

# Reducing Poverty through Employment

*Give a man a fish, you feed him for a day; teach him how to fish, and he will be able to feed himself for the rest of his life. This is an old cliché, and like all clichés it has an element of wisdom. But, it does not go far enough. A fisherman with a simple rod and a canoe will not go hungry, but he will still be poor. For him to rise above poverty, he needs steady employment at reasonable wages in a commercial fishing company. Now his daughter might move up the development ladder and go on to become an engineer.*

Widespread poverty is an urgent challenge for the world. The starting point for addressing this challenge is the simple and obvious observation that the primary problem of the poor is that they have a low income. As the above parable indicates, the best way to alleviate poverty is to increase the income of the poor by providing productive employment. It is necessary to view the poor as producers and emphasize buying from them.<sup>1</sup> Many of the current approaches to poverty alleviation miss this simple point.

Advocates of foreign aid believe that poor countries are caught in a “poverty trap” and need major injections of aid to trigger economic development.<sup>2</sup> Foreign aid is accused of emphasizing big objectives, big projects, top-down planning, and a one-size-fits-all approach rather than, as Easterly advocates, bottom-up solutions tailored to the local context. Another criticism is that very little aid actually goes to stimulate enterprise development, even though private enterprise is well established as the best path out of poverty. Foreign aid is also accused of creating continuing dependency and fostering corruption.

The advocates of market liberalization believe that free and open markets are the only vehicle for growing a nation out of poverty, and that the “trickle-down” effect will lead to poverty reduction. However, globalization has not brought the promised economic benefits to many poor people in the developing world. The

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problem with the neoliberal free market approach is that it grossly underestimates the role of the government in economic development and poverty reduction. Chang argues that today's economic powers, from the U.S. to Britain to South Korea, all attained prosperity through some government intervention in industry.<sup>3</sup>

The “bottom of the pyramid” (BOP) proposition, popularized by C. K. Prahalad, argues that selling to the poor can simultaneously be profitable and eradicate poverty.<sup>4</sup> The BOP approach views the poor primarily as consumers—an attractive market for multinationals. However, the BOP market is quite small and is unlikely to be very profitable, especially for a large company. Moreover, the BOP

initiative could result in the poor spending money on low-priority goods that would be better spent on higher priority needs, such as nutrition, education, and health care, thus ending up with reduced welfare. The BOP approach also significantly underestimates the role of the government in providing basic services, such as education, public health, infrastructure, clean water, and public safety.

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## To escape from poverty, the poor need productive jobs that lead to higher income.

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The foreign aid approach sees the poor as passive recipients of charity; the market liberalization approach sees the poor as automatic beneficiaries of a trickle-down effect; the BOP approach sees the poor primarily as consumers. None of these approaches to reducing poverty emphasizes directly increasing the productive capacity of the poor; that is, increasing their earning power.<sup>5</sup> This article argues for the need to focus on the poor as producers and emphasizes not selling to the poor, but buying from them.

To escape from poverty, the poor need productive jobs that lead to higher income. At the Millennium Summit in 2000, the international community, under the leadership of the United Nations, adopted the Millennium Development Goals (MDGs). The first MDG focuses on the eradication of poverty and hunger. Following the widespread conviction that poverty can only be reduced if people have decent and productive jobs, a new target was added under MDG 1 in 2006: *achieving full and productive employment and decent work for all, including women and young people*. The United Nations Conference on Trade and Development argues that poverty reduction in the least developed countries requires a “paradigm shift” so that national and international policies focus on developing productive capacities and creating productive jobs.<sup>6</sup>

There are essentially two ways for a person to be a member of the labor force: as an employee, or being self-employed. The microcredit movement aims to help the poor become self-employed. However, most studies suggest that microcredit is only beneficial to a limited extent; the reality is less attractive than the promise.<sup>7</sup> The vast majority of microcredit clients are caught in subsistence activities and compete in overcrowded markets. They usually have no specialized skills, no paid staff, own few assets, and operate on too small a scale to achieve efficiencies. Thus

they do not earn enough to rise out of poverty. A recent World Bank study based on interviews with 60,000 poor or formerly poor people in 15 countries concludes, “Tiny loans usually provided under microcredit schemes do not seem to lift large numbers of people out of poverty.”<sup>8</sup> Most clients of microcredit are microentrepreneurs by necessity and not by choice. Creating opportunities for steady employment at reasonable wages is the best way to take people out of poverty. The International Labor Organization (ILO) states, “Nothing is more fundamental to poverty reduction than employment.” It then argues vigorously for “decent employment”—work that offers people a good income, security, flexibility, protection, and a voice on the job.<sup>9</sup> Employment is not only the key source of income, it also enhances other dimensions of well-being, including skills, physical abilities, and self-respect.

Reducing poverty through employment requires three major thrusts: (1) generate employment, (2) increase employability, and (3) make the labor markets more efficient. The first thrust works on the demand side of the labor market by creating job opportunities appropriate to the skills of the poor. The second thrust works on the supply side of the labor market by increasing the employability of the poor through education and vocational training programs. Labor markets, especially in developing countries, have a great deal of friction due to a lack of information and labor mobility; programs such as job-matching and placement services can help make the labor market more efficient and thus increase employment. Increasing employment opportunities, employability, and labor market efficiency are, of course, complex challenges for which there is no magic solution. It is too ambitious and perhaps futile to try to develop a holistic theoretical framework or a comprehensive action program to increase employment for the poor. It is better to make well-targeted and pragmatic interventions supported by conceptual logic and empirical evidence.

A whole variety of public policies and private strategies are needed to generate employment. Even though the private sector is primarily responsible for job creation, governments, international organizations, and NGOs can and should facilitate this process. Generating employment requires regulatory policies that facilitate the creation and growth of private businesses; the World Bank’s Doing Business project provides an objective basis for understanding and improving the regulatory environment for business.<sup>10</sup> Other factors that influence job creation include access to capital, a pool of entrepreneurial talent, macroeconomic stabili-

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ty, infrastructure and public services—and this is not an exhaustive list. Unfortunately, many poor countries have not generated adequate employment and as a result have not made much progress on reducing poverty. Some combination of inappropriate government policies and market failures leads to inadequate job creation.

Rather than discussing all the things that need to be done to generate employment, I argue for choosing a “good enough” starting point and taking some action. I do not suggest that this is the best or the only starting point, just that it is an effective and feasible place to start. In this paper, I sacrifice breadth for focus, comprehensive theory for pragmatic action. I argue that it is a good idea to focus on the small and mid-sized enterprise (SME) sector to be the major driver of job creation, and then supplement my conceptual argument with a case study to illustrate that this is a feasible proposal. I describe an innovative and effective approach by TechnoServe, a mid-sized NGO based in Washington, D.C., to help generate jobs by facilitating the growth of SMEs in many poor countries, especially in Africa and Latin America. In particular, I describe TechnoServe’s success at revitalizing the cashew nut industry in Mozambique.

Increasing the employability of the poor is also a complex challenge that requires a variety of public policies and private strategies. The central issue in increasing employability is, of course, education, including vocational training and retraining. One reason that job creation does not keep pace with economic growth and may even hamper it is that labor markets, especially in developing countries, have considerable friction. Factors that influence labor market efficiency include job-matching programs, infrastructure, public services, public health, and labor mobility—and this too is not an exhaustive list. I argue that it is a good idea to focus on increasing employment among rural youth. Again, rural youth are neither the only nor necessarily the best target group for increasing employment, but it is an effective, good enough place to start. I will supplement my conceptual argument with a case study to illustrate its feasibility. I describe an innovative program, the Employment Generation & Marketing Mission (EGMM), organized by the government of Andhra Pradesh state in India to identify, train, and link unemployed rural youth to jobs in the private sector. EGGM facilitates employment of poor rural youth by increasing their employability and reducing the friction in the labor markets.

## EMPLOYMENT

In development economics, there is considerable theoretical and empirical support for the increasing preponderance of wage labor in a developing economy. The ILO divides the labor force into four categories: (1) “employees” are paid wages or salaries based on an explicit or implicit contract; (2) “employers” are self-employed and have engaged one or more employees; (3) “own-account workers,” alone or with one or more partners, are self-employed and have not engaged employees; and (4) “contributing family workers” are employed on an informal basis in an

establishment operated by a relative living in the same household. Own-account workers in developing economies are associated with subsistence agriculture and other low value-added activities, such as petty trade, that often provide low and irregular income. Contributing family work is often unpaid, although compensation comes indirectly in the form of family income; it is particularly common among women in developing countries. The share of “vulnerable” employment is defined as the sum of contributing family workers and own-account workers divided by total employment. A high proportion of vulnerable workers indicates a large subsistence agricultural sector, lack of growth in the formal economy, and widespread poverty. Empirical research by the ILO confirms a positive relationship between incidence of poverty and vulnerable employment.<sup>11</sup> Poverty reduction is linked to an increase in employment and a reduction in vulnerable employment.

### **Growing Employment**

No country has significantly reduced poverty without experiencing economic growth, but economic growth has had a widely different impact on poverty reduction across countries. A 1 percent increase in per capita GDP can reduce income poverty by as much as 4 percent or as little as 1 percent.<sup>12</sup> The link between economic growth and poverty reduction is mediated by job creation. It is possible to have economic development without significant job creation, which then leads to a lesser impact on poverty reduction. In recent years, many less developed countries have achieved higher rates of economic growth than in the past, and even higher growth of exports. But there is a widespread sense that this is not translating effectively into poverty reduction and improved human well-being.<sup>13</sup> Analyzing the recent economic history of Mexico, Eduardo Zepeda concludes, “Mainstream policies managed to generate growth that proved neither pro-poor nor sustainable. The Mexican experience shows the need to leave behind the blind faith in market forces and embrace employment-based policies.”<sup>14</sup>

For example, the Indian economy has experienced rapid economic growth for several years, especially since the process of economic reform was initiated in 1991. In spite of this growth, unemployment and underemployment remain major problems. Open unemployment—about 8 percent in 2007—is not a true indicator of the gravity of the unemployment problem in an economy such as India’s, characterized as it is by large-scale underemployment and poor employment quality in the unorganized sector. Sixty per cent of India’s workforce is self-employed, many of whom remain very poor. Nearly 30 percent are casual workers; that is, they work only when they are able to get jobs and remain unpaid for the rest of the days. Only about 10 percent are regular employees, of which two-fifths are employed by the public sector. India’s jobless growth is the result of a distorted emphasis on a capital-intensive and skill-intensive development path.<sup>15</sup> Capital-intensive sectors, such as heavy manufacturing, and skill-intensive sectors, such as information technology, will not solve India’s poverty problem. Rajat Gupta, former managing director of the consulting firm McKinsey, says, “There’s much talk

in India about the knowledge worker and the knowledge economy. Yet they are sideshows to getting the basics right. India needs more jobs in sectors such as manufacturing, construction, and agribusiness, where it isn't necessary to be a knowledge worker to make a living."<sup>16</sup>

There is growing concern about ensuring "pro-poor" growth. The last decade has witnessed a decline in the share of the world's working-age population (age 15 and older) that is employed. It stood at 61.4 percent in 2006, 1.2 percentage points lower than ten years earlier. The decrease was larger among young people (age 15 to 24); within this group, the ratio decreased from 51 percent in 1996 to 46.8 percent in 2006.<sup>17</sup>

In developing countries, the problem is not only unemployment but also the conditions of work for those who are employed. In 2006, there were 1.3 billion people who worked but were still unable to lift themselves and their families above the \$2 a day poverty line. Account also must be taken of the unemployed people looking for work but unable to find it, and people so discouraged that they have given up looking. That is a very large deficit of decent employment.

Free market advocates often argue that the best antidote to poverty is economic growth—the so-called trickle down effect.<sup>18</sup> It is assumed that economic growth will automatically lead to job creation, which in turn will lead to poverty reduction. The problem is that the trickle down effects of general economic growth are too little, too slow, and too uneven. There is a need to target programs specifically at poverty reduction rather than just waiting for the general growth effect to kick in. The recent political changes—disillusionment with market liberalization and a drift to the populist left—in several South American countries (Venezuela, Bolivia, Ecuador, and Nicaragua) support such a direct emphasis on poverty reduction. Developing countries need to emphasize growth in labor intensive, low-skill sectors, such as agriculture, light manufacturing, garment manufacture, and tourism. Unfortunately, many poor countries have not generated adequate employment and as a result have not made much progress on poverty reduction. Some combination of inappropriate government policies and market failures leads to inadequate job creation.

This is not to advocate a return to the statist policies that stifled economic growth for decades in countries such as India and China. There is much ideological debate about the roles of the free markets and the state in achieving overall economic growth.<sup>19</sup> Regardless of one's position in this debate, however, contemporary history clearly shows that the private sector is the best engine of job creation. For example, China has made the single largest contribution to global poverty reduction in the last three decades. Since the beginning of reforms in 1978, more than 250 million people have been lifted out of poverty in China. The private sector has been the fastest growing segment of the economy, growing at 20 percent per year for the last 25 years, more than double the economy's average. Since 1992, the private sector has created three-quarters of all new jobs, according to the International Finance Corporation.<sup>20</sup> There is, of course, no simple answer to how to stimulate the growth of the private sector. The World Bank measures the ease of



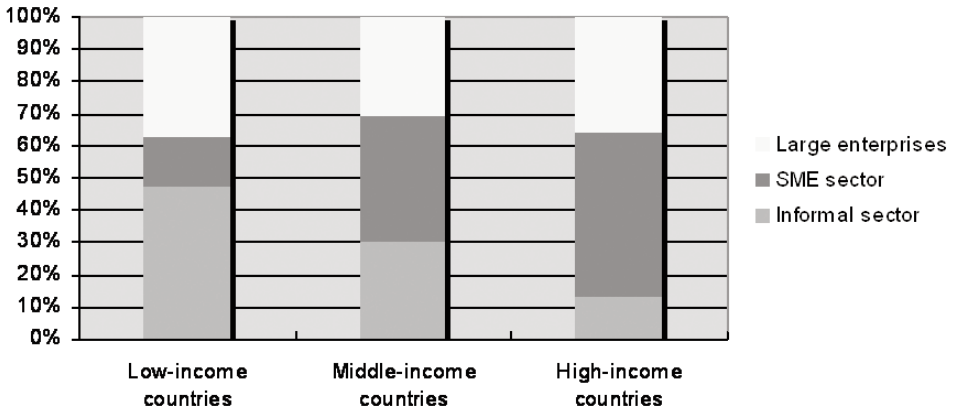


Figure 1. Contribution of Different Sectors to Total GDP

doing business in 183 countries by focusing on indicators in ten different areas, ranging from “starting a business” to “protecting investors” to “closing a business.”<sup>21</sup> This helps promote understanding of how various policies, laws, and regulations can facilitate the growth of the private sector, especially the SME sector.

### Small and Midsize Enterprises

The next issue is which sector of the economy is likely to be a good target for job creation. The non-governmental economy can be divided into three sectors: the informal sector, small and midsize enterprises, and large enterprises. The informal sector covers all economic activities whose income is not reported for tax purposes and which are not covered, or are insufficiently covered, by formal arrangements and generally operate outside the formal reach of the law. Different countries adopt different criteria for defining SMEs. Despite this variation, most sources define SMEs in terms of employment and there is rough agreement about the cut-off points: microenterprises have fewer than 10 employees, small enterprises fewer than 50 employees, and medium enterprises fewer than 250. SMEs are defined as formal enterprises, which assumes that all microenterprises operate in the informal sector. In principle, of course, this need not be true. In practice, however, especially in developing countries, most microenterprises operate in the informal economy and are not recorded in the SME data. Virtually all the vulnerable employment discussed above takes place in the informal sector.

Meghana Ayyagari et al. provide a new database that contains comprehensive statistics on the contribution of SMEs and the informal sector to the total GDP across a broad spectrum of countries, as summarized in figure 1.<sup>22</sup> The SME sector generates a higher fraction of GDP in high-income countries than low-income countries. The share of the informal sector has a negative relationship to the country’s income level. Interestingly, the joint contribution of the informal and SME

sectors to GDP remains approximately constant across income groups, at around 65 percent to 70 percent. As income increases, however, there is a marked shift from the informal to the SME sector.

The economic structure in low-income countries is polarized, with the informal and large enterprises playing a large role and the SME sector being too small—the so-called “missing middle.” The path to development is clearly associated with a growing role of the SME sector.<sup>23</sup> Another World Bank paper using cross-country data also finds a “strong association between the importance of SMEs and GDP per capita growth. This relationship, however, is not robust to controlling for simultaneity bias.”<sup>24</sup> Thus, while a large SME sector is characteristic of successful economies, there is not enough empirical evidence to prove that SME growth causes economic growth. It is plausible that the direction of causality flows in both directions.

Nevertheless, most governments have programs to support the development of the SME sector. In Pakistan, for example, the promotion of SMEs has been the “center piece of Government’s strategy for economic revival, poverty alleviation and employment generation.”<sup>25</sup> The World Bank and other international aid agencies provide targeted assistance to SMEs in developing countries; for example, the World Bank approved \$1.5 billion for SME support programs in 2002.<sup>26</sup> Several NGOs also focus their efforts on the SME sector, such as TechnoServe, the case study I describe in depth below. Another example, ApproTEC, is a small NGO that aims to promote economic growth and employment creation in Kenya and other countries by developing and promoting technologies that can be used by entrepreneurs to establish and run profitable small-scale enterprises.

The ILO argues that SMEs are the major creators of employment opportunities and therefore hold an important key to employment and poverty reduction.<sup>27</sup> SME expansion boosts employment more than large firms because SMEs are more labor intensive, less skill intensive, and less capital intensive, and thus create jobs better suited to the poor. This is also appropriate for developing countries with an abundance of labor and relative shortage of capital. SMEs contribute to a more equitable income distribution because they tend to be more widely dispersed geographically than larger enterprises, thus helping to reduce economic disparities between urban and rural areas. The presence of SMEs in the economy tends to increase competition, which promotes greater economic dynamism. SMEs are often the source of economic growth and innovation, and they support the development and diffusion of skills and entrepreneurial talent in the economy.

In developed countries, some microenterprises are successful and grow into SMEs over time. However, this is much less common in developing countries. The self-employed poor, the microentrepreneurs in developing countries, usually have no specialized skills, often practice multiple occupations, and rarely graduate into SMEs.<sup>28</sup> This is another reason for directly supporting the SME sector.

It is interesting to compare China and India in this dimension. In the last two decades, China has reduced poverty significantly more than India, because China has created a large number of jobs that pay enough to lift people out of poverty.



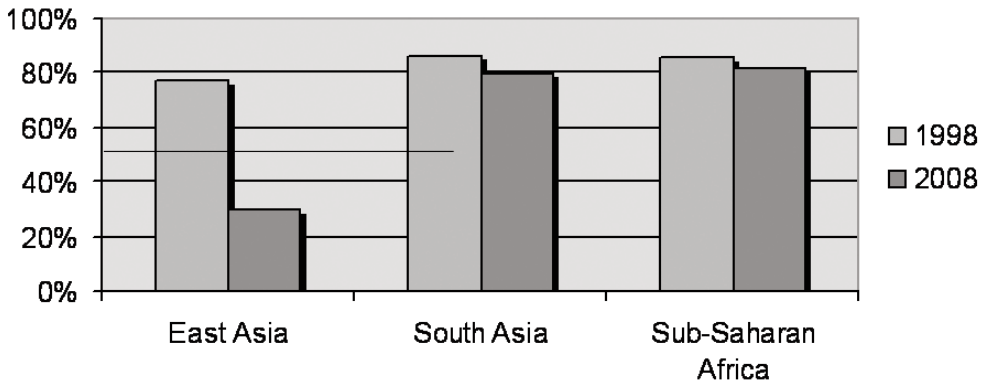


Figure 2. Working Poor (\$2/day) as Fraction of Total Employment

A “working poor” person does not earn enough to lift himself or herself and his or her family above the poverty threshold.

One reason for this is the much faster growth of low-skill employment in the manufacturing sector in China.<sup>29</sup> The industry structure of manufacturing in China is dramatically different from that in India, where about 87 percent of manufacturing employment is in microenterprises of fewer than ten employees—a smallness of scale that is unmatched in any emerging country.<sup>30</sup> The corresponding number in China is less than 5 percent. About 5 percent of manufacturing employment in India is in the SME sector, compared to 40 percent in China.

### Vulnerable Employment

To eliminate poverty, it is not enough to increase employment; it is also necessary to reduce vulnerable employment. It is instructive to consider (see figures 2 and 3) the pattern of poverty and vulnerable employment over time in East Asia, South Asia, and sub-Saharan Africa, three regions that together account for about three-quarters of the poor in the world.<sup>31</sup>

In East Asia, which is largely China, where the incidence of poverty has declined significantly (see figure 2), the share of vulnerable employment is relatively small and shrinking (see figure 3). In South Asia, which is largely India, and sub-Saharan Africa, where the incidence of poverty has declined much more slowly, the share of vulnerable employment is significantly larger and shrinking only slowly. In comparison, the share of vulnerable employment in developed economies is dramatically smaller. Vulnerable employment, most of which takes place in microenterprises, does not effectively reduce poverty.

### Economies of Scale

There is a great deal of research that confirms a positive relationship between firm size and labor productivity. This should not be surprising, as economies of scale do

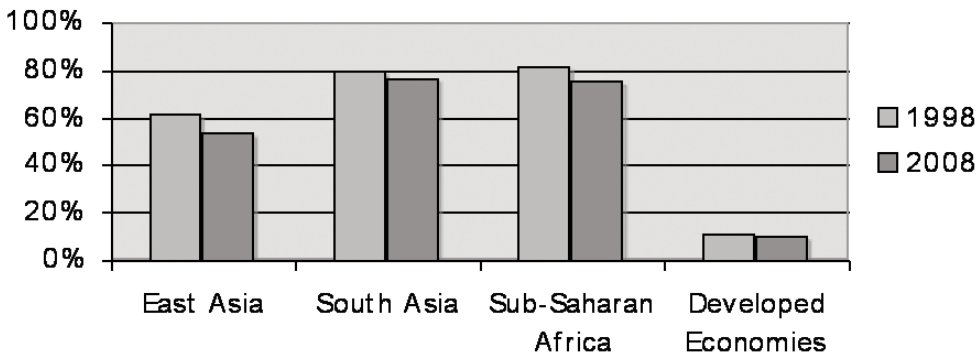


Figure 3. Vulnerable Employment as Percentage of Total Employment

exist. Evidence from India shows that total factor productivity is about twice as high in firms with more than 250 employees than in those with only 10 or fewer employees, with progressive increases in scale yielding considerable gains in productivity.<sup>32</sup>

This problem is particularly acute for microenterprises with fewer than ten employees. Many of these businesses operate at too small a scale; they have low productivity, which leads to meager earnings that cannot lift the owners out of poverty.<sup>33</sup> In his study of microenterprises in Kenya, Daniels found that only 26 percent of these owners earned an income above the minimum wage.<sup>34</sup>

The productivity of SMEs lies somewhere between the microenterprises and large firms.<sup>35</sup> SMEs concentrate on activities where the scale economies are not so significant and their relative disadvantage is minimal compared to large firms, including labor-intensive industries such as light manufacturing, and service industries such as restaurants and vehicle repair. Another strategy is to avoid direct competition with large firms by focusing on specialized and niche markets. Small firms have the advantage of greater flexibility and agility and can also try to gain economies of scale through strategic alliances and outsourcing.<sup>36</sup> SMEs in developing countries need to practice these strategies more effectively in order to achieve growth; this is exactly how TechnoServe helps small enterprises in developing countries to thrive and grow bigger.

#### TECHNOSERVE

I now describe an innovative and effective approach by TechnoServe, a midsize NGO (annual budget about \$50 million) based in Washington, D.C., which is designed to generate jobs by facilitating the growth of SMEs in many poor countries, especially in Africa and Latin America. TechnoServe's mission is to help entrepreneurial men and women in poor areas of the developing world to build businesses that create income and employment. Adopting a market-oriented

approach, TechnoServe identifies high-potential but underperforming economic subsectors and then seeks to resolve the market failures that constrain their development. In 2008, TechnoServe helped 1,348 businesses achieve sales of \$149 million and profits of \$16 million; these businesses paid \$9 million in wages to 32,600 employees. TechnoServe's approach is based on a few basic principles:

- Reduce poverty by emphasizing job creation. Focus on SMEs as the engine of job creation.
- Private businesses are at the center of economic growth and job creation. Emphasize a market-oriented approach. Involve multiple players, including government and trade organizations. TechnoServe's role is that of a facilitator.
- Emphasize appropriate technology to balance labor intensity with productivity. Competitive advantages of SMEs include an appropriate balance between labor and capital intensity, flexibility, speed, and "localization."
- Local entrepreneurs play a critical role in this process. Each business has to succeed in a competitive environment by emphasizing cost competitiveness and being responsive to customer needs.

To see this approach in action, we look at one of TechnoServe's success stories: the revitalization of the cashew industry in Mozambique.

### **The Cashew Industry in Mozambique**

The cashew nut industry in East Africa was once a driving economic force, and Mozambique was the leading producer in the world. It reached its peak in 1973, when it accounted for 240,000 tons of raw cashew nuts, of which 210,000 tons were processed in Mozambique.

After Mozambique achieved independence in 1975, government planners ignored cashew nut production and it started to decline. This trend was aggravated by years of disruption in agricultural marketing, initially stemming from the government's interventionist approach to national resource allocation—that is, a centrally planned economy—and later from a devastating and prolonged civil war. Unable to care for their trees, the farmers left them untreated for years, which led to the spread of pests and diseases. Uncontrolled forest fires also affected important cashew orchards. Processing capacity also deteriorated, both physically and in terms of managerial expertise. Total production dropped to as little as 22,000 tons in 1990; by 2002 it had recovered to only 50,000 tons, none of which was processed locally.

In 1998, the Mozambique government lifted an export ban on raw cashew nuts. Exporters could offer higher prices than the struggling domestic factories, and most raw nuts were sent to India. The local factories shut down, eliminating many jobs and reducing the domestic demand for raw nuts. By the year 2000, instead of feeding a vibrant domestic industry serving the global market, Mozambique's raw nuts were being sold to Indian processors, effectively exporting a major agro-industrial opportunity.

## **TechnoServe in Mozambique**

TechnoServe's involvement in the Mozambique cashew industry began in 1998 and has been instrumental in its revitalization. In 2005, Mozambique produced 82,000 tons of raw nuts, 9,000 tons of which were processed locally; exports totaled \$3.6 million, with strong potential for further growth. By 2008, exports of processed kernels had more than doubled, reaching \$10 million and creating over 6,200 formal sector jobs. The incomes of about 120,000 small-scale farmers have increased significantly, based on a combination of yield improvement and better prices. For 2008, the incremental incomes of farmers due to price increases attributable to the domestic processing industry were calculated at just under \$2.5 million. The increment is due to domestic processing which yields higher prices. The ultimate size of the industry could be many times larger, based on gradual replanting and expansion of the nation's over-mature cashew orchards.

TechnoServe began by identifying the opportunity and making a business case for the cashew industry in Mozambique. The fact that Mozambique has a progressive government was an important and positive factor, as TechnoServe wants to work in countries where entrepreneurs can flourish and regulations are not onerous. The organization's donors share its skepticism about centrally planned economies.

TechnoServe's regional director wrote an unsolicited proposal to USAID, which was accepted and funded. TechnoServe subsequently hired a new director for Mozambique, a seasoned agri-business professional, and engaged a volunteer from the Netherlands office of McKinsey & Company, the management consulting firm. Working with key stakeholders, the volunteer analyzed the cashew industry to identify key drivers of commercial success and decide on a competitive strategy. Their strategic approach involved three major interrelated elements: focusing on small to midsize enterprises, hand shelling, and locating factories near farms. The analysis revealed that smaller factories in prime production areas had advantages in purchasing raw materials and transportation costs, and that using labor-intensive shelling technologies was superior to mechanical options when workers were properly trained and motivated. The lower investment and operating costs of these smaller plants also made them more feasible for local entrepreneurs.

Historically, large-scale processors dominated the Mozambican cashew industry. The old plants in Mozambique had a capacity of 10,000 tons and used mechanical shelling technology; the capital cost was \$600 per ton, and the operating cost was \$1.30 per kilogram of output. TechnoServe proposed using small-scale plants with a capacity of 1,000 tons and manual shelling technology; the capital cost was \$140 per ton, and the operating cost was \$0.56 per kilogram of output. Even the output quality (measured by percentage of whole nut yield) was better for the small plants. To run large-scale plants successfully required sophisticated managers not readily available in Mozambique. The smaller plants were considered much more likely to achieve better capacity utilization. Small, geographically dispersed plants located close to raw nut sources were also expected to reduce

transportation costs and increase supplier loyalty and commitment.

Each small plant would employ 200 workers for a monthly wage bill of \$15,000; the employees would enjoy an official minimum wage salary; one month of paid vacation; all insurance, health, and pension entitlements; one meal a day; and child care. Each plant would provide a reliable market for raw cashew nuts from about 10,000 small-scale farmer families and pay a premium price for quality. Another advantage of locating plants near farms was that the plants could promote improved production and husbandry by providing farmers with better seedling varieties, extension training, and other inputs. While this is currently happening only on a limited basis, there are signs that it will expand.

TechnoServe then recruited a business advisor, a local cashew nut industry expert, to establish a one-stop shop to provide all services to entrepreneurs. In 2001, TechnoServe partnered with a progressive Mozambican entrepreneur, Antonio Miranda, to launch the new enterprise, Miranda Caju. In the early phase, the business advisor provided intensive support for Miranda Caju: recruiting supervisors, selecting workers, advising on the compensation system, training workers, designing plant layout, identifying equipment, and designing locally fabricated equipment, such as a boiler. After some start-up glitches, the firm was soon profitable. Miranda Caju opened a second 1,000-ton plant in 2004; revenues that year were \$1 million.

TechnoServe used Miranda Caju's first plant as a working laboratory to refine the business model and train other interested entrepreneurs. By 2006, TechnoServe was working with nine start-up enterprises that had a total capacity of 11,700 tons. TechnoServe offered these entrepreneurs a wide range of resources, including strategic planning, marketing, technical advice, quality control, supply-chain management, and facilitating access to investment and working capital. Volunteer consultants, many from McKinsey & Company, Bain & Company, and other global companies, supplemented TechnoServe's efforts in Mozambique. Miranda Caju, the initial processing plant, paid TechnoServe \$5,000 per year for consulting services, a mechanism that ensured TechnoServe was really adding value. For later industry entrants, the fee was waived in favor of the new companies supporting two industry trade associations, Association of Agribusiness Industries (AIA) and AICAJU (see below).

### **Marketing Cashew Nuts**

Although the small-scale plants process efficiently, their individual marketing is inefficient. These small rural enterprises do not have the scale to develop and maintain effective communications and commercial relationships with foreign buyers, let alone to develop proprietary brands. The logistics of export markets require container-size shipments of uniformly graded and sorted cashew nuts, which favors much larger-scale operations. TechnoServe took the lead in developing the Association of Agribusiness Industries, a private service company owned by some of the cashew processing companies. Located in the northern port of Nacala,

AIA is the primary marketer of the cashew nuts processed by its owners, as well as by some non-owners. It acts as a final quality-control agent and exporter, organizes bulk purchases of equipment and consumables, and offers some limited training and technical assistance to its members. With pro bono assistance from the advertising agency Young & Rubicam, the AIA has developed a brand, Zambique, to control product quality and communicate the superior qualities of AIA-branded cashew nuts. AIA is also assuming the leading role in negotiating with the government on policies that affect the industry, which was previously done by TechnoServe. AIA has begun to provide many of the services that TechnoServe provided in the first several years, but on a for-profit basis.

TechnoServe brings together various players to support the cashew industry. It worked with the industry to resuscitate the AICAJU, the cashew nut trade association, as a broad industry advocate. It released a key staff member to work as a private consultant to assist the government of Mozambique with strategic planning for INCAJU, the government agency responsible for promoting the cashew nut industry. With TechnoServe's guidance, AIA is now working with the government to design and implement policies favorable to the cashew industry. For example, it is advocating a gradual reduction of the protective export tax on raw nuts, which penalizes farmers and undermines real long-term industry competitiveness. When the processors needed working capital to purchase their year's supply of raw material during the brief harvest season, TechnoServe worked with INCAJU to design a loan guarantee program supported by the government. Needs rapidly expanded beyond INCAJU's resources, and USAID stepped in to support a loan guarantee program offered by the Ministry of Industry and Commerce. In 2009, efforts were begun to have a local commercial bank take over the loan program without a guarantee.

In 2008, the factories in Mozambique processed 23,700 tons of cashews. TechnoServe's 16 clients' cashew-processing plants bought nuts from over 100,000 small-scale producers, had total revenues of \$12 million, employed over 4,700 people, and paid \$1.6 million in wages.

In 2008, having achieved its original aim of reviving the domestic cashew nut processing industry in Mozambique, TechnoServe ceased its program of subsidized assistance. Having subsequently shared some of the lessons learned in Mozambique through its cashew sector work in Tanzania, Kenya, and South Africa, TechnoServe is now replicating the approach through a large program working with West African cashew processors in Benin, Burkina Faso, Cote d'Ivoire, and Ghana.

## EMPLOYABILITY

Reducing poverty through employment requires three major thrusts: (1) generate employment, (2) increase employability, and (3) make the labor market more efficient. I now turn to the second and third of these issues. The best way to increase the employability of the poor is, of course, to improve education. But education



alone is not the solution to unemployment. In developing countries, the supply of educated people has often outpaced the supply of jobs to accommodate them; unemployment tends to increase among better educated young people. South Asia's labor market is characterized by pervasive unemployment and underemployment, especially among the youth and the educated.<sup>37</sup> "There is a widening chasm between students' qualifications and . . . employability. It sweeps the country [India], particularly its . . . non-metropolitan regions."<sup>38</sup> Data from the Employment Generation & Marketing Mission (EGMM) indicates a significant problem of unemployment among the educated in the state of Andhra Pradesh in India (see table 1).

Even when economic growth generates employment opportunities, the jobs might not get filled, due to friction in the labor markets. The education system sometimes graduates students without giving them the skills required by employers, thus there is a mismatch between the curricula adopted by the schools and the requirements of the marketplace. Companies have job openings and there are qualified people who need jobs, but the jobs and the people do not get linked together. The poor might not even be motivated to look for a job. There are also problems caused by a lack of information and labor mobility. Even if motivated to find a job, the poor often do not know where and how to search for one. Furthermore, the jobs could be in a geographically, socially, and culturally unfamiliar and/or unreachable place.

### **Youth Unemployment Crisis**

The transition from school to work and from childhood to adult life can determine a person's and a family's—and, collectively, a community's—chances of escaping poverty. As the youth reach adulthood and become parents, their having good and steady employment is likely to lead to a significant and sustained reduction in poverty. Young people are among the world's greatest assets, and yet youth are more than three times as likely as adults to be unemployed. The global deficit in employment opportunities has created a situation in which one out of every three youth is either seeking but unable to find work, has given up the job search entirely, or is working but still living below the US\$2 a day poverty line. "The world is facing a growing youth employment crisis . . . In recent years slowing global employment growth, and increasing unemployment, underemployment and disillusionment have hit young people the hardest."<sup>39</sup> Today, 89 percent of the world's youth live in developing economies, where the employment deficit is most extreme.

There is growing evidence that being unemployed at an early age has a direct and negative impact on future income streams. Research has shown that unemployed youth suffer a permanent decrease in their lifetime earning profile; one study suggests an income penalty from early unemployment as high as 21 percent at age 42.<sup>40</sup> Youth unemployment results in reduced investment in human capital, depriving the young of labor force experience in the time of life when it yields the

Level of Education	Employed	Unemployed
10 <sup>th</sup> grade	300,000	Not available
Intermediate (equivalent to 12 <sup>th</sup> grade)	170,000	50,000
Vocational training; polytechnic; industrial training institute	20,000	20,000
University graduate	350,000	50,000
Engineering graduate	95,000	20,000

**Table 1.** Education and Unemployment in Andhra Pradesh.

highest return, and frequently leading to unsuitable labor behavior patterns that last a lifetime. If they fail to gain a proper foothold in the labor market from the start of their working life, young people are less able to make choices that improve their own job prospects and those of their future dependents, thus perpetuating the cycle of insufficient education, low productivity, and poverty from one generation to the next.

Youth unemployment is costly not only in terms of economic development but also social development. There is a proven link between youth unemployment and social exclusion, and it creates a sense of vulnerability, uselessness, and idleness among young people.<sup>41</sup> Youth unemployment is also associated with high levels of crime, violence, substance abuse, and the rise of political extremism. In some countries, virtually the only paid employment open to young men is with the various armed groups involved in civil conflict. For unemployed young women, the danger of entrapment in the sex industry is widespread.<sup>42</sup>

Christoph Ernst of the ILO calls for special youth employment programs in addition to general growth and investment policies, and argues that a strategy for job creation needs to cover both labor demand and supply, combined with well-targeted and structured interventions.<sup>43</sup> Many governments have developed initiatives targeted at youth employment. Even in a rich country like Canada, the government created the Youth Employment Strategy to help young people, particularly those facing barriers to employment, get the information and gain the skills they need to make a successful transition into the workplace.<sup>44</sup> Recognizing the risk of falling behind on the target of achieving decent employment, and youth employ-

ment in particular, the government of Tanzania has introduced an employment creation program.<sup>45</sup> NGOs too have entered this arena; the Youth Entrepreneurship and Sustainability (YES) campaign was launched in 2002 to promote youth employability and employment creation.<sup>46</sup> The 83 YES country networks bring together diverse stakeholders, including governments, companies, banks, and NGOs. I next detail the case study of the Employment Generation & Marketing Mission, a good example of what Ernst advocates: a well-targeted intervention focused on youth employment.

## THE EMPLOYMENT GENERATION & MARKETING MISSION

EGMM is an innovative and effective organization that addresses the issue of employment among the underprivileged rural youth in Andhra Pradesh (AP) in India.<sup>47</sup> EGMM does not help create jobs; rather, it facilitates the employment of poor rural youth by reducing friction in labor markets. It was launched in October 2005 as an autonomous body under the Rural Development Department of the Andhra Pradesh government, which is located in Hyderabad, the state capital. EGMM is a government organization that works closely with the private sector and rural communities. The program works on a large scale: 101,000 youth were trained in 2009, with 73 percent placed in organized-sector jobs. EGMM first identifies and motivates the poor unemployed youth, provides them with brief training, then works with companies to match these young people to jobs, and finally helps them make the transition to a job in the urban environment.

### **Andhra Pradesh**

Andhra Pradesh is the fourth largest state in India, with a population of about 80 million. The per capita income in AP is about the same as for all of India, and the annual economic growth in AP has been 5.5 percent over the last two decades. AP is a major producer of agricultural products; it is also home to many industrial and information technology companies. As in India in general, unemployment is a major problem in the state of Andhra Pradesh. A typical village there with 500 households (about 2,500 people) has 50-60 unemployed people, of whom five are university graduates and seven graduated from an industrial training institute. Fortunately, the rapid economic growth in AP in recent years has created many low-skill jobs, such as security guards, retail assistants, construction workers, and garment factory workers.

### **Identifying and Motivating**

Identifying unemployed rural youth in the interior of the state is the first challenge, since villages and tribal hamlets in remote areas have limited connectivity. A cadre called the Job Resource Persons (JRPs) has been created and trained by the EGMM from among the communities. The JRPs travel to rural villages, where they go from house to house and participate in village meetings in order to create a database of the unemployed youth.

The next step is to motivate the youth to seek employment. The unemployed youth in remote areas are frustrated that their education has not helped them get jobs, and previous government job programs have not been effective. The jobless youth then fall prey to social problems like drugs and naxalism—a radical, often violent revolutionary communist movement in India. Local youth constantly ask the JRPs why they should enroll in the training programs offered by EGMM, so to help motivate them, the JRPs invite an employed young person who has benefited from the training, or his/her mother whose life has been improved by the sustained income flow, to address the youth groups and explain the variety of training options that are based on individual aspirations and qualifications.

The AP government has facilitated the creation of a large network of self-help groups (SHGs) for rural women. These are basically thrift and credit groups that meet regularly and use their collectivized savings to leverage bank loans for income generation and consumption purposes. EGMM works with SHG leaders, who are opinion-makers in their communities, to discuss unemployment and jobs issues in their monthly meetings and participate in the valedictory functions. SHG leaders are also taken to visit companies where youth from their villages are employed. This results in grassroots ownership of the work and makes them stakeholders in the process. At their monthly meetings, the SHG leaders influence the mothers of unemployed youth, who in turn motivate their children.

## **Training**

EGMM has set up 280 no-frills academies that cover a wide range of topics linked to the emerging economic growth sectors. These include the Rural Retail Academy, Rural Security Academy, Rural English and Soft Skills Academy, Work Readiness and Computer Academy, a construction training center, and a textile training center. To achieve acceptance and scale, the unemployed youth are channeled into a training program appropriate to their qualifications and aspirations. Youth who are illiterate and want to remain in their home village are advised to enroll in the construction or textile industry training programs. Youth who are literate (10th grade and up) and are willing to relocate enroll in the Retail, Security, English, and Work Readiness academies. I will illustrate the training process described by the Security and Retail academies.

The business of providing security services is growing at the rapid rate of 35 percent per year in AP. There are 800 companies or contractors in this sector in AP alone. Many of them are exploitative fly-by-night operators who employ youth from villages and often do not pay them their earned wages. The youth then return to their villages in a few months, disenchanted with the system. To combat this, EGMM formed an alliance with G4S (formerly G-4 Securicor), a \$2 billion Danish company that is the world's leading security solutions group and operates in over 100 countries. G4S is the largest security services company in India, with 130,000 employees. Entry-level security guards earn reasonable wages, Rs. 48,000 (\$1,066) per year, with fringe benefits such as a retirement fund and medical reimburse-

ment. This compares to the per capita income in India of Rs. 38,084.<sup>48</sup> Before the alliance, G4S interviewed 200 youth, and fewer than 10 percent passed the company's screening. EGMM conducted an analysis of the company's recruiting needs, from which it developed a 15-day training module, with the help of the company, which taught the youth basic conversational English, grooming, and goal-setting skills. EGMM spent \$82 on each candidate for the training program. After the training module, 70-80 percent of the youth passed the company's screening process. "The quality of manpower provided by EGMM is really good and we plan to recruit 5,000 persons in 2006-07," said P. V. Sudarshan, the G4S general manager in Andhra Pradesh.<sup>49</sup>

Buoyed by the success with G4S, other security services companies, such as Protex, have approached EGMM to provide skilled manpower. EGMM trained and placed 15,000 youth in security agencies in 2007. The positive impact of this simple model led to the rural community taking ownership of the program.

Surveys indicated that 500,000 entry-level retail jobs will be created in the southern states of India alone. In response to the booming retail market, EGMM set up Rural Retail Academies, which offer a 45-day training program that includes course modules developed with the help of industry. Besides emphasizing customer relations management, the program also covers simple spoken English, life skills, and personality development. This includes lessons on body language, grooming, etiquette, time and conflict management, and leadership qualities. Youth are taught how to build their resumes, interviewing skills, and job search skills. Local teachers were recruited through written tests and interviews and groomed to be trainers rather than teachers. In rural India, classes tend to be non-participatory and emphasize rote learning. In contrast, EGMM trainers were groomed to emphasize active, participatory learning and market-oriented skills. Besides learning pedagogical approaches such as role-playing, the trainers were taken through an immersion process. They accompanied the JRPs to the villages for three days and worked on choosing youth for their first classes. The trainers also sat through company interviews to understand the market requirements.

In 2006-2007, 15,000 youth were placed in entry-level jobs in companies such as McDonald's, Wipro, Reliance Retail, and the India Tobacco Company. Their incomes ranged between \$533 per year in semi-urban locations and \$1,333 in major cities. "The results have been very encouraging," says S. Sivakumar, CEO of India Tobacco Company's agri-business division.<sup>50</sup>

## **Transition**

Going from living with family in a rural village to living alone in a big city and working in a large company is a challenging transition. An EGMM survey of companies employing rural youth showed high attrition in the first month. A major cause of the attrition was the simple fact that the companies didn't pay salaries until the end of the first month, and the poor youth often arrived in the cities without any money. This made it difficult for them to survive the first month and

resulted in their dropping the job. EGMM now lends one-month's salary to the newly employed youth, which is repaid in soft installments. EGMM counselors meet the youth when they first migrate to cities and help them find low-cost hostel accommodations and generally get settled in. The counselors also visit the youth in the workplace to deal with any initial challenges. In 2007, the late Y. S. Rajasekhara Reddy, then chief minister of Andhra Pradesh, announced a plan to arrange transit homes in and around Hyderabad, the biggest city in AP.<sup>51</sup> The youth are allowed to stay in these homes for three to six months, which gives them time to find other suitable accommodations.

While EGMM does provide training, its success is due more to its role in improving the efficiency of the labor market for rural youth from remote locations. It identifies and motivates these young people and then gives them appropriate information about job opportunities. Equally importantly, it increases labor mobility by facilitating the youth's transition from remote rural locations to an unfamiliar urban environment.

## **Impact**

EGMM was started in 2005 by the state government of AP, with the help of the World Bank, the central Indian government, and seed capital of \$1.11 million. The results so far have been impressive: EGMM trained 75,000 youth in 2008 and 101,000 in 2009. The budget increased to \$4.44 million in 2006-2007 and to \$24.44 million in 2007-2008. Eighty percent of the trainees were placed in jobs in the private organized sector; the firms recruiting included McDonald's, Reliance Fresh, HDFC Bank, Unilever Hindustan, Larsen & Toubro, and Arvind Mills. "We are spending about \$222 per student, and the target is to train 100,000 rural youth to make them employable in 2007-2008," said rural development minister Dr. Chinna Reddy.<sup>52</sup>

EGMM's experience shows that providing one job in the organized sector to one youth can take the entire family out of poverty in a sustained manner. The rural poor are mostly agricultural laborers with erratic incomes of barely \$266 a year. Youth who work in the cities often send money back to their families. One small survey conducted by EGMM showed average remittances of \$533 a year. The survey showed that 38 percent of the families use the remittances to pay off debts, 19 percent to purchase assets, 12 percent for education, 23 percent for savings, and 8 percent for other reasons.

Many anecdotes suggest a significant increase in the self-confidence and self-esteem of the youth involved in the program. One example is Gonela Swamy, a 20-year-old from the village of Veldanda in Warangal, who was clueless about what he wanted to do after graduating from school.<sup>53</sup> He became depressed when he failed to get a job due to his lack of fluency in English and poor communication skills. After completing the 45-day training program at the Rural English and Soft Skills Academy, Swamy found a job working as a customer support associate in



Hometown, a shopping mall. “It is the turning point in my life. From loitering around in my village, today I am working in the capital,” a beaming Swamy said.

Interestingly, aspirations soar even for those youth who are placed in low-level entry jobs. Several youth who worked as security guards in IT companies have enrolled in computer classes; they now aspire to work “from outside to inside an IT company.” An EGMM executive recounted the story of a manager at IBM who was amazed to hear a security guard tell him it was his last day, because he had learned some computer programming in his spare time and was now switching careers.

Employment opportunities in India are highly discriminatory against women.<sup>54</sup> EGMM also helps to correct this imbalance: 40 percent of their trainees are women.

### **Public-Private Partnership**

A major reason for EGMM’s success is that it combined the market-oriented approach of the private sector, the economies of scale provided by the government, and the commitment of the grassroots communities. EGMM is incorporated as a society by the rural development department of the government of Andhra Pradesh, making it a government-managed program strongly linked to private-sector needs. Its institutional framework departs from existing governmental norms: the executive committee is chaired by the state’s minister of rural development, and its members are senior government officers and top executives from the private sector. The top managers of EGMM, which is headed by the executive director, are a private-sector team responsible for strategy development and implementation. Aiding the top management team are senior government officers and, in the field, an implementation team of professionals and members of community organizations. The program and its targets are monitored by the chief minister, and state-level ministers participate in activities such as graduation ceremonies, all of which helps to achieve an enabling political environment.

The rural development department consciously decided that EGMM budgets should be funded by the government, without any contribution from private companies, to achieve the scale needed. The funding was justified partly because this program reduces social tensions created by unemployed youth and does so at the reasonable cost of \$222 per person. The impact is measurable and can be achieved within only two to three months, which is the length of the training courses. Government participation also helps reduce costs; for example, unused government schools were converted into training academies.

According to TeamLease, a temporary staffing company in Bangalore, India, 58 percent of India’s youths are not prepared for work or suffer from some kind of skill deprivation.<sup>55</sup> While around 14 million people enter the workforce every year, only 7 percent work in the organized sector. While the privatization of skill development is possible to some extent, significant government intervention in delivering training and financing is needed to reach poor people. Manish Sabharwal,

chairman of TeamLease, says companies are not ready to pay to train potential recruits, and candidates are unable to pay for training or placement services. Much then depends on programs like EGMM. “We are not a human resources outfit. Our agenda is to take people out of poverty and provide jobs to first-generation workers,” says Meera Shenoy, executive director of EGMM.

### **Private-Sector Network**

The top management team of EGMM has cultivated a network of companies in rapidly growing industries that have large demand-supply gaps for entry-level manpower, such as services, textiles, and construction. Members of the network range from CEOs of companies to regional human resources managers. No appeal is made to the companies based on corporate social responsibility. Rather, the companies participate in the network because it is in their self-interest to do so. Due to the rapid growth in the Indian economy in recent years, there is a shortage of qualified labor. EGMM helps the companies tap into an alternate labor pool: poor rural youth who are trained and motivated to work. This puts the EGMM and companies on equal footing and helps in negotiating better work conditions for the rural youth. For example, in the retail sector, companies recruiting for entry-level positions used to require candidates to have completed the 12th grade. Now companies in the network recruit youth who have passed only 10th grade and have been trained by EGMM.

EGMM encourages young people to work in their companies for at least one year, which reduces the attrition level for the companies. Recruiting from the rural academies also reduces companies’ recruiting costs, since the candidates have been prescreened by EGMM. The network companies tend to come back regularly to the Rural Academies for their entry-level manpower needs.

Companies participate actively in designing the training programs and also often give guest lectures. This ensures that the training is market oriented and deepens the companies’ involvement in the program. All network companies are required to go to the rural academies to recruit the youth. A side benefit of this has been that company executives quite often have to spend a night in or near a village, and they have used their time to interact with the youth, listening to their stories of poverty and struggle. This helps the executives understand the context of the young people’s situations more fully and have a deeper exchange with the community. It also sensitizes companies to the passion and vision of EGMM and changes their mindset about youth. After such visits, executives often volunteer to participate in training modules and give guest lectures.

### GENERALIZATIONS

I have argued that poverty reduction efforts should focus on increasing employment. Focusing on employment assumes a reasonably pro-business environment in the country, but this is a low-threshold requirement. This approach probably would not work in collapsing economies within failed states such as Sudan,

Myanmar, and Somalia, but it would work in a large number of emerging economies. The two countries discussed above, Mozambique and India, are far from ideal environments. On the World Bank's "Doing Business Index," Mozambique ranks 135th and India ranks 133rd out of 183 countries. On the "Corruption Perception Index," Mozambique ranks 126th and India 85th out of 180 countries. Andhra Pradesh ranks near the top, however, among the states in India in terms of pro-business environment and lack of corruption. In that sense, the two case studies are set in environments not atypical of many emerging economies.

At a broad conceptual level, both TechnoServe's and EGMM's interventions are consistent with and illustrative of the central thesis of this article: that the best way to reduce poverty is to create opportunities for steady employment at reasonable wages. The labor market involves employers (the demand side) and employees (the supply side). With regard to employers, it is a good idea to target the SME sector, which is the major creator of employment opportunities and is underdeveloped in poor countries—exactly what TechnoServe does. With regard to employees, it is a good idea to target the youth, who suffer higher unemployment than adults and would benefit more from increased employment—exactly what EGMM does. These ideas, illustrated by these two case studies, have broad generalizability: initiatives that focus on increasing employment and target the SME sector or the youth would be useful in most developing countries.

## CONCLUSION

The best way to reduce poverty is to raise the income of the poor by focusing on them as producers. As labor is the main resource that most poor people are endowed with, labor-intensive growth is the most effective way to reduce poverty. Creating opportunities for steady employment at reasonable wages is the best way to take people out of poverty. Reducing poverty through employment requires three major thrusts: (1) generate employment, (2) increase employability, and (3) make the labor market more efficient. These are not just abstract ideas but pragmatic, action-oriented proposals.

## Acknowledgements

I would like to thank Meera Shenoy (Executive Director, Employment Generation & Marketing Mission), Bruce McNamer (CEO, TechnoServe), Simon Winter (Senior Vice President, TechnoServe), and Steve Londner (Senior Advisor, TechnoServe) for much help and access to their organizations.

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