



BRIEFING

Social protection and sustainable employment

Key messages

- > **Levels of working poverty are high, with as much as a third of the developing world's workforce living in poverty.** The main challenge is the poor quality of most employment rather than a lack of employment per se. Policies must address not only the creation of jobs but also the quality of jobs.
- > Social protection can make a potentially significant contribution to sustainable employment. However, **in practice, most social protection programs are not delivered at a large enough scale, over a long enough timeframe and with enough predictability and reliability to achieve the potential effects.** Addressing these issues will improve not only sustainable employment outcomes but also the core objectives of poverty and vulnerability reduction.
- > There is strong evidence that **cash transfers increase both the level and quality of poor people's labour market participation and their own account activities** in most cases but that they reduce labour market participation precisely when and where they should—in the case of children and the elderly.
- > **Programs to increase income from self-employment and subsistence activities—embodied by the graduation approach—should not distract from policies to create quality jobs.** Those using transfers to develop micro and survivalist businesses such as petty trading may fall back into their previous livelihood once the transfer comes to an end. In the long term, attention must be paid to the wider labour market and the quality of work available therein.

Introduction

This is a good moment to deepen our understanding of the relationship between social protection and sustainable employment. Most workers in low-income countries are living in poverty and in some regions the absolute number of working poor is growing. Many economies are seeing significant growth but

much of it is 'jobless' or creates and depends on vulnerable and poorly remunerated work. Low and middle-income countries are dominated by informal employment, and many young people and women are not in the labour market. At the same time, coverage of social protection for those outside the labour market (or the working poor within it) is limited in most low and middle income countries. Social protection increasingly focuses on improving individual capacity, asset ownership and productivity, with the expectation that these will enable households to sustain incomes without a cash transfer. Many other programs are targeted at labour-constrained households—those least likely to achieve sustained income levels without support. In this briefing note we outline the main messages from a longer paper exploring one specific question: the role of social protection—actual and potential—in achieving sustainable employment.

Defining social protection and employment

This review defines social protection as cash or in-kind transfers provided by the state to compensate for lack of, or insufficient, income. The term employment is taken to include paid wage labour opportunities in the formal and informal economy, as well as self-employment in 'own-account work' including agricultural smallholdings, micro-enterprises and other activities. Quality of employment is determined by the type of job, working conditions, remuneration, contract, benefits, and safety at work. Types of employment include formal (which is regulated by national labour legislation, income taxation, and entitlements to certain rights and benefits such as advance notice of dismissal or paid leave), informal (which does not have the features outlined above). Here we focus on sustainable employment which is: ongoing and secure, offers adequate remuneration and working conditions and is provided by the economy without external intervention (i.e. is market-based rather than sponsored).

Global employment trends

Global unemployment rose in 2012 after two years of decline, with three-quarters of this increase in developing regions—East Asia, South Asia and sub-Saharan Africa. However, in sub-Saharan Africa and South Asia, unemployment remains relatively low (4%), pointing to a specific challenge in the poorest regions: **it is the quality of available employment (most of it low-productivity and poorly remunerated) rather than a lack of employment per that is the main challenge.** This challenge is especially acute given the slow pace of structural economic transformation (it is not clear where better paid and more productive jobs are going to come from) and the continuing dominance of employment in the agricultural and self-employment sectors which themselves are characterised by poor quality employment. Youth unemployment remains a challenge with 75 million out of work and many more millions engaged in low productivity and insecure jobs. Data, where they exist, on **disability and employment** are similarly stark: the unemployment rate among people with disability in developing countries is estimated to be more than 80 per cent.

Levels of working poverty are high. Altogether, an estimated one-third of the developing world's workforce lives in poverty. In 2013, of an estimated 839 million workers globally living in poverty, 375 million experienced 'extreme' poverty (living on less than US\$1.25 a day). Working poverty fell from 67 per cent in 1991 to 54 per cent in 2001 and 27 per cent in 2013 (ILO 2014). However, the rate of reduction has slowed since the financial crisis and is expected to slow further. Vulnerable employment (comprising own-account and contributing family workers) is expected to decline but at a slower rate. High numbers of vulnerable workers are likely to further restrict growth prospects due to their limited consumption.

Impacts of cash transfer programs on employment

In theory, cash transfers can:

- > enable beneficiaries to overcome supply-side barriers to wage and own-account employment such as financial and human capital constraints.
- > stimulate local demand for goods and services, which promotes local economic development and market-based labour demand (spillover effects).
- > in conjunction with complementary programming, enhance the supply and demand effects listed in the two above points.

In practice, these impacts depend on the sufficiency of the transfer and the economic context.

Cash transfers increase labour market participation and employment, particularly among women, by reducing financial barriers to participation and job search. In Brazil, recipients of the *Bolsa Escola* and *Bolsa Familia* programs used increased income to finance transport and alternative child care. In Namibia, cash transfer provision was followed by increased labour force activity by women and increased job-search activity by men and women. In South Africa, the labour force participation rate of those receiving cash transfers increased by 13 per cent to 17 per cent compared to those in similar households not receiving transfers, again with the greatest increase for women. Similarly, receipt of the old-age pension in South Africa had a significant positive impact on labour supply and job search.

When enough to compensate for lost income, transfers can reduce labour market participation among those outside working age, notably children and the elderly, who frequently work to support their households. In South Africa, evidence has shown that the elderly withdraw from labour markets after receiving the pension. In Cambodia, a conditional cash transfer reduced child labour by 10 per cent.

Cash transfer receipt also impacts directly on livelihoods activity. Findings from unconditional cash transfer pilots in India have resulted in an increase in labour and work and a switch from insecure casual labour to self-employment. In this case, as well as in the Bangladesh Targeting the Ultra Poor Programme, provision enabled recipients to shift their location within a highly segmented labour force, moving out of the most exploitative forms of employment and into potentially more sustainable forms.

Less clear is the extent to which cash transfers support entrepreneurship by providing a safety net to enable recipients to develop skills and to take entrepreneurial risks. Evidence suggests that those using transfers to develop micro-survivalist businesses such as petty trading may fall back into their previous livelihood once the transfer came to an end.

The impact of such interventions on sustained employment gains depends partly on:

- > value of the transfer relative to the depth of poverty of receiving households, since a greater share of the transfer directly consumed rather than used for entrepreneurial purposes where it accounts for a smaller proportion of the poverty gap;
- > duration of provision, which is neither predictable nor sustained in many low-income contexts;
- > concentration of provision (the number of beneficiaries in a location);
- > nature of the local economy and its ability to accommodate the additional goods and services provided by new suppliers.

Public employment programs

In many contexts, the primary mechanism for supporting the working age poor is public employment programs (PEP) (or public works, workfare, cash for work, etc). PEPs provide non-market employment sponsored by governments or donors. In theory, PEPs can:

- > provide support during temporary periods of labour market disruption and address seasonal and demand-deficit unemployment.
- > provide work experience, skills training and assets that can improve productivity or labour market engagement.
- > provide work opportunities for those otherwise excluded from labour markets, those who have chosen not to participate, and those incorporated in the labour market but on adverse terms.

In reality, with some exceptions, failures at design phase mean that most PEPs fail to achieve their potential. First, they provide only short-term or one-off support. These may address temporary labour-market disruptions effectively, but to tackle chronic under or unemployment or the challenge of working poverty requires longer term interventions. **Links between PEP and sustainable employment outcomes are therefore limited beyond immediate benefits accruing from wage receipt**, which mirror the benefits of cash transfer receipt outlined earlier. Second, the low wages paid under many schemes can replicate poor labour returns in the open labour market, resulting in extreme poverty among workers.

There is little evidence that short-term PEP employment provides work experience and skills training that can promote labour market engagement. Without increased demand for low-skilled labour, and with few skills transfers occurring through most PEPs, there is a risk that such programs may result primarily in the substitution of one set of workers for another, rather than aggregate increases in employment. Most PEP income is consumed due to the deliberately low wages provided so investment in assets that might help to increase household productivity is limited.

The assets created through PEPs can also improve agricultural productivity, either of beneficiary households or the wider community, and stimulate increased labour demand. However, largely due to the methodological complexity of identifying causal links between public works and productivity, **there is little evidence to show the extent of such productivity gains or the distribution of direct and indirect employment opportunities resulting from them.**

PEPs can increase labour-market participation by providing employment opportunities to populations socially or spatially excluded from wage labour, for example in geographical locations where market demand for labour is limited. South Africa's Zibambele program was designed to support poor female-headed households excluded from the labour market. It achieved a register of labourers which was 97 per cent female and brought many women into the labour force for the first time. Few PEPs have included people with disability. Some smaller-scale programs have created disability-specific employment through income-generation initiatives targeted exclusively to people with disability, but these have been criticised for not reflecting market demands or participant skills and interests.

Programs are more likely to promote sustainable employment when they accommodate the opportunity cost of program participation. PEP design often incorrectly assumes that the labour of participants is unused, whereas most participants use their labour for a variety of low productivity and unremunerated domestic, own-account or even casual wage labour activities before PEP employment. **PEP participation therefore involves an opportunity cost in terms of income or production foregone.** Programs can be designed to maximise household income by accommodating household responsibilities, own-production labour demands and also participation in casual wage labour opportunities that may arise during PEP employment. For example, PEPs can provide part-time employment, employment during periods of limited external labour demand, and permit the participation of substitute labour from within the household.

The provision of additional work opportunities can address underemployment, as documented by BRAC's Targeting Ultra Poor Programme under which workers were able to increase hours worked. However, increased labour demand can mean domestic responsibilities are passed from program participants to children. These effects were found, varying by age and gender, among households participating in PEPs in India and Ethiopia.

Conclusion

The nature of employment trends in developing countries has three main implications for social protection.

- > First, given the number of working poor, **there is a role for social protection in meeting the basic needs of the working age poor**, both those incorporated into the labour market and engaged in productive activities, but on adverse terms, and the unemployed.
- > Second, the high prevalence of risk associated with both vulnerable employment and agricultural sector employment means that **most workers in developing countries are vulnerable to fluctuations in income and require support from risk-based social protection**.
- > Third, given the informal nature of much employment, **contributory formal sector provision (social insurance) is neither a viable nor adequate response to poverty in the short or medium term**.

For now, the potential contribution of social protection to sustainable employment remains limited by the design of social protection programs—but these are limitations that can be overcome with improved program design that better recognises employment trends (especially the need to address quality as well as quantity) and incorporates the range of vulnerabilities associated with both the quantity and the quality of labour opportunities.

The full paper *Social Protection and Sustainable Employment*, with references to the facts, trends and data discussed here, is available at www.dfat.gov.au. The views expressed in this brief are those of the authors and not necessarily those of DFAT.