For much of the world’s population, labor is the main source of income. Ensuring that workers have access to good “quality” jobs is thus a prerequisite to improving standards of living and reducing poverty. In the short-term, some countries may need to continue policies implemented during the crisis, gradually shifting from those focused on income protection towards those seeking to bring individuals back to work and out of dependency. However, governments should not lose track of the medium-term agenda, which focuses on structural problems that keep the majority of the world labor force in low productivity jobs while lacking access to social protection. The situation is particularly challenging in countries with young populations, where the number of youth entering the labor market for the first time is growing rapidly. Specific policy interventions will need to consider differences in initial conditions, including levels of economic and institutional development and demographic structures. However, there are common challenges that, to different degrees, will need to receive attention across countries: reducing distortions that negatively affect investment, the creation and growth of firms, or innovation; facilitating transitions into self-employment; upgrading the skills of the labor force and addressing constraints affecting its mobility; improving the matching of skills and jobs; and extending the coverage of social insurance programs to the unorganized sector.

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In the short-term, affected countries must continue their focus on policies that maximize the impact of the recovery on employment creation.

Many countries are still coping with the lasting impacts of the severe recent crisis. Global unemployment increased an estimated by almost 34 million between 2007 and 2009.1 The crisis was most acute in Eastern Europe, Central Asia, and Latin America, while East and South Asia were better able to maintain stable employment. Evidence from about 30 middle-income countries suggests that the crisis also affected the quality of jobs, as earnings growth slowed on average far more than employment growth did.2

Youth suffered the largest adverse impacts on employment and unemployment. In a sample of 19 developing countries for which data are available, employment contracted by an average of 3.7% between 2007 and 2009 for young workers, while employment grew 3.1% for adult workers over the same period. Young workers also suffered large increases in unemployment. In these 19 countries, the average unemployment rate for youth jumped from 21.5% in 2007 to 23.7% in 2009, while adult unemployment rose slightly from 7.5% to 8.4% during the same period.3 The crisis, to a lesser extent, reduced employment opportunities for men and workers with junior high or

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high school educations, who were more likely to work in wage jobs and the hard-hit industrial sector.4

Despite a rapid recovery in economic growth, the job market has been slower to rebound. Average GDP growth in the developing world is expected to reach 7.1 percent in 2010, marking a strong recovery from the crisis. Outside of Latin America, the recovery in employment and earnings is lagging behind the recovery in output. In a selection of 25 middle-income countries with available data, mostly in Latin America and Eastern Europe, 17 suffered significant slowdowns in employment growth during the crisis. Only four of the seventeen countries have fully recovered, however, all of which are in Latin America. Workers’ earnings have fared slightly better than employment during the recovery, but earnings continue to stagnate or shrink in several of the Eastern European countries hit hardest by the crisis.

To facilitate the recovery, depending on local conditions, countries will need to start shifting from policies that focus on income protection to policies that focus on activating the unemployed and employment creation. Over the last two years, countries have initiated or expanded programs to stimulate labor demand, facilitate job-search and preserve skills, and protect incomes (see Figure 1). Looking forward, as growth accelerates, countries will need to transition away from the transfers allocated through social assistance and social insurance programs (e.g., unemployment benefits). Interventions that should receive attention instead include support to small and medium-size enterprises and entrepreneurs, retraining and employment services.

Policymakers in developing countries should not lose sight of pervasive structural problems that affect many labor markets across the developing world.

Low participation rates and high unemployment rates still affect many countries. Outside East Asia, less than 50% of the working-age population is employed (see Figure 2B). This is usually explained by very low participation rates for women. Unemployment also remains an issue in several regions. Outside East and South Asia, even before the crisis, approximately 10% of workers were unemployed.

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4 Cho, Y, and D Newhouse, forthcoming, “How did the recession affect different types of workers? Evidence from 17 Middle-Income countries”.
The problem of unemployment is particularly prevalent among youth. Nearly half the population in the world today is under the age of 25 (1.2 billion people) and around 18% are between the ages of 15 and 25; 90% of those between 15 and 25 live in developing countries. Today, an all-time high of more than 80 million youth are unemployed. Record youth unemployment can be partly explained by the recent financial crisis, which stalled a relatively positive trend of falling youth unemployment rates (see upper half of Figure 3). However, in many countries, youth unemployment rates are currently more than double that of adults (see lower half of Figure 3).

Demographic factors will continue to put pressure on labor markets, particularly in low-income countries. Population growth in the developing world is projected to slow gradually, from approximately 1.4% annual growth between 2000 and 2005, to 1.1% between 2015 and 2020 (see upper half of Figure 4). But it will remain high in Sub-Saharan Africa and the Middle East, at 2.5% and 1.5% respectively.

As a result, the labor force will continue to grow rapidly (at around 1.8% per year for the Middle East and 2.9% for Sub-Saharan Africa until 2020), putting pressure on employment creation. In the past, in several countries employment growth was already lagging behind labor force growth (see lower half of Figure 4). As discussed above, the situation could be particularly difficult for youth whose share of the labor force will continue to increase.

Beyond the problem of quantity, there is also a problem with the quality of the jobs that are being created. There is indirect evidence that many of the newly created jobs across countries have been low productivity jobs, often in the services and agricultural sectors. In Latin America, for instance, labor productivity growth over the last two decades has been lagging. In countries like Costa Rica, Venezuela, Colombia, and the Dominican Republic, GDP per capita growth has been driven mainly by an increase in the share of the population who works instead of an increase in the productivity of the average worker (Figure 5). This can occur as inexperienced and unskilled workers, particularly youth, engage in informal activities through micro-enterprises or self-employment. Part of the problem may be the lack of enough formal jobs, but some workers, particularly in middle-income countries, may also prefer to work in the informal sector and avoid income and social security taxes.

Low labor productivity growth can be partly explained by the low level of education of the labor force. Indeed,
despite major improvements in access to education (in a majority of countries enrollment rates in primary education are above 90%), large segments of the labor force have less than primary education. In countries like India and Nepal, for instance, 50% or more of workers in the labor force do not have primary education (see Figure 6). The situation is explained by high repetition and dropout rates. Enrollment rates in secondary and tertiary education are also low. As a result, even in middle-high income countries such as Argentina, Chile, and Mexico, less than 30% of the labor force has higher education. The problem is often aggravated by the low relevance and quality of the education acquired. Overall, there is a concern that even educated workers do not have the right set of technical, cognitive, and non-cognitive skills to facilitate innovation, economic diversification, and productivity growth.6

An additional challenge is the growing exposure of workers to external shocks while only a minority is covered by formal social insurance. The recent financial crisis has demonstrated the interconnectedness of the world economy and the vulnerability of labor markets in middle- and low-income countries to global fluctuations. Yet, only three out of ten workers around the world are covered by social insurance programs – in Africa and South Asia, fewer than one in ten workers are covered. At the same time, the role of informal social protection systems based on the family and community is diminishing due to urbanization and migration. Self-insurance can also fail due to liquidity constraints and, in some cases, the lack of access to financial instruments. This implies that the majority of the labor force, basically workers in the informal sector, is exposed to income shocks. The very poor are often eligible for social assistance programs, but for those who are not poor enough to qualify for such programs, coping strategies may involve sending children to work or reducing food, health and education expenditures.

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6 See Banerji et al. (2010), “Skills towards Employment and Productivity (StEP)”.

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Figure 4: Population and Employment Growth by Region

Figure 5: Labor Productivity and per capita GDP Growth
There are different interventions that governments need to consider to address these challenges.

A pre-condition to the creation of high-quality jobs is to have a business environment that promotes investments, economic diversification, and innovation. In general, these are policies that reduce macroeconomic and microeconomic risks, keep down the costs of doing business, and promote competition among firms. They provide incentives to not only invest but also to innovate, to adopt new technologies, and to enter new markets. Government interventions include stable and credible macro-economic policies; enforceable property rights and contracts; friendly regulations to create and close businesses; and access to land and infrastructure. But while necessary, these policies are not sufficient.

Countries also need to ensure that the labor force has the “right” skills to meet the needs of higher-quality jobs. Beyond improvements in formal education systems, there is a need to review and revise training programs for those individuals who are already in the labor force. These include Technical Vocational Education and Training (TVET), On-the-Job-Training (OJT), and training-related active labor market programs.

A recent report by HDNSP discusses the various reasons why governments may need to intervene in markets for training\(^7\): limited information about demand for various skills and the quality of different training providers, liquidity constraints that make training unaffordable, poaching of skilled workers among firms, and biased expectations about the returns to investments in training.

There are examples of successful interventions to address these problems. For instance, the Indian IT services sector illustrates the important role the private sector can play in a country with a still-nascent TVET system. Bolstered by strong government support for the rapidly expanding industry, private companies have proactively led the training of workers through the development of new and relevant training courses, partnerships with academia, and the application of explicit standards to assess and certify skills. The Korean SME consortium project, on the other hand, has been driven by the public sector. In this case, the government has promoted SMEs’ investment in training through the provision of subsidies and the mobilization of resources at the central level to hire private trainers and financial managers. The intervention has effectively reduced the large fixed cost of investments in training, addressing the liquidity constraints facing SMEs.

Finally, the privately managed Jovenes programs in many Latin American Countries (pioneered in Chile and later implemented in several additional countries such as the Dominican Republic, Panama and Peru) have shown how the combination of in-classroom trainings with workplace internships and wage subsidies can be an effective tool to improve the labor market opportunities of disadvantaged youth.

Before engaging in reforms and program design, however, policymakers should be able to measure the distribution of various skills in the labor force and the demand for those skills. This requires improving the survey instruments currently available to gather information about workers’ characteristics and labor market outcomes. To this end, HDNSP, the Education anchor, and the WB regional departments are engaged in a project to measure the supply and demand for

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technical, cognitive, and non-cognitive skills in middle and low-income countries. Some of the pioneering countries to implement the newly designed skill measurement tool include Lebanon, Peru and Vietnam.

**Countries may also need to consider other programs that help individuals to access jobs.** Once the financial crisis abates, governments may have to find ways to bring individuals back to work and improve their employability, particularly after long periods of unemployment. Indeed, beyond the lack of skills, several factors can separate individuals from more productive work: not knowing where jobs are or not being able to move where they are; not having access to credit or the know-how to initiate a business or move into self-employment; or even not having updated identification and/or legal documents. Appropriate graduation (in the case of beneficiaries from government transfers) and active labor market programs can facilitate access to jobs – including among informal sector workers – and there are interesting experiences around the world to illustrate this fact.

**Bulgaria** has introduced policies to improve the quality of employment services, provide training for vulnerable people (including the Roma population), and offer support to small business through virtual incubators. Another case is **Serbia**, where labor redeployment measures have been successfully tested and implemented in enterprises undergoing restructuring and privatization in many regions in the country. **Chile**’s **Califica** is also an example of a program that has proved successful in facilitating access to jobs by providing skill certification services. Employers then are better able to assess the match of a given individual with available jobs. In **India**, the **Bharatiya Yuva Shakti Trust (BYST)** is a successful training and youth entrepreneurship initiative. It offers a range of business development services and mentoring to its clients. The mentoring models have been specifically tailored to suit the needs of entrepreneurs who come from underprivileged segments of the population. The program has an impressive track record; more than 1,200 youth enterprises have been created since its inception, generating more than 11,700 new jobs.

**Labor Regulations and Social Insurance Systems.** There have been recent proposals to improve the design and expand the coverage of workers protection systems. These proposals recognize that current social insurance programs and labor regulations are not well designed to deal with informal labor markets in middle and low-income countries. Part of the idea therefore is to delink access to social insurance (pensions, unemployment, health) from the labor contract and improve the design of redistributive arrangements to improve equity and reduce distortions in labor markets. Thus, all workers regardless of occupation would be able to join social insurance schemes and receive targeted subsidies if not able to pay the necessary contributions – the poor would be subsidized in full. Labor laws, on the other hand, would focus on fewer regulations and adopt mechanisms to better enforce them. There are several technical questions that still need to be addressed to implement these ideas, but recent reforms give reason for optimism.

**Chile** and **Egypt**, for instance, have recently reformed their pension systems to improve redistribution and incentives while gradually extending coverage to the entire labor force. In both cases, minimum pension guarantees have been extended to the entire labor force while integrating them with contributory systems, thus maintaining incentives for enrolling and saving.

Countries like **Estonia** and **Montenegro** (2008), the **Czech Republic** and **Georgia** (2006), **FYR Macedonia** and **Serbia** (2005) and **Armenia** (2004)8 have adopted labor regulations that provide better protection to workers while giving more flexibility to employers in the management of human resources. There have also been important innovations in the design of income protection systems that could replace expensive severance pay systems. Countries such as **Colombia**, **Brazil**, and **Chile** have developed unemployment benefit systems based on savings. Relative to traditional unemployment insurance, these systems provide better incentives to search for and keep jobs and are therefore less demanding in terms of control and administrative capacity.9 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.10

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