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FOR DEBATE AND GUIDANCE

FIRST ITEM ON THE AGENDA

Recovering and sustaining growth and development: The contribution of the Global Jobs Pact

Introduction

1. At its last meeting, the Working Party discussed the role of policy coherence and international coordination in implementing policies contained in the Global Jobs Pact. In summarizing the discussion, the Chairperson of the Working Party noted that: “To enable countries to make full use of the Global Jobs Pact and to transition from initial crisis response to recovery on to stronger, more sustainable and balanced growth, a number of structural constraints and imbalances need to be addressed.” These imbalances and structural constraints included:

– supporting greater policy and fiscal space, and increased resources, in developing countries, including through bilateral and multilateral aid policies; and

– expanding assistance to less developed countries with a view to increasing productivity and incomes in the agricultural and rural sector, as well as providing the foundations for an expansion of formal wage employment. [1]

2. In order to develop the ILO’s approach to easing the policy constraints that may be inhibiting action by countries to accelerate a recovery in employment, the Director-General has invited President Kaberuka of the African Development Bank (AfDB), President Compton Bourne of the Caribbean Development Bank (CDB) and the Administrator of the United Nations Development Programme (UNDP), Ms Helen Clark, to discuss these issues with the Working Party. The Presidents of the Inter-American Development Bank, the Asian Development Bank and the European Development Bank (EBRD) were unable to accept the Director-General’s invitation.

3. The ILO has increasingly close links with the regional development banks for dialogue on policy approaches, as well as collaboration on operational activities. The ILO works closely with the UNDP both at headquarters level and through the UN country teams, which jointly develop the UN Development Assistance Frameworks (UNDAFs).

[1] GB.306/15(Rev.), para. 7.

4. This paper begins by briefly introducing the guest speakers and the work of the institutions they lead. It then examines the different prospects for recovery that different countries are facing. It goes on to discuss the effect of underlying structural imbalances in the global economy on the sustainability of recovery, the scope for easing the policy constraints facing a number of countries and the possible contribution of the policy framework of the Global Jobs Pact to more balanced growth and poverty-reducing development. The paper concludes by suggesting a number of issues for dialogue with the guest speakers.

Policy dialogue with development finance institutions

5. The ILO Regional Office for Africa is expanding its work with the AfDB as part of the follow up to the African Decent Work Symposium (Ouagadougou, December 2009). Amongst recent areas of cooperation are the promotion of women entrepreneurship, action against HIV/AIDS and employment-intensive investment. The AfDB lends about US$7.5 billion per year. It is discussing with its shareholders and donors an increase in its capital base and an expansion of its soft loan arm, the African Development Fund.

6. In his opening speech to the African Economic Conference (Addis Ababa, November 2009), President Kaberuka noted the positive effect of the global measures taken by the G20, but remarked:

> "As confidence rebuilds, economies recover, financial damage is repaired – in so far as rich countries are concerned – a much more intractable problem emerges: long-term unemployment … The question is: is there a wasted opportunity here to deal with unemployment at home by extending the same Keynesian stimulus to low income countries? … While we will continue to call on rich countries to meet commitments, I believe, I hope I am wrong, we are entering an era perhaps which is sometimes labelled – post-Gleneagles: where rich countries facing rising debt, deficits and unemployment are tempted to look after their own rather than looking after the neighborhood." [2]

7. The CDB is working closely with other development finance institutions operating in the Caribbean on responses to the financial and economic crisis. Ten out of 14 CDB members from the region experienced contractions in national output in 2009. The small open economies of the region are particularly vulnerable to the effects of downturns in tourism, commodity exports, workers' remittances and foreign direct investment. The CDB is stepping up disbursements for the next two years, aiming to lend more than $200 million per year in all types of loans. It is focussing on policy-based loans, as well as funding for infrastructure, micro-, small and medium-sized enterprises and poverty reduction. [3]

8. President Bourne has stressed that "Given the fiscal limitations of Caribbean governments, financing of the adjustment will depend on access to resources from regional and multilateral development banks and from international financial institutions." He has drawn attention to the fact that the Caribbean and other middle-income countries benefited only to a limited extent from the resources committed by the G20 in 2009. [4]

[2] www.uneca.org/aec/2009/speeches/091112Statement-Kaberuka.html.

[3] Crisis Response Initiatives of the Multilateral Financial Institutions Operating in the Caribbean (see CDB web site).

[4] Speech to the International Conference of the Americas, Montreal, June 2009 (see CDB web site).

9. The UNDP manages a flow of aid resources of $5 billion per year, of which nearly three-quarters is in earmarked donor contributions. In 2008, the global employment portfolio of the UNDP consisted of approximately 470 projects with a total value of $162 million. Employment projects fall into six “thematic” categories:

(a) macroeconomic reforms and “sectoral” policies (such as small and medium-sized enterprise (SME) development and foreign direct investment) to promote employment-led growth;

(b) entrepreneurship development initiatives (such as the provision of training and business development services) to promote self-employment and small enterprise development;

(c) capacity development initiatives to promote investment and competitiveness in sectors with employment growth potential;

(d) access to finance initiatives to encourage investment and employment growth in micro-, small and medium-sized enterprises;

(e) vocational education and training initiatives; and

(f) temporary employment creation and employment guarantee schemes. [5]

10. At its January 2010 session in New York the UNDP/UNFPA Executive Board adopted decision 2010/11: *UNDP response to the financial and economic crisis: Promoting the Global Jobs Pact*. The decision calls upon the UNDP to integrate the Global Jobs Pact into its operational activities under the UNDP strategic plan in collaboration with the ILO. It also asks the administrator to strengthen inter-agency collaboration at the country level so as to enhance thematic ties with the UN system Chief Executives Board for Coordination’s (CEB) Global Social Protection Floor Initiative. It further requests the UNDP to include in the annual report of the administrator, a progress report outlining the initiatives it has undertaken to implement this decision. [6]

11. In a recent speech, Ms Clark argued that:

> “The economic crisis has aggravated existing challenges to development and risks reversing some of the progress which has been made. While developed countries have also been impacted, some very severely, the developing world is bearing the brunt of the crisis. … National governments … need to be driving responses to the crises. But, in many cases, their room for manoeuvre is limited. They lack the resources and tools to blunt the immediate impacts of the recession on their people. Poor and vulnerable countries need concerted assistance from the international community. Used well, such support allows governments to maintain their budgets for basic services; boosts momentum towards the MDGs; and builds and strengthens the capacities and institutions which make sustainable development possible.” [7]

[5] See report to UNDP/UNFPA Executive Board DP/2010/12 and UNDP Annual Report 2009.

[6] www.undp.org/execbrd/.

[7] Helen Clark: “Moving the development agenda forward in today’s world” in *UNDP Newsroom*, 11 February 2010.

Emerging patterns of recovery

12. After a fall in world output in 2009, the latest International Monetary Fund (IMF) forecasts for the global economy point to growth of around 4 per cent in 2010 and 2011. Forecasts by the World Bank and the UN suggest a somewhat slower pace of recovery. All see important differences between, and within, regions, however. The IMF expects advanced economies to have a sluggish rebound reaching just over 2 per cent in 2010, whereas developing and emerging countries will expand at 6 per cent. Developing Asia is forecast to grow by over 8 per cent, with China at 10 per cent. Other developing regions are expected to be closer to the global average of 4 per cent. Central and Eastern Europe is the least buoyant emerging region with a forecast of 2 per cent growth in 2010.

Stimulus measures drive growth in advanced countries

13. Growth in the principal advanced economies, which still have the largest weight in the global economy, is heavily dependent on government stimulus measures. There are few signs of a sustained recovery in either private consumption or investment. The bad debts of the finance sector are not fully written off, despite massive public support. The IMF has urged governments to maintain the fiscal stimulus measures into 2010 despite worries in a number of countries over the size of fiscal deficits and rising public debts. A concern is that governments may decide that they have reached the limits of deficit spending before the private sector takes up the running in sustaining recovery.

Recovery in developing world led by Asia

14. Developing and emerging countries as a group will grow noticeably faster than advanced countries, also helped by strong stimulus measures in the larger countries. The financial systems of most developing countries were more resilient than those of the main financial centres. The crisis was thus “imported” via the slowdown in export earnings, foreign investment and in some countries declines in workers’ remittances. However, there are large differences in prospects for different countries.

15. China’s growth rebound to a forecast 10 per cent in 2010 will be an important engine for the Asian region and minerals exporters as it pulls in imports of components and raw materials. India is expected to reach 7.7 per cent expansion this year. Mexico experienced a sharp fall of 6.8 per cent in 2009, but will recover to 4 per cent growth in 2010. Brazil likewise could grow at over 4 per cent. The Russian Federation, helped by a pickup in commodity prices, is returning to growth after a deep recession in 2009.

Weaker rebound in other developing countries

16. However, prospects for the developing world excluding China and India are less promising. The World Bank forecasts, which are not strictly comparable to those of the IMF, point to the remaining developing countries, growing at 3.3 and 4 per cent in 2010 and 2011, respectively, compared with 5.4 per cent annual growth on average between 2003 and 2008. The combination of the steep decline in activity of -2.2 per cent in 2009 and the relatively weak projected recovery means that developing economies will still be operating about 3 per cent below their level of potential output. Moreover, the impact on poverty and human suffering will be very real. [8]

17. "Few of the poorest countries will have the fiscal space to respond to the economic dislocation caused by the crisis without significant additional financial assistance. It is estimated that IDA countries (those eligible for soft loans and grants from the International Development Association of the World Bank) will require an additional $35 billion to $50 billion in funding just to maintain current levels of programming, let alone come up with the additional funding required to meet the needs of those additional individuals thrown into poverty." [9]

Impact on poverty reduction

18. Between 47 and 84 million more people are estimated to remain poor or to have fallen into extreme poverty in developing countries than would have been the case had the crisis not occurred. Major setbacks in progress towards the achievement of the other Millennium Development Goals (MDGs) are also to be expected, especially for the vulnerable populations in low-income countries. Despite the signs of economic recovery, many people are still facing declines in household incomes, rising unemployment and pressure on social services because of dwindling government revenue. Where these adverse impacts cannot be countered because of weak social safety nets and lack of fiscal space to protect social spending and promote job creation, there are high risks of long-lasting setbacks in human development. [10] In the Asia–Pacific region, home to the largest number of people living in extreme poverty, the ADB and the UN estimate that the crisis could trap an additional 17 million on incomes under $1.25 a day in 2009 and 4 million more in 2010. [11]

19. The crisis has thus set back progress towards the MDG of halving extreme poverty by 2015. Calculations by the World Bank using new data from household surveys, point to a global total of 918 million living on under $1.25 in 2015, which is about half the total of 1.8 billion in 1990. This is almost exclusively due to a big fall in China and other East Asian countries. Numbers in sub-Saharan Africa increase in absolute terms and decline modestly as a share of the population. At the $2 a day level, less progress is expected. A total of 2 billion living in $2 a day poverty is forecast in 2015, compared with 2.7 billion in 1990. A fall in East Asia is expected to be counterbalanced by an increase in sub-Saharan Africa and no reduction in South Asia. The share of the developing world's population living in poverty at the under $2 a day level would thus decline from 63 per cent in 1990 to 33 per cent in 2015.

20. Analysing the effect of the crisis on jobs, the ILO estimates that the number of jobless worldwide reached nearly 212 million in 2009, following an unprecedented increase of 34 million compared to 2007, on the eve of the global crisis. The ILO also estimates the number of unemployed youth worldwide increased by 10.2 million in 2009 compared to 2007, the largest hike since 1991.

[8] World Bank: *Global economic prospects 2010: Crisis, finance, and growth*, Washington, DC, tables 1.1–1.3.

[9] Ibid., p. 16.

[10] UN: *World economic situation and prospects 2010*, p. 4.

[11] UN Economic and Social Commission for Asia and the Pacific, Asian Development Bank and UNDP: *Achieving the Millennium Development Goals in an era of global uncertainty*, Asia–Pacific Regional Report 2009/10.

21. The impact on the labour market of developing countries of the crisis is captured by two additional measures. The share of workers in vulnerable employment [12] worldwide is estimated to have reached over 1.5 billion, equivalent to over half (50.6 per cent) of the world's labour force, an increase in 2009 of as much as 110 million compared to 2008. The same estimates indicate that 633 million workers were living on less than $1.25 per day in 2008, with as many as 215 million additional workers at risk of falling into poverty in 2009.

22. Looking ahead into 2010, current forecasts of economic growth do not give grounds for optimism about a fall in these indicators of labour market distress.

Rebalancing the drivers of global growth

23. An important factor in establishing conditions for recovery and sustainable growth and development is a rebalancing of a number of related underlying imbalances in and between regions. Although debates continue on the causes and effects of these imbalances it is widely accepted that they contributed to the conditions that led up to the crisis. The main surplus countries are the oil exporters, Japan and Germany, and China and a group of emerging Asian economies. The deficit countries are the Unites States, several advanced European economies and the rest of the developing world. As table 1 shows, while global imbalances narrowed in the recession year of 2009 they are likely to widen again once some recovery starts hampering prospects for sustained growth and development.

Table 1. Average current account balances (in per cent of world GDP)

	2005–08	2009	2010–14
United States	-1.4	-0.6	-0.6
Peripheral Europe	-0.8	-0.5	-0.5
Rest of the world	-0.3	-0.4	-0.4
China	0.6	0.6	0.9
Emerging Asia	0.2	0.3	0.2
Japan	0.3	0.2	0.2
Oil exporters	1.0	1.3	0.7
Core Europe	0.7	0.4	0.5
Discrepancy	0.4	0.2	0.9

Source: O. Blanchard and G.M. Milesi-Ferretti: *Global imbalances: In Midstream?*, IMF Staff Position Note (SPN/09/29), 22 December 2009.

24. A rapid expansion of credit in the United States and some other major financial centres fuelled growth which was in good part based on an inflation of property prices. Savings from other parts of the world were sucked into this speculative boom. The bust now leaves the private sector of the advanced countries saving heavily to pay off debts. The Organisation for Economic Co-operation and Development (OECD) estimates that the private sector will increase its savings by the equivalent of 7.4 per cent of industrial country GDP between 2007 and 2010. The effect of this big withdrawal of spending from

[12] Vulnerable employment is defined as the sum of own-account workers and contributing family workers.

the economy is to slow recovery. Slow growth reduces imports, however, and thus helps ease balance of payments deficits.

25. Growth in some of the larger emerging markets is, as in advanced countries, largely driven by public sector spending. Some signs of a rise in household consumption point to the beginnings of a shift toward less reliance on exports as a driver of growth. Exports do remain important but balance of payments surpluses are falling. Recession is thus reducing some of the symptoms of global imbalances.

26. Nevertheless, there are serious risks to global recovery and development of a stalling in the rebalancing of global demand. If the rise in saving in the big deficit countries is not sufficiently matched by a rise in consumption and investment in surplus countries global demand would weaken. [13] The scale of the structural shifts required on both sides of this rebalancing are very large and likely to take time, adding to risks of a faltering recovery.

27. The crisis has also led to a worsening of the payments position of a number of developing countries. The AfDB points out that, as a result of the crisis, Africa has lost about 30 to 50 per cent of its 2008 export revenues in 2009. Despite some relief on import bills due to falling food and oil prices, the overall trade balance deteriorated markedly. The continent moved from a current account surplus of 3.4 per cent of GDP in 2008 to a deficit of 4.2 per cent in 2009. Similarly, the continent's fiscal balance is also projected to worsen, as a surplus of 3.3 per cent of GDP in 2008 turns into a deficit of 4.2 per cent of GDP in 2009 in large measure as a result of declines in tax returns from commodity exports.

28. Rebalancing thus needs to take into account the large number of developing countries that need to attract long-term foreign investment to accelerate development and make up the faltering of poverty reduction caused by the recession.

Policy strategies for rebalancing the drivers of global growth and development

29. Reducing underlying structural imbalances and improving the prospects for strong, sustainable and balanced global growth involves several sets of mutually supportive policy action. Although much attention has focused on external issues, underlying social and employment imbalances also need to be addressed. In many countries, productivity growth has outpaced wages for several years leading to a weakening of consumption, the major driver of growth in most economies.

30. In advanced countries, where public sector deficit spending is supporting a weak recovery, it is vital to increase the employment content of growth. High and prolonged levels of unemployment stymie growth in consumption and investment and make a reduction in fiscal deficits much harder to achieve. This is particularly important in countries running payments surpluses where an expansion of domestic demand would be beneficial both to the reduction of unemployment at home and also in deficit trading partners constrained from adopting or maintaining expansionary fiscal policies.

31. In emerging surplus countries, where growth of employment incomes has not kept pace with productivity, there is scope for improvements in social protection and working conditions including minimum wages. This would support a long-term strategy to reduce very high levels of precautionary or "rainy day" saving and thus boost domestic

[13] O. Blanchard and G.M. Milesi-Ferretti, *Global imbalances: In Midstream?*, IMF Staff Position Note (SPN/09/29), 22 December 2009.

consumption. With some of the largest export markets unlikely to be a source of buoyant demand in the near term, stronger income-led domestic growth would help maintain the rate of quality job creation needed to absorb new entrants to the labour market and rural migrants.

32. For much of the developing world, constrained to varying degrees by fiscal deficits and foreign debt obligations, access to international development finance is critical to a recovery in the drive for poverty-reducing development. Rebalancing of global financial flows should thus include the channelling of investment funds from both advanced and emerging surplus countries to developing countries. A strong focus on investment in employment generating productive capacity is warranted in order to generate a self-sustaining rise in domestic saving and consumption and thus reduce dependence on foreign borrowing and aid as important sources of investment and growth in the medium term.

Conclusions and issues for dialogue with development finance institutions

33. Paragraph 9(11) of the Global Jobs Pact, calls on “the ILO, engaging with other international agencies, international financial institutions and developed countries to strengthen policy coherence and to deepen development assistance and support for least developed, developing and transition countries with restricted fiscal and policy space to respond to the crisis”. The priorities for developing countries are further elaborated in paragraph 22. Paragraph 25 stresses that “Giving effect to the recommendations and policy options of the Global Jobs Pact requires consideration of financing. Developing countries that lack the fiscal space to adopt response and recovery policies require particular support. Donor countries and multilateral agencies are invited to consider providing funding, including existing crisis resources, for the implementation of these recommendations and policy options.”

34. The emerging patterns of recovery from crisis serve to highlight the risks to strong, sustainable and balanced growth from underlying social and employment imbalances. Enhanced partnership between the ILO, the regional development banks and the UNDP could help to support the policy approach of the Global Jobs Pact. It could reduce the policy constraints currently inhibiting action by a number of countries to redress the damage done by the crisis to poverty reduction efforts.

35. The regional development banks are important conduits of global savings into investment in developing countries. As government-owned institutions they are able to borrow at attractive interest rates and pass this advantage on to developing country borrowers. Official development assistance also makes it possible to further improve terms for the least developed countries or for projects that focus on alleviating poverty in middle-income countries. The regional development banks are also perceived by developing country borrowers as well attuned to their region’s specific needs. [14]

36. A number of regional development banks have proposed an increase in the capital base so as to increase lending to counteract the effects of the crisis. *What progress is being made in this regard? Could ILO constituents help in raising this issue?*

[14] S. Griffith-Jones, D. Griffith-Jones and D. Hertova, *Enhancing the role of regional development banks: The time is now*, paper for the G24.

37. ILO cooperation with regional development banks is increasing. A number have referenced international labour standards in their lending policies. The Global Jobs Pact offers a framework to deepen such collaboration on crisis recovery measures. Furthermore, the policy portfolio it recommends is widely supported by both borrowing and capital contributing members of the banks. *How could this scope for operational collaboration be deepened?*

38. The UNDP plays a key role in the drive to improve policy coherence in UN development cooperation. It is a strong advocate for the honouring of pledges to increase development assistance and enable progress on the MDGs. The UNDP administrator also chairs the United Nations Development Group, which supports the work of UN country teams in developing and implementing UNDAFs at the country level. The recent decision of the UNDP/UNFPA Executive Board to integrate the Global Jobs Pact into UNDP's operational activities (see paragraph 13 above) is thus most welcome especially its emphasis on the global social protection floor.

39. A key role in the design of UNDAFs is played by governments. In taking forward the Executive Board decision, it will therefore be important to enhance the role of ministries of employment and labour and the social partners in the design and implementation of UNDAFs. *What sort of enhanced UNDP/ILO cooperation in facilitating country-level activities could be envisaged?*

40. The multilateral development finance institutions could play a potentially vital role in rebalancing the global economy for strong, sustainable and balanced growth. A priority for recovering lost ground in poverty reduction is to create conducive conditions for the generation of decent work through the Global Jobs Pact approach. *Could the development finance institutions and the ILO deepen their policy dialogue on this issue in the run up to the September 2010 UN High-level Conference on the Millennium Development Goals?*

Geneva, 8 March 2010.

Submitted for debate and guidance.