

PN-AAZ-312
54703

United States International Development Cooperation Agency
Agency for International Development

EMPLOYMENT GENERATION IN A.I.D. COUNTRY
STRATEGIES AND PROJECT DESIGN

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Washington, D.C.
May 7, 1981

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EMPLOYMENT GENERATION IN A.I.D. COUNTRY:
STRATEGIES AND PROJECT DESIGN

Executive Summary

1. The Report of the House Committee on Appropriations on the FY 81 Foreign Assistance and Related Programs Appropriation Bill states (on p. 36) that: "Employment generation has not yet become a guiding principle in either project designs or in the development of country strategies." 1/ The Committee noted in particular:

- a. that "there are only very limited guidelines for missions to use in drawing up country development strategy statements which focus on the critical long-run problem of employment and income," and
- b. that "there are no guidelines for measuring the employment impact of projects or to ensure that appropriate capital saving technologies are used in projects." 2/

2. A.I.D. welcomes Congressional interest in employment-focused strategies and employment-creating projects.

3. A.I.D. has made creating productive employment a major objective, but the task is very complex at both the conceptual and operational levels; there are difficult definitional, measurement, data availability and other problems. Note also that we emphasize productive employment;

1/ 96th Congress, 2nd Session, House of Representatives, Report No. 96-1207, Foreign Assistance and Related Programs Appropriation Bill, 1981, Washington, D.C., July 29, 1980, p. 36.

2/ Ibid.

employment expansion without concern for productivity can lead to make-work and a drain on resources rather than a contribution.

4. Although productive employment creation was an explicit objective in the 1960's and early 1970's of such A.I.D. projects as vocational training and "sector" loans in Latin America, and of PL 480 "Food for Work" in Asian countries, the first Agency-wide policy statement on employment was issued in October 1972: "Employment and Income Distribution Objectives for A.I.D. Programs and Policies" (Policy Determination No. 48). Subsequent policy statements have stressed, among other important policy objectives, productive employment generation. (See, for example, "A Strategy for a More Effective Bilateral Development Assistance Program: An A.I.D. Policy Paper," March 1978).
5. A.I.D. project designers and managers are asked to take employment and capital saving technology considerations into account in the project identification and design process. The A.I.D. Project Handbook stipulates that potential for increased employment and income among the poor should be an important factor to be considered in making initial choices from project options. It also indicates that a project alternative is to be preferred to other alternatives if it maximizes the use of local labor and minimizes investment in capital, imported materials and equipment without a significant decrease in the quality of the project or increase in total project cost. Among the preferred alternatives, those that focus on women are to be selected, especially where women constitute the majority of producers. A.I.D. had a \$200 million development assistance portfolio of capital saving technology

projects in FY 80.

6. A.I.D.'s field missions have interpreted the general policy on employment in a variety of ways.

-- In Asia, where the thrust of A.I.D.'s country programs is primarily rural, analysis of the employment problem by A.I.D. missions focuses on employment creation in agriculture and in rural non-farm activities. An excellent statement is contained in the Philippine FY 82 CDSS (see p. 6 of attached paper for quotation from Philippine CDSS).

-- In Latin America, where the locus of employment problems in the countries still receiving aid from the United States is increasingly urban, analysis and programing by A.I.D. missions focus to a growing extent on small-scale enterprises in urban as well as rural areas.

-- In Africa, where A.I.D.'s agricultural programs are primarily oriented toward increasing agricultural production and productivity, for a variety of reasons including that of slowing down rural to urban migration, the focus of employment-related analysis and programing is also on small-scale enterprises in both rural and urban areas.

-- In the Near East region, A.I.D.'s employment related programs have so far been concerned primarily with upgrading the skills of the labor force, including women. Increasing attention is being given to capital-saving technology in the Egypt program, unique for A.I.D. because of its size and scope.

-- The central bureaus in AID/Washington are actively supporting these various initiatives as well as formulating and trying out new

lines of attack on the problems of employment in development.

7. If the Agency-wide approach to productive employment creation is to be strengthened, some basic elements have to be clarified, among them (a) the much discussed definitions of employment, underemployment and unemployment, (b) the various components of an employment strategy, and (c) the problems of ex-ante and ex-post measurement.

-- Employment and unemployment are awkwardly flexible concepts. They are inherently difficult to measure unambiguously in poor and less developed countries.

-- In most such countries, open unemployment is mostly an urban phenomenon and is the work status of only a relatively small proportion of the urban labor force. Most of the urban poor cannot afford to remain unemployed and have to work at something to survive. Consequently, there is a considerable degree of low-productivity and low-income urban self employment and family enterprise activity, and a flourishing system of apprenticeship which keeps remarkably large numbers of children and youths occupied in activities which are unpaid or low paid or for which their parents pay to permit them to participate.

-- In rural areas, where labor requirements are seasonal, employment status depends in part on the land tenure status of the individuals concerned; small holders in particular are likely to be fully occupied throughout the year, working hard in the busy seasons and stretching out their tasks in the slack seasons. An increase in the seasonal labor requirements in agriculture as a result of the introduction of multiple cropping, for example, may not be reflected in the number of working days "worked" on the family farm.

-- Women are subject to considerable unemployment and underemployment. This is often hidden in official statistics which classify many women as being out of the labor force.

-- One of the important clarifications of concept and policy which has emerged from the work of the ILO's World Employment Program and others over the last decade is that the productivity of employment and the income derived from it are as important as the number of hours or days worked. But this dimension of employment can only be measured as income, about which it is notoriously difficult to obtain information and which is not convertible to an "employment-equivalent" in any straightforward and obvious way.

-- A coherent employment strategy must have components at several levels: at the macro-economic, sector, and project levels. Overall strategy and most of its elements are the responsibility of the government of the developing country receiving aid. The scope for influencing macro-economic policies by an aid donor may be significant, but is likely to be constrained by a number of factors including the size of the specific donor's contribution relative both to overall needs and to the contributions of other donors, as well as the nature of the political relationship between donor and recipient. The macro-economic policy setting is nonetheless extremely important to accomplishing employment objectives, especially in the private sector which is the major employer in most A.I.D.-recipient countries.

-- Systematic measurement of the employment impact of A.I.D. projects is undoubtedly desirable but we should first be clear as to

(a) what kinds of projects are likely to have employment effects and
(b) what is measurable, before getting down to (c) the question of how
to carry out the measurements we want.

8. In the light of the discussion above, we propose the following
actions:

a. A.I.D. will review and reissue, with revisions as appropriate,
the 1972 policy determination on "Employment and Income Distribution
Objectives for A.I.D. Programs and Policies" (PD-48).

b. We will issue guidelines for dealing with productive employment
creation in the context of the Country Development Strategy Statements
(CDSS's).

c. We will examine possible measures to improve integration of
productive employment creation into project design, implementation
and evaluation.

EMPLOYMENT GENERATION IN A.I.D. COUNTRY
STRATEGIES AND PROJECT DESIGN

I. Introduction

This paper responds to the statement in the Report of the House Committee on Appropriations on the FY 81 Foreign Assistance and Related Programs Appropriation Bill that: "Employment generation has not yet become a guiding principle in either project designs or in the development of country strategies."^{1/} The Committee noted in particular:

- a. that "there are only very limited guidelines for missions to use in drawing up country development strategy statements which focus on the critical long-run problem of employment and income," and
- b. that "there are no guidelines for measuring the employment impact of projects or to ensure that appropriate capital saving technologies are used in projects."^{2/}

A.I.D. welcomes Congressional interest in, and encouragement of, the design and implementation of employment-focused strategies and employment-creating projects. We believe A.I.D. has made productive employment creation an important overall objective of U.S. development assistance strategy and has become increasingly concerned with devising and applying ways to achieve this objective. However, the task is very complex at both the conceptual and operational levels. This complexity results from difficult definitional, measurement, data availability and other problems. We emphasize productive employment; employment expansion without concern for productivity can lead to make-work and a drain on resources rather than a contribution.

^{1/} 96th Congress, 2nd Session, House of Representatives, Report No. 96-1207, Foreign Assistance and Related Programs Appropriation Bill, 1981, Report together with Minority Views, Washington, D.C., July 29, 1980, p. 36.

^{2/} Ibid.

. Productive Employment Creation as an A.I.D. Policy Goal

Productive employment creation has been a clearly stated goal of A.I.D.'s development assistance strategy since October 2, 1972 when a policy determination (PD-48) was issued on "Employment and Income Distribution Objectives for A.I.D. Programs and Policies". The paper outlined an approach that would "promote growth, employment and equity as coordinate objectives". A "policy background paper" on the same subject issued simultaneously with PD-48 noted that efforts had been made in the past by AID to incorporate employment and income distribution considerations into AID's programs but that these had "for the most part been fragmentary and unsystematic. Greater effectiveness requires the integration of these considerations into the full range of activities A.I.D. engages in." ^{1/}

In 1975, in a report to Congress on implementation of the "new directions" of development assistance, a section on employment stated:

An obvious and important ingredient of the participation strategy is an emphasis on labor-intensive approaches to development. Employment is the main way in which the poor majority obtain the means to improve their health and basic standard of living. A.I.D.'s policy determination No. 48 of October 2, 1972, laid forth A.I.D.'s basic view on the subject which has been expanded upon in subsequent documents. Agency experience makes clear that employment and equity considerations must be raised at the very beginning of project development if they are to be effective. As a result of clear guidance statements, Agency training programs, incorporation of stronger procedures in project documentation requirements, and further research, there are now several projects underway--and others planned--where the

^{1/} AID, Bureau for Program and Policy Coordination, Employment and Income Distribution Objectives for A.I.D. Programs and Policies: Policy Background Paper, Washington, D.C., October 1972, pp. 27-28.

primary objective is increasing productive employment opportunities as well as raising output. 1/

In a 1978 A.I.D. policy paper setting out the Agency's strategy for bilateral development assistance, one of the two major elements of A.I.D.'s basic policy framework for carrying out the "new directions" legislation was stated as:

assisting the poor to increase their incomes -- through raising their productivity and access to productive resources as well as expanding their opportunities for productive employment. 2/

This implies increasing the productive base of the economies of the developing countries in such ways as to combine:

- expanded access by the self-employed poor to productive resources (such as land, water, credit, and the improved techniques, tools and materials that go with them);
- increased investment and production in sectors and techniques which make greater use in labor surplus situations of abundant unskilled labor relative to scarce factors of production; and
- expanded basic services of health, nutrition, family planning, and education which improve over time the productive capacity and employment potential of the poor. 3/

1/ 94th Congress, 1st Session, Committee Print, Implementation of "New Directions" in Development Assistance, Report to the Committee on International Relations on Implementation of Legislative Reforms in the Foreign Assistance Act of 1973, prepared by the Agency for International Development, Washington, D.C., US GPO, 1975, p. 16.

2/ Agency for International Development, A Strategy for a More Effective Bilateral Development Assistance Program: An A.I.D. Policy Paper, Washington, D.C., March 1978, p. 1.

3/ Ibid., p. 11.

The FY 1980 Congressional Presentation main volume, reflecting the bilateral development assistance policy paper, stated that the first of three main elements in "A.I.D.'s New Directions and basic human needs strategy" is

assisting poor people to increase their incomes: by raising their productivity, increasing their access to productive resources such as land, water, seed and fertilizer and expanding opportunities for employment. 1/

The FY 1981 Congressional Presentation main volume included among the objectives of the Agriculture, Rural Development and Nutrition account, "To create on and off-farm employment" 2/ , and among the objectives of section 106, "To deal with LDC employment and income problems in urban areas". 3/

In the Agency's 1980 report to the House Appropriations Committee on capital saving technology, the objective of helping less developed countries "provide both more employment and more productive employment for poor people" was described as "fundamental to the Agency's approach to development."4/

1/ Agency for International Development, Congressional Presentation Fiscal Year 1980, Main Volume, Washington, D.C., February 1979, p. 10.

2/ Agency for International Development, Congressional Presentation Fiscal Year 1981, Main Volume, Washington, D.C., 1980, p. 12.

3/ Ibid., p. 35.

4/ Agency for International Development, Capital Saving Technology, Report of the Agency for International Development to the Committee on Appropriations of the House of Representatives, Feb. 1980, p. 1. See also: Progress Report on Capital Saving Technology March 1981.

Research and analysis sponsored by A.I.D.'s Office of Women in Development concludes that underemployment among women may well be higher than for men in developing countries. This reflects the impact of traditions and legislation which restrict the demand for women workers in higher paying occupations.^{1/} The previously cited 1978 A.I.D. policy paper recommends that opportunities for increasing the productivity and employment of women be considered at the earliest possible stages of project identification and development.^{2/}

3. A.I.D.'s Approaches to Employment Creation

In addition to the policy statements cited above, A.I.D. has incorporated concern with productive employment generation into its operational guidance for project designers. The A.I.D. Project Handbook stipulates that potential for increased employment and income among the poor should be an important factor to be considered in making initial choices from project options. It further indicates that a project alternative is to be preferred to other alternatives if it maximizes the use of local labor and minimizes investment in capital, imported materials and equipment without a significant decline in quality or increase in total cost. Among the preferred alternatives, those that focus on women are to be selected, especially where women constitute the majority of producers.

^{1/} International Center for Research on Women, The Productivity of Women in Developing Countries: Measurement Issues and Recommendations, pp. 30-33, and Keeping Women Out: A Structural Analysis of Women's Employment in Developing Countries, p. 35 (both April, 1980).

^{2/} A.I.D., A Strategy for a More Effective Bilateral Development Assistance Program, op. cit., pp. 44-45.

A.I.D.'s analyses of the employment situation in recipient countries and the implications for A.I.D. programming are becoming quite sophisticated, at least as reflected in some of the FY 1982 Country Development Strategy Statements; with respect to implementation, however, we are still at an experimental and exploratory stage. In Asia, where the thrust of A.I.D.'s country programs is primarily rural, analysis of the employment problem by A.I.D. missions focuses on employment creation in agriculture and in rural non-farm activities. In Latin America, where the locus of employment problems in the countries still receiving aid from the United States is increasingly urban, analysis and programming by A.I.D. missions focuses to a growing extent on small scale enterprises in urban as well as rural areas. Also in Africa, where A.I.D.'s agricultural programs are primarily oriented toward increasing agricultural production and productivity, for a variety of reasons including that of slowing down rural to urban migration, the focus of employment-related analysis and programming is on small scale enterprises in both rural and urban areas. A.I.D.'s employment related programs in the Near East region have so far been concerned primarily with upgrading the skills of the labor force and particularly of the women in it. At the country level there is considerable variation in approach even within each region, as illustrated by the examples below. The central bureaus in AID/Washington are actively supporting these various initiatives as well as formulating and trying out new lines of attack on the problems of employment in development.

a. Asia

The FY 82 CDSS for the Philippines, a country with relatively good data and sophisticated planners, states:

Our analysis of poverty unequivocally identifies underemployment (low paid, low productive, and less than full employment) as the key problem undercutting the ability of the poor to go beyond day-to-day survival and attain a minimum standard of living. Employment generation, then, should be the overriding concern of our assistance efforts in the Philippines. 1/

The employment strategy adopted by USAID/Manila is consistent with the Philippine Five Year Development Plan for CY 1978-1982 and the recommendations of the international agencies and in particular those of the 1973/74 ILO/UNDP Comprehensive Strategic Employment Mission headed by Professor Gustav Ranis of the Yale Economic Growth Center, namely:

the mobilization of the rural sector to expand labor-intensive agricultural production and labor-intensive small and medium scale industry to serve rural demand, and expansion of labor-intensive export products to earn needed foreign exchange. 2/

With respect to the Philippines rural sector, A.I.D.'s main beneficiaries are small holders on rain-fed upland paddy land for assistance to labor-intensive agriculture, and landless laborers and displaced fishermen for

1/ Agency for International Development, Philippines Country Development Strategy Statement FY 1982, Washington, D.C. January 1980, p. 40.

2/ Ibid., p. 28.

assistance to rural-based industry. 1/ The program elements feeding into this strategy are rainfed crop intensification and diversification, rural small scale enterprise development and local institution building (to increase the demand for labor), and reduction in human fertility and improvements in food distribution and nutrition (implicitly, to decrease the future supply of labor and increase its efficiency). It is in the field of rural small -scale enterprise development where the need for experimentation is greatest.

The FY 82 CDSS for India states the strategy of USAID/Delhi as one of directing its agricultural and rural development programming toward those activities expected to have the greatest impact on incomes and employment of small farmers and the landless. 2/ These activities include surface irrigation, rural electrification, rural credit, rural works, provision of fertilizer, rural health and family planning, and PL 480 Title II; the document includes the results of an attempt to quantify the impact of some of these activities on employment, output and incomes generated. 3/

The Thailand Mission is developing an information base for actions to promote off-farm employment through a research project, being carried out by a university consortium consisting of Michigan State University, Ohio State University, and Kasetsart University of Bangkok, which is

1/ Ibid., pp. 43-44.

2/ Agency for International Development, India Country Development Strategy Statement FY 1982, Washington, D.C., January 1980, p. 11.

3/ Ibid., p. 52 and Annex 1, Table 16.

carrying out a study of household economic behavior and the allocation of household labor, a producer survey of rural industries, and a study on sources of finance for rural non-farm activity. In addition, an AID/Washington funded global assessment of the employment situation in Thailand is currently being organized to provide a broader framework for projects related to employment creation.

In Indonesia, where the thrust of the A.I.D. program is primarily rural, A.I.D. is supporting Indonesian Government efforts to promote regional development through sub-provincial local government activities at the kabupaten (district) level. A.I.D. is also financing its third labor-intensive village works project and is developing a project to promote rural industry in Indonesia.

b. Latin America and Caribbean

The Latin American and Caribbean region has generated the largest number of employment-related projects. For example, there are 11 small enterprise-employment projects in the current portfolio, 10 already completed, and 7 planned for initiation in FY 1981. Several Missions have or are supporting labor-intensive public works projects, as well. Thus, almost all of A.I.D.'s country programs in the region have employment-related projects. Illustrative examples include labor-intensive rural public works in Haiti; an emergency public works employment program in Salvador; an integrated urban development and urban environment project with an employment generation component in Costa Rica; loan programs through the Caribbean Development Bank for employment-generating projects in the Eastern Caribbean; private sector development with the Caribbean Association of Industry and Commerce; several loans to the Latin

American Agricultural Development Corp. (LAAD) to stimulate private agribusiness and employment in the Latin American region; and food-for-work programs in Peru. In the Dominican Republic, according to the FY 82 Country Development Strategy Statement, the employment problem is of major concern to the A.I.D. Mission whose:

first steps have been in a limited amount of vocational training, and a major grant project to improve the analytical base for decision-making and planning for employment policies. The Mission plans to increase its involvement in vocational education, (and in) efforts to stimulate agro-industry and small businesses of all types.^{1/}

A study bringing together information on the characteristics and needs of small enterprise is also underway.

The A.I.D. Mission pushing ahead the most actively in formulating an employment strategy focused on the creation of non-farm employment opportunities is USAID/Panama which is already supporting or proposing projects in support of small-scale industries, rural growth and service centers, and workforce development. A grant for "Small Entrepreneur Development" through the provision of technical assistance services has recently been signed, and a loan/grant for "Employment Planning and Generation" through strengthened employment policy analysis capability is planned. The FY 82 Country Development Strategy Statement for Panama cautions, however:

^{1/} Agency for International Development, Dominican Republic Country Development Strategy Statement FY 82, Washington, D.C. January 1980, p. 57.

The proposed employment generation strategy involves a shift of emphasis into areas where we know relatively little about how to stimulate private investment which will create large numbers of jobs for the poor. Consequently, our strategy must be two-fold: to better define and seek answers to the problems; (and) to proceed with solutions which reflect our increasing knowledge.^{1/}

A recent USAID/Panama analysis^{2/} describes a series of inter-related projects which it proposes in support of rural cooperatives in agro-industry; credit and technical assistance to medium and small enterprises in the urban areas inside the metropolitan corridor created by the Panama Canal; and support to a labor force information system and a possible Employment Policy Unit within the Government of Panama.

The previously mentioned "LAAD" program has been in existence over 5 years and evaluation results are showing significant employment and income benefits for small farmers as well as lessons for future programs. The LAAD approach brings American public and private equity capital together with small Latin American agrobusiness ventures which purchase commodities for export from small farmers.

A.I.D.-supported training programs in Latin America have, by responding to demand in the face of scarce supply, contributed to employment expansion. A.I.D. support helped create in the early sixties highly effective training institutions in Brazil, Colombia and Venezuela. A 1976 loan to the Colombian institution, SENA, initiated a program of practical short courses teaching over 150,000 rural people through mobile training units.

^{1/} Agency for International Development, Panama Country Development Strategy Statement FY 82, Washington, D.C., January 1980, p. 40.

^{2/} USAID/Panama, Toward an Employment Strategy, September 1980.

c. Africa

In the Africa region, the main thrust of employment-related projects has until recently been on the supply side, the training of human resources. An effort is being made on the demand side, however, through a new focus on small scale enterprises in both rural and urban areas. With respect to small scale enterprises, one of the problems has been to find existing institutions, with links to poor communities, which can be used as intermediaries to channel credit and technical assistance to small entrepreneurs in those communities. One of the first of these to be identified 1/ is the National Christian Council of Kenya which is receiving an operational program grant (OPG) to upgrade its program of assistance to small-scale enterprises in Nairobi and to extend it to some secondary cities.

d. Near East

In the Near East Region also, A.I.D.'s employment-related projects have been primarily concerned with skills development: vocational training in Jordan and Egypt, and non-formal education and industrial and commercial job training for women in Morocco. In Morocco, some accent has also been placed on training of professionals in fields (eg. agronomy) where skills are needed directly for the development effort.

1/ The National Christian Council of Kenya was identified as a potential intermediary institution in a study carried out under the Development Support Bureau's Program for Investment in the Small Capital Enterprise Sector (PISCES): Fred M.O'Regan and Douglas A. Hellinger, Assisting the Smallest Economic Activities of the Urban Poor, Part II: Case Studies, Africa, Washington, D.C., The Development Group for Alternative Policies, 1980 for ACCION International/AITEC, Cambridge, Mass.

The Egypt program, financed out of Economic Support Fund appropriations, is unique in A.I.D.'s current operations because of its size and scope. Hitherto, employment creation has been incidental to the A.I.D. program in Egypt although important components of it such as the commodity import program and infrastructure projects in both rural and urban areas have had major direct and indirect impacts on employment in the country. In the last year, however, the A.I.D. Mission in Cairo has become increasingly concerned with the employment implications of its projects designed to assist private sector industrial firms and is studying various criteria by which to encourage - or ensure - relatively low capital to labor ratios (ie. the use of relatively capital-saving technology) by project beneficiaries.

e. Central Bureau programs

A.I.D.'s central bureaus have also contributed to the body of doctrine, research and programs related to employment in development. The Bureau for Program and Policy Coordination has sponsored or co-sponsored a number of conceptual papers, field research and seminars concerned with the analysis of employment problems in the developing countries and with employment planning over the last decade. 1/ The Development Support Bureau has several on-going activities related to agricultural, rural non-farm and urban employment, and recently established a Small Scale

1/ Among these, the following may be cited: Henry Bruton, Employment Growth as an Indicator of Poverty Alleviation, in William Paul McGreevey (ed.), Third World Poverty: New Strategies for Measuring Development Progress, Lexington Books, 1980; Harold Lubell and Allan Broehl, Employment Planning, Background Paper for ECIEL Seminar on Employment Planning Techniques for Latin America and the Caribbean, Rio de Janeiro, October 3-5, 1979, Washington, D.C., Agency for International Development, August 24, 1979, as well as other papers prepared for that seminar; and the enormous output of the Council for Asian Manpower Studies (CAMS) project since its initiation in 1971 (headquartered at the University of the Philippines in Quezon City, Manila).

Enterprise and Employment Unit whose function is to assist USAID Missions in initiating employment-oriented programs. The Office of Labor Affairs in the Bureau for Private and Development Cooperation runs a highly active project in Labor Force Planning, Development and Utilization which provides technical assistance to A.I.D. missions and Ministries of Planning and Ministries of Labor in aid-receiving countries as well as in other developing countries (such as Kuwait and Brazil) as reimbursable development projects. Several central offices, including Women in Development, are supporting a pilot project in several countries that provides technical assistance for women's employment generation.

4. Formulation, Implementation and Evaluation of Employment-Oriented Strategies and Projects

If the Agency-wide approach to productive employment creation is to be strengthened some basic elements have to be clarified, among them (a) the much discussed definitions of employment, underemployment and unemployment, (b) the various components of an employment strategy, and (c) the problems of ex-ante and ex-post measurement.

a. The concept of employment

Among the difficulties faced in formulating and implementing an employment-oriented strategy are those of defining and measuring what it is that we are out to promote. There is a large body of commentary on the inappropriateness to the realities in developing countries of the use of the labor force and employment concepts established for the developed industrial countries. In mainly rural economies, where

women at a minimum also share in agricultural work in the fields and in the barnyard, and in many instances are the primary producers, and where children are pulled out of school to meet seasonal peaks in demand for labor, there is a considerable degree of ambiguity in the notion of labor force participation, a fact that has given rise to a whole new area of household survey activity by sociologists, economists, and statisticians, namely family time-use studies.^{1/}

Employment and unemployment are also awkwardly flexible concepts. They are inherently difficult to measure unambiguously in poor and less developed countries. In most such countries, open unemployment is mostly an urban phenomenon and is the work status of only a relatively small proportion of the urban labor force. In rural areas, where labor requirements are seasonal, employment status depends in part on the land tenure status of the individuals concerned. Small holders are likely to be fully occupied throughout the year, working hard in the busy seasons and stretching out their tasks in the slack seasons. An increase in the seasonal labor requirements in agriculture as a result of the introduction of multiple cropping, for example, may not be reflected in the number of working days "worked" on the family farm. It is only the

^{1/} See, for example, Eva Mueller with Carol Clark and Sherrie Kossoudji, The Design of Employment Surveys for Developing Countries, Population Studies Center, University of Michigan, Ann Arbor, Mich., September 1978, which was prepared for A.I.D. and the World Bank.

landless in rural areas, who have only their labor time to sell, that are unemployed in the agricultural slack seasons; and even they, because of traditional social relationships within the village and long-standing obligations of laborers to landowners, may not be available for outside work in the slack seasons, if it were to be offered. There is, in addition, a considerable amount of non-agricultural rural activity of which researchers are only beginning to become aware. In urban areas, most of the poor cannot afford to remain unemployed and have to work at something to survive. Consequently, there is a considerable degree of low-productivity and low-income urban self employment and family enterprise activity, and a flourishing system of apprenticeship which keeps remarkably large numbers of children and youths occupied in activities which are unpaid or low-paid or for which their parents pay to permit them to participate. Women are subject to considerable unemployment and underemployment. This is often hidden in official statistics which classify many women as being out of the labor force.

One of the important clarifications of concept and policy which has emerged from the work of the ILO's World Employment Program and others over the last decade is that the productivity of employment and the income derived from it (what can be called the quality of employment) are as important as the number of hours or days worked (the quantity of employment). The increase in return to the labor of a small farmer and his or her family resulting from better seeds, better water control and better marketing facilities is at least as important a dimension of their work

as the time they put into farming. The same is true of an artisan in small scale manufacturing or a petty trader in commerce. But this dimension of employment can only be measured as income, about which it is notoriously difficult to obtain information and which is not convertible to an "employment-equivalent" in any straightforward and obvious way.

b. Components of an employment strategy.

A coherent employment strategy must have components at several levels: at the macro-economic, sector and project levels. Overall strategy and most of its elements are the responsibility of the government of the developing country receiving aid. The scope for influencing macro-economic policies by an aid donor may be significant, but is likely to be constrained by a number of factors including the size of the specific donor's contributions relative both to overall needs and to the contributions of other donors, as well as the nature of the political relationship between donor and recipient. The macro-economic policy setting is nonetheless extremely important to accomplishing employment objectives, especially in the private sector which is the major employer in most A.I.D.-recipient countries.

At the macroeconomic level, the primary element affecting the level of economic activity and therefore the level of employment is likely to be fiscal policy and its components, government outlays and taxation.

Still at the macroeconomic level, the mix of capital and labor inputs into productive activity is affected by relative factor prices which are, in turn, influenced by (a) policies that affect the price of capital, such as credit and monetary policy, interest rate policy, the levels at which the local currency rates of exchange for foreign currencies are fixed, and tariff rates on imported equipment goods, and (b) policies that affect the price of labor, such as government attitudes toward labor unions, minimum wage legislation and regulations, administrative hiring practices, social insurance legislation, and job tenure legislation. In such areas, the main channel for aid donor influence is persuasion. Since any attempt to change existing patterns of explicit or implicit subsidy affects important vested interests in the recipient country, attempts at persuasion usually have to be backed up by the collective influence of a group of donors and lenders including the IMF, the World Bank, and other members of the aid consortium for that country if there is one. Good advice from a single donor is more than likely to be ignored unless it fits in with the views of the government of the recipient country and with existing domestic pressures on that government. Furthermore, the degree of receptiveness may vary from one administration to another. For example, the potential effectiveness of the project initiated in FY 1979 in the Dominican Republic to assist the Ministry of Planning in formulating policies relating to employment was greatly diminished by an intervening change in government, whereas the current proposal for an employment promotion project in Panama containing a similar component for analysis and policy formulation is in step with the concerns of the present Government of Panama.

Also at the macroeconomic level, the inter-sectoral allocation of public investment (including projects financed by the international lending institutions and bilateral aid donors) can affect patterns of employment. A shift in investment priorities from urban-based steel mills and petrochemical plants to rural-based irrigation, roads (particularly farm-to-market roads) and other agriculture-related infrastructure, for example, will have significant direct and indirect effects on employment patterns. It should be emphasized, however, that even though the direct labor input to the production of basic intermediate goods such as steel and petrochemicals is relatively low, the intermediate goods themselves may be essential to more labor intensive "downstream" activities using the intermediate goods as inputs.

At the sector level, possible trade-offs between greater employment and greater productivity can be an issue affecting program choice. Investment in agricultural machinery, for example, can reduce the demand for agricultural labor; but in irrigated areas suitable for multiple cropping, which increases demand for labor over the year, rapid harvesting and land preparation may be essential to getting an additional crop into the ground. Similarly, in industry, a more labor-intensive method of producing a given product is preferable to a less labor-intensive method from the point of view of employment creation; but the desirable choice between two products may not be so obvious if the less labor-intensive product is an intermediate good with further downstream labor intensive uses and the more labor-intensive product is a final good. In most

instances it will be the pattern of demand that determines the labor-intensity of the economy's product mix. Investment policy with respect to employment within a sector should be informed by an angle of vision wide enough to take account of such inter-relationships. The impact of these changes on the employment of women needs to be considered explicitly. Women may be displaced by agricultural mechanization and not be able to find alternative employment as easily as men.

One positive reason for promoting smaller scale private sector manufacturing enterprises is that small scale private sector industrialists are acutely aware of relative factor prices in their own lines of production. They use mixed technologies appropriate to the factor prices they face and do so on a rational basis, integrating labor-intensive steps into semi-automatic production processes where low wage rates make the use of labor-intensive techniques less costly. Two examples may be cited from a recent investigation in Egypt. One is the use of hand-operated silk screens at the appropriate step of the printing of fabrics and plastic materials where the relatively small production runs would make overly automatic methods considerably more expensive. The other is the lack of inhibitions among small entrepreneurs about acquiring and using second hand machinery, which is (a) often better adapted to the integration of semi-skilled labor into the production process than would be a more modern high-speed machine, and (b) labor-intensive in its maintenance. If the unit cost of labor stays low relative to the cost of capital, entrepreneurs will respond appropriately to such market signals. Typically, small-scale entrepreneurs do not have access to various subsidies on capital nor are regulations affecting the price of labor enforced in their case.

What we come back to then is the macro-economic question of how to avoid underpricing of capital (and overpricing of labor). One obvious way is to raise interest rates to borrowing enterprises and to eliminate other subsidies to capital. Subsidies would be eliminated when the price of capital to the final borrower was equal to its "opportunity cost" in terms of its value in alternative uses. The opportunity cost of capital in a less developed country is typically somewhere between interest rates charged by major financial institutions, often 10 to 15% a year, on the one hand, and those charged by individual, "informal" money lenders (often above 50% a year), on the other. A.I.D. does follow a "two-step" lending policy, whereby the recipient government agrees that the local lending institution will charge final borrowers (e.g., businessmen or farmers) a higher interest rate than the very concessional terms (3 to 5% a year during amortization) on which A.I.D. provides funds to the government. But it has been in practice difficult for A.I.D. or other donors to negotiate "on-lending" terms to final borrowers above prevailing local financial institution rates (e.g., 10-15% a year). A different approach which has been applied notably in several Asian countries (South Korea, Taiwan, Indonesia, Sri Lanka) is to raise the entire institutional interest rate structure closer to the opportunity cost of capital. This kind of macro-economic policy reform has often occurred in the context of policy dialogue with a range of donors, including the IMF and World Bank, and where short-term and long-term assistance of both a program and project type is provided to facilitate the policy reform.

c. Problems of measurement

Systematic measurement of the employment impact of A.I.D. projects is undoubtedly desirable but we should first be clear as to (a) what kinds of projects are likely to have employment effects and (b) what is measurable, before getting down to (c) the question of how to carry out the measurements we want.

The range of some A.I.D. projects is wide and of others is narrow. A commodity import program under economic support funding can be essential to the functioning of the entire economy of the recipient country and will have wide ramifications for output and employment, both direct and indirect. Almost as broad in their potential impact are rural projects under development assistance whose primary purpose is to increase agricultural output: employment will be affected not only in agricultural production itself but also elsewhere in the economy as the volume of foodstuffs and raw materials for agro-industries expands. Infrastructure projects of various kinds will have direct employment effects by employing construction workers, but will also have downstream effects as the infrastructure put in place (roads, irrigation systems, rural electrification networks) makes its impact on production. Projects channeling credit and technical assistance to small scale manufacturing enterprises (or to larger scale enterprises under ESF programs as in Egypt) will also have direct and indirect employment effects. With the increasing use of para-professionals in health and family planning programs in developing

countries, a trend supported by A.I.D. policy, the employment implications of assistance in these areas could be significant. 1/ Education projects are intended to have an impact on the labor supply side of the employment market by affecting labor market skills; they also affect expectations of new entrants to the labor market.

It should be kept in mind that in the smaller country programs, many of A.I.D.'s projects are conceived as pilot efforts to demonstrate the feasibility and replicability of a new idea. Because of their small scale, such projects can have only minimal direct effects on employment even if their ultimate aim is employment creation. Their purpose is to solve a problem, not to hire people; they will have a significant impact only if replicated out of local resources.

Evaluation and measurement of the direct impact of construction projects designed for immediate employment creation are useful if only to learn what problems such projects face and how to improve their effectiveness. Several factors have to be taken into account. If the wage offered is too low, as has often been the case in India, there may be few takers. If the wage offered is relatively high, as in Haiti, the taker will then hire somebody else to look after his farm; the impact on total employment is, so to speak, second-hand. Emergency work projects must take account of the seasonality of other labor requirements in the same geographical area, and also of traditional employee-employer ties in the

1/ According to one rough estimate, 10% or more of female employment in developing countries is in health and family planning programs.

village which can prevent a potential job candidate from appearing on the work site even though underemployed and presumably available for additional employment.

As pointed out earlier, unemployment may be so thoroughly disguised as to be unmeasurable: in small-holder agriculture, "unemployment" does not exist, since work can be stretched out to fill the time available. It is landless agricultural laborers who are the bellwether of the labor market. There is likely to be full employment and even a shortage of labor at harvest times and to some extent during periods of land preparation. Unemployment occurs at the off-peak seasons. Where projects leading to multiple cropping increase the number of seasonal peaks, seasonal unemployment will be reduced, leaving as a measurement problem the conversion of days worked to persons employed. Even in manufacturing, measurement of employment is not necessarily straightforward. Large scale public sector plants may choose to, or be obliged to, retain workers even when redundant. At the lowest end of the scale, very small scale enterprises (the self employed, family enterprises, small enterprises operating with one or two employees and a number of apprentices) will stay in operation even if sales are abysmally low since they often have no alternative for subsistence and physical survival.

5. Proposed Actions

In light of the discussion above, we propose the following actions:

- a. A.I.D. will review and reissue, with revisions as appropriate, the 1972 policy determination on "Employment and Income Distribution Objectives for A.I.D. Programs and Policies" (PD-48).

b. We will issue guidelines for dealing with productive employment creation in the context of the Country Development Strategy Statements (CDSS's).

c. We will examine possible measures to improve integration of productive employment creation into project design, implementation and evaluation. This may, in the first instance, require categorizing projects by their immediate (or direct) and longer-term (or indirect) relevance to employment and income creation. The next steps might be to (i) develop for each category an agreed set of measurement definitions which can be applied in practice, and (ii) explore the feasibility of generalizing the practice of including pre-project income and employment surveys of beneficiaries in projects expected to have a perceptible impact on employment, in order to establish baseline magnitudes against which to measure eventual effects. The conceptual and measurement complexities involved in taking these steps should not be under-estimated, however.