Employment, Income and the MDGs -
Critical Linkages and Guiding Actions

Briefing Paper

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December 2005
1. Introduction

Poverty is, at its core, about incomes, but it is also about the wide set of characteristics often associated with lack of income. It is related to assets and income-earning opportunities; to consumption; to nutritional and health status and access to appropriate services; to learning and educational opportunities; to wider political freedoms and rights; to people's ability to deal with shocks and insecurity; and to their status and sense of dignity.

Given such a multifaceted condition, no single definition of poverty is sufficient. However, the Millennium Development Goals (MDGs) provide a clear framework of measurable poverty reduction objectives that collectively defines the poverty reduction challenge. They are:

<table>
<thead>
<tr>
<th>MDG 1</th>
<th>Eradicate extreme poverty and hunger</th>
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<tbody>
<tr>
<td>MDG 2</td>
<td>Achieve universal primary education</td>
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<tr>
<td>MDG 3</td>
<td>Promote gender equality and empower women</td>
</tr>
<tr>
<td>MDG 4</td>
<td>Reduce child mortality</td>
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<tr>
<td>MDG 5</td>
<td>Improve maternal health</td>
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<tr>
<td>MDG 6</td>
<td>Combat HIV-AIDS, Malaria and other diseases</td>
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<tr>
<td>MDG 7</td>
<td>Ensure environmental sustainability</td>
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<tr>
<td>MDG 8</td>
<td>Develop a global partnership for development</td>
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</tbody>
</table>

Along with many other governments and development agencies concerned with poverty reduction, Switzerland has formally endorsed the MDGs on a number of occasions and again at the Millenium +5 High Level Meeting of September 2005. As such, SDC is concerned to ensure the relevance of all of its activities to the MDGs.

Reducing absolute income poverty by 2015 is the objective of the first MDG. Absolute income poverty is reduced by raising the average incomes of the poor. This can only be achieved if the poor have improved access to, and an improved capacity to respond to, better employment and income earning opportunities.

Employment and income are clearly at the very heart of poverty reduction and are therefore directly relevant to the MDGs. Section 1 of this briefing note explores this direct link further. This is built upon in Section 2, where indirect links between employment and income and the MDGs are considered.

Finally, in Section 3 of this briefing note a simple framework is presented that defines the challenge for development agencies concerned with the promotion of pro-poor employment and income opportunities.

2. Employment & Income to Reduce Poverty – Direct Links

“Policy makers who seek to accelerate growth in the incomes of poor people, and thus reduce overall poverty, would be well advised to implement policies that enable their countries to achieve a higher rate of economic growth”.
Rapid and sustained economic growth is fundamental for tackling income based poverty. The relationship between growth and poverty reduction in the 1990’s is shown in Table 1. Where growth rates are positive, as in the cases of East and South Asia, there have been large reductions in the numbers of people living on less than $1 per day. Conversely, as shown for example in Sub-Saharan Africa, negative growth rates result in more people being pushed into poverty. Whilst not perhaps sufficient, growth is increasing being acknowledged as a necessary and essential condition for reducing poverty.

Table 1: links between growth and income poverty in the 1990’s

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth (annual per capita) (%)</th>
<th>Reduction in proportion of people living on less than $1 per day (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia and the Pacific</td>
<td>6.4</td>
<td>14.9</td>
</tr>
<tr>
<td>South Asia</td>
<td>3.3</td>
<td>8.4</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>1.6</td>
<td>-0.1</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>-0.4</td>
<td>-1.5</td>
</tr>
<tr>
<td>Central and eastern Europe and CIS</td>
<td>-1.9</td>
<td>-3.5</td>
</tr>
</tbody>
</table>

If growth reduces poverty, then it follows that there is no conflict between being “pro-growth” or “pro-poor”. The two positions are not mutually exclusive. Rather, the two outcomes overlap, because most policies that increase growth also reduce poverty, and likewise many policies that are effective for reducing poverty also support growth.

However, as shown in Table 1, there are differentials in the rates at which economic growth translates into reduced poverty. MDG 1 is concerned with raising absolute living standards through raising the average incomes of the poor. It follows that “pro-poor” growth depends entirely on how fast the average incomes of the poor are rising. Average incomes of the poor can only rise if growth offers poor people improved access to, and an improved capacity to respond to better employment and income earning opportunities. Improved employment and income are the primary ways in which economic growth translates into reduced income poverty. Therefore there is a direct link between employment and income and MDG 1.

Pro-poor growth is concerned with the rate of translation of economic growth into reduced poverty. It is also concerned with issues of equity; the growth in incomes of the poor “relative” to growth in incomes of those who are not classed as poor. Inequality as a concept is important, and, as phenomena, can have far reaching and serious social, political and economic dimensions. Whilst some try to set, what ultimately are arbitrary, quantitative targets to manage inequality, at its heart addressing inequality demands a commitment to equality of opportunity.

Delivering improved, and more equitable, employment and income opportunities for the poor demands an explicit understanding of where the poor are within any economic system, and how improvements to that system can be realised for the poor. Strategies that are more likely to be poverty-reducing are those that emphasise growth in sectors or regions where the poor are - or to which the poor are realistically able to move - and which are based on using the factors of production possessed by, or available to the poor.

1 For a more comprehensive discussion on inequality see the World Development Report 2006 “Equity and Development”.
From a development agency perspective, intervening in sectors should be based on a qualification that the sector is relevant to the poor, is of a large enough size to deliver real impact, and is deemed to have real longer term economic potential. Choosing where to intervene, geographically, demands an analysis of where the poor reside and either unlocking local economic potential, or building the capacity of the poor to move to areas with economic potential.

Growth is pro-poor if it makes use of the factors of production the poor possess. Typically, the primary assets of the poor are labour, and possibly land. Improving the returns to both is critical for poverty reduction; as evidenced by the poverty reduction records (highlighted in Table 1) of countries such as China, India, and the fast-growing East Asian countries showing that poverty reduction was largest when growth made use of the assets the poor possess.

Conversely, economic development strategies that do not seek to understand where the poor are within an economic system run the very real risk of widening the poverty gap.

3. Employment and Income to Reduce Poverty – Indirect Links

As explored in the previous section, pro-poor growth tackles income poverty directly through raising average incomes and addresses MDG1. The link between pro-poor growth and non-income related measures of poverty – as expressed by the other MDGs – is less direct.

Growth can impact on the poor directly, as highlighted in the previous section, through their direct engagement in the economic process. But growth can also impact the poor indirectly. An environment of economic growth, where average incomes (including those of the poor) are rising, is arguably one where it is easier for governments to raise additional income, through taxation, for investing in the delivery of wider poverty reduction policies (including those concerned with social safety nets). Generation of additional resource transfers is one way in which economic growth (MDG1) is linked to non-income aspects of poverty (other MDGs).

More resources are part of the solution. Yet, there is no formulaic relationship between increased public spending on services and improved poverty reduction outcomes. There are many examples of additional resources not succeeding in delivering effectively for poor people, either being used inefficiently and/or accruing to wealthier or privileged groups.

From a political economy perspective the relationship between a government and its citizens has a transactional dimension. Citizens express their demands to governments, and governments in turn seek to respond directly to these demands. Of course, the voice of poorer citizens is often too weak to influence the behaviour of governments and they often lose out as a result. The term “compact” has emerged to define the transactional nature between governments and citizens, and is explored in great detail in the World Development Report 2004.

When “compacts” between citizens (all citizens) and governments are aligned around a clear poverty reduction focus then resources tend to be invested more equitably and more effectively. Whilst pro-poor growth can provide access to employment and income opportunities, providing, for example, more effective access to health care and education services will strongly contribute to building the capacity of poor people to take advantage and capture these opportunities.
A work force whose health is improving and whose education levels are on the rise are critical factors for increasing productivity, that in turn builds national competitiveness which is so critical for delivering sustained long term economic growth. The contention that growth is highly contingent on the state of human capital in a country is clearly demonstrated in empirical growth literature. Thus growth of any variety is higher in countries with greater human capital. Not surprisingly therefore, policies for building human capital were cornerstones of those South and East Asian countries demonstrating the impressive growth rates presented in Table 1.

The link between income poverty (MDG 1) and non-income poverty (other MDGs) is clearly a two-way relationship – a virtuous circle. Pro-poor growth delivers greater resources for investment in non-income aspects of poverty. Proper investment of these resources builds human capital, which supports increased productivity. This in turn fosters the higher competitiveness so essential for sustained long term economic growth.

The thematic links between employment and income and the MDGs are shown in Figure 1. There is a direct link between employment and income and MDG 1. Through the flow of resource transfers, and returns from these transfers in fostering competitiveness there is also clear indirect links between employment and income and the other MDGs.

Figure 1: E+I links to the MDGs

4. How to promote Employment and Income to benefit the poor

Reducing poverty demands that the poor have increased access to, and increased capacity to respond to improved employment and income earning opportunities. Pro-poor economic policies can create access to new opportunities. Capacity to realise such opportunities can be secured through adequately resourced and appropriately targeted public investment.
Stable and effective government is widely recognised as being critical for creating stability and laying the foundations upon which growth can be built. But increasingly it is acknowledged that the driver of growth – and the main creator of employment and income opportunities – is the private sector (all private endeavours from large to small to micro and from services to manufacturing to agriculture):

- “Any national strategy to achieve the Millennium Development Goals needs to include a clear framework for private sector growth.” - Jeffrey Sachs
- ‘The private sector is where much of our focus is going to have to be to meet the overarching challenge of poverty reduction and human development. Growth, jobs and opportunity belong there not in the gift of government’ - Mark Malloch-Brown

Private sector development is therefore emerging as a central thrust for ensuring poverty reduction. Whilst private business can control and influence factors internal to their business, there are many factors external to a business that influence its performance but yet are often beyond the ability of a business to exert real influence or control. Often these factors increase the risks and costs of doing business and ultimately undermine their ability to grow and succeed.

Making the environment within which private businesses exist more “enabling” is increasingly recognised as critical for promoting private sector development. Creating an “enabling environment” involves host governments delivering policy frameworks that provide stability, lower transaction costs, reduce risks and sharpen incentives. However, an “environment that enables” is one where not only more conducive policy frameworks are in place, but where there is real capacity for businesses to respond and take advantage of new more business friendly conditions. An environment that enables is one where businesses enjoy more effective access to inputs (finance, skills, information, technology etc) and outputs (business linkages and markets).

Delivering an environment that enables means understanding the economic organisation of the private sector and how it can better deliver pro-poor growth. At the heart of this understanding is the pervasive role of markets. Private businesses operate in markets – for sourcing inputs, and for marketing outputs. Markets that work for businesses support their growth, which in turn supports increased employment and income earning opportunities. The extent to which such opportunities are attainable for the poor depends on where the poor are in relation to markets and business. Hence “making market systems work better for the poor” is increasingly being adopted as both an objective and approach for development agencies, including SDC.

Restating the above logical linkages

- Employment and income are important means through which poverty reduction is achieved and the MDG’s are met
- The private sector – business - is where opportunities for improved employment and income, particularly for poor and marginalised groups, will be created;
- A key development challenge is to deliver an environment that enables “inclusive” private sector development, through making markets work better for the poor;
- Development agency interventions must seek to understand the market environment for business and ensure that interventions are matched with a realistic vision of how the environment can be more enabling, and specifically for the poor and marginalised.
This logic is expressed graphically in Figure 2 below:

Figure 2: A simple framework: how to promote employment and income

Figure Two confirms that employment and income generation is a key means through which poverty is reduced, either directly (through employment and income for poor people) or indirectly (through economic growth created from improved business competitiveness).

Employment and income generation is supported when wider “systems” (or conditions) are appropriate. While there is no easy formula for success, in a market-oriented economy, suitable conditions for employment and income generation occur when markets are working effectively for the poor. A market development framework does not presume that markets can/should supply everything but does (a) recognise the importance of markets; (b) understand that they often do not function well (for addressable reasons) and (c) provide a basis for assessing the roles of key players.

There are a number of different inter-related thematic domains at the heart of this wider system. Enabling small enterprises to thrive and compete in an often unequal world is important. Similarly, increasing effective access by private businesses to better and more appropriate financial and business services remains a critical development challenge. Ensuring that the poor can build appropriate skills for jobs or self employment is equally important. Likewise, opportunities for creating a more enabling market environment for business can be pursued through other approaches of value chains, local economic development, public-private partnerships and regulatory reform processes. These are all important factors that combine to enable businesses to compete, thrive, grow and deliver more and better opportunities for poor people.

At its core, development is about addressing the causes of underdevelopment. In the domain of employment and income, the challenge for development agencies is to understand and address the underlying causes that prevent economic systems from delivering more and better opportunities for poor and marginalised people. Achieving positive systemic change will enable those currently poor and marginalised to realise their potential, increase their incomes and uplift themselves from poverty in all its manifestations.
Operationalising pro-poor growth research programme (2005); “Pro-poor growth in the 1990’s: Lessons and insights from 14 countries”; World Bank, Washington DC


Figures derived from Dollar, D. and Kraay, A. (2002); “Growth is good for the poor”; World Bank, Washington DC.

As shown in the World Employment Report 2004, one can find conditions where employment is growing despite worsening economic growth. The high employment growth in these economies is explained by high population growth and growing informal sector activity. Such employment tends to be in lower productive activities insufficient for raising average incomes and therefore is not poverty reducing.

For example, see Dreze, J. and A. Sen “Hunger and public action”; New York: Oxford University Press, 1989; and/or Ravallion and Datt, “How important to India’s poor is the sectoral composition of economic growth?”; World Bank Economic Review 10: 1-25; 1996.


For a further discussion see Sharpe, A., St. Hilaire, F., Banting, K. (2002); “The review of economic performance and social progress: Towards a social understanding of productivity”; Ottawa and Montreal, Institute for Research on Public Policy, Centre for the Study of Living Standards, distributed by McGill-Queens University Press.

Sachs, J (2005); “Investing in Development: A Practical Plan to Achieve the Millennium Development Goals”; UNDP


“Markets have primacy in the production and allocation of goods and services. However, markets on their own often fail to produce socially desirable outcomes. Government has the central responsibility to provide an institutional infrastructure in which markets can function…”; Stern, N. and Stiglitz, J. (1997); “A framework for a development strategy in a market economy: objectives, scope, institutions and instruments”; EBRD

The concept of “making markets work” is evident in many recent policy and strategy papers of several agencies, including DFID, SIDA, GTZ, the World Bank and PovNet.