Aligning macroeconomic policy to support sectoral strategies for employment promotion
Notes for Module 5

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Sectoral strategies for employment promotion: preamble

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

Macroeconomic policy to facilitate sectoral strategies for employment promotion

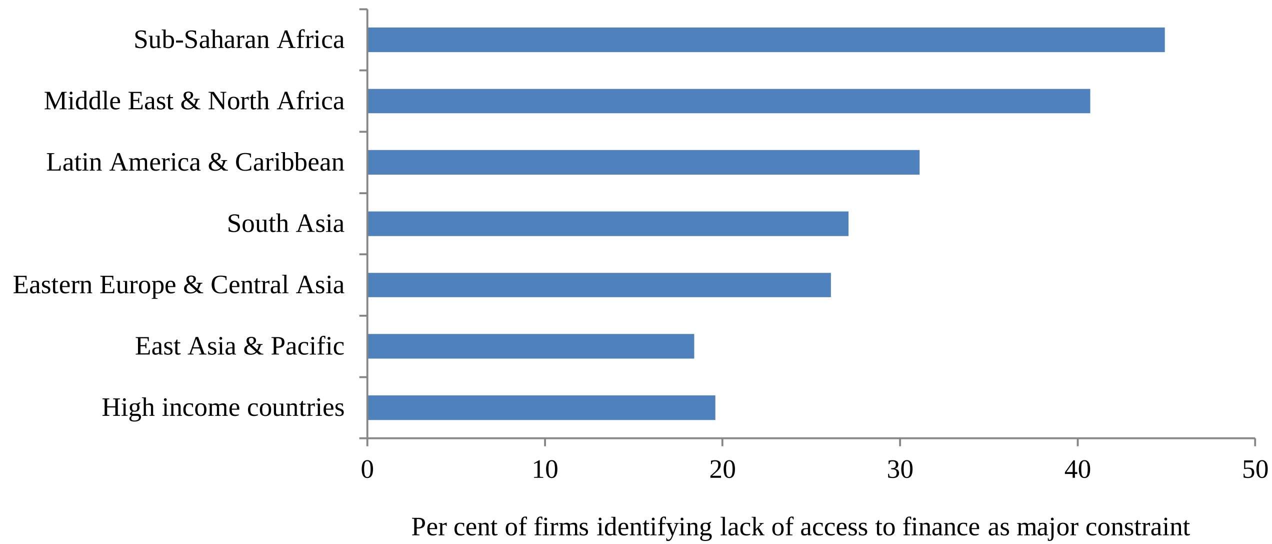
- Recall dual mandate of govt: (a) guardian of stability (b) active agent of development
- In case of (b), focus on alleviating binding constraints on sector-specific growth and creating new opportunities
- Leads to 'enabling environment' analysis
- Use firm-level assessments (WB, IFC, ILO, WEF, McKinsey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

Macroeconomic policy to sectoral strategies for employment promotion

Typical constraints:

- Access to finance, inadequate infrastructure
- Labour regulations not as important

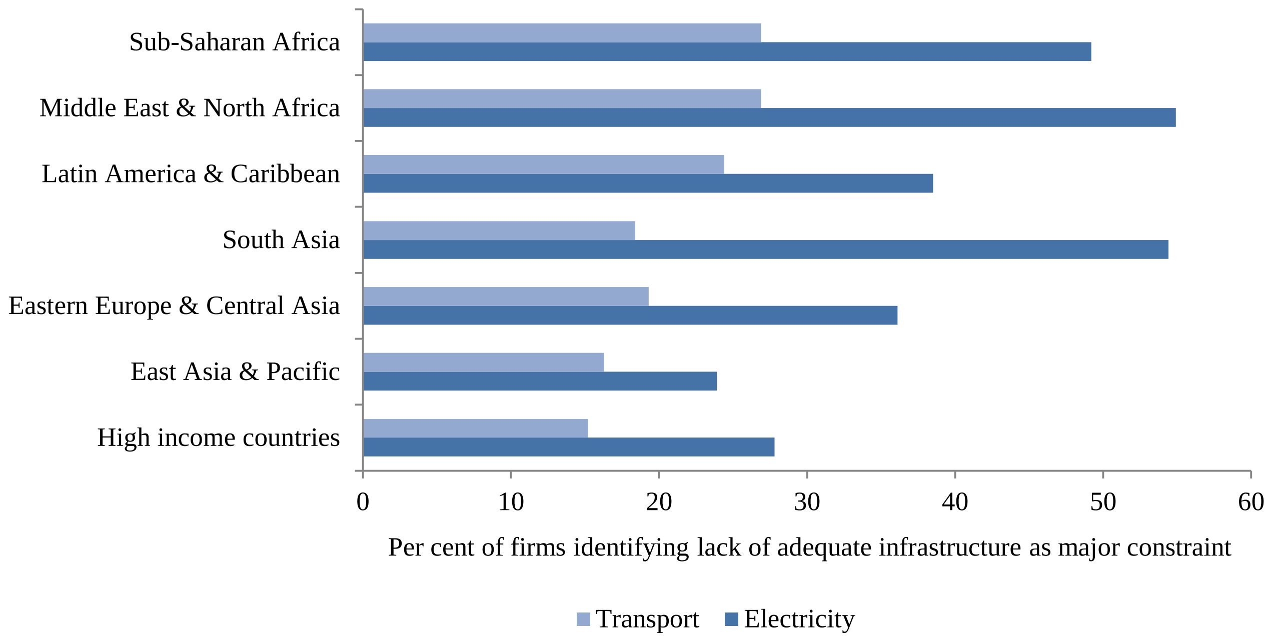
Lack of finance as a major constraint



Sectoral strategies for employment promotion: preamble

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

Infrastructure deficit as a major constraint



Policy instruments for dealing with binding constraints

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

Table 1 (examples of policy interventions with potential to influence sector-led growth and employment)

Fiscal policy/public expenditure management	•Resource mobilization to support public investment in infrastructure, education, health •Fiscal incentives to reward private sector activity with development pay-offs •Public procurement policies
Monetary policy/financial policies and regulations	•Credit guarantee schemes •Selective credit allocation •'Branchless banking' •Microfinance institutions •Development banks
Exchange rate regimes and capital account management	•Stable and competitive real exchange rate regimes •Capital controls to deal with short-term capital flows

Financial inclusion: examples

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

Resource mobilization and enabling environment

- Required resource mobilization need to be linked to spending needs
- Spending needs in turn to be linked to core development goals
- UN-ESCAP (2013) estimates: 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

Resource mobilization and enabling environment

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

- Thank You!

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