

## ECOSOC HIGH LEVEL SEGMENT

### Roundtable 1: Creating decent Work opportunities with productivity growth

*Daniel Funes de Rioja\**



## INTERNATIONAL ORGANISATION OF EMPLOYERS

(\*) **Member** of the Executive Committee and **President** of the Social Policy Department at the Argentine Industrial Federation (UIA).

**President** of the Business Technical Advisory Committee on Labor Matters at the American States Organization (CEATAL/OAS).

**Executive Vice President** at the International Organization of Employers (IOE).

**Employers Vice President** at the Governing Body and the Conference of the International Labour Organization.

**Member** of the World Commission on the Social Dimension of Globalization-ILO.

**Full Member** and **Secretary** of the National Academy of Business Sciences.

**Honored** by the Government of France with the Academic Award, -1999- and the Order of Bernardo O'Higgins as "Gran Oficial" by the Chilean Government, 2002.

## INTRODUCTION

The fundamental role of business in society is wealth creation and enterprise development, which constitute the main sources of employment generation. Enterprise and job creation is the crucial ingredient for functioning and developing societies. When it is hampered, emasculated or not properly cultivated, major economic and social pressures can emerge. Political systems can be compromised and instability can result.

As employers, we uphold that the free initiative model can only exist where there is democracy, freedom and a sound institutional framework. Good governance, transparency and government systems that encourage domestic savings and investment are essential factors that can boost economic growth and, with it, will shorten the path to well-being and progress.

Employers support efficient and effective governance because simply put, *it is good for business*. The State must of course be present because no well functioning society can exist without a State that guarantees respect of the law and places the welfare of the people before that of the individual, while at the same time guaranteeing respect for individual rights.

## CREATING SUSTAINABLE ENTERPRISES

The challenge today is to turn economic virtue into a virtuous social integration process, based not simply on expressions of will but on concrete efforts towards productive investment. But there must be incentives for productive investment and genuine employment, particularly in small and medium enterprises, access to technology and to markets must be facilitated, and there must be an education system that fosters the link between enterprises and society to ensure the training of qualified personnel who meet the needs of business in a globalized and highly competitive world.

## THE 10 FUNDAMENTAL PILLARS

Globalization is rooted in the market but it does not end there: freedom to undertake must be exercised responsibly. This is the root of good governance within the enterprise. I see "10 fundamental pillars" for sustaining enterprise development and the creation of a favourable investment climate. These are:

1. Democracy and the Rule of Law;
2. Sensible fiscal policies and an efficient public administration;
3. Investment policies, access to technology, encouragement of private initiative and enterprise development;

4. Friendly regulatory frameworks, particularly in relation to small and medium sized enterprises;
5. Respect of fundamental human and labour rights. The ILO *Declaration of Fundamental Principles and Rights at Work* remains vitally important as the only truly global consensus on the principles that all governments should look to achieve. The Declaration has played an important role in social improvement;
6. Protection of property rights;
7. Employment creation as the basis of sustainable development;
8. Labour flexibility and efficient social security nets that do not impair competitiveness (flexi-curity);
9. An inclusive and modern education and vocational training system;
10. Social dialogue.

#### CREATING THE ENVIRONMENT FOR ENTERPRISE GROWTH

The last number of years have seen an increased recognition of the fundamental importance of the market economy system and the private sector as its principal actor, in generating economic growth; achieving social development goals and in creating jobs and opportunities where none existed before.

The right policy mix that enables the market economy to function effectively and the private sector to thrive, underpinned by open access to global markets, has produced extraordinary results, where it has been implemented.

Developing the appropriate national and international policies to create an environment conducive to economic growth and job creation requires investment in physical and social infrastructure, to foster productivity and achieve competitiveness and as a logical consequence, income distribution that guarantees social cohesion, creating the necessary conditions to achieve a balance between production and labour, leading to a true sustainable development.

Political stability and effective rule of law are evidently key platforms to stimulate enterprise creation and development because business needs a predictable and stable environment in order to have the confidence to engage in entrepreneurial activity.

In many countries, in particular developing countries, the regulatory environment with which enterprises, particularly SMEs find themselves faced with can be both oppressive and emasculating.

Enterprises in many developing countries can face up to three times the administrative costs, and nearly twice as many bureaucratic procedures (and the delays associated with them). Moreover, they often have fewer than half the protections of property rights of developed countries.

There is of course no simple configuration of laws and regulations that can be termed as 'ideal' for a given country to adopt.

Each national circumstance is different and policies need to take into account those differences making it easier to open and close a business. Reforming legislation and regulation is also not a black and white issue. For instance, many micro and small enterprises are neither completely formal nor informal. Markets need rules to function effectively.

It can be the case that *more* legislation is required (for instance in the case of property laws). In other instances it can be a case of "smarter and more effective legislation": it is not simply a case of advocating for widespread dismantling of legislation.

Hypothetical calculations (by the World Bank) of the impact of a better business climate have shown that annual economic growth can be increased by up to two percentage points.

A refrain often heard is that regulatory reform is costly. However the actual costs are modest for many of the most necessary reforms. Small businesses above all need a level playing field in which to operate. Where subsidies are in place, such as special licenses, this can act as an unfair barrier and discourage competition.

Rules that constrain market entry and expansion can have a negative effect on SMEs. Predictable rules and access to enforcement of contracts and dispute resolution mechanisms are essential for SMEs to enable them to innovate, scale up existing activities and diffuse their knowledge. A supportive tax regime needs to be in place to encourage entry into the formal economy.

Adapting the rules of the labour markets to the new realities of the world of production with labour flexibility but also with social protection as a vital element of well functioning market economic systems, will provide an essential safety net (flexi-curity).

An individual establishing a business is going to be hesitant to employ someone if they know that if market conditions change it will be very difficult to let that person go, thus putting the entire entity at risk.

Social protection systems need to be affordable, sustainable and innovative, because generous social systems can act as a direct barrier to enterprise development.

### **PROPERTY RIGHTS: FOUNDATIONS FOR DEVELOPMENT**

If individuals have confidence that their property rights are secure then they are much more likely to look to expand and develop the business and reinvest their profits than those that do not. Property rights are tools for empowerment and play a key role in helping small enterprises to develop into fully fledged and growing enterprises. In parallel with reforming property rights governments also should if necessary put in place improvements in the land registry, collateral registry and access to the courts.

## ENTREPRENEURSHIP: MAKING SOCIETY THRIVE

Let me now turn to the essence of what we are talking about - job creation. The fundamental importance of entrepreneurship in terms of national development strategies is now increasingly acknowledged by international policy makers. The report of the UN Commission on the Private Sector and Development entitled *Unleashing Entrepreneurship: Making business work for the poor* (March 2004) stated: *"The poor entrepreneur is as important a part of the private sector as the multinational corporation. It is about acknowledging that the private sector is already central to the lives of the poor and has the power to make those lives better.. ..it is about unleashing the power of local entrepreneurs to reduce poverty in their communities and nations"*.

Entrepreneurship is the vital tonic that keeps economies dynamic. For governments, policies aimed at increasing and scaling up entrepreneurial activity have direct and immediate repercussions in terms of expanding the tax base. The benefits are clear and tangible in that respect. But the wider benefits are job creation, providing opportunities to other enterprises as suppliers; fostering trade and investment relationships (which can also lead to increased regional stability).

## TECHNOLOGY: DRIVING INNOVATION

For society as a whole the essence of entrepreneurial activity is innovation. Successful entrepreneurial activity should by nature be a reaction to a given market demand. It is providing a choice. A key element in encouraging enterprise development is technology. When we think of technology we think of - broad band (complicated IT platforms and so forth) but also of basic technology and its impact – for example, the mobile phone.

Innovation is particularly important as it is the crucial element in generating endogenous growth - the chain reaction that leads to virtuous circles of growth by utilizing new technologies, which in turn leads to increases in productivity, thus expanding further existing market opportunities and in turn leads back to incentives to innovate.

But the key challenge for potential innovators in many developing countries is incentive. Governments should develop incentives to innovate, through intellectual property rights and, perhaps most importantly, capitalizing on existing technology developments. Even if countries are not inventors of technology they can still be beneficiaries through the importation of technology.

In order to create sustainable development conditions there needs to be a focus on the long term - creating the conditions for innovation. This means investment in basic sciences in universities (and more generally in technical and scientific education); keeping a strong emphasis on productivity improvements; and creating the conditions to enable markets to expand.

Government needs to ensure that incentives are in place to motivate individuals to create innovative companies in all economic sectors, especially in those that require knowledge-intensive skills.

## GLOBAL LABOUR MARKETS: A MOVING PARADIGM

Countries are increasingly facing competitive pressures. Certain economic sectors have seen (and will continue to see) change, sometimes significant change, as operations move to more cost effective locations. This needs to be seen in terms of the natural evolution of societies and economies. Globalization has enabled companies to increase productivity by transferring elements of their operations to others that can do such tasks more efficiently.

Cost savings are enabling companies to offer new, cheaper, more flexible, and often higher quality services to their clients and allows them focus on what they do best, freeing up capital to be re-invested in Research and Development and more productive activities.

This process also gives companies access to scarce talent and facilitates access to foreign markets.

The ability to outsource lower skilled jobs abroad rather than shutting up operations is also giving many small companies a future they may not have had.

In low-income and transition countries it is enabling enterprises to provide increasingly sophisticated services around the clock.

For these countries the development of labour-intensive high-tech service industries helps countries to gain high-income services jobs and boosts economic growth.

The cross-border supply of IT and business process services helps to transfer technology and to reduce the technological divide. The key point is that international sourcing is not a zero-sum game - it can be *win win*.

## FINAL REMARKS

The business community is clear in its primary role in society that of wealth creation and opportunity. However, ultimately success will depend on the willingness and capacity of local and national governments to create and implement the appropriate policy frameworks, and to pursue social dialogue and partnerships within society, because working collectively and in harmony, these key societal actors can deliver on the promise of decent and productive work for all.

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