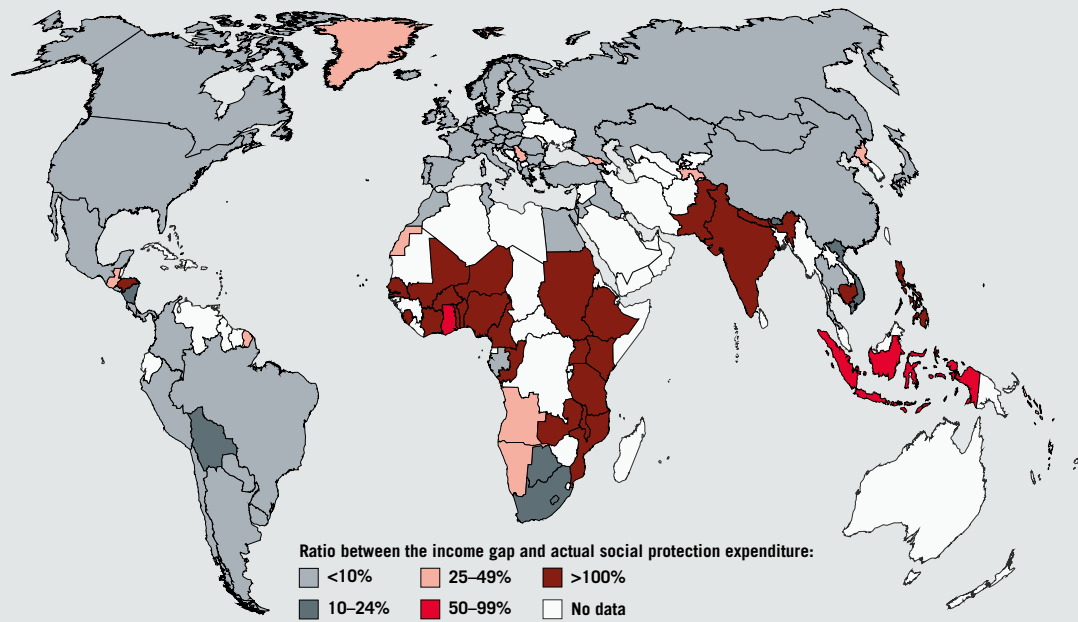


Note: Extreme poverty is defined as living on a household per capita income or consumption expenditure of less than \$1.90 PPP per day.

Source: ILO calculations based on the analysis of microdata from 103 national household survey data.

Figure 2C.2

Total income gap to eliminate extreme and moderate poverty: ratio between the income gap and actual social protection expenditure, 2012 (percentages)

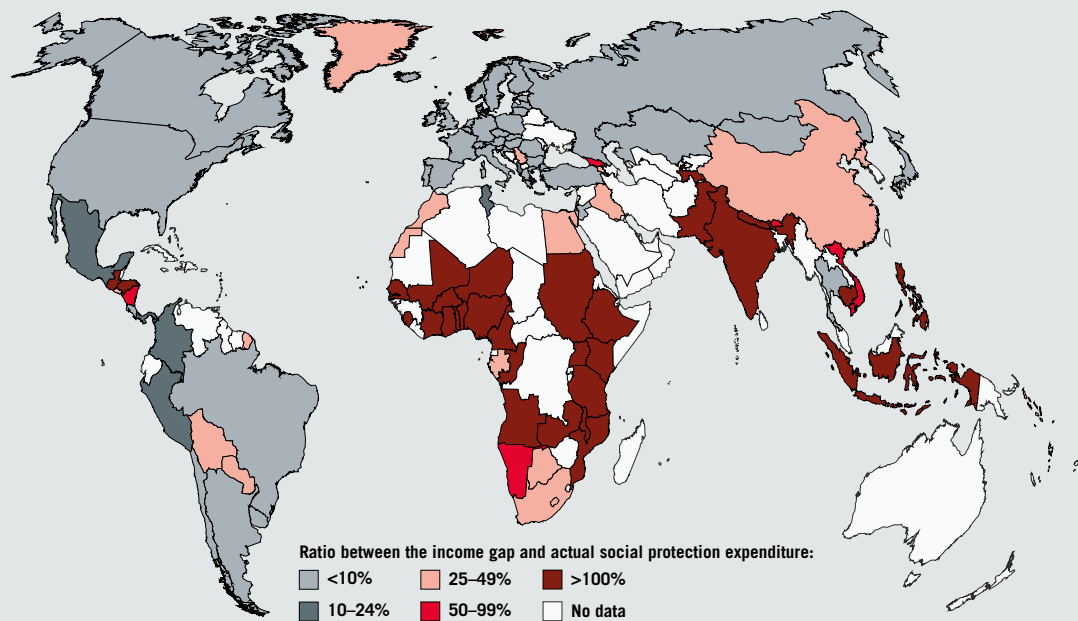


Note: Extreme and moderate poverty is defined as living on a household per capita income or consumption expenditure of less than \$3.10 PPP per day.

Source: ILO calculations based on the analysis of microdata from 103 national household survey data.

Figure 2C.3

Total income gap to eliminate poverty at \$5 PPP per capita per day: ratio between the income gap and actual social protection expenditure, 2012 (percentages)



Source: ILO calculations based on the analysis of microdata from 103 national household survey data.

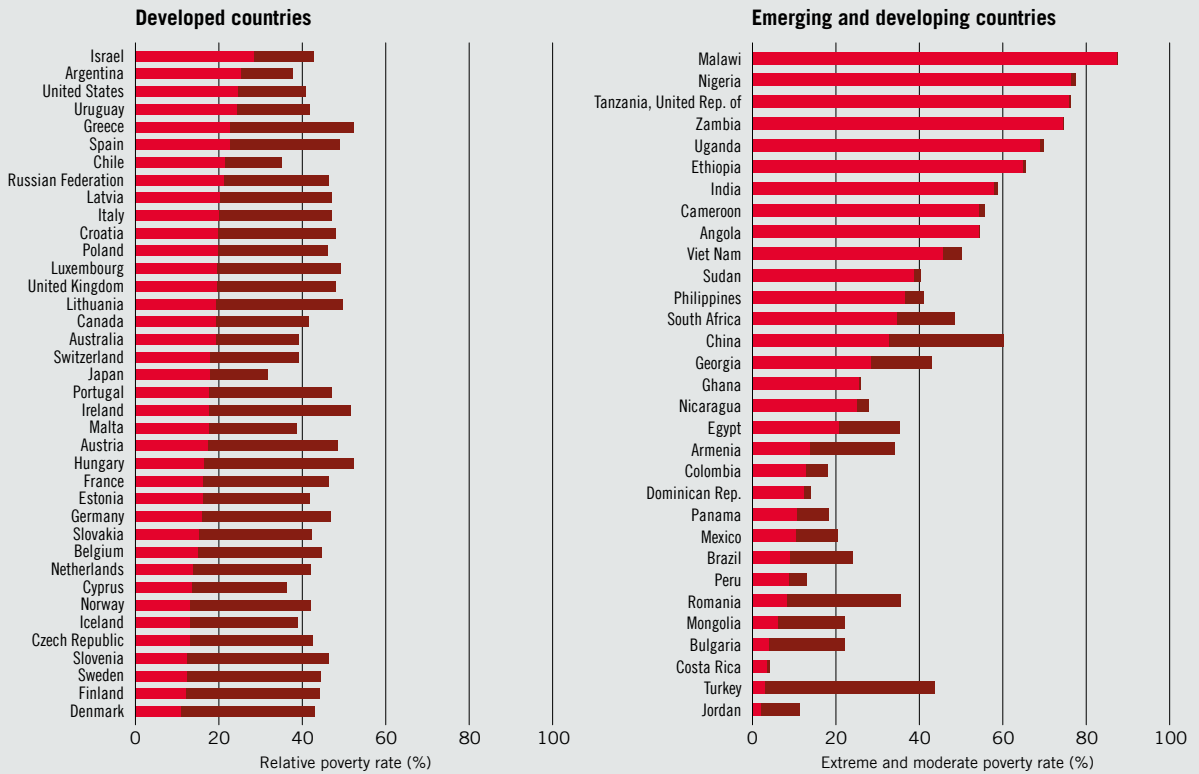


# Appendix D. Impact of social protection on poverty reduction and prevention, country data

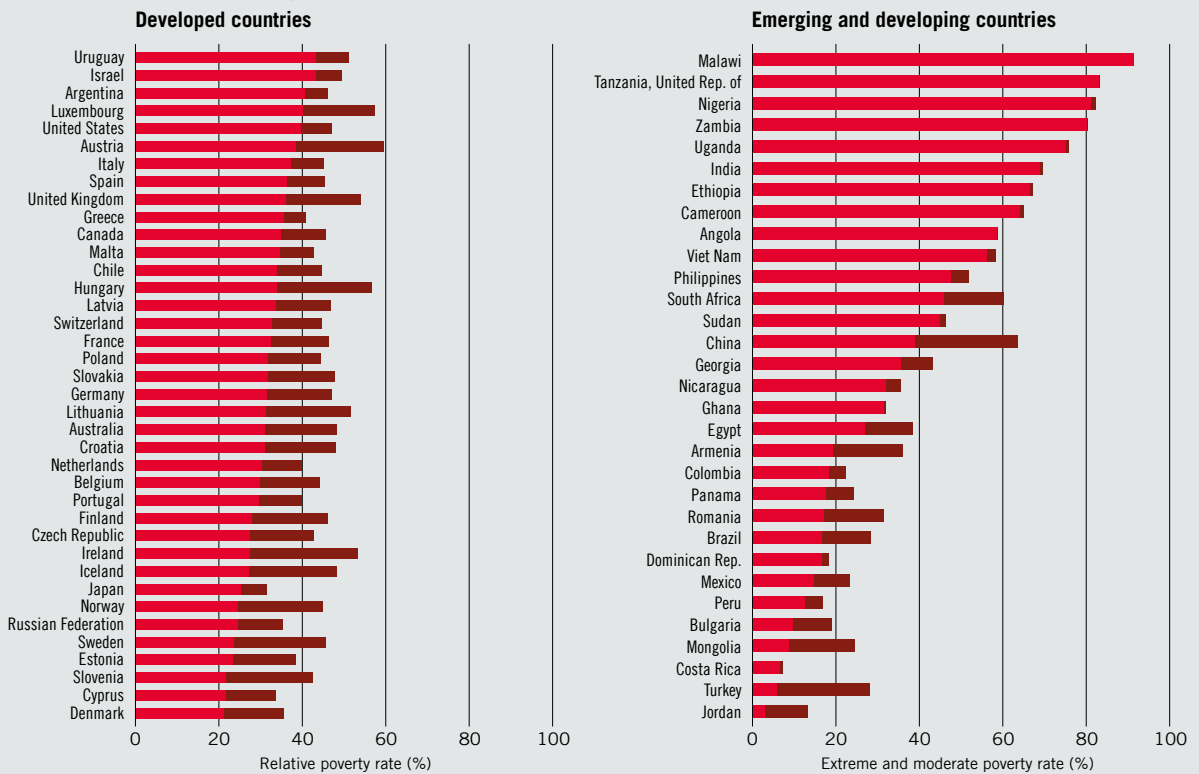
Figure 2D.1

Impact of social protection on poverty reduction and prevention by age group and economic status, country data, latest year available (percentages)

**Panel A. Total population**

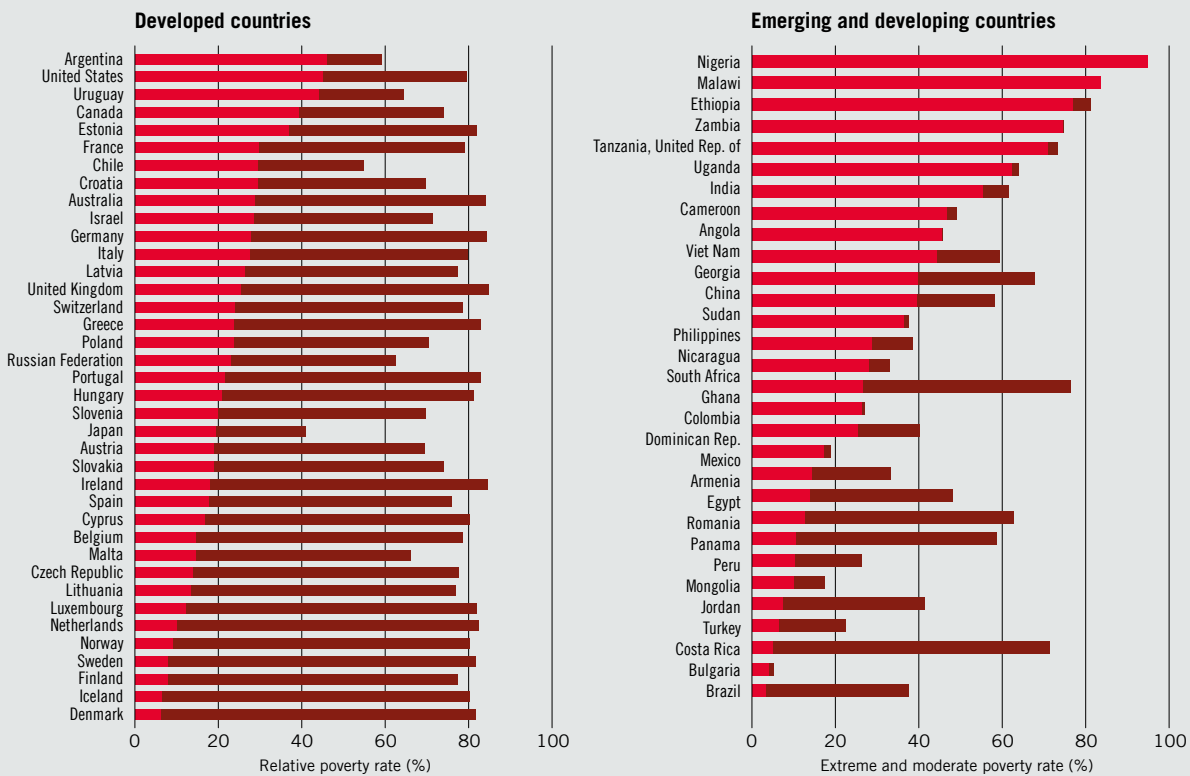


**Panel B. Children (less than 15 years old)**

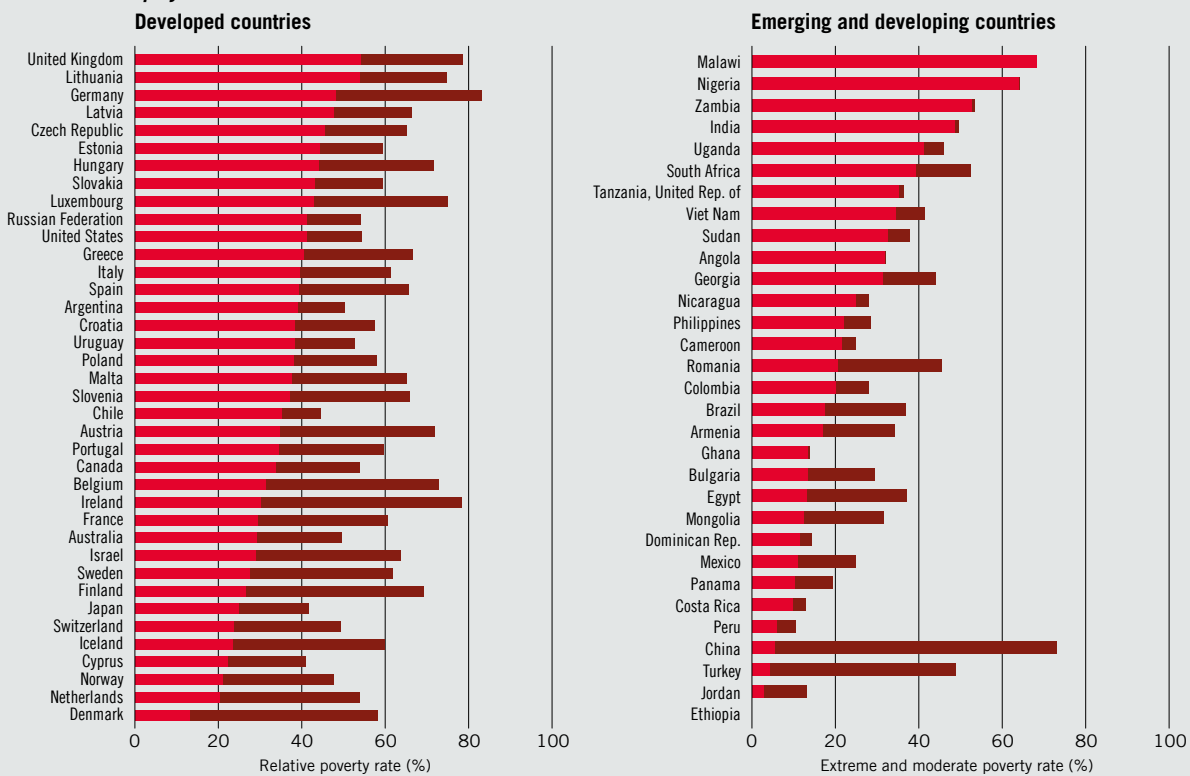


**Figure 2D.1 (cont'd)**

**Panel C. Inactive unable to work (15–64)<sup>1</sup>**



**Panel D. Unemployed (15–64)**

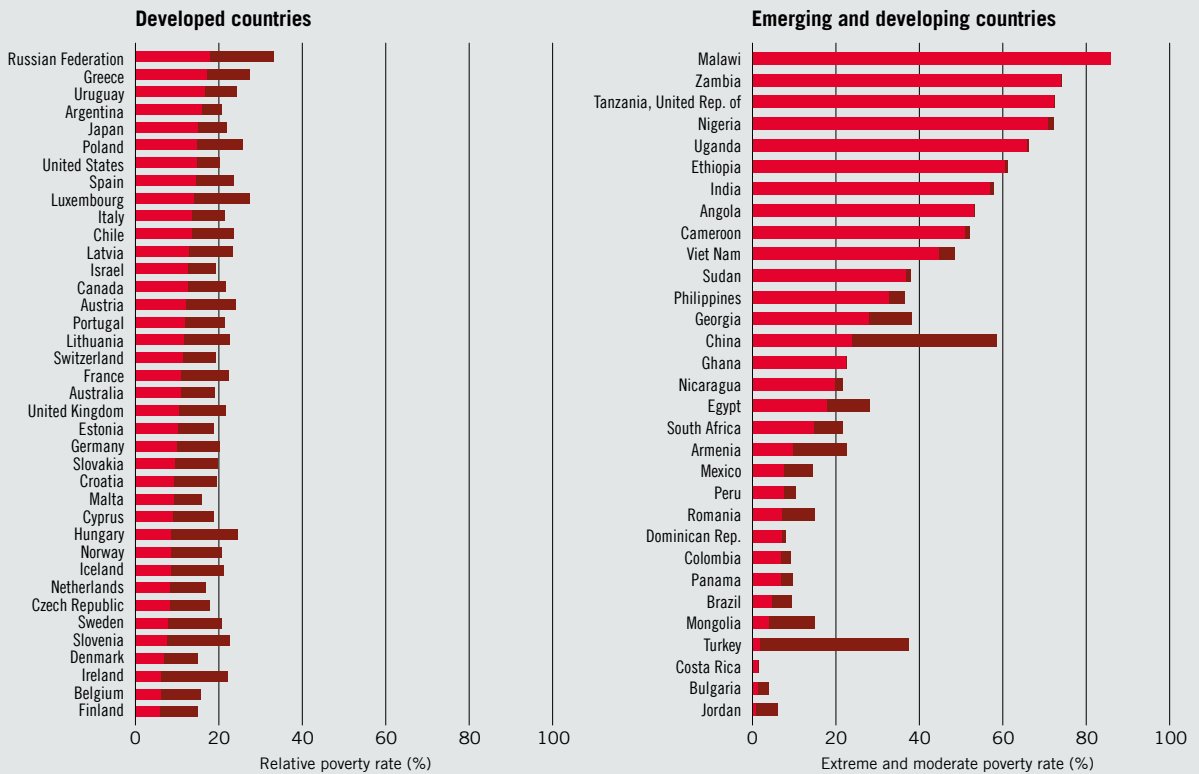


<sup>1</sup> "Inactive unable to work" are people with disability not in the labour force and not looking for work, being unable to work because of their disability (identified in household surveys).

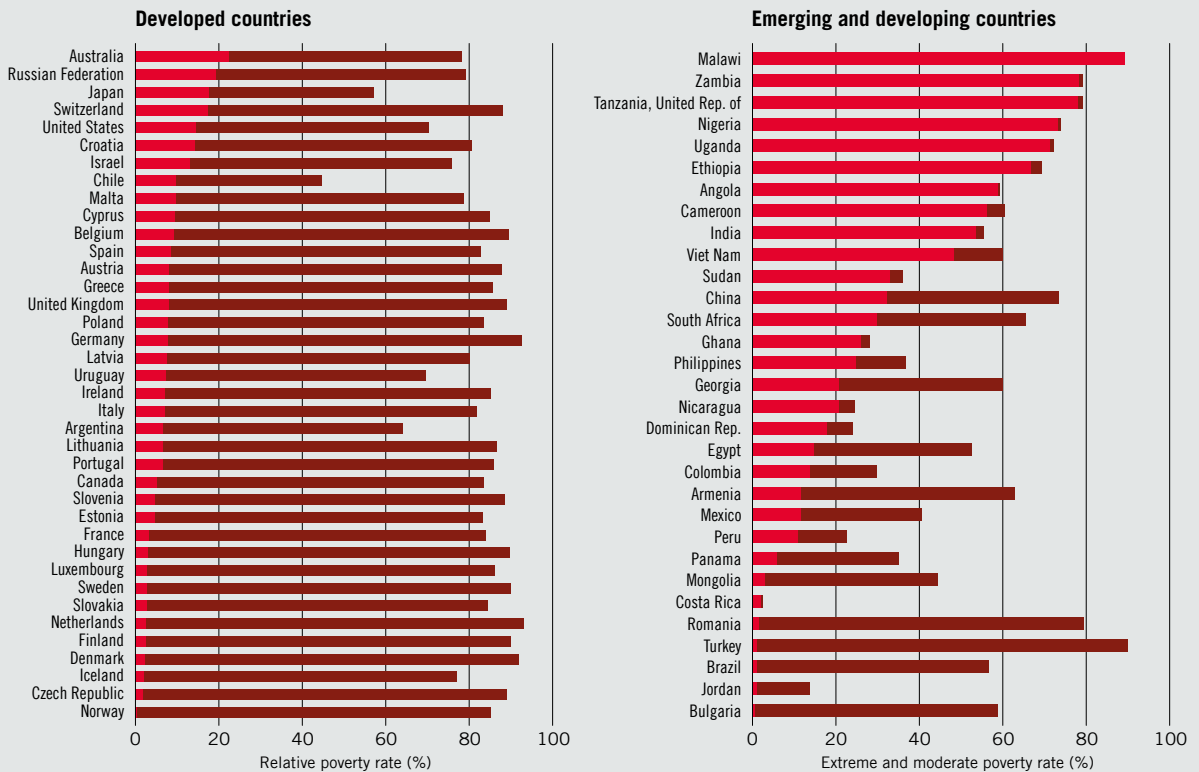
**Figure 2D.1 (cont'd)**

**Impact of social protection on poverty reduction and prevention by age group and economic status, country data, latest year available (percentages)**

**Panel E. Employed (15–64)**



**Panel F. People in old age (65+)**



Note: Relative poverty line of 60 per cent of median household disposable income or consumption expenditure in developed countries and common poverty line of \$3.10 PPP per capita per day for emerging and developing countries. Impact on poverty reduction and prevention calculated on a per capita basis, so as to be consistent with other results presented in this report. This methodological choice explains some of the differences between these and other results published in Eurostat or OECD using the same original data.

Source: ILO calculations based on national household survey data.

## Appendix E. Social protection or an increase in labour incomes: A simplified case-by-case analysis

Appendix E supports the results presented in the first part of section C of this chapter. It presents the five different cases organized in two sets (Box 2E.1), according to whether social protection (set 1) or an increase in labour incomes (set 2) is considered as the main answer to fill the income gap.

Figures 2E.1 and 2E.2 display for different types of households the percentage of individuals involved (horizontal axis) compared to the share of their income gap in the total income gap (vertical axis). Any dot above the diagonal is an indication that this group of people faces a higher income gap than its representation in the population. This is an indication of the degree of exposure to poverty and in particular the depth of poverty. Tables 2E.1 and 2E.2 present the composition of the different types of poor households.

### Box 2E.1

#### Case-by-case analysis of five cases

Five main types of household are defined according to the proportion of household members aged 15–64 in paid employment (economic dependency ratio strictly defined as in box 2.2) and status in employment.

The ages 15–64 are considered to form the appropriate age range to be engaged in working activities.

- **Type 1:** Households without anyone aged 15–64 in paid employment;
- **Type 2:** Households with less than 25 per cent of their household members in paid employment (all wage and salaried employment);
- **Type 3:** Households with less than 25 per cent of their household members in paid employment (all being either own-account worker or employer);

- **Type 4:** Households with at least 25 per cent of their household members in paid employment (all wage and salaried employment); and
- **Type 5:** Households with at least 25 per cent of their household members in paid employment (all being either own-account worker or employer).

For each of the five cases, “a” is for emerging and developing countries for a common poverty line of \$3.10 PPP per capita per day and “b” is for developed countries for a relative poverty line of 60 per cent of median disposable household income or consumption expenditure.

### 1. High demographic and economic dependency ratios as the main factors of poverty and social protection as the main policy response (cases 1–3)

This first set of cases, primarily calling for social protection and usually supported by policies to improve labour incomes, covers the majority of the poor. In emerging and developing countries, these cases include 55 per cent of the poor and more than 58 per cent of the total income gap; in developed countries, 58 per cent of the poor and over 60 per cent of the income gap. The cases include the two groups of individuals that face the highest income gaps compared to their representation in the population: individuals living in households without anyone in paid employment (case 1 in figure 2E.1, panel A) and those living in households with less than 25 per cent of household members in paid employment, all of whom are self-employed (case 3 in figure 2E.1, panel C).

**Table 2E.1**

**High reliance on social protection to fill the income gap: composition of poor households by household type, latest year available (percentages)**

		Less than 15	15–64					65+	
			Unable to work	Able to work but inactive	Un-employed	Wage and salaried (paid)	Self-employed (paid)		Employed (unpaid)
<b>Developed</b>	Case 1. No one in paid employment	17.2	10.7	27.7	14.0	–	–	1.6	28.8
	Case 2. Less than 25%: wage	43.1	2.0	23.8	5.6	21.3	–	0.8	3.0
	Case 3. Less than 25%: self-employed	42.8	1.0	26.5	5.0	–	21.5	1.1	1.8
<b>Emerging and developing</b>	Case 1. No one in paid employment	43.9	3.4	25.4	3.7	–	–	9.7	14.0
	Case 2. Less than 25%: wage	48.5	1.0	23.2	1.5	17.6	–	3.0	5.1
	Case 3. Less than 25%: self-employed	49.6	0.8	18.0	1.0	–	16.6	10.8	2.9

Note: Results for emerging and developing countries are based on the extreme and moderate poverty line of \$3.10 PPP per capita per day. Results for developed countries are for the relative poverty line of 60 per cent of median disposable household income or consumption expenditure.

Source: ILO calculations based on the analysis of microdata from 103 national household surveys.

**Case 1. Who are the people living in households without any household members of working age in paid employment?**

Case 1 (figure 2E.1, panel A) refers to poor people living in households with no one of working age in paid employment. They account for 17.4 per cent of the poor in emerging and developing countries and 30.0 per cent of the poor in developed countries. In emerging and developing countries, those who are inactive but still able to work (25.4 per cent), the elderly (14.0 per cent) – for the most part certainly still working or receiving a limited old-age pension or allowance – and children (43.9 per cent) are over-represented. The proportion of unemployed is low (4 per cent) and, by contrast, contributing family workers make up nearly 10 per cent all household members (table 2E.1).

In developed countries, pensioners and potential pensioners (including the elderly, people living with disabilities and unable to work and the unemployed) account for nearly 55 per cent of the poor living in households with no one earning an income from labour. People who are inactive but able to work represent 27.7 per cent and children 17.2 per cent of the poor. In both developed, emerging and developing countries, poverty is primarily due to the absence of or insufficient social protection benefits to compensate for the lack of labour income, especially when covering a significant number of indirect beneficiaries. This is compounded by the lack of opportunity for paid employment, and more so for decent paid employment, that is more acute in emerging and developing countries.

**Cases 2 and 3. People living in households with less than 25 per cent of their working-age members in paid employment: high demographic and economic dependency ratios and significant decent work deficits**

Cases 2 and 3 (figure 2E.1, panels B and C) account for 34.8 per cent of the poor population in emerging and developing countries and 27.8 per cent of the population living under the poverty threshold in developed countries.

The common features for both developed, emerging and developing countries are high child dependency ratios (children represent nearly 50 per cent of people living in those households in emerging and developing countries and close to 45 per cent in developed countries) and high proportions of inactive people able to work (18–25 per cent). The main difference between developed, emerging and developing countries stands in the relatively high proportion, in emerging and developing countries, of contributing family workers in households where paid self-employment is the only source of labour income (10.8 per cent of household members); these households combine high child demographic and economic dependency ratios and obviously substantial decent work deficits for those in employment or unemployed.

**Figure 2E.1**

**Cases where social protection might play a major role**



Source: ILO calculations based on the analysis of microdata from 103 national household surveys.

## 2. Decent work deficits as the main poverty factor calling for policies enhancing full and productive employment and decent work (cases 4 and 5)

Cases 4 and 5 (table 2E.2 and figure 2E.2) represent in total 34.9 per cent of the poor in emerging and developing countries and 34.3 per cent in developed countries. In these two cases, the majority of the working age poor have jobs that are predominantly informal and in all cases with inadequate labour incomes. Individuals' income from labour is insufficient to take care of more than two or three dependants (be they children, elderly, unemployed or inactive, aged 15–64).

**Table 2E.2**

### Reducing decent work deficits and employment creation as main answer to fill the income gap: composition of poor households by household type, latest year available (percentages)

		Less than 15	15–64					65+	
			Unable to work	Able to work but inactive	Un-employed	Wage and salaried (paid)	Self-employed (paid)		Employed (unpaid)
<b>Developed</b>	Case 4. At least 25%: wage	24.3	2.1	14.9	4.2	50.5	0.0	0.3	3.5
	Case 5. At least 25%: self-employed	23.5	2.9	15.4	4.0	0.0	47.8	2.1	3.8
<b>Emerging and developing</b>	Case 4. At least 25%: wage	30.3	1.3	22.7	1.1	39.9	0.0	1.5	3.2
	Case 5. At least 25%: self-employed	39.0	0.9	13.9	1.3	0.0	37.9	4.2	2.7

*Note:* Results for emerging and developing countries are based on the extreme and moderate poverty line of \$3.10 PPP per capita per day. Results for developed countries are for the relative poverty line of 60 per cent of median disposable household income or consumption expenditure.

*Source:* ILO calculations based on the analysis of microdata from 103 national household surveys.

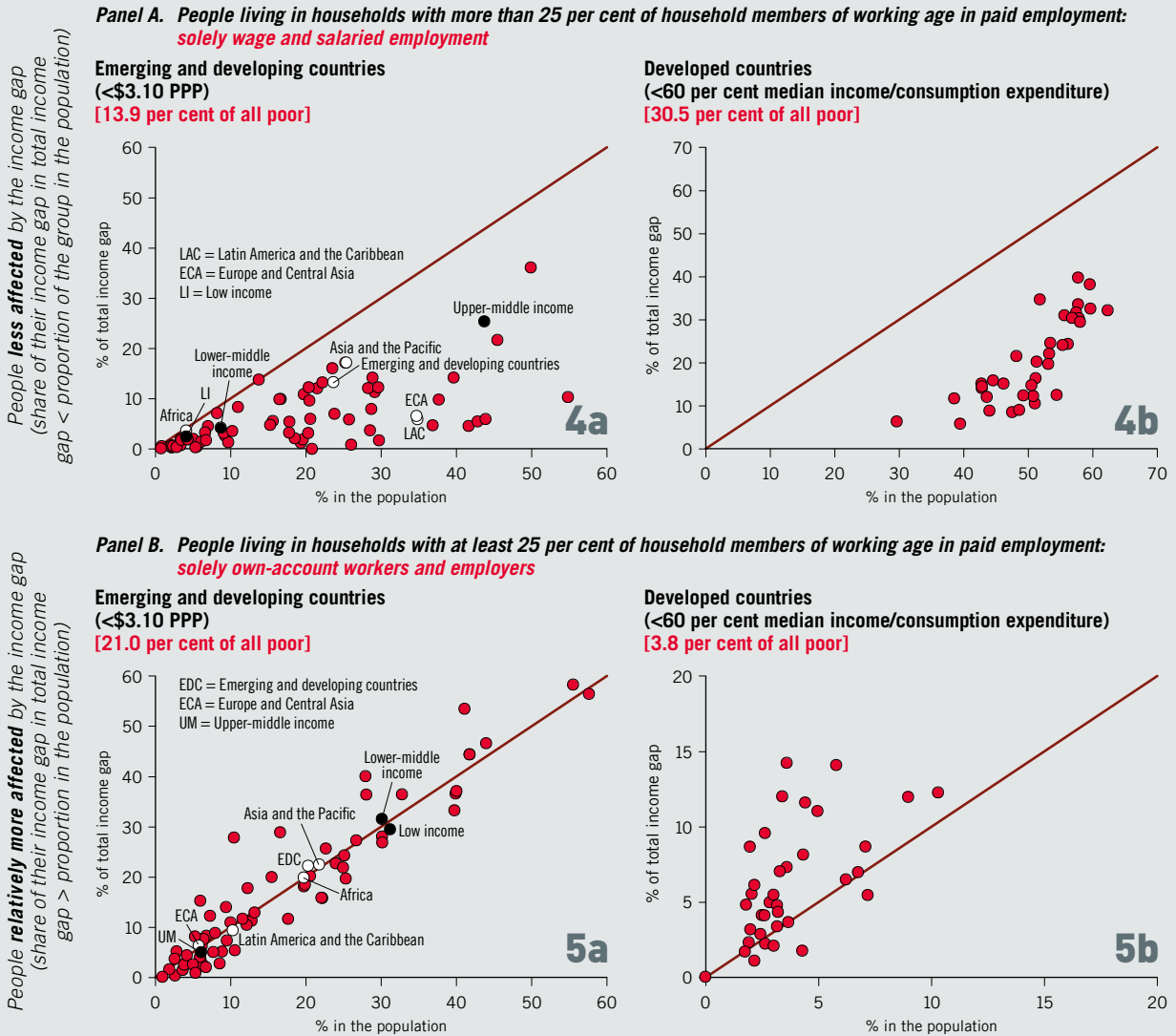
### Cases 4 and 5. People living in households with at least 25 per cent of their working-age members in paid employment

Those relatively most exposed to poverty and income gaps are people living in households where the working poor are self-employed (case 5). This last case represents a minority of the poor in developed countries (3.8 per cent) but is one of the most common situations for those living below the poverty line in emerging and developing countries (21.0 per cent). In emerging and developing countries, these households are composed on average of 37.9 per cent of working-age members in paid self-employment with the help of 4.2 per cent of working-age members also employed, but unpaid. The proportions of inactive (13.9 per cent) and unemployed (1.3 per cent) are among the lowest, compared to other groups, and children account for 39 per cent, which is relatively high compared to households with wage and salaried employment as main source of labour income.

Case 4 – people living in households relying on wage and salaried employment – represents a minority of the poor in emerging and developing countries (13.9 per cent compared to 28 per cent among the non-poor) and one of the main groups among the poor in developed countries (30.5 per cent compared to close to 55 per cent among the non-poor). The main distinctive feature of this last group is the high proportion of people in paid employment, in particular in developed countries, (more than 50 per cent of household members) and an associated low proportion of dependants and in particular of children (24.3 per cent in developed countries and 30.3 per cent in emerging and developing countries).

**Figure 2E.2**

**Cases where an improvement in labour income can play a major role**





## Appendix F. Methodological appendix to estimate the proportion of the gap filled by social protection

The share of the total income gap to be covered by social protection is a function of two main dimensions and a set of principles.

The two main dimensions are:

- The proportion of people able and willing to work, with an emphasis on the proportion of people in paid employment;
- The distance to the poverty line (or to the minimum level of per capita consumption observed at the national level).

A set of principles:

- The income gap is fully filled by social protection transfers for people in old age and for people aged 15–64 who have disabilities and are unable to work;
- Other groups are potentially covered through a mix of social protection transfers and improved labour income (directly or indirectly). Children, for instance, benefit from the improvement in their parents' labour income.

The share of the gap filled by social protection transfers is calculated based on survey data and is the same for each member of a given household.

The formula is as follows:

**Share of the gap filled by social protection transfers =  $[1 - (\text{"extended" economic dependency ratio} \times (1 - \text{DistPovline}))] \times 100$**

with:

<b>Dimension 1</b>	<b>The economic dependency ratio dimension:</b>
Extended economic dependency ratio =	$[\text{number of household members in paid employment} + a \times (\text{number of contributing family members} + \text{number of unemployed})] / \text{household size revised}$
Household size revised =	$\text{Household size} - \text{number of people above 64 years old} - \text{number of people aged 15–64 with disabilities and unable to work (because of their disability)}$
a =	$1 - (\text{number of contributing family members} + \text{unemployed}) \div \text{household size revised}$ The share of contributing family workers and unemployed accounts for job creation and opportunities for paid employment.
Rationale	A high ratio is an indicator of a low level of labour income per labour income earner. The extreme case is when a household is fully composed of people in paid employment but whose income does not lift them above the poverty line. <ul style="list-style-type: none"> <li>• A ratio of 100 per cent means that the maximum value of labour income is inferior to the poverty line.</li> <li>• A ratio of 50 per cent means that income from labour is at a maximum just below 2 times the poverty line.</li> </ul>
<b>Dimension 2</b>	<b>Distance to poverty line (for all people below the poverty line)</b>
Distance to poverty line =	$\text{Poverty gap} \div (\text{poverty line} - \text{minimum per capita consumption expenditure (or income) at the national level})$
Poverty gap =	$\text{Poverty} - \text{per capita consumption expenditure (or income)}$
Poverty line =	Set in the context of this report to \$1.90 PPP, \$3.10 PPP, \$5 PPP and 60 per cent of disposable household income (for developed countries in the latter case).

As a first approximation the proportion of the income gap to be filled by social protection focuses on individual needs and household features. The capacity of the national context to cope with the additional cost for social protection or of the national protection system to reach the poor, or the availability of more and better jobs, are not taken into consideration in the present chapter.

The share of the gap filled by social protection transfers provides an estimate of the additional cost for social protection – most likely largely financed by government resources – while part of the income gap is to be covered by an improvement in labour incomes.

## Appendix G. National sources: list of household surveys

Country (ISO3 code)	Name of the survey	Year
<b>Albania (ALB)</b>	Living standards measurement survey	2012
<b>Angola (AGO)</b>	Inquérito integrado sobre o bem estar da população – (2008–09)	2009
<b>Australia (AUS)</b>	Household expenditure survey and survey of income and housing (from LIS, 2016)	2010
<b>Austria (AUT)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Argentina (ARG)</b>	Encuesta Permanente de Hogares	2012
<b>Armenia (ARM)</b>	Household integrated living conditions survey	2012
<b>Belgium (BEL)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2011
<b>Benin (BEN)</b>	Enquête modulaire intégrée sur les conditions de vie des ménages au Bénin	2011
<b>Botswana (BWA)</b>	Botswana core welfare indicators survey (2009–10)	2009
<b>Bhutan (BTN)</b>	Bhutan living standards survey, 2003	2003
<b>Bolivia, Plurinational State of (BOL)</b>	Encuesta de hogares	2012
<b>Brazil (BRA)</b>	Pesquisa Nacional Por Amostra de Domicilios	2012
<b>Bulgaria (BGR)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Burkina Faso (BFA)</b>	Questionnaire unifié des indicateurs de base du bien-être	2003
<b>Cabo Verde (CPV)</b>	Inquérito às despesas e receitas familiares	2001
<b>Cambodia (KHM)</b>	Socioeconomic survey	2009
<b>Cameroon (CMR)</b>	Troisième enquête camerounaise auprès des ménages	2007
<b>Canada (CAN)</b>	Survey of labour and income dynamics (from LIS, 2016)	2010
<b>Chile (CHL)</b>	Encuesta de caracterización socioeconómica nacional	2013
<b>China (CHN)</b>	Chinese household income project	2008
<b>Croatia (HRV)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Czech Republic (CZE)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Colombia (COL)</b>	Encuesta nacional de calidad de vida	2012
<b>Congo (COG)</b>	Questionnaire des indicateurs de base du bien-être	2005
<b>Costa Rica (CRI)</b>	Encuesta Nacional de Hogares	2012
<b>Côte d'Ivoire (CIV)</b>	Enquête Niveau de Vie des ménages	2002
<b>Cyprus (CYP)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Denmark (DNK)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Dominican Republic (DOM)</b>	Encuesta Nacional de Ingresos y Gastos de los Hogares (from LIS, 2016)	2007
<b>Egypt (EGY)</b>	Household Income, Expenditure and Consumption Survey	2008
<b>El Salvador (SLV)</b>	Encuesta de Hogares de Propósitos Múltiples	2012
<b>Estonia (EST)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Ethiopia (ETH)</b>	Ethiopia rural socioeconomic survey	2010
<b>Finland (FIN)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>France (FRA)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Gabon (GAB)</b>	Direction Générale de la Statistique et des Etudes Economiques, Questionnaire des indicateurs de base du bien-être	2005
<b>Georgia (GEO)</b>	Integrated household survey (IHS) (from LIS, 2016)	2013
<b>Germany (DEU)</b>	German Social Economic Panel Study (from LIS, 2016)	2010

Country (ISO3 code)	Name of the survey	Year
<b>Ghana (GHA)</b>	Ghana Living Standards Survey	2013
<b>Greece (GRC)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Guatemala (GTM)</b>	National survey of living conditions	2011
<b>Honduras (HND)</b>	Encuesta hogares	2011
<b>Hungary (HUN)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Iceland (ISL)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>India (IND)</b>	National sample survey (sixty-sixth round, 2009–10)	2010
<b>Indonesia (IDN)</b>	National social and economic household survey (SUSENAS)	2010
<b>Iraq (IRQ)</b>	Household social and economic survey	2007
<b>Ireland (IRL)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2011
<b>Israel (ISR)</b>	Household expenditure survey	2010
<b>Italy (ITA)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Japan (JPN)</b>	Japan household panel survey data (from LIS, 2016)	2008
<b>Jordan (JOR)</b>	Household income, expenditure and consumption survey	2010
<b>Kazakhstan (KAZ)</b>	Sampling household survey, 2003	2003
<b>Kenya (KEN)</b>	Kenya integrated household budget survey	2005
<b>Latvia (LVA)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Lesotho (LSO)</b>	Lesotho household budget survey	2002
<b>Lithuania (LTU)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Luxembourg (LUX)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Malawi (MWI)</b>	Integrated household survey	2010
<b>Mali (MLI)</b>	Enquête légère intégrée auprès des ménages	2006
<b>Malta (MLT)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Mexico (MEX)</b>	Encuesta nacional de ingresos y gastos de los hogares	2012
<b>Mongolia (MNG)</b>	Household social and economic survey	2011
<b>Morocco (MAR)</b>	Enquête nationale sur le niveau de vie des ménages	2007
<b>Mozambique (MOZ)</b>	Inquérito aos agregados familiares sobre orçamento familiar	2002
<b>Namibia (NAM)</b>	National household income and expenditure survey	2009
<b>Nepal (NPL)</b>	Nepal living standards survey	2010
<b>Netherlands (NLD)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Nicaragua (NIC)</b>	Encuesta nacional de hogares sobre medición de nivel de vida	2009
<b>Niger (NER)</b>	National survey on household living conditions and agriculture	2011
<b>Nigeria (NGA)</b>	General household survey – panel	2012
<b>Norway (NOR)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Pakistan (PAK)</b>	Core welfare indicators questionnaire	2005
<b>Palestine (PSE)</b>	Expenditure and consumption survey	2011
<b>Panama (PAN)</b>	Encuesta de niveles de vida	2008
<b>Paraguay (PRY)</b>	Encuesta permanente de hogares	2012
<b>Peru (PER)</b>	Encuesta nacional de hogares	2013

Country (ISO3 code)	Name of the survey	Year
<b>Philippines (PHL)</b>	Labour force survey / Family income and expenditure survey	2009
<b>Poland (POL)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Portugal (PRT)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Romania (ROU)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Russian Federation (RUS)</b>	Russian Federation longitudinal monitoring survey – Higher School of Economics (from LIS, 2016)	2013
<b>Senegal (SEN)</b>	Enquête de suivi de la pauvreté au Sénégal	2001
<b>Serbia (SRB)</b>	Living standards measurement survey	2007
<b>Sierra Leone (SLE)</b>	Integrated household survey	2003
<b>South Africa (ZAF)</b>	National income dynamics study	2012
<b>Slovakia (SVK)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Slovenia (SVN)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Spain (ESP)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Sudan (SDN)</b>	Household income, expenditure and consumption survey	2009
<b>Sweden (SWE)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Switzerland (CHE)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Tajikistan (TJK)</b>	Tajikistan living standards measurement survey	2009
<b>Tanzania, United Republic of (TZA)</b>	Tanzania National Panel Survey 2012–13	2013
<b>Thailand (THA)</b>	Household socioeconomic survey	2010
<b>Timor-Leste (TLS)</b>	Standards of living survey	2007
<b>Togo (TGO)</b>	Questionnaire des indicateurs de base du bien-être	2011
<b>Tunisia (TUN)</b>	Enquête nationale sur le budget, la consommation et le niveau de vie des ménages	2010
<b>Turkey (TUR)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>Uganda (UGA)</b>	Uganda national household survey	2009
<b>United Kingdom (GBR)</b>	European Union statistics on income and living conditions (Eurostat, 2015b)	2012
<b>United States (USA)</b>	Consumer expenditure survey	2013
<b>Uruguay (URY)</b>	Encuesta continua de hogares	2013
<b>Viet Nam (VNM)</b>	Viet Nam household living standard survey	2008
<b>Zambia (ZMB)</b>	Living conditions monitoring survey report	2010

## Notes

1. Extreme poverty is defined as incomes or expenditure on consumption below \$1.90 per day, in purchasing power parity terms.
2. Less than 2 per cent of government expenditure is necessary to eliminate extreme poverty in emerging and developing countries but more than 9 per cent in the case of Africa and over 25 per cent in low-income countries. These proportions translate to 7.3 per cent of total government expenditure required to eliminate extreme and moderate poverty in emerging and developing countries, 31.3 per cent in Africa and over 100 per cent in low-income countries alone (tables 2.1 and 2.3; tables 2A.1 and 2A.2 in appendix A for regions). In view of current government expenditure and public expenditure on social protection – 6.2 per cent of GDP in emerging and developing countries (ILO, 2014b), 8.6 per cent worldwide (ILO, 2014a) – this gap in income relative to global and regional GDP might be seen as reasonable, leading one to question why the gap still exists at all. This notwithstanding, huge disparities remain between regions and countries in terms of gaps and ability to cover the associated costs; the limited share of those social protection benefits reaching the poor (ADB, forthcoming; World Bank, 2016b); the sustainability of an approach based only on social protection; and workers' legitimate expectations for decent working conditions, including decent levels of labour income.
3. Ending relative poverty is inherently unachievable: whatever the progress, some people will always fall below a relative poverty line.
4. Same source as for figure 2.1.
5. The minimum cost of eliminating extreme poverty exceeds 5 per cent of GDP in Malawi (16.0 per cent), Mozambique (9.1 per cent), Niger (5.3 per cent) and Togo (5.0 per cent). In these four countries, this minimum cost ranges from 32.5 to 77.6 per cent to eliminate both extreme and moderate poverty. In other regions, the minimum cost of eliminating extreme and moderate poverty exceeds 3 per cent of GDP in Timor-Leste (12.4 per cent), Nepal (5.6 per cent), Cambodia (4.6 per cent), India (3.8 per cent) and Honduras (4.6 per cent) and represents more than total public investment in social protection.
6. The income gap for eliminating extreme poverty represents on average 46 per cent of total public investment in social protection in Africa and over 125 per cent in low-income countries.
7. The relationship between family size and poverty, however, is quite complex. As children grow up and become economically active, they make valuable contributions to households. There are also good reasons for having large families as part of a livelihood strategy whereby children are expected to take care of parents in their old age, especially in the absence of any form of pension provision.
8. In emerging and developing countries the average household size is about 7.2 persons for the extremely poor and 5.7 for the non-poor.
9. Global estimates based on data from 103 countries weighted by total population for a common per capita poverty line of \$3.10 PPP per day. ILO calculations using national household survey data.
10. Despite developed social protection systems in developed countries, there is still an important income gap between those relying on labour income compared to households relying mostly on other income sources (see Chapter 1).
11. It should be noted that, while there is no official definition, ILO (2015c) and Messenger and Wallot (2015) define "very short hours" as those below 15 hours per week.
12. Despite the implementation of unemployment schemes in a number of emerging and developing countries in recent years (such as Kuwait, Lao People's Democratic Republic and Morocco, for instance, in 2013 and 2014), more than 72 per cent of the countries in the developing world with available information (91 out of 126 countries) do not have any unemployment scheme providing periodic income replacement for people in unemployment. Close to 25 per cent instead provide lump-sum payments, which are usually severance payments (SSA/ISSA, 2014a, 2014b, 2015a and 2015b; European Commission, 2016; Council of Europe, 2016; ILO, 2016b; national legislation).
13. For the non-poor, short working hours (less than 35 hours per week) adversely affect 43 per cent of those self-employed and 14 per cent of wage and salaried workers.
14. Close to one in five (18 per cent) of the working poor in wage and salaried employment work less than 20 hours per week for pay or profit. More than 40 per cent of the salaried working poor in the United States and Canada work less than 35 hours per week compared to 20 per cent of the non-poor. In Sweden and the United Kingdom, more than one in three poor wage workers and 60 per cent in Ireland are working less than 20 hours per week (same source as for figure 2.3). In Germany, there has been a significant increase in mini-jobs as a result of government policy, from 5.98 million in December 2003 to 7.5 million people in 2014 (Federal Ministry of Labour and Social Affairs, 2015). Greece also showed a significant rise in the numbers of people working reduced hours or part time. The incidence of those working less than 10 hours per week rose by almost 96 per cent between 2002 and 2007 (EurWork, 2010).
15. In the United States, for instance, the Patient Protection and Affordable Care Act required employers to provide health insurance to employees working 30 or more hours per week in 2015, leading some

businesses to scale back worker hours to avoid having to provide insurance. Evidence shows that the Act has not led to a shift from full-time to part-time employment but rather to shorter hours for workers who were already working part time, effectively giving a pay cut to some of the most vulnerable Americans (ObamaCare Facts, 2016).

16. The share of poor women in wage and salaried employment working less than 20 hours per week for pay or profit exceeds 50 per cent in the United Kingdom and Sweden and more than 75 per cent in Ireland.
17. In emerging and developing countries, more than 36 per cent of women below the poverty threshold in self-employment (including contributing family workers) work less than 20 hours per week, and the majority (nearly 60 per cent) work less than 35 hours per week.
18. Comparative European research shows a significant association between poverty rates and contractual work status. Logistic regression showed that this disparity was largely explained by the difference in wages between temporary and permanent workers, rather than by the individual and household characteristics of those in temporary work (Ray et al., 2014). Evidence from emerging and developing countries also associates the absence of permanent contracts with higher risks of poverty, including higher risks of chronic poverty (Chronic Poverty Advisory Network, 2013).
19. Many of the self-employed are not covered by social protection laws and regulations for contributory social protection and when they are, this is too often through weak mechanisms such as voluntary coverage. This rarely converts into effective coverage (ILO, 2015b). Dependent workers in non-standard forms of employment are often excluded from coverage either by law or in practice. Reasons for their exclusion may derive directly from the terms of the contract; or indirectly because of its duration below a minimum defined threshold; an insufficient number of hours worked and other reasons that include the type of employer (households in the case for domestic workers) and the size of enterprises; all these factors tend to affect the poor more than the non-poor (ibid.). For those covered under the law, the limited ability to contribute, the irregularity and unpredictability of income (factors not compatible with usual affiliation modalities and the long period of contribution required) and the critical priority of basic daily needs are major reasons for de facto exclusion from social insurance coverage. Other reasons range from the lack of awareness of entitlements to the inappropriateness of the benefits and of ways to contribute, the lack of confidence in institutions and the level of effectiveness and efficiency of national institutions to deliver benefits and services (ILO, 2013d, 2015b and 2015c).
20. Independent of poverty status, an earlier ILO report (ILO, 2015b) showed significantly lower affiliation rates among the self-employed compared to wage and salaried workers (at the global level, 52 per cent of wage and salaried workers are affiliated to a pension scheme compared to 16 per cent of the self-employed) but also the significant negative impact of being in non-standard forms of employment on current social protection coverage by contributory schemes. There is indeed a very high correlation between the fact of having a formalized permanent contract and the affiliation to social protection among wage and salaried workers, and affiliation rates appear to be significantly lower among workers in part-time employment compared to those in full-time employment (whether in dependent or independent employment).
21. Where extreme poverty is concerned, 6.5 per cent of the extreme poor in emerging and developing countries are currently affiliated to a pension scheme compared to 31.4 per cent of the non-poor.
22. Corresponding affiliation rates among the non-poor are respectively 55.1 per cent for wage and salaried workers and 13.5 per cent for the self-employed earning a living above the poverty threshold.
23. Argentina, Chile and Uruguay are developed countries with results presented in [figure 2.6](#) (Panels A and B) according to the relative poverty line of 60 per cent of median household income. For comparison purposes with Brazil and Costa Rica, however, “more than 20 per cent” is determined on the basis on the common extreme and moderate absolute per capita poverty line of \$3.10 PPP per day.
24. In Colombia, Act No. 1429 provides micro, small and medium-sized enterprises with incentives to formalize their structures, for instance through tax reductions, and to create new employment in particular for vulnerable groups. The General Act on Small and Medium-sized Enterprises in Brazil in 2010 created the legal concept of “individual micro-entrepreneur” and the associated simplified registration, a single contribution giving access to social security, medical care and maternity leave. Then, a certificate issued to formal individual micro-entrepreneurs facilitates their access to markets and credit. By June 2015, as many as 5 million workers from among the previously informal self-employed had been formalized (Government of Brazil, 2015; ILO, 2014c).
25. Measures to modernize the institutional framework for micro and small enterprises, to facilitate access to financial markets and provide assistance for technological development have been adopted in Colombia, the Dominican Republic, Nicaragua and Peru (ILO, 2014c).

26. The *monotributo* (monotax) initiated in 2000 in Uruguay and adjusted further in 2007 and 2011 effectively increased coverage of the self-employed under the social protection scheme from 17.6 per cent in 2006 to 42.7 per cent in 2013 (ILO, 2014d and 2015b). The auto-entrepreneur status launched in 2008 by the French Government (Durán Valverde et al., 2013; Government of France, 2015; ILO/EC, 2015) and the Brazilian *Super Simples* system (ILO, 2014c) follow similar principles and objectives, which translated into significant improvement in the affiliation rates of independent workers.
27. Act No. 26.476 of 2008 of Argentina contributed to the formalization process by promoting and protecting registered employment. The strategy to formalize work, notably among wage and salaried workers, included reductions in social security contributions for new recruitment (a 50 per cent reduction in contributions for the first year and 25 per cent for the second), and improvements in inspection procedures, including coordination between the various agencies and levels of government (ILO, 2014c).
28. Social protection benefits include both individual benefits – unemployment (including severance pay); old-age benefits and retirement grants; survivor benefits (including death grants); sickness benefits; disability benefits; maternity benefits; education-related allowances, where applicable – and household benefits (family and child-related allowances in cash and value of child-related allowances in kind; housing allowances and other social allowances in cash or value of other social allowances in kind not elsewhere classified).
29. To be considered with caution as many people are above the poverty threshold because they receive social protection benefits.
30. Considering both extreme and moderate poor (<\$3.10 PPP per capita and per day).
31. The South African Child Support Grant, although means tested, covers more than half of all children under the age of 18 (10.8 million children in 2012). The expenditure on child benefits (1.2 per cent of GDP) is above the world average (0.4 per cent of GDP) and not far from the average in developed countries and European countries (1.4 per cent). South Africa reaches nearly universal coverage of people aged 65 years and older (90 per cent of this extension resulting from the gradual extension of the non-contributory old age grant). The *Bolsa Família* programme in Brazil is the largest programme providing child benefits in absolute terms. It reaches around 14 million families and covers about a quarter of Brazil's population – at an annual cost of less than 0.5 per cent of GDP (ILO, 2014a). It is estimated that 10 per cent of the change in inequality compared to the 1990s is due to the *Bolsa Família* (Barros et al., 2010).
32. Weighted average based on 37 countries representing more than 90 per cent of the poor and non-poor population in developed countries.
33. In the early 2000s, the Government of Chile was concerned that, although the proportion of the population below the poverty line had declined during the 1990s, the proportion in extreme poverty persisted. The social protection system for the poorest and most vulnerable people was then seen as a means of improving access to social promotion. To this end, in the last decade Chile has attracted renewed interest for its innovative social protection policies and programmes, such as the *Chile Solidario* system to overcome extreme poverty (launched in 2002), the special plan for universal access with explicit guarantees (*Plan de Acceso Universal a Garantías Explícitas*, AUGE) to ensure access to health care (2004), the Basic Solidarity Pension (*Pensión Básica Solidaria*, PBS) – the cornerstone of the 2008 pension reform – and the system of *Chile Crece Contigo* – “Chile grows with you” (2006) (Robles, 2011). In the context of the 2008 financial crisis, new programmes were implemented to protect people from falling into acute poverty; they were replaced in April 2011 by a regular non-contributory cash transfer programme for families living in extreme poverty: the social allowance (*Asignación Social*). This social allowance was the first component of the Ethical Family Income (*Ingreso Ético Familiar*, IEF), a key component of the Chilean Government's strategy to eradicate extreme poverty by 2014 and poverty by 2018. The IEF aims at expanding coverage and increasing values of transfers with respect to Chile Solidario (Cecchini, Robles and Vargas, 2012). It places greater emphasis on households' income-generating capacity to enable them to lift themselves and stay out of poverty by their own means. The law incorporates a new form of employment support (*apoyo socio-laboral*) for those above the age of 18 who are not studying, or whose studies are compatible with their entrance into the programme. New employment programmes offered for beneficiaries include an employment subsidy for women, of particular relevance in a country with one of the lowest rates of women's participation in the labour force (Cecchini, Robles and Vargas, 2012; Robles, 2012).
34. These range from social policy along the lines designed by Otto von Bismarck and the primary objective of income maintenance based on social insurance, with eligibility for earnings-related benefits depending on the contribution record, to that of William Beveridge with flat-rate benefits provided universally, financed by taxation and a declared objective of prevention of poverty (Morel and Palme, 2012).
35. Takes into account any type of social transfer and not specifically unemployment benefits. Those

results refer to individuals considered as part of a household where each member may receive income from social transfers (different in nature) and from other sources of income equally shared among household members.

36. In developed countries, the proportion of unemployed receiving unemployment benefits (whether social insurance or specific social assistance benefits) went from 42.8 per cent in 2009 to 33.8 per cent in 2014, well below the pre-crisis levels (global estimated for 60 developed countries).
37. In emerging and developing countries, cases 1–3 concern 55 per cent of the poor and represent more than 58 per cent of the total income gap; in developed countries, 58 per cent of the poor and over 60 per cent of the income gap. These proportions include poor people who rely on both labour income from self-employment and wage and salaried employment, not displayed in [box 2.3](#).
38. Unfortunately, this rationale does not fit current trends in social assistance, and certainly not in Africa where the main focus tends to be on the elderly or households without any working-age adults. In most programmes, if there is one working-age adult – regardless of the number of dependants – households tend to be excluded from these schemes.
39. Employment quality is imperfectly assessed through the different statuses in employment. This has to be considered in the light of the analysis of decent work deficits presented in section B. Results show that the self-employed tend to be affected by decent work deficits even more than wage and salaried workers (limited access to social protection; higher exposure to short hours but also extensive hours of work in particular in emerging and developing countries). Section B also shows, however, that wage and salaried employment is not protected from facing decent work deficits.
40. In developed countries, evidence from previous studies in European and OECD countries confirms the key role of time-related underemployment of in-work poverty. As OECD points out, “while it would be natural to suppose that in-work poverty is largely confined to low-wage workers, the overlap between low-paid employment and in-work poverty is actually low” (OECD, 2009b, p. 3). Evidence from 21 European countries shows that hourly wages of the working poor are not necessarily at the very bottom of the wage ladder (only slightly more than half of the working poor live in households where there is at least one person employed in a low-paid job) (OECD, 2009a and 2009b; Eurofound, 2010; Human Resources and Social Development Canada, 2006).
41. In other words, close to 40 per cent of working poverty should then be addressed by an increase in labour incomes to enhance immediate poverty reduction and people’s ability to secure better working conditions in the medium run. This includes active labour market policies, notably training and re-training. Increase in labour income means more hours of work for those underemployed and willing to work more, and an increase in wages and profits along with measures in favour of a gradual formalization of informal employment.
42. In developed countries, a relatively high proportion – 30 per cent – of poor people are living in households without anyone in paid employment. This includes older persons but also the unemployed or inactive living alone or as single parents (see case 1b in [figure 2E.1](#) in appendix E).



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# 3 Transforming growth and jobs to reduce poverty

## Introduction

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Chapters 1 and 2 underscored the fact that decent work deficits across the world are at the heart of the challenge to eradicate poverty. The poor tend to have vulnerable and insecure jobs, with limited social protection. In emerging and developing countries, these jobs are often located in rural areas and within the agricultural sector, while in developed countries, working poverty goes hand in hand with job precariousness and underemployment. Tackling poverty in a sustainable manner must therefore entail transforming jobs, as a necessary complement to efforts to close the poverty gap (as elaborated on in the previous chapter).

Indeed, Goal 8 of the newly adopted 2030 Agenda for Sustainable Development, which states that economic growth needs to be inclusive and sustainable with high levels of decent and productive employment, encapsulates this concept.<sup>1</sup> However, economic growth on its own has failed to reduce poverty. A case in point is Africa, which experienced the fastest growth rates among all regions over the past decade, yet decent work deficits persist and improvements in poverty rates have been slower to materialize than in other regions (ILO, 2015a and 2015b). Many other examples exist where growth has failed to translate into poverty reduction.

With this in mind, the aim of this chapter is, first, to examine the link between economic growth and poverty reduction over time, including an examination of key macroeconomic drivers (section A). Section B analyses in detail the sources of economic growth and the extent to which these may affect its poverty-reducing impact, underscoring the importance of productive transformation. Finally, section C presents concluding remarks and introduces Part II of the report.

## A. Overview of growth and poverty

### Empirical evidence shows that economic growth is necessary but not sufficient for poverty reduction

Past studies show the potential of economic growth to reduce poverty, measured in both absolute and relative terms (see box 3.1). This beneficial effect of economic growth on poverty operates through a number of channels. First, economic growth reduces poverty to the extent that it spurs job creation and fosters labour incomes which, as shown in Chapter 1, represent the main source of income among poor households (see also Islam, 2004). Meanwhile, economic growth can expand both the tax base – assuming that the jobs created are formal in nature – and government revenues, making it possible for governments to fund essential services, such as those related to health, access to water and education as well as employment and social programmes (see Chapter 6). Moreover, strong economic growth can generate virtuous cycles, whereby prosperity and employment opportunities foster social cohesion and exert upward pressure to improve institutional frameworks and promote more efficient governance, which ultimately spur further economic growth and improve living standards.

Structural factors also play a central role in determining the impact of growth on poverty reduction. For instance, emerging and developing countries typically have a larger share of population living in rural areas (World Bank, 2015). This implies that economic growth, which at the early stages of economic development tends to concentrate in urban areas, has a relatively smaller potential to reduce poverty in these countries.<sup>2</sup> As Chapter 1 demonstrated, in emerging and developing countries 88 per cent of the extreme poor live in rural areas, where poverty rates are four times higher than in urban areas. At the same time, more than 60 per cent of the poor are employed in the agricultural sector.

New analysis on the impact of growth on poverty over the period 1992–2012 for some 90 countries at different stages of economic development confirms – albeit to varying degrees – earlier findings.

#### Box 3.1

##### Economic growth and poverty reduction: Brief overview of some of the literature

The relationship between economic growth and poverty reduction is one of the most studied topics in economics. Thus, any attempt to summarize these studies would risk simplifying an otherwise complex body of evidence. Nonetheless, the literature points in a number of broad directions. First, according to some important studies, economic growth can help to reduce poverty (Dollar and Kraay, 2000; Dollar, Kleineberg and Kraay, 2013; Lipton and Ravallion, 1995; Ravallion and Chen, 1997; Roemer and Gugerty, 1997). Second, growth on its own is not enough. This strand of literature started with Ahluwalia, Carter and Chenery (1979), who showed that growth had not reached the poorest as their increases in income fell far below the average. There are several dimensions within this argument:

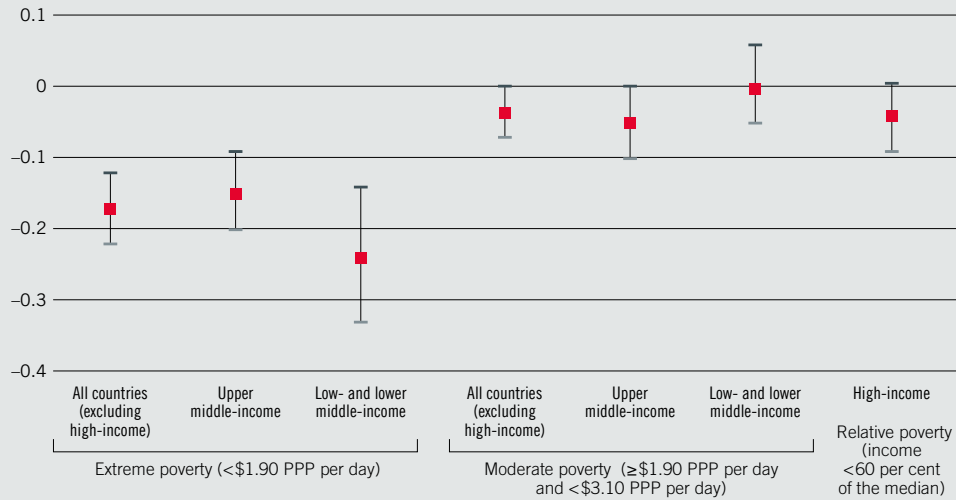
- **Jobless growth does not lead to poverty reduction:** Some studies argue that, unless growth is accompanied by quality job creation, poverty reduction is not possible (Aryeetey and Baah-Boateng, 2007; Jemio and Choque, 2006; Mehta et al., 2011).

- **Gains from growth need to be shared equitably to promote poverty reduction:** Income and wealth inequality limits the capabilities of the poor to take advantage of opportunities provided by economic growth (Bourguignon, 2004; Fosu, 2011; Loayza and Raddatz, 2010; Saad-Filho, 2010).
- **Growth ought to be combined with enhanced social infrastructure:** Economic growth accompanied by social protection to correct the inequities in the distribution of income tends to make the greatest difference in reducing poverty (Alderman and Yemtsov, 2014; Drèze and Sen, 2013).
- **Productive transformation is essential for poverty reduction:** Some authors have shown that growth needs to lead to productive transformation, made possible by education and skills acquisition, to make a significant difference in terms of poverty reduction (Rodrik, 2007; Salazar-Xirinachs, Nübler and Kozul-Wright, 2014).

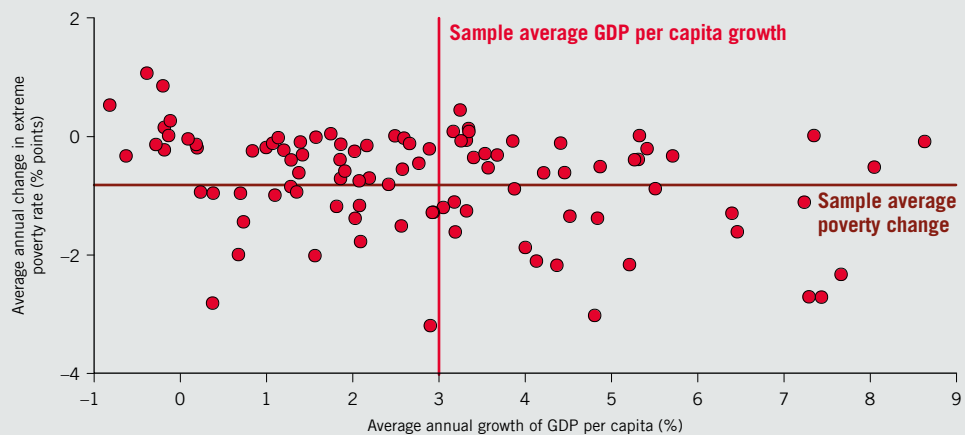
**Figure 3.1**

**The relationship between growth and poverty**

**Panel A. Effect on poverty of a 1 percentage point increase in GDP per capita growth by poverty measure and stage of development, 1992–2012**



**Panel B. Correlation between GDP per capita growth and changes in extreme poverty, 1992–2012**



Note: Low- and lower middle-income are combined due to limited data availability. The figure in panel A shows the average annual percentage point change in the poverty rate associated with a 1 percentage change in the average annual GDP per capita growth. The square data labels in panel A indicate the point estimates and the drop lines indicate the 95 per cent confidence interval estimated through OLS on a pooled cross-section for 93 low-, lower and upper middle-income countries over two periods: 1992–2004 and 2005–2012. See table 3A.1 for further details on the regression results.

Source: ILO calculations based on national household surveys, World Bank PovcalNet and World Development Indicators.

In particular, the results suggest that one additional percentage point of GDP per capita is, on average, associated with a 0.17 percentage point reduction in the extreme poverty<sup>3</sup> rate across low-, lower middle- and upper middle-income countries (figure 3.1, panel A). The impact of growth on extreme poverty appears to be larger among low- and lower middle-income countries than among upper middle-income: a 1 percentage point annual increase in GDP per capita would reduce poverty by 0.25 percentage points among the former and by 0.15 percentage points among the latter. Yet, considering that the bulk of extreme poverty is concentrated in low- and lower middle-income countries, the estimated growth elasticity of poverty is relatively low compared to upper middle-income countries.<sup>4</sup> While this partly reflects the fact that low- and lower middle-income countries have shown slower and more volatile growth performances than upper middle-income countries,<sup>5</sup> this also suggests that institutional and structural weaknesses may have played an important role in explaining the relatively low efficiency of growth in terms of reducing poverty in low- and lower middle-income countries.

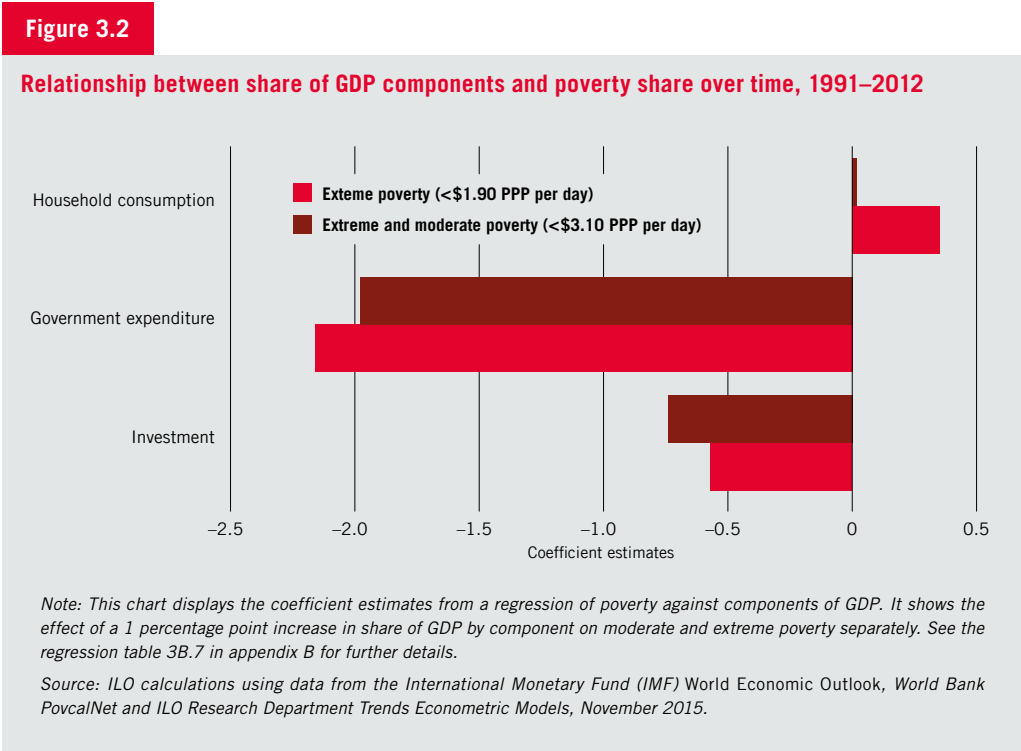
The impact of per capita income growth on poverty in high-income countries – for which a relative poverty measure is considered<sup>6</sup> – appears to be relatively small. Similarly, the effect of growth on moderate poverty in emerging and developing countries appears to be considerably weaker. Indeed, the beneficial effect of growth on moderate poverty is either low or, in the case of the least developed countries, statistically insignificant.

More generally, the response of extreme poverty to GDP per capita growth is quite heterogeneous across countries and does not strictly depend on the rate by which GDP per capita has expanded (figure 3.1, panel B).<sup>7</sup> For instance, between 1992 and 2012, a number of countries exhibited above-average reductions in extreme poverty despite GDP per capita growth being relatively slow (conversely, other countries exhibited above-average GDP per capita growth in combination with rather modest poverty reductions). This suggests that poverty reduction does not depend only on the magnitude of growth and the level of country development, but rather on its degree of inclusiveness.

**Investment-driven growth has significant potential to reduce poverty**

The quality of economic growth matters. Empirical analysis conducted for this chapter found that, between 1991 and 2012, economic growth driven by investment and/or public expenditure was associated with a greater poverty rate reduction than other drivers of growth, such as household consumption (figure 3.2). On average, changes in investment and government expenditure accounted for between one-half and three-quarters of the change in poverty recorded during this period (see appendix A). This is largely due to the fact that investment, especially in infrastructure, typically implies sustained job creation, especially in the low-income segments of the workforce, while government spending can exert a direct effect on poverty reduction.

Of course, the effect of growth on poverty and the extent to which this is determined by these various drivers depend on a number of macroeconomic factors, such as the level of inflation, the degree of indebtedness, the structure of taxation, and the composition of public expenditure, thus underscoring the pivotal role of macroeconomic policy in determining the overall impact of economic growth on poverty reduction.



### While trade has a positive impact on growth, its impact on poverty is not conclusive

It is sometimes argued that trade is a crucial driver of economic growth and poverty alleviation. A large body of evidence shows that openness to trade has been one of the most important catalysts for economic growth over the past few decades, expanding aggregate demand, enhancing productivity and fostering job creation. The impact of trade openness on poverty, however, is not clear cut and depends on a number of transmission channels (UNCTAD, 2012 and [box 3.2](#)).

In fact, the majority of studies tend to suggest that trade openness has had little effect on poverty beyond its association with higher average per capita income growth, which, in itself, remains relatively small (UNCTAD, 2012; ITC, 2010). Instead, it would appear that the pattern and structure of trade, notably the degree of export diversification, plays a more pronounced role (UNCTAD, 2012).

In particular, countries whose export structure has tended to rely on primary goods have seen the smallest improvements in poverty reduction (in some cases, even an increase in poverty levels ([figure 3.3, panel A](#)). This is mainly due to the fact that exports of primary products, especially those related to extractive industries, typically have small positive spillovers on domestic labour demand and input markets; as a result, their direct impact on poverty, if any, remains modest (see [box 3.3](#)). In other instances, where exports are mainly products of the agricultural sector and tend to be more labour-intensive, poverty reductions have been comparatively larger (see also Chapter 5).

At the same time, countries that witnessed the largest relative reductions in extreme poverty also tended to maintain a relatively large share of manufacturing exports in total exports ([figure 3.3, panel B](#)). Notably, however, the technological intensity of manufacturing exports varies considerably across the set of countries, suggesting that the poverty-reducing impact of trade may also be a function of its starting position with respect to production capabilities and human capital. A reverse causality may also operate, in which successful trade openness and export structure upgrading can be the result of inclusive growth and structural transformation, rather than a prerequisite (ILO, 2005; Rodrik, 2001).

#### Box 3.2

##### Understanding the trade–poverty nexus

Studies suggest that trade can affect poverty in various ways, summarized as follows:

**Price channel:** The impact on poverty of price changes arising from trade depends on whether poor households are net consumers or net producers of that good for which there has been a price change.

**Enterprise channel:** Openness to trade may allow firms to expand their market reach and facilitate access to cheaper imports, so leading to increased production and/or profitability, which may ultimately result in job creation, higher labour incomes and, in turn, lower poverty rates. Conversely, an inflow of cheap imports risks depressing the demand for import-competing goods produced by domestic firms, which in turn may decrease their demand for labour and/or reduce wages.

**Government channel:** On the one hand, reductions in trade tariffs have a direct negative impact on government revenues, thus potentially limiting

fiscal space for pro-poor fiscal spending. On the other hand, this may be offset by higher government revenues associated with economic growth resulting from trade. More generally, the extent to which trade-induced increases, or decreases, in tax revenue affect poor people ultimately depends on how governments plan to distribute the losses, or the gains, in tax revenues resulting from increased trade openness.

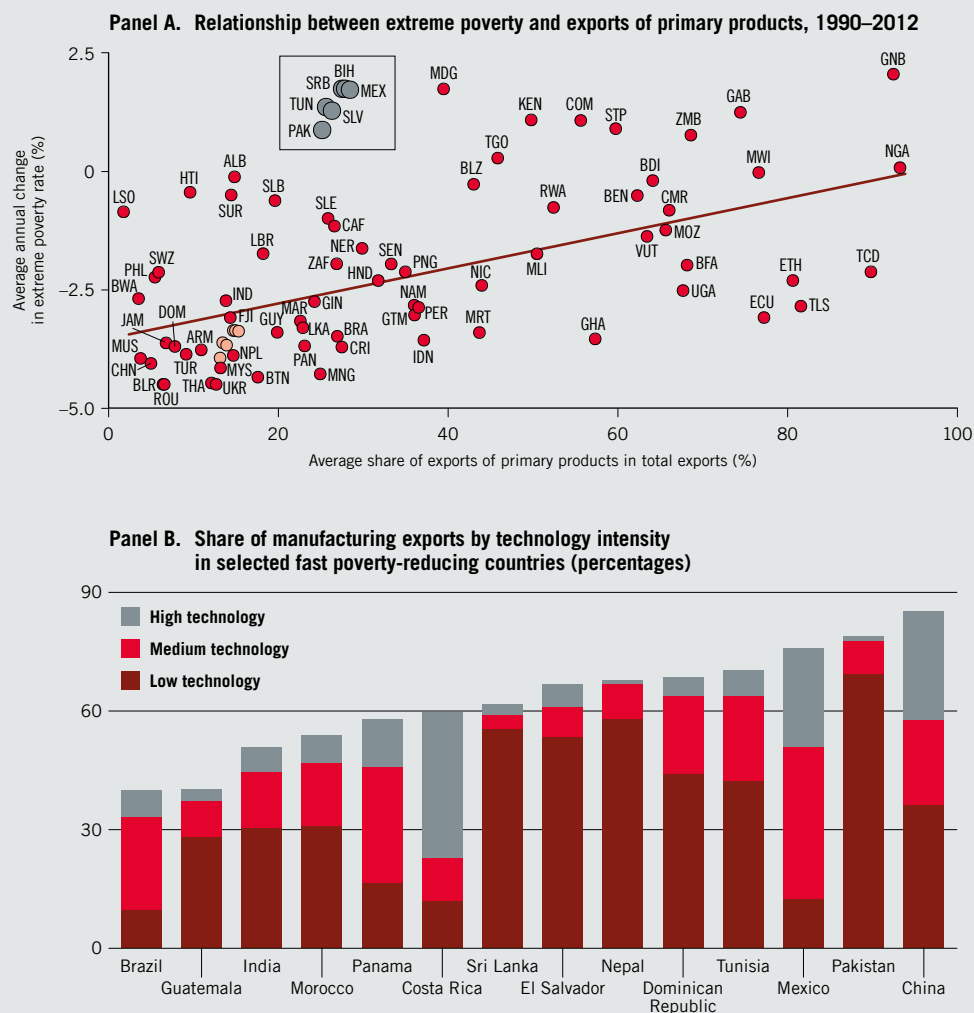
Across these channels, a number of contextual factors may play an important role in explaining the extent to which trade openness contributes to inclusive growth and poverty reduction. For instance, high domestic inflation or highly volatile exchange rates may prevent countries from taking advantage of trade openness opportunities by undermining investors' confidence and macroeconomic stability. Similarly, high levels of income inequality, which hamper domestic demand, may limit positive spillover effects from trade openness on domestic markets (see below).

Source: Higgins and Prowse (2010).



**Figure 3.3**

**Poverty reduction and export structure, 1990–2012**



Note: Export classification is based on Lall (2000). Average export shares of primary and manufacturing products are computed over the period 1995–2012. Extreme poverty is defined as living on income or consumption less than \$1.90 PPP per capita per day. Countries are defined as “fast poverty-reducing” if the extreme poverty rate fell by at least 3 per cent per year between 1990 and 2012.

Source: ILO calculations based on World Bank PovcalNet and UNCTADStat.

### Box 3.3

#### Globalization and the “natural resource curse”

Over the past two decades, the increasing reach of global supply chains (GSCs) has been a major driver of job creation (ILO, 2015a). In particular, expanding GSC integration of agriculture has the potential to reduce poverty, since – under certain conditions – it can contribute to the increased productivity of smallholder agriculture. However, in this regard GSC integration has, at times, also come at a cost, not least playing a role in “global land grabbing” – as highlighted in Chapter 5.

Similarly, global integration in industries, particularly mining and quarrying, can also have unintended consequences. Indeed, countries that are rich in mineral deposits and natural resources are often still characterized by persistent poverty – a phenomenon known as the “natural resource curse”.<sup>1</sup> For example, a number of countries rich in natural resources such as oil, diamonds and minerals, have some of the highest poverty rates worldwide. Many of these countries have experienced a surge in foreign investment in their mines and oilfields, with potentially

large economic and employment gains. However, given the limited connections between these investments and the rest of the economy – notably as a result of the prevalence of the informal economy, which is weakly integrated with the sectors where foreign investments take place – they tend to reduce expected employment gains and poverty reductions.

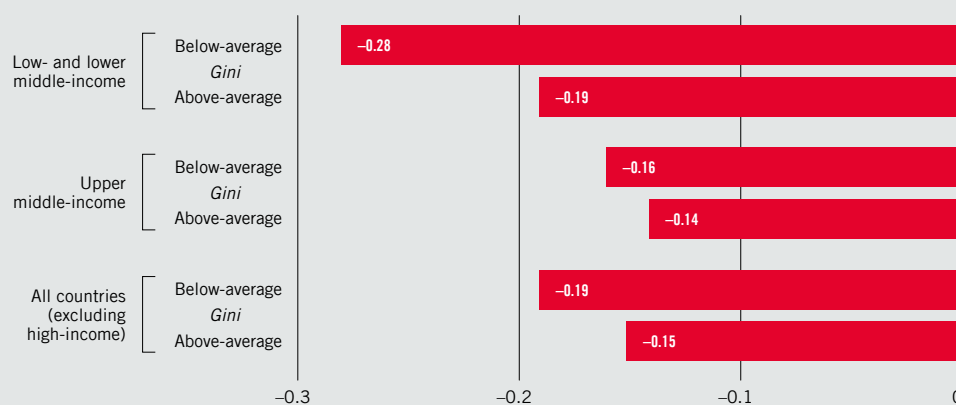
Finally, the volatility of commodity prices and the fact that natural resource sectors have the potential to crowd out manufacturing can also reduce the favourable effects of foreign investment on development. In addition, corruption and weak governance arrangements in some instances have led to an unfair distribution of the gains and displaced local communities, thereby exacerbating poverty (Frankel, 2010). For countries to take advantage of their resources, integration into the global markets needs to go hand in hand with improved labour standards and workers’ rights, ensuring decent work creation as the ultimate goal (an issue explored in more detail in the following chapter).

<sup>1</sup> Studies that have explored this issue include the following: Mikesell (1997); Stevens (2003); Lederman and Maloney (2008); Wright and Czelusta (2003, 2004 and 2006); Jones Luong and Weinthal (2010); van der Ploeg (2011).

#### High income inequality dampens the impact of growth on extreme poverty

There is also growing evidence to suggest that the responsiveness of poverty reduction to growth depends largely on countries’ level of income inequality (Bourguignon, 2004; Ravallion, 1996). Higher levels of inequality typically imply a weaker impact of economic growth on poverty reduction (Loayza and Raddatz, 2010; Fosu, 2011). This is partly mechanical, to the extent that the more unequal the distribution of income, the lower the share of additional income going to the poor – and therefore the smaller the poverty-reducing effect of growth. More fundamentally, a highly unequal income distribution often reflects a polarized economy, where economic growth has a narrow base, with weak connections to the rest of the economy.

In fact, differences in the effectiveness of growth in reducing poverty between countries with low and high income inequality can be considerable. For instance, a 1 percentage point increase in GDP per capita in countries with inequality levels below the average of their income group is found to lower the incidence of extreme poverty by 0.28 percentage points among low- and lower middle-income countries, and by 0.16 percentage points among upper middle-income ones. When countries with higher average levels of income inequality are considered, the poverty-reducing effect of a 1 percentage point increase in per capita income declines to 0.19 percentage points in low- and lower middle-income countries and to 0.14 percentage points in upper middle-income countries (figure 3.4). These results are broadly in line with earlier evidence highlighting high income inequality as a crucial attenuating factor of the elasticity of poverty to growth (Ravallion, 2007) and emphasize the relative importance of income inequality in terms of reducing poverty through growth (ODI, 2002).

**Figure 3.4****Effect on extreme poverty rate of a 1 percentage point increase in GDP per capita growth by level of income inequality and country group, 1992–2012**

Note: The figure shows the average annual percentage point change in the poverty rate associated with a 1 percentage point change in the average annual GDP per capita growth, separating this effect for countries with a Gini index above the sample average from those below it. Extreme poverty is defined as living on income or consumption per capita below \$1.90 PPP per day. All the estimated coefficients are statistically significant at the 1 per cent confidence level. See regression table 3A.2 in appendix A for further details.

Source: ILO calculations based on World Bank PovcalNet and World Development Indicators.

## B. Transforming jobs for poverty reduction

As suggested in section A of this chapter, the impact of growth on poverty is far from uniform and depends on a range of factors, including the pace of economic expansion, the level of income inequality and other structural features. The purpose of this section is to examine in more detail the relative influence of the pattern and composition of growth on poverty.

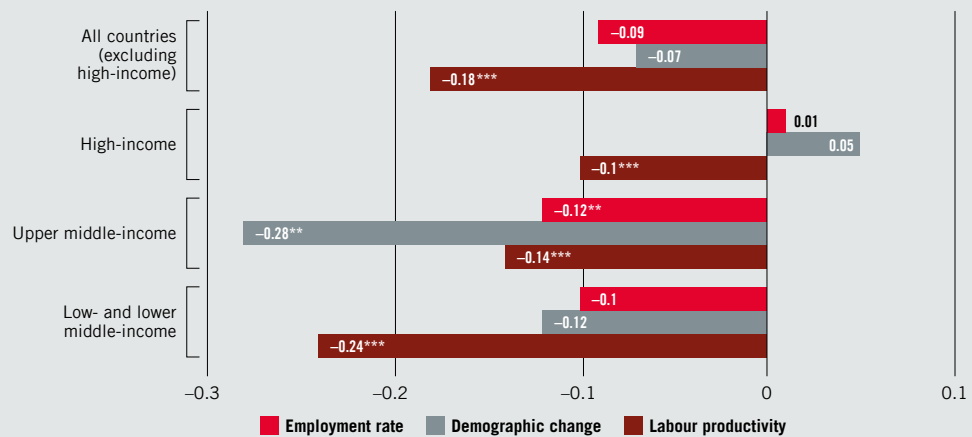
### Productivity, together with job-friendly growth, is associated with poverty reduction

Decomposing the effect of GDP per capita on poverty shows that, for a sample of 93 low-, lower middle- and upper middle-income countries over the period 1992–2012, the impact of the various components varies considerably by country grouping.<sup>8</sup> For example, across all countries in the sample (excluding high-income countries), a 1 percentage point increase in the contribution of labour productivity to GDP per capita growth was found to reduce the poverty rate by around 0.18 percentage points (figure 3.5). However, the effect is considerably larger among low- and lower middle-income countries (0.24 percentage points) than among upper middle-income countries (0.15 percentage points), thus underscoring the relevance of productivity improvements as a means of boosting incomes at the bottom of the distribution in these countries. In contrast, in upper middle-income countries, the reduction in poverty was greatest when GDP per capita growth was driven by demographic change, a finding consistent with outcomes in those countries that experienced “demographic dividends” in recent decades (see Chapter 2).

The impact of a higher employment rate or larger workforce-to-population ratio was not found to be statistically significant in the overall sample. This result, however, masks further important heterogeneities across country groups at different stages of development. For example, in upper middle-income countries, changes in both labour productivity and employment rates were found to have similar effects on poverty reduction (figure 3.5). This finding did not, however, hold for low- and lower middle-income countries, which may be partly due to the proportion of low-quality jobs in total job creation, thus undermining efforts to lift people out of poverty.

**Figure 3.5**

**Decomposing the effect of GDP per capita growth on extreme poverty, 1992–2012 (percentage points)**



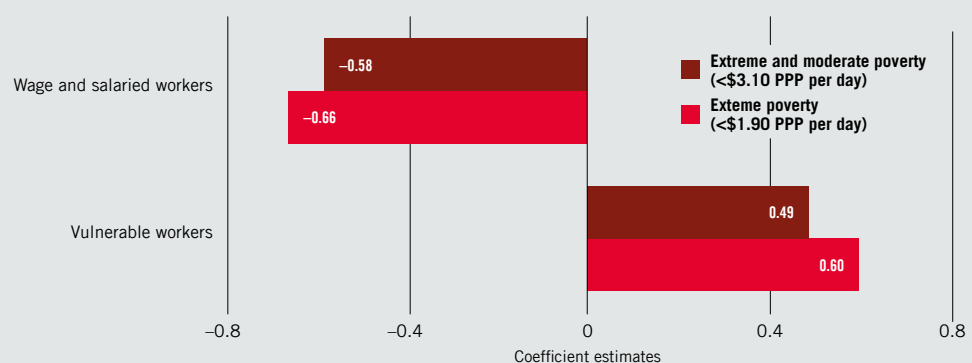
Note: The figure presents the average annual percentage point change in the extreme poverty rate associated with a 1 percentage point change in the average annual contribution of each component of GDP per capita growth. The poverty rate for high-income countries is defined as the share of the population with income below 60 per cent of the median, whereas for all the other countries it refers to the share of population with income or consumption below \$1.90 PPP per capita per day (i.e. the extreme poverty rate). \*\* and \*\*\* indicate statistical significance at the 5 per cent and 1 per cent level, respectively. See regression table 3A.3 in appendix A for further details on the regression results.

Source: ILO calculations based on national household surveys, the ILO Trends Econometric Models, November 2015 and World Bank PovcalNet.

At the same time, the type of jobs associated with economic growth has significant implications for poverty reduction. The incidence of poverty across different employment status groups shows, for instance, that increasing the shares of wage and salaried workers has the largest potential to reduce poverty (figure 3.6). Wage and salaried employment (unlike vulnerable employment) ensures greater access to social security than other types of employment, thus helping to protect workers from macro-economic instability and sudden and unexpected income shocks (see also Beccaria et al., 2011). Moreover, the main driver behind the relationship between vulnerable employment and poverty is the share of contributing family workers (see table 3B.4 in appendix B).

**Figure 3.6**

**Relationship between employment status over time and poverty share over time, 1991–2013**



Note: Vulnerable employment includes own-account workers and contributing family workers. This chart displays the coefficient estimates from a regression of poverty against employment status. It shows the effect of a 1 percentage point increase in employment by labour market status on moderate and extreme poverty separately. See regression tables 3B.3–5 in appendix B for further details on the regression results.

Source: ILO Research Department based on the ILO Trends Econometric Models, November 2015.

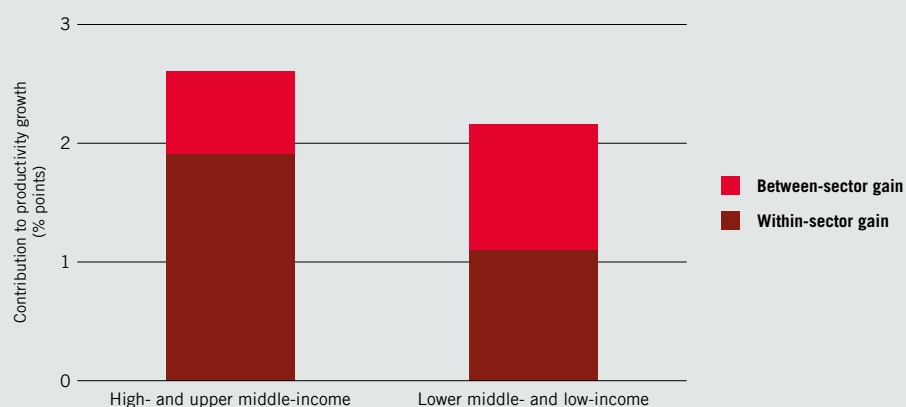
## Both within- and between-sector productivity gains matter for growth and poverty reduction

Productive transformation occurs through a combination of higher productivity (process innovation) and diversification into new activities and products (product innovations). These innovations can not only raise sectors' productivity, but also shift activities to other sectors. Consequently, an understanding of the dynamics of these processes is vital for policy-makers.

In fact, between 1990 and the latest available year (2010–2012, depending on the country), within-sector productivity growth has been the most important contributor to productivity growth in high- and upper middle-income countries, followed by growth due to between-sector shifts of productive resources (figure 3.7). In contrast, between-sector productivity growth was found to be as important as within-sector productivity growth among lower middle- and low-income countries.

Figure 3.7

### Decomposition of productivity growth into two components, 2012 (percentage points)



Note: The figure shows a Shapley decomposition of productivity growth into within-sector productivity growth and between-sector productivity growth stemming from the reallocation of labour to a sector with a different productivity level (see also note 8). High- and upper middle-income countries include Argentina, Botswana, Brazil, Chile, China, Colombia, Costa Rica, Malaysia, Mauritius, Mexico, Peru, South Africa, Thailand and Bolivarian Republic of Venezuela. Lower middle- and low-income countries are the Plurinational State of Bolivia, Ethiopia, Ghana, India, Indonesia, Kenya, Malawi, Morocco, Nigeria, Philippines, Senegal, the United Republic of Tanzania and Zambia. Latest year is between 2010 and 2012, as indicated in the Groningen Growth and Development Centre (GGDC) 10-Sector database.

Source: ILO calculations based on the GGDC 10-Sector database.

Such findings suggest that productive transformation in lower income countries requires resources to be reallocated across sectors to a greater extent than is necessary in higher income countries. Industrial policies can therefore be an important tool for productive transformation in lower income countries (box 3.4). In implementing change, such policies can concurrently facilitate shifts to a low-carbon and sustainable economy (box 3.5).<sup>9</sup>

#### Box 3.4

##### Role of industrial policies in productive transformation

Industrial policies – that is, policies which focus on the development of a particular industry, such as agricultural subsidies, rather than blanket, economy-wide macroeconomic measures – allow the productive transformation of an economy to be driven by specific key industries. As a policy tool, industrial policies have gained in prominence since the turn of the century, in part following the success of export-oriented industrialization achieved in East Asian economies in the 1980s and 1990s, and also correlating with the demise of the standard growth paradigm. The East Asian example refers primarily to outward-orientated industrialization strategies pursued by a number of economies in the region, through policies that facilitated rapid economic growth by boosting labour-intensive exports of manufactured goods. Significantly, productivity-enhancing outcomes were underpinned by an enhancement of technological capacity and transition to higher value added products.

Key industries can be identified or favoured in terms of potential for growth or job creation, to gauge their suitability for investment, subsidies or measures such as export protectionism. These policies help to shelter infant industries from competition, allowing them to become internationally competitive. Moreover, industries can also be selected on the basis of their low-carbon and green potential, as well as their pro-poor impact and employment intensity. For instance, in Mozambique, a state-sponsored Sugar Development Plan, which included provisions for technical upgrading and concentration of agricultural production, resulted in significant job creation. However, the process of targeting specific industries can represent a form of state favouritism or be viewed as an unnatural intervention into the market. Nonetheless, industrial policies form an important component of productive transformation, and can be used to facilitate pro-poor socio-economic outcomes.

*Source: Nübler (2011) and Whitfield and Buur (2014).*

### Transformation to low-carbon and sustainable economy

The 2015 COP21 Climate Conference marked a landmark step for environmental sustainability. It resulted in 195 countries committing to a global accord, known as the Paris Agreement, which seeks to mitigate climate change and reduce greenhouse gas emissions, for which shifting to a low-carbon and sustainable economy will be fundamental. Such a shift or transformation will have major implications for the world of work, resulting from changes both within and between sectors; with this in mind, the transition needs to be equitable and founded upon decent work. Accordingly, the agreement explicitly states that Parties must take into account “the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities”. The ILO Green Jobs Initiative can help to ensure that the creation of decent jobs goes hand in hand with the transition to a low-carbon economy. In this regard, the following are identified as pivotal factors in achieving the twin objectives:

**1. Promote social dialogue and engage social partners:**

Governments must work together with employers' and workers' organizations at all stages of policy development, and this factor is particularly important for dispute resolution deriving from the low-carbon transition.

**2. Redistribute and reallocate:** Particular attention needs to be given to those industries and communities most likely to be impacted by the low-carbon transition, including through compensation (e.g. tax reform) and investment (e.g. training and innovation).

**3. Invest in skills:** The necessary skills will have to be developed to meet the demands of the future low-carbon economy, which may require adjustments in education and skills development for youth in particular. Furthermore, those likely to face job displacement in the course of the transition will require retraining or skills upgrading to facilitate the transition (Chapter 6).

**4. Boost resilience of workers and employers:**

Social protection is a necessary means of improving the resilience of the population to environmental shocks and of smoothing the transition towards a greener economy (Chapters 2 and 6). Employment guarantee schemes and public works can both provide employment opportunities and develop new relevant skills for the greener economy, while simultaneously developing new productive and sustainable economic assets. Furthermore, small and medium-sized enterprises (SMEs) need additional assistance to boost resources and knowledge, through technical support and financial incentives.

**5. Anticipate changes:** Policies need to be in place which anticipate the changes that will affect different sectors and provide employers and workers with the foresight to mitigate negative impacts and shape optimal strategies moving forward. Such policies include strengthening the capacity of public employment services to match workers with appropriate industries and to boost the requisite skills sets, and targeted subsidies to facilitate the transitions (Chapter 6).

Sources: UNFCCC (2015) and Van der Ree (2015).

## C. Concluding remarks and links with Part II of the report

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The above findings suggest that economic growth on its own is not enough to reduce poverty in a sustainable manner. This chapter has demonstrated that, for economic growth to facilitate poverty reduction, it needs to be accompanied by, first, policies that foster fairer distributional outcomes. In this regard, international labour standards and rights are of paramount importance, as discussed in detail in Chapter 4.<sup>10</sup>

Second, the nature of economic growth needs to change. This entails broadening the productive base and increasing the diversification – and sophistication – of trade. This chapter has highlighted the fact that improving productivity within sectors, especially in agriculture, is a key policy lever for creating decent work and reducing poverty. This includes rural development policies that connect the agricultural sector to non-farm activities. These issues are explored in Chapter 5.

Third, carefully designed employment and income policies are a necessary complement to these policy levers. They can help broaden the productive base by raising skill levels, boosting participation in the labour market and facilitating transitions to formal employment. With this in mind, Chapter 6 will look at the suite of labour market policies and institutions available to help individuals find a job, improve their existing working (and income) conditions or transition to a new job. It will also assess the role of social protection in alleviating poverty.



## Appendix A. Growth, inequality and poverty

This appendix shows the detailed regression results underlying figures 3.1, 3.4 and 3.5, as presented in this chapter. The estimations presented below in tables 3A.1 and 3A.2 use data from the World Bank PovcalNet for the calculation of the extreme and moderate poverty rates (see Chapter 1 for further details), national household surveys, and World Development Indicators to determine GDP per capita growth and the Gini coefficient of income inequality. The contribution to GDP per capita growth of changes in output per worker, changes in the share of working age population in total population and changes in the employment rate are calculated using a Shapley decomposition framework.

**Table 3A.1**

### Estimating the effect of GDP per capita growth on extreme, moderate and relative poverty by country group

	Extreme poverty			Moderate poverty			Relative poverty
	All countries (excluding high-income)	Low- and lower middle-income	Upper middle-income	All countries (excluding high-income)	Low- and lower middle-income	Upper middle-income	High-income
Growth	-0.1703*** (0.025)	-0.2355*** (0.047)	-0.1502*** (0.027)	-0.0359* (0.019)	0.0023 (0.029)	-0.0533* (0.028)	-0.0395* (0.023)
Constant	-0.2755** (0.108)	-0.4154*** (0.141)	0.0632 (0.112)	0.1296** (0.064)	0.1792** (0.075)	0.0066 (0.099)	0.0262 (0.062)
Observations	183	115	68	183	115	68	37
R <sup>2</sup>	0.21	0.25	0.42	0.06	0.03	0.23	0.05

Note: The table shows the regression coefficient estimated through OLS on a pooled cross-section of 93 low-, lower and upper middle-income countries over two periods: 1992–2004 and 2005–2012. Coefficients for high-income countries are estimated on a cross-section of 37 countries with poverty data available between 2005 and 2012. The regression model is defined as  $\Delta P_{it} = \alpha_i + \beta_1 \text{Growth}_{it} + v_i + \varepsilon_{it}$  where  $\Delta P$  is the average annual percentage point change in the poverty rate,  $\text{Growth}_{it}$  is the average annual growth rate of GDP per capita,  $v_i$  is a dummy variable equal to 1 in the post-2005 period and equal to zero otherwise and  $\varepsilon_{it}$  is the error term. The poverty rate for high-income countries is defined as the share of the population with income below 60 per cent of the median, whereas for all the other countries it refers to the share of population with income or consumption per capita below \$1.90 PPP per capita per day (extreme poverty) or between \$1.90 PPP and \$3.10 PPP per day (moderate poverty). Heteroskedasticity-robust standard errors are always reported. \*\*\* =  $p < 0.01$ , \*\* =  $p < 0.05$ , \* =  $p < 0.10$ .

**Table 3A.2**

### Estimating the effect of GDP per capita growth on extreme poverty by level of income inequality

	All countries (excluding high-income)		Low- and lower middle-income		Upper middle-income	
	Above average Gini	Below average Gini	Above average Gini	Below average Gini	Above average Gini	Below average Gini
Growth	-0.1552*** (0.036)	-0.1857*** (0.038)	-0.1926*** (0.064)	-0.2856*** (0.080)	-0.1433*** (0.041)	-0.1689*** (0.036)
Constant	-0.3152** (0.132)	-0.2203 (0.206)	-0.5167*** (0.186)	-0.2426 (0.260)	-0.0370 (0.154)	0.3111* (0.169)
Observations	118	63	71	42	42	26
R <sup>2</sup>	0.19	0.24	0.17	0.35	0.34	0.68

Note: The table shows the regression coefficient estimated through OLS on a pooled cross-section of 93 low-, lower and upper middle-income countries over two periods: 1992–2004 and 2005–2012. The regression model is defined as  $\Delta P_{it} = \alpha_i + \beta_1 \text{Growth}_{it} + v_i + \varepsilon_{it}$  where  $\Delta P$  is the average annual percentage point change in the extreme poverty rate (income or consumption per capita below \$1.90 PPP per capita per day),  $\text{Growth}_{it}$  is the average annual growth rate of GDP per capita,  $v_i$  is a dummy variable equal to 1 in the post-2005 period and equal to zero otherwise and  $\varepsilon_{it}$  is the error term. The model is estimated separating countries with a Gini index above the sample average from those below it for each country group. Heteroskedasticity-robust standard errors are always reported. \*\*\* =  $p < 0.01$ , \*\* =  $p < 0.05$ , \* =  $p < 0.10$ .

**Table 3A.3****Estimating the effect of GDP per capita growth components on extreme poverty (<\$1.90 PPP per capita per day)**

	All countries (excluding high-income)	Low- and lower middle-income	Upper middle-income	High-income
Productivity	-0.1794*** (0.028)	-0.2403*** (0.052)	-0.1467*** (0.028)	-0.0940*** (0.028)
Demographics	-0.0692 (0.106)	-0.1286 (0.145)	-0.2899** (0.139)	0.0567 (0.158)
Employment	-0.0878 (0.072)	-0.0955 (0.106)	-0.1272* (0.068)	0.0136 (0.046)
Constant	-0.3226*** (0.121)	-0.4464*** (0.148)	0.1726 (0.166)	0.0693 (0.071)
Observations	183	115	68	37
R <sup>2</sup>	0.21	0.25	0.43	0.15

Note: The table shows the regression coefficient estimated through OLS on a pooled cross-section of 93 low-, lower and upper middle-income countries over two periods: 1992–2004 and 2005–2012. Coefficients for high-income countries are estimated on a cross-section of 37 countries with poverty data available between 2005 and 2012. The regression model is defined as  $\Delta P_{it} = \alpha_i + \beta_1 \text{Productivity}_{it} + \beta_2 \text{Demographics}_{it} + \beta_3 \text{Employment}_{it} + v_i + \epsilon_{it}$  where  $\Delta P$  is the average annual percentage point change in the extreme poverty rate; Productivity, Demographics and Employment are the percentage point contributions to the average annual GDP per capita growth due to changes in output per worker, changes in the share of working age population in total population and changes in the employment rate respectively,  $v_i$  is a dummy variable equal to 1 in the post-2005 period and equal to zero otherwise and  $\epsilon_{it}$  is the error term. The decomposition of the average annual GDP per capita growth into its main components follows a Shapley decomposition approach. See the World Bank's Reference Manual and User's Guide Version 1.0, Job Generation and Growth Decomposition Tool for a detailed description of the methodology. Heteroskedasticity-robust standard errors are always reported. \*\*\* =  $p < 0.01$ , \*\* =  $p < 0.05$ , \* =  $p < 0.10$ .

## Appendix B. Types of employment and incidence of poverty

This appendix shows the detailed regression results underlying figures 3.2 and 3.6, as presented in this chapter. Tables 3B.3–5 provide regression results for figure 3.6 while table 3B.7 presents estimations used in figure 3.2. The remaining tables in this appendix show results for a number of companion regression models. Two empirical tests are run: the ‘a’ test and the ‘b’ test, both using the same set of variables – the ‘a’ test is run on a cross-section of the data, while the ‘b’ test is run on a panel data set. First, the cross-section data provide a measure of the change over time during the period 1991–2013 for those countries with data available, taking the difference between the earliest and latest available data points within the highlighted period. Second, the panel data set takes all real observations over the same time period, allowing a larger country sample. Significance is considered at the 5 per cent and 1 per cent level. The ‘b’ tests are run with country-fixed effects, in order to control for unobserved heterogeneity, and the independent variables are lagged to allow time for the effect on poverty to be observed. These tests were also run on working poverty at both the \$1.90 PPP and \$3.10 PPP level. All poverty data were collected from the World Bank and country microdata sets, all working poverty numbers from the ILO’s Trends Econometric Models, and the independent variables through a combination of the IMF World Economic Outlook database and the World Bank’s World Development Indicators.

**Table 3B.1**

### Analysing the effect of vulnerable employment on poverty and working poverty (cross-section regression)

	Difference in extreme poverty	Difference in extreme and moderate poverty rate	Difference in extreme working poverty rate	Difference in extreme and moderate working poverty rate
Difference in vulnerable employment	0.598 (0.435)	0.492 (0.580)	0.536 (0.399)	0.469 (0.578)
Constant	-4.835** (2.156)	-8.809*** (2.875)	-4.208** (1.978)	-8.331*** (2.863)
R <sup>2</sup>	0.08	0.03	0.08	0.03
N	24	24	24	24

Note: Extreme poverty refers to share of population with income or consumption per capita below \$1.90 PPP per capita per day and moderate poverty to those living between \$1.90 PPP and \$3.10 PPP per day. \*\*\* =  $p < 0.01$ , \*\* =  $p < 0.05$ , \* =  $p < 0.10$ .

**Table 3B.2**

### Analysing the effect of vulnerable employment on poverty and working poverty (panel regression)

	Extreme poverty	Extreme and moderate poverty	Extreme working poverty	Extreme and moderate working poverty
Lag in vulnerable employment	1.004*** (0.174)	1.491*** (0.224)	0.864*** (0.156)	1.384*** (0.211)
Constant	-36.030*** (9.793)	-40.317*** (12.669)	-30.440*** (8.785)	-37.658*** (11.906)
R <sup>2</sup>	0.32	0.35	0.29	0.32
N	105	105	105	105

Note: Extreme poverty refers to share of population with income or consumption per capita below \$1.90 PPP per capita per day and moderate poverty to those living between \$1.90 PPP and \$3.10 PPP per day. \*\*\* =  $p < 0.01$ , \*\* =  $p < 0.05$ , \* =  $p < 0.10$ .

**Table 3B.3****Analysing the effect of own-account workers on poverty and working poverty (cross-section regression)**

	Difference in extreme poverty	Difference in extreme and moderate poverty rate	Difference in extreme working poverty rate	Difference in extreme and moderate working poverty rate
Difference in own-account workers	-0.531** (0.229)	-0.816*** (0.284)	-0.491** (0.210)	-0.812*** (0.282)
Constant	-6.381*** (1.632)	-9.942*** (2.018)	-5.587*** (1.491)	-9.398*** (2.007)
R <sup>2</sup>	0.20	0.27	0.20	0.27
N	24	24	24	24

Note: Poverty refers to share of population with income or consumption per capita below \$1.90 PPP per capita per day (extreme poverty) or between \$1.90 PPP and \$3.10 PPP per day (moderate poverty). \*\*\* =  $p < 0.01$ , \*\* =  $p < 0.05$ , \* =  $p < 0.10$ .

**Table 3B.4****Analysing the effect of contributing family workers on poverty and working poverty (cross-section regression)**

	Difference in extreme poverty	Difference in extreme and moderate poverty rate	Difference in extreme working poverty rate	Difference in extreme and moderate working poverty rate
Difference in own-account workers	0.621*** (0.197)	0.837*** (0.252)	0.569*** (0.180)	0.827*** (0.251)
Constant	-4.541** (1.641)	-7.500*** (2.098)	-3.903** (1.502)	-6.986*** (2.094)
R <sup>2</sup>	0.31	0.33	0.31	0.33
N	24	24	24	24

Note: Extreme poverty refers to share of population with income or consumption per capita below \$1.90 PPP per capita per day and moderate poverty to those living between \$1.90 PPP and \$3.10 PPP per day. \*\*\* =  $p < 0.01$ , \*\* =  $p < 0.05$ , \* =  $p < 0.10$ .

**Table 3B.5****Analysing the effect of wage and salaried employment on poverty and working poverty (cross-section regression)**

	Difference in extreme poverty	Difference in extreme and moderate poverty rate	Difference in extreme working poverty rate	Difference in extreme and moderate working poverty rate
Difference in wage and salaried workers	-0.658 (0.458)	-0.583 (0.610)	-0.590 (0.420)	-0.560 (0.607)
Constant	-4.812** (2.127)	-8.678*** (2.835)	-4.186** (1.952)	-8.194*** (2.824)
R <sup>2</sup>	0.09	0.04	0.08	0.04
N	24	24	24	24

Note: Extreme poverty refers to share of population with income or consumption per capita below \$1.90 PPP per capita per day and moderate poverty to those living between \$1.90 PPP and \$3.10 PPP per day. \*\*\* =  $p < 0.01$ , \*\* =  $p < 0.05$ , \* =  $p < 0.10$ .

**Table 3B.6****Analysing the effect of wage and salaried employment on poverty and working poverty (panel regression)**

	Extreme poverty	Extreme and moderate poverty	Extreme working poverty	Extreme and moderate working poverty
Lag of wage and salaried workers	-1.077*** (0.240)	-1.628*** (0.278)	-0.928*** (0.216)	-1.517*** (0.266)
Constant	64.497*** (9.782)	110.174*** (11.318)	56.143*** (8.796)	102.255*** (10.842)
R <sup>2</sup>	0.31	0.35	0.28	0.33
N	105	105	105	105

Note: Extreme poverty refers to share of population with income or consumption per capita below \$1.90 PPP per capita per day and moderate poverty to those living between \$1.90 PPP and \$3.10 PPP per day. \*\*\* =  $p < 0.01$ , \*\* =  $p < 0.05$ , \* =  $p < 0.10$ .

**Table 3B.7****Analysing the effect of share of GDP components on poverty and working poverty (cross-section regression)**

	Difference in extreme poverty	Difference in extreme and moderate poverty rate	Difference in extreme working poverty rate	Difference in extreme and moderate working poverty rate
Difference in investment share	-0.573* (0.287)	-0.739* (0.402)	-0.578** (0.259)	-0.900** (0.377)
Difference in share of government expenditure	-2.163*** (0.515)	-1.976** (0.722)	-1.922*** (0.465)	-1.793** (0.676)
Change in share of household consumption	0.348 (0.203)	0.019 (0.285)	0.261 (0.183)	-0.088 (0.267)
Constant	-0.410 (1.810)	-4.800* (2.535)	-0.147 (1.633)	-4.339* (2.375)
R <sup>2</sup>	0.65	0.53	0.67	0.58
N	21	21	21	21

Note: Extreme poverty refers to share of population with income or consumption per capita below \$1.90 PPP per capita per day and moderate poverty to those living between \$1.90 PPP and \$3.10 PPP per day. \*\*\* =  $p < 0.01$ , \*\* =  $p < 0.05$ , \* =  $p < 0.10$ .

**Table 3B.8****Analysing the effect of share of GDP components on poverty and working poverty (panel regression)**

	Extreme poverty	Extreme and moderate poverty	Extreme working poverty	Extreme and moderate working poverty
Lag in investment share	-0.553** (0.273)	-1.185*** (0.327)	-0.499 (0.250)	-1.162*** (0.309)
Lag in share of household consumption	-0.087 (0.221)	-0.311 (0.349)	-0.100 (0.200)	-0.333 (0.323)
Lag in share of exports	0.097 (0.082)	0.138 (0.106)	0.086 (0.074)	0.137 (0.099)
Lag in share of government expenditure on consumption	-0.147 (0.878)	-1.207 (1.722)	-0.249 (0.734)	-1.310 (1.504)
Constant	39.451 (25.763)	105.166** (43.760)	38.371 (22.546)	104.210** (39.757)
R <sup>2</sup>	0.22	0.38	0.22	0.41
N	98	98	98	98

Note: Extreme poverty refers to share of population with income or consumption per capita below \$1.90 PPP per capita per day and moderate poverty to those living between \$1.90 PPP and \$3.10 PPP per day. \*\*\* =  $p < 0.01$ , \*\* =  $p < 0.05$ , \* =  $p < 0.10$ .

## Notes

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1. This is a paraphrase of Sustainable Development Goal 8 – “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”.
2. This is particularly the case when growth is driven by trade and market-oriented reforms which, although greatly benefiting the poor in urban areas, often generate limited benefits for the rest of the population.
3. As explained in Chapter 1, extreme poverty is defined as living on a household per capita income of less than \$1.90 PPP per day and moderate poverty as living on a household income between \$1.90 PPP and \$3.10 PPP per capita per day.
4. Dividing the estimated coefficients presented in [figure 3.1](#) by the average poverty rate in each country group, it is possible to compute the growth elasticity of poverty, which measures the percentage change in the share of the population living below the poverty line associated with a 1 percentage point increase in the average per capita income. The calculated elasticity varies substantially across country groups, ranging between 1.95 for upper middle-income countries and 0.66 for low- and lower middle-income economies.
5. Poor people are typically found to bear the brunt of the economic costs relating to sudden negative shocks in comparison to the rest of the population. This is particularly true when these shocks are due to volatility in the exchange rates and commodities prices.
6. For developed or high-income countries, the poverty line is set at 60 per cent of a country’s respective median disposable income.
7. A similar extent of correlation between GDP per capita growth and poverty changes is found when the extreme and moderate poverty rates are considered together.
8. The methodology used in this section to decompose per capita income growth follows a Shapley decomposition approach, also used in Chapter 4 of *Global Employment Trends* (ILO, 2013), which is an additive framework that allows the contribution of changes in a particular component to be disentangled from changes in total per capita GDP. First, changes in production per capita can be decomposed into changes in labour productivity, changes in the employment rate and changes in the workforce-to-population ratio. Second, productivity and employment changes can be further decomposed into those resulting from increases in labour productivity within sectors – i.e. those related, for instance, to technological progress, enhanced human capital and/or organizational capital – and those originating from reallocation processes, in which employment moves from low-productive to high-productive sectors. Finally, increases in a country’s employment-to-population ratio might be further decomposed into sectoral patterns of employment creation.
9. In fact, industrial policies are at the heart of productive transformation and can be used to transform the jobs held by the poorest, while facilitating decent work creation (Nübler, 2011).
10. See also Alderman and Yemtsov (2014).

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Part II

**Policies to transform jobs  
and incomes to end poverty**

# 4 A rights-based approach to poverty reduction

## Introduction

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The first three chapters, constituting Part I of this report, highlighted the important connections between jobs and poverty. The purpose of Part II is to demonstrate how decent work for all is not only inherently valuable in itself, but constitutes a central means of “ending poverty in all its forms everywhere”, as stated in Goal 1 of the recently adopted Agenda for Sustainable Development.

With this in mind, this chapter shows how a rights-based approach should underpin all poverty-reduction efforts, in line with the 2030 Agenda (UNGA, 2015, paragraphs 18–19). The aim to tackle poverty has its roots in the ILO Constitution, which states that “poverty anywhere constitutes a threat to prosperity everywhere” (Declaration of Philadelphia, 1944). More specifically, section A of this chapter reviews the most relevant international labour standards (ILS) for poverty reduction and their connection with the Sustainable Development Goals (SDGs). Section B examines the application of ILS as well as their enforcement through sound labour administration, including labour inspectorates and judicial systems, and looks at how these help to address poverty gaps, as identified in Chapter 2. Section C presents concluding remarks.

## A. International labour standards as an enabling mechanism for poverty reduction

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In line with the UN Common Understanding,<sup>1</sup> the rights-based approach stems from the objective of realizing human rights, as codified in the Universal Declaration of Human Rights and other international human rights instruments. The inherent dignity of all human beings and the inalienable nature of human rights are at the core of these instruments, which have close linkages with ILS.<sup>2</sup> ILS are ILO Conventions, Protocols and Recommendations that are negotiated and concluded with member States participating in the International Labour Conference on an equal footing.<sup>3</sup> The application of ILO standards is monitored through the ILO supervisory mechanisms.<sup>4</sup>

The rights-based approach to poverty reduction extends far beyond the scope of the ILS. However, ILS fulfil, in different ways and to various degrees, important functions from a poverty-reduction perspective. In particular, they play an important enabling role in poverty-reduction efforts, through the following principal channels: (i) providing framework conditions for sustainable job creation and enterprise growth; (ii) enhancing individual and collective capabilities, which lie at the heart of sustainable poverty reduction; (iii) preventing declines in labour rights and working conditions, that would aggravate poverty; (iv) counteracting discrimination; and (v) facilitating fairer income distribution. [Table 4.1](#) presents an overview of the poverty challenges (as identified in previous chapters) and presents the mechanisms for addressing these as provided by the most relevant ILS.

**Table 4.1**

**Addressing poverty challenges: Key ILO standards and instruments**

Poverty challenge	Mechanism for addressing the challenge	Most relevant standards
<ul style="list-style-type: none"> <li>• Lack of productive jobs for vulnerable workers, particularly in the agricultural sector</li> <li>• Prevalence of informal employment</li> <li>• Low-productivity jobs that do not provide sufficient income to lift people out of poverty</li> <li>• Business environments that are not conducive to the development of the private sector, including micro, small and medium-sized enterprises (MSMEs) and cooperatives</li> <li>• Difficulties in integrating into production chains</li> </ul>	Providing framework conditions for decent job creation and sustainable enterprises	<ul style="list-style-type: none"> <li>• C.122; R.169: Employment policies</li> <li>• R.189: SMEs</li> <li>• R.193: Cooperatives</li> <li>• R.204: Transition from informal to formal economy</li> </ul> <p>MNE Declaration: multinational enterprises and decent work</p>
<ul style="list-style-type: none"> <li>• Lack of skills and professional guidance</li> <li>• Lack of targeted active labour market policies (ALMPs) and employment services (e.g. for youth and women)</li> <li>• Prevalence of informal employment, with limited skills development and certification</li> <li>• Limited access to, and coverage of, social protection schemes (e.g. for dependants and during spells of unemployment)</li> <li>• Vulnerability to poverty of groups living close to the poverty line</li> <li>• Limited capacity to engage in negotiations on employment conditions</li> </ul>	Enhancing capabilities for improved livelihoods	<ul style="list-style-type: none"> <li>• C.142; R.195: Skills development</li> <li>• C.88; C.181: Employment services</li> <li>• C.102; R.202: Social security (minimum standards); social protection floors</li> <li>• R.200: HIV and AIDS</li> </ul> <p><i>Various other ILS, in particular on freedom of association and collective bargaining</i></p>
<ul style="list-style-type: none"> <li>• Continuous poverty cycles due to non-compliance with Fundamental Principles and Rights at Work (FPRW)</li> <li>• Competition and patterns of production creating downward pressure on working conditions and employment relations</li> <li>• Lack of reach by rights and representation due to unclear employment relationships</li> <li>• Occupational health hazards leading to, or keeping individuals in, poverty</li> </ul>	Preventing a decline in labour rights and working conditions	<ul style="list-style-type: none"> <li>• 1998 ILO Declaration on Fundamental Principles and Rights at Work</li> <li>• C.29; C.105: Abolition of forced labour</li> <li>• C.138; C.182: Elimination of child labour</li> <li>• C.95; R.85: Protection of wages</li> <li>• C.158; R.166: Termination of employment</li> <li>• R.198: Employment relationship</li> <li>• C.155: Occupational safety and health</li> <li>• C.184; R.192: Occupational safety and health in agriculture</li> </ul> <p><i>Various other ILS, in particular on freedom of association, collective bargaining and non-discrimination</i></p>
<ul style="list-style-type: none"> <li>• Concentration of poverty within certain groups, in particular women, specific ethnic groups, migrant workers, etc.</li> </ul>	Counteracting discrimination	<ul style="list-style-type: none"> <li>• C.111: Elimination of discrimination; promotion of equal pay, C.100</li> <li>• C.183: Maternity protection</li> <li>• C.156: Workers with family responsibilities</li> <li>• C.169: Indigenous and tribal peoples' rights</li> </ul> <p><i>Various other standards, including on migrant workers, disabled persons, HIV and AIDS in the world of work, older workers, etc.</i></p>
<ul style="list-style-type: none"> <li>• Incomes below the poverty line</li> <li>• Limited voice and representation of poor individuals and MSMEs</li> <li>• Deficiencies in bargaining at the enterprise, sectoral, national and transnational levels</li> <li>• Gaps in coverage of vulnerable workers, such as subcontracted or temporary workers</li> <li>• Contradictory policy objectives that maintain or create poverty</li> </ul>	Facilitating fairer income distribution and ensuring inclusive growth	<ul style="list-style-type: none"> <li>• C.87; C.98: Freedom of association and collective bargaining</li> <li>• C.11; C.141: Freedom of association in the agriculture sector and rural economy</li> <li>• C.131: Minimum wage fixing</li> <li>• C.117: Social policy</li> </ul> <p><i>Social dialogue provisions in various ILS; ILS on specific groups, such as indigenous and tribal peoples</i></p>

## Providing framework conditions for decent job creation and sustainable enterprises

As shown in Part I, creating decent jobs and promoting sustainable enterprises are at the core of efforts to lift people out of poverty. Certain ILS are particularly relevant in this regard:

- The Employment Policy Convention, 1964 (No. 122), requires States to put in place policies to promote full, productive and freely chosen employment. Although this instrument is general in nature, it provides basic framework conditions for the creation of decent jobs. The key underlining assumption in relation to poverty is to ensure, in line with Convention No. 122, that the concerns of the most vulnerable individuals – including, among others, contributing family workers, as discussed in Chapter 1 – are fully taken into account in policy design and implementation.
- The Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), encourages member States to ensure that an integrated policy framework, to facilitate the transition from the informal to the formal economy, is made part of relevant national planning, such as national development plans and poverty-reduction strategies. The Recommendation emphasizes that livelihoods of individuals should be secured in the transition process – a key issue in view of the need to ensure that the transition to formal employment supports poverty-reduction efforts.
- The Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189), and the 2007 Conclusions (concerning the promotion of sustainable enterprises) and the 2015 Resolution (concerning small and medium-sized enterprises (SMEs)) of the International Labour Conference recognize the key role of SMEs in job creation. This is highly relevant from a poverty-reduction perspective, considering the large number of self-employed among the poor, as documented in Chapter 1. Importantly, the Recommendation recognizes the constraints that SMEs and micro-enterprises face in attempting to increase productivity – a key issue raised in Chapter 3 – and transitioning into the formal sector. The Recommendation also encourages employers' and workers' organizations to widen their membership in order to include and more effectively represent SMEs, and exhorts governments to find ways of establishing communication channels between them.
- The Promotion of Cooperatives Recommendation, 2002 (No. 193), encourages member States to establish an institutional framework for cooperatives. Cooperatives have proven particularly efficient in organizing small producers and promoting their voice in the agricultural sector (see Chapter 5). Such a framework should help cooperatives to achieve their inherent mandate, thus contributing to sustainable development and poverty reduction.

## Enhancing capabilities for improved livelihoods

Expanding human capabilities and upskilling individuals provides the means through which workers can not only lead more productive lives but also participate effectively and meaningfully in the world of work (Sen, 1999). As Chapter 1 demonstrated, more than half of the working poor are employed in low-skilled jobs. Social security standards are also central to poverty alleviation, as social protection can provide alternative sources of income, which are essential for reducing the risk of poverty in situations where workers, including the self-employed, have limited or no access to income from work. Moreover, income security can provide the opportunity to allow workers from low-income households to invest in skills and educational qualifications, in order to access more highly skilled employment. Finally, certain ILS promote collective capabilities, to the extent that they enhance the voice of workers and employers in policy-making processes, notably through the involvement of their representatives. In addressing the above issues, the following standards are particularly relevant:

- The Human Resources Development Convention, 1975 (No. 142), and Recommendation, 2004 (No. 195), aim to achieve productive employment by enhancing vocational training and guidance. Both are designed to assist with skills acquisition, supporting workers in both formal and informal employment to access decent and productive work (see Chapter 6 for a discussion of these policies). From a poverty-reduction viewpoint, the ability to certify and legally recognize informally obtained skills is of particular relevance, as the lack of certification often acts as a barrier to workers' accessing decent and productive work.<sup>5</sup> Skills development overall should take into account the diverse needs of individuals and groups, each of whom faces unique barriers to employment (see the discussion on counteracting discrimination below).
- The establishment of employment services (public or private) is a central component in delivering skills development policies and in realizing the right to work, as stipulated in the International Covenant on Economic, Social and Cultural Rights, 1966 (ESC Covenant),<sup>6</sup> and further elaborated

in the Employment Service Convention, 1948 (No. 88). The latter stipulates that each ratifying State should maintain a free public employment service with a network of local and, where necessary, regional offices. The Private Employment Agencies Convention, 1997 (No. 181), was adopted with the objective of allowing the operation of private employment agencies and providing adequate protection to workers using their services. As such, specific provisions are in place to ensure that workers employed through private employment agencies or similar entities do not run the risk of encountering poor working conditions (see the discussion on the poverty-reduction impacts of employment services in Chapter 6).

- The Social Security (Minimum Standards) Convention, 1952 (No. 102), covers nine social security branches<sup>7</sup> and sets out minimum standards, paying specific attention to coverage, adequacy of benefits, including their regular updates, and the right to appeal in the case of refusal of a benefit or in relation to the benefit level. The Social Protection Floors Recommendation, 2012 (No. 202), sets out the basic social security guarantees, which include, as a minimum, access to essential health care, including maternity care, and income security throughout the life course, as well as education, nutrition and care for children – key factors underlying poverty trends, as evidenced in Chapter 1. Unemployment protection, in turn, is essential to securing livelihoods during periods when individuals have limited access to work. The standards focusing specifically on this aspect stipulate the need for inclusiveness within the group of employees.<sup>8</sup> Supporting these aims, the HIV and AIDS Recommendation, 2010 (No. 200), recognizes the relationship between poverty, social and economic inequality and increased risk of HIV transmission and provides guidance on policies in this respect.

### Preventing negative impacts on labour rights and working conditions

There is widespread recognition of the need to ensure that globalization in all its forms, goes hand in hand with social progress (ILO, 2015a). It is particularly important to reduce the risk of labour rights being negatively affected by the increased globalization of the world economy. To achieve this goal, the following instruments are of central importance:

- The 1998 Declaration on Fundamental Principles and Rights at Work (FPRW) and the underlying eight ILO core Conventions,<sup>9</sup> are essential in this regard. These instruments focus on the elimination of child labour, forced labour and discrimination, the promotion of equal pay for work of equal value for women and men, as well as on instituting and upholding freedom of association and collective bargaining. The core Conventions have been widely ratified and compliance with their principles is obligatory in all ILO member States, giving these requirements an almost universal coverage. They are prerequisites in efforts to reduce poverty in all its forms (ILO, 2012).
- The Forced Labour Convention, 1930 (No. 29), requires member States to legislate against the illegal exaction of forced or compulsory labour as a penal offence, with adequate and strictly enforced penalties. The Protocol of 2014 to Convention No. 29 requires States to put in place effective measures to eradicate forced and compulsory labour.
- Child labour can permanently damage the health and development of children and compromise their future life chances, effectively depleting future human resource potential and promoting the persistence of poverty throughout the life cycle. The Minimum Age Convention, 1973 (No. 138), sets the minimum age for admission to employment or work (generally 15 years), as well as the limit for undertaking hazardous work (18 years).<sup>10</sup> Convention No. 138 promotes the right of children to participate in basic education, enabling them to continue building their capacities later in life and laying the foundations for a life free of poverty. The Worst Forms of Child Labour Convention, 1999 (No. 182), requires States to implement action programmes to eliminate the worst forms of child labour as a priority,<sup>11</sup> thereby preventing children from engaging in activities that could harm them and impede their potential to progress out of poverty.

Other ILS can help to prevent a decline in employment relations and working conditions, such as wages, working time and occupational safety and health:

- Standards aiming to protect wages – notably the Protection of Wages Convention, 1949 (No. 95), and Recommendation No. 85 – extend to various forms of compensation, paid both in the formal and the informal economy. These standards regulate how and at which intervals wages should be paid, with the objective of guaranteeing decent living standards for workers and their ability to determine how to use their incomes. The Employment Relationship Recommendation, 2006 (No. 198),

guides States in formulating, implementing and regularly reviewing national policies to guarantee effective protection for all workers in an employment relationship, taking particular account of workers whose situation is uncertain or unclear, including those working in the informal economy.

- The provisions of the Termination of Employment Convention, 1982 (No. 158), and of the Termination of Employment Recommendation, 1982 (No. 166), aim to safeguard the employer's right to dismiss a worker for a valid reason and the worker's right not to be deprived of work unfairly. Thus, the purpose of these instruments is to establish a balance between the interests of the employer and those of the worker (ILO, 2011).<sup>12</sup>
- Specific standards are devoted to certain categories of workers who are particularly vulnerable to difficult working conditions and poverty (e.g. domestic workers, indigenous workers, etc.).<sup>13</sup> These standards strive to extend the inclusiveness of ILS through a targeted approach. Furthermore, with a view to promoting occupational safety and health for everyone, relevant standards require the establishment of national occupational safety and health policies.<sup>14</sup>

### Counteracting discrimination

Discrimination based on gender, ethnic or social origin, or other attributes may explain why poverty tends to concentrate within certain groups and persist over time (box 4.1). In fact, discrimination can be compounded across multiple domains, reinforcing both the drivers and the outcomes of poverty (see, for example, Blau, Ferber and Winkler, 2013; Folbre, 2014; Lundberg and Startz, 2000; Del Conte and Kling, 2001; and Weiss and Gronau, 1981).

This highlights the relevance of a number of ILS:

- The Discrimination (Employment and Occupation) Convention, 1958 (No. 111), as complemented by the corresponding Recommendation No. 111, requires States to put in place and implement a national policy that aims to promote equality in employment and occupation. Importantly, the requirement of non-discrimination covers multiple grounds and extends from access to employment to access to vocational training, noting that skills acquisition is essential in breaking the poverty cycle. The non-discrimination requirement also applies to employment terms and conditions. In addition to actions with discriminatory intent, actions with discriminatory impact are covered, as both direct and indirect discrimination (Servais, 2014). In this sense, recruitment and employment conditions should be based on objective criteria and not, for instance, on gender or other preferences. Such preferences create segregation in the labour market and leave certain groups – among them, most notably, women – to occupy typically lower salaried positions (World Bank, 2012; Staritz and Reis, 2013) and to face higher risks of poverty. Inequality in pay between women and men is addressed in the Equal Remuneration Convention, 1951 (No. 100), and the accompanying Recommendation No. 90, which supplement Convention No. 111 and Recommendation No. 111. Both Conventions form part of the ILO core Conventions (listed in endnote 9).
- Central to poverty alleviation, maternity protection aims to secure the living standards of women and children during maternity, including protecting the employment of the mother. The Maternity Protection Convention, 2000 (No. 183), strives to achieve inclusiveness by extending coverage to “all employed women, including those in atypical forms of dependent work” (Article 2). Importantly, maternity protection provides one means of improving equality of opportunity in terms of access to occupation and employment, addressing the pronounced vulnerability of women to poverty. The Workers with Family Responsibilities Convention, 1981 (No. 156) aims to assist working women and men with care duties that have an impact on their effective engagement in income-earning activities.<sup>15</sup>
- Various other standards aim to combat discrimination at work, helping to move towards equal treatment of groups of workers who are more susceptible than others to facing discrimination at work and the risk of poverty. Such ILS include, for instance, those focusing on indigenous and tribal peoples,<sup>16</sup> disabled persons,<sup>17</sup> migrant workers,<sup>18</sup> older workers<sup>19</sup> and HIV and AIDS in the world of work,<sup>20</sup> among others. The situation of indigenous and tribal peoples in today's global economy has raised particular concerns in respect of the issue of poverty.

#### Box 4.1

##### Examples of discrimination and poverty: Indigenous peoples, race and religion

Indigenous and tribal peoples are among the population groups that face frequent discrimination and poverty. For instance, in Brazil, “indigenous peoples” represent the group most exposed to poverty: 12 per cent are in extreme poverty and 26 per cent in extreme or moderate poverty (ILO calculations based on the 2012 National Household Sample Survey (PNAD) conducted by Brazil’s national statistical and geographic institute (*Instituto Brasileiro de Geografia e Estatística*). These poverty rates are twice as high as those of the next most affected population group (“mixed people (pardos/browns)”) and far above the poverty incidence among “whites” (less than 2 per cent in extreme poverty and 4 per cent in extreme or moderate poverty).

The ILO Indigenous and Tribal Peoples Convention, 1989 (No. 169), requires ratifying States to take coordinated and systematic action to ensure that indigenous and tribal groups enjoy equal rights and opportunities with the rest of the population. This includes promoting the full realization of their social, economic and cultural rights; and assisting them to eliminate possible socio-economic gaps in comparison to the non-indigenous/non-tribal population (Article 2). Convention No. 169 places specific emphasis on promoting the participation of indigenous and tribal peoples in the policy- and decision-making that affects

them, their right to decide on their own development priorities, as well as the full development of their own institutions and initiatives. Specific provisions cover, among other issues, rights to traditionally occupied land and natural resources as well as ensuring decent working conditions, including skills development opportunities, and the availability of labour inspection services in areas where these peoples work.

In other instances, grounds for discrimination can be determinant factors in poverty, such as race and religion. For instance, in South Africa, more than 20 per cent of “Africans” are in extreme poverty and more than 42 per cent in extreme or moderate poverty, while no individuals of “white”, “Indian” or “Asian” origin are living below the poverty line (ILO calculations based on National Income Dynamics Study 2012). In India, religion has an important impact on extreme poverty, with Sikhs and Christians being better off (10 per cent are in extreme poverty compared to more than 20 per cent for other groups and as many as over 50 per cent for tribal peoples) (ILO calculations based on India Human Development Survey 2012). For extreme and moderate poverty, tribal peoples, Muslims and Hindus were among the worst off, with 90 per cent, 65 per cent and 58 per cent, respectively, living on less than \$3.10 purchasing power parity (PPP) per capita per day.

##### Facilitating fairer income distribution and ensuring inclusive growth

Addressing the fair distribution of income is an important mechanism to lift people out of poverty. In fact, as highlighted in Chapter 3, the impact of growth is determined to some extent by the level of inequality, i.e. beyond a certain level of inequality, the impact of a country’s economic growth on poverty is reduced. In this respect, freedom of association and the right to organize and to collective bargaining are enabling and empowering rights that set the conditions for fairer income distribution (ILO et al., 2015). Freedom of association therefore gives collective strength to poor workers and entrepreneurs vis-à-vis their negotiating partners. Key standards include the following:

- The Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98), are central to these efforts and form part of the ILO core Conventions, with their principles incorporated into FPRW. Convention No. 87 stipulates the most basic conditions required to allow bargaining for wages and working conditions to take place, notably the right of workers and employers to establish and join organizations of their choosing, and to organize freely. Convention No. 98 continues to establish an enabling environment within which workers and employers can realize these rights through stipulating the requirement for non-interference in the activities of their organizations, and prohibiting discrimination based on union activities. Convention No. 98 also promotes the establishment and

use of machinery for collective bargaining between employers and workers. The requirement that workers be represented through workers' organizations in collective bargaining aims to promote more balanced negotiations, given that individual workers often have limited bargaining power in comparison to their employers.<sup>21</sup> This approach both promotes the participation of workers in setting the terms and conditions of their employment (Barrientos and Smith, 2007) and, where mature industrial relations are in place, may generate an environment conducive to sustainable enterprise growth (Miller, Turner and Grinter, 2011).

- A framework for agreeing fairer income distribution is also provided through standards that focus on minimum wages. By ratifying the Minimum Wage Fixing Convention, 1970 (No. 131), States undertake to establish a system of minimum wages that “covers all groups of wage earners whose terms of employment are such that coverage would be appropriate” (Article 1). The poverty-reducing components of the standard include the requirement that consideration be given to the needs of workers and their families and the cost of living when setting minimum wages (see key design features of sound minimum wage policies in Chapter 6). The principle of fair income distribution is also embedded in the fundamental ILS on gender equality (Conventions Nos 100 and 111).

While certain policies applied at the country level work towards poverty-reduction objectives, others might have aims that could undermine or neutralize their effects. Alignment across different policies is therefore required to effectively address poverty in all conditions, including economic crisis situations (ILO, 2013a, 2014a and 2014b). Furthermore, in order to ensure that any economic, social and labour market policies adopted correspond to realities on the ground and enjoy broad acceptance, the involvement of social partners is crucial. Indeed, virtually all ILS promote social dialogue – that is, involvement and participation of employers' and workers' organizations in policy-making at different levels. This enables the social partners to bring their practical expertise to policy-making that – among other issues – has a bearing on the living conditions of the population. Different ILS are relevant for pro-poor policy-making, in particular:

- The Social Policy (Basic Aims and Standards) Convention, 1962 (No. 117), departs from the basic premise that “economic development must serve as a basis for social progress” (Preamble) and commits States to directing their policies primarily towards promoting the well-being and development of the population and its desire for social progress (Article 1(1)). In its Article 2 it further provides that the planning of economic development should serve to improve standards of living. Setting a framework for promoting broad social progress, Convention No. 117 includes specific provisions on promoting the status of migrant workers, remuneration of workers, non-discrimination and education and training. As such, it incorporates aspects of various standards reviewed in the preceding subsections.
- Provisions to promote social dialogue are included, for instance, in Convention No. 98, which emphasizes the need to involve employers' and workers' organizations through social dialogue in the setting-up or review of collective bargaining systems, with a view to ensuring appropriate living standards, among other aims.<sup>22</sup> Convention No. 131, in turn, requires full consultation with the social partners when setting up, managing and modifying the minimum wage setting machinery, including their direct participation in its operations, where appropriate. Indeed, social dialogue is crucial in obtaining the social partners' contributions to a broad range of issues, including in the formulation and implementation of employment policies, vocational guidance and training programmes and formalization strategies, in the operations of the Employment Service and through cooperation with the labour inspectorate, among others (see the discussion on social dialogue in Chapter 6).



## B. Improving application and enforcement of international labour standards in order to reach the poor

This section analyses the application of ILS in practice with a focus on the role of central enforcement institutions and various other mechanisms in realizing decent work and poverty reduction. It begins by highlighting the main obstacles to the effective implementation of standards, especially in terms of the most vulnerable, and presents some approaches taken to remedy this gap, including a number of case studies.

### Key obstacles to realizing the objectives of ILS relate to national legislation and the capacity of key institutions

The most important obstacles to the effective application of ILS to the most vulnerable workers are: (i) limitations in the national legal coverage, including due to low ratification rate of key Conventions and their incomplete incorporation into national legislation; and (ii) inadequate coverage of the most vulnerable workers and employers by enforcement mechanisms, including labour inspectorates and judicial systems. In addition, various gaps in government capacity hamper the effective reach of policies established on the basis of ILS (see Chapter 6).

First, no country in the world has ratified all the Conventions identified as central to poverty reduction in section A (table 4.1). And despite some considerable country heterogeneity, the highest rate of ratification of poverty-related Conventions is found within developed countries (table 4.2). In nearly every area, ratification among developing countries (where the majority of the poor live), is below both developed and emerging countries. Moreover, in four of the areas (mechanisms) listed in table 4.1, developing countries have ratified less than 50 per cent of the Conventions. Only within the “Preventing declines” mechanism is the ratification rate relatively high, at just over 60 per cent. However, when looking at the share of countries that ratified all Conventions within each area, the numbers drop significantly – especially for certain developing countries, where the rate of ratification for areas with more than one Convention drops to zero. Of course, ratification is only the first step and effective implementation necessitates the comprehensive incorporation of the ILS into national legislation (de jure coverage), as well as their application and enforcement at the national level (de facto coverage).

Furthermore, the key enforcement Conventions, including the Labour Administration Convention, 1978 (No. 150), the Labour Inspection (Agriculture) Convention, 1969 (No. 129), and the Labour Inspection Convention, 1947 (No. 81), have important ratification gaps.<sup>23</sup> For instance, many of the poorest countries, which are heavily reliant on agriculture, have not ratified Convention No. 129, and significant gaps remain in the ratification of the two other Conventions.

Table 4.2

#### Ratification rates of key poverty-reducing Conventions

Poverty-reducing mechanism	Developed countries	Emerging countries	Developing countries	Total
Providing framework conditions for decent job creation and sustainable enterprises (C.122)	68.4	59.0	36.7	<b>58.3</b>
Enhancing capabilities for improved livelihoods (C.142; C.88; C.181; C.102)	48.7 (15.8)	27.5 (3.0)	16.7 (0.0)	<b>32.2</b> <b>(6.4)</b>
Preventing declines in labour rights and working conditions (C.29; C.105; C.138; C.182; C.95; C.158; C.155; C.184)	63.8 (3.5)	59.4 (2.0)	58.8 (0.0)	<b>60.6</b> <b>(2.1)</b>
Counteracting discrimination (C.100; C.111; C.183; C.156; C.169)	50.9 (3.5)	45.8 (0.0)	44.0 (0.0)	<b>47.1</b> <b>(1.1)</b>
Facilitating fairer income distribution (C.87; C.98; C.11; C.141; C.131; C.117)	52.3 (3.5)	49.3 (5.0)	48.3 (0.0)	<b>50.1</b> <b>(3.7)</b>
All	<b>57.2</b> <b>(0.0)</b>	<b>50.1</b> <b>(0.0)</b>	<b>46.5</b> <b>(0.0)</b>	<b>51.7</b> <b>(0.0)</b>

Note: Refers to the rate of ratification at 15 April 2016. See also table 4.1. Figures in parentheses refer to the share of countries (by mechanism or by country grouping) that have ratified all the Conventions listed in the table.

Source: ILO calculations based on ILO NORMLEX.

Second, even when ILS are ratified and translated into legislation, coverage of certain workers and enterprises may be limited, which can have implications for poverty reduction. This can result, for instance, from the imposition of criteria relating to the size of the enterprise, categories of workers or geographic areas. Of particular concern is the case of contributing family workers, who account for nearly 6 per cent of extreme poverty in emerging and developing countries (see Chapter 1 for more detail), and homeworkers (box 4.2).

Third, stemming from both limited legal coverage and restricted capacities of institutions, labour inspectorates' services, despite being an essential element of enforcement mechanisms, do not necessarily reach the most vulnerable. Of the Conventions that focus on enforcement, Conventions Nos 150 and 129 in particular incorporate specific clauses addressing extension in coverage to some of the categories of workers identified as the poorest in Chapter 1.<sup>24</sup> Contributing family workers have been included, for instance, in Convention No. 129, which encourages ratifying States to bring family workers in agriculture within the scope of labour inspections. However, given the rather hidden nature of these workers and the often inadequate resource allocation to labour inspectorates (ILO, 2006), the enforcement of their rights is limited.

#### Box 4.2

##### Challenges confronting contributing family workers and homeworkers

**Contributing family workers:** The majority of contributing or unpaid family workers living in poverty are found in micro and small enterprises, in smallholder agriculture in the rural economy and in informal business activities in the urban economy (e.g. tailoring shops, retail outlets and other informal service providers). Within low-income countries, the majority of self-employment, including contributing family work is in the agricultural sector. The majority of these workers are women, children and young workers. The hidden nature of contributing family work means that they are often isolated from government regulation, leaving them vulnerable to poor working conditions. For instance, women contributing to family enterprises typically work a “double-working day”, the work is usually unpaid and the absence of formal employment status can deny them access to social security and social protection services (Fontana, 2003; Chen, 2007). The particular situation of these workers also challenges traditional models of collective worker associations.

**Homeworkers:** Also called “industrial outworkers”, these workers produce goods and services for an employer or contractor

under subcontracting arrangements in their own homes, and are considered an essential facet of today's global market economy (Carr, Chen and Tate, 2000). Although difficult to quantify, homeworkers are recognized as a specific category of vulnerable home-based workers, often impoverished and very often women workers (ibid.; Chen, 2014). These workers reside within a wider informal non-agricultural economy, often moving between dependent and independent employment (Chen, Sebstad and O'Connell, 1999). Typically, subcontracted homeworkers are paid by a piece-rate, resulting in long and irregular hours, and unreliable income (Chen, 2014). Dependence on low technology and their relative isolation locks homeworkers into dependent relationships with local contractors (ibid.). This limits opportunities to increase productivity, which is required for full transition to self-employment. Furthermore, homeworkers tend not to benefit from occupational safety and health protection, and therefore face increased risks of falling into poverty. Important steps to address the situation of homeworkers have been undertaken with the adoption of the Home Work Convention, 1996 (No. 177).

Fourth, poor individuals often have limited access to judicial systems which, if well-functioning, are essential to guarantee rights that contribute to development and poverty alleviation. The poorest individuals in the least developed countries, in particular, have very limited access to the judiciary, often due to their lack of awareness about their rights, limited knowledge and general mistrust of the judicial system, inadequate remedies and concerns over costs and the duration of proceedings (Anderson, 2003). For example, research on access to justice during the period 2001 to 2005 in Latin America and Africa indicates that only 5 per cent of the African sample of households in the lowest 10 per cent income category had direct experience of seeking court services or alternative dispute resolution mechanisms. At the same time, the percentage of households lacking access to the judiciary was as high as 83 per cent in Benin, 81 per cent in Mozambique and 68 per cent in South Africa (Buscaglia, 2009). While poor individuals have been found to use informal legal mechanisms to a much greater extent, these have not proved effective in regard to enforcing decent working conditions, including fair wages (Fandl, 2008). Also corruption, particularly with respect to access to judicial systems, poses serious challenges for poverty alleviation (box 4.3).

#### Box 4.3

##### Corruption affecting access to judicial systems for people living below the poverty line

Today, two-thirds of countries worldwide have a serious corruption problem, affecting more than 6 billion people globally. This includes developing and emerging as well as developed countries. By means of illustration, 53 per cent of G20 countries and 100 per cent of BRICS countries score below 50 on Transparency International's Corruption Perceptions Index 2015. Corruption not only undermines public services and democracy as a whole, but those most hurt by it are the world's weakest and

most vulnerable. Limited transparency and accountability, and low levels of public participation are key concerns in this regard. Therefore, public involvement, including through the participation of the social partners and strengthening of social dialogue, can help to fight corruption by making governance more open and transparent. The success of the Latin American trade unions and the anti-corruption network that they set up are a case in point.

#### Ratifying Conventions as a central means to achieving poverty reduction, including through trade agreements

An effective implementation of ILS starts with States committing to more comprehensively ratify the key Conventions with poverty-reducing effects, including central Conventions on enforcement, and to incorporate them – together with the relevant Recommendations – into their national legislation and policies. In this way, States can effectively employ the poverty-reduction mechanisms incorporated into the ILS, and move towards the commitment to achieving the SDGs by 2030. The ILO supervisory mechanisms, in particular the regular reporting to the Committee of Experts on the Application of Conventions and Recommendations (CEACR), can help States to achieve this aim. Indeed, the CEACR can provide advice to help States align their legislation and its implementation more closely with the objectives of the ILS, thus supporting the process of more effective poverty alleviation. Furthermore, ILS – particularly those on freedom of association – provide a framework for an inclusive process towards achieving the SDGs, where employers' and workers' organizations are able to hold their governments accountable for progress, and jointly move towards the poverty-reduction targets.

The incorporation of commitments in trade arrangements to respect ILS can be understood as a complementary mechanism to promote ratification and compliance with ILS. In recent years, there has been an increasing number of these agreements that embed such labour provisions, with the most commonly cited standards being the FPRW (box 4.4). Several further such agreements are currently under negotiation or have been concluded (see also ILO, forthcoming).<sup>25</sup>

### Labour provisions and trade arrangements

The past two decades have witnessed a fivefold increase in the number of bilateral and plurilateral trade agreements, rising from 46 in 1995 to 265 in 2015. A growing share of these agreements incorporate labour provisions where typically the Parties commit not to lower labour standards to attract foreign trade or investment, and to realize ILS, mainly the ILO FPRW (ILO, 2016). While the first inclusion of a binding labour provision was in the North American Agreement on Labour Cooperation (NAALC) in 1994, at present there are 75 trade agreements that include labour provisions, covering 108 economies. Nearly half of them have come into existence since 2008 and over 80 per cent of agreements that entered into force since 2013 have included a labour provision. This represents more than one-quarter (28 per cent) of the trade agreements notified to the WTO and currently in force (ibid.).

This increase can be attributed not just to the conclusion of agreements among the entities most active in promoting labour provisions, such as Canada, the EU and the United States, but also countries or regions such as Chile, New Zealand, the European Free Trade Association (EFTA) and Switzerland. Among them are also examples of South–South agreements with labour provisions, including the Nicaragua–Chinese Taipei (2008), Peru–China (2010), Turkey–Chile (2011), Costa Rica–Singapore (2013), Republic of Korea–Turkey (2013) and Hong Kong, China–Chile (2014) agreements (ibid.). Labour provisions, mostly establishing dialogue and cooperative activities, have also been integrated into several regional integration agreements, such as the Southern Common Market (Mercosur), the Andean Community of Nations and the Treaty of the Economic Community of West African States (IILS, 2015).

Although the majority of labour provisions refer to the FPRW, differences exist with regard to the emphasis put on the ratification of ILS. The Special Incentive Arrangement for Sustainable Development and Good Governance, or “GSP+”, under the Generalized Scheme of Preferences (GSP) Regulation of the EU, links trade incentives with the ratification and implementation of core

international standards in the area of human rights, labour rights, environmental protection and good governance. When developing countries export to the EU, GSP+ offers additional trade incentives that are linked to ratifying and complying with the eight ILO core Conventions (EC, 2016; Regulation (EU) No 978/2012). Also in EU bilateral trade agreements, the parties may commit to sustained efforts towards the ratification of ILO Conventions (Peels and Fino, 2015).

In the case of US trade agreements with Bahrain, Colombia, Morocco, Oman, Panama and Peru, some improvements in labour standards were made prior to the ratification of the trade agreement. Legal changes addressed minimum working age and wage levels, migrant workers’ rights, forced labour and temporary contracting, areas that are essential when targeting the poor (IILS, 2015).

The US–Cambodia Bilateral Textiles Agreement is an interesting example of where a labour provision targets an employment-intensive sector (textiles) that is characterized by a high level of competition between developing countries (e.g. Bangladesh) and a low-skilled, predominantly female and often migrant labour force (Samaan and López Mourelo, forthcoming). The agreement, in combination with the ILO Better Factories Cambodia Programme, demonstrates how international trade, firm-level monitoring and capacity building can combine to shape incentives to encourage enterprises in the garment sector to improve working conditions (ibid.; Polaski, 2004). A unique feature of this agreement was to make the prospect of increased import quotas to the United States conditional on improved working conditions in Cambodian apparel factories. In addition, a system of monitoring working conditions was implemented, under the supervision of the ILO. Factories in the apparel industry were required to sign up to the monitoring programme (Better Factories Cambodia) in order to obtain an export licence from the Cambodian Government. The decision on the overall export quota was, in turn, based on the results of the monitoring exercise. An important challenge is to enhance spillovers to other sectors or countries and encourage these to abide by the same standards (race-to-the-top).

Labour provisions in trade and investment agreements can also be designed with a view to complementing ILO instruments, with the involvement of social partners and local communities (as provided, for instance, in Convention No. 169 on indigenous and tribal peoples’ rights) and include effective follow-up mechanisms. Some trade and investment agreements allow space for economic diversification and linkages with the informal and rural economies, where most poor individuals are located.

## Improving effective coverage and enforcement through extensions and increased leverage of labour inspectorates

In the context of ILS, it will be important to recognize the increasing diversity of employment relations, especially in line with Recommendation No. 198 (e.g. in the case of agency- or self-employment) (Hayter and Ebisui, 2013; ITUC, 2014; Sen and Lee, 2015). A number of countries, such as Germany, Portugal, South Africa and the United Kingdom, have already introduced legislation to determine the employment status of workers (ILO, 2015b; Hayter and Ebisui, 2013). As an example, Portugal has recently introduced legislation on “false self-employment”, which allows to establish the existence of an employment relationship and the extension of rights (ILO, 2013a). In other instances, such as in Belgium, France, Italy and Poland, efforts have been made to clarify the employment relationship and status of particular categories of workers (ILO, 2015b).

In other cases, the capacity of the labour inspectorate will have to be increased to fully realize the poverty-reduction effects of ILS. This means that labour inspectorates must be empowered to reach out to vulnerable workers and provide compliance advice and services to enterprises in order to secure all individuals’ rights and to support better labour practices in enterprises. Efforts to boost budgetary resources, including staffing levels, as well as training to guarantee independence, can be helpful in extending the coverage of ILS (box 4.5). Indeed, with the objective of extending services, some developing States have provided labour inspectors with comprehensive powers to carry out inspections and offer advice, for instance, relating to the working and living conditions of agricultural workers and their families (ILO, 2006).

Beyond ensuring that labour inspectorates are adequately resourced, improved collaboration with other agencies can help to improve their reach. Conventions Nos 81 and 129 foresee such cooperation (Article 5 and Articles 12–13, respectively). For instance, cooperation with social security and insurance institutions can help to prevent work-related accidents and their poverty-inducing effects. Furthermore, cooperation with private entities can help to reach the most vulnerable: for instance, child labour monitors have been trained to function as support agents for the labour inspectorate at the community level. Also employers’ and workers’ organizations have an important contribution to make in boosting the capacity of labour inspectorates, and through different collaboration forums (see, for instance, the National Standing Committee on Agriculture in Brazil, which assists in efforts to formalize employment and extend social protection) (ILO, 2006).

Collaboration can also provide an effective means for offering vital advisory services to enterprises. For instance, the Labour Inspection (Agriculture) Recommendation, 1969 (No. 133), promotes collaboration between the labour inspectorate and competent technical services in providing advice on agricultural productivity and market access, which are prerequisites for sustainable poverty reduction (see Chapter 5). An example of this approach is provided by the ILO Work Improvement in Neighbourhood Development (WIND) project, which worked with rubber plantation farmers in the Rayong province of Thailand.<sup>26</sup>

### Box 4.5

#### Role of the labour inspectorate in expanding effective coverage

Convention No. 129 on labour inspections in agriculture offers the possibility of extending labour inspection services to cover family members in agricultural undertakings. Such an extension has been legally enforced in certain cases, for example in Honduras and Guatemala (see ILO, 2006). The labour inspectorate could also explore ways in which to cooperate with both public and private actors to more effectively cover

workers working at home. For instance, non-governmental organizations (NGOs) have used different approaches to support contributing family workers, including involving both husbands and wives in the development of the business, thereby also making a contribution towards improved gender equality through the recognition of unpaid family labourers’ work (Staritz and Reis, 2013).

## Facilitating access to justice for poor workers and small businesses

Improving access to the judicial system for poor individuals and small businesses, particularly those operating informally, is important from both a justice and poverty-reduction perspective. An effective judiciary not only administers justice to everyone, irrespective of their income level or any related factors, such as gender or ethnicity, it also produces predictable decisions and provides adequate remedies (Buscaglia, 2009). As such, judicial systems act as a central guarantor of rights that ultimately contribute to poverty alleviation.

Organizations of workers and employers play an important role in enhancing access to justice. For instance, workers' organizations have facilitated access to judicial systems for individuals with limited means. As an example, the South African Domestic, Service and Allied Workers' Union (SADSAWU) supports its members with a range of issues including how to use complaints mechanisms within companies, settle disputes through the Commission for Conciliation, Mediation and Arbitration and consult with local authorities and the Government.<sup>27</sup> Employers' organizations can also play an important role in assisting private businesses to access judicial systems, for instance through capacity building or the provision of legal services. The ability to make effective use of judicial systems is particularly important for SMEs, which are often confronted by limited financial means and increased economic vulnerability (Elena, Herrero and Henderson, 2004).

In the public sphere, strategic collaborations can provide an effective link between the most vulnerable workers and the judicial system, particularly in the informal economy (box 4.6). Guatemala provides a further example of cooperation between the labour inspectorate and the judiciary, where labour inspectors can rapidly obtain a court ruling that gives their decisions executory force. Cooperation may also entail communication requirements based on law, as in the case in Rwanda and Senegal, where courts provide the labour inspectorate with follow-up information on reported violations.<sup>28</sup>

### Box 4.6

#### Importance of collaboration in improving access to justice

In Brazil, the labour inspectorate collaborates closely with the Labour Prosecution Service, the Labour Inspection Cooperation Commission, the labour court, social security attorneys and the Labour Judges Association. The Labour Prosecution Service takes up cases *ex officio* in the public interest and covers six areas: forced labour, child labour, equality, freedom of association, persons with disabilities and the work environment. This institution has a record of prosecuting cases concerning the most vulnerable, such as forced labour cases, involving fines totalling US\$15 million, imposed through court or administrative investigation during the period

2000–10. These fines were then used to finance social programmes in cities where the workers in question were located, while also equipping the federal police and financing the labour inspectorate.<sup>1</sup>

In Mozambique, the Institute of Legal Assistance and Sponsorship (*Instituto de Patrocínio e Assistência Jurídica*, IPAJ) focuses on extrajudicial resolution of labour conflicts in both the formal and informal economy. The Institute can take a case to the labour court on behalf of the victim. It collaborates with the labour inspectorate by taking over cases that need to be resolved through the court.<sup>2</sup>

<sup>1</sup> See the presentation on labour inspection and labour justice in Brazil. Available at: [http://www.ilo.org/wcmsp5/groups/public/@ed\\_dialogue/@lab\\_admin/documents/presentation/wcms\\_164568.pdf](http://www.ilo.org/wcmsp5/groups/public/@ed_dialogue/@lab_admin/documents/presentation/wcms_164568.pdf) [20 Apr. 2016].

<sup>2</sup> Law No. 6/94 of 13 September 1994 on the creation of IPAJ.

## Enhancing the role of enterprises in compliance with anti-poverty ILS

Private businesses have an important role to play in enhancing the potential of ILS to reduce poverty and there is further scope to engage them more actively. Companies are not only legally obliged to comply with domestic legislation in those countries where they operate, but have also occasionally taken initiatives that go beyond the law to foster the realization of ILS in countries that have weaker labour legislation and institutions and employ high numbers of working poor.

These measures have been implemented through corporate social responsibility (CSR) schemes, which typically commit to ILS and their application through improved reporting, monitoring and verification. Such voluntary efforts have contributed to enhanced adherence, monitoring and compliance with ILS, but have sometimes been challenged for a lack of transparency or failure to coordinate with, or reinforce, domestic labour regulation and institutions (ILO, 2015a). This is why it is essential to enhance synergies between CSR, sound regulation, labour administration and inspection and enforcement institutions.

In some cases, governments have adopted legislation that establishes CSR reporting requirements throughout the supply chain. The California Transparency in Supply Chains Act (2010), the UK Modern Slavery Act (2015), the Dodd-Frank Act (2012) and the EU Directive 2014/95/EU are interesting recent examples.

An important dimension of enhancing the poverty-reducing potential of these codes of conduct is through increased dialogue between workers and management and the active involvement of social partners in monitoring and enforcement.<sup>29</sup> The ILO Tripartite Declaration on Multinational Enterprises (MNE Declaration) provides a useful reference in this regard.<sup>30</sup> International Framework Agreements between multinational enterprises and global union federations go a step further and include monitoring mechanisms (ILO, 2015a).

## The role of social partners in the realization of ILS

In each of the abovementioned challenges (that is, enhancing the coverage of legislation, strengthening labour inspectorates and improving access to justice), social partners have made significant contributions; for instance, by organizing and representing the working poor, including vulnerable workers, in social dialogue or offering advice and services in case of disputes or access to justice. An important factor that has limited the prioritization and resourcing of labour administrations and inspectorates, and maintained obstacles to accessing judicial systems, is the weak organization and representation of vulnerable workers and small businesses. However, social partners have been increasingly reaching out to a wider constituency, and social dialogue has gradually integrated the voice of the most vulnerable (box 4.7).

Once established, such organizations may help their members to articulate their interests more effectively and ensure that labour administrations and inspectorates respond to the needs of vulnerable workers. Even in cases where informal workers are not yet covered by legislation, trade unions have a major role in advocating for an extension of coverage and in facilitating access to the different types of dispute resolution mechanisms and remedies available (box 4.8).

#### Box 4.7

##### Organizing and representing the working poor

A number of efforts are being made to increase representation among vulnerable workers, either by creating new institutions or improving the reach of existing ones. For example, in the United States, immigrant worker centres have been established (Skerry, 2007; Fine, 2015). Similar initiatives exist in India, such as the Self Employed Women's Association, and in Colombia with the Association of Waste Pickers (World Bank, 2013; Sen and Lee, 2015).

At the same time, workers' and employers' organizations have stepped up efforts to extend their reach (Hyman, 2015; Webster, 2015). In Japan, organizing non-standard workers has become a priority for trade unions. Accordingly, in 2006, the Japanese Trade Union Confederation (RENGO)

inaugurated the Part-Timer United Front, focusing on part-time and other non-regular workers (Hayter and Ebisui, 2013). Employers' organizations have also assisted informal economy operators in several ways, including through facilitating access to information, finance, insurance and technology and by offering business support services (ILO, 2014c). Existing social dialogue mechanisms are also increasingly giving these workers a voice. For instance, in Peru, joint technical committees consisting of worker and employer representatives discuss issues of importance for informal economy workers, such as the establishment of a legal framework to guarantee the rights of informal and self-employed workers and to promote capacity development and formalization (ibid.).

#### Box 4.8

##### Role of trade unions in recognizing the rights of homeworkers

Trade unions have taken initiatives to extend the coverage of labour legislation to homeworkers. For instance, civil society organizations in Thailand have campaigned for better legislative protection of homeworkers, culminating in the Homeworkers Protection Act B.E.2553 and corresponding social protection policy (May 2011). Under the Act, workers hired to do the same job at home as within an industrial enterprise are entitled to equal pay, formal contracts, protection of occupational safety and health and access

to recourse via labour courts (WIEGO, 2011). In India, the Self Employed Women's Association has been active in campaigning for greater recognition of homeworker rights. This has resulted in the incorporation of sectors associated with home-based work, such as stitching, bidi (cigarette) rollers and agarbatti (incense stick manufacturers) into the state Minimum Wages Act (Sinha, 2013). All these policies act to increase income and extend basic workers' rights, with poverty-reducing effects.



Employers' organizations are equally well placed to support their members, including through the provision of compliance advice and business development services. In addition, strong employers' organizations are able to advocate for an improved enabling environment for different types of enterprises, with important potential effects on poverty reduction (box 4.9).

As noted, social partners have been key actors in the activation of labour provisions in trade agreements. Over time, agreements have increasingly taken the role of stakeholders into consideration. Trade unions and other labour advocates have been instrumental in effecting this development. Efforts have also been made to integrate advisory bodies into trade negotiations and implementation, and to incorporate CSR language explicitly within labour provisions (ILO, forthcoming; Peels and Schneider, 2014).

#### Box 4.9

##### **The role of employers' organizations in promoting an enabling environment for enterprises**

The self-employed and owners of small businesses in the informal economy operate within a challenging legal and regulatory environment. Certain policies can restrict the ability of such workers to earn a livelihood, as in the case of restrictions on the use of public space, limited access to natural resources, and poorly functioning financial institutions (Mather, 2013; Sankaran and Madhav, 2012). However, self-employed workers' organizations have sometimes managed to coordinate actions to advocate for regulatory reform; for example, the granting of official licences allowing traders to operate within public spaces, more equitable taxation and improved functioning of regulatory authorities (Agarwala, 2014).

Furthermore, employers' organizations can help small business to advocate for an enabling environment. In Kenya, the Federation of Kenyan Employers (FKE) acted as agent in consultations to secure a new policy framework for SMEs in 2004. The new policy framework promotes SME

development to boost employment opportunities and economic growth. Through the FKE, closer links are being built between independent units in the informal economy (for example, timber craft manufacturers, food production units and poultry farms), larger formal enterprises and foreign companies. The linkages have improved product quality and increased SMEs' access to sub-contracting opportunities (ILO, 2005).

In Ghana, a representative of the Association of Small-Scale Industries sits on the board of the Ghana Employers' Association. Through this mechanism, the Association works with the Ghanaian Government to design SME-friendly policies (ILO, 2013b).

In the United Republic of Tanzania, the Association of Tanzanian Employers has participated in drafting the Tanzanian "Poverty Reduction Strategy Paper" including proposals to enhance opportunities for SMEs to tender for Government procurement contracts (ibid.).

## C. Concluding remarks

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To effectively reduce poverty through the provisions contained in ILS, States should undertake to comprehensively ratify Conventions with specific poverty-alleviation mechanisms and align their national legislation and policies accordingly. Much remains to be done in this area, considering that no country in the world has ratified all the Conventions identified as particularly relevant for poverty reduction. At the same time, on average, countries have ratified about 50 per cent of these Conventions, though the figure drops to about 30 per cent when the ratification rate of Conventions other than the broadly ratified core Conventions is analysed.

Despite the relevance of ILS to poverty reduction, their full potential can be impeded by various factors. One is the limited national legal and effective coverage of vulnerable populations. While ILS provide for options for restricted and temporary exclusions, they strive towards gradual extension in coverage. As such, beyond ratification of the key Conventions, countries should consider extending their labour, social and other regulation to achieve the broadest coverage possible with a view to realizing the optimum poverty-reducing effects of ILS. ILS offer mechanisms to accomplish this aim, including methods of gradual extension. Where coverage is still restricted, countries should embark on an analysis of how to extend it most effectively.

Furthermore, the lack of capacity which prevents labour administrations and inspections from reaching out to a broader population of vulnerable workers and their employers limits effective enforcement of rights and the provision of compliance services and counselling to enterprises. Due to inadequate training and inexperience, many employment relationships may escape the notice of the enforcement agencies. Moreover, as a result of the limited number of labour inspectors, many workplaces remain beyond the inspectors' scope of action. Effective access to judicial systems is also an essential component of enforcement. However, this chapter has demonstrated that poor individuals are much less likely to use official judicial systems than informal ones, which are unable to enforce various aspects of decent work.

Indeed, in striving to achieve the ambitious targets of the SDGs related to poverty and decent work, States should ensure that enforcement institutions have sufficient resources to carry out their mandates. This will enhance access to justice, provide the basis for sustainable poverty reduction and help to facilitate transitions from informality to formality (thus enlarging the contributory base for public resources). Furthermore, by promoting collaboration between enforcement institutions and other government services, as well as private agencies, governments can improve the reach of rights. Setting an enabling environment for effective employers' and workers' organizations is important in this regard, as these can support poverty alleviation efforts by collaborating with enforcement agencies, helping their members to access justice, and advocating for pro-poor reforms.

A growing number of trade agreements include provisions to promote ILS and ensure that trade and investment go hand in hand with poverty alleviation. Indeed, their design can be adjusted to target the most vulnerable workers. Their effects on poverty alleviation are still largely unknown; sectoral and country analyses provide more detail and differentiation on the implementation of labour provisions and their overall impact in terms of legal and institutional changes and the working conditions of vulnerable workers.

Finally, a key component of all ILS identified in this chapter is their promotion of inclusive growth. As discussed in previous chapters, ensuring improved inclusiveness of growth is essential for sustainable poverty reduction in the years to come. ILS provide specific tools for this purpose, most notably through the fundamental standards on freedom of association and collective bargaining, enabling inclusive decision-making that takes into account different perspectives on economic, social and labour market policies. Freedom of association is essential to enable genuinely inclusive global process towards the achievement of the SDGs, as it lays the foundations for strong employers' and workers' organizations that can effectively engage in poverty-reduction efforts in partnership with governments. In addition, in order to achieve the full poverty-reducing effects of ILS, they will need to be enforced through comprehensive and effective national policies (an issue explored in more detail in Chapter 6).

## Notes

1. The United Nations Development Group (UNDG) adopted in 2003 the UN Statement of Common Understanding on Human Rights-Based Approaches to Development Cooperation and Programming (the Common Understanding). See more at: <http://hrbaportal.org/the-un-and-hrba#sthash.EBPumtvF.dpuf> [18 Apr. 2016].
2. See, specifically, on the nature of labour rights as human rights, Mantouvalou (2012).
3. Conventions and Protocols are binding instruments for States that ratify them, while Recommendations are instruments that provide guidance on policy or on the application of a Convention, as applicable (Abbott and Snidal, 2000).
4. The ILO supervisory mechanisms operate on the basis of two principal grounds: regular supervision based on member State reports on the implementation of ratified Conventions (article 22, ILO Constitution); and special procedures, notably representations and complaints based on breaches of Conventions reported to the International Labour Office (articles 24–25 and 26–34, ILO Constitution). Members can be requested to provide information on their laws and practice on matters falling under unratified Conventions based on their membership of the ILO (articles 5e and 6d, ILO Constitution). Reporting cycles differ for fundamental and priority/governance Conventions (three years) and technical Conventions (five years). The Committee of Experts on the Application of Conventions and Recommendations, the Committee on Freedom of Association and the Tripartite Committee on the Application of Conventions and Recommendations of the International Labour Conference are responsible for different elements of the supervisory function.
5. Beyond the ILO instruments, the International Covenant on Economic, Social and Cultural Rights (ESC Covenant) connects the establishment of technical and vocational guidance and training programmes to the right to work. See the *Chile Califica* programme, Werquin (2010) and, on the importance of formally recognized certification, Allais (2010).
6. General comment No. 18, The right to work (Article 6 of the ESC Covenant), UN Committee on Economic, Social and Cultural Rights, 2005, para. 26.
7. Namely, medical care, sickness benefit, unemployment benefit, old-age benefit, employment injury benefit, family benefit, maternity benefit, invalidity benefit and survivors' benefit.
8. The Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168), requires coverage to extend to “not less than 85 per cent of all employees”.
9. Namely, Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87); Right to Organise and Collective Bargaining Convention, 1949 (No. 98); Forced Labour Convention, 1930 (No. 29); Abolition of Forced Labour Convention, 1957 (No. 105); Minimum Age Convention, 1973 (No. 138); Worst Forms of Child Labour Convention, 1999 (No. 182); Equal Remuneration Convention, 1951 (No. 100); Discrimination (Employment and Occupation) Convention, 1958 (No. 111).
10. Convention No. 138 establishes the minimum age at not less than 15 years and connects to it the requirement of having completed compulsory schooling. Under special conditions and on a temporary basis, the minimum age can be set at 14 years. For hazardous work, the corresponding limit is 18 years. National legislation may allow for light work to be performed by children aged 13. The Minimum Age Recommendation, 1973 (No. 146), recommends the progressive raising of the general minimum age to 16 years.
11. Convention No. 182 specifically names as the worst forms of child labour all forms of slavery and related practices, including the use of children in armed conflicts; activities surrounding child prostitution and pornography and the use of children in illicit activities; while other types of work likely to harm “the health, safety and morals of children” (Article 3(d) of Convention No. 182) should be defined through national consultations (including the establishment and regular updating of a national list of hazardous work).
12. Background paper for the Tripartite Meeting of Experts to Examine the Termination of Employment Convention, 1982 (No. 158), and the Termination of Employment Recommendation, 1982 (No. 166). Geneva, 18–21 April 2011. Available at: [http://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/employment-security/WCMS\\_152871/lang--en/index.htm](http://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/employment-security/WCMS_152871/lang--en/index.htm). Governing Body decision: [http://www.ilo.org/gb/decisions/GB312-decision/WCMS\\_168107/lang--en/index.htm](http://www.ilo.org/gb/decisions/GB312-decision/WCMS_168107/lang--en/index.htm) [18 Apr. 2016].
13. Domestic Workers Convention, 2011 (No. 189); Indigenous and Tribal Peoples Convention, 1989 (No. 169).
14. See the Occupational Safety and Health Convention, 1981 (No. 155), and the Safety and Health in Agriculture Convention, 2001 (No. 184), and the corresponding Recommendation No. 192.
15. Conventions Nos 100, 111, 156 and 183 constitute the ILO Gender Equality Conventions.
16. Indigenous and Tribal Peoples Convention, 1989 (No. 169).

17. Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983 (No. 159), and the corresponding Recommendation No. 168).
18. Migration for Employment Convention (Revised), 1949 (No. 97), and the corresponding Recommendation No. 86; Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143); Migrant Workers Recommendation, 1975 (No. 151).
19. Older Workers Recommendation, 1980 (No. 162).
20. Recommendation No. 200.
21. Further, the Collective Bargaining Convention, 1981 (No. 154), and Recommendation, 1981 (No. 163), are applicable to “all branches of economic activity” (Article 1). Different regulation is possible for the police and the armed forces, as are special modalities of application for the public sector. Other relevant standards with broad coverage guarantee freedom of association in the agriculture sector and for rural workers (wage earners and self-employed) and aim to ensure full participation of indigenous and tribal peoples: Right of Association (Agriculture) Convention, 1921 (No. 11); Rural Workers’ Organizations Convention, 1975 (No. 141); and Indigenous and Tribal Peoples Convention, 1989 (No. 169).
22. See, for instance, the following Committee of Experts on the Application of Conventions and Recommendations (CEACR) observations on Greece: Observation adopted 2011, published 101st ILC session (2012), Right to Organise and Collective Bargaining Convention, 1949 (No. 98); and Observation adopted 2012, published 102nd ILC session (2013), Right to Organise and Collective Bargaining Convention, 1949 (No. 98).
23. The Labour Administration Convention, 1978 (No. 150), has been ratified by 75 States; the Labour Inspection Convention, 1947 (No. 81), has been ratified by 145 States and is one of the priority/governance Conventions; the Labour Inspection (Agriculture) Convention, 1969 (No. 129), has been ratified by 53 States and is also one of the priority/governance Conventions (ratifications as at April 2016).
24. The Labour Administration Convention, 1978 (No. 150), institutes a gradual extension of labour administration functions to cover the informal economy (Article 7). The Labour Inspection Convention, 1947 (No. 81), focuses on inspections in industry and (optionally) commerce and, through its Protocol of 1995, on the non-commercial services sector. The Labour Inspection (Agriculture) Convention, 1969 (No. 129), on the other hand, provides broader inclusiveness by covering a range of different types of agricultural undertakings, with employees who have various types of contractual arrangements. Indeed, the preparatory material for Convention No. 129 indicates that, considering the often informal nature of agricultural employment, the existence of a wage relationship should be a determining factor in coverage. Convention No. 129 also mentions several categories of agricultural workers typically working informally, including tenants, sharecroppers and family members, to which ratifying States *may* extend the application of labour inspections (Article 5).
25. These include the Trans-Atlantic Trade and Investment Partnership Agreement between the United States and the EU (TTIP), the Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada, and the Trans-Pacific Partnership Agreement (TPP) between 12 countries in the Asia-Pacific region.
26. With the involvement of the Ministry of Labour, Ministry of Health and Ministry of Agriculture and Cooperatives, this model integrated the provision of occupational safety and health training by local inspectors, agricultural extension services by the Ministry of Agriculture and Cooperatives and basic health care through localized health care centres coordinated by the Ministry of Health (Kawakami, Khai and Kogi, 2009).
27. WIEGO: *Handling disputes between informal workers and those in power, Organising in the Informal Economy. Resource Book for Organisers* Number 5. Available at: <http://wiego.org/sites/wiego.org/files/resources/files/ICC5-Disputes-English.pdf> [20 Apr. 2016].
28. The CEACR has emphasized the usefulness of cooperation between the labour inspectorate and the judiciary, including ensuring that judges receive appropriate training with respect to the labour inspectorate and cases handled through them (ILO, 2006).
29. See Anner (2012) for criticism of the limited attention given to freedom of association and collective bargaining and social dialogue in CSR initiatives.
30. The ILO MNE Declaration is currently under review (see GB.325/POL and GB.326/POL).

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# 5 The role of decent work in ending poverty in the rural economy

## Introduction

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This chapter considers how decent work policies can contribute to the eradication of poverty, notably extreme poverty, in the context of the rural economy – including the agricultural sector and the rural non-farm economy. The renewed interest in agriculture and rural development during the Millennium Development Goal (MDG) period and, in particular, in the framework of the Sustainable Development Goals (SDGs), highlights the potential role of agriculture as a means to improve living standards and achieve decent work.

As demonstrated in Chapter 1, more than 80 per cent of the moderate or extreme poor in developing and emerging countries are in rural areas and two-thirds of the extreme poor are employed in agriculture. And, as highlighted in Chapter 3, broadly speaking, extreme poverty for those currently working in agriculture can be reduced either through: (i) increases in agricultural productivity that benefit the poor; (ii) transitions out of the agricultural sector into more profitable activities and improved working conditions outside agriculture; or (iii) improved access to social protection.

This chapter examines the first two of these potential routes out of rural poverty and the policies required to achieve them (Chapter 6 examines the role of social protection in poverty reduction). Accordingly, the chapter is structured into three sections: section A discusses evidence regarding the role of the agricultural sector in poverty reduction in the context of an increasingly globalized economy; section B examines the potential for agricultural productivity growth to reduce poverty, with a particular focus on smallholder agricultural production and the integration of smallholders into the global economy through well-designed contract farming arrangements; section C then considers the rural non-farm economy and agricultural wage employment as alternative paths to poverty reduction.



## A. Agriculture and the rural economy: Opportunities and challenges for poverty reduction

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Following the structural adjustment reforms of the 1980s and 1990s that limited state intervention in the sector, recent years have seen a resurgence of interest in agriculture, notably due to recognition during the MDG period of the important role that it can play in poverty reduction and the impact of the global food crisis from 2008 (World Bank, 2008; ILO, 2011a; de Luca et al., 2012; Chimhowu, 2013).<sup>1</sup> In the ILO, the 2008 International Labour Conference adopted a Resolution and Plan of Action on the “Promotion of rural employment for poverty reduction” and subsequently identified decent work in the rural economy as one of its priority areas of work (de Luca et al., 2012; ILO, 2016a).

In the current context, of particular note is the 2030 Agenda for Sustainable Development and related goals, which are set to increase the focus on agriculture considerably. SDG 2 both sets targets for the agricultural sector – doubling smallholder productivity and ending hunger and malnutrition – and highlights priority actions, such as investing in rural infrastructure and agricultural research and extension (target 2.a). Meanwhile, given the importance of the agricultural sector in terms of production and employment in developing countries, the targets of 7 per cent output growth per annum in the least developed countries within SDG 8 (target 8.1) and full and productive employment and decent work for all (target 8.5) cannot be achieved without a significant focus on agriculture and the rural economy. Finally, and most importantly as regards this chapter, there is SDG 1, target 1, namely, the end of extreme poverty everywhere. As the following sections detail, significant progress in these goals and targets is only attainable if there is a massive increase in agricultural productivity given the rural nature of poverty and the comparably slower rate of progress in structural transformation.

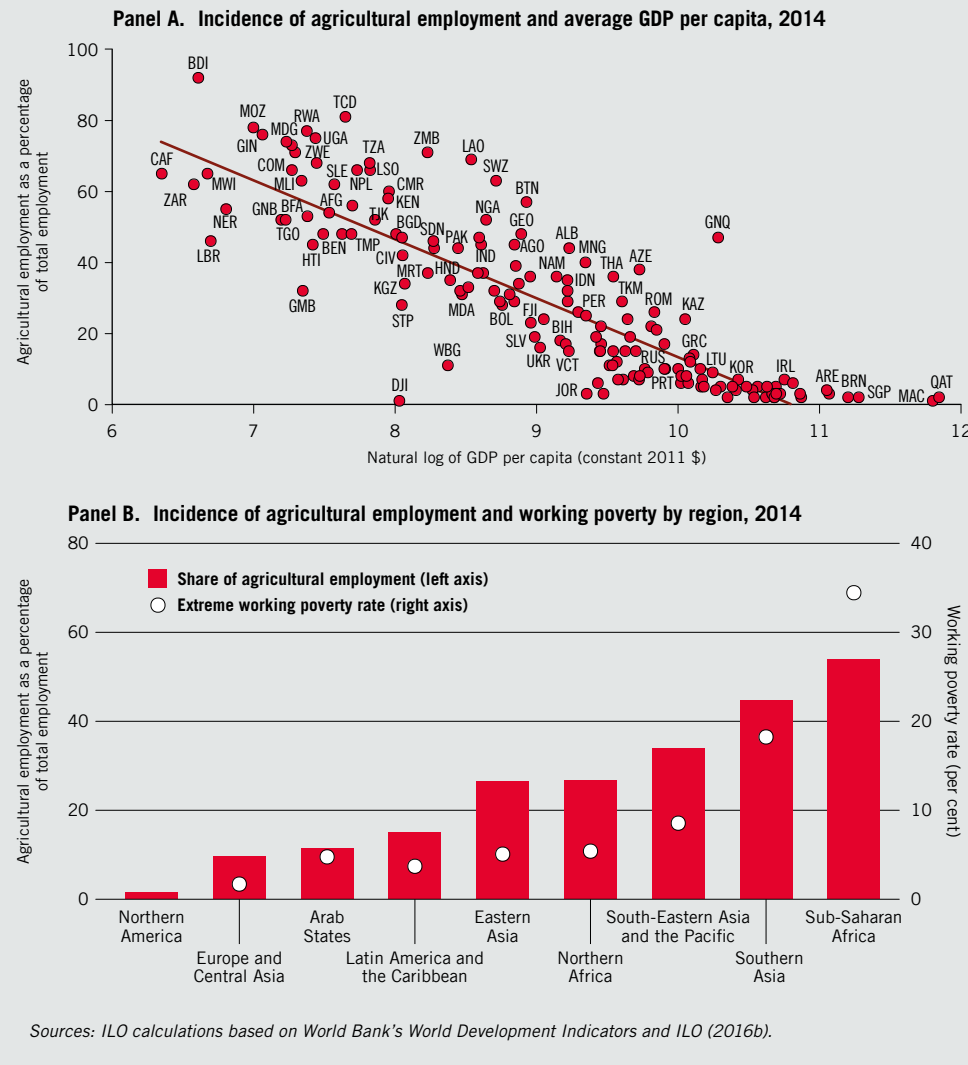
### The agricultural sector is key to development

As discussed in Chapter 3, efforts to promote productivity gains both within and across sectors are central to poverty alleviation. A common finding of existing research has been that agricultural productivity growth has a much greater impact on poverty reduction than productivity growth in industry, manufacturing or services (Timmer, 1997; Ravallion, 2001; Thirtle, Lin and Piesse, 2003; ILO, 2005). Indeed, one study found that agricultural growth has three to four times greater impact on \$1.25 PPP per capita per day<sup>2</sup> poverty than non-agricultural growth (Christiaensen, Demery and Kuhl, 2011). Meanwhile, non-agricultural sectors can make a larger contribution to the reduction of less severe poverty, highlighting the importance of diversification of economies from a predominant role for low productivity agriculture to higher productivity sectors in industry and services, including the transfer of labour from agriculture to employment in higher productivity activities. In fact, there is a clear inverse relationship between the percentage of agricultural employment in the labour force and per capita income (see [figure 5.1, panel A](#)).<sup>3</sup>

Agriculture in developing countries is important primarily because of the size of the sector, often constituting approximately half the labour force in southern Asia and sub-Saharan Africa and more than 30 per cent of the economy. As shown in [figure 5.1, panel B](#), a higher rate of agricultural employment is associated with higher rates of extreme poverty. Nonetheless, agricultural growth has significant potential to contribute to growth in other economic sectors, potentially more than industry or services, both through forward production linkages – with increased agricultural production providing raw materials for industrial processing and reducing the cost of food and thereby enhancing competitiveness of industry – and backward production linkages, with an increasingly prosperous agricultural population constituting a growing source of demand for locally produced consumption goods and agricultural inputs (Thirtle, Lin and Piesse, 2003; Mellor, 1995). Historical experience, from nineteenth-century England to the East Asian developmental states, shows that agricultural transformation, with few exceptions, precedes industrialization (Henley, 2012). Moreover, where industrialization does occur in the absence of an agricultural revolution, industrial expansion will not stimulate agricultural productivity and the rural sector may operate as a drain on the rest of the economy (Thirtle et al., 2001; Henley, 2012).

**Figure 5.1**

**Agriculture and development**



**In certain cases, globalization and climate change may weaken the poverty reduction effect of agricultural jobs and investment**

The positive linkages between agriculture and development are not automatic. In particular, the demand of the urban population may be increasingly met by imported foods, rather than domestic production, breaking the economic linkages between agriculture and emergent industry (Collier and Dercon, 2009). Farmers' incentives for making required investments in agricultural production – and taking the risks that this implies – rely on stable and relatively high crop prices (ILO, 2011a). Given that strong urban demand has often proven vital to creating these conditions (Collier and Dercon, 2009; UNCTAD, 2015), balanced growth between rural and urban economies is essential.

More generally, the contemporary globalized economy poses important challenges to national agricultural development strategies. Structural adjustment reforms across the developing world in the 1980s and 1990s in many cases led to a reduction in state support for the agricultural sector. This reduced services such as agricultural extension, subsidized agricultural inputs and marketing boards, all of which – if properly designed and implemented – can be effective tools for providing a stable environment for farmers, encouraging them to invest and increase productivity (Chang, 2009).

Trade liberalization, meanwhile, has exposed both the agricultural and industrial sectors to stiff international competition. In some cases, the result has been a process of “de-peasantization” without industrial growth and the growth of the informal economy (Bryceson and Jamal, 1997; Araghi, 2009; Bryceson, 2010). As a result, high rates of poverty in rural areas cannot be separated from the challenge of informality, with a majority of both agricultural and non-agricultural employment in developing countries continuing to be based in the informal economy. Informal employment tends to be associated with low labour productivity, low earnings and poor working conditions, and limited social protection coverage – although the situation varies considerably across countries and sectors (ILO, 2012).

Recent decades have also seen the growing influence of globalization processes in agriculture, and especially horticulture, in developing countries. Producers and workers are increasingly integrated into supply chains in which regional or global lead firms can exert control over the production process by setting prices, standards and schedules (Barrientos, Gereffi and Rossi, 2011). Technological change (including improvements to transport and logistics), market liberalization and the growing role of finance in the real economy have resulted in the integration of production into global supply chains. Furthermore, following several decades of declining terms of trade for agricultural produce, the period from 2007 to 2014 saw a boom in the prices of agricultural commodities, and the possibility of increased competition between small farmers and large-scale agricultural investors (see [box 5.1](#)).

Indeed, research has shown that while global supply chains hold the potential to provide net economic benefits, the distribution of these benefits along the supply chain, and the likelihood of economic benefits translating into improved labour rights and working conditions, varies across countries and subsectors (ILO, 2015). Lead firms in supply chains have concentrated economic resources and govern access to markets, empowering them to apply price pressures, set standards and define production schedules. There are, nevertheless, some interesting examples in which some of the resulting concerns have been addressed, for instance by lead firms adhering to codes of conduct throughout their global supply chain. Many buyers, including some supermarkets, require producers to adhere to social and employment standards, which can translate economic benefits into social benefits (Barrientos and Visser, 2012; Evers et al., 2014). Also, the adoption of fair pricing and purchasing practices can enhance the poverty reduction potential of global supply chains.

Another major challenge to the contribution of agriculture to poverty reduction is climate change. While environmental shocks are an inherent feature of agricultural production, research suggests that climate change is rendering the environment in many countries – developed as well as developing – increasingly unpredictable, with progressively erratic rainfall and changing rainy seasons presenting serious challenges to agricultural production. Studies suggest that future climate change may lead to shorter growing seasons, increasingly acute water shortages and more extreme weather events (Thornton et al., 2011; Ericksen et al., 2013). Thus, not only must agricultural productivity increase to reduce poverty, but climate change necessitates the adaptation of agricultural production to a changing environment and consideration of the role that climate-friendly agriculture can play in climate change mitigation (FAO, 2004; Neely, Bunning and Wilkes, 2009; UNDP, UNCCD and UNEP, 2009).

The remainder of this chapter focuses on four pathways to poverty reduction and the role that decent work can play in realizing them. The first two concern smallholder farmers who have access to agricultural land and how they can achieve productivity increases, either as independent producers or through contract farming arrangements (section B); the other pathways consider two of the options available to those who are unable to exit poverty through their own agricultural production, namely: establishing micro and small enterprises (MSEs) in the rural non-farm economy; and the role of agricultural wage labour (section C). For analytical purposes a clear distinction is made between these different pathways. However, in reality poor households and individuals moving out of poverty are likely to rely on several of these strategies at the same time.

### The “global land grab”

In recent years, an unprecedented boom in large-scale land transactions took place, especially in developing countries, but also in some emerging and developed countries. These events have frequently been described as the “global land grab”. Compared with an average annual expansion of global agricultural land of 4 million hectares before 2008, land deals covering 45 million hectares were announced before the end of 2009 (Deininger and Byerlee, 2011).

This trend of rising agricultural investment has widely been attributed to interlinked food, fuel, financial and environmental crises, which have resulted in increased demand for land and water for agricultural production (Cotula et al., 2009; Deininger and Byerlee, 2011; Zoomers, 2010; White et al., 2012). Between 2007 and 2008 international prices for cereals doubled, leading to increased incentives for agricultural production and major concerns for food importing countries about their ability to meet domestic demand. Around the same period, oil prices reached a peak, leading to a search for alternatives to fossil fuel, including the production of biofuel feed crops. In addition, environmental concerns about the effects of fossil fuels have led some governments to promote alternative energy sources. In particular, a European Union directive requiring 10 per cent of energy used in road transport to come from renewable sources by 2020 was passed in 2009 and provided added incentives for investment in production of biofuel feed crops. Finally, following the global financial crisis many investment and pension funds, hesitant to invest in developed economies, sought out profitable investment opportunities in the global South, including in agricultural production (Daniel, 2012).

These recent developments revived long-standing debates about the potential of small-scale versus large-scale agriculture to contribute to social and economic development, and the impacts of Green Revolution technologies<sup>1</sup> (Collier, 2008; Collier and Dercon, 2009; Cotula et al., 2009 and 2014; White et al., 2012; Oya, 2013), and prompted a number of case studies to assess the impacts of investments. General findings emerging from the growing literature on large-scale investments of this nature include the following:

- On the one hand, new agricultural investments tend to be capital-intensive ventures that, consequently, create relatively little employment. As a result, most investments are unlikely to have a significantly positive direct impact on livelihoods and, where transactions require displacement of small farmers, can be detrimental to existing livelihoods.
- On the other hand, large-scale investments could have positive indirect impacts on poverty reduction by increasing food production, thus lowering prices to the benefit of the poor; increasing national foreign exchange earnings; and stimulating employment-creating local processing.
- However, to date, there are few examples of such projects. This is partly related to the export focus of many investments (which limits any impact on domestic food production), the recent nature of many investments and the time required to increase productivity, and partly to the inexperience of many investors in managing such large-scale projects and, in many cases, the relatively short-term nature of investments.

<sup>1</sup> Although the Green Revolution resulted in massive productivity increases, there are also many critics of these agricultural technologies. One of the principal concerns is that technologies were not scale neutral, favouring wealthier farmers with better access to credit and education, and requiring the best agricultural conditions, to which the poorest farmers lacked access (Irz et al., 2001). Furthermore, increased productivity and wealth of richer farmers led to mechanization at the expense of employment opportunities that were likely to benefit the poor. A common critique, therefore, is that the Green Revolution increased inequality (Pearse, 1980; Sharma, 1997), though this finding is contested (Thirtle et al., 2001; Mellor, 2014).

## B. Reducing poverty through agricultural productivity growth

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Higher productivity can boost household consumption, increase the surplus available for sale and therefore the household income of poor farmers. Agricultural productivity growth can also have important indirect effects on poverty, because increased production of staple foods reduces prices to the benefit of both urban and rural poor households, who are net food consumers and tend to spend a larger proportion of their income on food than non-poor groups (ILO, 2005).

The challenge in realizing these benefits, however, is not only to raise agricultural productivity overall, but to do so in ways that ensure that the poor, including many smallholder farmers, capture a significant proportion of the benefits. Agricultural productivity increases will not always lead to poverty reduction. In particular, where land is inequitably distributed – as is the case, for example, in much of Latin America and southern Africa – both the direct and indirect linkages between agricultural growth and poverty reduction are likely to be interrupted (de Janvry and Sadoulet, 2000; Timmer, 1997; Thirtle, Lin and Piesse, 2001; Ravallion and Datt, 2002).<sup>4</sup>

A number of prerequisites are required to raise agricultural productivity. These include the use of productivity-enhancing technologies, such as fertilizers and improved seed varieties, and irrigation that provides security against poor rainfall and enables the production of multiple crops per year (ILO, 2005; UNCTAD, 2015). The expansion of irrigation is likely to be particularly important in coming years in the context of climate change and changing rainfall patterns. Expanding the use of improved inputs requires investment in the development of new seed varieties and fertilizers appropriate to particular local conditions.<sup>5</sup> Existing analyses conclude that such investment in research and development is a cost-effective means of reducing poverty in developing countries in Africa and Asia<sup>6</sup> (Thirtle et al., 2003; Dorosh and Mellor, 2013).

The widespread uptake of new agricultural technologies by smallholder farmers depends on a number of essential activities. Foremost among these is the transfer of the knowledge and skills required to enable the uptake of new technologies and, where appropriate, to adopt new, higher value crops. For example, a basic level of education and literacy is essential for increasing agricultural productivity (UNCTAD, 2015), as well as being important for setting up off-farm businesses and finding employment outside agriculture (ILO, 2008; World Bank, 2008). Agricultural extension services that enable trained experts to have close contact with farmers to advise them about production techniques and the potential of new crop varieties have also proven to be a vital means of increasing uptake of new technologies. In addition, widespread and broadly accessible credit services are essential to ensure that new technologies spread beyond the wealthiest farmers, while crop and livestock insurance protect against production and demand shocks, and therefore encourage farmers to invest. More broadly, research demonstrates the importance of infrastructure development in improving market access, thereby providing a reliable source of demand for agricultural production.

While increased agricultural productivity and the adoption of higher value crops offer the potential to increase household incomes and reduce poverty, there are also risks attached to specialization. Diversification of household income sources through the production of several different crops, and the expansion into non-farm activities alongside agriculture (see section C), have proven to be common and important means of managing the inherent risks of agricultural production, including climatic shocks, pest outbreaks and price fluctuations (Bryceson and Jamal, 1997; Barrett, Reardon and Webb, 2001; Bryceson, 2010). The issue is also discussed in Chapter 3.

The remainder of this section examines, first, the role that cooperatives can play in supporting agricultural productivity growth among independent smallholder farmers; and, second, the potential of linking smallholders to supply chains through contract farming arrangements, including the role of cooperatives in strengthening contract farmers' bargaining position.<sup>7</sup>

### Empowering smallholders through cooperatives

Cooperatives can play key roles supporting independent smallholder farmers, including supplying improved agricultural inputs, providing access to credit and other financial services and improving access to markets (box 5.2). This is the case, for example, in the United Republic of Tanzania, where cooperatives help link farmers to markets, thereby raising household incomes (Sizya, 2001). Vitality, agricultural cooperatives can provide economies of scale and strengthen the bargaining position of small farmers (ILO, 2014). By working together, members of cooperatives can secure better prices for agricultural inputs when buying in bulk, while cooperatives can help farmers to adopt grades and standards

## Box 5.2

### Poverty reduction in Ethiopia: The role of agricultural growth, smallholder farmers and cooperatives

Agriculture is the most important economic sector in Ethiopia: 78 per cent of households have at least one member engaged in agriculture (World Bank, 2015a, p. xxiii), and the sector accounts for 43 per cent of GDP and 90 per cent of exports (MoARD, 2010, p. 3). Over the past two decades, significant progress has been made in poverty reduction, alongside rapid improvements in education, access to primary health care, gender equality and nutrition. Extreme poverty was brought down from 67.9 per cent of the population in 1995 – one of the highest rates in the world – to 33.5 per cent in 2010, one of the fastest rates of poverty reduction in the world over this period.

This impressive progress has been underpinned by rapid agricultural growth rates, which have averaged 10 per cent per year since 1996/97 and 13 per cent per year since 2004/05 (MoARD, 2010). Each 1 per cent of growth in agricultural output resulted in a 0.9 per cent reduction in poverty, with the result that agriculture has contributed, on average, a 4 per cent annual reduction in poverty since 2005 (World Bank, 2015a).

These achievements are mainly the result of the accrual of the benefits of agricultural growth to smallholder farmers, who are dominant in the agricultural sector (CSA, 2014). The Ethiopian Government has

prioritized smallholder agriculture since the early 1990s (TGE, 1994; MoFED, 2003), allocating between 13 per cent and 17 per cent of government expenditure to agriculture in the past decade (MoARD, 2010). Productivity increases and poverty reduction have been attributed to an expansion of the agricultural extension system, a sharp increase in the use of fertilizers and the development and uptake of improved seed varieties (Minten et al., 2013; Mellor, 2014).

The Government has supported the creation of a network of more than 11,000 cooperatives operating in more than half of the districts in the country (Bernard et al., 2013). Agricultural cooperatives have been the key means of distributing fertilizer and improved seeds to farmers, with important impacts on productivity. Studies have also shown that cooperatives help member farmers to secure significantly higher prices for cereal products than non-members (Bernard, Gabre-Madhin and Taffesse, 2007; Lemma, 2008), while some cooperatives have expanded into additional services, such as credit, price information and even agricultural extension (Bernard and Spielman, 2008). Cooperatives for coffee producers have also proven to be vital means of linking small producers to higher value international markets (ILO, 2014).

that enable them to capture a greater proportion of the added value in their produce. Furthermore, producer cooperatives have, in some cases, been able to compensate for the lack of public investment in irrigation by pooling resources to invest in technology that both increases productivity and provides greater security against weather shocks.

Participating in cooperatives can be particularly beneficial for women farmers, who otherwise tend to have much more limited access to agricultural extension and financial services and to markets for their produce compared with men.<sup>8</sup> Coffee cooperatives in Rwanda, for example, have contributed not only to increased productivity, but also to women's empowerment; the economic opportunities they provide lead those women to have an increased say in household decision-making (Ya-Bititi, Lebailly and Mbonyinkebe, 2015).

## Reducing poverty by connecting smallholders to supply chains

Another option to expand smallholder farmers' productivity is the adoption of contract farming arrangements that link farmers to domestic or global supply chains. In principle, contract farming can contribute to poverty eradication through stimulating demand-led increases in on-farm productivity. Contract farming can include either vertical integration with transnational retail and distribution companies or more locally orientated and informal subcontracting networks (Tyler and Dixie, 2013). Where formalized, contract farming can provide a legally binding mechanism to stabilize product markets and guarantee prices. Stabilized incomes can enable smallholder farmers to improve their livelihoods and help them to better anticipate and manage any risks associated with agricultural livelihoods systems (Michelson, Reardon and Perez, 2012). In addition, contract farming arrangements can facilitate local uptake of better quality inputs and new technologies, for example drought-resistant seeds, agricultural extension services or training and education facilities. These mechanisms can boost agricultural productivity and raise household incomes through better returns from agricultural outputs (Little and Watts, 1994) and as such have been proposed by some as a means of taking advantage of the opportunities provided by international agricultural investment while avoiding the dangers of "land grabbing" (von Braun and Meinzen-Dick, 2009).

Evidence on contract farming indicates that on balance it has a positive impact on poverty reduction (Deininger and Okidi, 2003; Bellemare, 2011). However, much depends on the nature of the farming contract, and there are many examples of schemes that have had negative impacts on smallholder farmers (Little and Watts, 1994; Li, 2011). While there have been high hopes that contract farming will facilitate global knowledge transfer and technological exchange, in reality, transnational retail companies are not obligated to provide agricultural support and the level of support from foreign buyers has often been limited (Michelson, Reardon and Perez, 2012). Furthermore, many contract farming relationships remain ad hoc and informal, leaving the farmer vulnerable to being left with products they are unable to sell and at risk of indebtedness (Narayanan, 2012).

Individual farmers who lack the knowledge and expertise to negotiate fair terms with buyers will be in a highly susceptible position. In addition, local expansion and competition among smallholders within the same locality can bring about price fluctuations and empower buyers to push for lower prices (Barrett, Reardon and Webb, 2001; Oya, 2012). Contract farming arrangements also often exclude the poorest of the poor and favour men over women, increasing local inequality rather than contributing to poverty eradication. These factors have their most marked effects on those who are already socially vulnerable, for instance, female-headed households and ethnic, indigenous or other minority groups, such as scheduled caste groups in India (Dolan, 2001).

The ability of smallholder farmers to negotiate fair terms and conditions with buyers and distributors is critical. Strengthening the organization and rights of smallholder farmers by promoting cooperative membership and formalizing contract farming relationships can reduce their exposure to agricultural risks. For example, legally binding contracts with clear terms and conditions help reduce the risk that buyers will retreat from the contract and guarantee that farmers have access to recourse if the contract fails. Policies that strengthen the rule of law, reduce corruption and provide pro bono assistance for farmers to receive legal support can help here also. As highlighted in [box 5.3](#), facilitating access to cooperatives and the involvement of cooperatives in supply chains can also strengthen the bargaining position of smallholder farmers locally.<sup>9</sup>

It is also important to address inequalities in the engagement between smallholder farmers and contract farming networks (Li, 2011). This can be done, for example, by establishing marketing boards – often dismantled during the structural adjustment reforms of the 1980s and 1990s – to facilitate linkages to suppliers in agribusiness chains that include poor farmers, centrally control pricing and provide agricultural credit and direct subsidies (Biénabe and Sautier, 2004; Whitfield and Buur, 2014). Business services can provide additional inputs as well as training and educational services where these have not been provided through the market. These activities can boost local infrastructure and encourage inward investment by transnational agribusiness companies, supporting smallholder farmers to meet the terms and conditions set out in their contracts. Finally, government can support contract farmers by providing an enabling environment for cooperatives, simplifying registration procedures and providing oversight mechanisms while protecting cooperative autonomy.

### Box 5.3

#### Supporting smallholder farmers in contract farming in Nicaragua

Smallholder farmers are often excluded from agribusiness supply chains. However, in Nicaragua, Walmart Central America and La Colonia (a Nicaraguan supermarket chain) have been involved in a programme coordinated through USAID linking the supermarkets directly to farmers' cooperatives in remote, rural regions. Irrigation services, credit and technical assistance have been provided through partnership with four multinational NGOs. The NGOs selected the regions specifically on account of local demand for irrigation services, with access to irrigation identified as one of the key barriers preventing smallholder interaction with agribusiness chains. In addition, the NGOs negotiated the terms and conditions of the contracts between the cooperatives and the two supermarkets and helped to aggregate, select and clean the agricultural output to ensure the products met the quality

standards. The farmers in the region are linked into Walmart's supply chain through membership of local cooperative groups. The cooperatives typically sign contracts on behalf of their farmers and coordinate relations between the smallholders, the NGOs and the supermarkets.

Impact evaluation studies indicate that farmers experience increased production and transaction costs as a result of supplying to supermarkets.<sup>1</sup> However, the evaluations suggest that farmers trade off these costs in return for other benefits, such as market access and price stability. Furthermore, where Walmart purchases from farmers directly, it is likely that its offer of pricing, while lower than the market price, is higher than that offered at the farm gate. Since 2007, Walmart has also included price insurance within its contracts with rural farmers' cooperatives.

<sup>1</sup> The supermarkets procure the highest quality output and around 30 per cent of output may be rejected. In addition, unlike traditional markets, supermarkets require higher levels of processing. However, findings indicate that despite securing the highest quality produce, supermarkets do not pay a premium for this. Furthermore, engaging in contract farming adds to farmers' costs, with the demand for increased scale requiring farmers to employ additional labour.

Source: Michelson, Reardon and Perez (2012).

## C. Alternatives to smallholder agriculture: Off-farm activities and agricultural wage employment

Smallholder agricultural production alone will be insufficient to eradicate poverty in developing countries. In particular, the poor frequently have insufficient access to land and other agricultural inputs with the result that, while many of the poorest rural households draw some of their income from independent agricultural production, they also have to engage in farm or off-farm employment or off-farm businesses to make ends meet (Bryceson and Jamal, 1997; Bryceson, 2010).

The rural economy includes a diverse range of economic activities, including agricultural production, agro-processing and marketing, as well as opportunities in emerging sectors such as tourism, information and communications technologies, energy generation and energy-saving equipment, reforestation and land management (de Luca et al., 2012). All of these have the potential to make important contributions to decent work and poverty reduction. This section, however, focuses on two pathways that are frequently considered to have particularly strong potential for addressing extreme poverty, namely, MSEs within the rural non-farm economy, and agricultural wage and salaried employment.



## Linking agricultural growth to MSEs in the rural non-farm economy

An important contribution that agriculture can make to poverty reduction is to increase the demand from agricultural producers for labour, goods and services that can be supplied by the poor in the rural non-farm economy (Thirtle et al., 2001; Bruinsma, 2003; Mellor, 2014). Modelling exercises have consistently found there to be significant multipliers between agriculture and the off-farm economy as a result of consumption linkages, ranging from 1.6–1.8 in Asia to 1.3–1.5 in sub-Saharan Africa (Haggblade, Hazell and Dorosh, 2007; Christiaensen, Demery and Kuhl, 2011; UNCTAD, 2015). This means that for every dollar of growth in agricultural production a further \$0.30–0.80 will be generated in the off-farm economy.<sup>10</sup> Growth in the rural non-farm economy, meanwhile, also contributes to increased demand for agricultural production, establishing important feedback loops.

### Box 5.4

#### Agricultural growth, rural industrialization and poverty reduction in China

China's record of economic growth and poverty reduction is perhaps one of the most remarkable transformations achieved in recent history. From 1978, reforms were introduced first in rural areas and then urban settings as a means of improving individual incentives for economic efficiency. While some dispute remains about the calculation of poverty lines, one widely cited estimate is that from 1981 to 2001 the proportion of China's population living in poverty fell from 53 per cent to 8 per cent (Ravallion and Chen, 2007), meaning that at least 200 million people were lifted out of poverty (Oi, 2015). During the period 1981–85 alone, the rural poverty rate fell from 65 per cent to 23 per cent, accounting for 77 per cent of the national decline over the whole period (1981–2001).

Rural reforms included the decollectivization of agriculture and the establishment of the Household Responsibility System. These reforms provided households with the right to farm a plot of collectively owned land and to retain any surplus produced beyond mandatory state quotas. In addition, the Government incentivized agricultural production by providing a secure market for farmers' surplus produce, guaranteeing prices that were up to 50 per cent higher than for the basic quota (ibid.). Importantly, improved agricultural inputs were already widely available to farmers; these institutional reforms therefore provided farmers with the incentives to increase production. The result was significant productivity increases as farmers responded to price signals. According to the calculations of Ravallion and Chen (2007), the resulting

agricultural growth had a higher impact on poverty than growth in industry or services by a factor of four.

Collectively owned Township and Village Enterprises (TVEs) spread rapidly in the 1980s, resulting in rural industrialization through largely labour-intensive activities, ranging from simple agricultural processing – such as tofu and soap – to industrial items – including steel piping and chemicals (ibid.). In many cases, these firms were initially established by mobilizing funds from individual peasant households, who were benefiting from increased agricultural incomes, with any profits from initial factories pooled and reinvested to fund upgrading or expansion (ibid.). Inevitably the experience with TVEs varied: there were some successful cases, but others failed, leaving villages with large debts. Overall, however, they created a large number of rural jobs, absorbing surplus labour from agriculture and contributing to large-scale poverty reduction (Galbraith, Krytynskaia and Wang, 2003; de Janvry, Sadoulet and Zhu, 2005; Oi, 2015). Indeed, from 1978 to the mid-1990s employment in TVEs grew by 9 per cent per year, from 28 million to 135 million people in 1996, with TVE value added increasing from 6 per cent of GDP in 1978 to 26 per cent in 1996 (Oi, 2015). This absorbed much of the surplus labour produced by increasing labour productivity in agriculture under the Household Responsibility System, and, given that this surplus labour comprised many of the poorest people in rural areas, TVE employment made a significant contribution to poverty reduction (de Janvry, Sadoulet and Zhu, 2005).

Among the most successful examples of agricultural productivity increases stimulating the rural non-farm economy are the Township and Village Enterprises (TVEs) in China (see [box 5.4](#)). In contrast to the relatively large TVEs, however, increased demand from the growing agricultural sector frequently focuses on services provided by MSEs. These are often very small businesses, comprising just a proprietor and supplemented as necessary with unpaid family labour, producing food, textiles and wood products for sale direct to customers without an intermediary (Mead and Liedholm, 1998; Gavian et al., 2002). Very often such activities are conducted alongside existing farm activities and are dominated by women, and there is evidence that demand for such activities can reinforce the gains from increased agricultural productivity (Mead and Liedholm, 1998). Recent experience suggests that such a process may be under way in Rwanda, where increased agricultural productivity is being accompanied by a significant expansion of off-farm income generation activities and poverty reduction ([box 5.5](#)).

While MSEs in the rural non-farm economy have made an important contribution to the reduction of extreme poverty, they are often characterized by widespread decent work deficits. MSEs themselves and the jobs that they create are often unstable and short-lived (Mead and Liedholm, 1998), resulting in poor job quality. MSEs tend to be disadvantaged in policy with respect to larger businesses, and have fewer financial and other resources to draw on in times of crisis or change, fewer personnel to ensure compliance with complex regulation requirements and more limited access to financial markets and credit.

Furthermore, MSEs tend to pay lower average salaries than larger enterprises, and require longer working hours (Fenwick et al., 2007). In many cases they rely on unpaid family work, particularly during busy periods, and are not covered by labour law provisions. While a few countries, such as China, do not make any distinction between MSEs and other enterprises, in the vast majority of cases, countries have established either parallel, simplified regulatory frameworks for MSEs (e.g. Brazil and Nepal) or specific exclusions for MSEs from labour regulation provisions, such as occupational safety and health, collective dismissal, the right to union representation and mandatory social security contributions (ibid.).

### Box 5.5

#### Agricultural growth and livelihood diversification in Rwanda

In Rwanda the proportion of the population below the national poverty line fell from 77 per cent in 2000 to 60.3 per cent in 2010. Recent analysis has identified two main causes for this sharp reduction in poverty: an increase in agricultural productivity among smallholder farmers, which accounted for nearly a third of the decrease in poverty; and a concurrent diversification of livelihoods into a range of off-farm income generation activities, which was responsible for more than a quarter of the reduction.

Agricultural productivity increases are linked to the Crop Intensification Programme, which aimed to boost the supply and utilization of improved agricultural inputs. The programme resulted in a 135 per cent increase in cereal yields from 2006 to 2011, while the production of roots and tubers roughly doubled over the same period.

*Source: World Bank (2015b).*

Alongside these changes in agricultural production, there was a significant increase in the number of rural households engaged in off-farm income-generation activities. Participation in non-farm self-employment increased from 15 per cent to 42 per cent of the population during the period 2001–11, while the proportion of poor households engaging in non-farm activities increased from 21 per cent to 62 per cent over the same period. However, this change did not represent a transition out of agriculture, but rather a diversification of income sources that added to household income and reduced reliance on agricultural production alone. Analysis suggests that households setting up small off-farm businesses were a particularly important source of household consumption growth and poverty reduction.

The principal policy challenge is therefore how to facilitate the transition of MSEs to formal employment and formal economic units, to address decent work deficits, while maintaining, and even expanding, the role of MSEs in poverty reduction in rural economies.<sup>11</sup> This requires integrated strategies, which combine incentives with enforcement and compliance measures. A vital means of supporting MSEs, reducing poverty *and* improving the quality of jobs is therefore to provide a supportive business environment to enable sustainable enterprise development. Such a business environment would include for MSEs: incentives to start their business in the first place; space to conduct their business activities; protection against unfair competition; and specific measures to address common weaknesses of MSEs, namely improved access to credit services and training on skills and business planning. Indeed, policy reform should reduce, where appropriate, the barriers to the transition to the formal economy, through lowering registration costs and introducing simplified tax and contributions systems, and providing incentives for effective transitions to the formal economy, including improved access to business and financial services, infrastructure, markets, technology, education and skills programmes, and property rights.

The promotion of business associations and cooperatives can also be vital means of supporting MSEs to access markets and represent their interests (ILO, 2011b). While different types of business have different needs and therefore can find themselves in competition with one another, there is also potential for policy to promote valuable economic linkages between them, linking, for example, large-scale enterprises and foreign investors with MSEs through subcontracting and trading agreements. Together these measures can enable small businesses to expand and hire additional workers, as well as to upgrade their activities, increase productivity and raise the quality of their jobs.

Alongside these measures to support enterprise development, a key element of a decent work approach must be to improve compliance with fundamental labour rights by extending both the legal coverage and enforcement of labour law, including the extension of labour inspection to all workplaces and taking immediate measures to address the unsafe and unhealthy working conditions that often characterize work in the informal economy.<sup>12</sup>

At the same time, governments can create an enabling environment for workers and employers to organize in workers' and employers' organizations and to engage in collective bargaining. Establishing and building the capacity of such organizations through training and information campaigns enables them to better assess the implications of proposed legislation and policies, and thereby better represent the interests of their members.<sup>13</sup>

### **Addressing poverty through decent work in agricultural wage employment**

Agricultural wage employment constitutes an important source of livelihoods in developing countries (see Chapter 1). This is particularly likely to be the case in countries where prior structural constraints such as the unequal distribution of landholdings limit the potential of agricultural productivity growth to reduce poverty directly (World Bank, 2008; Oya and Pontara, 2015). Wage employment is of particular importance to many of the poorest households, which may lack the resources required to exit poverty through agricultural production or the resources required to establish off-farm businesses.

Despite its importance, decent work deficits are widespread in agricultural wage employment and, in particular, in plantation agriculture. Rural workers are often excluded from coverage by labour legislation and social protection, either explicitly in law or in practice. This exclusion is the result of workers' employment status – many agricultural workers are hired part-time, on a casual basis or as seasonal workers – or because they belong to vulnerable groups, such as women or migrant workers (ILO, 2008). Forced labour, child labour and hazardous working conditions are all relatively common, with high rates of workplace injury in plantation agriculture, especially. Meanwhile labour inspection is frequently weak or non-existent, and union coverage is often very low (Ferm, 2008).

The promotion of decent work in agricultural wage employment is therefore an essential means of protecting fundamental labour rights and ensuring that employment contributes to poverty reduction. Of particular importance is the right to unionize and bargain collectively, since this can underpin improvements in working conditions more broadly (box 5.6). Governments can support the strengthening and expansion of employer and worker organizations by providing and enforcing a supportive legal environment, in line with ILO Conventions. Where employer and worker organizations are weak, agricultural wage labourers are particularly vulnerable to the precarious and unsafe working conditions that are a common feature of rural wage labour. In this respect, relevant ILO Conventions include those on

## Box 5.6

### Improving working conditions in Brazilian horticulture

Grape production in the São Francisco Valley in north-east Brazil began in the 1980s and has rapidly expanded since then. The north-east is the most economically deprived region in the country, where extreme poverty is estimated at about 35 per cent, and grape and other fruit farms have become an important source of employment.

Grape production is for both export and domestic markets, with larger farms tending to produce for export since they are better placed to meet stringent quality standards, requiring an increasingly well-trained labour force.

The main union covering grape workers, the Rural Workers Union (*Sindicato dos Trabalhadores Rurais*, STR), has campaigned for workers' rights and improved conditions since the 1980s. In 1994 STR signed a collective agreement with

employers in the valley, and has since concluded further agreements. Prior to the collective agreement, dangerous working conditions were widespread – with workers exposed to chemicals without safety equipment and subject to long working hours, gender pay discrimination was common and child labour was reported.

The STR has also taken up issues of gender equality and women's rights, which is important given that women make up a large proportion of the workforce. The STR now has women representatives in their leadership. Agreements with employers include an obligation to provide childcare and maternity benefits. Some studies suggest that the perceived extra cost of hiring women has led some employers to reduce the proportion of female workers, or to hire many women as temporary workers rather than permanent employees.

Source: Selwyn (2015).

occupational safety and health (C155; C161; C171) and the Rural Workers' Organizations Convention, 1975 (No. 141); as well as specific Conventions on agriculture, notably the Conditions of Employment of Plantation Workers Convention, 1958 (No. 110), the Labour Inspection (Agriculture) Convention, 1969 (No. 129), and the Safety and Health in Agriculture Convention, 2001 (No. 184).

Finally, in countries ranging from Colombia and Peru to Kenya and Ethiopia, agribusinesses that produce non-traditional agricultural exports, including fresh vegetables and fruits and cut flowers, have become an important source of employment opportunities, especially for women, in rural areas (Ferm, 2008). Many high-value agricultural exports require workers with high skill levels, both in production and in logistics (bringing produce to markets quickly). For example, asparagus production in Peru requires very precise growing conditions and complex irrigation practices, placing a premium on skilled labour (Carnoy and Luschei, 2008). However, the jobs of many field workers require much lower skill levels, and workers are often employed on a casual or seasonal basis, with few opportunities to advance into supervisory roles. This is a particular challenge for women, given that men tend to dominate at managerial levels (ibid.; Ferm, 2008). This discussion highlights the importance of education and skills training as means of accessing better quality employment opportunities (for further details, see Chapter 6).

## D. Concluding remarks

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The vast majority of the extreme poor reside in rural areas and depend to some degree on agriculture for their livelihoods. Therefore, the target of SDG 1 to end extreme poverty everywhere cannot be achieved through urban employment creation alone and necessitates policy attention on the rural economy and, in particular, the agricultural sector. Rural areas have important untapped potential that, duly recognized and developed through decent work, could make an important contribution to poverty eradication. This chapter has outlined some of the main pathways out of poverty and towards decent work for all, including agricultural productivity growth, the expansion of the rural non-farm economy and decent work in agriculture. Poor households are likely to draw on combinations of several of these strategies as they seek to improve their livelihoods and move out of poverty. However, given the diversity in agricultural production systems and agro-ecological conditions within which they operate, the relative importance of each and the linkages between the rural and urban economies will vary by country and region.

The first pathway involves raising the productivity of independent smallholder farmers. While meeting this objective requires a range of policy interventions – including research and development, the supply of agricultural inputs and improved access to transportation and markets – the discussion focused particularly on the important functions that cooperatives can perform in supporting smallholder farmers. Cooperatives – when operating in a supportive enabling environment – have the potential to play vital roles in raising agricultural productivity, supplying agricultural inputs, providing credit, improving market access and increasing the bargaining power of smallholders in supply chains.

The second pathway involves integrating small farmers into global and domestic supply chains through well-designed contract farming arrangements. Contract farming brings not only potential economic benefits – including improved productivity, market access and price stability – but also significant risks. Vitality, intervention by the State, NGOs and cooperatives can be effective at improving the organization, bargaining position and knowledge of contract farmers, ensuring a fairer distribution of the benefits of supply chains.

Third, improvements in the productivity of smallholder farmers can also have an important indirect effect on poverty through growth in the rural non-farm economy. Indeed, growth in demand for the goods and services provided by MSEs can be an important contribution of agriculture to poverty reduction. Many households in extreme poverty lack the resources to take advantage of opportunities for agricultural productivity growth, but are well placed to diversify their livelihoods by establishing small off-farm businesses. The policy challenge here is to find ways of promoting decent work in MSEs, while fulfilling the potential of the rural non-farm economy to contribute to the reduction of extreme poverty. A combination of initiatives is required to stimulate rural enterprise creation, in particular by supporting MSEs to grow and upgrade their activities by: providing credit and business services; improving access to appropriate education and skills development, including entrepreneurship training; expanding the coverage and enforcement of labour regulation and social protection; and promoting collective bargaining among MSE workers.

The fourth pathway considered in this chapter is the promotion of decent agricultural wage employment. While agricultural productivity growth among smallholder farmers – contributing to the previous three pathways – may offer great potential to reduce poverty, agricultural employment in the large-farm sector provides an important source of income for many people in developing countries.

Despite the important contributions that growth in agriculture and the rural non-farm economy can make to poverty reduction, these will not be able to end poverty alone. In all cases there will remain an essential complementary role for social protection in ending extreme poverty as an integral part of improving access to decent work. This will involve the creation of social protection floors that guarantee a basic level of social security for all, including the poor and vulnerable, as well as the expansion of access to contributory social insurance, such as health insurance, that helps to protect workers against shocks and risks throughout their lives. Likewise, creating a favourable environment for formal businesses would facilitate transitions from low-productivity agricultural jobs to more stable forms of work. This will require supporting individuals with the necessary skills and tools to take up new decent work opportunities. These issues are treated in some detail in Chapter 6.

## Notes

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1. This is also linked to increased funding for agriculture from traditional donors and more recent initiatives such as the Alliance for a Green Revolution in Africa, the African Union's 2003 Comprehensive Africa Agriculture Development Programme and the influential 2008 World Development Report on "Agriculture for Development" (Chimhowu, 2013).
2. The \$1.25 PPP per day poverty line was replaced in 2015 with a poverty line of \$1.90 PPP per day. See Chapter 1 for more details.
3. It is something of an anomaly that the faster the agricultural sector grows, the faster its share in the economy declines (Mellor, 1995).
4. Although beyond the scope of this chapter, both access to land and land rights are therefore key factors linking agriculture to poverty reduction, including the gendered nature of agricultural production (Razavi, 2009).
5. One of the main barriers to the expansion of productivity-enhancing technologies is the diversity of agricultural systems in African countries. The Green Revolution was able to achieve enormous productivity increases in Asia based on improved varieties of three main crops: rice, wheat and maize. The situation facing contemporary developing countries is more challenging. Today's poorest rural areas are more diverse in terms of agroecological conditions; in many cases they are arid or semi-arid, with limited potential for irrigation (Dorosh and Mellor, 2013). In addition, the staple crops consumed in these countries are much more diverse. All this suggests that the cost of context-specific agricultural research and development to produce crop varieties and fertilizer compositions suited to diverse local conditions may be considerably higher for contemporary developing countries than was the case for the original Green Revolution countries (Dorward et al., 2004; Dorosh and Mellor, 2013).
6. As a result of the relatively equal distribution of land in much of Africa and Asia, the benefits of agricultural research and development tend to accrue to smallholder farmers, thereby contributing to poverty reduction. Where land is much more concentrated, for example in much of Latin America, investment in research and development raises agricultural productivity, but has relatively little impact on poverty (Thirtle, Lin and Piesse, 2003).
7. Agricultural cooperatives can play vital roles in agricultural productivity growth by supporting many of these activities, in line with the ILO's Decent Work Agenda and, in particular, the Promotion of Cooperatives Recommendation, 2002 (No. 193).
8. While women are less likely to be members of cooperatives than men, in many cases women's membership is increasing (ILO, 2014).
9. Cooperatives can help farmers to negotiate fair contracts and address uneven power relations in supply chains, and offer farmers a platform for social dialogue (Harou, Walker and Barrett, 2015; Barrett et al., 2012). This is in line with evidence that suggests that buyers prefer doing business with smallholder farmers organized through producer organizations as these enable more "hands-off" market-based relationships (Mangnus and de Steenhuijsen Piters, 2010).
10. Research has also shown that agricultural growth in India not only reduces poverty directly, but is also an important factor in the reduction of poverty through the development of the non-farm economy (Ravallion and Datt, 2002).
11. ILO work on MSEs is guided by the Recommendation on Job Creation in Small and Medium-Sized Enterprises, 1998 (No. 189). See also the Recommendation on the Transition from the Informal to the Formal Economy, 2015 (No. 204). See Chapter 6 for a more detailed discussion on policies to promote the transition from informal to formal employment.
12. This issue was discussed in detail in ILO (2015).
13. Chapter 6 also looks at initiatives to raise the productivity and quality of work in the informal sector, along with efforts to expand coverage of non-contributory social protection schemes that help to provide income security for the poor, whether through employment guarantees or cash transfers.

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# 6 Supporting people and promoting quality jobs\*

## Introduction

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To achieve sustainable poverty reduction, the analysis presented thus far has pointed to the need for policies to boost productive employment and support the incomes of the most vulnerable. With this in mind, this chapter takes a comprehensive approach in an effort to assess how best to support people and promote quality employment. It does so by examining ways to (i) provide income support to those persons outside the labour market most vulnerable to poverty; (ii) assist jobseekers to find new (and better) jobs; and (iii) boost employment quality. All the while ensuring overall policy coherency.

In particular, section A builds on Chapter 2 and discusses in more detail the role of social protection in alleviating poverty, with a particular focus on those not of working age and those unable to work (including a brief analysis of how to address intergenerational poverty issues). Section B then examines a range of measures that are needed to help reduce poverty among the unemployed and assist them in finding sustainable employment in new and growing sectors. Indeed, this approach will be fundamental to supporting structural transformation as discussed in Chapter 3. Section C then looks at the working poor, who according to Chapter 1 make up nearly one-third of all poor people globally, and how to improve their work quality and incomes in an effort to lift them out of poverty in a sustainable manner. In each of these sections, the central role of national social protection floors in alleviating poverty is crucial.<sup>1</sup>

The final section examines the importance of cross-cutting policies and the role of effective labour market institutions and social dialogue as central levers for successful policy implementation in all of these areas. This chapter also contains a number of country cases which can be drawn upon and adapted to national circumstances.

\* The authors wish to acknowledge the contributions of Florence Bonnet, Clemente Pignatti and Elva López Mourelo to various sections of this chapter and of Uma Rani for the subsection on minimum wage.

## A. Role of social protection in alleviating poverty among those not of working age and those unable to work

### Income security for the elderly

In emerging and developing countries, almost one-third of persons aged 65 and over are living in either extreme or moderate poverty (among developed countries, using a measure of relative poverty, nearly 13 per cent of the elderly are poor).<sup>2</sup> The major challenge concerning poverty among the elderly is that almost half of them do not receive any pension (ILO, 2014a). This is an issue which affects older women in particular<sup>3</sup> (ILO, 2016a). In addition, while there has been significant progress in the past decade in extending non-contributory pension schemes, concerns about the adequacy of benefits remain. For example, in 2013, beneficiaries of non-contributory pensions represented one-third of old-age pensioners, but they received only 5 per cent of the resources allocated to old-age benefits (ILO, 2015a). The source of the problem, at least in part, lies in the fact that the poor cannot afford to contribute and often lack confidence in the institutions which are in place. Moreover, there is a risk that pension coverage will decline in the future. As discussed in Chapter 2, less than 8 per cent of the working poor are affiliated to a contributory pension scheme and will therefore lack adequate support when they reach retirement age.

Steps should be taken to enhance access to contributory pension schemes. This can be partially addressed by introducing differentiated contributory categories, simplifying procedures and subsidizing contributions for the most vulnerable (*ibid.*). Helping people to transition from informal to formal employment and reinforcing institutional capacity and governance are also central to increasing participation and trust in contributory schemes (issues discussed in sections C and D). While these measures will provide the groundwork for improved coverage and adequacy of benefits in the future, the simultaneous development of non-contributory schemes is urgently needed as these represent in some cases the most appropriate option for providing a minimum level of income security for the elderly (box 6.1). Their design must take into account the trade-offs between available resources, coverage and benefit levels.

#### Box 6.1

##### Reducing poverty among the elderly: The case of South Africa

The Older Persons' Grant in South Africa is a means-tested, non-contributory programme which covers the majority of older people in the country and effectively prevents recipients and their families from falling into poverty. The grant is paid from the age of 60. The level of coverage of the

eligible population is relatively high, in particular among the poorest 30 per cent of the population. It is estimated that South Africa's non-contributory grants have reduced the poverty rate by more than one-third (Woolard, Harttgen and Klasen, 2010).

### Basic income security for children and access to nutrition, education, care and other services

As illustrated in Chapter 2, the majority of the poor in emerging and developing countries live in households with a high proportion of children. In fact, more than half of the children in emerging and developing countries live in either extreme or moderate poverty (more than one-third of children in developed countries live in poverty, measured on a relative basis – see table 1.2, Chapter 1). Moreover, a significant portion of the world's population, notably children, suffer from undernourishment (section D, Chapter 1).

Over the past few decades, child and family benefits have improved nutrition among children and increased the utilization of health services, leading to important gains in children's health and to reductions in poverty and inequality. Non-contributory cash transfer programmes for children, which are universal (mainly implemented in developed countries) or near-universal, through large-scale, means-tested initiatives (such as in Namibia and South Africa), including conditional cash transfer programmes, have proved to be an effective tool for extending social protection to the uncovered population in many emerging and developing countries.

However, more than 40 per cent of countries worldwide do not provide any statutory child benefit. On average, government spending on child and family benefits represents 0.4 per cent of GDP. This includes all types of benefits, either cash or in kind, delivered through universal, social insurance and targeted social assistance schemes, including conditional cash transfers (CCTs). Government spending as a percentage of GDP ranges from 2.2 per cent in Western Europe to 0.2 per cent in Africa and in Asia and the Pacific (ILO, 2014a). Implementing such programmes is particularly challenging in budget-constrained emerging and developing countries but Mongolia's universal Child Money Programme shows that innovative solutions do exist (see [box 6.2](#)). Indeed, cash transfers can be an important complement in combating poverty. In designing cash transfer programmes, consideration needs to be given to ensuring: (i) transparent eligibility criteria for beneficiaries, notably in the case of means-tested, non-universal programmes; (ii) a simple mechanism to deliver the assistance, including periodic payments and complementary social services; and (iii) a strong monitoring and evaluation system in addition to operational infrastructures and services (the supply side), including schools and health services available to and accessible for poor children.

The income security of children is also very much tied to that of their parents or guardians and the circumstances of the household in question.<sup>4</sup> In that regard, addressing child poverty in a sustainable manner must include improving the access of working families to universal or near-universal coverage of employment-oriented social protection programmes, such as childcare services, maternity leave, etc. (see section C).

#### Box 6.2

##### Mongolia's Child Money Programme

In the past decade, Mongolia launched the Child Money Programme (CMP), which provides practically every family with 20,000 MNT (around US\$15.00) per month per child. The programme is part of a broader range of social programmes for children, including meal allowances, subsidies and free boarding schools (UN, ILO and Government of Mongolia, 2015).

According to Yeung and Howes (2015), between 2010 and 2012 the CMP may

have contributed to a decrease of between 18 and 34 per cent in the country's overall poverty level. The programme was found to be decidedly pro-poor in design, with the benefit levels in 2011 amounting to around 70 per cent of the consumption needs of the bottom decile of the population, compared to 5 per cent of the upper decile. However, the impact on non-monetary poverty, such as early school dropouts, is unknown.

#### Income security for people with a disability who are unable to work

In terms of individuals with a disability, those who are unable to work are usually not able to acquire the necessary rights to benefit from contributory schemes, leaving them at greater risk of poverty. Importantly, out of 183 countries with available information, more than 90 per cent provide, by law, some social protection benefits, and notably cash benefits, to people with a disability. Yet, only half of those countries provide benefits through mechanisms that are most likely to reach those unable to work, in particular the poor. As a result, many disabled persons count on non-contributory or universal types of schemes. Such schemes exist in 87 of the 183 countries considered, but only in one-third of emerging and developing countries compared to three-quarters of developed countries that provide such benefits.<sup>5</sup> Increased emphasis on these types of social protection systems, including income security and social health protection, is necessary to meet the specific needs of persons with disabilities and help to limit poverty and support social inclusion.

## B. Supporting people back into employment

As detailed in Chapter 1, the majority of the poor are of working age, with a sizeable share, notably in developed countries, of individuals who are unable to find a quality, sustainable job. In fact, in developed countries, the highest poverty rates (standing at over 42 per cent) are found among the unemployed. Confronted by a number of barriers to (re)employment, active labour market policies (ALMPs)<sup>6</sup> can be effective in helping people move into work as well as helping workers to transition from one job to another, for example in a different sector.<sup>7</sup>

ALMPs have increasingly been regarded as a fundamental component of the policy strategy to promote more and better quality jobs, avoid social exclusion and, by doing so, reduce poverty. While their prevalence has been traditionally limited to developed countries, ALMPs have been growing in importance in emerging and developing countries (box 6.3). Specifically, by raising human capital and improving decent work outcomes among the unemployed (e.g. through the accumulation of skills and providing necessary income support), ALMPs can raise lifetime earnings potential with positive intergenerational effects.

Moreover, the overall impact of ALMPs is maximized when they are designed in combination with passive measures (i.e. income support) in a mutually compatible manner, preferably as part of a broad framework that leverages the strengths of each composite programme and prevents trade-offs. For example, certain ALMPs (e.g. training) have an indirect income effect that may only materialize in the medium to long term. Income support measures (whether contributory or non-contributory in nature) are therefore needed to keep people out of poverty and to sustain living standards. They can also help to avoid the need to accept any substandard employment opportunity that presents itself, which could be associated with substantial reductions in, say, earnings or working conditions, and result in reinforcing and perpetuating the cycle of working poverty. Accordingly, the following common lessons have emerged as being critical to the poverty alleviation outcomes of ALMPs.

### Box 6.3

#### ALMPs to eradicate poverty: Evidence from Latin America and the Caribbean

Countries in Latin America and the Caribbean have made substantial progress towards reducing poverty and tackling inequality since the beginning of the 2000s. Part of this progress has been achieved thanks to the implementation of innovative policies that have extended social protection coverage to the most vulnerable groups. At the same time, the implementation of ALMPs also has a potentially important role in the fight against poverty. In particular, evidence from the region suggests that participation in training programmes generally has a positive impact on earnings, which can potentially be permanent if the training results in human capital accumulation. Similarly, public employment programmes have been found to consistently

reduce poverty among participants – with the highest impact registered among women and youth. Policies aimed at fostering self-employment and micro-enterprise creation have also been found to raise the income of participants, with the most successful interventions combining technical assistance with financial support. The impact of other ALMPs (such as labour market services) on poverty is likely to appear indirectly through improvements in the quality of the job found (i.e. better matching). Further, while ALMPs can have a positive impact at the individual level, to have an impact at the macro level, programmes need to be scaled up nationally (which for the time being remains limited in most emerging and developing countries).

Source: ILO (2016b).

#### Addressing barriers to employment and intervening early

ALMPs need to address barriers to productive employment, such as poverty traps, skill deficiencies or the widespread absence of individual asset accumulation or savings. Effective labour market and employment services can help detect which specific obstacles to integration and reintegration the poor are facing and how they can be overcome by tailor-made interventions (Hainmueller et al.,

forthcoming). For instance, a job-matching programme in Andhra Pradesh was able to help link vulnerable rural youth with jobs in semi-urban areas, and in China a job-matching programme provided off-farm employment to migrant upland labourers (World Bank, 2007).

Intervening early after job loss can also increase the likelihood of re-employment and, with appropriate targeting and eligibility conditions, deadweight losses and displacement effects can be limited (box 6.4). However, intervening early is neither trivial nor straightforward, in part because it involves prioritizing the resources of employment services to favour the more vulnerable groups. Nonetheless, the concept of intervening early is most relevant where the risk of long-term unemployment is greatest, and reduced access to benefits and poverty incidence is most widespread. Even in developing countries, early intervention of labour market services can allow jobseekers more time to find suitable and appropriate employment and can be an effective way of preventing labour market exclusion and poverty.

#### Box 6.4

##### Improve targeting: Denmark and the long-term unemployed

Between June 2012 and June 2013, the Danish Government implemented a special service for long-term unemployed members of unemployment insurance funds with less than six months of unemployment benefit eligibility remaining. This programme was introduced to partially counterbalance a parallel reduction in the duration of unemployment benefit eligibility which would have put the country's long-term unemployed at increasing risk of poverty. From June 2013, when the national programme ended, the City of Copenhagen committed to funding a special long-term unemployment service package which focused on two groups: the unskilled and those with a university degree. The service package offered included more frequent counselling sessions and participation in additional ALMPs. The

frequency of sessions varied with the level of education (weekly for university graduates, relatively less frequently for the unskilled). The use of new job training and wage subsidy programmes is only permitted during the last six months of eligibility if the ensuing chance of obtaining regular employment is considered to be "good". Instead, the services offered are training courses focusing on a change in career, personal job counselling (including through external providers), facilitating increased mobility and entrepreneurship promotion. The purpose of this specifically individualized path is to ensure, not only that the unemployed return to employment, but also to ensure they find a quality job (e.g. that it is in line with skills acquired) and reduce the risks of poverty by avoiding continuous job turnover.

##### Enhancing skills acquisition through demand-led training

As detailed in Chapter 1, higher rates of poverty are associated with lower-skilled occupations. For example, among a select few emerging and developing countries with available data, more than one-quarter of low-skilled workers lived in extreme poverty (compared to 10 per cent among medium-skilled and just under 4 per cent for high-skilled). Skill enhancement therefore clearly offers an avenue into improved job prospects and out of poverty. Moreover, it can help to enhance both within-sector productivity and intra-sector productivity through the acquisition of new skills and abilities, thus facilitating processes of structural transformation (see Chapters 3 and 5).

Training, as a component of ALMPs, helps to combat chronic poverty by smoothing this transition between unemployment and employment, largely through enhanced skills but also by helping to keep people attached to the labour market. In this regard, for the poorest, training can introduce skills that can be leveraged to increase both employment and wage prospects in the longer term. The effectiveness of ALMPs, especially training, is very much a function of the extent to which they are aligned with the demands of the economy, a finding that can be observed in both developed and developing contexts. In this respect, social dialogue and engagement with the private sector are essential to ensure that the skills acquired lead to quality jobs and sustainable reductions in poverty (see section D).



## Combining income support and training: The case of public employment programmes

Direct job creation is a specific function of ALMPs that can be particularly effective for poverty alleviation. In implementing such initiatives, public employment programmes (PEPs) provide important sources of labour income to persons who are able to work and can act as a countercyclical safety net for one-off or recurring external shocks. PEPs, ranging from public work programmes to employment guarantee schemes, are most effective for providing temporary income to facilitate consumption smoothing, particularly when the programme targets those without adequate accumulated savings, i.e. the poorest. Moreover, many PEPs focus on training and skills development and can therefore be an effective tool for poverty reduction by improving long-term employment and wage prospects for programme beneficiaries. In fact, in the absence of such upskilling, the employment effects can be transitory.

Programmes of this nature can also have wider positive spillover effects on development as they are often directed towards improving roads, irrigation systems and other core infrastructure development and can facilitate private sector development (both immediately and in the aftermath of the programme). In this respect, they can be a central element of efforts to develop the rural non-farm economy (see Chapter 5). There can be, however, a range of downside risks, including the diversion of labour away from other long-term production activities in favour of gaining immediate cash income from these programmes. Therefore, careful design and implementation of PEPs is essential to avoid crowding-out effects. In this respect, self-targeting can be an important design feature for attracting the appropriate group of eligible individuals to a programme. One approach takes the form of wage setting at a level which is low enough to avoid displacement of private sector workers – while being high enough to ensure adequate standards of living for participants (Vaidya, 2013). Although there is a general consensus that low wage setting is one of the most effective means of implementing self-targeting among poor persons, the offer of low wages can, however, be viewed as unethical or excessively low. Furthermore, there is some evidence to suggest that low wages may not be sufficient to ensure an adequate degree of self-targeting by the poor (McCord, 2005). For these reasons, various programmes have included a set of administrative requirements (e.g. application or registration processes) that aim to ensure that only highly motivated candidates self-select into the programme (box 6.5). This, of course, needs to be balanced against the potentially negative effect that high administrative requirements might have on the participation of the most vulnerable in these programmes

### Box 6.5

#### Training and targeting rules in a public employment programme: The case of *Construyendo Perú*

*Construyendo Perú* is a public works scheme implemented in Peru between 2007 and 2011. The programme's aim was to increase the employability of poor unemployed households, while at the same time undertaking small-scale infrastructure projects in poor areas of the country. Participants were offered a short-term employment opportunity (ranging from a few weeks to four months) and they could also participate in organized training courses to develop soft skills or access technical training. In a context of limited public resources, three different targeting rules were put in place in order to ensure that the programme correctly

identified those in greatest need (Escudero, 2016). First, each district was assigned an indicator of material poverty and development shortcomings, which determined the eligibility of that district to take part in the programme (i.e. geographical targeting). As a second step among participating districts, wages were set low enough to ensure that only poor individuals would be interested in participating (i.e. self-targeting). Finally, a survey was conducted among applicants to measure monetary and material deprivation of the household in order to prioritize those in greatest need (i.e. socio-economic targeting).

## C. Addressing job quality and working poverty

Improving the labour market outcomes of individuals who are willing and able to work is an important issue in addressing poverty reduction, but being employed does not necessarily translate into adequate living standards and self-sufficiency. In fact, in emerging and developing countries, more than one-third of persons with a job are in extreme or moderate poverty, and in developed countries 15 per cent of those with a job earn less than 60 per cent of the median income. In some instances, this is a reflection of inferior job quality, either because workers are unable to access the support they need (e.g. due to informality) or because they are unable to earn enough (even working full time) to lift themselves (and their dependants) out of poverty. Addressing working poverty will require, among other things, policies to (i) promote decent work more directly through effective minimum wage schemes; (ii) support the incomes of the working poor through social protection and equitable tax systems; and (iii) promote formal employment.

### Minimum wage policy: Creating a wage floor

There is currently renewed debate on how minimum wages can, if properly designed, help to tackle working poverty with due consideration to potential effects on employment levels. Although there is an intuitive appeal to the concept of minimum wages reducing poverty, the issue has been questioned and contested in recent literature (Belsler and Rani, 2015). Some proponents of increasing minimum wages argue that they lead to higher wages at the bottom of the distribution and thus alleviate in-work poverty and, in turn, spur aggregate demand (Rubery, 2003). On the other hand, opponents claim that they create a number of distortions in the labour market without alleviating low-income households' economic hardship (importantly, the growing consensus is that the negative effect on employment is negligible).<sup>8</sup>

In emerging and developing countries, minimum wages are estimated to have a larger potential to reduce poverty, as the minimum wage might affect a larger fraction of the population – directly or indirectly (Rani et al., 2013). The potential of minimum wages to have a positive impact on poverty depends on several key parameters.

### Key design features for sound minimum wage policies

- *Effective coverage*: Although there is no one-size-fits-all model, in an effort to ensure widespread coverage of minimum wages it is important to balance gains from differentiation with the cost of complexity. On the one hand, a number of countries are targeting minimum wages with a view to more accurately reflecting differences in economic conditions across regions, economic sectors or subgroups of workers (ILO, 2014a). On the other hand, simple minimum wage schemes are easier to monitor and more likely to achieve higher rates of coverage and compliance. As such, in countries with high levels of non-compliance and widespread informality, setting of sub-minimum wages for targeted groups of workers should be considered with some caution as the approach may require alternative forms of monitoring.
- *Compliance*: Non-compliance often remains pervasive in many emerging and developing countries (Rani et al., 2013; Broecke, Forti and Vandeweyer, 2015). Combating this practice entails making sure that those who are eligible to receive the minimum wage actually receive it. For example, in Brazil the federal minimum wage applies to all wage workers, and collective agreements can only stipulate “wage floors” that are equal to or higher than the federal minimum wage. This simplicity in the structure also makes it easier to enforce minimum wages effectively, as awareness regarding the prevailing minimum wage is heightened. Furthermore, the Government has also made huge investments in enforcement machinery, which has ensured compliance for around 80 per cent of all wage earners (Rani et al., 2013).<sup>9</sup>
- *Regular updating*: In order to avoid erosion of the real value of the wage floor, minimum wages should be reviewed frequently at regular and predictable intervals and not on an ad hoc basis (see also Minimum Wage Fixing Convention, 1970 (No. 131)). The revisions and adjustments should take into account the needs of workers and their families, as well as economic factors, including changes in the cost of living and changes in economic growth or productivity. For example, in Brazil evidence shows that the minimum wage has been adjusted by the sum of inflation in the previous year and the GDP growth of the past two years. Similarly, in the United Kingdom, the Low Pay Commission recommends minimum wage adjustments every year based on a situation analysis. In both of these countries minimum wage revisions have been effective in tackling poverty.

- *Promote transparency of adjusting mechanisms:* Minimum wages need to be regularly adjusted on a transparent, evidence-based basis. This requires social partners and policy-makers to have access to relevant data and analysis from national statistical sources or academia. For this purpose, a number of countries appoint ad hoc independent expert commissions, such as the Employment Conditions Commission in South Africa, whose task is to advise the government on targeted minimum wage revisions on the basis of economic and social factors.
- *Promote social dialogue:* Social dialogue is an important component in ensuring that minimum wage revisions take into account workers' conditions and productivity changes across industrial sectors and firms of different sizes and involve social partners in minimum wage settings through the creation of, for example, ad hoc tripartite bodies. In line with the Minimum Wage Fixing Recommendation, 1970 (No. 131), full consultation of social partners should be carried out, particularly in the following matters: (i) the selection and application of the criteria for determining the level of minimum wages; (ii) the rate or rates of minimum wages to be fixed; (iii) the adjustment at regular intervals of the rate or rates of minimum wages; (iv) problems encountered in the enforcement of minimum wage legislation; and (v) the collection of data and the implementation of studies to inform minimum wage fixing authorities (ILO, 2014b).

### **In-work benefits as a means of alleviating working poverty**

Minimum wages, despite being central to sustaining living standards, are not sufficient in many instances to ensure that individuals have enough labour income to keep them out of poverty. In this context, in-work benefits can be an effective complementary policy tool to reduce working poverty. In-work benefits encompass, primarily, a range of benefits that belong to the broader system of social protection (box 6.6 and ILO, 2014a). These include: (i) the provision of childcare, health-care support, housing allowances, etc. that supplement labour income to avoid poverty; (ii) replacement of income lost either temporarily or permanently as a result of job loss, employment injury, disability, sickness or maternity (or due to loss of labour income on reaching retirement age); and (iii) support to facilitate the return to work, such as training.

Other means to directly support the employment income of low-income individuals include in-work tax credits, which have grown in importance as a tool to reduce working poverty.<sup>10</sup> Such schemes take the form of a tax credit equal to a percentage of the after-tax earnings of individuals or households living on low to moderate income (Immervoll and Pearson, 2009). They aim to encourage work efforts (as well as movements from informal into formal employment) and redistribute income towards the lower end of the wage distribution. Indeed, the tax credit typically increases with each additional unit of income earned – thereby incentivizing an increase in hours worked – until it reaches its peak level, after which it begins to phase out, disappearing entirely at sufficiently high income levels.<sup>11</sup> In this respect, tax credits bolster after-tax income and widen the gap between the income that beneficiaries would get while in work and the income that they would receive if they were unemployed or working shorter hours. As such, in-work tax credits can also act as a complementary measure in facilitating transitions from informal to formal employment (see the following subsection) as they partially offset some of the disincentives to formalization for low-paying jobs, especially part-time ones (Koettl and Weber, 2014).

Schemes of this nature have been introduced in several countries and the evidence suggests that they have the potential to reduce working poverty, while also producing a number of positive labour market outcomes at the lower end of the wage distribution (box 6.7). A number of caveats, nevertheless, merit consideration, which in part explain countries' limited uptake of these schemes, including the fact that such schemes: (i) are complex to design; (ii) are sometimes opaque; (iii) could discourage work incentives of second earners in the family, as well as career advancement and human capital investment, depending on the phasing-out rate; and (iv) risk creating lock-in effects for beneficiaries in low-wage occupations.<sup>12</sup>

Despite these caveats, evidence suggests that in-work tax credit schemes, if well-designed, remain a valid, complementary policy tool to effectively address working poverty and improve labour market attachment of individuals. As such, a number of issues need to be carefully considered when designing such schemes with a view to minimizing unintended effects and expanding their coverage to emerging vulnerable groups.

## Box 6.6

### Social protection benefits for the employed as part of a rights-based approach to poverty eradication

One of the objectives of national social protection floors (Social Protection Floors Recommendation, 2012 (No. 202)) is to guarantee, at a minimum, “basic income security, at least at a nationally defined minimum level, for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability”. Another objective is to progressively ensure higher levels of social security to as many people as possible, guided by ILO social security standards. Other ILO social security standards, and notably the Social Security (Minimum Standards) Convention, 1952 (No. 102), provide more detailed guidance for specific policy areas.

As part of recent developments in the area of maternity protection for the poor, a number of countries have introduced or extended non-contributory programmes that provide a combination of income security and access to maternal care for women who are not covered by traditional maternity protection (women workers in the informal economy or poor women in general) (ILO, 2014a, 2014c and 2016a).

For workers with family responsibilities (including children, elderly or people with disability), the inadequacy or total lack of childcare, disability and long-term care services remains a major obstacle to improved living conditions (Chapter 2). Very few countries view childcare as a public good and provide a universal right to childcare to complement child/family benefits, despite evidence to show that investing in young children by means of quality childcare leads to higher learning achievement, better health, greater employability and higher earnings (Van Lancker, Ghysels and Cantillon, 2012; UNESCO, 2015; ILO, 2016a and 2016b).

Social investment of this nature creates a virtuous circle of redistribution and reduction of unpaid care work, along with the creation of paid work, which can support economic growth, minimize the intergenerational transfer of poverty and increase social inclusion (Jenson, 2009; ILO, 2016a). In addition, any such schemes can be adjusted to accommodate the needs of parents with family responsibilities (Naqvi, Campbell and Raysarkar, 2015).

## Box 6.7

### Overview of benefits stemming from in-work tax credits

**Poverty reduction:** A strong redistributive effect is present when in-work tax credits are “permanent” and tightly targeted towards low-income families. In particular, as in-work tax benefits typically start phasing out at relatively high income levels, a large part of the benefits usually accrues to those households which are most in need, making the in-work tax credit a well-targeted policy instrument to address working poverty among households (Chetty, Friedman and Saez, 2013). This is a distinctive feature of the schemes present in Ireland, New Zealand, the United Kingdom and the United States that provide benefits – the maximum amounts varying from 10 per cent to 25 per cent of the median income – targeting low-income families. As in many instances, the level of

benefits depends on the number of children in the household, in-work tax credits may be effective in reducing child poverty with the potential to decrease intergenerational transmission of poverty.

**Improved labour market outcomes:** Improvements in outcomes can lead to an increase in labour market participation of poor households and individuals (Burkhauser, 2015) and have been shown to have positive employment effects among single mothers (Hoynes and Patel, 2015; Meyer, 2010).

**Positive spillover effects:** As low-income households typically have the highest marginal propensity to consume, these measures foster aggregate consumption and, in turn, economic growth.

First, it is important to tailor in-work tax credits to country-specific circumstances. In particular, in countries where the introduction of the tax credit is expected to foster labour market participation – i.e. going from joblessness into work – the optimal tax credit design should be based on a small guaranteed income and low benefit withdrawal rates, similar to the Earned Income Tax Credit scheme in the United States. Conversely, when in-work tax credits are expected to promote an increase in hours worked rather than participation decisions, their optimal design would be that of a scheme with high guaranteed income and a high phasing-out rate (Saez, 2002).

Second, minimum working hour requirements should be tempered. Some countries have put in place in-work tax credit schemes which have minimum working-hour requirements among their eligibility criteria. While this may prove effective in limiting the financial disincentive to work full time, minimum working-hour requirements remain rather a restrictive eligibility criterion. Indeed, introducing full-time employment as an eligibility requirement may considerably reduce the number of tax credit beneficiaries among certain categories of workers, for instance single mothers and mothers with small children, thus complicating the task of reducing poverty.

Third, in some instances in-work tax credits are restricted to a small range of workers and could be expanded, as needed, to a broader category of workers, including single workers and youth. As working poverty has increased considerably in recent years, not only among large families but also among young people and workers without dependants, it may be beneficial to expand in-work tax credit to these groups which typically have difficult accessing such schemes.<sup>13</sup> For example, lowering the eligibility age (often set at age 25) could help to alleviate working poverty among youth. A system by which in-work tax credits are provided via the tax system without the need to apply for them can help address, at least partially, some of these issues.

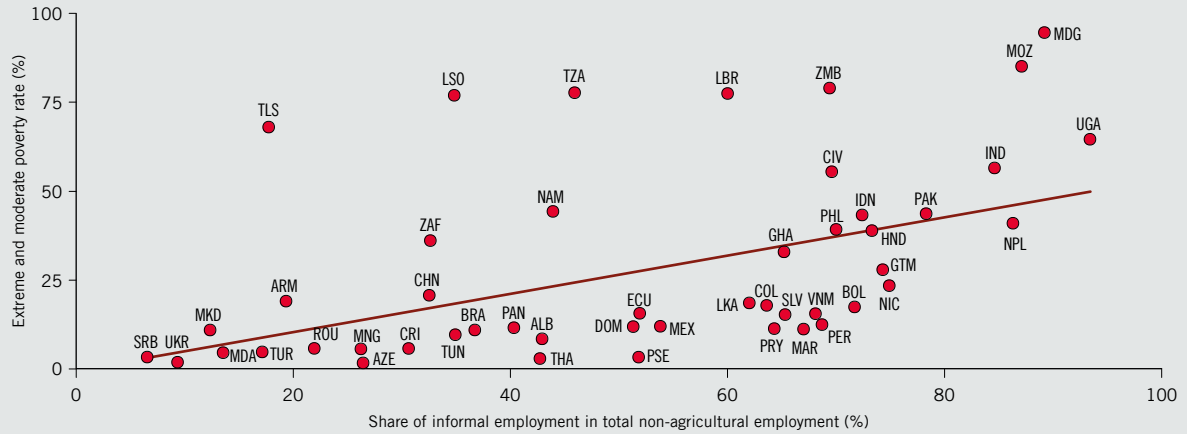
### **Promoting the transition to formal employment**

In the context of addressing job quality and poverty, the challenge confronting informal workers is that, generally, they do not have access to the support measures discussed in this chapter, whether it be social protection gained through employment, appropriately designed wage policies, training or public employment programmes. This confirms previous results presented in Chapter 2, which showed that access to secure and regulated employment arrangements determine, to a large extent, access to employment-related social protection. This places informal workers and their families in a situation of economic and social vulnerability, while preventing them from increasing productivity and finding a way out of poverty (ILO, 2014b). In fact, the share of informal employment in total non-agricultural employment and poverty are closely related (figure 6.1). Moreover, while informal employment makes poverty more persistent, poverty in turn contributes to the expansion of informality by preventing individuals from gaining access to better employment opportunities (ILO, 2014d).

Breaking the vicious circle in which poverty and informality are mutually reinforced is not, however, an easy task. As stated in the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), a comprehensive policy framework is needed that includes facilitating the transition of workers and economic units from the informal to the formal economy (see also Chapter 4). In this process, it is important that income security is safeguarded, and the innovation and skills acquired through informal activities preserved. Efforts to encourage the formalization of jobs include the extension of social security coverage and, as far as dependent employment, in its multiple forms, is concerned, the recognition of the existence of an employment relationship through which workers and employers gain access to the regulations that are meant to protect their respective rights.

Figure 6.1

Relationship between extreme and moderate poverty and informality, 2012 (percentages)



Note: The poverty rate is defined as the share of population with income or consumption per capita below \$3.10 PPP per day. See appendix G of Chapter 2 for the list of country names and corresponding ISO3 codes.

Source: ILO calculations based on World Bank PovcalNet, ILOSTAT and national sources.

Further, Recommendation No. 204 places emphasis on promoting the creation and preservation of enterprises and decent jobs in the formal economy. Indeed, it is important to encourage the formalization of economic units operating in the informal economy by creating an enabling environment for sustainable enterprises, notably small and medium-sized enterprises (SMEs), which are the main engine for job creation. This can be achieved by promoting sound business regulation, introducing more effective and equitable tax regimes and efficient business registration (box 6.8). For instance, the introduction of a simplified tax collection scheme (known as *monotributo*) in Uruguay in 2001 has proved to be an effective instrument for the formalization of micro and small businesses. This unified contribution collection method has allowed micro-enterprises with limited turnover to meet their tax and social security obligations with a single payment, which has, in turn, significantly contributed to formalization and the extension of social security in the informal economy (ILO, 2015a). Likewise, the Government of Brazil passed the Complementary Individual Micro-entrepreneur Law (*Lei Complementar Micro Empreendedor Individual*) in 2009 to reduce the administrative and tax burdens on micro-enterprises and own-account workers. The initiative facilitates the registration of small businesses with up to one employee and a gross annual revenue of less than 60,000 BRL (\$US17,000), as well as allowing these entrepreneurs to group their tax and social security contributions into a fixed monthly payment, which is significantly lower than general taxes and contributions (ILO, 2014c).

### Supporting transitions to formality

#### Transitioning informal economic units into formal ones

Research has demonstrated that creating an enabling environment for enterprises is an important component in promoting sustainable enterprises and facilitating the transition to formality. South Africa has recently taken decisive steps to promote formalization using this channel, notably through the National Informal Business Upliftment Strategy (NIBUS). Further, with the support of the ILO, South Africa carried out an Enabling Environment for Sustainable Enterprises (ESEE) assessment, as the first country to focus on informality as one element of the assessment. The ESEE assessment, leading to an action plan and advocacy for policy reforms, concluded that the main obstacle to formalization of businesses was difficulties in the registration of enterprises, and highlighted various other problems in the business environment. The strategy focuses on five sectors, each with different priority actions. Actions in each area constitute a mix of strategic interventions, including improving the legal and regulatory environment, infrastructure development, skills and enterprise development, partnerships and stakeholder management as well as knowledge management.

Various other countries have taken steps to promote formalization of informal economic units, notably in Latin America. This includes, for instance, providing incentives – such as tax reductions – for formalization of micro, small and medium enterprises, modernizing business development services and

providing support in accessing finance in Colombia and simplifying registration and business development services for “individual micro-entrepreneurs” in Brazil. Microfinance institutions can also support formalization, as demonstrated through pilot initiatives in Burkina Faso and India.

#### Transitioning workers into formal employment

Measures to support the formalization of jobs include the effective extension of social security coverage to workers who were previously not covered, the establishment and registration of employment contracts and the declaration of formerly undeclared jobs. All these measures assume the extension of the scope of laws and regulations and/or measures that facilitate, enforce and monitor compliance of labour regulations and social security laws (see also Chapter 4). For example, Argentina encouraged formalization in various ways, by reducing social security contributions for new recruitment, making improvements in inspections and by strengthening the capacity of the National Registry of Agrarian Workers and Employers, which, in addition to its registration function, provides social protection benefits and monitors labour law and social security compliance. In Europe, Germany, Italy, the Netherlands and Slovenia adopted special regulations for occasional, casual jobs, allowing access to social security, including for those working very short hours and/or for low pay. This was of notable benefit to domestic workers.

*Source: ILO (2014d, 2015c, 2016c and forthcoming).*

## D. Concluding remarks: Ensuring coherence in anti-poverty strategies through labour market institutions and social dialogue

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The issue of coherence ranges from the local and state level, in terms of domestic policy, to the international level, for instance, with respect to ratification and adoption of ILO fundamental Conventions and Recommendations. It also entails taking into consideration a range of policy complementarities and trade-offs (ILO, 2003). Indeed, the policy tools discussed in previous chapters need to be viewed in terms of their interaction in order to ensure the best possible outcomes in terms of poverty reduction, hence the relevance of Target 14 of Sustainability Development Goal 17: “Enhance policy coherence for sustainable development”. This has also been highlighted through this chapter. For example, evidence shows that ALMPs are most effective, especially among more vulnerable workers, when combined with income support, such as unemployment benefits. Similarly, employment services play a crucial role in facilitating and strengthening the effectiveness of training. In the same vein, social protection and minimum wages are not substitute but complementary policies (Wicks-Lim and Thompson, 2010; Caldera Sánchez, Lenain and Flèche, 2014). For instance, high-quality, affordable childcare is particularly relevant for workers earnings the minimum wage and can contribute to gender equality objectives by supporting women’s work.

In particular, implementation institutions are crucial for ensuring the effectiveness of anti-poverty strategies, especially in emerging and developing countries. Three types of institutions have proved to be especially important in ensuring coherence. First, labour administration, needed to ensure the proper enforcement of labour laws, is central to pro-poor policy reforms. In particular, expanding the capacity of labour inspectorates, in terms of both workforce and budgetary resources, is therefore crucial. Sharing experiences internationally on the effective design of labour inspection practices has provided useful guidance in this regard. For instance, a number of Asian countries, such as Indonesia, Malaysia and Viet Nam, have successfully taken important steps to align their labour inspection practices with international best practice by, for instance, investing in training of inspectors and giving them authority to initiate civil proceedings and levy fines against violators (ILO, 2015b).

Although the importance of reinforcing labour inspectorates is more frequently stressed for emerging and developing countries, its relevance to developed countries cannot be overlooked. Indeed, the size of the undeclared economy remains significant in several developed countries, with values in the order of 20 per cent of GDP or higher in some Southern and Eastern European countries (ILO, 2014d). Certain countries, such as Australia, France and the United Kingdom, have recently implemented targeted programmes to train inspectors in occupational safety and health issues as a key component of broader labour inspection plans, especially in specific sectors such as agriculture and construction.

Public employment services (PES) – an important aspect of labour administration – are typically responsible for a wide range of employment and social policies (Kluve, 2010 and 2016). However, the resources devoted to these services are often limited, especially in low-income countries.<sup>14</sup> Yet, they can be used to direct programmes to target the poor more effectively. In addition, private services can also complement them in ways that facilitate the achievement of decent work goals.<sup>15</sup>

Second, it is crucial to establish adequate capacity and the appropriate institutional setting within which to collect taxes and deliver programmes. Without such tax and benefit institutions, the fight against poverty will not be won. Considerable efforts will be needed to strengthen (i) the tax collection system through a mix of incentives and support, as well as mandatory declarations and penalties in an effort to enlarge the tax base and reduce informality; and (ii) the institutional set-up for the delivery and assessment of employment and income support.

With respect to the former, providing support services to firms for licensing and registration with VAT and tax offices can act as an important incentive for firms which are willing to formalize. Simplifying the administration of the tax system is particularly important with regard to VAT in sectors such as tourism, which, if applied unevenly across products and services, may significantly reduce compliance with the tax system (USAID, 2005). Similarly, as highlighted above in the case of in-work benefit schemes, strengthening the linkages between tax administration and social security offices remains crucial in order to ensure that income support is directed towards those most in need.



In terms of the latter (programme delivery and administration) regular assessments need to be introduced and, in some cases, strengthened to ensure that benefits are adequate. This would entail setting up tracking systems as an important complement to the reinforcement of social security institutions, tax collection and the labour inspectorate.

Third, social dialogue is an important means by which to enforce the labour market dimension of poverty alleviation (box 6.9).<sup>16</sup> Indeed, there is evidence to suggest that industrial relation systems can have a significant impact on poverty, in part by achieving greater public spending on social security (Plasman and Rycx, 2001). In developed countries, social dialogue has been effective in reducing poverty, in part by recognizing the links between poverty and labour markets. In Europe, for instance, social dialogue and engagement by all social partners has helped to establish regulations and policies which focus on employment-intensive and pro-poor growth. Similarly, engagement by all social partners can ensure that labour market regulation is updated and aligned with the changing nature of working and contractual conditions and arrangements. Ultimately, social dialogue is more than just democratic governance but a means of representation on a broad range of issues that extend within and beyond the labour market.

However, certain prerequisites for effective social dialogue are needed to ensure that countries can combat poverty effectively, including the following: (i) strong, independent workers' and employers' organizations in order to ensure that these groups have the required technical capacity and the requisite access to relevant information to play an informed role in social dialogue; (ii) political will and commitment to engage in social dialogue on behalf of all parties; (iii) respect for the fundamental rights of freedom of association and collective bargaining in order to ensure an environment that allows social partners to operate freely, without fear of reprisal; and (iv) appropriate institutional support (ILO, 2013).

#### Box 6.9

##### **Inclusion of social partners in poverty-reduction dialogue has helped to shift the focus and support more informed policy-making processes**

The efforts of the International Confederation of Free Trade Unions (ICFTU) to engage in dialogue with the IMF and World Bank in the 1990s helped to shift the Bretton Woods Institutions' focus away from an exclusively economic growth approach to a broader spectrum of inequality measures and living standards. It was around this time that labour unions were invited to contribute to poverty reduction strategy papers (PRSPs) – the documents required by the IMF and World Bank before a country can be considered for debt relief (ILO, 2004). Involving labour unions in the PRSPs provided unions with the opportunity to take part in the policy-making process and to engage with non-governmental organizations and other national and international bodies. Most

importantly, it allowed labour unions globally to act in solidarity with regard to promoting pro-poor and pro-worker reforms and strategies (ibid.).

Moreover, the involvement of employers' organizations has helped to support more evidence-based processes to achieve poverty reduction. For instance, the Indonesian national employers' organization (APINDO) enlarged its agenda to include trade issues in connection with preparations to engage in the process, and embarked on documenting obstacles to trade that produced negative effects on intra-provincial trade and advocating for their removal. APINDO's efforts led to the inclusion of the identified concerns on the policy reform agenda (ILO, 2006).

In this respect, social dialogue within the sphere of poverty reduction and the labour market is confronted by a number of challenges. In fact, a number of preconditions for effective social dialogue of this nature are often absent in developing country contexts, not least the freedom of association and collective bargaining. Broad participation and coherence across ministries is crucial; for instance, greater involvement on the part of labour ministries is important to ensure that labour market issues receive adequate attention to complement anti-poverty strategies in the areas of health and education (Buckley and Casale, 2006). Typically, poverty reduction strategies are heavily influenced by ministries of health and education, which is understandable given the fundamental importance of these factors for any degree of development or poverty alleviation, not least human capital development.

Employers' organizations have a clear interest in enhancing enabling environments for businesses, which has direct implications for poverty reduction. For instance, the expansion of functioning capital and financial markets not only enhances access to credit for the poor, but helps to streamline business processes and promote economic growth and productivity. Indeed, the private sector is often involved in matters related to poverty reduction, owing to its role as a provider of jobs and driver of economic growth, as recognized in the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda of the Third International Conference on Financing for Development. In this regard, a range of priorities for employers' organizations are directly tied to poverty alleviation, including macroeconomic and political stability, transparent and sustainable fiscal policy, good governance and rule of law, developed regulatory environments and established property rights, as well as open and transparent markets. Besides this, social and physical infrastructure development and human capital acquisition have direct implications for establishing enabling environments for business, poverty reduction and expanding productive opportunities for the poor.

The inclusion of labour unions in social dialogue on poverty-reduction strategies is important in order to ensure that the majority of workers have a voice and are represented. Yet, labour unions are often underrepresented in emerging and developing countries due to a range of factors, including the degree of informality in the labour market, political issues and capacity constraints. In recent years, women, as well as other groups which are most vulnerable to poverty, have become increasingly active in trade union movements and also in informal workers' groups, such as collective bodies of self-employed women (ILO, 2016a). This has helped to broaden representation as well as bringing issues to the fore that disproportionately impact women, such as the promotion of decent work for domestic workers and the gender wage gap.

Social dialogue can also assist in aligning the different implications that poverty-reduction efforts have for different stakeholders within common priority areas. Through social dialogue, policies can be put in place and enforced to ensure that responsibility is shared and accountability boundaries drawn. It is in this manner that, together, the twin goals of poverty eradication and the promotion of decent work can be achieved in a sustainable manner.

## Notes

1. National social protection floors guarantee, as a minimum, that, over the life cycle, all those in need will have access to essential health care and basic income security. This includes at least the following four social security guarantees, as defined at the national level: (i) access to essential health care, including maternity care; (ii) basic income security for children, providing access to nutrition, education, care and any other necessary goods and services; (iii) basic income security for persons in the active age group who are unable to earn sufficient income, in particular in the case of sickness, unemployment, maternity and disability; and (iv) basic income security for older persons (ILO, 2014g). For more information please see Chapter 4 for a discussion of Recommendation No. 202 and Convention No. 102 and <http://www.ilo.org/secsoc/areas-of-work/policy-development-and-applied-research/social-protection-floor/lang--en/index.htm> [29 Apr. 2016].
2. Extreme poverty is defined as living on a household per capita income or consumption of less than \$1.90 PPP per day. Moderate poverty is defined as living on between \$1.90 PPP and \$3.10 PPP per capita per day. In the case of developed countries, a relative measure is principally used, which is set at 60 per cent of a country's respective median disposable income. See Chapter 1 for more details.
3. The proportion of women above retirement age receiving a pension is, on average, 10.6 percentage points lower than that of men. Lower female labour participation rates, together with the limited development of non-contributory pensions in some regions, have a significant impact on women's effective pension coverage. The existence of large non-contributory pension schemes can, to some extent, offset both the lower participation rates of women in the labour market and their less favourable employment conditions where social protection coverage is concerned (ILO, 2016a).
4. Social protection and the promotion of income-generating activities for parents and caregivers are important elements in the fight to eliminate child labour in line with the ILO standards on the topic with a view to addressing cross-generational poverty cycles (Chapter 4).
5. These schemes exist either on a universal basis or, most frequently, subject to a means test (ILO, 2014a).
6. ALMPs typically comprise a range of measures, including job-search assistance, training, public works programmes, employment subsidies, self-employment support and microenterprise creation.
7. More specifically, ALMPs aim to reduce unemployment by: (i) matching jobseekers with current vacancies through direct job-search assistance or information provision; (ii) upgrading and adapting the skills of current jobseekers in order to improve their employability; (iii) providing incentives to individuals or firms to take up certain jobs or to hire certain categories of workers; and (iv) creating jobs either in the form of public sector employment or through the provision of subsidies for private sector work (ILO, 2016b).
8. A number of recent research efforts attempting to summarize the field of existing studies point to three widely shared conclusions: (i) moderate increases in minimum wages are unlikely to have significant adverse overall employment effects (Giotis and Chletsos, 2015); (ii) when an employment effect of minimum wage increases is detected, this remains relatively small in magnitude and is equally likely to be either positive or negative (Nataraj et al., 2014; Boockmann, 2010); and (iii) in some instances, minimum wage increases may have modest adverse employment effects on vulnerable groups, such as youth (Broecke, Forti and Vandeweyer, 2015).
9. In Brazil, the share of wage earners living in extreme poverty declined from 3.9 per cent to 1.8 per cent between 2004/05 and the latest year available, while the share of wage earners living in moderate poverty declined from 12.1 per cent to 6.1 per cent in the same period.
10. These schemes often have multiple objectives beyond addressing working poverty and, in many instances, also aim to improve labour market participation and address skill deficiencies.
11. There are two broad categories of "permanent" in-work tax credit: those directed at individual low-paid workers and those targeting low-income families. The former mainly aims to incentivize work, whereas the latter focuses more on alleviating working poverty among low-income households. In several countries, the "family-friendly" dimension of in-work tax credits is further strengthened by the fact that the percentage of the tax credit and the maximum benefit allowed increase with the number of dependent children in the households.
12. These latter effects largely depend on the actual chances that low-skilled workers will experience a sharp wage progression over their working life; a case which appears to be relatively rare (Card, Michalopoulos and Robins, 2001).

13. For instance, despite childless individuals in the United States representing some 20 per cent of all earned income tax credit (EITC) recipients, only 2 per cent of total EITC expenditure went to this group (Eissa and Hoynes, 2008).
14. Nonetheless, recent reforms of PES in a number of emerging and developing countries have focused on increasing the efficiency of services through the introduction of new technologies (e.g. introduction of electronic labour exchange platforms) in an effort to increase the reach of the services (Mazza, 2013).
15. According to the International Confederation of Private Employment Services (CIETT), in 2014 private employment services linked more than 70 million people to the labour market worldwide (CIETT, 2016).
16. Social dialogue involves “all types of negotiation, consultation or information sharing among representatives of governments, employers and workers or between those of employers and workers on issues of common interest relating to economic and social policy” (ILO, 2013).

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The **World Employment and Social Outlook 2016** shows that decent work is paramount in the fight to reduce poverty. The report indicates that poverty has tended to decline in many emerging and developing countries whereas it has tended to increase in the majority of developed countries, including in terms of the incidence of working poverty. The report examines the types of jobs and incomes that the poor have come to rely on, paying particular attention to the quality of jobs and the role of social protection in poverty reduction. It demonstrates that it is not possible to reduce poverty in a sustainable manner unless decent work opportunities are made available to the poor. This finding relies on an analysis of labour market and poverty trends over the past two decades in more than 100 countries, covering a range of developed, emerging and developing countries.

The report examines the role that policies play in enhancing decent work opportunities and reducing poverty. It documents a range of country initiatives in the areas of job-centred economic policies, employment programmes, enterprise development, social protection and social dialogue. The evidence that emerges indicates that well-designed decent work policies can successfully contribute to ending poverty. They can boost productivity, notably in the agricultural sector and in rural areas, where the majority of the poor are located. These policies are also instrumental in facilitating transitions to formal employment in developing countries and improving the earnings prospects of the working poor. The report also discusses the role of international labour standards in reducing poverty and inequality, thus making growth more inclusive, an essential factor in ensuring that the fragmented nature of global production does not leave the most vulnerable individuals behind.

This analysis provides evidence on the role of decent work in achieving the Sustainable Development Goals – which is at the heart of the United Nations 2030 Agenda for Sustainable Development.

ISBN 978-92-2-130387-9



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