



# Southern Voice

2015 On Post-MDG International Development Goals



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# **INTEGRATING PRODUCTIVE EMPLOYMENT INTO THE POST-2015 DEVELOPMENT AGENDA**

*Southern Voice Occasional Paper 3*

*Rizwanul Islam\**

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# Preface

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The *Millennium Development Goals* (MDGs) constitute one of the ideas of the United Nations (UN) that has literally changed the world. Conversely, the actual state of delivery of the MDGs continues to remain a matter of intense debate. With the 2015 deadline drawing near, the international development community remains preoccupied with reflecting on 'MDGs' future'. Indeed, an explicit understanding seems to have emerged that the MDGs are going to continue beyond 2015 in one form or another. Consequently, questions are being asked about the processes that are being followed to decide on the substance of the post-2015 international development goals as well as about what would be their distinguishing features.

The *Southern Voice on Post-MDG International Development Goals* is a network of 48 think tanks from Africa, Latin America and South Asia that has identified a unique space and scope for itself to contribute to this post-MDG dialogue. By providing quality data, evidence and analyses that derive from research in the countries of the global South, these think tanks seek to inform the discussion on the post-2015 framework, goals and targets, and to help give shape to the debate itself. In the process, *Southern Voice* aims to enhance the quality of international development policy analysis, strengthen the global outreach capacity of Southern think tanks, and facilitate professional linkages between these think tanks and their respective governments.

The initiative emerged in Cape Town, South Africa in June 2012 at a meeting of awardees of the Think Tank Initiative (TTI), a multi-donor facility managed by the International Development Research Centre (IDRC), in Ottawa, Canada. Since then, the Centre for Policy Dialogue (CPD) has further conceptualised the initiative and prepared its programme document through a consultative process with the other think tanks. The initiative was launched to various stakeholder groups including the larger development community in November 2012. Subsequently, CPD organised an expert group meeting in Dhaka on 11-13 January 2013, to set the agenda for the initiative. The key outcome of the Dhaka meeting was captured in the document *First Approximations on Post-MDG International Development Goals*, which was forwarded as a contribution to the High Level Panel appointed by the UN Secretary General to draft the post-2015 framework.

It is reckoned that the guiding spirit and initiative of the programme will rest with the Southern think tanks, but it will operate as an *open platform*, where concerned institutions and individuals from both South and North will interact with the network members. This approach will help to enhance the quality of international development policy analysis, strengthen the global outreach capacity of Southern think tanks, and facilitate professional linkages among these institutions as well as with their respective governments.

*Southern Voice Occasional Papers* are based on inputs received at various platforms of the initiative. The present paper draws on the special comments delivered by *Dr Rizwanul Islam*, former Special Adviser, Growth, Employment and Poverty Reduction Sector, International Labour Organization (ILO), Geneva at a session of the Dhaka Expert Group Meeting on a very pertinent issue. The paper underscores the importance of productive and decent employment in achieving inclusive economic growth, one of the major pillars of post-2015 development agenda. Highlighting how employment can act as a mechanism for transformative change, *Dr Islam* delineates some measurable indicators and policy considerations for achieving this particular goal.

In connection with the launch of the *Southern Voice on Post-MDG International Development Goals*, I would like to thank *Professor Mustafizur Rahman*, Executive Director, *Ms Anisatul Fatema Yousuf*, Director, Dialogue and Communication, *Dr Fahmida Khatun*, Research Director and *Dr Khondaker Golam Moazzem*, Additional Director (Research) of the CPD for their support in getting the *Southern Voice* off the ground. I recall with thanks that a

number of CPD colleagues have worked hard in rapporteuring the sessions of the Dhaka Expert Group Meeting and preparing the transcriptions of the presentations and comments.

On this occasion, I would like to recall with gratitude the contribution of *Dr Peter Taylor*, Acting Programme Leader, Think Tank Initiative (TTI) in shaping the *Southern Voice on Post-MDG International Development Goals* and taking the initiative forward.

I would also like to acknowledge with thanks the contribution of *Ms Mahenaw Ummul Wara*, Research Associate, CPD for coordinating the publication process, *Ms Nazmatun Noor*, Deputy Director, Dialogue, CPD for copy editing, and *Mr Avra Bhattacharjee*, Deputy Director, Dialogue, CPD for designing the cover of the series.

I hope the engaged readership will find the document stimulating.

Dhaka, Bangladesh  
June 2013

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# Acronyms

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GDP	Gross Domestic Product
G-20	Group of 20
ILO	International Labour Organization
MDG	Millennium Development Goal
PRSP	Poverty Reduction Strategy Paper
SME	Small and Medium Enterprise
SoE	State-Owned Enterprise
UN	United Nations
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme

# Integrating Productive Employment into the Post-2015 Development Agenda

*Rizwanul Islam*

## 1. Introduction

As the year 2015 gets closer, there is a growing interest in the degree of success in attaining the Millennium Development Goals (MDGs) and in the framework for the post-2015 development agenda. While the degree of success in attaining the MDGs varies between regions of the world and between the various goals, it is widely recognised that concerted efforts will be needed to attain for more sustainable patterns of growth and accelerate the rate of poverty reduction in regions that are witnessing stubborn persistence of poverty at high rates. The global economic crisis of 2008-09, the weak recovery and subsequent double dip recession in many countries, the debate on austerity as a means of bringing about macroeconomic balance and engendering economic growth, and their impact on the social dimensions of development have opened new areas of concern. This is the backdrop in which the current discussions on the post-2015 development framework need to be looked at.

While discussions on the post-2015 development agenda are taking place at both international and national levels, concrete outcomes of efforts at the former level may be worth noting. One such outcome is the report of the United Nations (UN) system 'task team' (prepared in 2012) which finds it useful to have an agenda format based on concrete goals and targets, and suggests that the components be reorganised along four key dimensions that would provide a more holistic approach. These dimensions are: (i) inclusive social development; (ii) inclusive economic development; (iii) environmental sustainability; and (iv) peace and security. The inclusion of decent work and productive employment as one of the pillars of inclusive economic development (alongside eradication of income poverty and hunger and reduction in inequalities) represents a notable departure from the original framework of the MDGs. While full and productive employment can be a goal in its own merit, this may also be seen as a critical mechanism for attaining other goals of poverty eradication and reducing inequality. It is, therefore, important to ensure that this aspect of development be integrated effectively into the post-2015 development agenda and mechanisms are found to pursue this goal in a concerted manner. The purpose of the present paper is to provide a few pointers in that direction.

## 2. Looking Back at the MDGs

It is well-known that MDGs were formulated around a target-based format and have a strong development orientation with the goals focusing on income and non-income dimensions of poverty. They came after several decades of disappointing performance in these areas. For many developing countries, this was associated with low or unstable economic growth while there were countries that had this experience despite impressive rates of economic growth. It was, therefore, not surprising that development practitioners and policymakers at both international and national levels focused on these aspects of development in addition to economic growth. However, as one looks at the attainments and at a possible future development framework, a number of issues are coming up.



The *first* issue concerns the place of economic growth in a development agenda and whether the MDG framework de-emphasised the growth part of it. One view is that this was indeed the case, and there has to be a better balance between the goals of economic growth and development. In this context, one may recall the single-minded focus on economic growth as the major goal to be pursued with the hope that other developments will follow. This was the case in the development strategies pursued during the second half of the Twentieth century. Even when there was an attempt to correct the shortcomings of that approach through the mechanism of Poverty Reduction Strategy Papers (PRSPs), the goal of poverty reduction and other social dimensions of development remained as add-ons rather than being integral parts of an overall growth strategy. One would therefore hope that the quest for a better balance between the goals of economic growth and its development dimensions will not result in return to a growth focused agenda whose inadequacies are by now well-known.

The *second* issue concerning the MDGs is that in an attempt to arrive at a consensus on specific targets and measurable indicators, the process, mechanisms and policies needed to attain those, did not receive much attention (or were perhaps left to policymakers at the country level). This issue will have to be borne in mind in the context of the post-2015 development framework, especially as one talks about bringing back economic growth to the agenda. The critical linkages between economic growth and other aspects of development would need to be addressed.

The *third* issue concerning the MDGs is the place of employment in the agenda. It may be recalled that the original list of goals and targets did not include productive employment as an item. This was added later, and it took eight years (agreed upon in 2008) to include the new MDG target of achieving “full and productive employment and decent work for all including women and young people” and the associated indicators, viz.,

- Growth rate of labour productivity (gross domestic product (GDP) per person employed)
- Employment-to-population ratio
- Proportion of employed people living below the poverty line
- Proportion of own-account and contributing family workers in total employment (vulnerable employment ratio).

The absence of any employment-related target in the original list of MDGs confirms the observation that adequate attention was not given to the mechanisms and policies that would be needed to attain the desired development goals listed therein, because productive employment is not only a desirable goal by itself, it (along with incomes earned through employment) can also serve as an important instrument for linking economic growth with other goals such as reduction of income poverty and hunger, education and health. Analysis of the critical nexus between economic growth, employment and poverty reduction undertaken during the past decade or so indicates that while high rate of economic growth is a necessary condition for poverty reduction, it is not sufficient. The pattern of growth in terms of its impact on productive employment plays a key role in translating the benefits of growth into poverty reduction. Moreover, there is no invariant relationship between economic growth and productive employment. Empirical evidence shows that in many countries economic growth has not resulted in the desired rate of growth in productive employment. It is, therefore, important to integrate employment into a development agenda aimed at poverty eradication and the attainment of other social goals in the areas of education and health.

Apart from the late incorporation of productive employment and related indicators into the MDGs in 2008, a few observations may be in order about the indicators themselves and the lack of attention towards needed policies for improving upon the outcomes. *First*, the concept and measurement of employment itself raises problems, especially in developing countries where the absence of social protection for the unemployed compels them to remain engaged in some work (either wage paid or on own-account) merely to eke out a living. When a typical survey question asks a person about his/her status during the reference week, it is highly unlikely to find very many who would say that they were not doing any income earning work. In this kind of situation, employment-to-population ratio (which is one of the indicators of employment target) may be more of an indicator of the

growth of labour force than of productive employment. Only in some sectors of such economies, e.g. manufacturing and other modern services sectors, the numbers employed and growth of that number are expected to really reflect demand for them. Hence, for developing countries, employment-to-population ratio for the economy as a whole may not be a good indicator of productive employment.

The observation made above may be relevant for developed countries as well, because in many of them, large proportions of the employed are engaged in part time and other atypical forms of employment, and counting all of them as employed may not be appropriate from the point of view of measuring progress towards full productive employment.

The *second* observation about the employment indicators of MDGs concerns the indicator for vulnerable employment which is measured as the proportion of own-account and family workers. Own-account workers (or self-employed) as a category is very broad and covers a wide range of workers ranging from those engaged in very low productivity residual type of jobs to those who are professionals in specialised occupations and earn decent incomes. Including all of them in the category of vulnerable employment may not reflect the reality. It is of course understandable that in the current state of data availability, especially in developing countries, it may not be possible to disaggregate own-account workers into sub-groups by their income and productivity. But this cannot be an argument for not recognising the shortcoming of the indicator that is being used. Rather, efforts should be made to bring about improvements at the conceptual level and follow that up by data collection efforts.

A major problem with the employment indicators of the MDGs is that they do not reflect an understanding of the structural transformation that developing countries need to undergo in order to achieve high rates of growth in productive employment. The required transformation is from low productivity sectors like agriculture and other traditional sectors to modern manufacturing, transport and communication, and modern services. Such transformation, by itself, may not yield high growth of productive employment. What would be required in addition is high growth of industries that are by nature labour-intensive. If this kind of structural transformation takes place in an economy, it should be reflected in the change in the structure of employment by sectors and sub-sectors. The importance of the growth pattern expressed through sector and sub-sector composition of growth is indicated by the experience of countries that have been successful in combining high rate of economic growth with high rate of employment, e.g. Republic of Korea and Malaysia in the early stages of their economic growth, and also Indonesia, Thailand, etc. The important aspects of the pattern of growth are: (i) high growth of manufacturing industries in relation to overall GDP growth; and (ii) high growth rate of labour-intensive industries and other labour-intensive sectors. In selecting indicators of employment performance, this feature of developing countries should be taken into account.

### **3. Looking Ahead at the Post-2015 Development Framework**

#### ***3.1 Possible Targets relating to Productive Employment***

Although brief, the observations made above should provide pointers to how the issue of productive employment could be addressed in the context of the post-2015 development framework. Since the basic framework is one of inclusive growth, it would be useful to start from there. Based on a review of the various definitions and conceptualisations of the term 'inclusive growth', the author here suggests the following five pillars of inclusive growth:

- Stable economic growth that is sustainable
- Reduction of income poverty and of inequality in the distribution of income
- Opportunities for productive and decent employment

- Improvements in the access to education and health services, and
- Basic social protection floor for all citizens

The quest for productive employment has to start from sustainable growth which is employment-friendly in character. The agenda for growth and its pattern needs to remain active not only during periods of economic prosperity, but also during downturns, and the concern for macroeconomic stability has to be balanced with the need for sufficient high growth. For many developing countries, the main problem is one of lack of growth or instability in the rate of economic growth. While a development agenda has to start by addressing this problem, the concern for productive employment would have to be addressed simultaneously; and one way of doing so would be to pursue a pattern of growth (in terms of growth of sectors and sub-sectors) that is employment-intensive. Hence, if the rate of economic growth is selected as one of the targets, the indicators of success should be selected in such a way that they reflect the pattern of growth in terms of its employment implication.

Coming to indicators of productive employment, efforts are needed to go beyond the standard definition of the term employment and the measure that results from such a definition to identify indicators that would be indicative (or proxies) of productive employment. Taking into account the characteristics of labour markets in developing countries, and the importance of the pattern of growth and need for structural change in the sector composition of employment, various possibilities could be considered:

- Employed persons who are not underemployed (the latter by a time or income measure)
- Persons in regular wage employment as proportion of total employment
- Persons in regular wage employment in non-agriculture sectors as proportion of total employment in those sectors
- The rate of growth and proportion of total employment in manufacturing, construction and modern services
- The rate of decline in unpaid family work
- Productivity and real wages in agriculture
- Proportion of total employment in the informal segment of the economy and the rate at which this declines

A few words may be in order about the rationale for the indicators suggested above. Take underemployment first. It is well-known that while the rate of open unemployment is found to be rather low in most developing countries, underemployment (by income or time criteria) is a common phenomenon, especially in agriculture and other traditional sectors. Although it is not easy to measure the degree of underemployment, various alternatives including time and income measures are available. Clearly, if one is trying to identify those engaged in productive employment, a starting point may be to exclude the underemployed from the total numbers employed and use that as an indicator. This, of course, is not a satisfactory solution because those who are underemployed may not be engaged in entirely unproductive work. The point here is one of relative levels of productivity, and the suggestion is that those who are not underemployed by any of the currently used measures may be regarded as engaged in more productive employment.

The indicators suggested in the bullet points second through sixth above emanate from development discourse that characterises economic growth as a process through which labour force moves from low productive traditional sectors like agriculture to those where productivity is higher, e.g. manufacturing, trade, services, etc.; from unpaid family work to either own-account work or wage employment; and from casual employment to regular wage/salary-based works. As for pattern of growth and structural change in an economy, the dominant development paradigm regards manufacturing as an engine of growth, although in recent discussions, the feasibility of that happening in all countries is being questioned; and the possibility of alternatives like services is being mentioned. Hence the growth rate of

employment in these sectors and their share in total employment could be useful indicators of progress towards expanding the base of productive employment.

One major indicator of the employment intensity of growth is the extent of wage/salaried employment created by the modern sectors of the economy. Of course, given the recent experience of low growth of employment as a whole, and of wage/salaried jobs in particular, creating one's own job is being increasingly emphasised in development literature and practice. But that should not reduce the importance of wage employment as an indicator of progress towards productive employment.

While structural change in an economy and in the composition of employment is important from the point of view of productive employment, large proportions of the total labour force in developing countries remain employed in agriculture. Hence, in addition to transferring workers from agriculture to modern sectors, development strategies must aim at raising productivity within agriculture, so that real wages and earnings of those who remain there may improve. A useful indicator of employment productivity in the sector could be the real wages of those engaged there.

Labour markets of many developing countries are characterised by high proportions engaged in the so called informal segment of the economy which consists of those who are outside the formal segment as well as those who are linked to the formal segment in various ways and yet are informally employed (in the sense of not being covered by the regulations and practices of the formal sector that engages them). Progress in development has to be associated with a reduction in this segment of employment. This of course is not to suggest that all those who are employed in this segment suffer from low productivity. On the contrary, the informal sector in developing countries can be quite heterogenous in terms of levels of operation as well as the levels of productivity and incomes of workers engaged in them. As for an indicator relating to informal employment, the attempt should be to identify the component where labour productivity and returns are low and monitor changes therein – the target being to reduce the share of this component.

### ***3.2 Policies for Attaining the Targets***

Given the experience with MDGs where targets and indicators were not backed up by analysis of policies that would be needed to move towards the goals and improve upon the indicators, it would be important to link targets and indicators to policies. It has already been mentioned earlier in this paper that there is no invariant relationship between economic growth and employment; similar growth has been associated with different rates of employment growth in different countries. Policies that would be relevant for attaining the goal of productive employment should emerge from an analysis of how one explains the varying relationship between economic growth and employment.

One commonly provided answer is that rigidities in the labour market discourage employers from hiring workers. I would not rule out this possibility altogether. However, a review of relevant empirical evidence leads me to conclude that this cannot be the only or even the most important factor behind slow growth of employment. It is important to adopt a broader framework and look at the combination of economic and labour market factors that may explain the variation in the employment outcomes of economic growth.

In order to understand why economic policies are important for having a job-rich growth, one has to go back to the importance of the pattern of growth expressed through the sector and sub-sector composition of growth. This emerges from the experience of countries that have been successful in combining high rate of economic growth with high rate of employment growth, e.g. Republic of Korea, Malaysia, Indonesia, etc. Two important aspects of the pattern of growth are: (i) high growth of manufacturing industries in relation to overall GDP growth, and (ii) high rate of growth of labour-intensive industries.

What kind of policy is needed to achieve such pattern of growth? Why have some countries not been able to achieve such pattern of growth despite trade liberalisation and the adoption of market-oriented policies? Several explanations are possible.

- Infrastructure (such as roads, energy, communication) often acts as a binding constraint on growth of modern sectors like manufacturing and modern services.
- Even when output grows, employment may not grow at the expected rates if policies favour the use of capital. Some examples are given below:
  - In India, relative factor prices are biased in favour of capital through a variety of measures that lower the price of capital equipment and the cost of capital in general.
  - In Nepal, heavy equipment for construction has been made artificially cheap (through abolition of tariff on imported equipments), thus leading to a sharp decline in the labour content in the construction sector.
  - In Vietnam, favourable treatment received by state-owned enterprises (SoEs) in the credit market acts against employment growth because they are less employment-intensive compared to non-state domestic enterprises, especially the small and medium enterprises (SMEs).
  - In contrast to the above, countries like Malaysia and Republic of Korea, during their early stages of development, adopted a range of policies to encourage investment in labour-intensive export-oriented industries.

Factors relating to the functioning of labour markets could also act as constraints on investment as a whole, and in employment-intensive industries in particular. Without taking a dogmatic view on the issue and adopting a blanket approach to flexibility vs rigidity, it would be useful to identify specific elements, if any, in labour market institutions that might hinder growth of employment in a particular country and undertake corrective measures.

It needs to be recognised that there are countries where the proportion of labour force employed in manufacturing and other modern sectors of the economy is so small that even with fast and employment-intensive growth it may take a long time before the goal of productive and decent employment for all can be achieved. In that kind of situation, special efforts would be needed to improve the quality of jobs of large numbers that may remain behind in low productivity jobs, especially in the informal segments of the economy. A two-pronged strategy may be thought of in this respect.

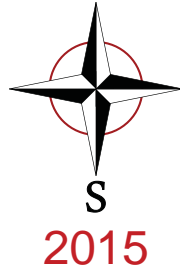
- The normative approach of gradually applying at least the core labour standards to the informal segments of the labour market, and
- A positive approach of improving the level of productivity and incomes of people engaged in micro and small enterprises where vulnerable employment tends to be concentrated.

Policies will also need to address difficulties that labour markets face during economic fluctuations, some of which assume crisis proportions, e.g. the global economic crisis of 2008-09, the Asian economic crisis of 1997-98, the economic crisis of Argentina during 2001-02, etc. It is well-known that economic crises get transformed into social crises through their adverse effects on labour markets; and even when recovery starts, labour markets recover with a lag. Counter-cyclical policies are needed not only to support the process of recovery, a special focus on employment is needed in order to shorten the lag in labour market recovery. But experience has shown the fiscal and policy space for such policies vary from country to country, and developing countries are often compelled to adopt pro-cyclical policies rather than counter-cyclical ones, thus aggravating the employment situation further.

To sum up, in addition to defining goal(s) and targets, it would be necessary to list relevant policy variables, and continuously monitor and analyse how they are playing and influencing the impact of economic growth on productive employment. This is best done at the national level because situations can vary from country to country and each country should have its own perspective on policy. However, policies at the global level (e.g., MDGs, Global Jobs Pact, Group of 20 (G-20) initiatives, etc.) can play an important role by raising awareness, encouraging commitment, providing broad outlines of action, and facilitating learning from each other. Action at the global level should be supplemented by similar action at regional and sub-regional levels where the potential for drawing lessons from the experience of others might be greater. External support from multilateral institutions can be helpful to countries that lack fiscal and policy space to adopt counter-cyclical policies in the face of economic downturns.

### ***3.3 Productive Employment and the Ongoing Process for Defining the Post-2015 Development Agenda***

It is heartening to note that productive employment has already featured prominently in the context of the post-2015 development framework and efforts are being made to come up with indicators that would represent an improvement over the indicators incorporated into the MDGs. ‘Growth, structural change and employment’ was one of the topics on which thematic consultations have been organised under the auspices of the UN (in collaboration with the Government of Japan). A ‘Thematic Event on Employment and Inclusive Growth in the Post-2015 Development Agenda’ is being organised jointly by the International Labour Organization (ILO), United Nations Development Programme (UNDP), United Nations Department of Economic and Social Affairs (UNDESA) and the Government of Japan, where proposals on employment indicators will be discussed. A number of the indicators suggested in the present paper are featured in those proposals. This represents a good beginning, although there is room for further improvement and sharpening of the ideas. Apart from refining and agreeing upon a list of indicators of productive employment that would be more credible and relevant for developing countries, the task of bringing the policy component on board remains. And with regard to policies needed to pursue the goal of productive and decent employment for all, it would be important to adopt a broad-based framework that would combine economic and labour market policies rather than focusing only on the latter.



**Southern Voice on Post-MDG International Development Goals** (*Southern Voice*) is a network of 48 think tanks from Africa, Latin America and South Asia, that has identified a unique space and scope for itself to contribute to the post-MDG dialogue. By providing quality data, evidence and analyses that derive from research in the countries of the South, these institutions seek to inform the discussion on the post-2015 framework, goals and targets, and to help give shape to the debate itself. In the process, *Southern Voice* aims to enhance the quality of international development policy analysis, strengthen the global outreach capacity of Southern think tanks, and facilitate professional linkages between these institutions and their respective governments. *Southern Voice* operates as an open platform where concerned institutions and individuals from both South and North interact with the network members. *Southern Voice Occasional Papers* are based on inputs received at various platforms of the initiative. *Centre for Policy Dialogue (CPD)*, Dhaka works as the Secretariat of the *Southern Voice*.



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