Study on Existing Models for Productive Employment and Possible Models for Funding

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Abbreviations

AECF – African Enterprise Challenge Fund
ALMP – Active Labour Market Program
BDS – Business Development Service
BER – Business Environment Reform
CF – Challenge Fund
CGAP - Consultative Group for Assistance to the Poor
DAC – (OECD) Development Assistance Committee
DANIDA - Danish International Development Agency
DCED – Donor Committee for Enterprise Development
DIB – Development Impact Bond
DFID – Department for International Development
EPL – Employment Protection Legislation
FSD – Financial Sector Deepening (Program)
GIZ – (Deutsche) Gesellschaft für Internationale Zusammenarbeit
IFC – International Finance Corporation
ILO – International Labour Organisation
M(SME) – Mirco (Small Medium Sized Enterprise)
MSPE – Mechanism for Support for Productive Employment
M4P – Making Markets Work for the Poor (Approach)
NGO – Non Governmental Organisation
OECD – Organisation for Economic Cooperation and Development
PPDP – Public Private Development Partnership
PSD – Private Sector Development
RBA – Results Based Aid
RBF – Results Based Finance
TF – Trust Fund
USAID – U.S. Agency for International Development
Summary

Employment opportunities are at the core of pro-poor development. Poor households have few assets aside from their own labour, and survive on what they make as farmers, entrepreneurs or employees. Especially in poorer countries, most adults work, but in jobs, sectors and occupations that produce too little income to secure their wellbeing. Helping the poor access more productive employment – work, whether as self-employed or wage earner that help them and their families escape poverty - is a key mechanism for more inclusive and pro-poor growth. Donor agencies are increasingly looking to identify employment outcomes of different interventions. These include efforts to expand the number of productive jobs in new or existing firms, and raising productivity and earnings on existing jobs.

The purpose of this report is to provide an overview of interventions to support productive employment creation, investigate donor funding mechanisms in relation to these interventions, and propose a potential mechanism to be used by Sida in promoting employment for poverty reduction purposes. The report focuses on policies relevant for low income groups and potential avenues to leverage actors and resources outside governments.

There are nonetheless several challenges involved in such a review. Firstly, employment and earnings outcomes depend on a multitude of endowments and policies, involving private sector development, education, health, investment, infrastructure, and more. It is through these different sectors, that Sida and other donors have primarily been supporting employment in direct and indirect ways. The focus on measurable impact on employment is relatively new, however. Hence, donor approaches remain fragmented across sectors and it appears that only recently has employment become an independent, though transversal, theme in strategies as well as organizational structures. Secondly, productive employment may be conceptually easy to grasp, but difficult to measure in practice, especially through earnings – which is the closest approximation of jobs quality. Thirdly and partly for the above reasons, comprehensive reviews of impact on employment, not to mention cost effectiveness, are lacking.

Our review narrows in on policies and programs that can (i) stimulate more demand for labour in productive employment, including through profitable opportunities for self-employment (ii) help vulnerable workers acquire the necessary assets (skills, credit, etc.) to take up more productive jobs, or increase profitability in their firms, and (iii) improve information flows in the market. It focuses on funding mechanisms that are applicable to interventions focused on productive employment; those that stimulate innovation and competition, and build partnerships with private sector and civil society.

The review of different types of interventions suggests that no single approach works everywhere, whether in raising demand for labour, in helping workers access labour markets and/or more productive employment opportunities, or in improving the flow of information in labour markets. Context, constraints, design and implementation matters. There is some evidence that supply side interventions, more particularly providing training and finance in comprehensive programs, can be successful. Nonetheless, stimulating labour demand through market systems must continue to be an important basis for employment promotion. Labour supply side interventions –e.g. increase the employability of workers - require some growth in labour demand or expansion of markets to be effective.
The review of innovative implementation mechanisms confirms the assumption in the Terms of Reference that challenge funds have an interesting potential to stimulate employment initiatives by private sector actors. However (i) their effectiveness in achieving especially systemic change is far from guaranteed, pointing to the importance of careful testing of approaches (ii) both country constraints and other donor initiatives will be decisive for whether the mechanism makes sense and no single mechanism will address the comprehensive agenda (iii) there will be a need to continue to apply both more traditional and innovative implementation mechanisms in different contexts.

Against these findings, we propose that Sida considers setting up a Challenge Fund mechanism - a Mechanism for Support for Productive Employment, or MSPE - as the main tool for initiating activities and allocating resources to various actors. The proposed mechanism is comprehensive, with three windows and target groups:

- A first window for formal private sector actors aimed at “harnessing their core business”, e.g. through value-chain development aimed at promoting productive employment. Contributions should be conditional upon matched funding. Additionality and wider market impact should be important criteria.
- A second window for various kinds of civil society actors (or similar types of non-commercial or non-formal private actors) aimed at promoting micro level approaches such as self-help groups, savings cooperatives, technical and vocational training, work force mobilization, etc.
- A third window for research and/or capacity building of institutions of importance to productive employment.

This challenge fund should however be embedded in a program that may include various kinds of supportive activities depending upon the local context. A MSPE needs strong analytical capacity for market/employment diagnostics, knowledge management, and monitoring and evaluation. It may also include resources for providing technical assistance/mentoring to private sector actors competing for funds.
1 INTRODUCTION

1. Employment and the jobs perspective is now at the forefront of the development agenda as a transversal theme. There is an increasing recognition that to sustainably reduce poverty, improving the employment opportunities for the world’s poor is critical and that productive employment is a key mechanism for more inclusive and pro-poor growth, for driving labour productivity and innovation, and for building social cohesion.1 Using the definition by the International Labour Office (ILO), “Productive Employment” is taken to mean; work, whether as self-employed or wage earner, that provides income opportunities that help workers and their families escape poverty. Support to productive employment can consequently include efforts that directly or indirectly help foster new jobs and firms that pay sufficiently well, or raise productivity and earnings2 for existing jobs and firms. From a poverty reduction point of view, this corresponds to increasing labour market opportunities for the poor, by helping them take up better jobs, expanding business opportunities, or by increasing what they earn as wages on their existing jobs or as profits in their own enterprises.

2. From the perspective of donor support, employment outcomes are also transversal in that they cut across traditional sector boundaries. Clearly, productive employment and decent work are the outcome of a broad package of interrelated policies such as:

- Macroeconomic, industrial and trade policies that set the stage for broad conditions for economic activity and growth,

- Education policy that fosters skilled workers from childhood, health policies that ensure a productive work force,

- A Financial policy that is inclusive;

- And labour market policies that ensures safe and fair working conditions and labour rights.

Donors are and have been active in all of these areas. However, employment and income opportunities have not always been explicit – or monitored – objectives.

3. Partly as a result of its cross cutting feature, donor approaches to employment have hitherto also been fragmented across sectors, interventions, and beneficiary groups3. While employment historically has been a direct and indirect focus of donor support, including for Sida, it has only recently emerged as an organising principle for analysis, diagnostics and organizational structures. Desk research of background documents and contacts with donors (notably IFC, World Bank, and Danida) has shown that other donor organizations are now, much like Sida, increasingly focusing on employment, but are still in the process of organizing interventions and approaches under this umbrella, and measuring outcomes against the employment parameter.

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2 “Earnings” and “income” are used interchangeably to reflect wages of work or profit from self-employment.

4. The purpose of this report is to provide an overview of possible and actual interventions to support productive employment creation, investigate donor funding mechanisms in relation to these interventions, and propose potential mechanisms to be used by Sida in promoting employment for poverty reduction purposes. Given the terms of reference and our communications with Sida, the report is based on a few premises. First, for employment to serve as a direct mechanism for poverty reduction, policies and interventions must be relevant for low income groups. Second, in supporting productive employment, Sida wants to leverage actors and resources outside governments and explore opportunities for outcome based aid or finance. Third, the ability to measure impact is important.

5. The terms of reference pose challenges owing to the limited time allocation, the multidimensional and cross-cutting nature of employment, and the fact that donors are still in the process of organizing approaches to employment support in a more holistic way. As a result, while recent years have seen increasing focus on measuring impact in different donor projects, synthesis documents and analyses of existing interventions for employment promotion as well as meta-evaluations of interventions are generally not available. We have approached the analysis with a framework that identifies key intervention mechanisms, but where information nonetheless has been scattered across different types of sectoral programs and research areas. The report is based on desk research of what is known about the effectiveness of different interventions, where and how they work, and of different mechanisms that could be used to support them. It leaves aside broader fundamental conditions – macroeconomic stability, education, health policy, governance – in favour of interventions more directly related to creating employment.

6. Against these caveats, the report is organized as follows. After the introduction, a second section will discuss different approaches to supporting productive employment creation (2.1), the experiences of areas of interventions so far (2.2), and different financing and implementation mechanisms to support such interventions (2.3). Based on the analysis, the third section will provide suggestions as to mechanism(s) that Sida might explore in this context, and their modalities.

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4 Attached as appendix 1.
2 CONSTRAINTS, POLICY AREAS, AND DONOR APPROACHES TO FOSTERING EMPLOYMENT AND INCOME GENERATION

7. What can public policy do to increase productive employment in a specific country or region? To begin to address this question, it is important to define more clearly what is meant by “improving productive employment”, what the country, region and context specific constraints to productive employment are, what potential policy approaches can address different constraints, and what has been shown to work in practice. This section thus defines the objective of productive employment and provides an overview of key constraints and a resulting broad policy agenda for increasing productive employment. Based on this framework, it describes different areas of interventions that donors can and do support. Finally, it provides an overview of possible mechanisms for implementing and financing interventions in the field of productive employment, assesses their applicability for the employment objective, and discusses modes of funding such initiatives.

2.1 Defining Productive Employment

8. The ILO defines Productive Employment as “all employment (for wages or as self-employed) that yields sufficient income to allow the worker and his/her family/dependents to obtain a material standard of living above the poverty line.”\(^5\) (Box 1 provides a list of useful labour market and shared prosperity indicators.\(^6\)) While the definition is precise in theory it is not clear how to operationalize it with respect to method and sources of information, for example:

- What poverty line to apply (absolute, relative, or other),
- How to weigh individuals versus household income opportunities (should one active person be able to provide for the entire family?)
- And what sources of data on consumption/expenditures as well as labour market conditions are available.\(^7\)

In practice changes in earnings from a baseline level may be an easier indicator for monitoring intervention impact. An “improvement in productive employment” could imply an increase in the number of productive jobs, or a significant increase in the productivity and earnings of employment of the poor without necessarily shifting them above the poverty line.\(^8\)

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\(^5\) See e.g. ILO (2012), *Understanding deficits of productive employment and setting targets: a methodological guide*, International Labor Office

\(^6\) For an overview of labour market concepts and analysis, see e.g. SIDA (2006), *Integrated Economic Analysis for Pro-Poor Growth*, Method Document, Department for Policy and Methodology.

\(^7\) Basic needs poverty lines such as used by the World Bank use consumption expenditures as their basis, drawing on household level consumption/budget surveys. Labor market information can draw on these surveys or labour force surveys. In countries with constrained statistical resources and capacity, household surveys or labour force surveys are rarely available on an annual basis, however.

\(^8\) Comparison can be made with basic needs/absolute poverty analysis: An improvement in the form of reduced consumption poverty can for example relate to a reduction in the number of poor (shifting more people above the poverty line), a reduction in the distance of the consumption level of the poor from the
As is clear from ILO’s definition, “access to work” does not guarantee “productive employment”. In the poorest countries, adult family members - and often children too - are obliged to work to ensure that households’ meet their basic needs. Access to employment is thus not a clear indicator of welfare levels: although many of the poor work, they are confined to lower productivity jobs, often in subsistence agriculture, or as self-employed or contributing family workers in the informal non-farm sector. As a result, the share of employed adults in the population is often higher in low income countries than in middle income countries. For similar reasons, in the poorest countries, poverty rates are often higher among the employed than among other groups. Conversely, in middle income countries, unemployment rates may be higher and access to employment is a more meaningful indicator of both income and social inclusion. The composition of employment is also a different across countries, and the type of job one has access to has significant welfare implications. While there are clearly many overlaps, generally, earnings are highest in the formal wage sector, followed by informal work as a labourer or self-employed. Earnings tend to be lowest, and poverty highest, among those working in agriculture. In poorer countries, the share of vulnerable forms of employment is generally significantly higher – involving a majority of workers in fact - than in more developed ones (Figure 1, a, b, c).

**Box 1: Important labour market indicators**

- Working age population/adult population: those aged 15 and above.
- Labor force/active population: those in the adult population who work (employed) or are actively looking for work (unemployed)
- Employed: those who work, whether on permanent, seasonal or temporary basis, fulltime or part time.
- Employment to population ratio (adults): the ratio of employed persons to the entire adult population.
- Earnings: here – returns to labor. The income derived from work, whether as wages for employees, or as self-employed.
- Productive employment: work that provides sufficient earnings to keep a family above the poverty line.
- Working poor: employed person living in a poor household.
- Unemployed: not working but actively looking for work.
- Unemployment rate: share of unemployed in the labor force.
- Inactive: not working or looking for work
- Discouraged workers: inactive that would like to work but are not looking because they have no hope of finding a job

poverty line (reducing the poverty gap), or an improvement in the situation of the very poorest among the poor (the severity of the poorest).
10. Productive employment can consequently increase by the creation of new and productive jobs, or by the transformation of an unproductive job to a productive one. Returning to the poverty dimension implicit in the ILO definition, poor households may be poor because their members earn too little, or because there are too few household members providing for many dependents (children, elderly, inactive or unemployed working age adults). Potential target groups for increasing productive employment could thus include those adults that are without access to employment, or to sufficient employment – the unemployed, discouraged workers – as well as the employed who earn too little.

Figure 1: Employment, income, and poverty.

a. Employment-to-population ratios (% population aged 15 and above) 2011: Sida partner low and middle income countries

b. Poverty headcount (% population aged 15 and above) by employment status, selected countries, most recent data.

c. Share of self-employment and contributing family workers, 2011 or most recent.

Source: The World Bank’s World Development Indicators, and World Bank (2013a), Beyond Job Creation, unpublished draft.

11. There is evidence that changes in the structure of employment have the strongest impact on poverty reduction: earnings increase and poverty falls when workers move from less productive to
more productive employment, and when productivity increases in low productivity sectors. Employment creation in the sectors with lowest productivity, by contrast, is associated with poverty increases or stagnation. Helping target groups move into more productive employment, across sectors, occupations, and firms, is therefore an important priority. At an economy wide level, these processes are often associated with a convergence in productivity and earnings across agricultural and non-agricultural sectors.

12. With a majority of poor workers in agriculture, raising agricultural productivity will have significant pay offs in raising living standards. Due to high levels of underemployment and an untapped potential for non-farm activities in rural areas due to low levels of aggregate demand, higher productivity in agriculture should reasonably be accompanied by some job destruction, however. As shown in Figure c above, in the very poorest countries, wage employment is nonetheless very small and cannot realistically be expected to absorb a majority of workers over the foreseeable future, even in the best of private sector growth conditions and assuming agricultural workers possess skills that are useful in the non-farm sectors. Informal activities and self-employment in non-agricultural sectors will likely remain a key source of non-farm opportunities in the future, and should not be ignored in the employment agenda.

2.2 Constraints, policies and interventions for productive employment

2.2.1 Diagnostics of country constraints

13. The constraints to productive employment, whether at a global level, or for specific and more vulnerable groups, relate to labour demand (business opportunities for firms that want to hire more workers or for self-employed), to labour supply (abilities of workers as employees or entrepreneurs) and to intermediation/matching between the two. Many countries also face a fourth and overarching constraint in terms of identifying needs, formulate strategies, and implement policies to increase productive employment.

14. Demand side constraints reflect low demand for labour in sectors, firms and occupations that pay relatively better and thus offer more productive employment. The low demand for labour can be due to a poor investment climate that limits the expansion of a dynamic private sector – including start-up constraints for firms - or to specific regulatory, tax or other obstacles that makes labour expensive relative to capital. It can also reflect an overall low level of domestic aggregate

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10 There is less clarity around the direction of causality which will partly depend on the nature of agricultural production. Productivity increases in agriculture can free up labour to move into other and higher earning sectors. Conversely, if workers move to take up better opportunities in non-agricultural work, underemployment in agriculture may be reduced, leading to a productivity increase.

11 World Bank (2013a), Beyond Job Creation, unpublished draft

12 Analysis of eight sub-Saharan countries showed that even in fast growing economies, where non-farm wage jobs were increasing at a high rate, self-employment and household enterprises generated most new jobs outside agriculture. See Fox and Sohnesen (2012), “Household enterprises in Sub-Saharan Africa: why they matter for growth, jobs, and livelihoods,” Policy Research Working Paper Series 6184, The World Bank, Washington, DC.
demand for higher quality goods and services, due to high poverty levels and low purchasing power, and little or no access to exports markets. Due to labour supply/demand mismatches or discriminatory practices labour demand can also be low for specific vulnerable groups.

15. **Supply side constraints** limit the ability of the population to take up better paid employment or improve earnings on their existing jobs. Potential issues include lack of credit for small firms, lack of skills that are in demand (whether as an entrepreneur or as a wage employee), socio-cultural constraints to taking up work outside households, in particular for women, constraints to migration, such as poorly functioning land markets that limit rural-to-urban migration, or lack of migration networks. For more advanced economies, skewed transfer systems or public employment wage policy may provide disincentives to take up employment.

16. **Job search constraints** reflect lack of information and introduce a gap between demand and supply: although there is demand for skills and workers are –or could be - qualified would be prepared to take these jobs at the wage offered, they cannot identify one another. Consolidated labour market information systems including intermediation services and career counselling may be lacking. In settings where skills take many varied routes, often informal as through traditional apprenticeships, workers (or entrepreneurs) may have difficulties in conveying their acquired competencies to prospective employers (or clients).\(^{13}\)

17. Finally, many countries face diagnostic, policy formulation and implementation constraints. **Supporting employment and livelihoods are complex issues and require capacity to identify critical issues and appropriate policies, connections with knowledge resources on good policy approaches, and adaptation to local context, and strong capacity to implement and adapt policies.**

18. The types of constraints to productive employment will differ across countries. Although each country will require its own analysis of national and sub-national contexts, Sida’s partner countries can broadly be divided into four groups:\(^{14}\):

- Countries with high employment levels, high poverty levels, and a lack of functioning safety nets, where a majority of work takes place in low productivity farming or informal own account work, skills levels are low both at a basic, technical and entrepreneurship level, and private formal sector operations are very limited. The working age population is young and growing rapidly. Typically, this corresponds to low income countries. The level of productivity of employment is a more useful indicator of welfare, or decent work, than unemployment.

- Fragile conflict states, where the challenge of promoting productive employment is compounded by the additional difficulties of promoting economic development and social cohesion in a situation of insecurity and dilapidated human and physical capital, and engaging ex combatants in productive employment. Institutions are fragile and private sector


\(^{14}\) C.f. the World Banks WDR on Jobs for a country typology along dimensions that matter for how to approach the jobs challenge: stage of development, endowments, demographics, and institutions (World Bank, 2012).
development subdued. Many of these are low income countries in Sub-Saharan Africa, but also middle income countries (e.g. Kosovo, Iraq) are included.

- Transition countries in Eastern Europe, where the agricultural sector is significantly smaller and most employment is productive in the sense of guaranteeing living standards above the poverty line. Absolute poverty is lower, skills levels are higher, and access to employment is a significant issue for social conclusion. The population is aging, and youth and specific ethnic minorities may be particularly excluded from employment opportunities, while a large pool of older workers face difficulties in adapting obsolete skills to new market economy. Labor market regulations and social protection systems can have an impact on labor market functioning. EU harmonization is central to the reform agenda. Labor force participation and unemployment are both relevant indicators of exclusion from labor market opportunities.

- Other middle income countries, where access to employment and sufficient earnings/quality of employment simultaneously are problems.

19. The above groupings are indicative and large differences can exist within countries, with similarities across country groups. Demand side, supply side as well as job search and information constraints can be particularly binding for some more vulnerable groups within countries. This is dependent on the demographic, economic, and socio-cultural context: youth or older workers, women, ethnic minorities, low skilled, disabled, ex-combatants, migrants, those located in disadvantaged regions, etc..

20. For policy purposes, it is critical to identify the binding constraints for productive employment. Interventions to strengthen employability, for example, will only be meaningful in a context where there is some potential for private sector job creation. For example, if women are largely excluded from the labour market, the reason may be direct discrimination against women in the market place or low demand for female workers due to a sectoral composition limiting the type of jobs available to women (mining, construction). It could also be the result of supply side restrictions, such as alternative duties in households, lower skills levels due to less access to skills development or education, or a combination of these and socio-cultural constraints. In the latter case, increasing demand for women in the work place through e.g. anti-discrimination training and advocacy initiatives for employers will not result in more productive employment for women.

21. All jobs do not have the same value in different contexts, moreover. The World Bank’s World Development Report: Jobs\textsuperscript{15} provides a useful framework to also identify, in each country context, employment opportunities that are particularly good for development. There may be specifically promising sectors with high growth potential and strong value chain implications. In fragile conflict prone states, finding meaningful income opportunities for vulnerable and sometimes violence prone youth and ex-combatants can be a priority. Productive employment for women may have specific development advantages, including more spending on the education and health of children.\textsuperscript{16} These considerations need also to be taken into account.

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\textsuperscript{15} World Bank (2012)
\textsuperscript{16} World Bank (2011), World Development Report 2012: Gender, the World Bank, Washington, DC.
22. With the help of statistical and institutional analysis, the most significant constraints to productive employment for different groups, different countries and different contexts can be identified, together with a mapping of existing interventions and potential gaps and opportunities. Sida’s “Terms of References for Country Level Employment Analysis” based on the ILO framework provides a good basis for country based diagnostics.

23. It should be noted that country capacity in terms of diagnostics and policy formulation may differ widely, depending on institutional strength in terms of capacity to formulate, coordinate, implement, monitor and evaluate different initiatives and in terms of quality and quantity of data available for diagnostics. An important area of intervention for donors is the support of in-country development of these institutions, capabilities and statistics. Given the format and terms of reference, in what follows, we do not discuss this area of intervention in order to focus on more direct interventions, thus taking the availability of quality diagnostics and policy capacity as a given. Nonetheless, it is important to emphasize that this is a potentially very important area of donor support, and ways of increasing local capacity as well as promoting the dissemination of cross-country learning should be considered.

2.2.2 Addressing constraints to productive employment - A policy agenda

24. The private sector accounts for nine out of ten jobs globally\textsuperscript{17} and makes up the only sustainable source of employment growth over the long term. Governments and other actors have a significant role in providing the enabling environment for productive employment growth. Governments can also provide specific public employment related activities for different purposes, but this is not likely to lead to sustainable improvements in employment (Box 2). Recognizing the role of private sector led sustainable employment growth, the groups of constraints are reflected in a corresponding four pronged policy agenda to which donors can lend support\textsuperscript{18}:

- **Stimulating labor demand in sectors that can provide productive employment.** This involves policies that affect both the creation and growth of firms with a potential for providing wage jobs and self-employment with higher quality. Policy options include broad investment climate reforms as well as targeted industrial policy. It can focus on specific industries with high growth potential, whether they are labor intensive or not, as employment effects can occur in downstream or upstream links, or on promising labor intensive industries. It can include giving firms increased access to finance, to skills development, new technology, etc.

- **Assist workers, especially the poor, in accessing productive employment opportunities,** by taking up better paid jobs or increasing the profits of their own firms and activities. Policy can aim at increasing the employability of workers, improving labor market intermediation, or provide credit to small firms, for example. It can also include work to improve the transfer and use of migrant remittances.

- **Raising productivity and earnings to create more productive employment** in activities and sectors that are currently low productivity activities, but where a majority of the poor will

\textsuperscript{17} IFC (2013), *IFC Jobs Study: Assessing Private Sector Contributions to Job Creation and Poverty Reduction*, January 2013, the International Finance Corporation, Washington, DC.

\textsuperscript{18} World Bank (2013a), *Beyond Job Creation*, unpublished draft
remain in the foreseeable future. For example, efforts to increase agricultural productivity by improving technology and moving from subsistence to more commercially oriented farming, or helping own account workers and micro firms access new skills, credit, and markets.

- **Strengthening safety nets** for those that will continue to face low and vulnerable incomes and to avoid that productive employment growth is damaged over time. Safety nets go beyond labor market policy and private sector development issues, but can, as discussed in Box 2, include work related activities. Apart from easing short term suffering, a broad and well-functioning safety net system that prevents people from falling into unemployment, inactivity, or facing severely reduced income on their jobs, can also be a key factor in promoting productive employment growth and employability over the medium term.

**Box 2: The Role of public employment in promoting productive employment**

While sustainable employment growth must come from the private sector, public employment schemes can nonetheless fill important and complementary functions.

- **Labor based public works** favour labour intensive technology to address infrastructure needs. These programs have a potential to provide a cost-effective means of strengthening infrastructure while providing temporary income opportunities cost effectively provide additional job opportunities. However, there is a potential tension between involving low skilled labour and technical qualities of the output.

- **Public works program with a strong safety net function**, including cash-for-work or food-for-work programs, can provide temporary income support for youth in need of employment and occupation, or can be deployed to counteract negative effects of both predictable fluctuations in employment (e.g. agricultural low season), or unforeseen labour market worsening due to economic crisis. When well-constructed these can combine vital income support for vulnerable groups with the build-up of community assets; as such, they indirectly support productive employment through the construction of public goods.

While potentially useful instruments as infrastructure and safety net functions, none of the above approaches provide long term employment, and participation in public works has not generally increased labour market success – the employability - of participants beyond the scheme’s duration. New avenues with a higher potential for increasing long term employability, coupling public works with skills development (e.g. “life skills” training) are now being tested.


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19 A number of recent initiatives, especially in fragile states, focus on enrolling youth in labour intensive public works or different youth service initiatives. Examples are recent interventions by the World Bank in the area of youth employment in Burkina Faso, Côte d’Ivoire, Kenya and Tunisia.

25. These policy areas clearly overlap: providing credit can help increase productivity of firms, possibly so much that they move across the barrier into “productive employment”; skills development strategies are part of overall business climate policy reforms. Each of these areas can moreover be focused on specific disadvantaged groups among the poor. The emphasis of different areas – strengthening literacy versus technical skills, for example - depends on country situation, binding constraints, and target groups.

2.2.3 Measuring effectiveness for interventions to support productive employment

26. Increasing emphasis is being placed on measuring results of donor support. In the vein of the approaches advocated by e.g. the Poverty Action Lab, more development actors are adopting a pilot approach with the purpose of launching smaller test interventions, evaluating, and scaling up or replicating successful approaches. Nonetheless, the recent global jobs crisis has resulted in a wave of rapid and often large-scale emergency interventions in fragile countries focusing on youth employment.

27. The evidence base of what works is still weak for several reasons. In the developing world, many initiatives that specifically measure jobs/earnings outcomes are still ongoing or just evaluated, and most existing in depth evaluations of active labour market programs are from OECD countries with limited applicability on developing country contexts. As discussed in the introduction, meta-evaluations of different policy areas are therefore difficult to find. Measuring not just immediate effects but the sustainability of employment and earnings in rapidly changing or fragile economic environments further requires measurement over long time horizons. Information on the effect on levels of productivity and earnings of different types of interventions is scant and many programs appear to remain output based, measuring jobs created, loans extended, or number of students receiving training.

28. As recognized by the IFC, more work is needed to quantify total jobs effects of private sector development initiatives; the impact on earnings has received even less attention. While there are attempts to evaluate the cost-per-job (direct and indirect) of different programs, there is to our knowledge no comprehensive review of the collected evidence on cost-effectiveness for initiatives leveraging the creation of productive employment, incorporating the earnings dimension, that can guide choices. A review of challenge funds matching grants initiatives nonetheless suggests that costs per jobs created can differ widely. The Donor Committee for Enterprise Development (DCED) has developed a useful results measurement standard that among others things identifies results chains both with respect direct/indirect outputs allowing for productivity and jobs effects

21 See http://www.povertyactionlab.org
22 A recent review of training programs in Sub-Saharan Africa found that with a few significant exceptions, programs were generally not evaluated even with tracer (follow-up) studies of employment impact but relied on anecdotal evidence (Adams and others, 2013).
23 IFC (2013)
24 Tanburn (2008), The 2008 reader on private sector development: measuring and reporting results, International Training Centre/IL0, Turin.
and with respect to tracking costs. While accepted as “best practice”, they are only beginning to be applied in programs (Box 3).25

**Box 3: The DCED Standard “At a Glance”.**

| 1. Articulating the Results Chain          |
| 2. Defining indicators of change          |
| 3. Measuring changes in indicators        |
| 4. Estimating attributable changes        |
| 5. Capturing wider changes in the system or market |
| 6. Tracking programme costs               |
| 7. Reporting results                      |
| 8. Managing the system for results measurement |

Source: DCED Website, http://www.enterprise-development.org/

29. There may also be practical challenges in quantifying the extent of productive employment as defined in section 2.1 in countries due to limited statistical capacity and availability. Alternative approaches to gauge employment quality, including looking at the occupational structure of employment, and average productivity levels in different sectors, may be needed. For program monitoring and evaluation, it may be impractical to focus on too strict a definition of productive employment that hinges on poverty data. An alternative is to consider baseline earnings levels among beneficiaries and measure changes in these earnings as a result of programs.

### 2.2.4 Interventions

30. Given the cross-cutting nature of employment on the one hand, and on the other the raised interest in productivity/earnings rather than work per se, donors are active in a range of programs that have a direct bearing on employment and productivity. The dominating modes of activity more directly related to employment cover both demand and supply side issues – sometimes in the same intervention – as well as job search constraints.

31. According to DAC, the most common programs with an employment focus include agricultural productivity programs and livelihood diversification in rural areas and private sector development in non-agricultural sectors (demand side), programs that increase access to productive assets for self-employment (demand/supply) and skills development programs (supply side).26

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26 Delponte (2009)
32. The World Bank’s Youth Employment Inventory, while somewhat outdated, identified direct job creation and skills training as the two main forms of support used to combat youth employment, with entrepreneurship support more limited. A more recent evaluation of youth employment programs in Africa undertaken by the ILO also suggested that most interventions were focused on employment creation and skills. Neither review specified what programs were favoured by donors, however. A key conclusion was that not enough programs included reliable evaluations and that program effect, as a result, may be exaggerated. The analysis found no evidence of cost effectiveness advantage from one specific category of programs over another, implying that an analysis of binding constraints in each country is the most obvious starting point. It also found that specific groups can as easily – if not more – be reached by specific windows and targeting approaches in more general programs. Other reviews also suggest that targeting effective participation of vulnerable groups in general programs may be more effective than quotas or special programs.

33. In what follows, we use as a basis of the most critical constraints and the broad policy agenda to identify highlight important interventions that theoretically correspond to the constraints, and where donors are present. A premise is that opportunities for productive employment can arise both from hiring into more productive jobs, and from more productive self-employment. In principle, donors can choose to support any of the broad policy areas through any of the specific interventions, using different mechanisms (to be discussed in section 2.3). In view of the information constraints discussed above and the limited format of the report, the review draws on available evidence of program effectiveness and provides examples of donor approaches where applicable and in areas where donors are more active. Unsurprisingly, an overall conclusion is that no single approach works everywhere.

34. The clustering of interventions below is moreover not absolute. Community development approaches (e.g. BRAC, Hand-in-Hand) incorporate elements across clusters, e.g. training and finance; providing beneficiaries with information on returns to skills and occupations addresses both a skills and a job search constraint.

Stimulating labour demand in firms, sectors and occupations that offer more productive employment

35. Private sector development and growth is a necessary, if not sufficient, requirement for more productive employment opportunities for the poor, since labour demand should stem from there.

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27 Betcherman, Godfrey; Puerto; Rother; and Stavreska (2007), “Global Inventory of Interventions to Support Young Workers: Synthesis Report.” Social Protection Discussion Paper 0715, the World Bank, Washington, DC.
30 In addition to raising productivity and earnings, donor efforts can focus on improving other aspects of the quality of labour markets and employment, including safe and non-discriminatory working environments and functioning labour relations. Donors can also assist partner governments and other stakeholders in their capacity to undertake employment diagnostics, to device job strategies, and mainstream employment as a development goal. These forms of support, while important, are not reviewed here.
Support to private sector development (PSD) is a vast area spanning interventions to develop new market opportunities, improve business conditions, increase access to finance, capacity building, and more, focusing on raising the productivity and competitiveness of firms. A comprehensive review of the evidence of effectiveness of support to market development has been prepared for Sida.  

Among member agencies in the DCED, priority areas in PSD include: strengthening the business environment, making markets work for the poor including in particular value chain approaches, and supporting micro, small and medium sized enterprises. Moreover, more emphasis is being placed on business-to-business and public-private partnerships.

There is also a growing recognition of the trade-off involved in supporting e.g. sectors and value chains, and avoiding interventionist approaches and market distortions. A general difficulty of evaluating impact, let alone earnings and employment impact, is the lack of rigorous and independent evaluations, the difficulties of attributing systemic changes to specific interventions, and the practical difficulties of involving private business in monitoring and evaluation.

A few key areas with relevance for this report are discussed below.

Strengthening the business environment is at the forefront of the development policy dialogue. Business environments are identified as one of the fundamental building blocks of job creation, and are a central area for donor intervention in many countries. Nonetheless, while employment has been a priority objective of both development policy and interventions, in practice, employment issues have not been mainstreamed and appropriate indicators have been lacking. Although labour regulations are part of the business environment and have direct implications for decent work, they are rarely at the top of the agenda (Box 3). Importantly, sectors that are a significant source of employment, including the informal sector, have been overlooked in PSD agenda which tends to focus on the formal sector. Inclusive approaches focusing on the reality of small informal firms – including, but not limited to efforts to further formalization - are likely to be better at fostering employment opportunities for the poor.

Although a functioning business climate a necessary condition for job creation, it is however not sufficient and in practice, identifying priorities may be difficult especially where political economy constraints are binding, while at the same time it is critical to avoid piecemeal reforms. Experience from Sub-Saharan countries suggested that business environment reform (BER) programs require (i) country coordination – with government strategies, with the business community, and with other donors – at an early stage, (ii) deepened reforms in subsequent stages

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32 DCED website
34 World Bank (2012)
35 Delaponte (2009), DCED website
37 Zinnes (2009), Business environment reforms and the informal economy, DCED Discussion paper, December 2009
beyond “quick wins” (iii) anchoring reforms, through savvy use of media and involvement of key stakeholders and capacity building, and that there is need for (iv) results measurement streamlining and improvements.39 The limited evidence on impact on employment appears ambiguous: improvements in procedures in business registration, tax simplification, etc. have been shown to facilitate the creation of firms, but has not improved survival. Moreover, the quality (especially earnings) of jobs produced through these new firms has not been measured.40

Box 4: Labor regulations and business-friendly environments – is there a trade off?

BERs can of course include reforms of labour regulations. Although these focus on workers’ rights, their aggregate impact on decent work has been disputed. The debate is centred around the relative importance of rights and conditions of workers versus the potential negative effects on competitiveness, business development and labour market flows of overly strict regulations which make it costly to hire workers.

More specifically, highly protective labour legislation in developing countries that makes hiring and firing difficult and raises the cost of labour risk favouring insiders – those with a secure job in the formal and often public sector – at the expense of more vulnerable groups - those unemployed or informally employed, and especially women and youth. Strengthening already strict labour market regulations could thus increase employment in the informal sector as firms (and the self-employed) avoid labour related costs, over and above wages. Social protection systems that protect workers from income losses e.g. through unemployment or health insurances, rather than protecting jobs through strict labour regulations, may have a better chance of increasing labour market flows and make them more inclusive, without lowering worker welfare.

Both the supposed negative and positive impact of in particular employment protection legislation (EPL) on employment may be exaggerated, however: Evaluations show contradictory results, partly due to poor coverage and weak enforcement in countries with large informal sectors. EPL reforms towards relaxing regulations are rarely a top agenda component of BERs and as an example; the EPL section of the World Bank’s Doing Business Indicators has been removed. As mentioned, employment protection legislation (EPL) is however a significant building block of the decent work agenda and as such linked to productive employment, and initiatives like the IFC-ILO Better Work program focus on improving overall working conditions.

Source: Authors, World Bank (2012).

41. Market development for sectors, industries, and value chains. More productive and competitive economic sectors, whether agricultural or non-agricultural, offer a basis for more jobs, higher wages and entrepreneurial returns. Donors have been promoting competitiveness in agricultural and non-agricultural sectors, for example through value chain development for agricultural commodities, SME involvement in global markets, or local economic development/clusters. The M4P approach, in this vein, aims to catalyse systemic changes that make

40 IFC(2013).
markets work better for the poor. We will discuss the characteristics of M4P as an implementation mechanism later in this report.

42. There can be a strong pro-poor logic behind these interventions, and it is an area with potential for spurring innovation, for example in technology that provide low cost solutions e.g. to provide market relevant information for smaller firms and producers or to increase financial inclusion. The limited available evidence suggests that business development interventions can benefit participants and promote systemic changes towards higher productivity and competitiveness. Nonetheless, in the case of value chains, donor programs have historically been biased towards global value chains and have tended to fail to include more vulnerable target groups, especially for exports markets, even when this has been a specific objective.\(^{41}\) There is thus limited evidence of whether unproductive employment has or can be transformed into productive employment\(^{42}\), and employment effects are only now beginning to be included as a measurable objective.

43. Support for micro- and small and medium enterprises (MSME). MSMEs provide the lion share of jobs for lower income individuals and families in many developing countries. The recognition that own-account workers and employers in this segment often lack sufficient business management training and that lack of access to finance constrain their growth has led to a plethora of SME financing and microfinance schemes as well as business development services for these segments. As mentioned, it is an area where donors can try to stimulate organizational, technological and other forms of innovation in market access and assist in the scaling up of approaches that have been shown to work well.

44. Within this area, limited access to finance is a major obstacle to business development by firms in both low and middle income countries, and as such a potential damper on labour demand. At an aggregate level, there is an established link between financial development and economic growth, and a positive effect on poverty reduction, although little research has focused on the direct impact on employment and earnings. Direct interventions such as government lending programs for SME have, with some exception, not shown to strong positive effects. More promising avenues to support access to finance include a stronger focus on the causes of market failures, for example reducing transaction costs through technology advances (mobile, biometric), or stimulating the development of innovative business models that require less collateral and reduce credit processing times. So called “matching grants” programs and business plan competitions could theoretically help promote innovation, productivity and employment growth. Evaluations of business plan competitions are still pending, however. A Matching Grant program to finance business development services met with success in increasing both productivity and employment in Mexico. However, when extended to a set of African countries, not enough applications were received to continue the program, pointing to the significant variation in binding constraints for firms in each country context.

\(^{41}\) Altenburg (2007), Sida/Orgut (2013)
\(^{42}\) Sida/Orgut (2013)
45. Microfinance schemes are not appropriate for supporting so called “gazelles” that can provide rapid productivity growth over a sustained period, but can potentially increase financial inclusion and support more productive self-employment and household level enterprises. Notwithstanding the popularity of micro credit schemes, there is no conclusive evidence of their impact on earnings. The large variety in objectives, approaches, target groups, and settings complicates evaluations and there is conflicting evidence on the benefits of targeting women versus men, or existing business versus potential entrepreneurs. There is some indication that financial services that encourage savings in microfirms have a more positive impact than credit, and also that finance coupled with comprehensive entrepreneurship programs are more effective (see below). A pilot intervention in Uganda that focused on encouraging youth to apply for cash grants for business ideas to support training and purchasing productive assets showed with significant success in terms of increasing productivity of self-employment. The grant approach also required fewer resources for management and monitoring than micro credit schemes in general do (Box 5).

**Box 5: Uganda’s Youth Opportunities Program (YOP)**

<table>
<thead>
<tr>
<th>The Youth Opportunities Program (YOP) is a government program in Northern Uganda’s conflict affected areas designed to help poor and unemployed adults become self-employed. The program targets youth aged 16-35, inviting them to form village groups and submit grant proposals to pay for vocational training and business start-up. Evaluations have shown the programs to meet with significant success: Beneficiaries invested cash in business opportunities, upgraded their skills, increased their non-agricultural work, and their earnings. It identified a strong interest in training, showing that resource constraints are significant both in upgrading skills and in acquiring productive assets. Beneficiaries invested some of the grant in training but most in tools and materials. After four years half practiced a skilled trade and relative to the control group, the program increases business assets by 57%, hours of work by 17%, and earnings by 38%. There was also some evidence that they grew to become employers, increasing further the employment effect of the program.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: Blattman, Fiala, and Martinez (2013), “Generating Skilled Self-Employment in Developing Countries: Experimental Evidence from Uganda”.</td>
</tr>
</tbody>
</table>

46. Wage subsidies for specific groups are active labour market programs (ALMPs) that are intended to increase labour demand for vulnerable workers. These have been shown to have a potential positive impact in removing barriers to labour demand in cases of employer discrimination or information asymmetries, but it is not clear how much they replace normal

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43 Nichter and Goldmark (2009), "Small Firm Growth in Developing Countries", *World Development* 37(9), 1453-1464.
44 Microfinance includes credit, savings and insurance instruments. We focus here on micro credit for enterprise establishment and growth rather than on broader financial inclusion.
45 World Bank (2013b)
46 Cunningham and others (2010)
hiring and thus add to aggregate employment creation, what the long term labour market impact is, or how cost effective they are. In a context of overall slow job growth or poor investment climates, they are likely to be ineffective in the long run. They are nonetheless a popular approach for dealing with high unemployment among educated youth in recent emergency employment programs.

**Assisting workers in improving employability and accessing more productive employment or business opportunities**

47. A majority of ALMPs appear directed to the labour supply side, by increasing the employability of workers and/or their ability to increase the productivity of their own enterprises. Increasing job relevant skills have been a significant mode of active labour market programs and of donor interventions. While active in supporting broad education reforms, donors are now stepping up interest in promoting vocational training and skills development with direct relevance for labour markets. In the area of skills for employability, donors are supporting the reform of public vocational training or rolling out non formal skills development programs, but also increasingly soliciting private supply of training against outcomes, using e.g. voucher systems that allow beneficiaries to identify their preferred training institution.

48. **Basic education and second chance programs.** Basic literacy, numeracy, and cognitive skills are necessary both to function in basic occupations, and to acquire more advanced skills. The potential of technical skills development programs is often held back by the low basic skills and limited acquaintance with learning environments. It follows that strengthening access to basic education remains a priority for employment. In combination with a strengthening of the supply side of education, there is now a wave of demand side stimulus for example through conditional cash transfers. For “over age” target groups, second chance programs can provide opportunities for upgrading basic skills. The limited evidence available, mainly from Latin America, suggests that second chance programs have seen some success in increasing employment and earnings, more so for women than for men, but are an expensive form of intervention compared to strengthening education earlier on in life; they are also less effective in countries with inflexible labour markets.

49. **Comprehensive employability training programs** aim to increase the employability of workers. Most have focused on youth, often with some level of education, with less emphasis on potential technical skills mismatches among older workers. Programs focus on developing workplace skills and technical skills in demand and providing links (e.g. internships or wage subsidies) with the private sector. These programs exist in most of the developing regions and have been integral to youth employment projects launched in recent years. As with wage subsidies, these programs rarely integrate low income groups because they focus on more educated youth, and they can only be effective in higher economic/job growth settings. Comprehensive training programs in Latin America show positive results in terms of employability, especially for women.

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47 Betcherman and others (2007)
49 Betcherman and others (2007, 2004)
50 Cunningham and others (2010)
and youth, but less clear results for productive employment as measured in earnings. These programs were also found to be fairly cost effective.  

50. **Information on value of education and skills.** Youth or other groups that are further away from labour markets often lack information about what occupations, sectors and technical skills pay off best. Providing this information – given that other constraints are not binding – can be a low cost but effective approach to increasing the chances of moving into skills and occupations with higher income potential (Box 6).  

**Box 6: The Technical and Vocational Vouchers Program (TVVP) in Kenya**

The Technical and Vocational Vouchers Program (TVVP) was launched in Kenya in 2008. Out-of-school youth were invited to apply for vouchers for vocational education tuition, including from private training providers. A randomly selected half of applicants were given vouchers. Survey evidence prior to the intervention had shown that potential participants lacked information about earnings potentials of different trades, and that there was a very strong gender dimension in choices. As a result, half of participants in both treatment and control groups were given information on average earnings in different occupations and, for girls/women, the potential earnings gain from crossing the gender occupational barrier. The evaluation showed convincingly that credit constraints are a significant barrier to acquiring training, as the take up was significantly higher among voucher beneficiaries. It also showed some evidence of women choosing less women-oriented trades as a result of information, of significant benefits of training in terms of labour market outcomes, and of the potential to stimulate private supply of training by increasing demand.  


51. **Comprehensive entrepreneurship programs** focus on training potential or actual entrepreneurs. Many business development services focus on multi-skill training (marketing, book keeping, financial literacy etc.) for potential business owners. These programs may or may not be linked to access to finance. Comprehensive entrepreneurship programs address the multi skilling needs together with mentoring, technical assistance, and micro-credit and insurance. As in the case of microfinance, the evidence of what types of interventions work and have the highest pay-offs in terms of earnings is limited and mixed, however, and “achieved results” is sometimes limited to perceived benefits of training or improved business practices (e.g. accounting) which may or may not result in verifiable increases in earnings. Although the Youth Employment Inventory suggested these programs have had some positive labour market impact, success rates are lower once cost effectiveness is taken into account.  

52 A review of programs for the informal sector in Sub-Saharan

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52 Cunningham and others (2010)

53 Betcheraman and others (2007)
African found that a majority of programs were directed to unemployed or inactive beneficiaries, rather than those already working as self-employed.  

52. When reaching out to informal sector or low income segments include flexibility in delivery (allowing for other work and household duties), flexibility in modes of payment, training on a broad set of skills, and advocacy on the importance of training and education. An example of this approach includes the Adolescent Girls Initiative in Liberia, which met with significant success in terms of increases in earnings and labour market opportunities for participants; a parallel program on entrepreneurship training in Liberia lacking these characteristics failed. The successful outcomes of the Uganda Youth Opportunities Program intervention discussed above (see box 5) shows that youth may not be able to afford the cost of acquiring different skills and that relieving cash constraints can promote training and access to better paid work. Overall, there is no conclusive evidence of whether business training has a higher pay-off for existing entrepreneurs than for prospective ones.

53. With caution, given the very diverse set of mechanisms, target groups and evaluation techniques concerned, and a lack of cost effectiveness analysis, a tentative conclusion is that comprehensive programs coupled with some form of finance work best, as MSMEs, especially smaller firms in the informal sector face a multitude of constraints. More importance may need to be given to those already self-employed in need of skills upgrading.

**Job search constraints and mismatches.**

54. Job search constraints can be relevant in economies where wage employment is significant and in circumstance where there is some growth in labour demand. Nonetheless, more or less developed employment intermediation services exist also in low income countries, but with a very limited outreach. Donors have supported programs to improve the functioning of those services, or help them reach more disadvantaged groups. These services can be more effective when addressing particularly excluded groups with little access to informal networks for employment, and when informal firms are included in the employer registries.

55. Trade certification systems provide workers lacking certificates from formal training institutions with alternative ways of proving their skills. Unlike in the case of employment services, these systems may have a particularly strong bearing in low income countries with large informal modes of skills development, including above all traditional apprenticeships. Although these programs in theory could resolve important information problems, there is not yet evidence on their impact for employment or earnings.

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54 Adams and others (2013)
55 Adams and others (2013)
57 Sida/Orgut (2013); Johansson de Silva and others (2013)
58 Cunningham and others (2010).
59 Almeida and others (2012)
2.3 Mechanisms for implementing and financing support to productive employment

56. After a brief initial review of “traditional” mechanisms, we will focus on some innovative approaches which may be of special interest for the promotion of productive employment.

2.3.1 “Traditional” mechanisms

57. Given the broad nature of the concept “productive employment”, it is not surprising that we may find examples among employment-related interventions of most major implementing and financing mechanisms. As a point of departure, Table 1 provides a basic typology with examples of major “types of aid” and “types of finance” in development cooperation. The table is derived from OECD/DAC’s reporting guidelines.\textsuperscript{60}

\textsuperscript{60} DCD/DAC (2011), Working party on Statistics: Guidelines for Reporting in CRS++ Format, OECD, Paris. It should be noted that the Table presents a selection of types of aid and finance that we regard to be the most relevant for the purpose of this report.
Table 1: Aid/Finance typology in bilateral development cooperation.

<table>
<thead>
<tr>
<th>A: Major “types of aid”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget support: (i) general budget support, (ii) sector budget support</td>
</tr>
<tr>
<td>Core contributions and pooled programs and funds: (i) core support to NGOs, PPPs and research institutes, (ii) core contributions to multilateral institutions, (iii) contributions to specific-purpose programs and funds (iv) basket funds/pooled funds</td>
</tr>
<tr>
<td>Project-type interventions</td>
</tr>
<tr>
<td>Experts and other types of technical assistance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. Major “types of finance”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
</tr>
<tr>
<td>Loans</td>
</tr>
<tr>
<td>Equity</td>
</tr>
</tbody>
</table>
| (Guarantees)  

Source: Authors, based on OECD/DAC’s reporting guidelines.

Types of aid

58. Although most interventions financed by sector budget support may contribute to creating suitable conditions for productive employment, e.g. by expanding public education and health services, it is hard to find examples of interventions which refer to employment as a specific objective. This is probably explained by the fact that sector budget support has primarily been used for transfer of aid resources to traditional public sectors.

59. One exception is agriculture, where there are a number of examples of programs applying sector-based approaches, in spite of the fact that agriculture is a sector where private sector actors are heavily involved. Although agricultural programs to our knowledge rarely include explicit reference to employment, it may be claimed that by focusing on increasing incomes of poor

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61 Guarantees are not mentioned in DACs Reporting Guidelines as these do not (initially) lead to any flow of funds. As Sida uses a guarantee instrument for financing of projects, it is included among the “types of finance” in the table.

62 Nor has employment been included as a thematic area for general budget support and conditionality for the European Commission in past or present strategies. An exception is a recent World Bank Development Policy Loan to Tunisia with direct program objectives related to improving labour market outcomes.

63 These programs have applied a number of different funding modalities, but according to ODI there has been a progression towards sector-budget support.
farmers, these programs share important dimensions with programs directly focused on productive employment.

60. According to a study by the Overseas Development Institute - ODI in 2009, the performance of sector-based approaches in agriculture is, at best, mixed. ODI still found that “the fundamentals of sector-based approaches remain valid to the agricultural sectors” and “time may be right to reinvigorate the whole approach”. The example of agriculture demonstrates that sector budget support may be successfully applied also in a sector where the private sector plays a key role. Given the cross-cutting nature of productive employment, we still find that sector budget support (and sector wide approaches) does not appear to be of great interest as a future mechanism for implementing employment-related interventions.

61. There are a number of interesting examples of cases where core contributions to e.g. NGOs or contributions to specific-purpose programs have been applied in the promotion of productive employment. One example is Sida’s support to the NGO WIEGO (“Women in Informal Employment: Globalizing and Organizing”, www.wiego.org), a global action-policy-research network that seeks to improve the status of the working poor in the informal economy. Another is Sida’s large-scale support since decades to Swedish labour unions cooperating with “sister” unions in developing countries. These examples demonstrate the important role that cooperation with civil society may play in supporting productive employment.

62. Project support and free-standing technical assistance are classic mechanisms for providing support to policy and capacity development in the public sector. Given the strong emphasis on “aid effectiveness” within the frame of the Paris/Accra agenda of action, there has been a trend during the past decade to move away from these classic mechanisms for supporting the public sector. Given the purpose of this paper, we have chosen in this context not to elaborate further on the pros and cons of these classic support mechanisms.

Types of finance

63. In parallel with grants which are the dominant type of finance, Sida has since many years given priority to the development of guarantee mechanisms and successfully demonstrated their potential to leverage private flows of capital. A few years ago a development loan and guarantee instrument was introduced while some previously used credit instruments were phased out. The development loans are primarily used for financing infrastructure and environmental projects. Of special interest from the point of view of productive employment is the use of Sida guarantees for SME finance within the frame of the collaboration between Sida and USAID, e.g. in Bosnia-Herzegovina. Such guarantees could be combined with other types of interventions within broader program for productive employment.

64 ODI (2010), Sector-based approaches in agriculture, Briefing Paper 58
2.3.2 “New” mechanisms

64. After this brief overview of some traditional mechanisms, this sub-section will highlight five different mechanisms (approaches) applicable to interventions aimed at having a direct and sustained impact on productive employment. Although at least some of these mechanisms have been applied in the past, they may still be described as “new”, given the efforts by many donors during the last decade to further develop and expand their application. One of the main reasons behind this development is that donors have seen these mechanisms as useful tools to stimulate competition and innovation and leverage competencies and resources from non-government actors, i.e. actors in the private sector and in civil society. Each of the five mechanisms will be analysed with regard to their potential to generate productive employment by involving private sector and civil society and by developing various kinds of partnerships between such actors and the public sector.

65. It is important to observe that the different mechanisms described below are not mutually exclusive; on the contrary they lend themselves to interesting combinations.

Public Private Development Partnerships (PPDPs)

66. The last decade has seen a strong increase in the interest in both donor and business communities for developing various kinds of public-private partnerships for development purpose. Most donor agencies have today established one or several mechanisms of this kind. A useful summary of mechanisms for partnering with the private sector and current experiences has recently been published by the Donor Committee for Enterprise Development (DCED). As described by the DCED there is a broad spectrum of options for designing PPDPs. A central element in PPDPs is “the sharing of costs, risks and other resources in ventures with both commercial and developmental benefit”.

67. The view on the role of private businesses in development has changed considerably from the early 2000s when the focus was primarily on corporate philanthropy. Since then a “core business approach” to enhancing the development impact has gradually evolved. Today it is widely recognized that businesses can have a much larger development impact by adapting their core business practice, than through philanthropy alone. A lot of interest has been devoted to supply chains, but there are also many other ways to enhance the development impact of business models.

68. In parallel with these development, the mutual suspicion that once existed between NGO’s and companies has at least partly been replaced with recognition of the value they bring and vice versa. NGOs are also increasingly being engaged in PPDPs.

67 also described as an “inclusive business approach”
68 Ashley (2009), Harnessing core business for development impact, ODI Background Note
69 Ashley (2009)
70 One example is USAID’s support to “Global Development Alliances” (GDAs), which involves both actors in the private sector and civil society.
The Sida-supported “Market Transformation Initiative” is an interesting example of an intervention based on a partnership involving civil society. It is aimed at achieving large scale development impact by making supply chains more socially and environmentally sustainable. This PPDP is based on partnerships between major companies and the WWF.

In the large body of existing PPDPs there are many examples of partnerships with broad relevance to productive employment perspective. Although proper evaluations are scarce, there is a lot of anecdotal evidence of initiatives that lead to improvements in the quality of jobs as well as in the generation of new productive jobs.

At the same time it is not quite easy to identify examples of PPDPs with a more direct focus on the promotion of productive employment. One such example, however, is the Sida Academy for Training in Iraq; a partnership between Scania, Sida and UNIDO which offers young Iraqis support in building their skills and finding employment.

In order to assess the suitability of PPDPs as a mechanism for Swedish embassies to implement productive employment interventions in partner countries, it is necessary to consider what kind of processes that result in successful partnerships. Our general impression is that successful PPDPs are often not the result of “blueprint”-type of action plans, but rather the outcome of incidental meetings between actors with innovative ideas. Given the right environment, such ideas may be developed into concrete action, but the process is usually long and winding. For this reason, there seems to be some challenges involved in applying PPDPs as regular components in country programs.

At the same time there are also examples of market-development programs which to considerable extent are implemented through a variety of partnerships with local actors in the private sector and civil society. One such example is the Financial Sector Deepening (FSD) Program in Kenya (www.fsdkenya.org) which has established itself as a well-respected, knowledgeable and innovative broker of contacts between different actors in the financial sector in Kenya.

Challenge Funds (CF)

Challenge Funds have become increasingly popular in the donor community during the last decade. Sida has recently published a set of Guidelines for CFs in which a CF is described as a “financing mechanism to allocate (donor) funds using competition among organizations as the lead principle”. CFs are always set up to meet specific objectives. They have the potential to stimulate innovative solutions to development challenges in a many different areas. Most current CFs have been set up to engage actors in the private sector, but there are also examples of CFs targeting NGOs.

71 Heinrich (2013)
72 Sida, Guidelines Challenge Funds: A guide based on Sida’s and other actors’ work using Challenge Funds in development cooperation/as a method for development, (publication year not indicated).
73 Although the CF terminology is new, the similar models have been used for many years in e.g. research and culture where application programs invite organizations to compete for contributions. One interesting recent example in the field of productive employment is a call for proposals by the Netherlands Association for Scientific Research (NWO). Research consortia composed of Dutch and African partners are being invited to “apply for funding for joint, interdisciplinary research and knowledge sharing projects on Productive Employment”.

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We are aware of only one CF which is explicitly focused on productive employment in a developing country context, namely the “Responsible and Accountable Garment Sector Fund”. This Fund was set up by DFID in 2008 in order to support projects aimed at improving conditions for workers in the garment sectors. At the same time there are many examples of CFs providing support to private companies for innovation in products and markets of clear relevance to productive employment. One such example is the Africa Enterprise Challenge Fund (AECF) – one of the largest CFs - which was initially focused on innovation in agricultural markets in Africa. Other examples include the ILO’s CoopAfrica, which supports innovative ventures, training and services development for cooperatives in Africa, including entrepreneurship training and microfinance initiatives.

Sida’s CF Guidelines highlights the need to establish the systemic impact as well as the additionality of CF support. This applies both to selection processes and to the monitoring of implementation of awarded contributions. This means that a donor contributions must have an impact not only on the company receiving the support but also on the wider market, and that such changes should not have taken place anyway.

This also raises important issues related to the measurement of the impact of support through CFs and PPDPs. There is a useful discussion on these issues in a recent DCED publication which points out that “despite the significant funding provided to challenge funds, there is currently little evidence to show whether they achieve the anticipated development impact” and that “there is little consensus on whether challenge funds are an effective mechanism for facilitating systemic change”.

In spite of the lack of solid evaluations of the impact of CF mechanisms, we still find that CFs offer an interesting potential in the field of support to productive employment. Given the flexibility of CFs for application to different objectives, sub-sectors and regions/countries, CFs appear to be well suited for stimulating new ideas and innovation regarding productive employment in a country context. At the same time it is important to be aware of the potential conflict between, on one hand, supporting innovation and piloting of new ideas and, on the other, the need to provide support longer-term capacity building.

In developed economies other examples can be found, e.g. the U.S. Department of Labor “Workforce Innovation Fund”.

It should be noted that the discussion on systemic impact and additionality in this paragraph is also applicable to PPDPs.

A number of examples of challenges related to systemic impact and additionality can be found in the mid-term evaluation of the Australian Enterprise Challenge Fund (ECF). See Elliot and others (2009), Enterprise Challenge Fund, Springfield Institute.

Kessler (2013), Measuring Results in Challenge Funds, Practical Guidelines for Implementing the DCED Standard, DCED

Critique against the CF mechanism has e.g. been expressed in Elliot (2013), Exploring the Myth of Challenge Funds – a start at least …, Springfield Centre

Reference is made to an interesting ODI study on modalities used by Global Funds in which it is stated that “Challenge funds have shown themselves to be well suited to encouraging innovation and piloting and should be used for that purpose. This approach should be avoided in new funds and modified in existing ones when the objective is longer-term support for scaling up country programs. They are particularly poorly suited to activities that lead to large, let alone growing, recurrent costs.” Isenman, Wathne, and Baudienville, (2010), Global Funds: Allocation strategies and Aid Effectiveness, ODI.
Another important aspect to consider is that the process to set up a CF may be quite lengthy and require specialized knowledge and capacity leading to sizeable transaction costs. For this reason, it is interesting to note that at least the AECF has been prepared to open new windows for donors interested in setting up new targeted CFs in African country contexts. To draw upon an existing CF in this way is one way to lower transaction costs and capacity requirements.

**Market-based approaches**

80. While systemic impact and additionality are important issues to consider when assessing and monitoring PPDP- and CF-support, they are actually at the core of market-based approaches. The best known market approach is the “Making Markets Work for the Poor” (M4P) approach which is based on four main principles: (i) systemic change, (ii) sustainability, (iii) large-scale, and (iv) facilitation. A main distinction between M4P and the previously described PPDP and CF mechanisms is that M4P takes as its starting point to analyse the functioning of the specific market. This analysis enables the program to direct its intervention towards the main constraints to making this market work (better) for the poor. It is important to note that M4P programs in their implementation to large extent draw upon both partnership and challenge fund mechanisms.

81. During the last five years Sida has strongly promoted the M4P approach and supported the implementation of several successful M4P projects (e.g. a radio-market project in Uganda, a financial sector deepening project in Kenya, and a local economic development project in Sri Lanka). At the same time, it is obvious that also M4P projects involve considerable challenges related to results monitoring and evaluation.

82. Like with PPDPs and CFs, M4P projects are rarely explicitly focused on productive employment. It is however quite obvious that the objectives of most M4P projects to considerable extent are in line with productive employment objectives. As an example it was reported that the agricultural marketing project Katalyst in Bangladesh (partly Sida-financed) generated almost 200,000 jobs and increased the income of 700,000 farmers by at least $729 million during 2004-2008.

83. While M4P would appear to be a highly attractive mechanism to support productive employment, it must at the same time be recognized that there are substantial challenges and considerable transaction costs involved in the setting-up of an M4P project. Sida’s recent experience from the process of initiating a M4P project in the agricultural sector in Liberia may provide useful lessons. This project is being implemented through a contract with a consulting firm, an arrangement which puts substantial responsibility on Sida also for the continuous monitoring of the project implementation.

84. A different solution was chosen by DfID in 2005 for the implementation of the Financial Sector Deepening Program (FSD) Kenya where DfID established an independent Trust, i.e. a new legal body, under Kenyan Trust Legislation. The complexities and transaction costs involved in initiating and monitoring such arrangements are well-known. In other cases, implementation has

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80 In-depth description and analysis of the M4P approach is found on DCED’s web page “Making markets Work for the Poor” [http://www.enterprise-development.org/page/m4p](http://www.enterprise-development.org/page/m4p)

81 See e.g. Ruffer and Wach (2013), Review of M4P Evaluation Methods and Approaches, ITAD and UKAID

82 DCED web-site, [www.enterprise-development.org/page/stories](http://www.enterprise-development.org/page/stories)
been carried out by multilaterals like the ILO, bilaterals like GIZ or NGOs like e.g. Swisscontact. While this means that the demand on Sida’s own administrative resources are considerably reduced, such co-financing arrangements do not mean that complexities and transaction costs disappear, just that they are put on another agency’s shoulders (and probably part-financed by Sida as project costs).

Results Based Mechanisms

85. In parallel with the priority given to the “results agenda” by major donor countries during recent years, there has been a growing interest in financing mechanisms where payment is directly related to results. Several new such mechanisms have been introduced, but there is still limited empiric evidence regarding the outcomes and efficiency of these mechanisms. There has also been considerable debate on the relevance of results based mechanisms in development cooperation. 

86. DFID has proposed terminology and definitions for result based mechanisms based on two main options:

- **Results Based Aid (RBA)**, which is an aid partnership between a donor and a partner government where disbursement is tied to results. Examples of RBA include the Cash-On-Delivery (COD) mechanism, the EC variable-trenches budget support mechanism and modalities used by global funds in the health sector.

- **Results Based Finance (RBF)**, which like RBA ties payments to results, but unlike RBA is a mechanism based on contracts with service providers or on incentive schemes for service beneficiaries (and consequently not an aid relationship with a donor). One example is the output-based aid (OBA) mechanism promoted by the Global Program for Output-Based Aid (www.gpoba.org). Although there are exceptions, OBA has primarily been used for infrastructure finance. In parallel with OBA, there are many other examples of RBF-types of schemes especially within the health sector in developing as well as in developed economies.

87. As described above, RBA and RBF mechanisms have to large extent been used to finance service provision in traditional public sectors like health and infrastructure. There are to our knowledge fewer RBF mechanisms in the area of vocational training. One example is Helvetas’ F-Skills project in Nepal. Private trainers receive payment only upon youth trained and gainfully employed or self-employed for a minimum of six months.

88. When assessing the potential of RBA and RBF mechanisms for promoting productive employment, it seems important to consider the way that private sector actors are engaged in such schemes. Although both RBA and RBF give partner governments possibilities to involve private

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83 An overview of results-based mechanisms and the debate regarding these mechanisms was prepared for Sida’s IINOBIS Task Team in 2011: Söderbäck (2011), *Bistånd till resultat – en översikt över utvecklingen av resultatincitament inom biståndet*, Working Paper.

84 It is also interesting to observe the parallels between the debate on result based mechanisms in development cooperation, and the ongoing debate on similar mechanisms in the social sectors in Sweden.

85 Pearson (2011), *Results based aid and results based financing: What are they? Have they delivered results?*, HLSP Institute

companies (and/or NGOs) in service provision, it does not appear that these mechanisms per se are well suited to support private sector innovation and investment, i.e. important dimensions of support to productive employment. However, as described below, there may be interesting combinations between results based mechanisms and emerging mechanisms for innovative finance.

**Innovative financing**

89. Innovative finance encompasses a broad spectrum of development finance mechanisms and may involve anything from new types of revenue raising schemes to guarantees that give incentives to research on new vaccines. The World Bank/OECD has proposed the following definition: “Innovative financing involves non-traditional applications of solidarity, PPPs, and catalytic mechanisms that (i) support fundraising by tapping new sources and engaging investors beyond the financial dimension of transactions, as partners and stakeholders in development; or (ii) deliver financial solutions to development problems on the ground.” 87 As it is not possible in this paper to give an overview of all interesting applications of innovative finance, we will limit this section to a brief description of a few financing mechanisms which may be of special interest to Sida’s toolbox for supporting productive employment.

90. As earlier mentioned, guarantees offer interesting opportunities to promote private sector investment with positive impact on productive employment. Given its strong potential in the field of guarantees, Sida has a good position to leverage private flows of capital to productive employment. Sida’s cooperation with USAID offers interesting opportunities to draw upon USAID’s extensive experience and capacity to manage the technical complexities and lower the transaction costs in connection with the provision of guarantees to e.g. SMEs. Guarantees are probably best applied as a financing mechanism forming part of a program based on some other type of implementation mechanism.

91. Although not explicitly referred to in OECD’s brief on innovative finance, impact investment is a potentially powerful new field with interesting potentials to bring new ideas and new sources of capital to tackle development problems. 88 There is no agreed definition of impact investment, but in general terms it may be described as an instrument that combines a demand for financial return with expectations regarding the developmental impact of the investment. There are various ways through which donor agencies could facilitate impact investment. One example is microfinance where impact investors drew upon the models and experiences that had been developed during many years of support from donor agencies. Impact investment mechanisms appear to be well suited to supporting productive employment.

92. An interesting mechanism with links both to impact investment and to result based finance is the Development Impact Bond (DIB). This new mechanism was recently proposed by a working group formed by the Centre for global Development. 89 The idea behind DIBs is that some of the

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87 Sandor, Scott and Benn (2009), *Innovative financing to fund development: progress and prospects*, DCD Issues Brief, OECD


financial risk and needs for up-front capital that hinder partner governments from implementing RBA/RBF schemes, could be transferred to external investors (who may draw on impact investment sources).

93. The format of this paper does not allow for any detailed discussion on the proposed DIB mechanism. However, it is interesting to note the DIBs have similar features as Social Impact Bonds which have been applied in developed economies for social investments including investments in workforce development and youth services.

94. While the DIB mechanism appears to have better potential in the field of productive employment than the previously described results based (RBA/RBF) mechanisms, it must be emphasized that DIB is just about to reach the pilot stage. This means that it will probably take time until the DIB mechanism will be launched as a model suitable for practical application in partner countries.

95. In the following section we are going to sum up our assessment of the relevance and potential for productive employment of the various innovative mechanisms described in this section.

90 Center for Global Development (2013)
3 OUTLINING A MECHANISM FOR SUPPORTING PRODUCTIVE EMPLOYMENT

3.1 Conclusions so far and implications for a proposed funding mechanisms

96. In chapter 2 various models for supporting productive employment were reviewed and a set of innovative implementation mechanisms were identified. From this review we have established the following points of departure for outlining a mechanism which may be applied by Sida to support of productive employment in specific partner countries:

- Sida and other donors are and have been supporting interventions to stimulate employment. This is not new: what is new is a closer focus on employment outcomes of these different interventions.
- Because employment is new as a transversal theme for donor support, however, approaches are still fragmented across different sectors.
- Productive employment depends on a host of factors: human capital, technology access and innovation, access to markets, macroeconomic stability and regulatory frameworks, to mention a few. Efforts to promote productive employment can address any of these areas but the ultimate outcome will depend on the environment.
- Comprehensive reviews of “what works” let alone cost effectiveness are lacking. Our overview of different types of initiatives suggests that no single approach works everywhere, whether in raising demand for labor, in helping workers access labor markets and/or more productive employment opportunities, or in improving the flow of information in labor markets.
- Clearly, however, while success varies for different ways of stimulating private sector, including micro-enterprises, stimulating private sector development must continue to be a basis for employment promotion. Many supply side interventions that focus on removing barriers to access to labor markets, including self-employment can only be effective in an environment with some growth in labor demand or expansion of markets.
- For interventions that focus on supply side, there is some evidence that access to skills and credit are binding constraints for productive employment and that providing training and finance consequently can increase earnings; in this vein, comprehensive approaches work best. Vulnerable groups can be targeted through more general programs.
- Sida’s specific interests as communicated to us are initiatives that are: commercially viable initiatives for employment creation (i.e. promoting private sector initiatives with a potential for “good” job creation, not livelihoods); outcome based; innovative; and leverage finance and competencies from outside the donor community and governments.
- Context matters. Both country challenges and other donor initiatives will be decisive for whether the mechanism makes sense and no single mechanism will address the comprehensive agenda of promoting productive employment. Sida will continue to apply both more traditional and innovative implementation mechanisms in different contexts.
• Our review in chapter 2.3 of some innovative implementation mechanisms has confirmed the assumption in the Terms of Reference that challenge funds have an interesting potential to stimulate employment initiatives by private sector actors.

• At the same time, there is substantial evidence that in order to achieve wider market impacts in private sector interventions, there is a need of an in-depth knowledge of the functioning of concerned market systems. Such knowledge is crucial both for designing/selecting relevant interventions and for properly measuring and analyzing their impacts. For this reason we will propose a mechanism which to the extent possible combines pro-active market analysis and monitoring of market development, with the flexibility of support to private actors through challenge fund mechanisms.

97. The mechanism outlined below may be seen as an example of how Sida (and Swedish Embassies) could organize new interventions with a special focus on productive employment in partner countries.

3.2 A proposed Mechanism for Supporting Productive Employment (MSPE)

98. We propose that a challenge fund mechanism is to be used as the main tool for initiating activities and allocating resources to various actors. This challenge fund should however be embedded in a program that may include various kinds of supportive activities depending upon the local context.

99. The MSPE should normally include analytic capacity allowing for employment/sector/ market analysis, knowledge management and results measurement/monitoring etc. The program may also include resources for targeted technical assistance inputs directed to strategic public policy functions/institutions in the field of employment. MSPE may also include resources for providing (limited) technical assistance inputs to private sector actors in order to improve the quality of project proposals.

100. Ideally, the MSPE should be based on a strong capacity for local country diagnostics, including institutional development and political economy constraints that dictate room of manoeuvre for reforms and programs. At the same time, it needs to be plugged into global centres of knowledge about what works for employment in different contexts, and be flexible to adapt to in-country experiences as well as regional and global policy lessons and know how.

101. When it comes to the CF mechanism it is suggested that this may comprise three windows each one targeted at a specific kind of partners and activities:

• A first window for formal private sector actors aimed at “harnessing their core business”, e.g. through value-chain development aimed at promoting productive employment. Contributions should be conditional upon matched funding. Additionality and wider market impact should be important criteria.

• A second window for various kinds of civil society actors (or similar types of non-commercial or non-formal private actors) aimed at promoting micro level approaches such as self-help groups, savings cooperatives, technical and vocational training, work force mobilization, etc. The
window may also be open for private (for-profit) companies acting as implementing agents for similar types of programs.\textsuperscript{91}

- A third window for research and/or capacity building of institutions of importance to productive employment.

102. It is not assumed that contributions within the second and third window should be conditioned on matched funding.

3.3 Aspects to consider when designing and organizing a MSPE program

3.3.1 Country setting and type of interventions

103. The MPSE may be located at sub-regional, national or sub-national level and comprise several or single sectors/markets. As discussed above, the choice of focus and location is beyond the limits of this report and should depend on (i) the geographic/regional focus of interest to Sida (ii) a solid analysis of existing constraints to understand gaps (iii) a mapping of existing interventions in the area and sector of interest (iv) a “market analysis” to gauge the potential short and medium term response to the call for proposals.

3.3.2 Target groups issues

104. Specific beneficiary groups can be targeted through expected outcomes – a number of challenge funds aiming at private sector development that we reviewed focus on outcomes that benefit the poor, make markets work for the poor, and so on. Sub-groups can be targeted as well - for example calling for proposals for interventions that focus on increasing the employability of low skilled youth.

105. Applicants may need targeting, too, to ensure that competition and participation is not biased against smaller organizations with potentially useful approaches but without the technical capacity to fulfil application requirements. For the second and third window in particular, it may be important to establish technical assistance mechanisms and mentoring approaches to assist applicants. Several Challenge Funds provide this kind of support \textit{ex ante}.

3.3.3 Market development issues

106. It should be observed that there are important market development issues involved in the design and operation of not only the first but also the second challenge fund window described above. These issues will have to be carefully considered in the design of both windows drawing upon international experience.

107. With regard to the first window, it is quite obvious that proposals from formal companies must be assessed regarding wider market impacts and risks for market distortions. Well established

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\textsuperscript{91} One example of a Sida-financed micro-level program which was initiated and implemented by a private (consulting) firm is the VICOBA program for promoting village savings cooperatives in Tanzania. Ref. Sida’s web page “Små lån kan göra stor skillnad”, 2009, www.sida.se/svenska/lander-regioner/afrika/tanzania/program-och-projekt
challenge funds like the AECF have developed strict procedures to consider these dimensions of requests for contributions from formal companies.

108. When it comes to the second “non-for-profit” window, market development issues may be less obvious. In a number of situations, like support to the formation of self-help groups, savings cooperatives or youth vocational training, there is a strong rational for public funding, and limited risks for market distortions. However, non-for-profit actors may also be involved in “semi-commercial” activities like micro-finance and/or business development services (BDS) where there are risks of “crowding-out” other market actors through public subsidies. In those cases, market impacts must be an important part of the assessment of applications. Guidance for design and operation of such procedures could be retrieved from agencies like the Consultative Group for Assistance to the Poor (CGAP) for microfinance and the Donor Committee for Enterprise Development (DCED) for BDS-related support.

3.3.4 How to organize the management of a MSPE program

109. Like M4P and CF programs, MSPE programs are primarily intended to work with and provide support to private sector actors (and civil society). Experience shows that such programs are best managed by actors outside government. A number of organizational options may be applied, including (i) relying upon the capacity of an existing local organization, (ii) creating a new local organizational body, e.g. a local trust or NGO, (iii) outsourcing implementation to an international consulting firm and (iv) allocating funds to a bilateral or multilateral agency with implementation capacity like ILO, GIZ etc. There are pros and cons with each option and the format of this paper does not allow for any detailed assessment, but let us provide a few comments on the first two options.

110. When looking at the first option, experience from M4P programs show that existing local organizations rarely seem to be in a position to assume the role of implementing agency. The experience of DFID and Sida from setting up new local bodies (like the FSDs in Kenya and Tanzania, the MALONDA in Mozambique and PRODEL in Nicaragua) demonstrate the legal and management complexities involved in such ventures. At the same time this second option may enable a gradual transition to local ownership of such bodies. In cases where there are good reasons to consider a future transformation of an implementing agency into a permanent local institution, the second option may be attractive in spite of the complexities involved\(^\text{92}\). In many cases however, it appears that option 3 (or possibly option 4) will be the only feasible alternatives.

111. In addition to the issue of local ownership there are also other aspects within the “aid effectiveness agenda” that need to be considered when organizing a MSPE program. E.g. how to safeguard that program activities are properly coordinated with other donor programs? It may then be noted that the premise that a MSPE program is focused on and located in a country (or sub-region) helps to make coordination with other donor and government programs easier (e.g.

\(^{92}\) One interesting example of the creation of a permanent institution is the FINMARK Trust in South Africa
compared to global challenge funds). E.g. participation in local donor coordination groups has proved to be a useful tool for improving exchange of information and coordinating activities\(^93\).

### 3.3.5 Cost efficiency aspects

112. Experience shows that M4P and CF programs often involve substantial initial costs for setting up the program and that the costs for the continued management and administration of such programs may also be fairly high as a percentage of the total program cost. There seem to be good arguments for looking for an approach that might be described as “M4P/CF light”.

113. Although there is no easy way to achieve this, one option which we have previously noted may be to draw upon the capacity of an existing challenge fund like AECF. AECF has in several instances been prepared to open country-specific windows and may possibly be an interesting option to consider. However, it should be noted that the AECF to our knowledge is primarily engaged in activities falling under the first CF window described above. It is also necessary to consider in detail how the AECF would operate in relation to the agency entrusted with the management of the other components of the MSPE program.

### 3.3.6 Measuring, monitoring and evaluating results of MSPE interventions

114. As discussed above, the DCED’s Standard for Results Measurement provides guidance on how to ensure impact, taking into account systemic impact, additionality, and cost effectiveness of interventions. This is important to donor support in all forms. In addition, approaches that, like Challenge Funds, focus on spurring innovation in one form or other, need verifiable evidence to replicate useful initiatives and disseminate positive and negative lessons learned. We propose that the following factors be taken into account:

- **Pilot approach.** As shown in section 2, the limited evidence available on intervention effectiveness is mixed. A reasonable interpretation of the high variation in results is that the devil is in the details and that context is crucial. This calls for a sequenced approach to implementing a new instrument, allowing for careful evaluation and program reform if necessary, before scale-up.

- **Results measurement framework.** We strongly recommend that the DCED standard be applied to the proposed mechanism, as is being done by e.g. the AECF. The DCED provides guidance on how to set up an appropriate results measurement system that moves beyond self-reported results from businesses and anecdotal evidence sharing on successful approaches.\(^94\) Key factors include: (i) developing a clear results measurement system with transparent accountability of businesses or other beneficiaries in terms of reporting (ii) Make results measurement useful for the business (advocacy and customization of the system), and (iii) Focus on portfolio outcomes, not individual projects. It is in the nature of innovative projects that some fail and so focus should be on how the Challenge Fund as a whole performs.

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\(^{93}\) See e.g. White and others (2010), Review of Donor-Supported Business Environment Reforms Programmes and Practices in Kenya, DCED

\(^{94}\) Kessler (2013)
• **Outcome indicators.** For windows one and two, which focus directly on employment, the mechanism must be able to provide verifiable evidence on employment outcomes, especially with respect to earnings – assuming a positive link through “more access to training” or similar, is not enough. As discussed above, measuring productive employment as per the ILO definition is impractical, often impossible, at a program level. The definition is suitable for identifying target groups in a particular country, but not for measuring attributable impact of any given program. Once target groups have been identified in the constraints analysis or elsewhere, including their distance to productive employment, programs should focus on:

  o Measuring changes to earnings of target groups. In the case of e.g. self-help programs directly targeted at individuals, this implies collecting information on earnings prior to program participation, at the end of program, and some time after program termination. Again, technical assistance may be needed for businesses to develop capacity to understand and monitor key indicators.

  o For reasons discussed earlier – difficulties in assessing the right level of productive employment, the value of increasing incomes for the poor close to the productive employment frontier vs. shifting people above it - it is our recommendation that sizeable changes in earnings and employment opportunities, rather than a specific target level of earnings, be targeted.

  o Use control groups. Randomized control trials, while providing statistical evidence on program attribution, are costly and require high capacity among implementers. However, matching techniques and similar approaches can be used to identify similar groups that do not participate.

  o Time frame for results must be realistic according to the target for the intervention. In particular, value-chain type of interventions, requiring complex systemic changes to bear fruit, need longer time frame for evaluation.

3.4 **What’s next?**

115. If Sida finds that the mechanism outlined in this chapter has potential for practical use in partner countries, there will obviously be a need for further study and development of the details of the mechanism. Examples are provided below of activities that may be included in next phase of development and design:

  • A fairly detailed assessment of the design of and experiences from existing challenge funds and selected market development programs like the FSD-Kenya.

  • Selection of a few typical partner country cases where the MSPE could be applied and elaboration of practical examples of how a MSPE program could be structured in those cases.

  • Based on such examples discussions could be initiated with selected embassies on the feasibility of launching a MSPE program. One of the major issues in such discussions will probably be how a MSPE may fit into the existing structure of PSD/employment-related programs in the partner country.

  • Detailed assessment of various options for organizing MSPEs.
• Discussions with potential partners, like the AECF, on their interest in cooperating with MSPE programs.
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