



LUND UNIVERSITY
School of Economics and Management
Department of Economics

Bachelor Thesis
April 2006

Employment as a Route Out of Poverty

Exploring the Role of Social Capital

Supervisor:
Alia Ahmad

Author:
Åsa Hindenborg

ABSTRACT

This thesis aims to explore, in an in-depth manner, the linkages between economic growth, employment creation and social capital, and how their interaction can provide a way out of poverty for individuals and households, societies and nations. This study points out employment as the key link between growth and poverty reduction. Since the problem of unemployment and underemployment in developing countries is a serious threat to the attempts of reducing world poverty, targeted employment-intensive strategies are needed to lift people out of poverty. The main contribution of this essay is the exploring of social capital, known as norms, trust and networks, and its possible impact in this field. This study shows that social capital can be a valuable asset for poor people, and improve their ability to integrate on the labour market. In a specific manner this thesis points out how social capital may enhance vulnerable people's capability to catch expanded employment opportunities, and hence escape poverty.

KEYWORDS: Poverty, Employment, Social Capital, Pro-Poor Growth.

LIST OF ABBREVIATIONS

ADB: Asian Development Bank

AFD: Agence Française de Développement

BMZ: Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung

DfID: Department for International Development, United Kingdom

HDR: Human Development Report

HDRO: Human Development Report Office

ILO: International Labour Organisation

MDG: Millennium Development Goals

OECD: Organisation for Economic Cooperation and Development

PPP: Purchasing Power Parity

UNDP: United Nations Development Programme

UN: United Nations

WB: The World Bank

WDR: World Development Report

Employment as a Route Out Of Poverty

Exploring the Role of Social Capital

TABLE OF CONTENTS

TABLE OF CONTENTS.....	4
1. INTRODUCTION	6
1.1 Statement of purpose and thesis question	8
1.2 Motivation of thesis question	8
1.3 Methodology and material.....	9
1.4 Limitations	9
1.5 Outline of the thesis.....	10
2. CONCEPTUAL FRAMEWORK.....	11
KEY CONCEPTS	11
A. Poverty.....	11
B. Employment.....	12
C. Social capital.....	14
2.1 THE LINKAGES BETWEEN POVERTY REDUCTION, EMPLOYMENT CREATION AND SOCIAL CAPITAL.....	17
2.1.1 THE MULTIDIMENSIONAL NATURE OF POVERTY	17
2.1.1.1 How can poverty be reduced?	17
2.1.2 LINKING ECONOMIC GROWTH AND POVERTY REDUCTION	19
2.1.2.1 Pro-poor growth for an inclusive development.....	19
2.1.2.2 Employment as the key link	21
2.1.2.2.1 <i>The working poor – the importance of decent work</i>	22
2.1.2.2.2 <i>Mismatching in the labour market</i>	23
2.1.3 LINKING SOCIAL CAPITAL AND POVERTY REDUCTION.....	26
2.1.3.1 How social capital affects economic outcomes.....	26
2.1.3.2 Social capital as a resource for the poor.....	28

2.1.3.3 Criticism against social capital.....	29
2.1.4 LINKING EMPLOYMENT AND SOCIAL CAPITAL.....	31
2.1.4.1 The role of the integrability factor	31
2.1.5 CONCLUDING REMARKS	31
2.2. EMPIRICAL SUPPORT.....	33
2.2.1 HIGH GROWTH RATE AND HIGH SOCIAL EXCLUSION	33
2.2.2.1 Asia – the jobless growth.....	34
2.2.2.2 Growth and poverty in China, India, Sri Lanka and Viet Nam.....	36
<i>Table 1. Growth – divided by sectors.....</i>	<i>38</i>
<i>Table 2. Proportion of population in poverty</i>	<i>39</i>
<i>Table 3. Measuring inequality.....</i>	<i>39</i>
2.2.2 SOCIAL CAPITAL AS AN ASSET TO ENTER THE LABOUR MARKET	40
2.2.2.1 Evidence for the impact of social capital	40
2.2.2.2 Experience from the field.....	42
3. SUMMARY AND CONCLUSIONS	44
3.1 SUMMING UP	44
3.2 POLICY IMPLICATIONS AND FUTURE RESEARCH	45
4. LIST OF REFERENCES	46
4.1 PUBLISHED SOURCES	46
4.2 ELECTRONIC SOURCES.....	48
<i>Appendix A.....</i>	<i>50</i>
<i>Appendix B.....</i>	<i>51</i>

1. INTRODUCTION

“We strongly support fair globalization and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our relevant national and international policies as well as our national development strategies, including poverty reduction strategies, as part of our efforts to achieve the Millennium Development Goals. We also resolve to ensure full respect for the fundamental principles and rights at work.”¹

Recognition that poverty reduction can only be reached via the route of more and better jobs is more and more widespread. A significant step forward is the increased awareness of the importance of placing employment at the centre of economic and social policy-making, as symbolized by the statement above from the United Nations Millennium Summit in 2005.

From Copenhagen to the Millennium Development Goals

The development to reach to the statement above took its departure in the Copenhagen Social Summit in 1995 which marked a turning point for the multilateral system. At the highest political level, with the presence of 117 Heads of State and Government, the international community committed itself to global poverty eradication. The Summit especially stressed the interlinked challenges of poverty, unemployment and social exclusion. From then on the United Nations has reoriented its development approach to focus on poverty reduction. Also the World Bank moved from the criticized *Washington Consensus* approach to a new development framework with a greater focus on poverty reduction and debt relief. Later, at the UN Millennium Summit in 2000 the world’s political leaders committed themselves to coordinated action to reduce and eventually eliminate extreme poverty through the *Millennium Declaration*. The Declaration was followed by eight Millennium Development Goals (MDGs)² and 18 targets, pointing out the most acute areas for action.³ Especially relevant for this thesis is the first Millennium Development Goal: *Eradicate extreme poverty*

¹ The UN Millennium Summit, 2005. *2005 World Summit Outcome Document*, Paragraph 47, p. 12.

² The eight MDGs are; 1: Eradicate extreme poverty and hunger, 2: Achieve universal primary education, 3: Promote gender equality and empower women, 4: Reduce child mortality, 5: Improve maternal health, 6: Combat HIV/AIDS, malaria and other diseases, 7: Ensure environmental sustainability, 8: Develop a global partnership for development. (<http://www.unmillenniumproject.org/goals/index.htm>, 2006-04-20).

³ The International Labour Conference, 2003, *Working out of Poverty*, p. 4f.

*and hunger and its first target: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.*⁴

The global issue of employment is during the year of 2006 put at the centre of the Swedish development agenda. The Swedish government emphasizes the crucial role of employment through active measures within the UN system, the International Labour Organization (ILO), the World Bank and regional organisations.⁵ This makes this thesis even more accurate.

With departure in the Millennium Development Goals this thesis aims to point out the importance of employment strategies as a part of the overall policies to reduce the world poverty. The issue of unemployment and underemployment is an underlying problem of the present fight against poverty. Due to its nature, the fact that unemployment and underemployment is not an immediate problem, it is seldom put on the international agenda. But its key importance for poverty reduction makes it one of the most important issues of our time. Consequently, the importance of employment strategies is significant given the key role employment plays for people aiming to escape poverty.

Most research in the field of labour market and employment theories emphasize the role of a number of factors, such as human capital, health, trade, technology, labour standards etc., as important for obtaining a job. However, I find it interesting to look beyond these traditional economic theories and will thus in this thesis highlight the importance of social capital for people's ability to escape unemployment.

In recent years the role of social capital has received increasing attention in the literature of economics, particularly in the field of poverty reduction. It is argued that those communities endowed with a rich stock of social networks and civic associations, the basic idea of social capital, will be in a stronger position to confront poverty and vulnerability, solve common problems, resolve disputes, and take advantage of opportunities. This has implications especially for developing economies in general, and poverty reduction in particular. It is argued that a low level of social capital can diminish the impact of aid, stifle economic growth and undermine the effectiveness of development projects. The departure point of this thesis is hence that social capital is essential for economic outcomes. Besides, the characteristics of

⁴ From the UN website, <http://www.unmillenniumproject.org/goals/index.htm>, 2006-04-07

⁵ From the Swedish Government website <http://www.regeringen.se/sb/d/6045/a/52611>, 2006-04-10

social capital; it is cheap and fairly easy to acquire, makes it a valuable asset especially for poor people.

Within the framework of this thesis the role of social capital will be emphasized as one important factor in making growth more pro-poor. Through expanding employment opportunities economic growth can reach the very poor, but only if certain conditions are satisfied. The so called integrability factor is crucial for poor people's ability to integrate into the labour market, and it is where social capital plays a crucial role. My study will hence focus on the role of social capital in making growth pro-poor.

1.1 Statement of purpose and thesis question

This thesis aims to explore, in an in-depth manner, the linkages between economic growth, employment creation and social capital, and how their interaction can provide a way out of poverty for individuals and households, societies and nations. The underlying argument of this essay is that holding social capital can improve the possibilities to take advantage of increased employment opportunities. Whereas the general objective is to emphasize the importance of employment creation for poverty reduction, the specific purpose is to explore the role that social capital can play for poor people in capturing those new employment opportunities. My thesis question is hence twofold:

- *How can economic growth, through employment creation, reduce poverty?*
- *How can social capital improve the possibilities for poor people to capture expanded employment opportunities?*

1.2 Motivation of thesis question

This essay stresses the importance of the supply side of the labour market, and asserts that variables on the supply side can have significant influence on poverty. Since most studies on supply side factors on growth and poverty reduction include only human capital, I found a contribution on a more recent discovered supply side factor, social capital, more challenging.

It is already known that one way to integrate poor people into the growth process is by enhancing their ability, through for example education and skills, but studies on the possible impact on social capital are scarce. Since growing evidence show that social capital affects economic outcomes, I found it appealing to explore its possible impact in this more specific context.

1.3 Methodology and material

This thesis is a literature survey with an explorative approach. A conceptual framework is constructed with help of existing academic research in the field of poverty, employment and social capital, and its interconnections. This study is not a case study due to an existing lack of research in the field. However, I attempt to explain the interlinkages presented with help of a brief overview of empirical data. The empirical snapshots from the field should not be seen as an in-depth study, neither as empirical proof for the ideas of this thesis. Rather, the presented material should be viewed as highlighting, and possibly supporting, the main thoughts underlying this essay. Electronic resources have been frequently used to be able to present as updated research as possible. In this context it is worth mentioning that all data presented, both printed and electronic, have been critically studied and analyzed.

1.4 Limitations

This thesis only explores the possible impact of social capital, at the supply side, in capturing expanding employment opportunities for poor people. One must bear in mind that a large number of factors interact, both on the supply and the demand side, but only a few of them will be elaborated on within this framework, with the main focus on social capital. Moreover, this thesis only aims to focus on wage employment opportunities and looks aside from self-employment, although social capital plays an important role in that context. Further, this thesis, for simplicity reasons, deals with poor people as a homogenous group which is a simplified reality. Also within the poor there are groups that are more vulnerable and disadvantaged than others, such as women, young people and ethnic minorities, but these will not be explored any further. Hence, this thesis will not study the gender dimension or the

child labour dilemma of the employment problem. In addition, the essay will focus on poverty reduction at micro level, on individuals' possibilities to escape poverty. However, it is clear that economic behaviour at micro level closely interacts with the macro dimension, which will be touched upon, but the aim of this essay is not to further explain processes at macro level. Most former studies on the issue highlight the value of social capital for economic outcomes at macro level, why I find a contribution at micro level more challenging.

1.5 Outline of the thesis

The first part of this essay will explain the key concepts used throughout the paper. The next section will highlight the poverty issue; what poverty is considered to be, and how it can be reduced. Then the dimensions and implications of employment creation, in the context of poverty reduction, will be introduced to the reader. In the following section the relationship between social capital and poverty reduction will be explained in further detail. Thereafter, social capital's link to employment will be presented. In the following part, empirical data will illustrate the main ideas of this thesis. The last section contains the summary, conclusions and policy implications following this study.

2. CONCEPTUAL FRAMEWORK

KEY CONCEPTS

Within this section the key concepts of this essay; poverty, employment, and social capital, will be further explained, and the reader will be introduced to the main ideas of this thesis.

A. Poverty

Poor people live without fundamental freedoms of action and choice that the better off take for granted. The lack of adequate food and shelter, education and health, are deprivations that keep poor from living the kind of life that everyone values. Moreover, poor face extreme vulnerability to ill health, economic shocks and natural disasters. Ill treatment by institutions of the state and society, and powerlessness to influence key decisions affecting their lives is reality for poor people.⁶ Due to the World Bank's *World Development Report* (WDR) 2000/2001 poor people highlight different dimensions of poverty such as; lack of income and assets to attain basic necessities: food, shelter, clothing, and acceptable levels of health and education; sense of voicelessness and powerlessness in the institutions of state and society; and vulnerability to adverse shocks, linked with an inability to cope with them.⁷

The definition of poverty that will be used for the purposes of this paper, and that inspired the view of the WDR, is the one by the Nobel Prize winner Amartya Sen. His definition of poverty is broad, and has gained world wide attention and support, and been the inspiration source for many works on the issue. Sen argues that the standard criterion of identification of poverty; measuring income and wealth, is not a satisfying way of viewing the phenomenon. He does not deny the view that low income is clearly one of the major causes of poverty; rather he argues that the role of income and wealth has to be integrated into a broader picture of success and deprivation. Sen argues that there are good reasons for seeing poverty as a deprivation of basic *capabilities*, rather than just as lowness of incomes. Deprivation of elementary capabilities can be reflected in premature mortality, significant undernourishment,

⁶ WDR 2000/2001: *Attacking Poverty*, 2001, p. 1.

⁷ Ibid, p. 34.

persistent morbidity, widespread illiteracy and so on.⁸ The *capability approach* by Sen concentrates on deprivations that are *intrinsically*⁹ important unlike low income, which is only *instrumentally* significant. Sen highlights with this approach that there are influences on capability deprivation, and hence on poverty, other than merely lowness of income. Moreover he argues that the relation between low income and low capability varies between different communities and even between different families and different individuals, consequently the impact of income on capabilities is conditional.¹⁰

Sen argues that poverty must be seen in the perspective of the capability to function; what a person can *do* or can *be*, and argue against more standard concentration on wealth (as in real income estimates) or on utility (as in traditional welfare economic formulations).¹¹ By this he means that the capabilities that a person has, that is, *the substantive freedom he or she enjoys to lead the kind of life he or she has reason to value*.¹²

Following the capability approach of Amartya Sen poverty will in this essay be viewed as deprivation in well-being, and not follow the narrower definition of poverty as lack of income. In this context it is important to emphasize that although poverty reduction through increased employment rates primarily affects income poverty, improvements in other kinds of deprivations, mentioned above, will consequently follow.

B. Employment

The ability to work is the only asset of many of the world's poor. Work, or employment, is argued to be the main connection between economic growth and poverty reduction, since it enables people to take command over their lives and their economy. Employment in a broad dimension means all ways of securing a livelihood, not just wage employment, and includes subsistence farming and self-employment among other things. In the extended definition of employment, in the 1996 Human Development Report, work is not even limited to paid employment. The unpaid activities of the household and community that people engage in,

⁸ Sen, Amartya, *Development as Freedom*, 1999, p. 20.

⁹ Intrinsic value means important for its own value; an end in itself.

¹⁰ Sen, Amartya, *Development as Freedom*, 1999, p. 87f.

¹¹ Sen, Amartya, *Commodities and Capabilities*, 1985, preface.

¹² Sen, Amartya, *Development as Freedom*, 1999, p. 87.

such as raising children and caring for the sick and elderly, contributes in a valuable way to society's welfare. People value their work for many reasons besides income. Work enables people to exercise skills and creativity, and to make a productive contribution to society, which in turn fosters self-respect and dignity. Moreover, work contributes to social interaction and participation in collective effort. So, employment does not just economically empower people, but also socially and politically. Earning an income is critical, especially for women, to gain power in household- and community decisionmaking.¹³ However, due to limitations this essay will not further explore the gender perspective. For the same reason, only the field of wage employment will be explored within the framework of this essay.

Since labour is considered one of the main assets of the poor, employment is perceived as a major route out of poverty. In the academic literature basically three different ways of increasing the employment rates are pointed out. The most evident way is through the rate of economic growth, which is crucial to expand employment opportunities. Further the so called elasticity factor matters (meaning making the growth process more labour demanding). The last of these methods is to increase the so called *integrability* factor. This means increasing employment rates through *making poor people better equipped to take advantage of expanded employment opportunities*. This last factor is rather unexplored and will be the subject for further research within the framework of this essay. But, as also will be highlighted, not just any work will lift people out of poverty. The importance of a so called *decent work* is crucial, where legal regulations play an important role. Further it is important to point out that the *formal* and *informal* sectors provide employment on very different conditions for the job-seekers. The informal sector, with its unsatisfactory conditions for work, hides a large number of the so called *working poor*, which are not reflected in the unemployment statistics. Instead the *underemployment* rate has to be considered, since it has crucial implications for poor people's ability to escape poverty.¹⁴ In section 2.1.2.2 on employment this dilemma will be further explored.

Summing up, employment is important since it can provide individuals with incomes to meet material needs, reduce social isolation, and impart a sense of dignity and self-worth. As this essay will show, employment is also perceived the key link between economic growth and poverty reduction. Through creating opportunities for work, economic growth can in an

¹³ HDR, 1996, *Economic growth and human development*, p. 86.

¹⁴ Osmani, S. R., *Exploring the employment nexus: topics in employment and poverty*, 2003, preface.

immediate way contribute to lift people out of poverty. However, this will only be true if certain conditions are fulfilled. Labour market policies need to be sound and help workers manage risks associated with unemployment, lost income, and poor working conditions. In this context labour market regulations and standards, social protection programs such as unemployment benefits, corporate social responsibility for companies, trade unions, education and training are all of great importance. Only well-functioning labour markets can contribute to a sustainable economic growth and an inclusive development.¹⁵

C. Social capital

“It is not what you know, it is *who* you know”¹⁶

In recent years the importance of social capital has gained considerable attention in the field of economic development and growth. A number of economists have elaborated extensively on the issue. Economist Christiaan Grootaert stresses; “*It has now become recognized that these three types of capital [natural, physical and human capital] determine only partially the process of economic growth because they overlook the way in which the economic actors interact and organize themselves to generate growth and development. The missing link is social capital.*”¹⁷

Social capital is a rather new area for research within the field of economics. Although there is little disagreement regarding the relevance of social capital for economic performance no consensus exists on how to define the concept. The lack of an established definition has led to a growth of different interpretations of the concept.¹⁸ However, there is agreement that, in contrast to all other concepts of capital central to the development debate, social capital is unique in that it is *relational*. Alejandro Portes argues that “*Whereas economic capital is in people’s bank accounts and human capital is inside their heads, social capital inheres in the structure of their relationships. To possess social capital, a person must be related to others,*

¹⁵ The WB, www.worldbank.org/labormarkets, 2006-04-11

¹⁶ Woolcock, M. – Narayan, D. *Social capital: Implications for development theory, research, and policy*, 2000, p. 225.

¹⁷ Grootaert, Christiaan, *Social Capital: The Missing Link?* 1998, p. 1

¹⁸ Grootaert, Christian and Van Bastelaer, Thierry (ed.), *Understanding and Measuring Social Capital – A Multidisciplinary Tool for Practitioners*, 2002, p. 2.

and it is these others, not himself, who are the actual source of his or her advantage"¹⁹. Coleman expresses his view on social capital as follows: "(...) *social capital is not the private property of any of the persons who benefit from it*". Hence, social capital exists only when it is shared.²⁰ It is also argued that social capital is beneficial since it affects the accumulation of the other types of capital that are essential for economic growth.²¹ As Putnam claims; "*Social capital enhances the benefits of investment in physical and human capital*".²² Below I will briefly go through the three main views on social capital.

Trust, norms and networks

According to Robert Putnam social capital is *features of social organization, such as trust, norms, and networks that can improve the efficiency of society by facilitating coordinated actions*. He views it as a set of *horizontal associations* between people, hence social capital consists of social networks and associated norms that have an effect on the productivity of the community.²³ The key characteristic of social capital in this definition is that it facilitates coordination and cooperation for the mutual benefit of the members of the association.²⁴

Including vertical organisations

James S. Coleman has presented a broader concept of social capital, adding *vertical networks and firms* to the definition. Coleman views social capital as a variety of different entities, with two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors within the structure. This broadens the concept to include horizontal as well as vertical associations, such as firms. Vertical associations are characterized by hierarchical relationships and unequal power distribution among the members. Coleman is explicit about that social capital can lead to positive as well as negative outcomes "*A given form of social capital that is valuable in facilitating certain actions may be useless or even harmful for others*". Hence, social capital also includes groups that may have undesirable outcomes as well, such as associations with rent-seeking behaviour like the mafia and the militia.²⁵ Summing up, Coleman includes all aspects of social structures, which help solving collective action problems.

¹⁹ Portes, Alejandro, *Social capital: Its origins and applications in modern sociology*, 1998, p. 7.

²⁰ Narayan, Deepa, *Bonds and bridges: social capital and poverty*, 2002, p. 58f

²¹ Ahmad, Alia, *Civil Society, Social Capital and NGOs in Poverty Reduction*, 2004, p. 2.

²² Putnam, Robert, *The Prosperous Community – Social Capital and Public Life*, 1993, p. 36.

²³ Putnam, R. D. et. al., *Making Democracy Work: Civic traditions in Modern Italy*, 1993, p. 167f.

²⁴ Grootaert Christiaan, *Social Capital: The missing link?* 1998, p. 2.

²⁵ Coleman, James S., *Social Capital in the Creation of Human Capital*, 1988, p. 598.

The social and political environment influences

The broadest definition of social capital, used by the World Bank, includes the *social and political environment that enables norms to develop and shapes social structure*. This view includes more formalized institutional relationships and structures, such as the government, the political regime, the rule of law, the court system, and civil and political liberties in addition to the informal, and often local, horizontal and hierarchical relationships of the first two concepts. These institutions are argued to have an important effect on the rate and pattern of economic development.²⁶

The reader now has an overall picture of how the concept social capital can be defined. In this thesis social capital will, according to the World Bank, be viewed as the norms, trust and networks that enable collective action.²⁷ For the purposes of this paper I will especially focus on information sharing, collective action, decisionmaking and trust, since all of them have important impacts on economic outcomes.²⁸ How social capital explicitly affects economic outcomes, through reducing market failures, will be further explained in section 2.1.3.

²⁶ Grootaert Christiaan, *Social Capital: The missing link?* 1998, p. 3.

²⁷ The WB, <http://www1.worldbank.org/prem/poverty/scapital/home.htm> , 2006-03-04

²⁸ Carroll, Thomas F., *Social Capital, Local Capacity Building, and Poverty Reduction*, 2001, p. 11.

2.1 LINKAGES BETWEEN POVERTY REDUCTION, EMPLOYMENT CREATION AND SOCIAL CAPITAL

This chapter will in an in-depth manner explore the linkages of poverty reduction, employment creation and social capital and their interconnections. Since the general objective of this essay is to explore how employment creation can affect poverty reduction, this section will firstly explain how poverty reduction is looked upon within this study. The terms poverty reduction and poverty alleviation will be used throughout the essay as if they were identical. Secondly, the key link between economic growth and poverty reduction: the employment channel, will be explored. Thirdly, the relationship between poverty reduction and social capital is elaborated on. Thereafter, the link between social capital and employment is illustrated, and lastly empirical support for the linkages presented is put forward.

2.1.1 The multidimensional nature of poverty

“Poverty is powerlessness and voicelessness”²⁹

As explored in the previous section there are many aspects of poverty. Although poverty traditionally is viewed as lack of financial resources there are other crucial dimensions, such as lack of access and/or lack of power. The modern multidimensional approach of poverty is hence to consider it a deprivation in well-being, where one dimension interact and reinforce other dimensions, as previously highlighted.³⁰

2.1.1.1 How can poverty be reduced?

As countries become richer, on average the incidence of income poverty falls. Other indicators of well-being, such as education and health, tend to improve as well. For these reasons economic growth is a powerful force to poverty reduction. There are strong links between economic growth and income, and non-income dimensions (like health and

²⁹ Narayan, Deepa, 2000. <http://www.imf.org/external/pubs/ft/fandd/2000/12/narayan.htm>, 2005-10-01

³⁰ *World Development Report 2000/2001: Attacking Poverty*, 2001, p. 15.

education) of poverty. Policies and institutions underpin growth and provide the basis for poverty reduction.³¹

In the vast majority of cases growth has led to a rise in the consumption of the poorest fifth of the population, while economic decline has led to falling consumption. The pattern is similar for the share of people living on less than \$1 a day, which today is close to a fifth of the world's population.³² On average, every additional percentage point of growth in average household consumption reduces the share of the poorest fifth by about 2 percent. Although the deviations from this average relationship show that in some countries growth is associated with much more poverty reduction than in others, the relationship highlights the importance of economic growth for improving the incomes of poor people and hence moving people out of poverty. Conversely, low or negative growth, resulting from the collapse of the state, natural disaster, war or economic crisis can have a devastating impact on poor people.³³ A word of caution is on its place in this context though. The numbers that the World Bank rely its studies on are *average* numbers and does not at all reflect the *distribution* of an extra unit of income, following economic growth. Does the extra unit really create more employment, equality and a rise in incomes in real terms? This is valuable to have in mind, although the crucial role of economic growth for poverty reduction should not be neglected.

National economic development is central to success in poverty reduction, but poverty is an outcome of more than economic processes, as the World Bank also states. It is an outcome of economic, political and social processes that interact with and reinforce each other in ways that can worsen or ease the deprivation that poor people face every day. To alleviate poverty it is required to promote opportunity, facilitate empowerment and enhance security with actions at local, national and global levels. Making progress on all three fronts can generate the dynamics for sustainable poverty reduction.³⁴

This essay will not deal with the political or social issues, but exclusively with the economic one. Since one way to reduce poverty seems to be through economic growth, we will in the next section briefly examine the key channel through which growth affects poverty, the employment link.

³¹ WDR 2000/2001: *Attacking Poverty*, 2001, p. 45f.

³² Ibid, p. 46.

³³ Ibid, p. 45f.

³⁴ Ibid, p. 37.

2.1.2 Linking economic growth and poverty reduction

As stated, empirical studies indicate that high economic growth is important in achieving poverty reduction. Estimates for eight developing countries (Bangladesh, Brazil, Côte d'Ivoire, India, Indonesia, Morocco, Nepal and Tunisia) show that a 2 percent annual rate of growth in consumption per person will generate a decline in the poverty gap index of 3 to 8 percent.³⁵ This is true when using local poverty lines and assuming growth to be distributionally neutral.³⁶ However, findings also show that growth alone is not adequate; the pattern and sources of growth as well as the manner in which the benefits are distributed are extremely important for poverty reduction.³⁷ In this section the importance of employment as the key link between growth and poverty reduction will be elaborated on.

Research has shown that so called *pro-poor growth*, growth benefiting the poor, is best achieved by an employment-intensive growth, together with a rise in productivity. These two elements are crucial for poverty reduction; in the short run via the income effect, and in the long run through raising the productivity of the workforce.³⁸ However, this essay will only deal with the employment issue. This section will highlight pro-poor growth and its importance for providing an inclusive development and allowing people to escape poverty. Later, the key role of employment will be explained.

2.1.2.1 Pro-poor growth for an inclusive development

Since the trickle-down effects of overall economic growth are questioned and not immediate, provoking large costs for both society and individuals, there is a need to focus on more targeted strategies. So called pro-poor growth and inclusive development perspectives are crucial in development strategies.

³⁵ Bardhan, Pranab – Udry, Christopher, *Development Microeconomics*, 1999, p. 134.

³⁶ Whether growth will be distributionally neutral depends on the initial distribution of assets (physical and human), the nature of imperfections in markets (particularly in the capital market), the pattern of growth, factor bias in technology, and government policies (on say, taxes and social welfare). (Ibid.)

³⁷ Osmani, S. R., *Exploring the employment nexus: topics in employment and poverty*, 2003, preface.

³⁸ The ILO, <http://www.ilo.org/public/english/employment/recon/poverty/index.htm>, 2006-04-07.

According to a recently published joint report from the World Bank and three European departments of development issues; AFD, BMZ and DfID,³⁹ pro-poor growth has two definitions: *absolute* and *relative* pro-poor growth. Relative pro-poor growth means that the income of the poor grows faster than the income of the non-poor, implying a reduction in inequality. This definition, that growth is pro-poor if inequality falls, is limited in an operational context according to the report, which rather prefers the absolute definition. The absolute pro-poor growth definition focuses on accelerating the rate of income growth of the poor, and hence the rate of poverty reduction. The report stresses that not only faster growth is required, also *improvements in the capabilities of the poor households to take advantage of the opportunities that growth generates are needed*. This is one of the key issues of this essay and will be further explored. The absolute pro-poor definition is most relevant according to the report since it is consistent with the first MDG, about reducing by half the proportion of people living on less than \$1 a day between 1990 and 2015.⁴⁰ However, according to a report from the UN Human Development Report Office, this absolute definition can be viewed as almost any growth pattern will be pro-poor. Hence the relative definition, with inequality focus, can be viewed as more appealing, asserts the HDRO report.⁴¹ Nevertheless, no matter which definition that is preferred; both stress the need for growth policies and development strategies to put the poor in the centre of action and build inclusive development.

The International Labour Organisation puts employment-intensive strategies at the centre of the concept of inclusive development and pro-poor growth and stresses that *decent work* must be in focus. Although higher rates of economic growth often automatically bring expanded employment opportunities, it is important to, through explicit policies, maximize the employment creation for a certain rate of growth, and give employment a central role in inclusive development strategies.⁴²

The next section highlights how growth can be pro-poor and reduce poverty, through employment creation. Crucial concepts such as decent work will be further explained.

³⁹ AFD: Agence Française de Développement, BMZ: Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung and DfID: Department for International Development.

⁴⁰ The World Bank et al., *Pro-Poor Growth in the 1990s: Lessons and Insights from 14 Countries*, 2005, p.19.

⁴¹ Fuentes, Ricardo, *Poverty, pro-poor growth and simulated inequality reduction*, 2005, p.7.

⁴² Sachs, Ignacy, *Inclusive development strategy in an era of globalization*, 2004, p.18.

2.1.2.2 Employment as the key link

Economic growth affects poverty reduction through an expansion in economic, social and political opportunities; including access to job, information and technology, shelter, safe drinking water, education and voice and so on. This essay focuses on employment as the fundamental key channel between growth, at macro level, and poverty reduction, at micro level. This is mainly because employment provides people with incomes that enable them to ensure themselves a decent standard of living, but also since employment serves as a mean to improve other deprivations in well-being.

Studies show that an expansion in employment opportunities is strongly correlated with growth in GDP per capita but also with an expansion of basic human capabilities. In other words, employment-intensive growth has to be combined with a rapid improvement in the skills of workers to reduce unemployment and, in the long run, poverty. So, whether growth really improves people's lives depends on the *rate* of growth and on its *pattern*, but also on *human capabilities*.⁴³ Further down the two last factors will be explored. The pattern of growth will be studied through *demand* side factors and the human capabilities will be investigated through the *supply* side.

How growth translates into higher incomes

This section will in more detail explore how economic growth is linked with poverty reduction. If poverty is viewed broadly to include basic capability failures,⁴⁴ such as the capabilities to be free from hunger, to live a healthy and active life and so on, you can identify two basic channels where growth is linked with poverty. The first one is the so called *social provisioning channel* where growth-generated resources are utilised by the society to provide services to the poor so they can enhance their various capabilities. The second one is the *personal income channel* where the growth of the economy is translated into higher personal incomes of the poor. The poor then use their incomes to improve their capabilities.⁴⁵ For the purposes of this paper I will only focus on the personal income channel, where employment plays the key role.

⁴³ HDR, 1996, *Economic growth and human development*, p.86ff.

⁴⁴ For a further review on the *capabilities approach* by Amartya Sen, please check section 2A.

⁴⁵ Osmani, S. R., *Exploring the employment nexus: topics in employment and poverty*, 2003, p. 7.

The income channel

What affects the personal incomes of people and hence their ability to escape poverty? It is obvious that without economic growth, and hence the growth of production possibilities, there can be no sustained expansion in employment potential. Growth is therefore crucial in affecting the incomes of the poor, but other factors also influence such as the *elasticity* factor, on the demand side, and the *integrability* factor, on the supply side. The elasticity factor deals with the elasticity of employment potential with respect to growth in production potential: how the quality and quantity of employment is improved with a growth in production possibilities.⁴⁶ Growth that provides an expansion in employment qualities and quantities can also be called *employment-intensive* growth. The integrability factor involves a person's ability take advantage of an expansion of employment opportunities, due to how well-equipped that person is. In this context social capital plays a crucial role. Firstly, I will briefly explore how the demand side influences the possibilities for poor people to escape poverty. Then I will do similarly on the supply side, highlighting the crucial role of matching capabilities.

2.1.2.2.2 The working poor – the importance of decent work

To put it simply, the kind of work matters. While investigating labour markets in developing countries the concept of the so called *decent work*, a work that you can live on, plays a key role. This is because the informal sector often is outsized and *underemployment* is frequent. The central problem is not unemployment, rather the *low returns to labour*, the poor quality of employment, are a threat to poverty alleviation struggles. ILO defines decent work as a work where the employed enjoy social protection and representation rights, so called voice. A decent work is a productive work that delivers a fair income, provides security in the workplace and social protection for the families, good prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives, and equality of opportunity and treatment for all women and men.⁴⁷ How to provide decent work will, due to limitations, not be investigated within this essay. However, targeted actions within the field of *legal regulations* and the *informal sector* are needed.

⁴⁶ Osmani, S. R., *Exploring the employment nexus: topics in employment and poverty*, 2003, p. 7.

⁴⁷ From the ILO website <http://www.ilo.org/public/english/decent.htm>, 2006-04-08

Underemployment – the hidden unemployment

In developing countries the usefulness of unemployment rates are limited. In many developing countries the unemployment rates are lower than the rates in the OECD countries, as currently defined and measured. The reasons why the concept of unemployment, the complete lack of work, is not always meaningful in the developing world, are several. One is that most often there is no welfare system functioning in the absence of work. The lack of unemployment relief programmes, among other factors, forces people without formal employment to engage themselves in the informal sector. Hence, the unemployment is hidden through an insecure job. The informal sector jobs are often not full time, and most often they do not generate sufficient income for a decent living. This dilemma is often summarized as *underemployment*, meaning partial lack of work, low employment income and under-utilization of skills and/or low productivity.⁴⁸

The underemployed are also referred to as the *working poor*. It is people that work but can not live on their wage, and their income is below the poverty line. Besides, the working poor usually do not benefit from other things defining decent work: social protection and representation rights. In 2005 the world had more than 500 million extreme working poor living below the poverty line, defined as US \$1 per day and per person.⁴⁹ Estimates from 1997, when the absolute number of working poor were about the same, show that 25 % of the employed labour force in the developing countries, at that time, were considered working poor.⁵⁰ Unfortunately, rather little statistics in the field of underemployment is available, making it difficult to carry out studies and highlight the dilemma.

2.1.2.2.1 Mismatching in the labour market

A mismatch in the labour market is defined as a gap between, on the one hand, the skills and abilities that employers consider necessary for workers in performing their assigned tasks, and, on the other, the skills and abilities that the workers actually possess. The abilities, of the labour force: its quality, is mainly determined by education and training policies, which are fundamental in this context, but not subject to further study.

⁴⁸ From the UNDP/HDR website, 2006-04-09

http://hdr.undp.org/docs/statistics/understanding/measurement/HDR2002_measuringunemployment.pdf

⁴⁹ From the ILO website, <http://www.ilo.org/public/english/bureau/inf/pr/2006/1.htm>, 2006-04-12

⁵⁰ From the ILO website, <http://www.ilo.org/public/english/employment/strat/analysis/poverty.htm>, 2006-03-09.

Mismatches in the labour market would not occur if the quality and quantity of labour desired by employers coincided with the existing quality and quantity in the labour market. Thus, mismatches exist because of market failure in one or more parties in the roles of obtaining information on the demand side's needs. It leads to unemployment and underemployment, reducing people's possibilities to escape poverty. Mismatches in the labour market have become an acute issue, illustrated by the large number of working poor in the world. There is obviously an imbalance between the rapidly changing skills requirements of the demand side, and the very slow changes on the supply side. It is important to stress that there is no immediate and standardized solution for overcoming the mismatch problem. The solution involves, among other things, appropriate educational policies, as well as changes to social norms.⁵¹ This thesis explores the idea of social capital as an important tool to reduce mismatching problems.

The integrability factor

As stressed by a World Bank report earlier, it is important to improve the capabilities of the poor households to take advantage of the opportunities that growth brings, also called the integrability factor. It involves to which extent the poor are able to integrate into the economic processes so that, when growth occurs and the employment potential expands, they can take advantage of the improved quality and quantity of employment.⁵² This can reduce the mismatches in the labour market, and hence the problem of unemployment and underemployment.

Even with a combination of rapid growth and high elasticity, mentioned above, a rapid rate of poverty reduction is not guaranteed. If the new opportunities are such that the capabilities they demand do not match the capabilities supplied of the poor, perhaps the opportunities will not be seized at all. Therefore, much depends on the correspondence between the structure of opportunities that are opened up and the structure of capabilities possessed by the poor. The greater the degree of correspondence, the greater the integration in the economic expansion will be, leading to a faster rate of poverty reduction.⁵³

⁵¹ Osmani, S. R., *Exploring the employment nexus: topics in employment and poverty*, 2003, p. 17.

⁵² Ibid, p. 7.

⁵³ Ibid, p. 15.

Low integrability – a poverty trap?

For the poor to be able to escape poverty it is crucial that they integrate fully into the economic processes. But there are a number of reasons why many poor are not able to integrate. One is the *mismatch of skills*, where skills demanded by the expanding sectors do not match the skills possessed by the poor. Another is the *insider – outsider* problem where certain types of labour laws and practices may prevent outsiders to entry the labour market. Hence asymmetries of power are created between those already employed and those unemployed. The benefits of expansion will accrue to the insiders, leaving little left for the outsiders, accentuating the poverty problem. Another reason why poor fail to integrate is due to *market failures*, such as informational asymmetries and transaction costs. The lack of integrability seems to be higher in remote areas where transactions costs are high, infrastructure is poor and the market is thin.⁵⁴ In the context of lacking integrability capacity social capital can work as a link between poor people and the economic processes, reducing the information asymmetries in the market. In this perspective, social capital provides an asset for the poor, reducing their integration problems.

To what extent economic growth is successful for poverty reduction largely depends on the barriers that the poor face while trying to integrate into the labour market. In the context of poverty reduction the integrability factor cannot be overemphasized. Low integrability capacity makes people trapped in poverty. The empirical understanding of the nature of the integrability problem is limited though. To create efficient policy formulations it is important to, within further research, identify which kinds of barriers that act as major constraints in different parts of the developing world.⁵⁵ However, social capital can be viewed as a major instrument to decrease the integrability problem via reduced market failures.

⁵⁴ Osmani, S. R., *Exploring the employment nexus: topics in employment and poverty*, 2003, p. 24ff.

⁵⁵ Ibid.

2.1.3 Linking social capital and poverty reduction

Whereas economic growth affects poverty reduction in a top-down manner, social capital works in the opposite direction; bottom-up. Social capital's main asset is its ability to reduce market failures and transaction costs by reducing information asymmetries and improving collective action by increased trust. Social capital is also viewed as especially valuable for poor people, as highlighted further down.

2.1.3.1 How social capital affects economic outcomes

Social capital affects economic outcomes in several ways. At the microeconomic level, the contribution of social capital is seen primarily through the ways it improves the functioning of markets, especially alleviating market failures that have to do with information asymmetry.⁵⁶ The channels through which social capital affects development include information sharing, mutually beneficial collective action, decisionmaking and trust, which can lead to higher incomes for households, communities and nations, and hence reduce poverty.⁵⁷ I will briefly go through each of these elements and explain why they affect economic outcomes, and therefore are of importance in this essay.

Information sharing

Decisions by economic agents are often inefficient because they lack accurate information. In some circumstances one agent can benefit from giving incorrect information to another agent. Credit or employment applications are examples of such a situation. In other circumstances optimal decisions are difficult because there is uncertainty about the future and the response of other agents to that future. These situations represent cases of market failure. Social capital can contribute to alleviating such failures. It is important to underline that social capital does not remove the uncertainty, but may create mutual knowledge about how agents will respond to different situations.⁵⁸ The aspect of information sharing plays a key role in this essay since the integrability factor is closely linked to imperfect information. If information to a larger

⁵⁶ Grootaert, Christian, *Social Capital: The missing link?* 1998, p. 2.

⁵⁷ Grootaert, Christian – Van Bastelaer, Thierry (ed), *The Role of Social Capital in Development: An Empirical Assessment*, 2002, p. 4.

⁵⁸ Grootaert Christiaan, *Social Capital: The missing link?* 1998, p. 4-5.

extent were shared in the market, people's ability to catch expanded employment opportunities would most probably improve.

Collective action

Uncoordinated or opportunistic behaviour by economic agents can also lead to market failure. This can occur as a result of imperfect information but also simply because the benefits of not complying with an agreement are greater than the expected penalty. Associations and networks can reduce opportunistic behaviour by creating repeated interaction among individuals, which enhances trust. For example, repeated credit transactions among the members of a credit group will strengthen trust, reduce uncertainty about repayment behaviour, and reduce transaction costs. Although this can occur in both horizontal and vertical associations, the creation of trust and reciprocity is more likely in horizontal groups, especially those based on gender, ethnicity or caste, or other dense networks.⁵⁹

Collective decisionmaking

A necessary condition for the provision of public goods and the management of externalities is collective decisionmaking. However, local and voluntary associations do not always succeed to effectively maximize their joint utility. The extent to which they do this depends on different aspects, where an important one is equity. There is some evidence that local institutions are more effective at enforcing common agreements and cooperative action when the local distribution of assets is more equal and the benefits are shared more equally. So, better sharing provides an incentive for better coordination in managing local public goods, which increases productivity for everyone.⁶⁰

Trust

*“Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence”.*⁶¹

In the context of social capital the role of shared norms, values, trust, attitudes and beliefs are often cited as important. Especially shared trust is crucial for economic outcomes. Although

⁵⁹ Grootaert Christiaan, *Social Capital: The missing link?* 1998, p. 5f.

⁶⁰ Ibid, p. 6.

⁶¹ Arrow, Kenneth, *Gifts and Exchanges*, 1972, p. 357.

trust can be found at all levels of society, it always comes down to the level of the individual in the end, since it is the individual who is trusting.⁶² The definition is according to Margaret Levi; “*trust is relational; it involves an individual making herself vulnerable to another individual, group or institution that has the capacity to do her harm or to betray her. Trust is seldom unconditional; it is given to specific individuals or institutions over specific domains*”.⁶³

Empirical evidence show that trust has beneficial outcomes for an economy. Trust and civic norms are stronger in nations with higher and more equal incomes, countries with formal institutions that effectively protect property and contract rights, and countries with better educated and ethnically homogeneous populations.⁶⁴ Many economic activities require some agents to rely on the future actions of others, and these activities are accomplished at lower cost in higher-trust societies. Further it is showed that individuals in higher-trust societies spend less to protect themselves from being exploited in economic transactions. Moreover, low trust has an economic cost in discouraging innovation. If entrepreneurs must devote more time to monitoring possible malfeasance by partners, employees etc., they have less time to devote to innovation in new products or processes. Societies characterized by high levels of trust are also less dependent on formal institutions to enforce agreements. Informal credit markets dependent on strong interpersonal trust can facilitate investment where there is no well-developed formal system of financial intermediation, or where lack of assets limits access to bank credit.⁶⁵

2.1.3.2 Social capital as a resource for the poor

While there is growing empirical evidence on the benefits of social capital, there are very few data on the cost side. It must be remembered that it is in most cases not costless to produce social capital. Social capital production requires resources – especially time. The amount of social capital that will be produced is therefore in part a function of the opportunity cost of

⁶² Levi, M., *Social and Unsocial Capital: A review of Robert Putnam's Making Democracy Work*, 1996, p. 47.

⁶³ Levi, Margaret, *Trust and trustworthiness*, 2000, p. 476.

⁶⁴ Knack, S. – Keefer Philip and Iris, *Does Social Capital have an Economic Pay-off? A cross-country investigation*, 1997, p. 1251.

⁶⁵ Ibid.

time and the expected return from the social capital (the public good that is created).⁶⁶ It is argued that the value of social capital for poor people is even higher than for rich people since it is very time-consuming, and time is what usually poor people have more of.⁶⁷ Poor people have a lower opportunity cost of time and a lower stock of financial and physical capital than the rich. Then, since social interaction is time intensive and social capital often can substitute for private capital, the poor may choose to rely more on social capital than the better-off.⁶⁸ However, the view that poor people have more time than rich can be criticized from a gender perspective. It can be questioned whether women in developing countries have more time since they often experience the double burden of working both in the field and in the home. Nevertheless, the fact that the acquirement of social capital often does not require financial resources makes it appealing for developing countries and, in particular, for poor people.

2.1.3.3 Criticism against social capital

The concept of social capital has been met with scepticism, especially the different measurement methods, and the use of the word *capital*, while talking about social interactions and attitudes. Firstly, a weakness of the concept is that there are no appropriate measurement methods, even though several studies have attempted to quantify social capital and its contribution to economic development. The abstract and many different definitions of social capital make it difficult to find correct and fair quantitative variables. Growing evidence show that social capital is best measured by using a variety of qualitative and quantitative instruments, and that there is not just one practice that fits all.⁶⁹

Second, regarding the use of the word capital; indeed social capital exhibits a number of characteristics that distinguish it from other forms of capital. First, unlike physical capital, but like human capital, social capital can accumulate as a result of its use. Therefore, social capital is both an input into and an output of collective action. Second, social capital is different since creating and activating it requires at least two people. However, social capital shares several attributes with other forms of capital. Firstly, it is not costless to produce, as it

⁶⁶ Grootaert Christiaan, *Social Capital: The missing link?* 1998, p. 8-9.

⁶⁷ Grootaert, Christiaan – Van Bastelaer, Thierry (ed), *The Role of Social Capital in Development: An Empirical Assessment*, 2002, p. 1.

⁶⁸ Ibid, p. 37.

⁶⁹ Grootaert, Christiaan – Van Bastelaer, Thierry, *Social Capital: From Definition to Measurement*, 2002, p. 9.

requires an investment, at least in terms of time and effort, if not always money, that can be significant. It is shown that social capital can take generations to build and to become fully effective. But, as the many examples of civil conflict around the world testify, trust is more easily destroyed than (re)built. Hence, there is a distinct maintenance expense to social capital, most often in the form of time.⁷⁰ Secondly, case studies document that social capital can directly enhance output and lead to higher productivity of other resources, such as human and physical capital. Hence, social capital is an asset, that is, it represents genuine capital, and is more than just a set of social organizations or social values. A word of caution is necessary following this discussion. A concept that encompasses too much is at risk of explaining nothing. Therefore the challenge is to give a meaningful content to the concept of social capital and to define suitable indicators. Further, social capital is no solution for all market failures and has, like natural, physical, and human capital, limited value if not combined with other forms of capital.⁷¹

Regarding the criticism against the terminology capital; Robert Solow asserts that capital is not an adequate term for what social capital really consists of, as he rather would refer to as behaviour patterns. Solow argues: *“Just what is social capital a stock of? Any stock of capital is an accumulation of past flows of investment, with past flows of depreciation netted out. What are those past investments in social capital? How could an accountant measure them and accumulate them in principle?”*⁷²

With these sceptical views in mind I would still argue, relying on several important works on social capital, and its importance for economic development, that the level of social capital matters in economic development and poverty alleviation. The criticism against the measurement problems is correct, and has to be considered, but I do not find it enough to ignore the importance of social capital.

⁷⁰ Grootaert, Christiaan – Van Bastelaer, Thierry (ed), *The Role of Social Capital in Development: An Empirical Assessment*, 2002, p. 5.

⁷¹ Grootaert Christiaan, *Social Capital: The missing link?* 1998, pg. 5-7.

⁷² Solow, Robert M., *Notes on Social Capital and Economic Performance*, 2002, p. 7.

2.1.4 Linking employment and social capital

This part of the essay has in an extensive way investigated how poverty reduction, employment creation and social capital are linked to each other. Whereas the general objective of this study is to emphasize the importance of employment creation for poverty reduction, the specific purpose is to explore the role that social capital can play for poor people in capturing new employment opportunities. One possible way of viewing this issue is presented in this thesis.

2.1.4.1 The role of the integrability factor

The underlying argument of this essay is that holding social capital is valuable, especially for poor people, and that it can improve one's possibilities to integrate on the labour market. My specific thesis question is: *How can social capital improve the possibilities for poor people to capture expanded employment opportunities?* The previous section has intended to find an answer on that. In accordance to the study that I have done, I draw the conclusion that social capital improves the possibilities for poor people to integrate on the labour market, among other things, through reducing market failures that have to do with information asymmetries. Hence, social capital may increase the integrability factor of poor people. Alleviating market failures and increased integrability, through social capital, most probably reduce the mismatching in the labour market. In the long run this will lead to poverty alleviation.

2.1.5 Concluding remarks

This thesis aims to explore, in an in-depth manner, the linkages between economic growth, employment creation and social capital, and how their interaction can provide a way out of poverty for individuals and households, societies and nations. The previous parts have highlighted how economic growth can reduce poverty through employment creation in accordance with the overall aim of this study. General economic growth has been shown not sufficient for alleviating poverty, why pro-poor growth policies with specific employment strategies are required. The strategies need to be inclusive and aim to provide decent work for

all, since the unemployment and underemployment problems of developing countries today are serious threats to the attempts of reducing world poverty. Also, as the main contribution of this essay, poor people's ability to integrate on the labour market need to be improved, to solve for the problems of mismatching in the labour markets. The dilemma of low integrability can be alleviated through the means of social capital, since it reduces information asymmetries in the market.

2.2 EMPIRICAL SUPPORT

The objective of this essay is to highlight the importance of employment creation for poverty reduction, and to illustrate how social capital can improve the possibilities for poor people to take advantage of the expanded employment opportunities. This part of the essay will provide the reader with empirical data on these matters. Firstly, empirical data of countries with high economic growth but high poverty rates will be presented. This is to highlight the crucial role of appropriate employment strategies. If growth is not pro-poor through employment-intensive growth, countries will fall short on poverty and inequality measures despite high growth. Four Asian cases will be presented. Secondly, empirical data on social capital will highlight how poverty can be reduced, improving poor people's ability to integrate on the labour market.

There is an existing lack of research in the field of employment and social capital, why this study does not explore any specific case. However, I attempt to explain the interlinkages between economic growth, poverty reduction and social capital with help of empirical snapshots from the field. These empirical data should not be seen as an in-depth study, neither as empirical proof for the ideas presented. Rather, the material introduced to the reader should be viewed as highlighting, and possibly supporting, the main thoughts underlying this essay.

2.2.2 High growth rate and high social exclusion

*"...economic growth alone isn't adequately addressing global employment needs. This is holding back poverty reduction in many countries"*⁷³

The recent launched ILO Global Employment Trends Report shows that despite a 4.3 percent global GDP growth in 2005, only 14.5 million of the world's more than 500 million extreme working poor were able to rise above the poverty line,⁷⁴ defined as US \$1 per day and per person.

⁷³ The ILO Director-General Juan Somavia about the Global Employment Trends Report 2006.
<http://www.ilo.org/public/english/bureau/inf/pr/2006/1.htm>, 2006-04-12

⁷⁴ The poverty line will be explained further down.

2.2.2.1 Asia – the jobless growth

In a recent published article the *Economist* highlights the problem of growth accompanied with increasing unemployment in the case of Asia. The article concludes that the ratio of employment growth to economic growth is low in Asia and that the region is not creating enough jobs. Initially unemployment was not considered a problem in the region since the economic growth has risen in many Asian countries during recent years. People on average are too poor not to work. But now, the job-seekers grow faster than ever, and the unemployed in the region has risen every year since 1999. ILO estimates some 74 million people (4.4 % of the workforce) to be currently out of work across Asia and the Pacific. Noteworthy is that these numbers do not include the underemployed, which accounts for a fifth of the workforce in Pakistan, a quarter in Nepal, over a third in Bangladesh and 56 % for rural workers in Viet Nam. Since the populations are young, and an increasing number of women are starting working throughout the region, the growth of the labour pool increases rapidly, while the work offers get fewer. Especially the young Asians between 15 and 24 are hit; they make up half of the unemployed. In Sri Lanka for example, younger workers are six times more likely to be unemployed than older ones.⁷⁵

This development contradicts economic theory that states that where labour is cheap, growth should be more labour-intensive than capital-intensive. But in Asia the recent growth has mainly been underpinned by the modern, export-oriented firms and they are likely to use the same technology as the developed world. So, only subsistence farming and simple urban services are still highly labour-intensive and these are not the successful industries. As a consequence, regional differences in poverty and inequality are created, as will be showed below. To achieve a pro-poor growth this dilemma has to be dealt with.⁷⁶

Facts on Asian unemployment

According to the International Labour Organisation *East Asia*⁷⁷ has a low level of unemployment; 3.3 % in 2003, but the working poor in the region accounts for over 18

⁷⁵ The Economist, *Asia: the jobless boom*, 2006, p. 60.

⁷⁶ Ibid.

⁷⁷ East Asia consists of People's Republic of China; Hong Kong, China; Republic of Korea; Mongolia and Taipei, China (Asian Development Bank, 2005. *Key Indicators 2005: Promoting Full, Productive and Decent Employment*, Table 1, p. 140).

percent of the total number employed. In *South East Asia*⁷⁸ a sharp increase in unemployment rate has occurred in the past years, but still the unemployment is relatively low; 6.3 percent in 2003. Nevertheless, underemployment remains a problem and the relative rate of working poor is high. In *South Asia*⁷⁹ the unemployment has remained unchanged even though the region has experienced a steady GDP growth the last ten years. In addition, the number of working poor, the underemployed, increased during this period and accounts today for 40 percent (!) of the total number of employed. In this region most of the employment was created in the informal economy, where the underemployed basically work. In for example India the informal sector accounts for more than 90 percent of the total economy. It is also important to point out that especially the youth unemployment has experienced a remarkable increase during the past ten years. It has almost doubled and in 2003 some ten million young people were unemployed and looking for work. Particularly young women are more affected by unemployment than young men with an unemployment rate of 17.6 % compared to 15.5 % of young men.⁸⁰ A graphic illustration of the Asian unemployment 1993-2003 is presented in appendix A.

As highlighted earlier, strict unemployment facts give an unsatisfactory picture of the actual situation. To understand the poverty dilemma one has to go beyond the unemployment statistics, since the underlying problem of underemployment, the large number of working poor, is hidden. Moreover, overall unemployment statistics tend to hide rural-urban differences, and differences between men and women and young and mature workers. In fact, large differences within a country might exist which are not reflected in statistics based on average measures. For this reason, the next section will present facts on GDP growth and poverty rates. The presented cases illustrate that growth is not enough, nor immediate, for poverty reduction.

⁷⁸ South East Asia consists of Cambodia; Indonesia; Lao PDR; Malaysia; Myanmar; Philippines; Singapore; Thailand and Viet Nam (Asian Development Bank, 2005. *Key Indicators 2005: Promoting Full, Productive and Decent Employment*, Table 1, p. 140).

⁷⁹ South Asia consists of Afghanistan; Bangladesh; Bhutan; India; Maldives; Nepal; Pakistan and Sri Lanka (Asian Development Bank, 2005. *Key Indicators 2005: Promoting Full, Productive and Decent Employment*, Table 1, p. 140).

⁸⁰ ILO, 2004, *Global Employment Trends*, p. 9-20.

2.2.2.2 Growth and poverty in China, India, Sri Lanka and Viet Nam

This section points out four Asian cases that have experienced high economic growth but still fight high poverty and inequality rates. I have chosen to give an overview of China, India, Sri Lanka and Viet Nam, since they have experienced prosperous growth in the latest years, but still struggles with high poverty rates. The similar pattern might indicate a regional problem, where these four countries represent different regions of Asia; East, South and South East Asia. I will compare rates of economic growth with poverty and inequality rates at given points in time. I do not aim to present any trends, nor give a comprehensive picture of the dilemma. Rather I attempt to illustrate the crucial role of appropriate employment strategies, presented earlier in this essay. High economic growth is not immediate, and countries will fall short on poverty and inequality measures if not adopting targeted development policies.

Economic growth

Economic growth is in this context measured as **annual growth in gross domestic product (GDP)**. To be able to point out regional differences, growth will be separated into the major sectors of a country; the *agricultural* sector, the *industrial* sector and the *service* sector.

Poverty and inequality

To give a broader picture of national poverty and income inequalities different measures will be used. How to measure poverty has been a controversial issue, and has for a long time provoked debate. I will use two different measures of poverty, the **National Poverty Line** and **Proportion of population living on less than 1 \$ (PPP) a day**. The national poverty lines are the poverty lines considered appropriate for a country by its authorities.⁸¹ They are generally based on the amount needed for an individual in one country to live decently, taking into account that a different minimum of survival goods are required in different countries. Hence the poverty lines vary since the costs of consumption used to estimate poverty lines vary across countries. Moreover, the concepts used to define poverty lines also differ across countries, making national poverty lines problematic when it comes to international comparisons. Therefore, the World Bank has composed an internationally defined poverty

⁸¹ From the UNDP website, http://hdr.undp.org/reports/global/2003/indicator/indic_24_1_1.html, 2006-04-07

line of about \$1 a day, measured in *purchasing power parity*⁸² terms. It relies on the assumption that \$1 is the average minimum consumption needed for subsistence in developing countries.⁸³ Although criticism remain this is about the best measures available by now, and I will hence use both of them.

*“Inequality hampers poverty reduction”*⁸⁴

The dilemma of absolute poverty has been highlighted earlier, but what is the problem of relative inequality if people do not live under the poverty line? Relative inequality is a concern in many ways, economically, politically and socially. Here the main economic reasons are highlighted. Extreme inequality in income and assets leads to economic inefficiencies. For example, only a small fraction of the population qualifies for loans and credits. The lack of collateral for the great majority, excluding them from credits, leads to societal costs in the long run. Children may suffer from less education, and businesses can not be started up. Another example is inequality in land rights that may lead to that the maximum profit from cultivating land is foregone, creating economic inefficiencies. Further, the resources of the state get affected, since high inequality reduces the capacity for savings and investments. For successful poverty reduction the problem of inequality needs to be taken care of.⁸⁵

Regarding income distribution inequalities the most appropriate, and commonly used, measurement method is the **Gini index**. The Gini coefficient measures, with help of a so called *Lorenz curve*, to which extent the distribution of income (or consumption) among individuals (or households) within a country deviates from a perfectly equal distribution. The area between a *hypothetical line of absolute equality* and the Lorenz curve, a curve plotting the income received against the number of recipients, is measured: the Gini index. A value of 0 represents perfect equality and 100 represents complete inequality.⁸⁶ For a graphic illustration, see appendix B.

⁸² **Purchasing Power Parity (PPP)**: A way to convert national incomes into a common currency for comparisons across countries. When comparing living standards exchange rate conversions can not be used since they do not take into account price differences between countries. For this purpose PPP is used.

(HDR, 2001, *Making new technologies work for human development*, p. 20).

⁸³ HDR, 2003, *Millennium Development Goals: A compact among nations to end human poverty*, p. 42.

⁸⁴ Lopez, Humberto – Servén, Luis, *A normal relationship? Poverty, Growth and Inequality*, 2006, p. 15.

⁸⁵ Todaro, Michael P. – Smith, Stephen C, *Economic Development*, 2003, p. 209f.

⁸⁶ From the UNDP website, <http://hdr.undp.org/statistics/data/indicators.cfm?x=148&y=1&z=1>, 2006-04-08.

Figures on growth, poverty and inequality

The table below illustrates the total economic growth and the growth in three main sectors, highlighting regional differences. All four countries show low growth in agriculture, whereas industry and services are the prosperous sectors. Consequently, the rural areas benefit to a very little extent from the high growth, while the urban population relatively is made better off.

Table 1. Growth – divided by sectors

	GDP total (%) (2004)	Agriculture	Industry	Services
<i>China</i>	9.5	2.5*	12.7*	7.3*
<i>India</i>	6.9	1.1	7.8	-4.9
<i>Sri Lanka</i>	5.4	-0.7	5.2	7.6
<i>Viet Nam</i>	7.7	3.5	10.2	7.5

* in 2003 (missing data in 2004)

Source: Asian Development Bank, *Key Indicators 2005: Promoting Full, Productive and Decent Employment*, 2005, Table 12, p. 158f.

Next figure below shows the differences in poverty between rural and urban areas, following the growth pattern illustrated above. All countries experience higher rural poverty than urban; in China and Sri Lanka the rural poverty is twice as big as the urban one, according to their national poverty lines. In Viet Nam the rural poverty is six times as large as the urban poverty. Interesting to note is how the two poverty measures differ from each other. Using the national poverty line China shows relatively low poverty rates, while using the World Bank's *one-dollar-a-day* measure the poverty rate immediately grows four times larger. On the opposite, Sri Lanka and Viet Nam show higher percentages of population in poverty while using the national poverty lines in comparison with the one-dollar-a-day measure.

Table 2. Proportion of population in poverty

	Population in poverty (%)*	Population in poverty (%)	Population in poverty (%)	Proportion of population (%) below 1 \$ (PPP)** a day
	Total	Urban	Rural	
<i>China</i>	4.6	2.0	4.6	16.6
<i>India</i>	28.6	24.7	30.2	35.3
<i>Sri Lanka</i>	25.0	15.0	27.0	7.6
<i>Viet Nam</i>	28.9	6.6	35.6	13.1

* Based on the *National Poverty Line* measure. When available, official poverty lines are used. In some countries, no official poverty line is available, and data may have been computed by non-governmental agencies.

** PPP: Purchasing Power Parity

Source: Asian Development Bank, *Key Indicators 2005: Promoting Full, Productive and Decent Employment*, 2005, Table 1, p. 140f.

The last table presents the four countries' Gini coefficients, highlighting the inequality in income distribution at a given point in time. China is showing the highest total GDP of these four countries and relatively low poverty rates. But when measuring inequality China shows much higher rates than India, Sri Lanka and Viet Nam.

Table 3. Measuring inequality

	Gini index
<i>China</i>	44.7
<i>India</i>	32.5
<i>Sri Lanka</i>	33.2
<i>Viet Nam</i>	37.0

Survey years: 1999 – 2002. For comparison: Sweden has a Gini index of 25.0 (2000).

Source: The World Bank, *World Development Indicators 2005*, Table 2.7.

This chapter aimed to shed light on the problems of remaining poverty despite increases in economic growth. These figures show a similar pattern of high growth but uneven distribution of incomes, with regional differences, and relatively high poverty rates. The figures together illustrate that only high economic growth is not enough, nor immediate for poverty reduction. This essay points out two possible reasons for this; the failure of creating decent work and the failure of integrating the poor people into the economic growth. These factors accentuate the poverty dilemma. Hence there is a need for complementing efforts besides promoting

economic growth. Targeted pro-poor policies are crucial for making growth more inclusive. To reach the poor and vulnerable, and integrate them into the growth processes, is of key importance for poverty reduction. In this field social capital may play an important role.

2.2.3 Social capital as an asset to enter the labour market

Social capital is viewed as an asset to enter the labour market since it improves the functioning of markets and reduces market failures, such as information asymmetries and transaction costs. High social capital of civic participation and social networking is thought to improve one's chances to establishment on the labour market. However, in many developing countries poor people, especially in rural areas, suffer from scarce information and high transaction costs. Increased social capital could hence provide a way out of poverty if it leads to increased labour market participation. Since the effective functioning of the labour market depends on the matching of demand and supply, information is crucial. Matching asymmetries are widely common since employers have limited information about the supply-side and the job-seekers characteristics, and potential employees have insufficient information about the demands in the labour market. This is the problem of integrability, in part, as discussed earlier. It is reasonable to think that with more social capital, and hence more information and lower transaction costs, the matching asymmetries would be reduced and, in the end, lead to a more inclusive society.

2.2.3.1 Evidence for the impact of social capital

There is little research in the field of social capital and employment. The great majority of the existing research has been undertaken in the field of self-employment, where social networks and sharing of norms and trust have shown to be very valuable. However, some studies point out the importance of social capital for wage employment and will be presented in a summary manner below.

Brook argues that social capital, such as trust, social networks and civic participation, has important influence on gaining employment in the British labour market. In the context of employment, social capital is as an asset, providing positive networks of contacts and

information and hence creating opportunities, when looking for a work. In terms of job searching it is found that networks to a higher degree than trust contributes to a successful outcome. Brook points out key findings that show that social capital plays a role in determining labour force status and that people with high levels of social capital are more likely to be in full time employment. But noteworthy is that social capital seems to be different among people from different socio-economic backgrounds and that it is found to reproduce itself. For example, unemployed people are less likely to have ties to people who are in employment. Consequently, social capital may intensify existing inequalities or differences between people.⁸⁷

Another American study by Aguilera shows similarly that social networks in general are positively correlated with labour market participation. But where previous studies mostly have focused on social capital's role for making career this paper instead focuses on the unemployed and underemployed. The study shows that unemployed and underemployed can use social networks to gather information that can lead to employment. This contradicts common views on these groups as possessing negative personal qualities preventing them from full labour market participation. The paper demonstrates that market information is a valuable commodity in the US labour market but which is not equally available for all, due to differences of quantity and quality of social networks. Hence, any attempt to reduce the inequalities within society has to consider the unequal distribution of employment-related information. The paper is especially focused on the disadvantaged groups of society, in this case women and ethnic minorities. Its conclusion is that if distributing valuable labour market information to all those potential job-seekers, even in remote areas where information is scarce, most likely social inequality will be reduced. The author stresses further that affirmative action is needed to raise the proportion of traditionally underrepresented groups in the labour market, and through that increase their social capital.⁸⁸

Bethoui shows in his study of immigrants in Sweden that human capital theories are not enough to explain employment outcomes for vulnerable groups of society. His study shows that the human capital theory's prediction, that individuals with the same human capital

⁸⁷ Brook, Keith, *Labour market participation: the influence of social capital*, 2005, pages 113-123.

⁸⁸ Aguilera, M. B., *The Impact of Social Capital on Labor Force Participation: Evidence from the 2000 Social Capital Benchmark Survey*, 2002, p. 871ff.

characteristics would have the same annual income or the same probability of being employed, is not true. He presents an alternative explanation; that social capital matters.⁸⁹

There is limited research about the connection of social capital and wage employment in developing countries. However, the above mentioned studies show that social capital in fact affects one's probability of obtaining a job, and it is not unreasonable to argue that the pattern would be somewhat similar in developing countries. The measurement problems of social capital make it especially difficult to carry out studies in the developing world though. Nevertheless, to illustrate the valuable impact of social capital in developing countries, a couple of studies are briefly presented below.

2.2.3.2 Experience from the field

A study of Bolivia, Burkina Faso and Indonesia examined the role of one part of social capital: local associations. The study shows that associations have a positive impact on accumulation of assets, access to credit and organization of collective action. The acquisition of social capital is a dynamic process, sometimes leading to endogeneity problems. The study finds that social capital indeed has an effect on income. Although it is also true that higher incomes lead to a better acquisition of social capital. Further, the paper concludes that the returns to social capital are relatively higher for poor people than for rich. Hence, the obvious implication is, the authors assert, that investments in social capital should be considered a part of poverty alleviation strategies.⁹⁰

In the context of employment, studies on self-employment assert the crucial role of social capital. In a study of the pioneering micro credit institution Grameen Bank in Bangladesh social capital has been found to be a valuable asset. The micro credits borrowed from the bank are most often used for the purposes of starting a small-scale entrepreneurship, and through that provide a route out of poverty. The study shows that to ensure that the credit delivery really mattered and lead to qualitative changes in the lives of the members, the bank had to create social capital, such as trust, norms and networks. This since social capital was proved

⁸⁹ Behtoui, Alireza, *Unequal opportunities for young people with immigrant backgrounds in the Swedish labour market*, 2004, p. 650ff.

⁹⁰ Grootaert Christiaan, *Does social capital help the poor? A synthesis of findings from the local level institutions studies in Bolivia, Burkina Faso and Indonesia*, 2001, p. 28ff.

valuable in the context. Hence, the micro finance institution not only solved for market failures in the credit market, but also corrected another type of market failure, by providing a public good. Social capital is a public good, non-excludable and non-rivalrous. The study shows that the Grameen Bank both takes advantage of, and build, social capital. Hence, it is proved that a third party can enable the creation of social capital. The attempts to create trust, norms and networks were found to fundamentally have changed the lives of the members. This is of high importance for policy implications.⁹¹

⁹¹ Asif, Dowla, *In credit we trust: Building social capital by Grameen Bank in Bangladesh*, 2006, p. 119f.

3. SUMMARY AND CONCLUSIONS

3.1 SUMMING UP

This essay has in a profound way explained the linkages between poverty reduction, employment creation and social capital. Poverty has multidimensional aspects, including more than only income poverty. However, increases in income are most likely to improve other deprivations, of health, education and well-being, as well. For this reason, employment for poor people is crucial for providing a way out of poverty. To be able to reach the first UN Millennium Development Goal, halving the world's population living on less than \$1 a day by 2015, immediate action in this field is needed.

In accordance to the general objective of this essay, the importance of employment creation for poverty reduction has been emphasized. The study argues that general economic growth is not by itself enough for poverty reduction; hence policies for pro-poor growth have to be undertaken. Empirical support for this argument has been presented through an overlook of four Asian countries experiencing high growth during recent years: China, India, Sri Lanka and Viet Nam. The empirical data show high poverty and inequality rates, despite economic growth. Hence, targeted measures for growth to be pro-poor are needed.

Employment is showed to be the key link between economic growth and poverty reduction. Labour is the main asset of poor people, and work provides people with incomes that enable them to take command over their lives and ensure themselves a decent standard of living. However, the labour markets of developing countries are not efficient enough to lift people out of poverty. Outsized informal sectors and insecure employment are frequent. The main problem of the developing world is not the unemployment, rather the *underemployment*, an underlying poverty dilemma seldom put on the international agenda. Nevertheless, the large number of working poor has serious consequences for individuals and societies in the long run. This essay points out two reasons for this development; the unsatisfactory creation of *decent work*, and the *mismatching of capabilities* in the labour market. The latter, dealing with poor people's ability to integrate on the labour market, also called the *integrability* factor, is central in this essay.

Social capital, known as trust, norms and networks, is a relatively new field within economic research. This study has emphasized the merit of social capital for poverty alleviation through theoretical and empirical evidence. Particularly for poor people social capital has shown to be a valuable asset since its accumulation usually does not require financial resources. Further, this essay has shown the importance of social capital for poor peoples' ability to integrate on the labour market. By reducing market failures, such as information asymmetries, social capital increases the integrability of poor people, improving their possibilities to capture expanded employment opportunities.

My main contribution with this essay is to highlight how poor people's access to the labour market can be improved through the so called integrability factor, where social capital is central. In accordance to the aim of my study, I conclude that economic growth affects poverty reduction, through the link of employment creation. I further conclude that the integrability factor plays a fundamental role for poor people in capturing employment opportunities, and that social capital can be of critical importance in this field.

3.2 POLICY IMPLICATIONS AND FUTURE RESEARCH

This thesis has confirmed that general economic growth is not enough, nor immediate, for poverty alleviation, and that it seems to be distributed unevenly. Hence, growth needs to be pro-poor and inclusive to provide a way out of poverty. As this study highlight, employment-intensive strategies targeting the poor and vulnerable are crucial. More and better jobs need to be created. But important to point out, if employment is treated separately from other development strategies, it can not serve as an effective route out of poverty. Employment is critical for poverty alleviation, but as essential is the development of new mechanisms for integrating the poor and vulnerable into the expanding economies. In this context social capital can play a key role. However, little research has been undertaken by economists in this field and further studies are needed to determine the impact of social capital in labour market processes. Since the central inputs of employment and social capital, labour and time, are considered poor people's main assets, further research of this issue, within the field of development economics, can be proved very fruitful.

4. LIST OF REFERENCES

4.1 PUBLISHED SOURCES

Aguilera, M. B., 2002. "The Impact of Social Capital on Labor Force Participation: Evidence from the 2000 Social Capital Benchmark Survey", *Social Science Quarterly*, Vol. 83, Issue 3, pages 853-874.

Ahmad, Alia, 2004. *Civil Society, Social Capital and NGOs in Poverty Reduction*, Workshop paper, Sida Workshop: The Role of Civil Society in Development Practices.

"Asia: the jobless boom", 2006. *The Economist*, Vol. 378, Issue 8460, page 60.

Asif, Dowla, 2006. "In credit we trust: Building social capital by Grameen Bank in Bangladesh", *Journal of Socio-Economics*, Volume 35, Issue 1, pages 102-122.

Arrow, Kenneth, 1972. "Gifts and Exchanges". *Philosophy and Public Affairs*, I.

Bardhan, Pranab – Udry, Christopher, 1999. *Development Microeconomics*, Oxford: Oxford University Press.

Behtoui, Alireza, 2004. "Unequal opportunities for young people with immigrant backgrounds in the Swedish labour market", *Labour*, Vol. 18, Issue 4, pages 633-660.

Brook, Keith, 2005. "Labour market participation: the influence of social capital", *Labour Market Trends*, Vol 113, Issue 3, pages 113-123.

Carroll, Thomas F., 2001. *Social Capital, Local Capacity Building, and Poverty Reduction*, Social Development Papers No. 3, The Asian Development Bank, Manila.

Coleman, James S., 1998. *Social Capital in the Creation of Human Capital in Social Capital – A Multifaceted Perspective*, ed. by Partha Dasgupta and Ismail Serageldin. The World Bank, Washington D. C. 2000.

Grootaert Christiaan, 1998. "Social Capital: The missing link" *Social Capital Initiative Working Paper No. 3*, The World Bank, Washington D. C.

Grootaert, Christiaan – Van Bastelaer, Thierry (editors), 2002. *The Role of Social Capital in Development: An Empirical Assessment*. New York: Cambridge University Press.

Grootaert, Christiaan – Van Bastelaer, Thierry (editors), 2002. *Understanding and Measuring Social Capital – A Multidisciplinary Tool for Practitioners*. The World Bank, Washington D.C.

Grootaert, Christiaan – Van Bastelaer, Thierry, 2002. *Social Capital: From Definition to Measurement*, in *Understanding and Measuring Social Capital – A Multidisciplinary Tool for Practitioners*, The World Bank, Washington D.C.

- Grootaert Christiaan, 2001. *Does social capital help the poor? A synthesis of findings from the local level institutions studies in Bolivia, Burkina Faso and Indonesia*. Local Level Institutions Working Paper No. 10, The World Bank, Washington D. C.
- Knack, Stephen – Keefer, Philip and Iris, 1997. “Does Social Capital have an Economic Pay-off? A cross-country investigation”. *The Quarterly Journal of Economics*. Vol. 112, pages 1251-1288.
- Levi, Margaret, 2000. “Trust and trustworthiness”, *Annual Review of Political Science*, vol. 3, pages 475-507.
- Levi, Margaret, 1996. “Social and Unsocial Capital: A review of Robert Putnam’s Making Democracy Work”, *Politics & Society*, vol. 24, issue 1.
- Lopez, Humberto – Servén, Luis, 2006. *A normal relationship? Poverty, Growth and Inequality*, Policy research Working paper, WPS3814, The World Bank, Washington D. C.
- Narayan, Deepa, 2002. *Bonds and bridges: social capital and poverty* in Isham Jonahthan et. al., *Social capital and economic development: well-being in developing countries*, pages 58-79. Cheltenham: Edward Elgar.
- Osmani, S. R., 2003. *Exploring the employment nexus: topics in employment and poverty*. A report prepared for the Task Force on the Joint ILO-UNDP Programme on Employment and Poverty, International Labour Office, Geneva.
- Portes, Alejandro, 1998. “Social capital: Its origins and applications in modern sociology”. *Annual Review of Sociology*, volume 24, issue 1, pages 1-24.
- Putnam, R. D., et. al., 1993. *Making Democracy Work: Civic traditions in Modern Italy*. Princeton: Princeton University Press.
- Putnam, Robert, 1993. *The Prosperous Community – Social Capital and Public Life*. American Prospect (13).
- Sen, Amartya, 1985. *Commodities and Capabilities*. Amsterdam: North Holland.
- Sen, Amartya, 1999. *Development as Freedom*. Oxford University Press, Oxford, New York, N.Y : Knopf.
- Solow, Robert M., 2002. *Notes on Social Capital and Economic Performance in Social Capital – A Multifaceted Perspective*, ed. by Partha Dasgupta and Ismail Serageldin. The World Bank, Washington D. C. 2000, pages 6-10.
- Todaro, Michael P. – Smith, Stephen C, 2003. *Economic Development*. Eight edition. Boston, Mass.: Addison-Wesley.
- Woolcock , Michael – Narayan, Deepa, 2000. “Social capital: Implications for development theory, research, and policy”, *The World Bank Research Observer*, vol. 15, no. 2, pages. 225-249.

World Development Report 2000/2001: *Attacking Poverty*, The World Bank, New York: Oxford University Press.

World Development Report, 1991. *The Challenge of Development*, The World Bank, New York: Oxford University Press.

4.2 ELECTRONIC SOURCES

THE WORLD BANK/ THE INTERNATIONAL MONETARY FUND

The World Bank, *World Development Indicators 2005*.

<http://devdata.worldbank.org/wdi2005/Cover.htm>, 2006-04-08

The World Bank et. al., 2005. *Pro-Poor Growth in the 1990s: Lessons and Insights from 14 Countries*.

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPGI/0,,contentMDK:20161268~pagePK:210058~piPK:210062~theSitePK:342771,00.html>, 2006-04-09

Narayan, Deepa, *Finance and development*, December 2000, Volume 37, Number 4.

<http://www.imf.org/external/pubs/ft/fandd/2000/12/narayan.htm>, 2005-10-01

<http://www1.worldbank.org/prem/poverty/scapital/home.htm> 2006-03-04

www.worldbank.org/labormarkets, 2006-04-11

THE UNITED NATIONS

The UN Millennium Summit, 2005. *2005 World Summit Outcome Document*, Paragraph 47, 15 September 2005. <http://www.un.org/summit2005/documents.html>, 2006-04-11

The United Nations Millennium Project

<http://www.unmillenniumproject.org/goals/index.htm>, 2006-04-07

Human Development Report, 2003. *Millennium Development Goals: A compact among nations to end human poverty*.

http://hdr.undp.org/reports/global/2003/pdf/hdr03_complete.pdf, 2006-04-08

Human Development Report, 2001. *Making new technologies work for human development*.

<http://hdr.undp.org/reports/global/2001/en/pdf/completenew.pdf>, 2006-04-08

Human Development Report, 1996. *Economic growth and human development*.

<http://hdr.undp.org/reports/global/1996/en/>, 2006-04-09

Fuentes, Ricardo, 2005. *Poverty, pro-poor growth and simulated inequality reduction*, Human Development Report Office.

http://hdr.undp.org/docs/publications/background_papers/2005/HDR2005_Fuentes_Ricardo_11.pdf 2006-04-09

<http://hdr.undp.org/statistics/data/indicators.cfm?x=148&y=1&z=1>, 2006-04-08.

http://hdr.undp.org/reports/global/2003/indicator/indic_24_1_1.html, 2006-04-07

http://hdr.undp.org/docs/statistics/understanding/measurement/HDR2002_measuringunemployment.pdf, 2006-04-09

THE INTERNATIONAL LABOUR ORGANISATION

ILO, Geneva, 2003. *Working out of Poverty*, International Labour Conference, 91st Session. <http://www.ilo.org/public/english/standards/relm/ilc/ilc91/reports.htm>, 2006-04-08

ILO, 2004. *Global Employment Trends*.

<http://www.ilo.org/public/english/employment/strat/download/trends.pdf>, 2006-03-15

Sachs, Ignacy, 2004. *Inclusive development strategy in an era of globalization*, Working Paper No. 35, International Labour Office, Geneva.

http://www.ilo.org/public/english/bureau/integration/download/publicat/4_3_284_wcsdg-wp-35.pdf 2006-04-09

<http://www.ilo.org/public/english/employment/recon/poverty/index.htm>, 2006-04-07

<http://www.ilo.org/public/english/decent.htm>, 2006-04-08

<http://www.ilo.org/public/english/bureau/inf/pr/2006/1.htm> , 2006-04-12

OTHER SOURCES

The Swedish Government, <http://www.regeringen.se/sb/d/6045/a/52611>, 2006-04-10

Asian Development Bank, 2005. *Key Indicators 2005: Labour Markets in Asia; Promoting Full, Productive and Decent Employment*.

http://www.adb.org/Documents/Books/Key_Indicators/2005/default.asp, 2006-04-07

Wikipedia, http://en.wikipedia.org/wiki/Gini_coefficient 2006-04-09

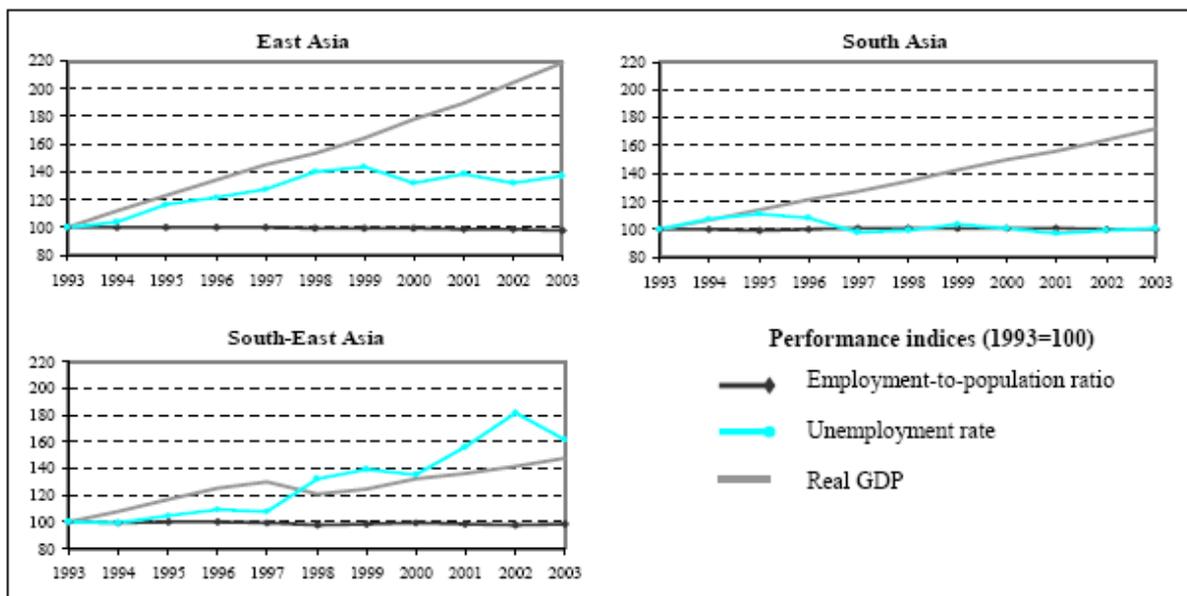
APPENDIX A

A GRAPHIC ILLUSTRATION OF UNEMPLOYMENT IN ASIA

Employment-to-population ratio, unemployment rate and real GDP

East Asia, South Asia and South-East Asia

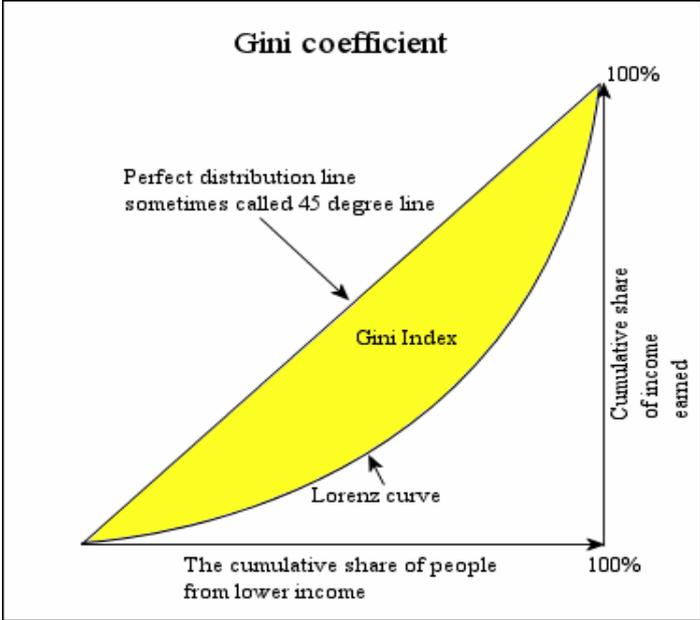
Index 1993=100, 1993-2003



Source: ILO, 2004, *Global Employment Trends*, p. 17.

APPENDIX B

A GRAPHIC ILLUSTRATION OF THE GINI COEFFICIENT



Source: Wikipedia http://en.wikipedia.org/wiki/Gini_coefficient, 2006-04-09