

Aligning macroeconomic policy to support sectoral strategies for employment promotion

Notes for session 1-2

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Sectoral strategies for employment promotion: preamble



- Sectoral strategies for employment promotion might be criticized as a case of government inappropriately trying to ‘pick winners’
- This critique not valid
- Sectoral strategies for employment promotion essential (e.g. McKinsey 2012)

Sectoral strategies for employment promotion: preamble



- Sectoral strategies for employment promotion mean
- (1) Identification of key sectors and sub-sectors that have the highest potential for creating stable wage employment;
- (2) Such identification should rely on market-based principles;
- (3) identification of the binding constraints that inhibit the sectors from reaching full potential;
- (4) alleviating binding constraints through appropriate policy interventions

Macroeconomic policy to facilitate sectoral strategies for employment promotion



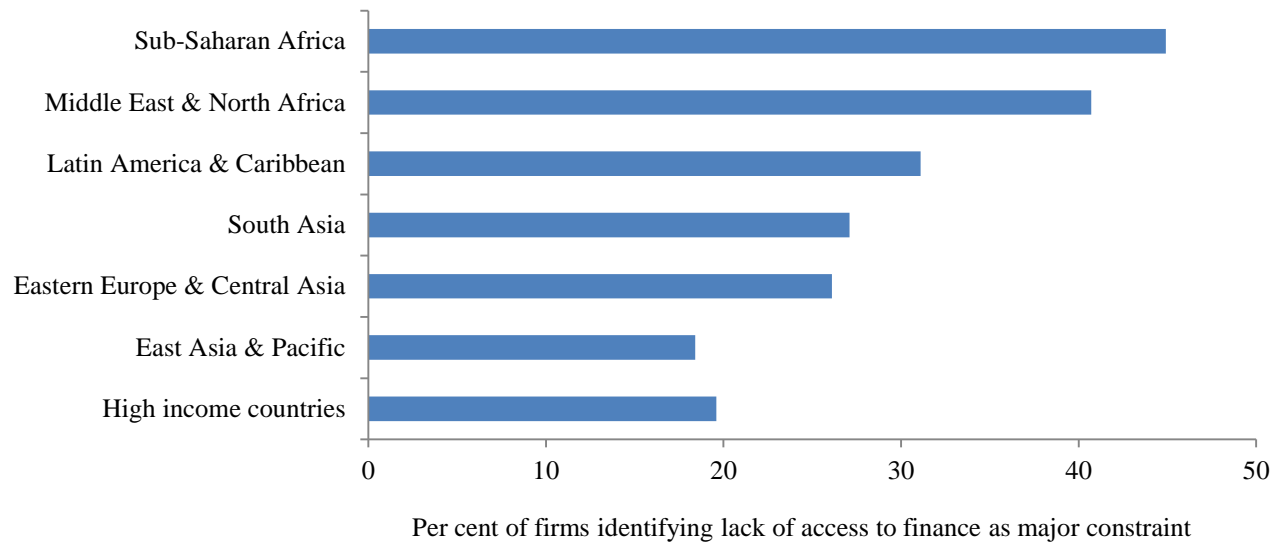
- Recall dual mandate of govt: (a) guardian of stability (b) active agent of development
- In case of (b), focus on alleviating binding constraints on sector-specific growth and creating new opportunities
- Leads to 'enabling environment' analysis
- Use firm-level assessments (WB, IFC, ILO, WEF, McKinsey etc)



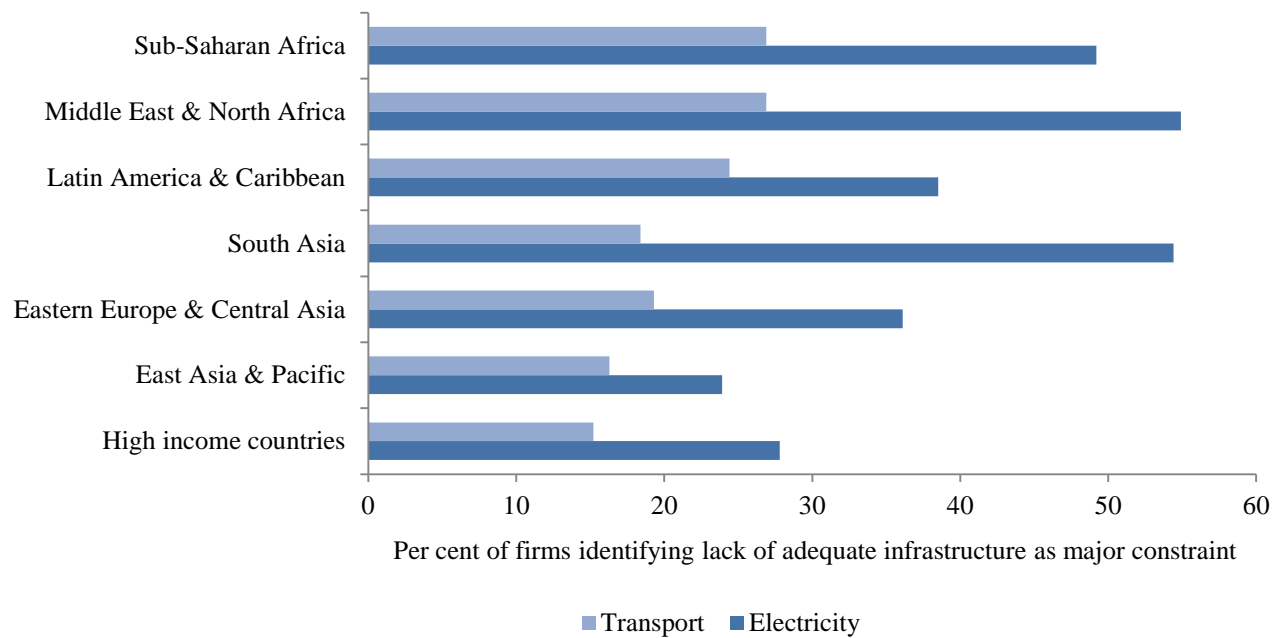
Typical constraints:

- Access to finance, inadequate infrastructure, lack of skills
- First two most important

Lack of finance as a major constraint



Infrastructure deficit as a major constraint





- ▶ The two binding constraints can be dealt with policy instruments that fall within domain of CBs, MoF and coordinating ministries
- ▶ See table in next slide>>>>>>

Table I (examples of policy interventions with potential to influence sector led growth and employment)



Fiscal policy/public expenditure management	<ul style="list-style-type: none"> •Resource mobilization to support public investment in infrastructure, education, health •Fiscal incentives to reward private sector activity with development pay-offs •Public procurement policies
Monetary policy/financial policies and regulations	<ul style="list-style-type: none"> •Credit guarantee schemes •Selective credit allocation •‘Branchless banking’ •Microfinance institutions •Development banks
Exchange rate regimes and capital account management	<ul style="list-style-type: none"> •Stable and competitive real exchange rate regimes •Capital controls to deal with short-term capital flows



Financial inclusion: examples

- ▶ M-PAISA in Pakistan and M-PESA in Kenya good examples of 'branchless banking'
- ▶ Ecuador is a good example where govt initiative can lead to effective financial inclusion in a short period of time
- ▶ Over 2005 to 2011, the % of population with a bank account in the national financial system increased from 28.9 to 83.2%
- ▶ Private banks and credit unions provided more than 70 % of all bank accounts in 2011
- ▶ Public banks recorded the largest relative increase, from 1.3 % in 2005 to 9.6 % in 2011



Resource mobilization and enabling environment

- Required resource mobilization need to be linked to spending needs
- Spending needs in turn to be linked to core development goals
- UN-ESCAP (2013) estimates: spend 5%-8% of GDP based on a policy package that seeks to provide
 - (a) employment guarantee schemes
 - (b) minimum standards in health and education
 - (c) some elements of social protection for those outside the labour market
 - (d) initiatives to promote environmental sustainability



- ▶ Spending needs also influenced by infrastructure deficits
- ▶ Domestic revenue to meet such needs should be around 20% of GDP in LICs (IMF)
- ▶ Possible to improve revenue potential by 4% in many LICs, including South Asia (IMF, 2005)



- ▶ Thank You!
- ▶ For more clarification and more details on these slides, please contact islami@ilo.org