



## Step 5

### Facilitating labor mobility and job matching

#### Problem: None of the first four steps matter if people can't find jobs that match their skills

Even if individuals have the “right” skills to be productive and creative, employment and productivity can be hampered if labor markets do not function well. Employers need the flexibility to manage their human resources. Workers need to move freely between jobs and regions. And employers have to find the skills they need, and workers the jobs that put their skills to best use.

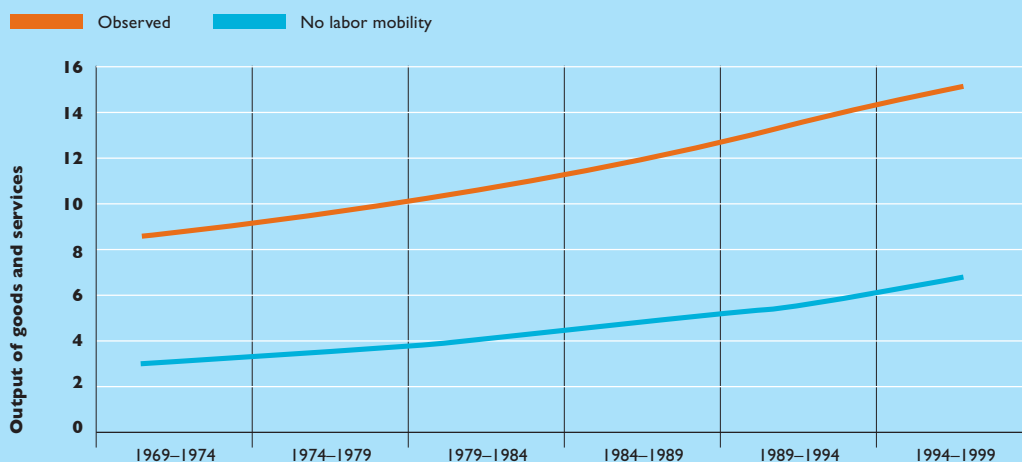
When workers cannot move freely, both output and productivity growth are reduced. Some calculations for the

United States for 1968–2000 show that without mobile labor, the output of goods and services would have been cut by more than half (figure 10). There is also growing evidence that lower turnover across firms is associated with lower productivity growth—firms facing high labor adjustment costs have fewer incentives to innovate and adopt new technologies.<sup>63</sup>

Estimates of the costs associated with workers finding jobs that do not match their skills are more difficult to come by, but they are likely to be large. Again in the United States, the social value of information that allows workers to find the “right” job for their skills has been estimated to be between 6% and 9% of GDP.<sup>64</sup> In low and middle-income countries, the costs could be even higher because data suggest that personal networks are the most common mechanism to search for jobs or to hire workers.

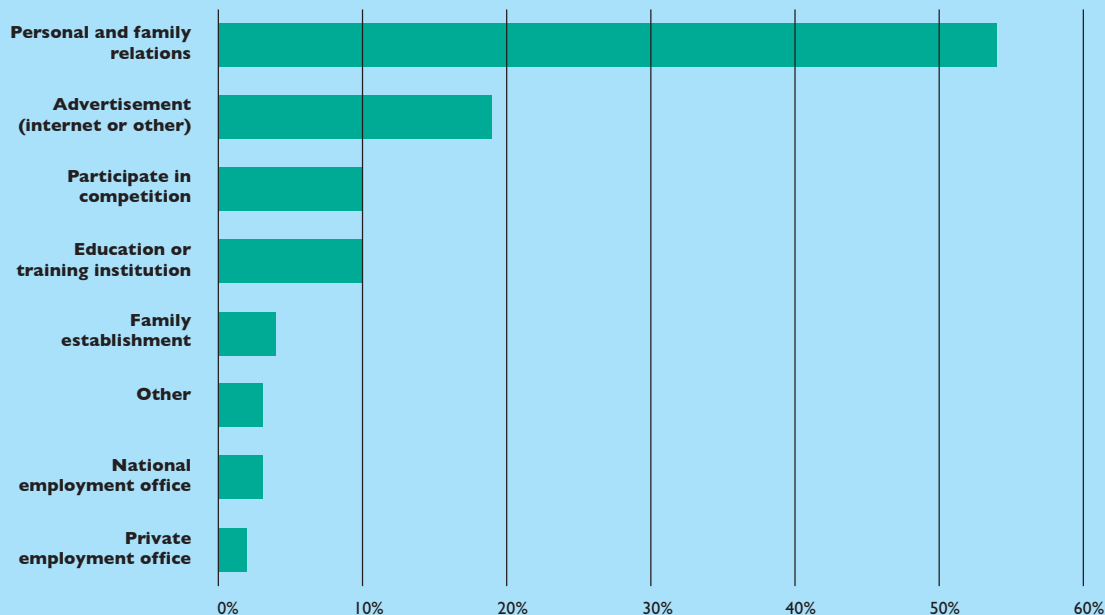
In Lebanon, 55% of young workers who found a job in 2009 used personal contacts; only 2% used employment services (figure 11). This is inefficient since individuals see only a small part of the jobs offered. While some might have the “right contacts,” those with weak social networks can be severely constrained in their choices. There is some evidence that job-skills mismatches are common.

Figure 10. **Without mobile workers, U.S. production of goods and services would have been cut by more than half**



Source: Based on Lee and Wolpin 2006.

Figure 11. **How workers (don't) find jobs in Lebanon**



Source: Kasparian 2009.

In Tunisia, more than 50% of university graduates are in jobs that do not use the skills they acquired in university (figure 12).

Youths entering the labor market for the first time, and thus lacking work experience and professional references, are likely to face more difficulties signaling their skills to potential employers. This problem can be amplified when there is no proper certification or accreditation for different training centers or universities. Indeed, there is some evidence that the transition to stable formal jobs involves a period where young workers alternate between short-term/low productivity jobs in the informal sector.<sup>65</sup> The problem is likely to be even more severe for informal sector workers lacking university or training diplomas.

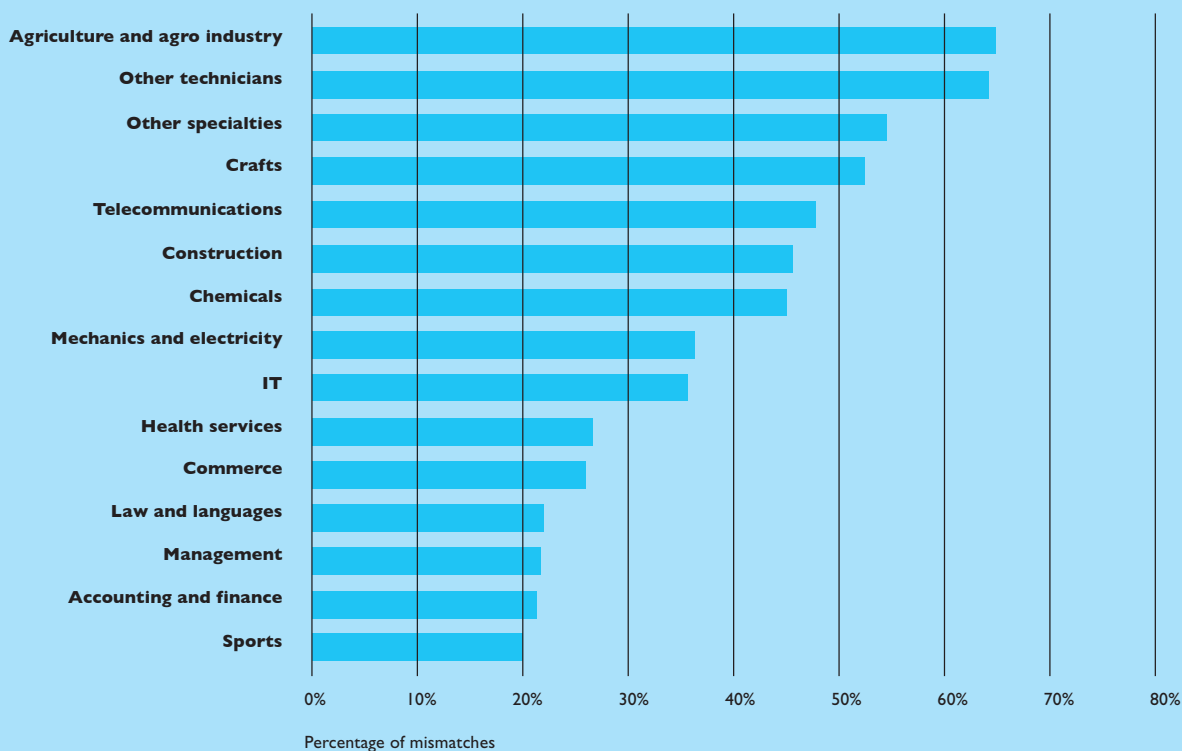
Governments can facilitate labor mobility and job searches through various interventions, including a better combination of job and income protection policies and more proactive approaches to employment services and skills certification.

### Facilitating labor mobility

The combination of rigid job protection regulations and weak income protection systems can be detrimental to labor mobility. Evidence from Chile, Colombia, Brazil, and India shows that rigid regulations on hiring and dismissal procedures reduce turnover and employment.<sup>66</sup> At the same time, the lack of appropriate income protection systems in most developing countries, as well as the limited benefit portability of social insurance benefits, can also reduce the incentives for workers to transition between jobs.<sup>67</sup>

Several countries are moving toward labor laws that give employers more flexibility in managing human resources, such as more flexible regulation of hiring and dismissal procedures. In many Latin American countries the termination of redundant workers is now legal, and few require the approval of a third party. Azerbaijan, Belarus, Kyrgyz Republic, FYR Macedonia, Mauritius, and Montenegro have eliminated requirements relating to redundancy over the last couple of years. Burkina Faso, Egypt, Lebanon, Mozambique, and Slovenia have also eased restrictions on fixed-term contracts.

Figure 12. **Mismatches are rampant for Tunisian university graduates employed in 2007**



Source: Robalino and others 2007.

And Argentina, Mauritius, Mozambique, and Peru have reduced dismissal costs.

The other side of the coin in efforts to enhance labor mobility involves expanding coverage of social protection systems to protect workers' incomes in the face of job loss. In many cases, innovations in income protection systems can provide an alternative to expensive severance pay systems—thus better protecting workers while facilitating mobility. For example, Colombia, Brazil, and Chile have introduced unemployment benefit systems based on savings. Relative to traditional unemployment insurance, these systems provide better incentives to search for and keep jobs and demand less control and administrative capacity.<sup>68</sup> They also have the potential to be extended to the informal sector. To protect low-income individuals with limited savings capacity some of these systems also provide access to a solidarity fund that finances unemployment

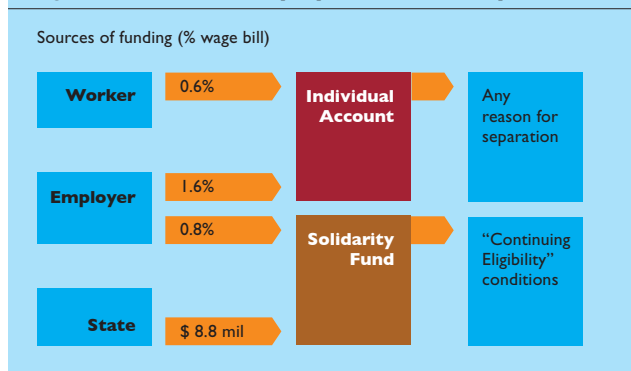
benefits after the individual's savings have been depleted. In Chile, such a solidarity fund is financed by employer and employee contributions and government transfers (figure 13).

Similarly, several countries in Latin America and Eastern Europe have rationalized defined-benefit pension systems, moving to defined-contribution arrangements (including nonfinancial defined-contribution systems) that make pension rights more portable and thus have the potential to enhance labor mobility and income security.

### Improving the matching of skills and jobs

To address the problems of poor information and to make it easier for workers to find jobs that match their skills and qualifications (and for firms to identify workers with the relevant skills), both developed and developing countries often seek to establish employment services. By combining

Figure 13. **Chile's unemployment benefit system**



intermediation (such as providing lists of job vacancies and doing preliminary screening of eligible candidates or suitable jobs) and counseling (such as giving practical help to job-seekers preparing curriculum vitas, guiding workers' careers) the services can be a fairly low-cost mechanism to help individuals find better jobs.<sup>69</sup>

In Brazil, for instance, employment services seem to increase workers' probability of finding formal jobs.<sup>70</sup> Similarly in Mexico, employment services are found to help unemployed men find jobs more quickly, with better pay and conditions.<sup>71</sup> There are also some encouraging results about the effect of these programs on youth. An example is the U.K.'s Restart, which offers job search assistance for youth and reduces unemployment for male participants. This program, as well as most like it in OECD countries, includes such sanctions as denying welfare benefits for not complying with program rules. Overall, employment services seem to work better when linked to unemployment benefits, training, and competency assessment programs in "one-stop shops."

In fact, employment services are being revamped in several middle-income countries. International experience<sup>72</sup> shows what's important for the successful design of these programs:

- Providing incentives for job-seekers and employers to join.
- Integrating employment services with training and competency assessment programs.
- Decentralizing management and expanding the role of the private sector with clear targets.
- Exploiting information technologies.

An important incentive for workers is to provide unemployment benefits. And to attract employers employment agencies can offer such services as managing vacancies and helping to screen candidates. In the United States, the JobsLink program in Alexandria, Virginia, has shown that it can outperform big employers in finding candidates with a given set of skills. It does this by having systems that assess job-seeker qualifications and their suitability for various jobs. Having access to training programs (outsourced to private providers) also helps unskilled workers and those changing sectors or occupations.

Decentralized management allows regional and local offices to tailor programs to the local job-seeking and employer communities, while the central administration retains responsibility for budgeting and funding, setting policy, and evaluations. In many cases, services can be outsourced to private employment agencies.<sup>73</sup> In all cases, it is important that contracts (with public or private offices) include specific placement targets and incentives to achieve them.

Recent advances in information technology can substantially reduce the costs of job intermediation, enabling employment ministries in Argentina, Brazil, Bolivia, Chile, Colombia, Mexico, Peru, Uruguay, and Venezuela to make information more readily available to job-seekers and employers. This information covers a wide range of topics including workers' rights, employment regulations, training programs, vacancies at home or overseas, as well as information targeted to vulnerable groups (young people, women, disabled workers).

Among high-income countries, Korea's employment services integrate job-search assistance with unemployment benefits, training, and job creation.<sup>74</sup> Implemented in 1995, they cover all companies regardless of their size, and both part-time and hourly workers can participate. The Bureau of Employment Policy in the Ministry of Labor makes policy and regulates the system, and hundreds of public and private local centers implement it. The system costs around 0.36% of GDP and in normal times has displayed a fairly high placement rate. At a one-stop shop job-seekers approaching any of the local offices have access to a variety of services. Beyond access to information about jobs and job counseling, the system provides employment

promotion benefits. On top of unemployment benefits, these provide incentives for job-search or training—when jobs are found, individuals can keep the balance. There are also grants to facilitate job-search in distant areas and a mobility premium if workers find jobs that require moving or changing residence.

In middle-income countries, an example of a well-run employment service program is Peru's Red CIL Pro Empleo. Created in 1996 and managed by the Ministry of Labor and Employment Promotion, it operates through a network of labor information centers managed by the private sector—including NGOs and churches. And it provides advisory services to job-seekers as well as employers. Job-seekers receive information about job openings but can also request advisory services (counseling) for career choices and support in preparing CVs and getting ready for interviews. If appropriate, job-seekers can also be referred to alternative training programs to improve their employability. Employers get access to a database of job-seekers and receive services including the prescreening of potential candidates

and support with official administrative procedures related to preparing and registering labor contracts.

One special feature of Pro Empleo is its focus on vulnerable low-income youth, low-skilled workers, and the disabled. The cost of the program is estimated at 0.4% of GDP. Although it has not been subject to formal evaluations, implementation reports suggest that Pro Empleo is achieving most of its targets.<sup>75</sup> In 2006, its placement rate was estimated at 28% of job-seekers, or 68% of the demands placed by employers.

Job-search can also be facilitated through skills certification frameworks to recognize individual skills and competencies (see step 3). While the impact of these programs has not been evaluated, they have the potential to fulfill a valuable role, particularly as modes and pathways to developing skills and competencies become more diverse.<sup>76</sup> Skills certification often needs to be complemented by efforts to certify or rate universities and training centers to provide better information to employers about the value of different diplomas and specializations.