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Wage Labor, Agriculture-based Economies, and Pathways out of Poverty

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This presentation outlines the findings of a stocktaking report commissioned by the Leveraging Economic Opportunity (LEO) project into the intersection of wage labor and pathways out of poverty in the context of agriculture-based economies. The report draws on the authors' past research, as well as the current literature on wage labor and pathways out of poverty in rural areas. It benefitted from a technical advisory team, consisting of Thom Jayne (MSU), Andrew Shepherd (ODI/CPAN), Kristin O'Plannick (USAID/E3), Bama Athreya (USAID/DCHA), Olaf Kula (ACDI/VOCA), Merten Sievers (ILO), Anna Garloch (ACDI/VOCA-LEO), and Ruth Campbell (ACDI/VOCA-LEO).

Widely accepted facts

“Most of the world’s poorest people are subsistence farmers”

(The Guardian, 10 Oct 2014)

“There is almost no hiring or exchange of labor among resident farmers during the peak labor season”

(Binswanger et al. 1989)

“The share of agricultural wage income is very low and its importance [...] did not increase over time because of the thinness of agricultural wage labor market”

(Estudillo et al., background paper to WDR 2013)

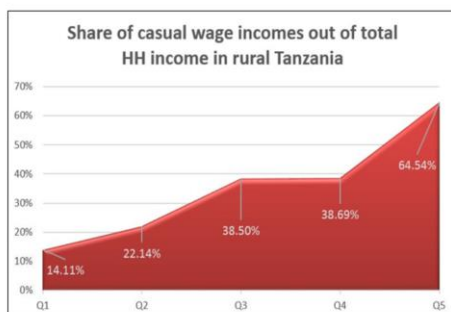
There are some widely accepted “facts” that are well known among those involved in agriculture and rural development. The first is a recent quote from the UK’s *The Guardian* newspaper: “Most of the world’s poorest people are subsistence farmers.” This is a commonly heard statement.

The second—“there is almost no hiring or exchange of labor”—refers to the Sahel; and the third, relating to the thinness of labor markets, refers to sub-Saharan Africa. Many development projects are designed around this notion of thin labor markets, and the idea that in Africa, rural poverty can almost be equated with smallholder farming.

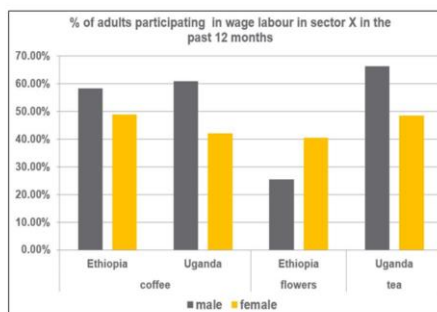
These are well known statements, but are they facts?

Facts?

Specialized labor market surveys tell a different story:



Source: Mueller 2012; 2015



Source: Cramer et al. 2014

Where is the disconnect?

The results of specialized labor surveys tell a very different story. The graph on the left uses data from Tanzania, showing incomes derived from casual wage labor as a share of total household income by quintile—with the richest quintile being Q1 on the left and the poorest, Q5, on the right. This shows clearly that wage income becomes more important with increasing poverty, and for the poorest households up to 65 percent of income is derived from wage labor.

The graph on the right shows the percentage of adults working in three sectors: coffee, cut flowers and tea. The data is drawn from interviews with a large number of randomly selected respondents in Ethiopia and Uganda. The results show that typically between 40 and 65 percent of people have engaged in wage labor in these sectors alone in the past 12 months.

There is clearly something at odds between these data and the commonly held notions of thin labor markets. So where is the disconnect?

Introduction

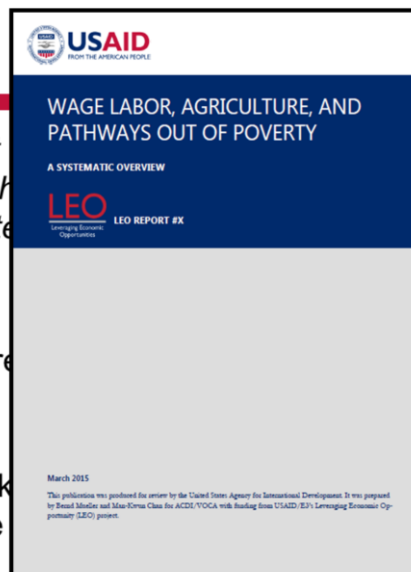
- *“Making the rural labor market a more effective pathway out of poverty is [...] a major challenge that remains poorly understood and sorely neglected in policy making.”*
(WDR 2008)
- Structural transformation: decreasing viability of farming as pathway out of poverty
- Complexity of agricultural market systems demands a cross-cutting labor perspective
- LEO stocktaking report to raise awareness, explore what we know and inform next steps

These notions are also reflected in recent flagship reports such as the World Development Report—both the one on jobs (2013) and the one on agriculture (2008). The first quote is from this latter report: “Making the rural labor market a more effective pathway out of poverty is [...] a major challenge that remains poorly understood and sorely neglected in policy making.” And not only in policy making, but also in program and project making.

Obviously, structural transformation in rural economies plays a key role—and this will be addressed later in the presentation. In addition, the presentation will discuss the importance of taking a labor perspective in light of the complexity of agricultural market systems.


Introduction

- *“Making the rural labor market out of poverty is [...] a major challenge that is not understood and sorely neglected”*
- Structural transformation: decrease in agricultural employment as pathway out of poverty
- Complexity of agricultural markets and the need for a cross-cutting labor perspective
- LEO stocktaking report to raise awareness, explore what we know and inform next steps



The final report will be disseminated probably in mid April 2015. The draft executive summary is already available for those who are interested.

Outline

- 
- Clarifying terminology ... and why does it matter?
 - Sources and quality of evidence
 - Describing the work of the poor
 - Which labor improvements have the largest impact?
 - Implications

The presentation is structured according to the five areas shown in this slide.

Form of employment



A Tanzanian ...
... farmer?
... unpaid family worker?
... wage worker?

The form of employment is crucial, but is something that is often not considered. Take this Tanzania woman, for example. Is she a farmer, an unpaid family worker, or a wage worker? She could be any of the three, but there is no way of knowing on the basis of mere observation. Generally people presume that such a woman will be either a farmer or an unpaid family worker. Rarely is it assumed that she is a wage worker—although many people are, as previously demonstrated.

Form of employment

The crucial distinction:

Ownership of the means of production
(= capital, land, assets, tools,)

- Wage workers do **not own** the means of production
- Self-employed workers **own** the means of production

Why is this important?

Consider classic agricultural development tools:

- Input subsidies and irrigation?
- Agricultural extension services?
- Market access and fair(trade) prices?
-

The crucial difference between wage workers and self-employed workers is the ownership of the means of production: the capital, the land, the assets and the tools. Activities where the worker does own the means of production are self-employment; those where the worker does not own them, he/she is wage employed (regardless of the form of the wage payment). This is an important distinction with crucial implications for the incentive structure that people will respond to. If a person owns the land, they may be willing to invest in it, purchase inputs, etc. If a person however derives most of his/her income from wage labor activities, he/she is likely to have drastically different priorities such as higher wages, more work, maternity benefits, and so on. There may be a wide variety of incentives but they are likely to be different from the typical incentives offered by an agricultural development project, which is focused on farmers.

Spot the wage worker ...



This also applies outside of farming. In other sectors, where is the wage worker? The answer of course is that all of them could be, or none of them. It does not depend on the sector, but on ownership of the means of production. We would often assume that the Ethiopian driver is self-employed, but he may not own the vehicle; he may only earn a commission at the end of the day—which is wage employment. Similarly, the street hawkers, horticulture workers or brick-makers could be self-employed or wage laborers.

Outline



- Clarifying terminology ... and why does it matter?

- Sources and quality of evidence

- Describing the work of the poor

- Which labor improvements have the largest impact?

- Implications

So what do we know about wage labor in rural areas? Where do we get our data from?

Sources for labor market data

- Labor Force Surveys (ILO)
- Household surveys (LSMS, DHS, Young lives,...)
- Aggregated databases e.g. FAO's RIGA database
- Case studies



Main source for econometric analysis and cross-country regressions!

But most of these are:

- Highly irregular
- Unstandardized

The main sources of data are the ILO Labor Force Surveys, and an array of various household surveys—many of which are aggregated into databases such as the Food and Agriculture Organization's Rural Income Generating Activities (RIGA) database. This data feeds into the World Development indicators, and is analyzed by economists in cross-country regressions to inform readers of how many people are working in different occupations in rural areas.

The problem with many of these data sources is that they are highly irregular. Some of the Labor Force Surveys are more than 10 years old. Many types of surveys are also non-standardized. The questions they ask are very different from one survey to the next, making aggregation problematic.

Quality of labor market data

Official national labor statistics	
Tanzania	11% of rural households include at least one wage worker ¹
Uganda	11% of women work for wages in agriculture ²
Ethiopia	<p>< 1% of rural women spent any time in wage labor in the past 7 days³</p> <p>7.9% of total labor force (urban + rural) are wage employed⁴</p>
Nigeria	3.8% of households participate in rural wage employment ⁵

Sources: ¹United Republic of Tanzania (2007), based on LFS; ²Uganda Bureau of Statistics (2012), based on DHS survey; ³Ethiopian Central Statistics Agency and World Bank (2013), based on LSMS survey; ⁴WDI (2015), based on LFS; ⁵Valdés et al. (2009), based on RIGA database; ⁶Mueller (2012, 2015); ⁷Cramer et al. (2014); ⁸Babatunde (2013)

This slide shows some of the results from large national surveys. In Tanzania, 11 percent of rural households include at least one wage worker. In Uganda, 11 percent of women work for wages in agriculture. In Ethiopia, less than 1 percent of rural women spent any time in wage labor in the past 7 days.

As you can see, the various categories are actually quite different and difficult to compare, pointing at the lack of standardization in this type of data. Also in Ethiopia, only 8 percent of the total labor force (urban and rural) are wage employed; with a similar picture in Nigeria.

Quality of labor market data

	Official national labor statistics	Specialized labor market surveys and case studies
Tanzania	11% of rural households include at least one wage worker ¹	58% of households include at least one wage worker ⁶
Uganda	11% of women work for wages in agriculture ²	44.8% of all women sampled work for wages ⁷
Ethiopia	< 1% of rural women spent any time in wage labor in the past 7 days ³	45.8% of all women sampled work for wages ⁷
	7.9% of total labor force (urban + rural) are wage employed ⁴	Over 47.5% of all sampled adults (rural only) participated in agricultural wage labor ⁷
Nigeria	3.8% of households participate in rural wage employment ⁵	43.6% of households participate in agricultural wage labor ⁸

Sources: ¹United Republic of Tanzania (2007), based on LFS; ²Uganda Bureau of Statistics (2012), based on DHS survey; ³Ethiopian Central Statistics Agency and World Bank (2013), based on LSMS survey; ⁴WDI (2015), based on LFS; ⁵Valdés et al. (2009), based on RIGA database; ⁶Mueller (2012, 2015); ⁷Cramer et al. (2014); ⁸Babatunde (2013)

***Systematic underreporting of rural wage labor in national statistics.
(especially in SSA)***

When this is compared to more specialized labor market and case study evidence (surveys of a few hundred to several thousand people – but all based on randomized samples), a very different picture emerges. In Tanzania, 58 percent of **all** rural households include at least one wage worker. In Uganda, 45 percent of women sampled worked for wages, compared to the official statistic of 11 percent. In Ethiopia, 46 percent of women worked for wages, rather than less than 1 percent; etc. This is a consistent pattern and there are many more examples — we are not talking about a few isolated examples here.

The result is a systematic underreporting of wage labor in national statistics, particularly in sub-Saharan Africa. This has major implications for all of our work.

Reasons for low data quality

Survey design:

- Category of ‘main activity’
- Insufficient reference periods (e.g. ‘in the past 7 days’)
- Inadequate sample frames
- Insufficient training and supervision of enumerators
- Inappropriate terminology

Table 26. Percentage of individuals participating in rural wage employment

Name of Survey		Working Age Individuals	Employed Individuals	Participation Rate	M	F
Sub-Saharan Africa						
Ghana98	Ghana Living Standards Survey Round 3	8,600	737	8%	69%	31%
Malawi04	Integrated Household Survey - 2	22,016	9,000	39%	62%	38%
Nigeria04	Living Standards Survey	35,521	1,675	4%	74%	26%

Source: Valdés et al. 2009

Only in the Malawian questionnaire was the local term for casual wage labor (“*ganyu*”) used.

What are the reasons for this underreporting? Without going into too much technical detail, much of the underreporting is due to survey design. Interviewers often ask about the “main activity,” ignoring the diversity of livelihoods within rural households. Often the reference period is too short to take account of seasonal labor. Terminology is also a major problem. The right terms are not being used: An interviewer may ask if someone has a job—which is viewed as formal sector employment. Very casual day labor is often not identified as a job by respondents.

For example, from the RIGA database, the percentage of individuals participating in rural wage labor in Ghana is 8 percent, in Nigeria 4 percent, and Malawi 39 percent.

Reasons for low data quality

Survey design:

- Category of 'main activity'
- Insufficient reference periods (e.g. 'in the past 7 days')
- Inadequate sample frames
- Insufficient training and supervision of enumerators
- Inappropriate terminology

Table 26. Per **Table 27. Participation in rural labour markets by agricultural vs. non-** **employment**
agricultural sector (for participants only)

		Ag.	Non-Ag.	Total	Rate	M	F
Sub-Saharan Africa	Sub-Saharan Africa						
Ghana98	Ghana98	16%	84%	100%	8%	69%	31%
Malawi04	Malawi04	82%	18%	100%	39%	62%	38%
Nigeria04	Nigeria04	29%	71%	100%	4%	74%	26%

Source: Valdés et al. 2009

Only in the Malawian questionnaire was the local term for casual wage labor ("*ganyu*") used.

From the same data, participation is shown for agricultural and non-agricultural labor. In Ghana and Nigeria 70 or 80 percent of wage labor is in non-agricultural sectors; and 20 to 30 percent is in agriculture. But in Malawi, it is the exact opposite, with 82 percent of wage labor in agriculture. This huge discrepancy is not explained by some economic reason or the structure of the labor market in Malawi, compared to Ghana and Nigeria.

What is so different about Malawi that could explain these results?

The answer most likely has to do with the fact that only in the Malawian questionnaire was the local word for casual wage labor used—*ganyu*.

We need to be aware of these data issues.

Outline

- Clarifying terminology ... and why does it matter?
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Let us now dissect the type of work undertaken by the poor.

The work of the poor: diversification

- Rural livelihood diversification
 - Participation in rural non-farm activities:
 - Africa: 78%
 - Asia: 83%
 - Latin America: 82%
 - Eastern Europe: 92%

Source: Winters et al. 2009

Diversity for survival? Diversity for accumulation?

- Non-farm self-employment **increases** with rising incomes
- Self-employed non-farm economy important, but mostly relevant for **better-off households**

Poorest households rely heavily on (casual) wage work in agriculture and beyond

There is extensive literature on rural livelihood diversification. It shows that on all continents—including sub-Saharan Africa—people engage in multiple kinds of work; 80-90 percent of households engage in non-farm activities.

Diversity can be for survival, or for accumulation. The data does not reveal which, and so is not particularly informative. There are both good jobs and bad jobs in the non-farm sector. People can engage as entrepreneurs or on a wage-employed basis. Such nuance is missing from this data at the aggregate level.

Closer analysis of the data reveals that self-employment is important, but it increases with rising incomes. Those who are engaged in self-employment are generally people from better-off households, not the poorer ones. This is contrary to the popular conception of the poor as micro-entrepreneurs.

The poorest households depend heavily on wage labor—as has been shown previously—particularly as casual labor, either in agriculture or beyond.

The work of the poor: wage labor!

- Examples:
 - Seasonal agricultural work (weeding, irrigation, ploughing, harvesting), forestry
 - Construction, mining, fisheries, small-scale manufacturing
 - Domestic servants, home-based workers, catering
 - ...
- All sectors include both low and high earning jobs and very different levels of working conditions
- Wage labor is important both for survival and accumulation

Context is key!

For example, this could be digging in a neighbor's fields, working in construction, as a domestic servant, etc. In all of these sectors, there are good jobs and some very bad ones, and this depends on the context. Context is key in understanding where there is the potential to improve the quantity and quality of labor, and where there is no such potential.

Importance of gender



Gender is also a very important part of the context. Women may work as unpaid family labor, or may work in sectors that hire large numbers of women, such as the cut-flower industry in Ethiopia or Kenya (where women make up about 70 percent of the workforce), or as coffee sorters in Ethiopia. Increasing women's access to paid employment is often very important, and so focusing on such sectors can be an effective strategy.

..... and age



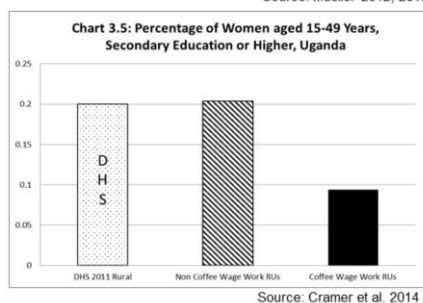
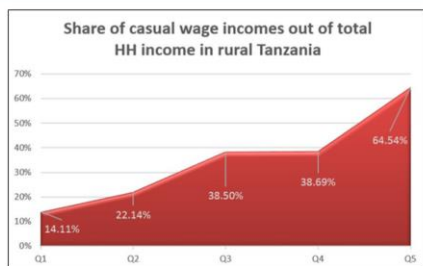
Age is another important dimension. The photos on the slides show young boys (both youth and children) engaged in various kinds of work: looking after some sheep in Ethiopia, for example. Ugandan child helping their mothers in the household is a very normal occurrence, but here we see a young child cutting bananas with a sharp knife (with no handle) – probably most Ugandans would see this as perfectly normal and acceptable, so does this constitute child labor? And of course there are much less acceptable examples such as children carrying stones from the quarry. But where are the boundaries of acceptable work? Certainly it is something that labor market programmers need to be aware of and factor in. Clearly there needs to be elimination of the worst forms of child labor.

..... and migration



Migration is another issue that is very important. This slide shows workers who have just been bussed in to a coffee farm. They often get reasonably good wages from this work, but they live in housing such as that shown—with very poor conditions. Five or six people may be sleeping in this one room. Although migration can be an important pathway out of poverty, but there are also clear issues of security and exploitation. We need to look at both sides of this coin.

Wage labor snapshots: Sub-Saharan Africa



Ghana:

59% of cocoa workers are so-called “by-day” workers

A government survey describes them as “living from hand to mouth”!

Source: Ministry of Manpower, Youth & Employment 2007

Here are some snapshots from the data. First in Africa: the graph on the left with data from Tanzania has already been discussed. There is a similar pattern in Nigeria. Poorer households are more heavily engaged in wage employment; the income derived from wage labor is not as dramatic as in Tanzania, but is still significant.

The graph on the bottom left shows the education level of women wage workers in Uganda as compared to non-wage workers. The first column shows the national average. The middle column shows the education level of farming, non-wage workers; and the final column shows the education level of wage workers. The data reveals a similar trend for asset ownership, food intake, etc.: the poorest households rely on wage work.

In Ghana in the cocoa sector, a survey conducted by the government revealed that 60 percent of cocoa workers are “by day” workers, living from hand to mouth—which is quite telling.

Wage labor snapshots: Asia

India:

Table 1: Non-farm Income Shares in Rural India
Income Shares by (Real) Per Capita Income Quintile

Quintile	Culti- vation	Agri- culture Wage Labour	Non- farm Labour	Non- farm Self- Employ- ment	Non- farm Regular Employ- ment	Total Non- farm Sources	Other Sources	Real Per Capita Income
Lowest	38.2	28.2	15.8	11.4	4.4	31.6	2	1146
Q2	38	21.3	14.7	16.8	7	38.5	2.3	2113
Q3	45.2	13.4	10.1	16.3	11.7	38.1	3.2	3141
Q4	50.1	7.5	6.1	14.6	18.6	39.3	3.2	4712
Highest	64.5	2.1	2	7.9	21.1	30.9	2.5	11226
Total	54.9	8	5.9	11.5	17.1	34.4	2.7	4468

Source: Lanjouw and Shariff 2004

Nepal:

Households headed by agricultural wage workers are the poorest (54% poverty incidence)

Source: CBS 2005

China:

- Importance of migration
- Wage employment is associated with rising prosperity
- Clear signs of **structural transformation** and greatly **reduced rural poverty**

In Asia we get a similar picture. This is data from the national database in India (which probably underestimates the situation). The poorest households depend least on agricultural cultivation and most on agriculture and non-agriculture wage labor (for around 44 percent of their income). And the reverse is true in more affluent households, where the dependence is on cultivation, and much less on employment.

In Nepal there are similar results.

China is heavily impacted by migration. There has been significant structural transformation recently accompanied by reduced rural poverty.

Structural transformation

- China:
 - Rural population dropped from 80% to 55% in 20 years
 - Huge increases in agricultural labor productivity and rural wages
- Africa:
 - 60% - 80% of labor force employed in agriculture
 - contributing only 25% - 40% of GDP
 - “growing rapidly, transforming slowly”?
- How to promote structural transformation?
 - “smallholder fundamentalists” vs. “urban bias”?
 - General agreement that
 - a) Transformation = core element of development
 - b) Labor will be released from small-scale agriculture into other sectors or occupations

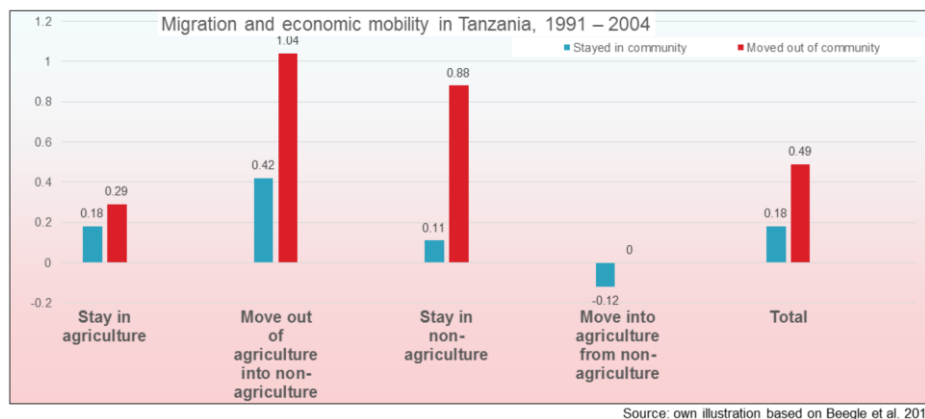
In China, the rural population has dropped from 80 percent to 55 percent in the last 20 years, accompanied by increases in agricultural labor productivity, leading to huge increases in rural wages. There was a recent Overseas Development Institute (ODI) report on rural labor in Asia which highlighted this encouraging trend towards increased rural wages.

In Africa we see a different picture. There is still a heavy dependence on agriculture, including self-employment in agriculture. Africa is said to be growing rapidly, but transforming slowly, although there is more transformation than many people acknowledge.

Structural transformation is needed and a crucial part of the development process, but there are fierce debates over how it should be best promoted. Should the focus be on smallholders, on commercial farmers, or on off-farm? The debate is ongoing. However, one thing that is generally agreed upon is that, labor will be released from small-scale agriculture into other sectors and agricultural labor productivity must increase as part of the rural development process.

Structural transformation

- Wage labor becomes **more** important, not less so
- Migration as a cornerstone for economic upward mobility
- Another example from Tanzania:



In other words, wage labor will become even more important over time, and not less so. All of the data supports this—from Asia, Latin America and Africa. Migration will also become increasingly important.

The graph on this slide shows data from a tracking survey that interviewed 800-900 individuals and then re-interviewed them 13 years later to assess their economic situation and consumption. The red bars show people who no longer live in the same community, but have moved elsewhere. The blue bars show people who stayed in the community. The height of the bars reflects consumption expenditure. Those who moved away were always better off: Migration has a major role to play in economic mobility. Those who moved out of agriculture fared better than those who stayed in agriculture. The people who moved into agriculture fared the worst.

Structural transformation

- Strong rural-urban linkages
- Majority of capital invested in African agriculture is ***derived in (urban) non-farm economy***
- Idle land or creation of rural wage jobs?
- Accumulation on the basis of small-scale agriculture will be ***more and more difficult***

Pathways out of poverty are and increasingly will be labor market based.

How can development practitioners contribute to supporting this process?

This highlights the importance of rural-urban linkages that cannot be ignored. Thom Jayne, for example, has shown that a lot of urban income is invested back into African agriculture. The question is, is this investment in idle land that is unproductive, or in productive farming that creates jobs? Investment can be good or less helpful. Either way, this is an important trend that needs to be considered.

Accumulation just on the basis of smallholder agriculture will become increasingly difficult in the process of structural transformation. All the data show this.

Pathways out of poverty are—and increasingly will be—labor market based.

So what can we do to support this process?

Outline

- Clarifying terminology ... and why does it matter?
- Sources and quality of evidence
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Let us look at some of the implications.

‘Good’ and ‘bad’ jobs

- What is a ‘good’ and what is a ‘bad’ job?
- Difference lies in the ***relative context of poverty***:
 - Even relatively ‘bad’ jobs can have a positive impact, e.g. for the most vulnerable people
 - For the most destitute, having any job can make the difference for survival

That said:

*We must **never** promote worst jobs, e.g. work that is directly harmful, forced labor, or worst forms of child labor.*

Clearly there are “good” and “bad” jobs, but these do not simply correspond to formal and informal jobs. Whether or not a job is seen as “good” or “bad” is relative to the context of poverty of the household members. For someone who is almost completely destitute, a harsh job, digging on a farm might make the difference between survival and not; and may play a crucial role in the household’s livelihood. For others who have moved further along the pathway out of poverty, the conditions of the job may become more important. But many of these jobs will be neither formal nor what the ILO would class as “decent,” although they make a huge difference to poverty. Just to focus on promoting the formal sector is very unlikely to create jobs that the poor have access to, and that will therefore have an impact on poverty reduction.

Nevertheless, of course, the worst kinds of jobs should never be promoted, including those that are harmful to people, that use forced labor, or the worst forms of child labor. This is a given.

Micro-level labor improvements (cont'd)

The following micro factors are important **to all workers**:

- Quantity of work and seasonal distribution of work
- Increased wages / piece or task rates
- Improved access to social protection

The improvements in labor that can be achieved have been divided into the macro and micro levels. The micro-level improvements are in many ways easier to grasp and more applicable to our work. This is probably where we can have a bigger impact. Unfortunately there is little data from the agriculture sector currently, but from various studies in other sectors—particularly the garment sector—it is clear that what matters to all workers (whether very poor, or on the better-off end of the spectrum) is the quantity of work and having an even distribution of work; increased wages; and having access to social protection. What is meant by access to social protection varies by the level of poverty. For the poorest, it may mean access to cash transfers; for people who are already employed, this may mean greater job security, maternity benefits, sick leave, etc.

These factors are important to all wage workers.

Micro-level labor improvements (cont'd)

Beyond that, more nuance needed:

"Pathway out of Poverty" element	Which micro level-labor market characteristics are most relevant for each element?
1) Addressing extreme poverty	<p><u>For stopping absolute destitution:</u></p> <ul style="list-style-type: none"> • Eliminate labor that is directly harmful, forced labor and worst forms of child labor <p><u>For reaching minimum welfare levels:</u></p> <ul style="list-style-type: none"> • enhance (basic) technical skills (as a means of getting more work)
2) Stopping impoverishment	<ul style="list-style-type: none"> • Reduce OHS risks • improve job security/predictability of work
3) Enabling / sustaining an escape from poverty	<ul style="list-style-type: none"> • reduce OHS risks; • improve job security/predictability of work • enhance technical skills • reduce excessive working hours (whilst maintaining overall income levels) • address wage discrimination (especially for women and migrant workers); • elimination/reduction of child labor (complemented by improvements in education, social protection etc.)

This slide shows additional micro-level factors broken out according to poverty level, following the ODI's Chronic Poverty Report structuring of pathways out of poverty. For those in extreme poverty, in addition to the factors on the previous slide, the priorities are to eliminate the most exploitative forms of labor, and to develop the most basic skills—such as being able to count or basic agricultural skills—which allow them to enter the labor market.

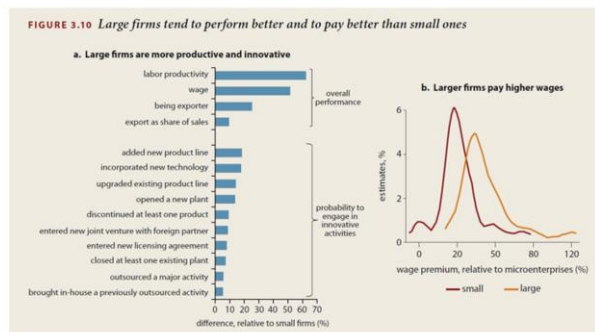
For those who have just made it above the poverty line, to prevent them from falling back below the line, there needs to be reduced occupational health and safety risks so they do not get injured, as well as improved job security.

To enable a sustained escape from poverty, there is a need for improved occupational health and safety and job security, enhanced technical skills, a reduction in excessive working hours, reduced wage discrimination, and so on. These interventions come closer to achieving the “decent work” agenda and the promotion of “good” jobs.

Macro-level labor improvements

- ‘Tight’ labor markets
- Structure of industry / sector / value chain
 - labor-intensive
 - high-value and quality
 - organization of labor market
 - scale matters:
- Labor policies
- Education

Context is key



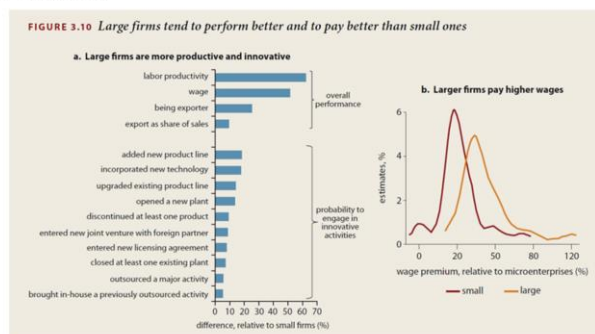
At the macro level, the focus is on tightening labor markets—that is, reducing the gap between the supply and demand of labor. In most of the economies considered in this presentation, there is a huge gap between the supply of labor and the demand for labor. Many people simply cannot find a job, which is why wages are so low. Any initiative that has a tightening effect on the labor market—not just those initiatives directly associated with labor policies—can make a real difference. For example, the reduction of child labor, which is a worthy goal in itself, also has the effect of moving children into schools and out of the labor market, leaving a gap that will hopefully be filled by adult wage laborers.

Beyond that, it is important to select the right sector or value chain, as they will not all offer the same opportunity for the creation of employment. In particular, the focus should be on labor-intensive sectors that produce high-value, high-quality products, which is where labor conditions are typically better. In such cases, employers have a greater incentive to invest in their labor force to ensure the production of quality products that meet the required standards.

Macro-level labor improvements

- 'Tight' labor markets
- Structure of industry / sector / value chain
 - labor-intensive
 - high-value and quality
 - organization of labor market
 - scale matters:
- Labor policies
- Education

Context is key



Scale matters. The graph on the slide is from the World Development Report of 2013 on jobs, and it shows that wages are consistently higher in larger firms. This may seem intuitive, but it is a finding that should be kept in mind. It is not only small enterprises that need to be developed. Job creation in larger enterprises should also be supported because some of these will be relatively good jobs.

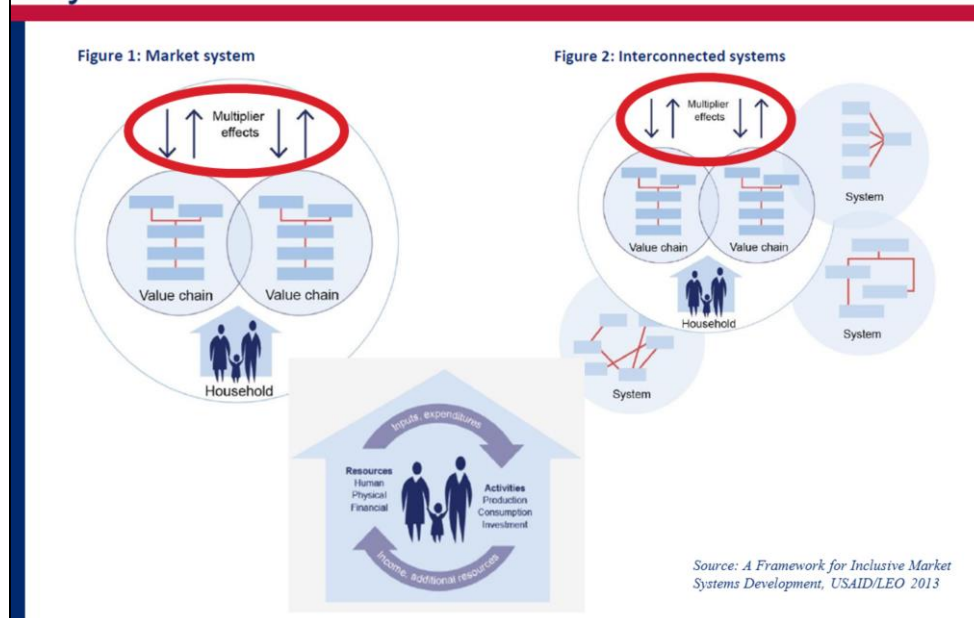
Labor policies and education are also important in contexts where a relatively well-formed labor market is in place. Education is something that many people focus on, and of course it is important for various reasons. But the assumption that people will enter the labor market only through education or skills development is only true in some contexts where there is a tight labor market. If there are no jobs that require education, interventions may over-skill people. The context of the value chain and of the overall economy is therefore very important in assessing how poor people can benefit from increased education.

Outline

- Clarifying terminology ... and why does it matter?
- Sources and quality of evidence
- Describing the work of the poor
- Which labor improvements have the largest impact?
- Implications

So what are the implications of all this?

Implications: Labor & USAID's Inclusive Market Systems Framework



Here are three figures that are foundational to USAID's Inclusive Market Systems Framework, published last year as the "next phase" evolution of the Value Chain Framework.

These graphics show the various elements of a market system, which include value chains, households, and multiplier effects. Labor pervades all of these, and contributes to multiplier effects in the community and broader economy. In addition, labor is an incredibly important interconnected system to our core agriculture work. It is also a function within the value chain that we often overlook. Further, at the household level, which is recognized as a system within itself, evidence shows very conclusively that wage labor plays an integral role in the income portfolios of the rural poor, as has already been discussed—especially for the extremely poor, but also for the "average poor."

With respect to the multiplier effect, LEO has done a study of the multiplier effect, which shows that the multiplier for agriculture is actually quite low. Economic theory suggests that investment in wage workers would produce a much higher multiplier. Unlike a farmer, the wage worker has to go to the market or supermarket to buy food, whereas the farmer can consumer his or her own product. This can have a huge effect on aggregate demand. Unfortunately, there is not currently the data to test this theory, but this is something to keep in mind.

Implications for practitioners: An Initial Take

- Poverty reduction, resilience, food security ***must also be linked with incomes and jobs***, not just primary production and supply
- Actively include and, where appropriate, focus on ***wage workers as key beneficiary group***
- Be aware of ***systematic underreporting of wage labor*** in most statistics
- ***Context is key:***
 - open program design to include analysis of the nature and potential of labor markets along value chains
 - context-specific, labor-aware formulation of interventions

The initial implications that arise from this stocktaking include the recommendation that any initiatives to address poverty reduction, resilience and/or food security look at income and jobs, and not just the supply-side of primary production. Reduced poverty, resilience and food security are just as much functions of incomes as they are of production. Therefore, where possible and appropriate, laborers should be identified and actively included as beneficiaries. This is not currently happening to the degree that it could and should.

Nevertheless, it should also be recognized that the data does not tell us much, which implies the need for projects to have more of an analytical function to assess the context and identify where impact can be made on labor before designing specific interventions.

Implications for practitioners (cont'd)

- Focus on initiatives that **increase quantity of work** and have a **tightening** effect on labor markets
- Choose sectors, value chains, and type of enterprises with **large wage employment potential and impacts**
- Contribute to **improving working conditions**
- Specific efforts focused on **women, youth** and **migrant workers** are needed
- Don't be put off by the "conventional wisdom" that pits improved labor conditions against economic growth and competitiveness

As previously discussed, the focus should be on initiatives that have a tightening effect on labor markets and that increase the quantity of work. Therefore, sectors and value chains should be selected carefully. For example, horticulture tends to be very labor-intensive and to employ a large number of women; but it depends on the country and the context, which must be carefully analyzed.

Initiatives should contribute to improving working conditions, and with a specific focus on vulnerable groups—women, youth and migrant workers. Migrants in particular are important, as migration is both a key pathway out of poverty, and at the same time very vulnerable to exploitation in many ways.

Finally, the “conventional wisdom” that there is a trade-off between competitiveness and improved labor conditions should not be used as an argument against working for better labor conditions. There have been a number of studies in this area, and the evidence is mixed and inconclusive. Again, it depends on the context. In export value chains with quality and other standards, improving labor conditions can actually have a positive effect on productivity. In these chains, producers may have an incentive in investing in a stable and satisfied workforce in order to be able to produce the quality needed. So there is not necessarily a trade off.



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The full report is in final draft form and will be available in April at either of the two websites shown on the slide. Those who are interested can also check back at these sites for other tools, briefs, etc., related to this initiative.