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Decent Work key to reducing poverty and inequality

Summary

- There is a high risk that the global economy will remain stuck in a slow growth trap that is ruinous to the prospects of the young women and men whose working lives are critical to the realization of the goals of the 2030 Agenda.

- Over 70 million people are not in work today who would have had a job if pre-crisis growth had resumed. Slow growth could increase the jobs gap to over 80 million by 2020. A quarter of young people aged between 15 and 29 years old are neither employed, nor in education or training (NEET), according to surveys in 28 countries.

- Increasing decent work opportunities and improving wages are key to breaking out of the slow growth trap and rekindling a virtuous circle of increased investment, rising productivity, sustainable enterprise and wage and consumption growth.

- Global real wage growth dropped sharply during the crisis, recovered in 2010 but has since decelerated. If China, where wage growth was faster than elsewhere is not included, wage growth has fallen below the one per cent per annum recorded in the crisis years.

- In 2015, 327 million working women and men were living in extreme poverty and 967 million in moderate and near poverty. Despite reductions in the share in employment of working poverty, efforts to cut the absolute numbers of working poor have stalled.

- Reducing inequality and poverty bolsters growth not least by interrupting the intergenerational reproduction of inequalities of opportunity.

- The ILO and the World Bank are supporting countries to design and implement universal and sustainable social protection systems which ensure income security and support to all people across the life cycle – paying particular attention to the poor and the vulnerable.
• Considerable shifts in employment driven by openness to international trade and investment call for a strengthened labour market institutions to ease worker mobility, increase training, promote sustainable wage setting, ensure adequate social protection, improve working conditions and enhance respect for international labour standards.

• The ILO/IFC Better Work programme targeted on garment supply chains is reducing the prevalence of abusive workplace practices, increasing productivity and pay and reducing excessive working hours, and creating positive effects in surrounding communities.

• Widely-ratified ILO conventions on Fundamental Principles and Rights at Work, are key benchmarks for international investment and trade governance mechanisms. The ILO looks forward to working with the World Bank to make the new safeguards in its Environmental and Social Framework effective.

**Realizing sustainable development goals jeopardized by slow growth trap**

1. Eight years on the world economy has not fully recovered from the global financial crisis. There is a high risk that it will remain stuck in a slow growth trap that is ruinous to the prospects of the young women and men whose working lives are key to realizing the Sustainable Development Goals of the 2030 Agenda.

2. The World Bank, the IMF and other major forecasting bodies have year by year wound back their expectations of recovery in the world economy. 2017 looks like being little better than the disappointing 2016. The pattern is uneven with India, China and most Asian economies growing faster than the global average. However, emerging and developing countries as a group are slowing down towards the unsatisfactory performance of most advanced economies. Overall economies are running well below a potential that is eroding through underinvestment in skills and infrastructure.

3. As the World Bank Group report “Taking on Inequality” says “The goal of eliminating extreme poverty by 2030…might not be achieved without accelerated economic growth or reductions in within-country inequalities, especially among those countries with large concentrations of the poor.”¹ The ILO fully supports the report’s conclusion that reducing inequality and poverty bolsters growth not least by interrupting “the intergenerational reproduction of inequalities of opportunity.”

4. At a time when respect for fundamental human values and diverse societies and support for open economies is being undermined by social tensions rooted in high levels of inequality, unemployment and underemployment, the report’s suggestion that, “reducing inequalities of opportunity among individuals, economies, and regions may also be conducive to political and societal stability and social cohesion” is an understatement.

**Job prospects for young women and men dispiriting**

5. Against the backdrop of slowing growth, the outlook for global labour market remains troubled and likely to worsen. The global youth unemployment rate is expected to reach 13.1 per cent in 2016 after some marginal improvement between 2013 and 2015. This translates into an estimated 71 million unemployed youth worldwide. In addition, it is estimated that 156 million employed youth, or 38 per

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cent of working youth in emerging and developing countries are living in extreme or moderate poverty.\(^2\)

6. Global labour force participation rates of youth are on a long-term downward trend, from 53.6 per cent in 2000 to 45.8 per cent in 2016, mainly as a result of increasing educational opportunities. The global gross enrolment rate for 15-19 year olds in upper secondary education is now close to 75 per cent. The skills and knowledge of young women and men are expanding as is their expectation of better jobs in the future. However, the lack of viable employment opportunities is a major factor in the low rates of participation in the labour market for the 20-29 age range. As youth unemployment rates remain persistently high and transitions from education into work become increasingly difficult, a growing share of youth are neither employed, nor in education or training (NEET), a status which carries risks of skills deterioration, underemployment and discouragement. Survey evidence for 28 countries around the globe shows that roughly 25 per cent of the youth population aged between 15 and 29 years old are categorized as NEET.

7. Facing the prospect of unemployment, working poverty and/or vulnerable forms of employment, young people are looking abroad for better education and employment opportunities. In 2015, almost 51 million international migrants were aged between 15 and 29, more than half of whom resided in developed economies. 20 per cent of the global youth population, and a third or more of young people in this age range in Africa, the Arab States, Eastern Europe and Latin America and the Caribbean, were willing to move permanently to another country.

8. The ILO is working with UN partners and the World Bank Group to reinforce countries’ efforts to create more decent work opportunities for young women and men.\(^3\) Investing in skills and support to those at greatest risk of marginalization are vital. However, demand side as well as supply side policies are essential to tackling unemployment and underemployment across all age ranges.\(^4\)

**Lack of decent jobs, weak aggregate demand, slow growth – a vicious circle**

9. Global unemployment was estimated at more than 27 million higher in 2015 than the pre-crisis level of 2007 and is forecast to rise in 2016 and 2017, according to ILO estimates. Furthermore, labour force participation rates remain below pre-crisis levels in many countries, partly due to increased and longer participation in education but also because many workers have given up a fruitless search for jobs.\(^5\) There are over 70 million people not in work today who would have had a job if pre-crisis growth had resumed. With the latest downward revisions in growth prospects the jobs gap could rise to over 80 million by 2020.

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\(^3\) The ILO-led UN Global Initiative on Decent Jobs for Youth is a partnership with governments, the UN system, businesses, academic institutions, youth organizations and other groups to scale-up action to create new opportunities and avenues for quality employment in the global economy and “assist young people in developing the skills needed to compete in today’s job market”. The World Bank-led Solutions for Youth Employment is also a multi-stakeholder partnership including the International Labour Organization (ILO).

\(^4\) ILO’s “Call for Action in youth employment”, adopted by representatives of governments, employers’ organizations and trade unions at the 101st International Labour Conference (ILC) in June 2012 (ILO, 2012), provides a set of guiding principles and policy measures to help shape national employment strategies for youth.

10. In 2015, an estimated 327 million employed people were living in extreme poverty and 967 million in moderate and near poverty. Important progress has been made in reducing the share of extreme working poor (those falling below the US$1.90-a-day threshold, 2011 PPP) in total employment over recent decades, from 33.2 per cent to 12.0 per cent, globally, over the period 2000 to 2015. The incidence of moderate working poverty (less than US$3.10-a-day) also decreased from 57.3 per cent to 27.9 per cent over the same period. However, despite continued improvements in reducing the shares of working poverty, efforts to reduce the absolute numbers of working poor at both thresholds have stalled.

11. Global real wage growth dropped sharply during the crisis (2008 and 2009), recovered somewhat in 2010 but decelerated again since 2012. If China, where wage growth has been considerably faster than elsewhere is not included, global real wage growth has fallen back below the one per cent per annum recorded in the worst of the crisis years. After four years of near stagnation in wages in advanced G20 economies, growth picked up somewhat in 2015 but in emerging G20 economies wage improvements fell back. Productivity growth continues to exceed that of real wages in many advanced economies. This long run trend has led to a decline in the labour share of income in many countries and contributed to widening income inequality.

12. The largest component of GDP in most countries is consumption by households, which in turn is largely driven by incomes from work. Investment by the private sector is strongly influenced by prospects for consumer demand. Increasing decent work opportunities and improving wages are thus a key to breaking out of the slow growth trap and rekindling a virtuous circle of increased investment, rising productivity, sustainable enterprise development and wage and consumption growth. Furthermore, a focus on decent work opportunities for the bottom 40 per cent of working families and increased minimum wages will help narrow income inequalities and boost recovery.

Universal social protection underpins poverty prevention and productivity growth

13. The ILO and the World Bank’s shared objective is to increase the number of countries that can provide universal social protection, supporting countries to design and implement universal and sustainable social protection systems. Universal social protection refers to the integrated set of policies designed to ensure income security and support to all people across the life cycle – paying particular attention to the poor and the vulnerable.

14. Universal social protection includes adequate cash transfers for all who need it – families with children; people of working age in case of maternity, disability, work injury or for those without jobs; and all older persons. This protection can be provided through social insurance, pensions, tax-funded social benefits, social assistance services, public works programs and other schemes guaranteeing basic income security.

15. Research shows that well-designed and implemented social protection systems are affordable, efficient, effective and equitable and the foundation for sustained social and economic development – for individuals, communities, nations and societies. They prevent and reduce poverty, promote social

inclusion and dignity of vulnerable populations. By raising incomes they increase consumption, savings and investment at the household level, contributing to increased demand and economic growth. Such systems also facilitate access to nutrition and education, thus resulting in better health outcomes, higher school enrolment rates, reduced school drop-out rates, a decline in child labour which in turn increases productivity and employability.

16. Universal social protection protects individuals and families against losses due to shocks, whether they be pandemics, natural disasters, or economic downturns. Especially during a time of rapid economic change and turbulence, universal social protection helps reduce inequalities and build political stability and social cohesion. It is a human right that everyone, as a member of society, should enjoy, including children, mothers, persons with disabilities, workers, older persons, migrants, indigenous peoples and minorities.

17. As pledged in SDG Goal 1.3 more countries are expected to adopt these systems as part of their national development strategies. The ILO’s Social Protection Floors Recommendation 2012 (No 202) gives guidance on introducing or maintaining social security floors and on implementing social protection floors as part of strategies to extend higher levels of social security to as many people as possible.

**Making international trade and investment work for inclusive growth and development**

18. Increased international trade and investment has created an increasingly global market place, fuelled growth and development for many countries and led to major changes in employment patterns. Expansion has slowed since the financial crisis, adding to the forces weakening aggregate demand. However, increased international trade and investment alone will not raise people out of poverty or lead to sustainable growth and development. Research commissioned by the WTO and ILO found that first, the structure and levels of employment emanating from increased openness can be more or less favourable to the labour force and to economic growth. Second, openness – while helping to buffer domestic shocks – can increase the vulnerability of domestic labour markets to external shocks, as witnessed during the Great Recession. Third, the gains from globalization are not distributed equally and some workers and firms may lose in the short and even medium-run.

19. The considerable shifts in employment driven by openness to international trade and investment call for strengthened labour market institutions to ease worker mobility, increase training, promote sustainable wage setting, ensure adequate social protection, improve working conditions, promote sustainable enterprises and enhance respect for international labour standards. As the IMF’s latest World Economic Outlook concludes “there are winners and losers from increasing trade openness, especially in the short term. The adjustment costs that further trade liberalization entails for certain

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8 Goal 1.3 Implement nationally appropriate social protection systems and measure for all, including floors, and by 2030 achieve substantial coverage of the poor and vulnerable


10 Making globalization sustainable, ILO and WTO, 2011
workers should not be underestimated and call for complementary policy measures to ensure trade integration works for all.”

20. It is estimated that between 60 and 80 per cent of world trade is now conducted through global supply chains. Against this background, the 2016 International Labour Conference adopted a comprehensive resolution on “Decent Work in Global Supply Chains”. Among other things the resolution stresses the importance of more coherent policy action through partnerships between the ILO and other international organizations.

21. The Better Work programme is a partnership between the ILO and the World Bank’s International Finance Corporation (IFC) operating in eight developing countries around the world. It builds directly on harnessing trade and investment incentives for more decent work in the global garment industry. Better Work focuses on the tripartite involvement of workers, employers and governments in shaping the way global supply chains operate and impact on decent work. Global buyers are key stakeholders to the programme. Their sourcing decisions, often largely influenced by international trade and investment regimes as well as consumer demand, are critical in shaping Better Work’s interventions and ensuring their success.

22. An independent assessment of the impact of the programme that relied on factory-level evidence across all countries shows that the Better Work programme is having a significant and positive impact on working conditions. This includes reducing the prevalence of abusive workplace practices, increasing pay and reducing excessive working hours, and creating positive effects in communities around the factories for workers and their families. These effects occur while increasing the competitiveness of firms. The combination of services that Better Work provides to factories is critical in achieving its objectives. It is also clear that monitoring compliance matters. The research shows that factories make improvements around the time of assessments, but these improvements may not last. Better Work’s regular monitoring of compliance with ILO standards and national legislation therefore plays a pivotal role. Furthermore, there is initial indication that social dialogue plays an important part in improving workers’ outcomes, provided that certain conditions are in place. In particular, having women representatives and fair elections for worker representatives are fundamental to ensuring effective social dialogue.

23. Especially given the major role envisaged for industrialization in reaching the SDGs, and the important role garment and footwear and other relatively labour intensive industries play, the challenge for the ILO, IFC and the programme’s partners is to considerable scale up its reach.

**Increasing investment in infrastructure for inclusive growth and development**

24. As President Kim has stressed “One particular bottleneck for growth is of course infrastructure. In recent years the demand for infrastructure investment has far outstripped available resources.” The

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11 World Economic Outlook October 2016: Subdued demand symptoms and remedies (Chapter 2) IMF.
World Bank Group has a major role to play in mobilizing such finance and helping member States design projects and programmes that have maximum impact on reducing poverty and inequality within the national sustainable development strategies called for by the 2030 Agenda. The World Bank’s New Environmental and Social Framework (ESF) marks a significant step forward in ensuring that infrastructure investments safeguard people and the environment.

25. The ILO actively participated in a three year worldwide multi-stakeholder consultation process leading up to the adoption of the new ESF advising the Bank with respect to labour rights in a number of key areas, including occupational safety and health, to ensure consistency with Borrowers’ international obligations. As the global authority on international labour standards, the ILO welcomes the new ESF, which brings the Bank’s policies closer to those of other multilateral development banks and to the performance standards of the World Bank Group’s own International Finance Corporation. The ILO now looks forward to participating in the process of drafting guidelines for implementation of the ESF’s Environmental and Social Standard 2 (ESS2) on Labour and Working Conditions.

26. The widely ratified ILO conventions on Fundamental Principles and Rights at Work are key benchmarks for international investment and trade governance mechanisms. Their near-universal acceptance, which demonstrates the value of ILO membership, has allowed them to become the globally accepted baseline for fair treatment in the workplace and a starting point for addressing labour conditions and sustainable development. The successful and ongoing ILO-Bank collaboration in Uzbekistan to monitor the cotton harvest for child and forced labour has also provided a useful template of how the ILO and World Bank can work together to assist countries to build their capacity to implement labour standards in the context of World Bank projects.15

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