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Topic:

Fostering growth and employment in South Asia: how conventional wisdom
shapes policies and how to circumvent it

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Fostering growth and employment in South Asia: the conventional wisdom



- Conventional wisdom
- Market confidence drives growth and employment
- Lack of macroeconomic stability impairs market confidence
- Regulatory impediments – including labour market regulations – are binding constraints on private sector growth
- Skills mismatches another binding constraint
- Attain and sustain macroeconomic stability by observing numerical targets on inflation, debts and deficits
- Remove regulatory burden on business and combine with active labour market policies, including training strategies
- This agenda endorsed by G20 since 2010

Critique of conventional wisdom

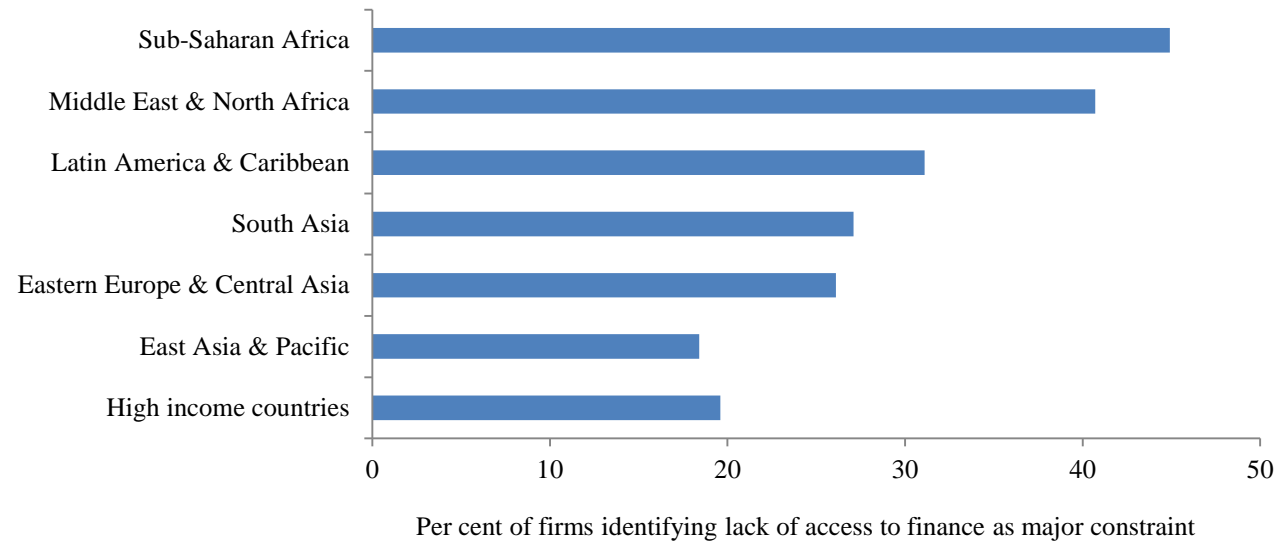


- Conventional wisdom does not rest on robust evidence
- Inflation targets set too low
- Latest survey of South Asian central bankers do not even consider private sector expectations as a key factor in influencing monetary policy
- Little credible evidence on thresholds pertaining to debts and deficits
- Fiscal consolidation invariably contractionary
- Fiscal consolidation affects long term growth and employment by cutting back public investment
- Employment outcomes of training strategies, such as entrepreneurship programmes, negligible
- Enterprise surveys strongly suggest that binding constraints on private sector growth wrongly identified

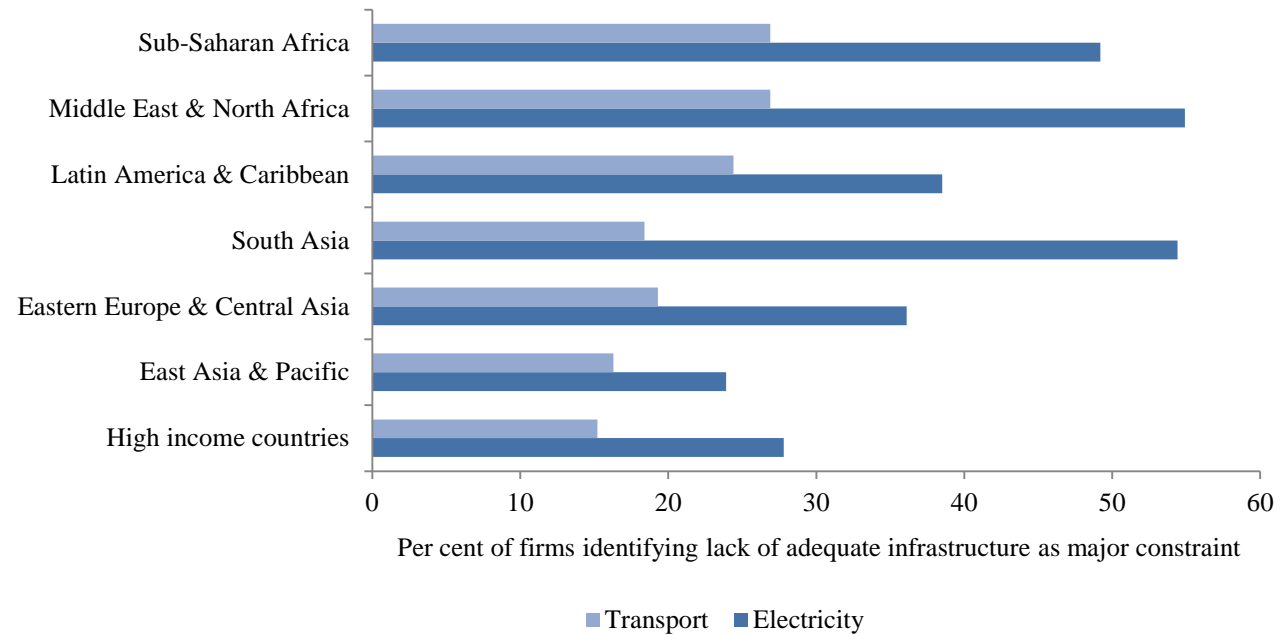
What enterprise surveys tell us about binding constraints on business

- Enterprise survey (VWB) on 10 top constraints on business in South Asia:
- Political instability is ranked first (but not in India) followed by
- Lack of access to reliable supply of electricity (2nd most important)
- Lack of access to finance (3rd most important)
- Inadequately skilled workforce ranked 8th
- Labour regulations ranked last (only 3-4% of firms consider this as important)

Lack of finance as a major constraint



Infrastructure deficit as a major constraint



Policy instruments for dealing with binding constraints



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

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



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



Financial inclusion: examples

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

Resource mobilization and fiscal policy



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



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

Concluding remarks

- Conventional wisdom has undergone some modification in light of evidence based on enterprise surveys
- Hence, focus on financial inclusion and investment in infrastructure
- But... preoccupation with
- labour market reforms and business regulations
- Training and activation strategies
- Private financing of infrastructure
- A restrictive notion of macroeconomic stability
- Hence, conventional wisdom still in need of change



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