



Australian Government  
Department of Foreign Affairs and Trade



**Social protection and  
sustainable employment**



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# Social protection and sustainable employment

**March 2014**

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<sup>1</sup> The Overseas Development Institute would like to thank the review team for the very useful comments provided, in particular Tom Tanhchareun, the Department of Foreign Affairs and Trade, for his detailed and constructive input.

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# Contents

<b>Abbreviations</b>	<b>vii</b>
<b>1. Introduction</b>	<b>1</b>
1.1 Rationale and objectives	1
1.2 Definitions	2
1.3 Key labour market and social protection terms	6
<b>2. Employment trends</b>	<b>9</b>
2.1 Global trends	9
2.2 Discussion and implications	12
<b>3. Theories of change linking social protection and employment</b>	<b>14</b>
3.1 Supply-side barriers to wage labour and own-account employment	14
3.2 Demand-side barriers to employment	16
3.3 Enhanced supply and demand effects through complementary and graduation programming	18
3.4 Limitations to theories of change with the working poor	20
<b>4. Social protection and sustainable employment—the evidence base</b>	<b>21</b>
4.1 The nature of the evidence base	21
4.2 Employment outcomes under core social protection instruments	21
4.3 Employment outcomes with complementary programming and graduation	25
4.4 Social protection and social exclusion—outcomes for the employment of marginalised groups	29
4.5 The evidence on social protection, sustainable employment and disability	30
4.6 Conditions for sustainable employment creation through social protection	31
<b>5. Conclusion</b>	<b>34</b>
5.1 The role specific social protection instruments might play in contributing to sustainable employment	34
5.2 The wider systemic, design and implementation issues critical for maximising the role of social protection	36
<b>References</b>	<b>38</b>
<b>Annex A—Working poor indicators at US\$1.25 and US\$2 a day</b>	<b>43</b>
<b>Annex B—Employment shares by economic class</b>	<b>44</b>
<b>Annex C—The traditional model of the social protection—employment nexus</b>	<b>46</b>

## Figures, tables and boxes

Figure 1: Dimensions of sustainable employment	5
Figure 2: Global youth unemployment and rate 1991–2012	10
Figure 3: Supply-side barriers to wage labour and own-production	15
Figure 4: Poverty reduction through improved engagement with the labour market	15
Figure 5: Stimulation of local economic development	17
Figure 6: The input and sequencing model for graduation under Ethiopia's Productive Safety Net Programme	19
Table 1: Disability prevalence rates in selected country workforces (%)	11
Table 2: Potential impacts on sustainable employment outcomes	35
Table A1: Working poor indicators, world and regions (US\$1.25 a day)	43
Table A2: Working poor indicators, world and regions (US\$2 a day)	43
Table B1: Employment by economic class in developing world and regions, both sexes	44
Box 1: Economic activity, work and production impacts of cash transfer pilots in India	22
Box 2: Active labour-market policies—case study on South Africa's Expanded Public Works Programme, phases 1 and 2	28
Box 3: Can social protection address social exclusion in labour markets—case study on Mexico's <i>Oportunidades</i>	29
Box 4: Social transformation through public works employment—case study on South Africa's <i>Zibambele</i> Road Maintenance Programme	30

# Abbreviations

ALMP	Active labour market policies
BRAC	Bangladesh Rural Advancement Committee
CGAP	Consultative Group to Assist the Poor
DFAT	Department of Foreign Affairs and Trade
DFID	Department for International Development
EPWP	Expanded Public Works Programme
FAO	Food and Agriculture Organization
ILO	International Labour Organization
IZA	Institute for the Study of Labor
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
OECD	Organisation for Economic Co-operation and Development
PEP	Public Employment Program
PSNP	Productive Safety Net Programme
PWP	Public works programs
UNESCO	United Nations Educational Scientific and Cultural Organization
WHO	World Health Organization



# 1. Introduction

## 1.1 Rationale and objectives

This is a good moment to deepen understanding of the relationship between social protection and sustainable employment. Most workers in low-income countries are living in poverty. The rate of reduction in the share of the working poor is slowing and the absolute number of working poor is growing in some regions. Though many economies are seeing significant growth, much of it is ‘jobless’ or, more commonly, entails the creation of vulnerable and poorly remunerated work. Both underemployment and unemployment represent serious challenges in low and middle-income countries. These countries are dominated by informal employment, and many young people and women are not in the labour market.

These issues are of interest to development policymakers and practitioners and are reflected in the post-2015 focus on ‘leave no one behind’.<sup>2</sup> Yet the ‘jobs agenda’ has far more questions than answers, some of which this paper seeks to address. One question is the contribution of social protection—notwithstanding its principal role of poverty alleviation—to sustainable employment, whether by directly providing employment or by promoting livelihoods and supporting access to wage employment.

This paper also seeks to contextualise the current debate about graduation in relation to social protection and sustainable employment as well as aspirations associated with graduation and resilience. The first aspiration is that interventions can improve livelihoods to the point that households can sustain consumption above poverty levels even in the face of shocks and stresses, enabling graduation out of poverty. These interventions, under the moniker of ‘graduation programs’, typically comprise a package of support that includes social assistance. The second aspiration is that if resilience can be achieved, then households will no longer require social protection. The prospect of relieving the burden on social protection budgets appeals to developing country policymakers and donors. However, the employment and labour market issues presented in this paper have important implications for the feasibility of graduation programming.

This paper explores how and when social protection contributes to sustainable employment and reliable increases in income for poor households, in middle and low-income countries. It considers social protection as a stand-alone intervention and in combination with complementary interventions, including active labour market policies (ALMP). This paper has been prepared for staff working on Australia’s aid program as well as the wider body of social protection policymakers and programmers working on employment in developing countries. A literature review methodology was adopted to inform this paper. This includes a review of the conceptual underpinning this issue, an appraisal of international experience, developing country and Organisation for Economic Co-operation and Development (OECD) experience, and policy and programming implications.

The first section of this paper sets out definitions relating to social protection and employment, the main concepts adopted within employment and social protection discourses and the analytical framework used. The second section summarises global and regional employment and unemployment trends and the implications for social protection in developing countries. The third section outlines the theories of change used in programs linking social protection and sustainable employment. These include the effects of social protection on supply and demand-side barriers to employment, the effects of complementary programming and the impacts on social exclusion from labour markets. The fourth section reviews evidence for each of theory of change and presents two case studies, one examining the ways of linking ALMPs

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<sup>2</sup> ‘Leave no one behind’ was a central call in the report of the United Nations (UN) High Level Panel on the Post-2015 Development Agenda released in May 2013.

with social protection, and the other the challenge of social exclusion. The final section draws out the implications of the theory and evidence and presents conclusions relating to policy and programming design.

## 1.2 Definitions

The key terms of relevance to social protection and employment discourses are defined and briefly discussed here.

### 1.2.1 Social protection

This review defines social protection as cash or in-kind transfers provided by the State to compensate for lack of or insufficient income.<sup>3</sup> This follows the International Labour Organization's (ILO) definition of social security, namely<sup>4</sup>:

The notion of social security covers all measures providing benefits, whether in cash or in kind, to secure protection, inter alia, from: lack of work-related income (or insufficient income) caused by sickness, disability, maternity, employment injury, unemployment, old age, or death of a family member; insufficient family support, particularly for children and adult dependants; general poverty and social exclusion.<sup>5</sup>

This definition is consistent with the right to social security as set out in Article 9 of the International Covenant on Economic, Social and Cultural Rights (2007), defined as:

... the right to access and maintain benefits, whether in cash or in kind, from:

- (a) lack of work-related income caused by sickness, disability, maternity, employment injury, unemployment, old age, or death of a family member;
- (b) unaffordable access to health care;
- (c) insufficient family support, particularly children and adult dependents (UN Committee on Economic, Social and Cultural Rights 2008).

Following this approach, the primary objective of social protection is to provide secure welfare to compensate for the lack of income or insufficient income so basic human needs are met. This may take the form of social insurance or non-contributory social assistance. This paper focuses on social assistance, as social insurance is minimal in most low and middle-income countries<sup>6</sup> and is concentrated in less poor segments of the labour force. While recognising the key role of informal social protection, the focus here is on State-provided social protection.

Social assistance enables beneficiaries to cope with chronic poverty and limit the impact of shocks. Typically in low and middle-income countries, cash transfers are the main form of social assistance for individuals unable to participate in the labour market (including children, the elderly and those with disability) and households without labour. For households with labour, provision of cash or in-kind transfers (popular in Latin America) or public employment programs (PEP) (favoured in Africa, South Asia and some East Asian and Pacific countries) is prevalent.

Some countries use household labour availability as a criterion for exclusion from eligibility and adopt high dependency ratios as a proxy for poverty. This is common in sub-Saharan Africa where labour availability is frequently used as a tool to ration eligibility.

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3 DFAT's—formerly the Australian Agency for International Development—Social Protection Framework defines social protection as 'Publicly funded initiatives that provide regular and predictable cash or in-kind transfers to individuals, households and communities to reduce poverty and vulnerability and foster resilience and empowerment'. This definition speaks directly to DFAT's priorities in social protection. Given that this paper focuses on labour and employment, and targets readers outside of DFAT, ILO definitions are drawn on.

4 The paper excludes consideration of provisions relating to affordable health care which is included in the ILO definition of social security.

5 ILO Global Extension of Security: [http://www.socialsecurityextension.org/gimi/gess/ShowGlossary.do?GLOSSAIRE\\_LETTRE=s&GLOSSAIRE\\_LANG=EN](http://www.socialsecurityextension.org/gimi/gess/ShowGlossary.do?GLOSSAIRE_LETTRE=s&GLOSSAIRE_LANG=EN)

6 Social insurance coverage is less than 3 per cent in low and lower middle-income countries.

Notwithstanding the growing interest in social protection as a key poverty alleviation and development tool over the last decade, coverage in developing countries, particularly low-income ones, is extremely low and provision is not widely perceived as a key component in the state—citizen contract:

Despite the existence of international instruments regarding the provision of social security which have provided a legal and normative basis for provision for more than six decades, in the form of the seminal 1952 ILO convention<sup>7</sup> and the inclusion of social security provision in various forms ... in a range of human rights instruments, only 20% of the world's population are estimated to have adequate social security coverage, with over a half lacking any kind of social security coverage at all. Coverage is particularly low in developing countries, and varies by region, with recent World Bank analysis indicating that effective coverage may be as low as 1% of the population in sub-Saharan Africa (SSA) (Fiszbein et al 2013). While in developed countries, mainly in Europe, provision is broadly based on the core assumption that the social contract requires the state to ensure some form of income floor for its citizens, (a Guaranteed Minimum Income, or GMI) no such assumption guides policy in most developing countries, with the result that 80% of the global population has no access to any formal social security protection (Felice 2010). The global social security gap entails 50% of children living in poverty, 60% of the elderly receiving no form of pension, and 30% of the world's population having no access to essential health care. (Cichon 2013) (McCord 2013c)

Despite its limited coverage, social protection has increasingly been ascribed goals beyond basic protection. These include livelihood promotion and sustainable poverty reduction through graduation out of poverty, social, political and economic stabilisation, and even the promotion of national growth. These goals may be compromised by the limited scale of provision.

This paper discusses the evidence on the extent to which, in this context, social protection can—directly and indirectly, and in association with other interventions—contribute to sustainable employment outcomes.

### 1.2.2 Employment

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', which includes agricultural smallholdings, microenterprises and other activities. This follows the definition of 'jobs' as set out in the *World Development Report 2013: Jobs*—'activities that generate actual or imputed income, monetary or in kind, formal or informal' (World Bank 2012a). The quality of employment is determined by the type of job, working conditions, remuneration, contract, benefits, and safety and security at work. Key types of employment are defined here.

#### Formal employment

Formal employment comprises employment governed by national labour legislation, income taxation, social protection or entitlement to certain employment benefits (for example, advance notice of dismissal, severance pay and paid leave). The provision of insurance-based social protection is associated with formal employment status.

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<sup>7</sup> As of December 2008, Convention No. 102 has been ratified by 44 ILO member States and most OECD countries. Regionally, European and Central Asian countries account for the highest number of ratifications (30), followed by American and Caribbean countries (7), African countries (5), and Asian and Pacific countries (2). <http://www.ilo.org/gimi/gess/ShowTheme.do?tid=722>

### Informal employment

Informal employment comprises own-account workers, namely those employed in their own informal sector enterprise or engaged in the production of goods exclusively for final use by their own household<sup>8</sup>, contributing family workers<sup>9</sup>, members of informal producers cooperatives, and employees whose employment relationship is not subject to national labour legislation, income taxation, social security benefits provided by their employers or entitlement to certain employment benefits (for example, advance notice of dismissal, severance pay and paid leave) (ILO 1981). Those in informal employment are typically excluded from formal social insurance provision.

### Decent work

The decent work concept was first set out in 1999 by the ILO as a comprehensive concept of work and the workplace. It is defined as ‘opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity’ (ILO 1999). Decent work refers to:

- > employment that is productive and delivers a fair income
- > security in the workplace
- > social protection for families
- > prospects for personal development and social integration
- > freedom for workers to express concerns, organise and participate in the decisions affecting their lives
- > equality of opportunity and treatment for all women and men.

### Vulnerable employment

Vulnerable employment is defined as the employment status of own-account workers and contributing family workers.<sup>10</sup>

### Sustainable employment

Sustainable employment has become a priority concern in the wake of the employment crisis that followed the 2008–09 financial crisis (for example, the *World Development Report 2013: Jobs*—World Bank 2012a).

There is no generally accepted definition of ‘sustainable employment’. This report defines it as:

- i. employment or livelihood that is ongoing and secure
- ii. employment that offers adequate<sup>11</sup> conditions and remuneration to enable basic needs to be met
- iii. work that is provided by the economy without external intervention (such as aid). This includes both market-based employment or sustainable and significantly sized state sponsored employment programs such as India’s national public works programme, the Mahatma Gandhi National Rural Employment Guarantee Scheme which is underpinned by legislative employment guarantees.

This definition reflects the experience of sustainability from the worker’s perspective (the first two dimensions) and the broader economic context (the third dimension)—Figure 1.

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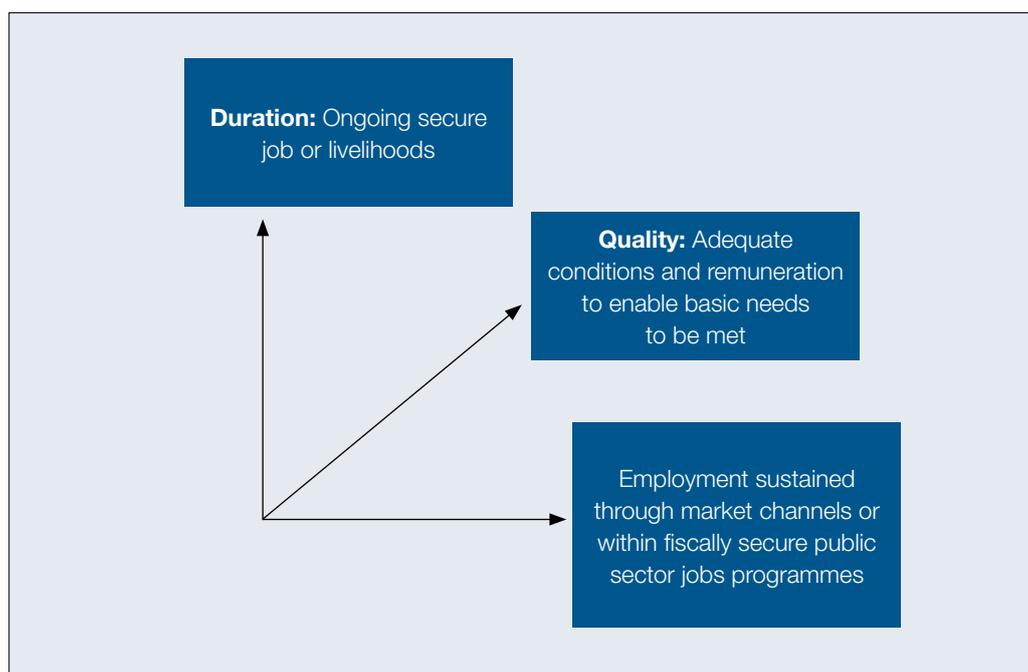
8 Own-account workers are self-employed, working on their own account or with one or more partners, with remuneration directly dependent upon the profits derived from the goods and services produced.

9 Contributing family members, also known as unpaid family workers, are self-employed own-account workers in a market-oriented establishment operated by a related person living in the same household.

10 <http://mdgs.un.org/unsd/mdg/Metadata.aspx?IndicatorId=0&SeriesId=760>

11 This report does not define the term ‘adequate’. It takes it to mean, as a minimum, sufficient income to meet basic household needs.

Figure 1: Dimensions of sustainable employment



Attaining all three dimensions of sustainable employment simultaneously would contribute to a sustained reduction in poverty. The prospects of this, however, are limited by the prevalence in developing countries of vulnerable work, which is neither decent nor provides sufficient income to meet basic needs. Consequently, many workers remain in extreme poverty.

Ongoing secure employment with adequate remuneration provided through a social protection intervention, such as an Employment Guarantee Scheme, may be sustainable from the worker's perspective, but it is not from the market's perspective given its reliance on public or external financing. Equally, while most employment in low-income contexts is 'vulnerable' and may not conform to the ILO's decent work concept, it may nonetheless offer sustainable market-based opportunities for improved productivity or remuneration sufficient to alleviate the poverty of workers. There may therefore be trade-offs between the dimensions of sustainable employment. This report considers all three dimensions of sustainability independently, rather than considering only employment which conforms to all three dimensions simultaneously.

### 1.2.3 Unemployment

Three discrete types of unemployment are generally considered—frictional, structural and seasonal or cyclical unemployment. A fourth type may be added, which is 'demand deficient' or 'transformational' unemployment (McCord and Meth 2013). Each type requires different policy responses.

#### Frictional unemployment

Frictional unemployment is a temporary form of unemployment resulting from job changes or short-term lack of mobility preventing continuous employment. It occurs as a result of time lags in the functioning of labour markets, such as the time taken in moving from one job to another.

#### Structural unemployment

Structural unemployment is joblessness caused not by lack of demand, but by changes in demand patterns or obsolescence of technology and requiring retraining of workers and large investment in new capital equipment.

### Seasonal or cyclical unemployment

Seasonal or cyclical unemployment occurs when workers lose their jobs due to business-cycle fluctuations relating to normal up and down movements in the economy as it cycles through booms and recessions, or the cyclical employment associated with the annual agricultural cycle.

### Demand deficient or transformational unemployment

Demand deficient or transformational unemployment is the consequence of the simultaneous occurrence of different forms of unemployment, combining elements of structural unemployment with disguised unemployment (hidden due to the high proportion of working poor and underemployed) and demand – deficit unemployment, resulting from labour market failure (United Nations Economic Commission for Africa 2005). It represents the labour market consequence of the ongoing and incomplete economic transformation underway in many low-income countries.

## 1.2.4 Underemployment

Underemployment has several characteristics: where workers are engaged in a productive activity but not for the full amount of time desired (for example, part time or ad hoc); where workers are employed for less than the rates of remuneration desired (for example, working full time for less than a subsistence wage); or where workers have skills exceeding those required by the job. The first two characteristics are of particular relevance in low and middle-income countries and are often associated with the low productivity work that is dominant in the bottom segments of the labour market.

## 1.3 Key labour market and social protection terms

The concepts used in this report that are central to analysing the relationship between social protection and employment are defined here.

### 1.3.1 Labour market exclusion

This is when a subset of the labour force—often those subject to social exclusion due to social and economic characteristics such as gender, ethnicity or disability—are actively or passively excluded from participating in the labour market and/or employment therein.

### 1.3.2 Adverse incorporation

This accommodates the fact that while the employed may be economically included, the terms of inclusion may be highly adverse with poor working conditions and low levels of remuneration resulting in impoverishment and exploitation (Wood 1999; Hickey and du Toit 2007).

### 1.3.3 Graduation

This refers to the movement out of extreme poverty (and hence eligibility for social protection) and into food security and sustainable livelihoods. Grosh (2014) describes this as:

... raising the level or stability of the autonomous income of recipients of social assistance through linkages between the basic income support provided by social assistance and some other program elements—asset transfers, financial inclusion, training, job search assistance or the like.

Graduation is typically assessed against the achievement of indicators relating to nutrition, incomes, asset ownership, access to healthcare and education, and self-confidence.<sup>12</sup> This is sometimes described as ‘threshold graduation’. An alternative conception, ‘sustainable

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<sup>12</sup> <http://graduation.cgap.org/about/>

graduation', appraises graduation against the process of overcoming poverty over time through the acquisition of resilience to future shocks (Devereux 2013) based on a non-linear understanding of household poverty reduction (Sabates-Wheeler and Devereux 2011). In some instances the term graduation is also used to describe the process of exiting beneficiaries from the rolls of social assistance, without reference to sustainable welfare gains (Grosh 2014).

Slater et al (forthcoming 2014) note these three main approaches to achieving graduation found in low and middle-income countries:

1. *Simple social transfers*—where transfers alone contribute in the long term to increases in human capital, especially by ensuring improved health, nutrition and education. Examples include the Program Keluarga Harapan, the first conditional cash transfer in Indonesia, and the Child Support Grant in South Africa.
2. *Sequencing*—where beneficiaries gradually move from programs supporting and stabilising their basic consumption to those enhancing their productivity. Examples include the Vision 2020 Umurenge Programme in Rwanda and the transition from the Public Welfare Assistance Scheme to the Food Security Pack and Agricultural Credit system in Zambia.
3. *Layering*—where households simultaneously receive different kinds of support. Examples include the Chars Livelihoods Programme in Bangladesh and the Productive Safety Net Programme (PSNP) in Ethiopia. Slater et al (forthcoming 2014) note that current donor approaches for achieving graduation might be over-emphasising increasing non-labour assets and productivity and not paying enough attention to enhancing labour productivity. They also express concerns that programs tend to assume that all beneficiaries have the capability or desire to be entrepreneurs or business people, when all too often what they really want is a job. A wider view of graduation, with a focus on getting jobs, may be required.

#### **1.3.4 Labour-constrained households**

Labour-constrained households experience high dependency ratios, with a low number of members of working age in relation to those not of working age or unable to work. Households that do not have any working-age members are sometimes described as households without labour capacity.

#### **1.3.5 Labour availability**

Labour availability is used in some countries as a criterion for exclusion from eligibility for social protection, with high dependency ratios being adopted as a proxy for poverty. This approach is common in sub-Saharan Africa where the HIV/AIDS pandemic has had a significant impact on the demographic composition of households and dependency ratios, and where labour availability is used as a tool to ration eligibility. One example of this is Zambia where, in 2006, the government differentiated social protection provision for households with labour (or 'viable' households) and those without labour ('non-viable' or destitute households). The extent to which labour availability is a key driver of poverty (and hence an appropriate determinant of eligibility for social protection) has been challenged (Ellis 2012). This is discussed later.

Because households with differing labour availability access, use and benefit from social protection differently, labour availability influences the relationship between social protection and sustainable employment outcomes. To avoid a simplistic binary distinction (with or without labour) it is important to recognise that labour availability is a continuum. This somewhat artificial distinction can have a significant impact on program design. For example, in Ethiopia's PSNP, labour-constrained households receive unconditional cash transfers while 'with labour' households have to participate in public works activities, a pattern of provision widely adopted in low-income countries.

### **1.3.6 Labour and social exclusion**

Labour capacity is not the only constraint to participation in wage employment or self-employment. Frequently, individuals with labour capacity are excluded from labour markets despite having the appropriate skills, knowledge and experience. The basis of this exclusion is often social or identity based, with labour markets segmented in many parts of the world on the basis of gender, caste, ethnicity, race, disability and other identity markers. Hence identity affects employment. This has implications for social protection, which is sometimes used to tackle stigma and exclusion.

### **1.3.7 Financial exclusion**

Financial exclusion refers to the inability, difficulty or reluctance to access appropriate 'mainstream' financial services such as banking, savings, affordable credit and insurance. The process of accessing these types of services among those previously excluded is known as financial inclusion.

### **1.3.8 Active labour-market policies**

ALMPs refer to policies that aim to help or encourage the unemployed into work. They include policies on job placement services, job search assistance and skills training to address supply-side factors relating to:

- > frictional and structural unemployment
- > wage subsidies to address demand-side factors by lowering the price of labour
- > unemployment benefit design characteristics which reduce the possibility of labour market withdrawal, such as temporary unemployment provision or rendering provision of benefits contingent on active job search or training ('activation' strategies).

## 2. Employment trends

### 2.1 Global trends

Economic growth in many low and middle-income countries is creating only limited quantities of poor quality employment and neither the formal nor informal sectors can absorb the growing global labour force. This is resulting in significant amounts of surplus labour, particularly in the bottom segments of the market. Poor performance is in part linked to heavy economic dependence on minerals and agriculture:

The informal sector is still large and opportunities remain limited for many seeking to enter the labour market, as seen by high youth unemployment rates and wide gender disparities in earnings ... Continual pressure on labour markets from a steady stream of new entrants due to population growth has meant that even solid GDP [gross domestic product] growth rates have not been sufficient to make measurable impacts. (United Nations Department of Economic and Social Affairs 2014)

The large youth cohorts in developing countries are driving this labour force growth, with children under the age of 15 years accounting for 26 per cent of the population and young people aged 15 to 24 years another 17 per cent (1.7 billion children and 1.1 billion young people), compared to 16 and 12 per cent respectively in the most developed countries. In the least developed countries the situation is acute. While working-age cohorts (those 25 to 59 years of age) are projected to fall in more developed regions after peaking in 2013, they will continue to rise in developing countries, reaching 3.7 billion in 2050.<sup>13</sup>

#### 2.1.1 Unemployment

The 2008–09 financial crisis slowed poverty reduction in low and middle-income countries, compounding the demographic and structural drivers of unemployment and underemployment outlined earlier, and dampening economic growth. The resulting deceleration in employment growth and rise in global unemployment has threatened the global progress in poverty reduction and improved living standards over the past decade (ILO 2013a).

Global unemployment rose in 2012 after two years of decline (ILO 2013a). Three-quarters of this increase was in developing regions, being marked in East Asia, South Asia and sub-Saharan Africa. However, while the rate of employment is increasing in least developed countries, open unemployment remains relatively low, at only 8 per cent in sub-Saharan Africa, 4 per cent in South Asia, and 4 per cent in the Southeast Asia and the Pacific region, compared to the higher rates of open unemployment prevalent in the Middle East and North Africa regions (more than 10 per cent in each) (ILO 2013a). The challenge in the poorest regions is to improve the quality of the low productivity and poorly remunerated employment available rather than lack of employment per se, especially given the slow nature of structural transformation and continuing dominance of employment in the agricultural and own-account sectors which are characterised by poor quality employment (Filmer et al 2014).

#### 2.1.2 Youth unemployment

In the wake of the global financial crisis and its destabilising impact, domestic and donor agencies have paid particular attention to youth unemployment (Filmer et al op cit). It has increased by four million since 2007, reaching 12.7 per cent globally in 2012 (Figure 2). Youth were three times as likely as adults to be unemployed globally and five times as likely in South Asia and South-East Asia. Globally, 75 million young people are out of work, many never having worked, and many more millions are engaged in low productivity and insecure jobs (ILO

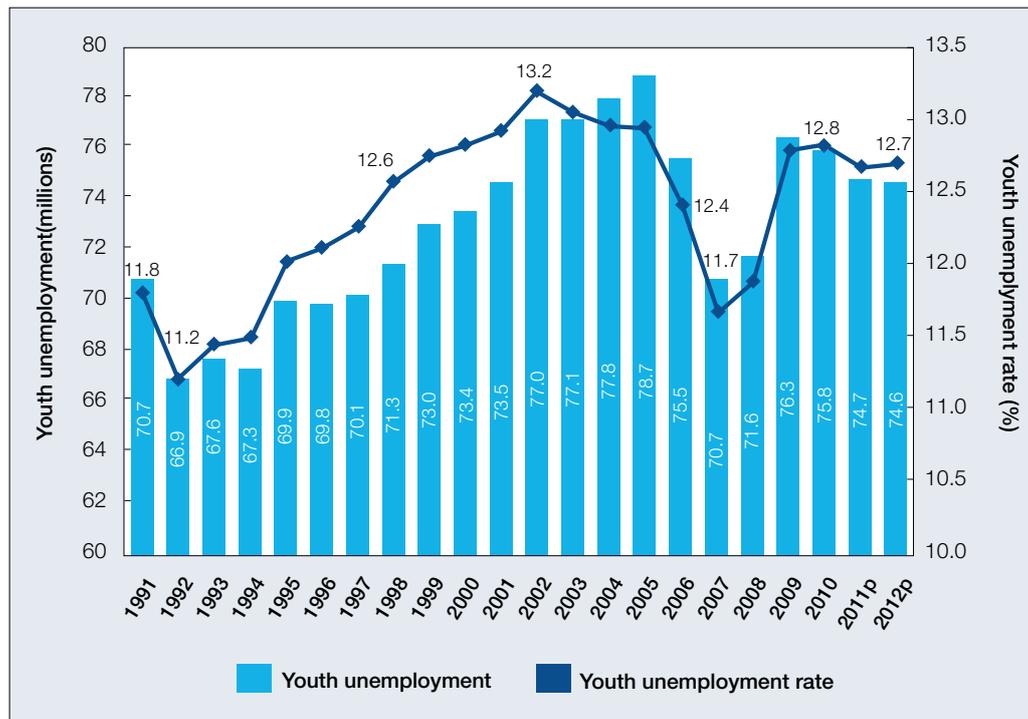
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<sup>13</sup> <https://www.unfpa.org/pds/trends.htm>

2013a). More than six million youth had given up looking for a job and effectively withdrawn from the labour market. This latter group are known as NEETS (youth ‘not in education, employment or training’), and are of concern due to the sustained harmful effects of early labour market exclusion on social, economic and even security outcomes (World Bank 2012a).

Youth unemployment is, however, only one part of the problem and not the most pressing in many low-income countries where youth are disproportionately affected by poor-quality employment, including working poverty, poor remuneration and informality (ILO 2012a:14).

Figure 2: Global youth unemployment and rate 1991–2012



Source: ILO 2012a

### 2.1.3 Disability and employment

It is estimated that more than one billion people, or 15 per cent of the world’s population, have disability and that people with disability comprise 15 to 20 per cent of the poor in developing countries (World Health Organization (WHO) and World Bank 2011). Most people with disability do not participate in the labour force (Buckup 2009) but those who do experience a greater likelihood of unemployment than do those without disability. They also typically experience wage differentials compared to those in similar work, resulting from limited access to education, stigma and discrimination (Groce et al 2011).

Table 1 indicates the extent to which those with different levels of disability are included in the labour market in selected developing country workforces.

Table 1: Disability prevalence rates in selected country workforces (%)

	People without disability	People with disability	Level of disability			
			Mild	Moderate	Severe	Very severe
Vietnam	86.08	13.92	2.9	9.0	1.1	0.9
Ethiopia	83.24	16.76	4.1	0.7	9.3	2.7
Malawi	88.11	11.89	0.6	1.5	1.5	8.3
Namibia	87.10	12.90	0.1	3.2	1.4	8.2
South Africa	67.42	32.58	5.7	14.6	9.9	2.5
Tanzania	90.00	10.00	2.4	0.4	5.5	1.6
Zambia	83.24	16.76	4.1	0.7	9.3	2.7
Zimbabwe	89.12	10.88	0.2	3.1	1.7	5.9

Source: Backup, S (2009)

This table challenges the assumption that people with disability cannot participate in employment-oriented social protection programs, even though the significant disparities in shares falling into each category speaks of inconsistent categorisation between countries. The effects of this assumption are still prevalent. The ILO suggests that:

National data, when it exists, verifies the fact that people with disabilities, and especially women, are less likely to have access to education, training and employment of any kind. When they do work, disabled persons are more likely to be underemployed, to earn less money, experience less job security and have fewer chances for advancement. In other words, disabled persons, and especially disabled women, are less likely to find decent work'.(ILO n.d:1)

In developing countries, the unemployment rate among people with disability is estimated to be more than 80 per cent (ILO n.d:1), although Groce et al (2011) question the reliability of much of the data cited in official documentation.

### 2.1.4 Working poverty

Working poverty is a major challenge (see Annex A for detailed indicators). In 2013, an estimated 839 million workers globally were living in poverty, of whom 375 million experienced 'extreme' poverty (living on less than US\$1.25 a day) and 464 million 'moderate' poverty, being unable to regularly address their basic needs (living on between US\$1.25 and US\$2 a day) (ILO 2014) (see Annex B for further detail). In sub-Saharan Africa the working poor comprised 64 per cent of the employed and in South Asia 60 per cent (with the extreme working poor accounting for 42 and 26 per cent respectively) (ILO 2014). Altogether it is estimated that one-third of the developing world's workforce lived in poverty in 2011 (ILO 2013a), representing a crisis of adverse incorporation and a significant ongoing challenge to the aspirations of the Decent Work Agenda.<sup>14</sup>

<sup>14</sup> <http://www.ilo.org/global/about-the-ilo/decent-work-agenda/lang--de/index.htm>

The rate of working poverty fell sharply 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 global financial crisis and is expected to slow further. As countries with high rates of working poverty are experiencing faster growth than the world average, the rate of working poverty is expected to decline although rapid demographic growth means the absolute number of working poor is expected to increase in some regions unless faster economic growth returns. Overall, vulnerable employment (comprising own-account and contributing family workers) is expected to decline but at a slower rate.

Of those living on less than US\$2 a day, two-thirds earn their primary income from farming, casual labour, fishing and pastoral activities, with highly irregular and low incomes (Peck Christen 2011, drawing on Oliver Wyman 2007). An additional 661 million 'near-poor' workers live on between US\$2 and US\$4 a day, amounting to one-quarter of the developing world's workforce. In total, 58 per cent of the developing world's workforce remained poor or near poor in 2011 (ILO 2013a, drawing on Kapsos and Bourmpoula, forthcoming).

The absolute number of workers in vulnerable employment is increasing year-on-year. Fifty-six per cent of all workers in developing countries (1.49 billion workers) fell into this category in 2012, an increase of 9 million from 2011, partly because of reduced investment and consumption. These workers are less likely than other workers (waged or salaried) to benefit from formal social protection provision.

## 2.2 Discussion and implications

### 2.2.1 Discussion of employment trends

The increasing numbers of vulnerable workers is likely to further restrict growth prospects due to their limited consumption. This has led the ILO to conclude that there is a greater need to provide social protection provision for the working poor:

The slow down in structural change during the crisis and the only moderate acceleration in productive transformation expected to take place until 2017 is likely to lead to a slower rates of progress in reducing working poverty around the world. Together with data on vulnerable employment, this shows a clear need for improvements in productivity, sustainable structural transformation and expansion of social protection systems to ensure a basic social floor for the poor and vulnerable. (ILO 2013a:41)

Similar conclusions regarding the need to enhance productivity to address working poverty are drawn by Filmer et al (2014). They argue that given the ongoing dominance of the agricultural and own-account sectors in sub-Saharan Africa and the slow progress of structural transformation, a focus on agricultural development and household enterprises should be the primary policy response to employment and poverty reduction in the short to medium term, rather the longer-term structural challenge of formalisation and employment in the service and industrial sectors, which account for only a small proportion of employment. This analysis is relevant more broadly in relation to other low-income countries where the poor have limited opportunities to move into service and industrial sectors.

From a labour-market perspective the challenge is to improve productivity and increase the number of quality jobs, which will address poverty and catalyse further growth. The current crisis in global labour markets is 'threatening further progress and faster accession of the still large class of working poor to decent working conditions and better livelihoods' (ILO 2013a:41). The key responses to this crisis are generating employment, promoting investment and productivity growth, which all require structural economic changes.

While employment-intensive growth can reduce unemployment rates, this can be at the expense of job quality. The nature of employment created is key. Agricultural productivity growth is positively associated with decreases in working poverty, but only if adequate employment is available for those leaving the sector and driving productivity increases. Improvements in agricultural labour productivity can be problematic as they tend to occur through surplus labour moving out of the rural economy and into other sectors. Inasmuch as alternative employment in industry or services with higher productivity levels is available, sectoral reallocation can lower vulnerable employment. However, agricultural labour shedding without alternative sectoral employment will not have a sustained positive impact on vulnerable employment. Between 2007 and 2011, structural change was limited as job reallocation across sectors slowed, with employment moving out of low-productivity agriculture into industry and services at a slower rate than before the crisis.

Increases in growth which result in 'jobless growth' and increased labour force participation are detrimental to the working poverty rate.

Prospects for labour-market inclusion on positive terms by marginal groups are limited, given the adverse nature of incorporation by the majority of non-marginalised participants. Specific groups dominate the under or unemployed, notably the young and those whose social status (gender, ethnicity, faith, disability and caste), excludes them from the labour market.

### **2.2.2 Implications for social protection**

The nature of current labour market trends in developing countries has three main implications for social protection, relating to supply and demand considerations.

First, given the significant number of working poor, social protection has a role in meeting the basic needs of those of working age, both those in the labour market and engaged in productive activities albeit on adverse terms, as well as those unable to find employment.

Second, the high prevalence of risk associated with vulnerable employment and agricultural sector employment means most workers in sub-Saharan Africa and South Asia are vulnerable to fluctuations in income and likely require support in risk-based social safety-net scenarios.

Third, given the largely informal nature of employment, contributory formal sector provision (social insurance) is not a viable or adequate response to poverty in the short or medium term. It will not reach significant numbers of workers, and those whom it does reach will not be the poorest.

Section 3 explores how, given these implications, social protection programs can and are expected to contribute to sustainable employment outcomes.

## 3. Theories of change linking social protection and employment

Social protection can promote sustainable employment in a range of ways, all of which link to these three main theories of change.

1. Transfer receipt enables beneficiaries to overcome supply-side barriers to wage and own-account employment inasmuch as it relates to financial and human capital constraints.
2. Social protection addresses demand-side barriers to employment. Transfer receipt stimulates local demand for goods and services, which promotes local economic development and market-based labour demand (spillover effects). Public works employment results in increased labour demand, which provides direct transfer receipt benefits and potentially increases labour-market participation, which improves future terms of employment and creates productive assets. In turn, these can indirectly promote demand.
3. Complementary programming combined with social protection enhances supply and demand effects.

This section discusses these theories of change and then notes their limitations with regard to the working poor.

### 3.1 Supply-side barriers to wage labour and own-account employment

The key supply-side barriers to employment (formal and informal, wage labour and own-account) comprise individual characteristics relating to economic, social and cultural factors. These can be summarised as:

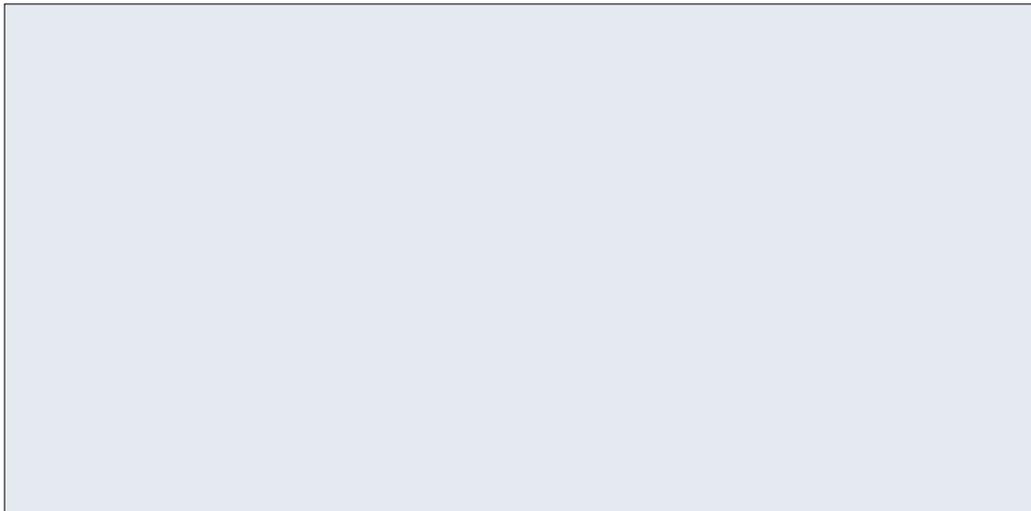
1. lack of skills, work experience and life skills (job seeking and personal)
2. lack of capital for job search
3. domestic responsibilities, high dependency ratios and mobility constraints
4. gender, disability and social identity
5. lack of land, capital or assets.

These characteristics limit access to formal and informal wage labour employment and associated rates of return, as well as rates of return to own-production. They do so by constraining the productivity and diversity of livelihoods in which the working poor engage, as illustrated in Figure 3.<sup>15</sup>

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<sup>15</sup> Issues relating to the human capital benefits from social protection receipt—improved health and nutrition and educational outcomes and their impact on sustainable employment over time—are outside the scope of this paper and are therefore not included in the discussion.

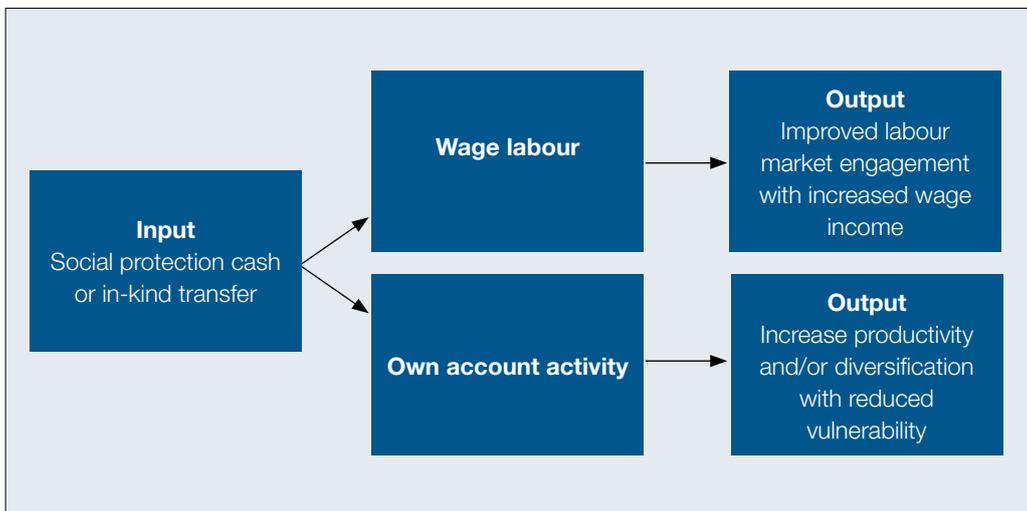
Figure 3: Supply-side barriers to wage labour and own-production



As illustrated in Figure 3, the first four barriers—a to d)—represent supply-side barriers to wage employment, while a), c), d) and e) are barriers to own-production and livelihoods activities and may limit the extent of own-account activity possible and the productivity of labour engaged in such activities.

The dominant theory of change underlying the labour-market objective of much current social protection programming is that transfers will enable recipients to overcome some of these barriers. This includes guaranteeing a regular transfer at times of need, enabling risk-averse behaviour constraining livelihoods activity and entrepreneurship to be overcome. This theory of changes envisions poverty reduction through improved engagement with the labour market as employees or as own-account producers with more resilient and sustainable livelihoods. This is illustrated in Figure 4.

Figure 4: Poverty reduction through improved engagement with the labour market



Transfers may reduce these barriers in as much as they are determined by inadequate income. For example, receipt of a regular cash transfer may lift finance travel and accommodation costs (Posel et al 2006) while financing alternative care for children. Similarly, receipt of transfers on a regular or needs (insurance) basis may enable capital accumulation and investment in skills, inputs, land or additional labour to enhance productivity and self-employment or provide safety-net support at times of stress to prevent recipients from selling assets.

The guarantee of reliable support can also have a psychosocial impact, promoting a beneficiary's ability to plan with a degree of certainty otherwise made impossible by the need to prioritise immediate consumption over longer-term production strategies. This can compromise the ability to envisage and embark on more productive employment (for example, own-account over daily wage labour) if there is a lag between investment and returns, which is usually the case, particularly with agricultural or animal husbandry innovations.

Social protection interventions can also be designed to begin to overcome socially constructed barriers such as gender, disability and social identity, for example by including quotas in public works programs (PWPs) which ensure women get experience and skills in occupations typically viewed as men's work or that people with disability are given appropriate work. Targeting marginalised groups may also enhance their social status and indirectly contribute to reducing these barriers.

## **3.2 Demand-side barriers to employment**

The supply-side barriers to employment relate to individual characteristics, but frequently the primary barrier lies within the labour market, taking the form of seasonal or chronic lack of demand (demand-deficit and/or transformational unemployment), which may be exacerbated by geo-physical location. In such contexts labour markets cannot absorb all job-seekers, even if they are skilled and able to work. Social protection can play a role in directly and indirectly affecting demand-side constraints through direct employment creation and spillover effects.

### **3.2.1 Direct employment creation**

Social protection can play a role in complementing market-based employment by creating additional non-market employment opportunities directly sponsored by the State or external funders such as international donors. Public employment programmes (PEPs) in many developing countries are known as Public Works Programmes (PWP), offering cash or food in return for labour inputs. These can be offered on a seasonal basis to address cyclical unemployment, typically related to agricultural seasons (as in the PSNP in Ethiopia), on a cyclical basis to address cyclical unemployment related to business cycles (as in the Jefas program in Argentina), or on a long-term basis in response to chronic unemployment (as in the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) in India).

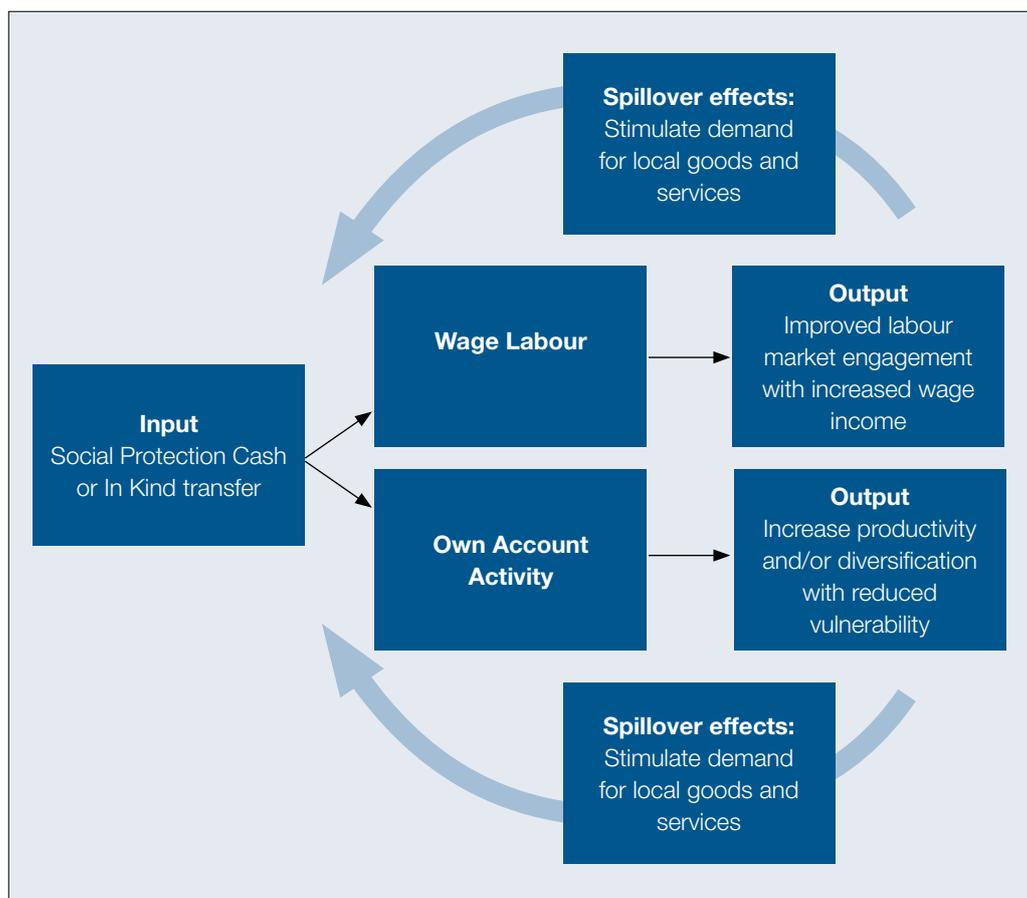
### **3.2.2 Spillover effects**

Social protection provision can potentially have spillover effects extending beyond the immediate household income benefits that arise from additional income through the transfer receipt. It can do so because both wage and transfer incomes can stimulate the local economy (promoting local demand for goods and services) and potentially have multiplier effects on local economic development. This extends beyond primary recipients and results in increased labour demand, as illustrated in Figure 5.

### **3.2.3 Public works program assets**

PEPs also have the potential to contribute to spillover effects that has an impact on local economic development through assets created. In this way they can stimulate labour demand and increases in returns to wage labour and livelihoods. These assets can have an impact on local economic development inasmuch as the infrastructure created can directly address constraints to production. They can do so by increasing land under production, increasing productivity by reducing environmental degradation, promoting soil and water conservation/irrigation, mitigating disaster risk, and promoting local markets by improving economic integration (for example, where the assets created are roads or bridges). However, evidence of the impacts delivered in this way is minimal and the benefits often assumed rather than empirically attested (McCord 2013b).

Figure 5: Stimulation of local economic development



### 3.2.4 The impact of non-market labour demand creation on returns to labour

PEPs can also have an impact on returns to labour and hence affect the quality of wage employment. Where a PEP wage is set above market wage levels and significant levels of employment relative to labour supply are provided through the program, it can create a reservation wage that drives up market wage rates. This is seen in the MGNREGS and similar Employment Guarantee Scheme programs in Bangladesh, where mass PEP employment is provided in ongoing programs, in effect creating a wage floor and promoting access (Basu 2011).<sup>16</sup> It can also offer an alternative so workers can withdraw from exploitative terms of employment in casual wage labour in contexts of mass surplus labour supply as, for example, with the Malawi Social Action Fund PEP (McCord 2013a). Such outcomes may be perceived as negative in terms of labour-market distortion, or positive as a response to adverse terms of employment (McCord 2013a). In both cases returns to labour are improved, the one as an indirect consequence of the impact of mass PEP employment on market rates, and the other by enabling a limited number of workers to withdraw their labour from adverse market-based employment in favour of sponsored employment. Increased market wages resulting from increased labour demand and an elevated PEP wage may be considered to be an indirect program benefit which addresses labour-market distortions arising from oligopolistic employment practices in Asia (for example, Basu 2008; Gaiha 1997), resulting in efficiency gains in the agricultural labour market overall (Barrientos and Wheeler 2006).

<sup>16</sup> There is some disagreement in the literature as to whether these effects are generalised across the labour market or focused on women workers only. This may result from the adoption of a common wage for men and women under the PWP, in a labour market context with highly gender differentiated wage norms. Azam, (2012) argues that the increase for daily unskilled labour is around 1 per cent for men compared to 8 per cent for women but Berg et al (2012) suggest that the impact is gender neutral at 5 per cent (McCord 2013b).

However, such wage effects are only likely in contexts where the scale of operation is significant relative to local labour demand and where there is concentrated PEP employment such that some form of collective bargaining is possible (Gaiha 1997). The extent of any wage effects also depends on other factors, including: the timing of PEP employment relative to periods of high agricultural demand; whether the PEP takes in primarily employed or unemployed workers; and the prevailing terms of employment (for example, debt-bonded labour).

However, where PEP employment is used to provide services previously supplied by workers formally employed on conventional terms and conditions, the main impact may be the substitution of one group of workers for another group of workers employed with inferior returns to labour and employment conditions. PEP employment can also result in a two-tier labour market, with employment on formal contracts for providing certain services augmented by PEP contracts for providing other services without the same formal labour rights (for example, security of tenure and access to social security) or levels of remuneration. These concerns have provoked some union contestation of PEPs since they can be detrimental to the promotion of decent work (McCord 2003).

The key determinants of these effects are whether employment is additional or entails the substitution of one set of workers for another, the scale of public employment relative to the scale of under and unemployment, and the terms and conditions under which PEP workers are contracted.

Wage is significant. A low PEP wage, set at below prevailing casual labour-market rates to prevent labour-market distortion is often adopted in donor-funded PEP (Subbarao et al 2013 recommendations). This results in PEP employment that replicates the conditions of working poverty in the market, despite the adverse implications for the adequacy of social protection provision and the reduced likelihood of the transfer being sufficient to enable significant investment to address barriers to improved livelihoods (McCord 2013a).

### **3.3 Enhanced supply and demand effects through complementary and graduation programming**

Recognising that social protection alone does not enable recipients to overcome the structural barriers to employment and livelihoods, many social protection programs have been combined with complementary interventions. These include agricultural extension, micro-finance development, lump-sum provision and active labour-market interventions (including skills and entrepreneurship training). Programs where social protection provision is combined with complementary interventions are often described as ‘productive safety nets’ or, in some cases, ‘graduation’ programs. Their objective is to move beyond poverty alleviation (the primary goal of social protection provision) to poverty reduction through development processes.

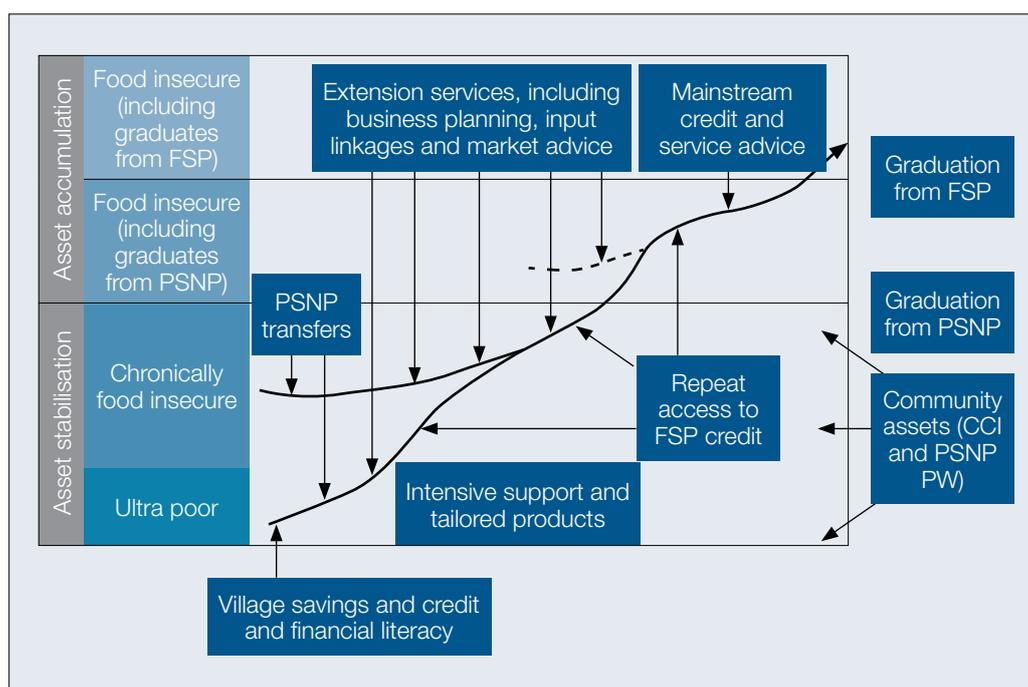
In their theories of change, many programs aspire to promote increased returns from wage employment and/or enhanced livelihoods activity, resulting in a sustained movement out of poverty, over and above the direct income effects resulting from the transfer.

Figure 6 gives an example of the range and sequencing of inputs adopted to promote graduation from food insecurity under Ethiopia’s Food Security Programme. This includes: transfers (in the form of a PEP wage or cash transfer depending on household labour availability); promotion of savings and credit initiatives; provision of extension services relating to agriculture and business development; and the construction of household and community infrastructure through the PSNP’s PEP, Complementary Community Investments and Household Asset Building programs.

The key questions being debated in relation to graduation are i) to what extent and under what conditions does graduation occur and, more critically, ii) whether to assess graduation in terms of the unique event of crossing an income threshold (‘threshold graduation’), or in terms of sustained poverty reduction through the acquisition of resilience to future shocks (‘sustainable graduation’) (Devereux 2013). The latter recognises that the process of household poverty reduction is not linear (Sabates and Devereux 2011; Huda et al 2011). Hence sustainable graduation means participants have moved into self-reliant and more resilient livelihoods.

However, social protection's primary purpose is not graduation out of poverty. It is to alleviate poverty among the chronically poor and prevent the vulnerable from falling into destitution when their livelihoods are disrupted (for example, by drought, floods or unemployment) (Devereux 2013). Depending on key design and implementation features (including transfer value, reliability and duration), some livelihood gains may accrue to beneficiaries able to use them for productive purposes—the 'entrepreneurial poor'. These gains may or may not be sustained after the transfer ends. However, sustained movement out of poverty is an appropriate aspiration for social protection only when complemented by interventions that address the social, political and economic determinants of poverty.

**Figure 6: The input and sequencing model for graduation under Ethiopia's Productive Safety Net Programme**



Source: Ministry of Agriculture and Rural Development, 2009, cited in Sabates-Wheeler and Devereux, 2011.

Despite the limitations of social protection in terms of the broader development agenda, it has become co-opted into the poverty reduction agenda and in many cases is perceived as a treatment for poverty. The graduation agenda has become:

Popular with donors and governments who fear the cost and commitment of permanent programmes, who want an 'exits strategy', 'value for money' and a 'return on their investment'. (Devereux 2013)

This approach, however, carries the risk that a focus on graduation could skew program choice and design to the detriment of the primary 'protective' purpose of social protection.

### 3.3.1 The role of active labour-market policies

ALMPs consist primarily of training and skills development to improve the quality of labour supply and promote employability. They are a key complementary component of many social protection interventions, particularly those adopting productive safety net approaches. ALMPs have been combined with cash transfers and, more frequently, with public works employment, on the premise that they can improve labour-market outcomes, serving to address frictional and structural unemployment.

ALMP intervention outcomes are determined by the quality of training, worker characteristics (such as lack of mobility due to domestic responsibilities or age) and the availability of employment in the sectors for which workers have been skilled. Such interventions tend to be negatively constrained by the often short duration of PEP employment, which limits contact time for training, the availability of appropriate trainers, and the difficulty State providers have in accurately matching market provision with market demand. The lack of overlap between the demographic, socio-economic and geographical characteristics of the poorest in need of PEP employment and the requirements of the labour market is another key challenge (McCord, 2005 in relation to the first phase of South Africa's Expanded Public Works Programme (EPWP). The efficacy of the approach is also fundamentally limited when the primary constraints to sustainable employment are demand rather than supply-side driven, as is the case with most developing countries.

### **3.4 Limitations to theories of change with the working poor**

In most middle-income and many Latin American and Asian countries, provision is targeted primarily on the basis of poverty and demographic criteria rather than household labour availability, so households with working-age members are eligible to receive social assistance.

However, a third eligibility criteria is adopted—namely household labour availability—in many low and lower middle-income countries. This is particularly in sub-Saharan Africa and where program design is externally supported, for example by international development agencies. Accordingly, households with working-age members may be excluded from social assistance, irrespective of their poverty status.

In this way household labour availability is sometimes used to limit eligibility for rationing purposes, a response to the small scale of many programs and their limited budgets. This approach is also linked to a prevalent ideological preference or belief that it is not acceptable to provide social assistance in the form of cash transfers for households with working-age members as it will lead to labour market withdrawal and the emergence of 'dependency':

Related to the argument that cash transfers would be giving something for nothing is the view that they would promote dependency and laziness, resulting in a reduction in labour supply. This would occur because a guarantee of income, regardless of work status, age, marital status and 'need' would allow people to reject labour or to labour less. (Standing 2011)

This critique is informed in part by the assumption that households are able to generate adequate returns from their labour in the open labour market. The approach does not accommodate the reality of the working poor and working extreme poor prevalent in many low-income countries, namely that most workers are: i) living below the poverty line; and ii) in vulnerable employment, adversely incorporated into the economy.

This combination of factors (rationing practices, dependency fears and labour-market realities) can result in program design that effectively excludes from social protection coverage many tens of millions of working-age poor households in need of support to promote agricultural and household enterprise productivity. The non-eligibility of most working poor and the households of which they are members for social protection in many low-income countries challenges the prospects for directly linking social protection and sustainable employment. This highlights the need to reconsider social protection eligibility criteria so it includes rather than excludes the working-age poor as a precondition for pursuing further programming objectives relating to sustainable employment.

## 4. Social protection and sustainable employment—the evidence base

This section is divided into three parts. The first comments on the nature of the evidence base for social protection and sustainable employment. The second explores what is known about the impacts of cash transfers and PEPs. The third explores the impacts when social protection programs link to complementary programs.

### 4.1 The nature of the evidence base

Little evidence has been collected of labour market or livelihood outcomes associated with social protection provision in developing countries. The evidence relating to social protection, employment and disability in this context is even more limited. OECD evidence is used to support limited developing country evidence. This should be interpreted cautiously, given the dominance in OECD countries of formal employment and social insurance, which are rare in South Asia and sub-Saharan Africa (Annex C explains this more fully).

### 4.2 Employment outcomes under core social protection instruments

This section reviews the evidence on employment outcomes achieved through cash transfer and public works provision. It also briefly discusses social insurance against the four theories of change:

1. Transfer receipt enables beneficiaries to overcome supply-side barriers to wage and own-account employment inasmuch as it relates to financial and human capital constraints.
2. Transfer receipt stimulates local demand for goods and services, which promotes local economic development and market-based labour demand (spillover effects).
3. Public works employment results in increased labour demand, which provides direct transfer receipt benefits and potentially increasing labour-market participation. This, in turn, improves future terms of employment and creates productive assets which can indirectly promote demand.
4. Complementary programming combined with social protection enhances supply and demand effects.

#### 4.2.1 Cash transfer provision

Evidence indicates that cash transfer provision can function in line with the first two theories of change, reducing supply-side barriers to sustainable employment and potentially also local demand through spillover effects. The effects of this are to a large degree determined by transfer design considerations, most notably the value of the transfer. They will likely vary depending on whether labour-constrained households are included or excluded from provision. In the latter case the effects are primarily limited to indirect spillover benefits.

Evidence consistently demonstrates that cash transfers can create positive outcomes for own-account activities and wage employment. However, this depends on the sufficiency of the transfer and economic context and it appears independently of who is the nominal recipient within the household. Cash transfer provision appears to 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 Família* 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 (Standing 2012). Similarly, receipt of the old-age pension in South Africa had a significant positive impact on labour supply and job search (Posel et al 2006).

Where sufficient to compensate for lost income, transfers have also reduced labour-market participation among those not of conventional working age, notably children and the elderly, who frequently work to support their households. Lam, Leibbrandt and Ranchod (2005), for example, discuss labour-market withdrawal among the elderly resulting from pension receipt in South Africa.

Cash transfer receipt has also been widely found to have a direct impact on livelihoods activity. Findings from the current Madhya Pradesh Unconditional Cash Transfer and Tribal Village Unconditional Cash Transfer pilots in India have also had significant impacts on livelihoods and wage labour (Standing 2013), as summarised in Box 1.

### **Box 1: Economic activity, work and production impacts of cash transfer pilots in India**

- > Contrary to a common criticism of cash transfers, cash grants in India were associated with an increase in labour and work.
- > Cash-grant households were twice as likely to have increased their production work as non-transfer households.
- > Cash grants led to an increase in own-account work, and a relative switch from wage labour to own-account farming and small-scale business. This was especially true for scheduled caste households and women workers.
- > The shift from labour to own-farm work was especially marked among tribal villages.
- > Many families used cash grants to buy small items for production, such as sewing machines, seeds and fertiliser.
- > Cash grants were associated with the purchase of more livestock to increase production. Households in the cash-grant tribal village increased their livestock by 70 per cent.
- > Cash-grant households more likely increased their income, even when weather made circumstances difficult.
- > Cash-grant households were three times as likely to start a new business or production activity, with most attributing this to cash grants.
- > In tribal villages, farmers increased spending on good quality seeds, fertilisers and pesticides.

Source: <http://binews.org/2013/08/india-basic-income-pilot-project-releases-an-impressive-list-of-findings>

In addition to productivity gains, the Indian pilots indicate that cash transfer receipt enabled changes in terms of labour-market engagement, namely:

... a shift from casual wage labor to more own-account (self-employed) farming and business activity, with less distress-driven out-migration. Women gained more than men ... There was an unanticipated reduction in bonded labor (*naukar, gwala*). This has huge positive implications for local development and equity. (Standing op cit)

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. As in other instances, receipt of the transfer in the Indian pilots resulted in small-scale investments in items such as more and better seeds and sewing machines as well as in the establishment of little shops and repairs to equipment. The resulting increased production and income offset inflationary pressure from increased demand for basic food and goods (Standing 2013).

These findings suggest that transfer receipt may promote movement out of casual wage labour and into own-account activities. These activities may be preferable, reflecting the adverse terms and uncertainty of unskilled casual wage labour arising from the significant

surplus labour supply in this labour-market segment. Similarly, a recent study into the Bangladesh Rural Advancement Committee's (BRAC) Targeting Ultra Poor Program (Bandiera et al 2013) suggested that in line with employment preferences, the extreme poor changed their occupational status to engage in more productive livelihoods when binding capital constraints were removed (in the case of BRAC this was through an asset transfer and associated training).

Less well attested is the extent to which cash transfers support entrepreneurship by providing a safety net to enable recipients to develop skills and take entrepreneurial risks (Kaufman, 2010), particularly where cash receipt is not accompanied by complementary programming. Evidence suggests that those developing micro and survivalist businesses, such as petty trading, based on receipt of social protection transfers, may fall back into their economic and livelihood *status quo ante* once the transfers stopped (for example, Ndoto and Macun 2005).

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

1. value of the transfer relative to the depth of poverty of receiving households, since a greater share of the transfer was directly consumed rather than used for entrepreneurial purposes where it accounts for a smaller proportion of the poverty gap (Devereux 2002)
2. duration of provision, which is neither predictable nor sustained in many low-income contexts
3. concentration of provision (the number of beneficiaries in a location)
4. nature of the local economy and its ability to accommodate the additional goods and services provided by new suppliers.

In some cases, receipt of transfer income has resulted in recipient households hiring additional labour, thereby increasing the productivity of land and assets previously underused due to limited labour availability. It simultaneously promotes labour demand (Department for International Development (DFID), United Kingdom 2011).

#### 4.2.2 Public employment

In many contexts, the primary mechanism for supporting the working-age poor is PEPs. These programs can potentially contribute to all four theories of change. They can provide support during temporary periods of labour-market disruption and address seasonal and demand – deficit unemployment. They encourage participation by providing work opportunities for those otherwise excluded from the labour market, those who have chosen not to participate, and those actively incorporated in the labour market but on adverse terms.

PEPs have a diversity of names, including PWPs, workfare, welfare to work, food for work, food for assets and cash for work. While all provide non-market employment sponsored by governments or donors, they also differ substantially. For instance, some PEPs entail mass direct job creation with needs-based eligibility criteria and provide ongoing employment, while others provide highly rationed temporary employment. The former is exemplified by the demand-driven MGNREGS in India, which provides employment to 50 million workers each year, and the PSNP in Ethiopia, which benefits an average of 7 million people a year. Rationed temporary approaches are exemplified by donor-supported PEPs providing one-off employment opportunities in many sub-Saharan Africa and South and South Eastern Asian countries. This includes the employment programs implemented under the auspices of social action funds which tend to create employment on a far smaller scale, typically tens of thousands of jobs.

With the PSNP, evidence exists of significant livelihoods benefits and increased resilience to vulnerability, in terms of the returns to production after multiple years of employment combined with complementary interventions. These outcomes conform to all three axes of sustainable employment, inasmuch as the intervention provides:

1. cyclical and reliable PEP employment
2. adequate PEP returns to labour
3. potential market-based livelihoods improvements, relating to improved returns to own-account activity (Berhane et al 2011), although not, for most farmers, resulting in 'sustainable graduation' (Devereux forthcoming).

Over the short term, and where the PSNP has been implemented with only limited complementary interventions, the impact on livelihoods, food security and, by implication, resilience has not been significant (Berhane et al 2011). The primary gains relate to direct PEP employment and income, the first two axes of sustainable employment. In this sense the PSNP does not create sustainable employment outcomes since ongoing PEP employment relies on continued State and donor sponsorship, rather than market-based demand.

The MGNREGS, by contrast, provides work through State-sponsored employment without seeking to generate market-based sustainable employment. It meets the first two axes, but does not aim to achieve the third. However, its effect on the quality of existing market-based employment has the potential to improve the terms of employment and hence render it more sustainable (Basu 2008).

However, the MGNREGS and PSNP are exceptional in providing employment to approximately 5 and 15 per cent of respective national labour forces and offering ongoing or repeated employment. Few other developing country programs provide similar labour force coverage or duration. Most PEPs, particularly those with donor support, provide short-term and one-off support. They may address temporary labour-market disruptions effectively, but are largely ineffective against chronic under or unemployment or in tackling the ongoing challenge of working poverty (McCord and Slater 2009). Links between PEP employment and sustainable employment outcomes are therefore limited beyond immediate benefits accruing from wage receipt, which mirror the benefits of cash transfer receipt outlined earlier. The low wages paid under many schemes can replicate poor labour returns in the open labour market, resulting in working extreme poverty.

It has been argued that short-term PEP employment provides work experience and skills training that can promote labour-market engagement, but little evidence is available from developing countries to support this assertion. 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 (Harvey 2000). The limited evidence available suggests that PEPs do not have a sustained impact on post-PEP employment (Ndoto and Macun 2005, for example) and the evidence from OECD countries is overwhelmingly negative in this respect (Martin and Grubb 2001). Most PEP income is consumed due to the deliberately low wages provided (McCord 2004; Devereux 2002), so micro-enterprise outcomes tend to be commensurately small-scale and survivalist in nature and not sustained after temporary employment and wage transfer. The more effectively employment targets the poorest, the lower the likelihood of a restricted wage resulting in sustainable livelihoods or wage employment gains.

Sensitive program design can have an impact on issues of exclusion. PEPs have been widely ascribed with the impact of bringing women into the labour market (McCord 2013a). They can increase labour-market participation by providing employment opportunities to populations socially or spatially excluded from wage labour, 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 muster role which was 97 per cent female (McCord 2004), bringing 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. Such programs have resulted in marginal impacts, whereas the broader structural challenge is exclusion from the mainstream labour market, which is less amenable to being addressed through a project-based approach.

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 low productivity and poorly remunerated 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. This can limit the impact PEPs can have on sustainable employment, particularly in households with high dependency ratios. It does so by limiting opportunities for wage labour, and hence accumulation, as well as by reducing the time available for reproductive activities such as child care. Programs can be designed to maximise household income by accommodating household responsibilities, own-production labour demands and participation in casual wage labour opportunities that may arise during PEP employment. For example, PEPs can provide part-time employment and employment during periods of limited external labour demand. They can also permit the participation of substitute labour from within the household.

Additional work opportunities can address underemployment, as documented by BRAC's Targeting Ultra Poor Programme under which workers who had previously experienced insufficient hours of employment were able to increase hours worked (de Montesquiou 2012). However, increased labour demand can mean domestic responsibilities are passed from program participants to child household members. These effects were found, varying by age and gender, among households participating in the PSNP and MGNREGS (Porter and Dornan 2010).

The assets created through PEPs can also improve agricultural productivity, either of beneficiary households or the wider community, and stimulate increased labour demand, although there is little evidence to show the extent of such productivity gains or the distribution of direct and indirect employment opportunities resulting from them.

### **4.2.3 Social insurance**

Given the contributory nature of social insurance, its availability only to those in formal sector employment, and its limited coverage even among formal sector employees in most low and middle-income countries, there is little theoretical or evidential reason to conclude that social insurance has a significant impact on sustainable employment outcomes. Social insurance is effective in addressing frictional, temporary periods of unemployment, easing the transition from one formal sector job to another and enabling consumption smoothing during temporary periods of unemployment, with benefits contingent on sustained contribution and provision of support for a prescribed number of months. However, this support is unlikely to have an impact on any of the three axes of sustainable employment, and is of no significance to most poor households excluded.

## **4.3 Employment outcomes with complementary programming and graduation**

Social assistance and PEPs have been combined with complementary interventions to promote own-account productivity or wage employment. Beyond productive safety-net programs that combine transfers with asset creation at community level, complementary programs include: agricultural extension; micro finance and financial inclusion; lump-sum provision for asset purchase; and ALMPs, all with a focus on skills training. The evidence relating to each on sustainable employment outcomes is summarised here.

### **4.3.1 Agricultural extension**

Inasmuch as the impact of programs integrating agricultural extension and social protection provision have been evaluated, the results vary and depend on program design attributes, the socio-economic characteristics of recipient households and the broader socio-political and economic context. Incorporating complementary programming was central to the design of the food security program of which the PSNP was a component. In the first phase, the provision of agricultural extension services was not adequate and many PSNP households received only limited support. This is indicative of a challenge shared by many social protection programs aiming to promote productivity—the limited reach of agricultural and development programming in many low-income countries, and the often low levels of funding and human resources allocated to the agricultural sector, following several decades of underinvestment

(Filmer and Fox 2014). Recognising this shortcoming and its constraining effect on hoped-for food security outcomes, the program was redesigned in its second phase with greater emphasis on supporting the provision of complementary programming, in the form of the Complementary Community Investments and Household Asset Building Programme and integrating these with the PSNP (van Uffelen 2013). Recent research into the PSNP has indicated that complementary services can play a significant role in enhancing the food security impact of public works employment and hence program impact on sustainable employment, when PEP is provided over an extended period (Berhane et al 2011).

This represents a broader challenge in the many low and middle-income countries experiencing under-investment in the agricultural sector per se, and in complementary programming with social protection. Given the continued structural significance of agricultural employment, particularly for the poor, addressing this challenge in relation to the livelihoods of small-scale farmers may be a key determinant of sustainable employment outcomes in the medium term.

### 4.3.2 Micro finance and financial inclusion

Promoting micro-finance and financial inclusion as mechanisms to promote livelihoods benefits and graduation out of poverty is a key component of many development initiatives. Such programs are frequently linked to social transfer initiatives. Transfer receipt enables regular saving and financial inclusion. It also promotes savings behaviour, enabling participants to overcome financial barriers to sustainable employment (own-account or wage labour).

In the BRAC-implemented Challenging the Frontiers of Poverty Reduction program, the graduation model comprises cash transfers (consumption support) and microfinance inputs, along with targeting, skills training and provision of a lump sum or in-kind asset transfer (Consultative Group to Assist the Poor (CGAP) 2011). Of the more than 300 000 households receiving this support, 75 per cent were estimated to have become 'food secure and managing sustainable economic activities' as a consequence of the intervention (CGAP 2011). However, the extent to which beneficiaries of this and similar programs have attained sustainable employment outcomes is not well addressed in the evidence and the role of micro-finance in promoting such outcomes remains contested (Bateman 2010).<sup>17</sup> Irregular receipt of transfers and unpredictable participation in micro-finance initiatives limited the impacts.

Given lack of access to regular income-streams and dependence on inadequate provision of public health and education services, Collins et al. argue that the poor need financial services to create income-generating opportunities, build assets, smooth consumption and manage risks (2009). However, half of all working-age adults globally do not have access to formal financial services, with an estimated 75 per cent of the poor being excluded, and an even higher proportion of the extreme poor. Providing transfers through formal financial services may thus offer the benefits of secure delivery and financial inclusion (Porteous 2009). This may also reduce financial barriers to sustainable employment. In this way, an aspiration is often associated with social protection programming:

Social cash transfer programmes can function as a stepping stone in the move from cash to electronic and on to fully-inclusive financial services. (CGAP 2011)

However, to date the evidence is limited on the impact of transfer receipt on financial inclusion and, by association, the impact on sustainable livelihoods promotion.

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<sup>17</sup> Bateman suggests that contrary to the dominant perspective on microfinance, available evidence indicates that microfinance represents a poverty trap and that many claims made on its behalf are not well substantiated, with microfinance overall serving to undermine sustainable local economic and social development.

It is also important to remember that programs linking social protection and micro-finance were not designed to generate sustainable employment, but rather to bring the poorest and most marginalised into the family of mainstream micro-finance projects. Challenging the Frontiers of Poverty Reduction (on which the CGAP model is based) was initially designed to generate micro-credit clients for BRAC, by helping it reach the very poorest. This group will often not risk getting into debt and when they take credit they often spend it on meeting daily consumption needs. Social transfers were thus intended to overcome the barriers to entry to micro-finance, and not specifically contribute to sustainable employment.

#### **4.3.3 Lump-sum provision for asset purchase**

The provision of a cash transfer with a lump sum for asset purchase recognises that lump sums are unlikely to be used for investment in the absence of resources to meet ongoing consumption needs. Such an approach was adopted in Bangladesh's Chars Livelihoods Programme which provided funds for the purchase of an asset like livestock technical support (such as husbandry and veterinary requirements) and a small monthly stipend to prevent the sale of the asset before it became productive (by, for example, providing milk and calves) to meet immediate consumption needs (Farrington and Slater 2009). Evidence suggests that if well-managed and resourced, such programs can be effective and potentially contribute significantly to sustainable employment (Farrington and Slater 2009). However, their resource-intensive nature raises issues of feasibility in many low and middle-income countries.

#### **4.3.4 Active labour-market policies**

ALMPs are often combined with public employment, in the form of technical skills and life-skills training to address structural and frictional unemployment, and sometimes job assistance and concessional funding for enterprise development. The intent has been to promote formal and informal employment as well as entrepreneurship, often in association with microfinance provision, to promote the uptake of available job opportunities and creation of additional self-employment opportunities.

The success of such programs depends on the availability of jobs and on the match between skills developed and unmet labour demand. Without increases in aggregate demand, such interventions risk favouring employment of some workers over others from the same pool rather than resulting in net employment gains (Harvey 2000). The approach may be limited where mass surplus labour and limited labour demand exist.

Box 2 is a case study of South Africa's national EPWP. It illustrates the difficulties of providing appropriate quality skills training and a meaningful level of skills transfer during a short-term episode of public works employment. Recognising the demand deficit and structurally driven nature of unemployment, the initial attempt to incorporate ALMPs into the PEP was abandoned.

## **Box 2: Active labour-market policies—case study on South Africa’s Expanded Public Works Programme, phases 1 and 2**

Vocational training was central to the first phase of South Africa’s national EPWP, launched in 2004. The program aimed to provide between 100 000 and 200 000 short-term jobs each year for five years directly through the program, using it to provide skills training and work experience to promote sustainable employment after program exit. The rationale was that a complementary ALMP intervention, in the form of skills training, was necessary for the program to address supply-side barriers to employment, acknowledging the limited impact of short-term, direct job creation interventions:

Job creation without skills development, upgrading and training, does not lend itself to sustainable employment and will have no long-term economic impact on the lives of the unemployed. (EPWP document (2004) citing the 2003 National Growth and Development Summit)

This approach was based on the argument that:

... the simultaneous existence of a skilled labour shortage and unskilled labour surplus, point to the importance of adhering to a policy framework that emphasizes both the need to kick-start economic growth as well as ensuring that the characteristics of the supplier so labour match those in demand by growing sectors. (Bhorat 2004:28)

Hence the program was part of a supply-side strategy to skill workers so they could benefit from the anticipated increase in skilled work opportunities to be generated through rapid economic growth (EPWP 2005).

However by the time the second phase of the EPWP was introduced in 2009 this strategy was dropped, in recognition of implementation challenges and, most importantly, the overwhelmingly structural causes of unemployment and inadequacy of a PEP-based skills development program to respond to these challenges.

The main challenges in attempting to integrate skills development into the PEP to promote sustainable employment outcomes were the:

1. short training window offered during the one-off, short-term period of PEP employment
2. different eligibility criteria and target groups for PEP employment and skills training—the one targeting the poorest most in need of social protection, such as rural female household heads, and the other targeting those most likely to succeed in the labour market, namely mobile and unemployed youth
3. practical difficulties relating to the availability and quality control of training suppliers
4. recognition that the fundamental barrier to employment was not supply but demand, and that mass public employment, rather than skills development, was the most appropriate response in the medium term.

These insights into South Africa’s labour market and the limits to market-based sustainable employment opportunities were articulated in a National Planning Commission official statement in 2011:

The problem of unemployment and underemployment has become too big for market-based solutions to solve in the next 10 to 20 years. There is no doubt that market-based employment is the most sustainable source of job creation, but in even the most optimistic of scenarios, many people are likely to remain out of work ... The public employment programmes should target the creation of 2 million opportunities annually by 2020 or earlier, if possible.

This represented a planned ten-fold increase in the size of the direct employment program, based on the recognition that supply-side interventions were likely to be of limited effect with mass demand-deficit unemployment.

ALMPs may result in net employment gains and sustainable employment if effectively used with social protection to promote self-employment and livelihoods diversification. However, there is limited evidence indicating that ALMP implementation in association with social protection has resulted in significant labour-market improvements where demand-deficit unemployment is the main challenge. There has been little systematic study of the impact of ALMPs (ILO 2012a) and less still on the impact of ALMPs in association with social protection interventions. However, ALMPs are primarily designed to address frictional and structural unemployment. This limits their potential in most developing countries, where underemployment and unemployment is driven by demand deficit and accompanied by informal employment in agricultural and household enterprise sectors. As the case study (Box 2) illustrates, where this shortcoming has been recognised, it has resulted in a significant shift in a PEP policy and a delinking of social protection from ALMPs. ALMPs oriented towards promoting productivity in the informal agriculture and household enterprise sectors may be more effective than those attempting to promote high-level skills development.

#### 4.4 Social protection and social exclusion—outcomes for the employment of marginalised groups

Labour availability is not the only driver of exclusion from wage labour and own-account employment. Exclusion on the basis of social identity (for example, gender, caste and/or ethnicity) is reflected in highly segmented markets in many parts of the world. Similarly, it is all too rare for the labour capacities of people with disability to be adequately acknowledged in social protection programs with labour requirements or in wider labour-market programs.

The evidence on the extent to which social protection programs can tackle exclusion from labour markets on the basis of social identity is mixed. In Mexico, the *Oportunidades* program's conditional cash transfer aims to enhance human capital by encouraging school enrolment yet attendance fails to address the exclusion of Indigenous groups (Box 3). Emerging analysis from Afghanistan and Bangladesh also suggests that social protection has not proved successful in addressing social exclusion in relation to labour markets.

##### **Box 3: Can social protection address social exclusion in labour markets—case study on Mexico's *Oportunidades***

*Oportunidades* is a conventional conditional cash transfer program in which receipt of the transfer is based on compliance with conditions, including enrolment in and attendance at school by the children of beneficiary households. It is targeted at poor households, including marginalised Indigenous groups.

Ulrichs and Roelen (2012) argue that the theory of change of *Oportunidades* is:

... predicated on individualistic understandings of poverty, assuming that higher levels of education will ultimately translate into higher salaries and better jobs and thus break the intergenerational transmission of poverty.

They suggest that a number of features, including the remoteness of Indigenous groups, the poor quality of the education services provided in remote areas, and problems in reaching Indigenous groups all limit the program's education outcomes. They also suggest that, in practice, access to improved job opportunities is as much about social mobility as economic mobility—something *Oportunidades* does not address.

There are some positive stories on social protection helping to challenge marginalisation and stigma in communities, which may have indirect effects on access of marginalised groups to better, rather than segment, job opportunities.

Slater and McCord (2009) found that:

... if graduation out of poverty is the desired outcome, then accumulation is needed, but even a transfer which leaves beneficiaries under the poverty line can have a significant impact on social transformation, as evidenced by the public works beneficiaries in South Africa who felt that they had regained their dignity, having lost the stigma of being beggars in their community, and being able to participate again in important social ceremonies, representing an outcome which indicates social transformation, in the absence of formal economic transformation.

This issue is illustrated in the case study in Box 4, which examines South Africa's *Zibambele* Road Maintenance Programme.

#### **Box 4: Social transformation through public works employment—case study on South Africa's *Zibambele* Road Maintenance Programme**

Participants reported that before participating in this *Zibambele* program they had engaged in activities of which they were ashamed, such as begging for food, sending children to school hungry and wearing ragged clothes. In the *Zibambele* focus groups, women reported that their poverty had prevented them from participating in social processes, such as activities that expressed their belief systems, including performing appropriate burials, making spirit offerings and holding the ceremonies required to mark the anniversary of family deaths. The failure to observe these customs resulted in social stigma and shame, conforming to the social dimension of poverty characterised by Sen in terms of social 'functioning'. Sen defines this class of functioning as 'achieving self-respect or being socially integrated' (Sen 1993: 31), and argues that it is of greater complexity than elementary functioning, such as being adequately nourished or in good health. Subsequent to their PEP employment, workers reported giving food to the needy in their communities, which they regarded as an illustration of their changed social as well as economic status within the community.

Source: McCord, 2009d: 315, cited in Slater and McCord, 2009

Overall, however, the evidence on the impact of such sustainable employment outcomes is very thin.

## **4.5 The evidence on social protection, sustainable employment and disability**

Little evidence exists on the performance of social protection schemes that aim to address the barriers to sustainable employment faced by people with disability. This is partly due to the limited number of interventions. It is also because little funding has been available for disability-specific research or for the inclusion of disability issues in larger health and development studies (United Nations Department of Economic and Social Affairs, Groce et al 2011).

People with disability are likely to face discrimination that further limits their ability to compete for employment. They may also require additional enablers, such as assistive devices or accessible infrastructure, to participate in the workforce. These may or may not be financeable through social protection and accommodated for in the local labour market. As a result, they likely reduce prospects for successful labour-market competition. Issues of gender, ethnicity, age and other social identities can also affect the impact that disability has on employment performance and indicate the need for a disaggregated approach.

The evidence highlights that many training programs for people with disability fail to match skills demand in the labour market (Dhungana 2006 with Nepal; Engelbrecht et al 2010 with Cape Town), although these challenges are faced by all ALMPs (Martin and Grubb 2001) not only those attempting to address disability-related challenges.

Evidence indicates that many people with disability, too often assumed to be unproductive, have considerable productive potential.<sup>18</sup> Disability is, however, often crudely perceived as a homogenous condition rather than a spectrum of implications for an individual's ability to work. A combination of personal and environmental factors (such as an assistive device) may make the difference between labour availability or not. Taking such factors into consideration, sensitively designed social assistance may be able to play a role in improving labour availability and productivity.

## **4.6 Conditions for sustainable employment creation through social protection**

### **4.6.1 Social protection program aspects**

It is possible to identify lessons about when and how social protection can have positive effects on employment through the identified theories of change. The limited evidence points to broad conditions under which provision of additional household income is more likely to result in sustainable employment outcomes. Specifically, this evidence points to six key enabling factors relating to program, beneficiary, community and market characteristics. Together, these determine the extent to which successful transition into sustainable employment (graduation) can be anticipated (Mathers and Slater 2014; Sabates Wheeler and Devereux 2011; Huda et al 2011).

The evidence identified here on sustainable employment supports Slater and McCord's (2009) findings on the six enabling factors of social protection programs that determine positive food security outcomes. These are common across all types of social protection:

1. effective targeting
2. transfer value
3. transfer duration in relation to the nature of poverty being addressed (acute or chronic)
4. transfer reliability
5. scale of coverage
6. integration with other developmental interventions.

Depending on the economic context, these factors determine whether social protection can meet basic consumption needs (the primary objective) or go beyond by contributing to the broader transformations in livelihoods and local economic development comprising the elements of sustainable employment (duration, quality and market based).

#### **4.6.1.1 Effective targeting**

Different targeting approaches have different impacts on sustainable employment. A trade-off exists between targeting that maximises poverty reduction and targeting that maximises sustainable employment outcomes. Targeting particular demographic groups, such as the elderly or young, will likely directly address supply side barriers to employment when recipient households have working-age members and indirectly stimulate local aggregate demand, including hiring labour on the part of labour-constrained households. Targeting poor working-age recipients has greater potential for directly supporting own-account employment by building productive asset portfolios at household level that increase productivity. Targeting specific marginalised groups may improve access to labour markets by changing social status and exclusion, though there is little evidence for this.

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18 See, for example, [www.trickleup.org/poverty/disability-inclusion.cfm](http://www.trickleup.org/poverty/disability-inclusion.cfm)

### Transfer value

Small value transfers are unlikely to have a significant impact on sustainable employment. First, they are mainly used for consumption and are rarely sufficient to enable significant asset accumulation or investment in more productive activities (Devereux 2002; Carter 2004). Second, they limit the impacts on local aggregate demand and, therefore, labour.

A range of factors determine transfer size, including the resources available and ideology of program designers. The value may be kept low to limit demand or avoid distorting market rates for labour, but this also limits sustainable employment outcomes by replicating adverse terms of engagement (McCord 2013a). Transfer size may also be set against a consumption package (for example, a ration of carbohydrate, protein and oil) so it meets or contributes to consumption needs and little more. This limits the potential for sustainable employment outcomes. If not indexed, inflation can result in falling real transfer values and limit consumption and employment outcomes.

### Transfer duration

The duration of transfer receipt also has an impact on the potential for accumulation and investment and on recipient behaviour. Slater and McCord (2009) note that:

... the duration of transfer receipt is critical as a determinant of accumulation, and also of how funds are spent. A regular guaranteed income through public works or cash grants can enable a household to plan and budget in a more productive way, than would have been possible in an environment of income uncertainty. In a situation of chronic poverty, if the transfer level is low, an ongoing transfer can still make a significant difference in terms of household nutrition, and possibly also human capital development, such as school participation.

An ongoing period of transfer receipt is necessary to achieve capital accumulation (or sufficient human capital to overcome education-related barriers to employment). The longer the duration of the transfer, the greater the potential for sustainable employment gains (Berhane et al 2011).

Ongoing inputs are also necessary for spillover effects to be significant and sustained. McCord (2003) notes that local economic development initiatives resulting from transfer receipt in South Africa tended to terminate when the transfer ended, as with the small shops that sprang up around a short-term PEP in Limpopo but then closed.

### Transfer reliability

When transfers are reliable, they enable recipients to plan their expenditure and use it more productively. They also allow households to access credit which is frequently used for job search and migration, aimed at seeking more secure and better paid work.

For the transfer to enable effects on human capital and accumulation, regularity is required. If unpaid for many months, transfers will likely be used like lump-sum 'windfall' transfers, since their primary function of consumption smoothing is undermined (Farrington and Slater 2009).

Irregular and delayed transfers can undermine prospects for effective micro-finance participation or local saving and borrowing practices. They can even result in negative impacts such as indebtedness when anticipated transfer flows used as security for loans are not delivered.

### Scale of coverage

The scale and concentration of social protection coverage are critical determinants of local and national increases in demand for goods, services and labour. A critical mass of resources is required in a local economy for a sustained period to stimulate rural development and improved employment. Such effects have been found in some programs—for example, with *Progressa* in Mexico (Barrientos and Sabates Wheeler 2006)—but where coverage and transfer value are low, the impact is unlikely significant.

## Integration with other developmental programs

The final critical factor is whether social protection complements other social, economic and agricultural policies and interventions. Social protection transfers can only address a limited set of financial barriers to labour supply and demand, with minimal impact on the structural determinants of under and unemployment and related issues of social exclusion. Complementary interventions are required for the transfer to promote sustainable employment. Without policy and implementation integration, opportunities for household and local-level transformation are limited.

The impacts of these six factors are also mediated by local economic context, including community infrastructure and asset base and position of beneficiary households in relation to the economy. Households with limited material and financial resources (such as land and labour), skills and external support are less likely to shift into ongoing and secure livelihoods or employment that provides a wage sufficient to meet basic needs without external support (Huda et al 2011). This highlights the fundamental challenge of integrating social protection and labour market objectives: those most in need of social protection may not be best placed to use transfers to achieve sustained productive and labour market gains.

If social protection programming can respond to these six enabling factors, the potential for social protection to result in sustainable employment will be enhanced. If not, prospects for even direct welfare benefits will be limited and secondary employment related effects unlikely.

### 4.6.2 Spillovers and economic context

The six enabling factors set out in 4.6.1 will determine spillover effects of social protection on sustainable employment. These effects occur primarily through recipients' increased demand for goods and services (DFID 2011), including explicit increases in labour demand arising from transfer receipt, irrespective of recipient characteristics:

These multipliers apply equally to transfers given to economically inactive groups (eg social pensions or child support grants) as to transfers given to small farmers, though the synergies with agriculture are likely to be higher if the recipients are farmers, who will spend some of this incremental income on farming. (Sabates Wheeler et al 2009)

The magnitude and distribution impacts of multipliers are contingent on factors such as the nature of the local economy and expenditure patterns of groups receiving transfers. Sabates Wheeler et al conclude that:

Although the macro-economic benefits claimed for cash transfers are based on limited empirical findings, and the evidence to date is ambivalent (Devereux and Coll-Black 2007), there is sound evidence from Africa and Latin America for localised multiplier effects of social transfers.

This evidence includes documented spillover benefits of *Oportunidades* beyond direct recipients, resulting in consumption increases throughout program areas, among those in receipt and those not. The evidence also identifies regional multiplier effects resulting from cash transfer programming in Malawi that stimulate local commerce and trading activity (Davies and Davey 2007), although the extent to which benefits are sustained after transfer receipt is not well documented.

While the evidence base remains thin—in part because there are no well-developed, robust methodologies to monitor these effects and explore the relationship between social protection and sustainable employment—current initiatives such as the Food and Agriculture Organization's 2013 'Protection to Production' study may yield insights in the coming year.

## 5. Conclusion

This paper explores four theories of change linking social protection with sustainable employment outcomes:

1. Transfer receipt enables beneficiaries to overcome supply-side barriers to wage and own-account employment inasmuch as it relates to financial and human capital constraints.
2. Transfer receipt stimulates local demand for goods and services, which promotes local economic development and market-based labour demand (spillover effects).
3. Public works employment results in increased labour demand, which provides direct transfer receipt benefits and potentially increases labour-market participation, which improves future terms of employment and creates productive assets. In turn, these can indirectly promote demand.
4. Complementary programming combined with social protection enhances supply and demand effects.

Based on the analysis set out in this report two conclusions are drawn, relating to the:

1. role specific instruments might play in contributing to sustainable employment
2. wider systemic, design and implementation issues critical for maximising the role of social protection.

### 5.1 The role specific social protection instruments might play in contributing to sustainable employment

If targeted to households with labour, cash transfers can address supply-side barriers, primarily by easing financial constraints to employment. If sufficiently generous and concentrated, they can contribute to employment creation irrespective of how they are targeted, although there is little evidence of the duration of such effects after transfer receipt. PEPs create additional work, mostly on a short-term basis, but they may also release financial barriers to market-based employment, creating spillover benefits with labour demand and potentially contributing sustained employment benefits through the creation of productive assets. However, there is little evidence of spillover effects or sustained employment outcomes due, in part, to limited research and the small scale and short duration of most programs. Contributory insurance is unlikely to have significant impacts on sustainable employment due to the small scale of provision in most low-income countries and the short-term nature of most unemployment benefit provision.

These findings are summarised in Table 2, which illustrates the potential impacts of cash transfers, PEPs and contributory insurance on sustainable employment outcomes.

Table 2: Potential impacts on sustainable employment outcomes

Social protection intervention	Vectors of impact on sustainable employment			Determinants of impact
	Relief of supply-side barriers to employment	Spillover effects promote increase in labour demand	Direct increase in labour demand	
	Financial (short term)	Skills (medium to long term)		
<b>Cash transfer</b>	Yes	Yes	Yes	No
<b>Cash transfer—targeting labour-constrained households</b>			Y	No
<b>Public employment programs</b>	Yes	Yes	Yes	Yes
<b>Contributory insurance</b>	No	No	No	No

If transfer receipt enables workers to withdraw from adverse employment terms and reposition themselves in the labour market or negotiate improved terms of employment, then sustained improvements in quality of employment have been achieved. However, this is contingent on the social protection intervention being sufficiently generous and coverage sufficiently high, which is not the case with most programs. Where households with labour receive a cash transfer, this can compensate for low, market-based remuneration—as a form of wage subsidy for the working poor—and serve to improve household income without addressing quality of employment. Where there is a work requirement, as with a PEP, this wage subsidy function does not exist. This is because PEP labour tends to displace, rather than complement, pre-existing employment.

Movement along the duration and quality security axes of the sustainable employment model can be achieved where workers change their employment status because of a transfer or wage receipt. This can involve, for example, moving out of casual wage labour through accumulation of assets or skills in favour of improved wage employment or more secure own-account activities. This is feasible under PEPs or cash transfer programming if there is sufficient opportunity to accumulate. It may also be feasible under a PEP if ongoing employment is assured.

Similarly, progress along the market-based employment—sustainability axis may be achieved if:

- > sufficient accumulation of financial assets is possible by direct beneficiaries
- > there is a greater potential for spill over labour demand benefits where complementary programs are implemented
- > assets created through PEPs contribute to productivity gains.

If progress against all three axes were to be achieved—with secure employment provided on a market basis—then in theory significant progress towards graduating out of poverty would be made. However, there is little evidence of this. At best, outcomes represent a limited movement along the quality and security axes, from more to less vulnerable employment.

In each instance, the six enabling factors will interact with the impacts outlined earlier, together with asset ownership at household level and the broader economic context to determine final outcomes, with effects mediated by social identity issues. There is, however, little evidence on the detail of how such mediation occurs.

## **5.2 The wider systemic, design and implementation issues critical for maximising the role of social protection**

Social protection transfers can promote sustainable employment directly by reducing supply-side barriers to employment, indirectly by stimulating labour demand as a result of increased demand for goods and services, and by promoting aggregate employment through sponsored work programs.

These results can occur when households receive resources either through transfers paid to members outside the labour force (such as children, the elderly or those with disability) or when payments are received by working-age household members. This is because most social protection transfers are pooled within the household rather than used exclusively by the named beneficiary and, as such, they are often invested in human capital development and job-seeking activities. In such contexts, increased household income may result in increased job search among working-age household members and labour-market withdrawal by the elderly and children.<sup>19</sup>

The extent to which social protection beneficiaries experience improved outcomes in terms of their engagement in wage or own-account employment is limited where cash transfers target labour-constrained households, and explicitly exclude households with available labour. Many low-income countries adopt this rationing approach based on the assumption that under or unemployment is elective and that households can use available labour to generate adequate household income. This approach is flawed inasmuch as it assumes unmet labour demand, or that households have access to the complementary assets (such as land) required for productive labour use. In low-income countries with severe under or unemployment, this assumption is problematic.

Households with labour often receive social protection in the form of short-term public employment. In such contexts—where the working-age poor and members of their households are excluded from sustained provision—finding synergies between social protection and labour-market outcomes is problematic. Using household labour availability as a rationing tool in social protection programs can create a stark eligibility dichotomy, with labour-deficit households receiving social transfers and households with labour being allocated to public works provision. This dichotomy is unhelpful as labour availability is a continuum rather than of a binary (yes/no) characteristic.

While all programs can have an impact on sustainable employment indirectly by stimulating demand for goods and services, resulting in increased labour demand, the impact of social protection interventions will likely be limited in promoting sustainable wage employment, given the demand – deficit nature of unemployment and the dominance of poor quality work. Interventions may, however, enable workers to improve their position in highly segmented labour markets, move into less adverse forms of employment or gain higher returns for their labour, even though they may remain among the working poor, along with most workers in low-income countries whose wages leave their households below the poverty line. This includes more than 60 per cent of workers in sub-Saharan Africa and South Asia—some half a billion workers—who earn less than the US\$2-a-day poverty line.

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<sup>19</sup> In the least developed countries, more than 60 per cent of men over the age of 60 years are still in the labour force, compared to 20 per cent in most developed countries ([www.helpage.org/resources/aging.data/global-aging-statistics/](http://www.helpage.org/resources/aging.data/global-aging-statistics/)).

Public employment may be the only social protection instrument with the potential to address the first two dimensions of sustainable employment (duration and quality). To be effective, however, programs need to be larger and provide employment over a longer term than is currently the case in most developing countries. This has significant resource implications. The challenge of integrating large-scale PEP with effective skills development is significant.

The targeting criteria adopted in social protection programming have implications for outcomes relating to the three dimensions of sustainable employment. Notably, if social protection targeting is based on those most likely to achieve sustainable employment outcomes, this may refocus provision away from the primary target group, the poorest, who may be least able to graduate into such employment. Equally, excluding households with labour makes it unlikely that significant sustained employment effects will accrue, unless spillover effects are very strong.

More broadly, challenges relating to social protection programming design, financing and implementation result in low coverage, low-value transfers and unpredictable provision (with notable exceptions) in many low-income countries. This severely limits the potential for social protection to address even a limited set of barriers to improved employment, such as liquidity constraints.

In all cases, the key determinants of outcomes are a combination of program design and implementation characteristics and associated social, economic, political and institutional factors which represent the structural determinants of poor employment performance. These cannot be addressed by cash transfers alone. Complementary programming is necessary to promote sustained improvements in the productivity of own-account work or self-employment, as well as improvements in wage labour opportunities.

The major challenge in developing contexts is the adverse nature of much economic engagement (offering insecure, poorly remunerated employment for the majority of labour-market participants), which relates to the structure of the labour market. The extent to which social protection can play a role in facilitating a transition from forms of adverse labour-market incorporation (for example, underpaid, exploitative and lacking in social security) to decent work (for example, providing fair pay, good working conditions and social security) for recipients and the community more widely, is limited. Addressing these challenges would entail changing the nature of domestic labour markets and their relationship to the global economy. This cannot be addressed through social protection measures. Rather it needs to be addressed through integrating agriculture, microfinance, infrastructure and skills development to promote productivity in agricultural and household enterprise sectors, and by changes in the structure of many low and middle-income country economies.

Even if these changes were achieved, there would remain a need to challenge the structures reinforcing and reproducing social exclusion on the basis of identity. Social protection may be able to contribute to such change, but more fundamental legislative, social and cultural transformations will be required in many societies to address the key constraining factors.

Notwithstanding these limitations, evidence suggests that improvements in sustainable employment for some social protection beneficiaries, and the communities in which social protection programs are implemented, can be achieved. This requires combining well designed and well-implemented programs that operate to scale and on a sustained basis, with complementary interventions addressing supply and demand-side constraints to employment and productivity, such as micro-finance, skills development and agricultural extension. However, such programming entails considerable resource allocation and institutional coordination. As such, it remains a significant political, operational and budgetary challenge in many developing countries.

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# Annex A—Working poor indicators at US\$1.25 and US\$2 a day

Table A1: Working poor indicators, world and regions (US\$1.25 a day)

Both sexes	Numbers of people (millions)					Share in total employment (%)				
	2000	2007	2011*	2012*	2017*	2000	2007	2011*	2012*	2017*
World	695.3	488.0	396.7	383.8	288.3	26.6	16.5	12.9	12.3	8.7
Central and South-Eastern Europe (non-EU) and CIS	7.3	3.9	3.1	2.9	1.8	5.0	2.5	1.9	1.7	1.1
East Asia	232.2	93.3	52.2	46.3	14.6	31.2	11.5	6.3	5.6	1.7
South-East Asia and the Pacific	81.7	49.0	36.8	35.4	22.2	33.7	17.9	12.4	11.7	6.9
South Asia	224.5	198.0	160.9	155.9	119.4	43.9	33.0	25.7	24.4	17.1
Latin America and the Caribbean	16.1	11.3	9.7	9.6	7.7	7.8	4.6	3.6	3.5	2.6
Middle East	0.6	0.8	1.0	1.1	1.0	1.4	1.5	1.6	1.8	1.4
North Africa	4.5	3.1	3.1	4.2	4.1	9.5	5.3	4.9	6.4	5.6
Sub-Saharan Africa	128.4	128.6	129.8	128.4	117.4	56.7	46.2	41.7	40.1	31.6

\* 2011 are preliminary estimates; 2012/7 are preliminary projections.

Note: Totals may differ due to rounding.

Source: ILO, Trends Econometric Models, October 2012; see also source of Table A2.

Table A2: Working poor indicators, world and regions (US\$2 a day)

Both sexes	Numbers of people (millions)					Share in total employment (%)				
	2000	2007	2011*	2012*	2017*	2000	2007	2011*	2012*	2017*
World	1195.1	991.6	868.3	853.7	730.8	45.8	33.6	28.1	27.3	22.0
Central and South-Eastern Europe (non-EU) and CIS	19.1	9.3	8.1	7.8	6.3	12.9	5.9	4.9	4.7	3.7
East Asia	410.2	221.0	128.5	113.2	36.7	55.2	27.4	15.6	13.6	4.4
South-East Asia and the Pacific	148.2	115.8	100.8	98.3	73.6	61.2	42.2	33.9	32.5	22.7
South Asia	397.4	414.3	391.1	391.2	371.4	77.7	69.1	62.5	61.3	53.0
Latin America and the Caribbean	32.3	23.5	20.4	20.1	17.2	15.6	9.6	7.6	7.4	5.8
Middle East	3.3	4.5	4.8	5.2	5.2	8.0	8.1	7.8	8.1	7.2
North Africa	12.6	11.3	11.4	12.9	12.8	26.7	19.2	17.8	19.7	17.5
Sub-Saharan Africa	172.0	191.9	203.2	204.9	207.6	75.9	68.9	65.3	64.0	55.9

Source: ILO 2013

EU = European Union

CIS = Centre for Independent Studies

## Annex B—Employment shares by economic class

Table B1: Employment by economic class in developing world and regions, both sexes

Region	Year	Employment by class (millions)				
		Extremely poor (below US\$1.25)	Moderately poor (between US\$1.25 and US\$2)	Near poor (between US\$2 and US\$4)	Developing middle class (between US\$4 and US\$13)	Developed middle class and above (above US\$13)
Developing world	1991	810.6	424.0	275.0	242.1	88.9
	2001	674.8	513.5	518.9	404.1	95.1
	2011*	406.3	471.7	669.4	787.2	255.5
	2012*	385.0	466.0	674.7	823.3	280.2
	2017*	284.7	451.5	688.3	984.8	448.8
Central and South-Eastern Europe (non-EU) and CIS	1991	3.6	7.2	23.2	69.6	43.3
	2001	6.1	10.6	34.4	72.4	22.4
	2011*	2.0	4.7	18.5	82.7	55.2
	2012*	21.80	4.6	18.4	83.0	56.9
	2018*	0.9	3.8	15.6	82.9	62.7
East Asia	1991	374.8	176.1	83.0	34.2	3.9
	2001	217.8	175.9	212.2	136.2	13.8
	2011*	58.0	86.6	222.6	367.9	80.7
	2012*	47.3	76.3	214.1	387.5	97.5
	2018*	19.4	33.1	137.0	436.8	214.3
South-East Asia and the Pacific	1991	93.7	49.7	29.0	20.2	3.3
	2001	74.6	70.6	58.5	35.2	7.4
	2011*	36.9	62.0	105.1	75.1	17.8
	2012*	34.0	60.8	108.1	80.4	19.4
	2018*	24.7	51.2	118.6	105.3	30.5
South Asia	1991	225.1	134.2	54.1	5.3	2.0
	2001	228.2	180.8	99.8	13.8	1.8
	2011*	167.2	225.6	174.2	41.7	3.9
	2012*	160.7	228.3	180.1	45.1	4.4
	2018*	111.9	247.9	232.2	88.1	9.6

Region	Year	Employment by class (millions)				
		Extremely poor (below US\$1.25)	Moderately poor (between US\$1.25 and US\$2)	Near poor (between US\$2 and US\$4)	Developing middle class (between US\$4 and US\$13)	Developed middle class and above (above US\$13)
Latin America and the Caribbean	1991	13.6	14.3	37.6	73.6	25.3
	2001	17.4	18.0	47.5	93.5	36.5
	2011*	8.9	10.2	42.0	131.7	74.4
	2012*	8.7	10.2	42.4	134.9	77.1
	2018*	6.9	8.9	40.8	147.2	97.6
Middle East	1991	0.7	2.8	7.7	14.1	5.4
	2001	0.7	3.4	11.6	20.2	7.3
	2011*	0.7	4.1	14.0	31.0	14.2
	2012*	0.8	4.2	14.7	31.8	14.7
	2018*	0.6	4.3	16.8	36.6	18.8
North Africa	1991	3.5	7.0	13.5	9.9	1.6
	2001	3.0	7.5	19.3	14.2	1.2
	2011*	1.9	7.0	26.8	22.5	1.5
	2012*	1.9	6.9	26.9	23.2	1.8
	2018*	1.6	7.0	28.6	28.1	3.0
Sub-Saharan Africa	1991	95.5	32.7	26.9	15.3	4.1
	2001	127.0	46.7	35.6	18.6	4.6
	2011*	130.6	71.6	66.2	34.7	7.8
	2012*	130.0	74.7	70.2	37.4	8.3
	2018*	118.6	95.4	98.6	59.7	12.3

Source: ILO 2014

EU = European Union

CIS = Centre for Independent Studies

## Annex C—The traditional model of the social protection—employment nexus

Programming in developing countries is often rooted in an Organisation for Economic Co-operation and Development (OECD) model of social security provision, which is based on a set of assumptions about the performance of the labour market. In OECD contexts, social protection is intended to support those unable to work due to:

- > lifecycle stages (such as, childhood, old age and maternity)
- > illness or disability
- > temporary periods of unemployment or when employment provides inadequate remuneration.

Accordingly the model developed by the International Labour Organization (ILO) (articulated in the 1952 Convention 201), was largely social insurance-based (contributory), reflecting that it came about during a period of relatively high employment, with large-scale unemployment payouts perceived as rare. The prevailing belief at this time was that the business cycle was conquered and it was therefore possible to retain unemployment at relatively low levels. Hence, even under the contributory system, provision for unemployment was minimal and a low-income replacement rate was adopted on the assumption that the unemployed would find work relatively quickly. From this perspective, Convention 201 was very much a product of its time.

This ILO position was premised on the argument that:

A society that provides security for its citizens protects them not only from war and disease, but also from the insecurities related to making a living through work. Social security systems provide for basic income in cases of unemployment, illness and injury, old age and retirement, invalidity, family responsibilities such as pregnancy and childcare, and loss of the family breadwinner. Such benefits are important not only for individual workers and their families but also for their communities as a whole. By providing health care, income security and social services, social security enhances productivity and contributes to the dignity and full realization of the individual ... Finally, by providing a safety net in case of economic crisis, social security serves as a fundamental element of social cohesion, thereby helping to ensure social peace and a positive engagement with globalization and economic development.<sup>20</sup>

The rationale remains robust and highly relevant, but grounded in an outdated vision of national and global labour markets (McCord 2013b) inasmuch as provision of social security through mechanisms of formal labour-market engagement is, according to Walker (2013):

... premised on the existence of a labour market that can generate incomes sufficient for most people of working age and also create sufficient surplus to enable many people in employment to save against the contingencies of ill health, old age and unemployment.

Such a situation no longer characterises labour markets and economies in most OECD countries and no such labour market exists in developing countries, which are characterised by extensive underemployment and unemployment, as well as dominated by informal labour markets offering poverty level wages to most workers (Walker 2013). Designed historically to provide support in the form of social assistance to those unable to work, and contribution-based support to those in adequately remunerated formal-sector employment, the basic model of social protection adopted within OECD countries, which continues to form the conceptual basis for the extension of provision in developing countries, offers little provision for those in the informal sector or the working poor. It is, as a result, challenged in extending provision to the majority of workers in developing countries.

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20 ILO. 2013. International labour standards on social security. <http://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/social-security/lang--en/index.htm>

This scenario is problematic given the continuing dominance of informal employment. However, notwithstanding the limited direct provision for the working-age poor in the informal sector implied in the traditional social protection model, benefits in the form of sustainable employment outcomes may accrue to this group, as a result of support to other household members not able to work. Such transfers are shared within the household and used to address liquidity constraints to increased labour productivity through improved wage or own-account employment, or through the spillover effects of such transfers within the community.