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Jobs, growth and poverty: what do we know, what don't we know, what should we know?

By Claire Melamed, Renate Hartwig and Ursula Grant

Jobs, and in particular the quantity and quality of new jobs created by economic growth, are shaping up to be one of the crucial development issues of the moment. The International Labour Organization (ILO) estimates that 440 million new jobs need to be created in the next ten years to keep up with population growth and demographic changes (ILO-IMF, 2010). It's not just creating jobs that is the challenge. Nearly half of all workers worldwide still live below the $2 a day poverty line – jobs must also pay enough to end poverty.

The key determinants of the relationship between growth, poverty reduction and inequality are whether economic growth generates new jobs, the quality of these jobs, whether poor people are able to take up new opportunities, and whether jobs are stable enough to last in the face of economic shocks.

But we know surprisingly little about the empirical relationships between growth episodes and different types of employment, and even less about what policies and programmes might enhance positive linkages between the two. This is an urgent policy question, since economic growth has a very mixed record in job creation.

This Background Note, based on a review of the literature, summarises the current state of thinking in this area, and highlights five trends that are likely to shape effective policy on growth and employment in the next few years.

Empirical evidence on growth, employment and poverty reduction

Our literature review looked at research on 24 growth episodes from the 1980s, 1990s and 2000s (see Tables 1 and 2), in which there was evidence of the impact of employment in different sectors. In 18 of these, poverty had fallen. Where poverty had fallen, in 15 cases there had been a rise in employment in services, in ten a rise in industrial employment, and in six cases a rise in employment in agriculture (six saw rises in employment in two of the three sectors, but there was no case of increased employment in all three sectors simultaneously). Of the six cases where poverty did not fall, two saw a rise in agricultural employment, three a rise in industrial employment, and one a rise in employment in services.

Table 1: Growth, employment and poverty – a summary of the evidence

Number of episodes	Rising agricultural employment	Rising industrial employment	Rising services employment
Growth episodes associated with falling poverty rates			
18	6	10	15
Growth episodes associated with no fall in poverty rates			
6	2	3	1

Sources: See Table 2.

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Growth and employment: five trends

1. Low-skill manufactures are losing their place as the drivers of job creation, while services are becoming more important

The successful economic growth and poverty reduction experience of the East Asian Tigers has convinced many observers and policy-makers that investment in labour intensive manufacturing is the only way to generate sufficient employment. It is certainly true that, in many Asian countries, this approach has led to dramatic reductions in poverty. Questions remain, however, over whether this is an appropriate strategy for other regions and countries, given their different contexts.

Other sectors can be just as important as manufacturing in generating poverty-reducing employment. A cross-country study found that as well as manufacturing, growth in agriculture and construction services are the most poverty-reducing due to their employment effects (Loayza and Raddatz, 2010). Growth in the services sector provides more jobs per percentage increase in growth rates globally than growth in either agriculture or manufacturing (Kapsos, 2005). Country studies by the United Nations Research Institute for Social Development (UNRISD) indicate that the proportion of working poor in the formal sector in manufacturing might be higher than in the services sector (UNRISD, 2010).

This is borne out by evidence from a number of countries. Even in Asia, in countries such as Viet Nam, job creation in services was as, if not more, important for poverty reduction than job creation in manufacturing (Huong et al., 2006). A comparison of China, India and Brazil found agricultural sector growth was the most poverty-reducing in China, while in India it was growth in the services sector (Ravallion, 2009). In China, as growth became more concentrated on the manufacturing sector in the urban areas of the coast, it actually became less employment intensive, with economic progress linked to increased rural-urban inequality and a slowdown in poverty reduction (Khan, 2007a). In 1990s Ethiopia, the services sector seems to have been a refuge for a rapidly growing labour force confronted with slow agricultural growth (Demeke et al., 2006). Overall the services sector might be a stronger driver of employment than agriculture or manufacturing (Fox and Gaal, 2008). It is important to note, however, that many jobs in the services sector have strong linkages to manufacturing or agriculture, so a strategy that focuses entirely on any single sector would be unlikely to succeed over the long term.

A focus on manufacturing jobs might be risky if it is driven by demand from international markets. Many of these jobs proved to be fragile in the face of the Asian financial crisis, which erased some of the achievements in the short term, and exposed the fragility of links between economic growth, employment and poverty reduction (Khan, 2007a). In India, a total of one million jobs were estimated to be lost due to the direct and indirect effects of the financial crisis and recession of 2008/2009. Many other people saw a drop in wages as the knock-on effects spread through the economy (Mehta et al., 2011).

The relative effectiveness of different sectors within countries in generating jobs also changes over time. There is some evidence that growth in many Asian countries now is less effective at generating employment than it once was, indicating the limits to employment expansion based on low-wage manufacturing (Khan, 2007a). Research from UNRISD has shown that industrial employment as a share of total employment tends to peak at about 30%, at which point it starts to decline as de-industrialisation sets in (UNRISD, 2010). However, in many low-income countries industrial employment is still below this level, indicating some scope for expansion.

The lesson here is to see sectoral change as a continuous process. This is not unique to manufacturing: a study of Uganda in the 1990s found that while poverty reduction came mainly from expanded growth in agriculture, this approach was limited in its impact over time given the lack of transformation of the economy and the failure to increase job opportunities outside of agriculture (Kabanananukye et al., 2006). While there is almost certainly still scope to expand manufacturing employment in many poor countries, the evidence indicates that employment expansion in any sector is likely to hit a barrier unless it is accompanied by changes both within that sector and in the economy as a whole.

2. As the world becomes less secure, the shift from agriculture to manufacturing is no longer a one-way street

Whatever the relative contribution of different sectors to employment growth, the trend in most countries over time is for a shift away from agriculture and towards services and manufacturing as countries urbanise. However, during a single lifetime the transition is not necessarily linear. In contexts of economic crises or stagnant growth, the agricultural sector has been an important buffer, allowing continued economic growth and poverty reduction even if other sectors are suffering (Higgins, 2009).

The president of the World Bank, Robert Zoellick, said during the 2008 financial crisis 'the best safety net is a job'. This is undoubtedly true, but for the labour market to offer the best possible protection against risks, people must be able to move freely between sectors within it. Globally, employment in industry fell in 2009, while employment in agriculture rose (ILO, 2011). Individual country experiences bear out this trend. In the transition countries of the former USSR many highly educated people have been re-absorbed back in to farming, following a complete breakdown in industry (Khan, 2007b). Following the Asian financial crisis, industrial employment in Indonesia fell, but services and agriculture employment grew (Islam, 2006).

For policy-makers, this means that shifts of labour between sectors should be made as easy as possible if the labour market is to provide protection against risk as well as a mechanism for reducing poverty. Social protection policies, combined with a focus on training and vocational policies, for example, could be designed to allow movements of people between regions while in search of work and claiming support.

3. The trajectory from growth to employment to poverty reduction is not automatic

Despite the sanguine confidence of many development economists that growth will reduce poverty (Dollar and Kraay, 2002), history has shown that this confidence is misplaced. The phenomenon of 'jobless growth' haunts much of Africa (Aryeetey and Baah-Boateng, 2007), characterises much of India's recent experience (Mehta et al., 2011), and is also present in Latin America (Jemio and del Carmen Choque, 2006). And the ILO estimates that around 40% of workers worldwide are still poor – not earning enough to keep their families above the $2-a-day poverty line (ILO, 2011). Most chronically poor people in India are wage earners, whose jobs are insecure and low paid, and offer very little possibility to accumulate wealth or avoid risk (Mehta et al., 2011). These trends are linked to two failures of growth: to create employment and to increase the productivity of employment.

For growth to reduce poverty through the mechanism of the labour market, two things have to happen. First, the changes that together add up to economic growth and associated shifts in the structure of the economy have to generate an increased demand for labour and/or an increase in the productivity of each worker. These then have to be translated into earnings by the prevailing labour market and political conditions of the particular country.

The ideal scenario is for demand for labour and productivity of labour to increase simultaneously, but this appears to be becoming less likely. There appears to be something of a quantity/quality trade off emerging in the global demand for labour, as over time the impact of productivity growth seems to be to slow down the rate of employment growth. While in the 1960s, a 1% increase in output per worker was associated with a reduction in employment growth of 0.07%, by the first decade of this century the same productivity increase implies reduced employment growth by 0.54% (UNRISD, 2010).

Once the two diverge, the extent to which the specific combination of increased demand for labour and the productivity of labour in a particular economy do lead to increased earnings and therefore poverty reduction becomes an empirical question that needs to be assessed for particular cases.

Increases in the quantity of employment without productivity gains can lead to a rise in the number of 'working poor' and jobs that are less and less successful at reducing poverty as wages stagnate due to low productivity. This is a particularly acute problem in countries with no social safety nets, where unemployment itself is unthinkable and it is the quality and productivity of jobs that determine poverty levels. A multi-country study indicates that increased employment in agriculture with no rises in productivity is associated with increased poverty, while productivity growth in the same sector is associated with poverty reduction (Gutierrez et al., 2009). In India, low-wage and insecure employment has been increasing more rapidly than higher waged and more secure jobs in both rural and urban areas (Mehta et al., 2011). Some experts argue that labour market policies should focus on job quality, rather than levels of employment, for this reason (Fields, 2007).

Some empirical evidence indicates that a focus on raising productivity and shifting workers into high productivity sectors can be more effective from a poverty reduction perspective than focusing on low-skill manufactures or expansion of employment alone (Gutierrez et al., 2009). The impact of employment on poverty in East Asia seems, at least in part, to be due to the impact of productivity increases and rising wages, while in Africa and the Middle East labour productivity growth was extremely slow (Kapsos, 2005). In countries such as Viet Nam, however, employment growth has slowed in recent years as productivity gains have prevented increases in the numbers employed (Jenkins, 2004).

On the other hand, a labour market dominated by a few high-productivity, high-skill jobs can be a recipe for rising inequality and unemployment for the majority. And there is no certainty that productivity gains will be translated into higher wages, particularly where employment growth overall is slow. In the US, for example, the gap between productivity and wages has been rising since the 1980s (Wuyts, 2011).

The policy agenda arising from this analysis is likely to be highly context specific. Investment decisions by firms are crucial to driving changes in both the overall demand for labour and the productivity of labour. World Bank enterprise surveys report that firms in Africa consider lack of access to credit, weak infrastructure and an unskilled workforce the biggest obstacles to expansion and increased demand for labour. All could be addressed through government policy and public spending (Fox and Gaal, 2008).

Regulations, however, appear to be a lesser constraint on demand for labour (Fox and Oviedo, 2008).

4. Distinctions between formal and informal sector firms are breaking down

In any analysis, the creation of categories is essential to reveal the patterns that exist and provide a guide for policy. However, it is not clear that the distinction between a formal and an informal sector is always a useful categorisation when analysing labour markets, particularly in low-income countries.

The distinction between the two may not be as sharp in practice as it is presented, at least not in every region of the world. While in some regions, such as the Caribbean, the distinction between formal and informal might be the most relevant for analysis, in others, including many parts of Africa, other categories, such as the difference between rural and urban employment, might be more useful for making policies for jobs and growth (Fields, 2007).

In recent years, the growth of global value chains has increased links between formal and unregulated firms and the former frequently sub-contract work to the latter. Conditions of work in unregulated firms are, therefore, influenced partly by relations between firms in the formal sector through the contracts agreed within national or, more often, international supply chains. This trend has been accompanied by a growing 'informalisation' of work in the formal sector, including in OECD countries, as working conditions are eroded under pressure from global competition to stay in supply chains and national competition from firms outside of the formal sector (Drechsler et al., 2008).

A better understanding of the relationships between sectors and the dynamics of firms and workers within the informal sector is essential to improve policy on growth and employment. In Africa as a whole, formal sector employment is a small minority of all employment and without policies which work for the informal sector too, employment policy will be at best ineffective and at worst counterproductive (Heintz and Pollin, 2008). The policy agenda in this area should be driven not by a sharp distinction between formal and informal firms, but by an understanding of how firms relate to each other in value chains, and how individuals and firms move between and overlap the formal and informal sectors.

5. Employment patterns are being shaped by two major inequalities: between young and old, and between men and women

Inequality between young and old is one major factor shaping the interaction between growth, employment and poverty reduction. Globally, the employment intensity of growth for young people tends to be lower than for older workers (Kapsos, 2005). People aged between 15-24 make up 25% of the working age population, but account for 44% of the unemployed, and 20% of young people who are working live below the $1-a-day poverty line (Ernst, 2008). In Southeast Asia, young people are five times as likely as adults to be unemployed (ILO, 2011). In African countries such as Kenya (Zependa, 2007), and in the Middle East (Messkoub, 2008), youth unemployment is much higher than overall unemployment. This represents a huge waste of productive resources and a real threat to stability, as well as being a personal tragedy for millions of young people.

The second big inequality in the labour market is between men and women. Case studies from across the world bear out this trend. In South Asia, men are very much more likely than women to be employed at all, and when women are in work it is more likely to be in subsistence level agriculture (ILO, 2011). In Bangladesh, while female participation rates have been rising since the 1990s, wage rates for women are around half of those for men (Rahman and Nabiul Islam, 2006). In Ghana, women are disproportionately employed in the most insecure jobs (Heintz, 2005). There is some evidence that gaps between men and women globally, at least in terms of participation rates, could be falling (Kapsos, 2005), and that gender differentials are falling more quickly in developing countries than they did in industrialised countries at similar stages of development (Tzannatos, 1999).

The different work experiences of men and women shape trends for female and male employment during economic shocks. In the Philippines, for example, male employment fell much faster than female employment during the Asian financial crisis of the late 1990s, since men tended to be employed in the manufacturing sectors that were much more affected. Women, by contrast, tended to be employed in the services sector, which was less affected, and even increased their hours worked – leading to a phenomenon of 'overworked' women and 'underworked' men (Lim, 2000). In Russia, women's salaries dropped from an average of 70% of men's to 40% during the late 1990s economic downturn (Tutnjevic, 2002).

While there are few studies on the impact of youth unemployment on growth, the impact of gender inequalities has been more researched. There is a growing consensus that gender inequalities are bad for growth, given the waste of human resources that they represent. This is presumably also true for youth unemployment. One study estimates that the combined employment and education gap between men and women in South Asia could cost the region around 1.6% in its growth rates each year (Klasen and Lamanna, 2008).

Improving the skills of both women and young people is part of the agenda to tackle these inequalities.

But probably only a small part. Social, cultural and political changes will play a bigger role. For women, the relationship between inequality in the labour market and other inequalities has been complex – entering the labour market, for example during wartime, has been an instrument of change and empowerment for women, but inequalities at work – in wage levels, for example – persist even in the most equitable societies.

Conclusion

There is no straightforward relationship between economic growth, employment and poverty reduction. What can be learned from country experience is diverse. Context matters. However mainstream theory and data are weak at capturing this, and recent trends suggest that the position is becoming ever more complex.

The first stage in making policy in this area should be to get the questions right. Without an accurate picture of the realities of working life for poor people, current global and national trends, and the actual constraints to both the supply of and demand for labour in particular contexts, policy-makers will struggle to design effective and appropriate policies. Over the coming years, ODI will be working to fill some of these gaps.

Written by Claire Melamed, Head of ODI's Growth, Poverty and Inequality programme (c.melamed@odi.org.uk), Renate Hartwig, researcher at the Institute of Social Studies, the Hague (ba0960@iss.nl) and Ursula Grant, ODI Research Fellow (u.grant@odi.org.uk).

Table 2: Summary of literature on growth, employment and inequality

Region	Country	Period	Economic growth	Inequality	Urbanisation	Employment	Real wages	Poverty	Comments	Reference
Central America	El Salvador	1992-2002	Moderate (faster in early 1990s, slower later)	Falling	ca. 60%	Agriculture – Falling Industry – Stable Services – Increasing	Rising (later slow down)	Falling	Informal employment of total employment: 69%	(Lopez, 2005)
Central Asia	Armenia	1990-2001	Slow	Rising	ca. 65%	Agriculture – Increasing Industry – Falling Services – Falling	–	Increasing		(Khan, 2007a)
Central Asia	Kyrgyzstan	1996-2001	Slow	Stable	ca. 55%	Agriculture – Increasing Industry – Falling Services – Falling	–	Falling		(Khan, 2007a)
East Asia	China	1980-2001	High	Rising	ca. 40%	Agriculture – Falling Industry – Increasing Services – Increasing		Falling (since end 1990s slow)		(Khan, 2007a)
East Asia	Mongolia	1990-2001	Slow	Rising	ca. 57%	Agriculture – Increasing Industry – Falling Services – Falling	–	Increasing (since 2000 stable)		(Khan, 2007a)
Latin America	Bolivia	1985-2000	Slow	Urban rising Rural falling	ca. 65%	Agriculture – Stable Industry – Stable Services – Increasing	Rising, slower increase in agriculture	Urban falling Rural stable	Since 1999 fall in per capita income and rising urban poverty	(Jemio and del Carmen Choque, 2006)
Latin America	Brazil	1992-2004	Slow	Stable (decline in 2004)	ca. 83%	Agriculture – Falling Industry – Stable Services – Increasing	Rising (slow)	Falling (slow)	Informal sector ca. 50%, Ferreira, F. H. G. et al. (2010): Expansion of social assistance accounts for bulk of poverty reduction	(Zapenda et al., 2007)
Latin America	Chile	1990-2004	Moderate	Stable	ca. 87%	Agriculture – Falling Industry – Stable Services – Increasing	Rising (slow)	Falling (slow)	Informal sector ca. 40%	(Zapenda et al., 2007)
Latin America	Mexico	1992-2004	Slow	Falling	ca. 75%	Agriculture – Falling Industry – Increasing (since 1994) Services – Increasing	Falling	Falling (slow)	Informal sector ca. 60%	(Zapenda et al., 2007)
Middle East and North Africa	Egypt	1990-2003	Moderate (picking up at the end of the 1990s)	Rising	ca. 42%	Agriculture – Falling Industry – Stable Services – Increasing	Rising	Falling	Informal employment of total employment: 40%. Growing female labour force participation	(El-Mahdi and Amer, 2005)
South Asia	Bangladesh	1986-1991	Slow	Stable	Below 20%	Agriculture – Stable Industry – Increase Services - N/A	Stable	Rising	Growing female labour force participation but wage gap	(Rahman and Nabiul Islam, 2006)
South Asia	Bangladesh	1991-2001	Moderate	Rising	ca. 25%	Agriculture – Falling Rural Non-Farm – Increasing Industry – Falling Services – Increasing	Rising, slower increase in agriculture	Falling	Poverty reduction in second half of 1990s could have been faster. Growing female labour force participation but wage gap.	(Rahman and Nabiul Islam, 2006)
South Asia	India	1983-1993	High	Rising	–	Agriculture – Falling Rural Non-Farm – Increasing Industry – Falling Services – Increasing	Rising	Falling		(Sundaram and Tendulka, 2006)
South Asia	India	1994-2000	High	Rising	ca. 30%	Agriculture – Falling Rural Non-Farm – Increasing Industry – Increasing (slow) Services – Increasing	Rising	Falling	Poverty reduction could have been faster, Informal employment of total employment: 92%	(Sundaram and Tendulka, 2006)

Southeast Asia	Indonesia	1970-1997	High	Stable (low)	–	Agriculture – Falling Industry – Increasing Services – Increasing	Rising	Falling	Formal sector employment increasing from 28% to 38%	(Islam, 2006)
Southeast Asia	Indonesia	1997-2000	Crisis (slow thereafter)	Stable (tendency more unequal)	ca. 45%	Agriculture – Increasing Industry – Falling Services – Falling	Sharp decline then rising again	Stable (post-crisis rise, then falling again)		(Islam, 2006)
Southeast Asia	Thailand	1980-1995	High	Rising	–	Agriculture – Falling Industry – Increasing	Rising	Falling		(Krongkaew et al., 2006)
Southeast Asia	Thailand	1996-1998	Crisis	Falling	–	Agriculture – Increasing Industry – Falling	Falling	Rising	High labour market flexibility, workers return to rural areas	(Krongkaew et al., 2006)
Southeast Asia	Thailand	1999-2002	Moderate (faster after 2002)	Stable	ca. 32%	Agriculture – Stable Industry – Increasing	Rising	Falling	Informal sector ca. 70%	(Krongkaew et al., 2006)
Southeast Asia	Vietnam	1990-1997	High	Rising (modest)	ca. 25%	Agriculture – Falling Rural Non-Farm – Increasing Industry – Increasing Services – Increasing	Rising	Falling	Poverty reduction could have been faster if more labour intensive	(Huong, et al., 2006)
Sub-Saharan Africa	Botswana	1980-2005	High	–	ca. 52%	Agriculture – Falling Mining – Falling Industry – Increasing Services – Increasing	Rising (slow)		Employment creation limited despite high growth (concentrated in mining)	(Siphambe, 2006)
Sub-Saharan Africa	Cameroon	1996-2001	Moderate	Stable	ca. 50%	–	–	Falling	Employment in agriculture found to have negative impact, formal sector employment positive	(Essama-Nssah and Bassole, 2010)
Sub-Saharan Africa	Cameroon	2001-2007	Slow	Falling	ca. 54%	–	–	Stable (rural poverty rising)	Employment in agriculture found to have negative impact, formal sector employment positive	(Essama-Nssah and Bassole, 2010)
Sub-Saharan Africa	Ethiopia	1992-2001	Slow	Urban rising Rural falling	ca. 15%	Agriculture – Falling Industry – Stable Services – Increasing	Rising, agriculture inconclusive	Stable overall Urban rising Rural falling		(Demeke et al., 2006)
Sub-Saharan Africa	Ghana	1984-2000	Moderate	Rising	ca. 45%	Agriculture – Falling Industry – Stable (marginal increase) Services – Increasing	Decline in 1980s since 2000 rising	Falling	Growth emanated from mining thus overall labour absorption low. Informal employment ca. 80%. Employment expansion in services, mainly trade where women are the dominant force	(Aryeetey and Baah-Boateng, 2007)
Sub-Saharan Africa	South Africa	1994-2003	Moderate	Rising	ca. 57%	Agriculture – Falling Industry – Stable Services – Increasing	Rising (inconclusive)	Falling	Informal employment of total employment: 14%. Poverty reduction due to social programmes	(Braude, 2005)
Sub-Saharan Africa	Uganda	1992-1997	Moderate	Stable	–	Agriculture – Increasing Industry – Stable Services – Stable	–	Falling	Favourable conditions for coffee production (mainly smallholder activity) commonly cited reason for poverty reduction seen	(Kabananukye et al., 2006)
Sub-Saharan Africa	Uganda	1998-2002	Slow	Rising (since 2000)	ca. 12%	Agriculture – Falling Industry – Stable (marginal increase) Services – Falling	–	Rising (since 2000)		(Kabananukye et al., 2006)

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Overseas Development Institute, 111 Westminster Bridge Road, London SE1 7JD, Tel: +44 (0)20 7922 0300, Email: publications@odi.org.uk. This and other ODI Background Notes are available from www.odi.org.uk.

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