

**LABOR MARKETS, JOB CREATION, AND ECONOMIC GROWTH:
SCALING UP RESEARCH, CAPACITY BUILDING, AND ACTION ON THE GROUND**

**PROPOSAL FOR A MULTI-DONOR TRUST FUND
AUGUST 2007**

Objective

The objective of the proposed multi-donor trust fund (TF) is to promote effective policy-making in the area of job creation in developing countries. To accomplish this objective, the TF takes a three-pronged approach:

1. Supporting cutting-edge research by the global academic and research community on key policy issues related to the creation of more and better jobs, as well as the reduction of inequality and social exclusion.
2. Building the capacity of developing country's policy-makers and researchers on labor market analysis, evaluation techniques, and good practices in labor market policy.
3. Catalyzing country-level activities aimed at the analysis of local labor market conditions and piloting of promising approaches.

Justification

In many developing countries, the number of workers facing unemployment, low pay and poor working conditions is high and often growing. This is true even in countries that have undergone substantial structural reforms which have led to stronger, and more sustainable, overall economic growth. Because labor is often the main – if not the only – asset of the poor, a growth process that is not associated with the creation of more and better jobs may fail to reduce poverty. Moreover, a well functioning labor market can vitally improve a business climate, contributing to the creation of new firms and enhancing incentives of private agents to invest and innovate. Sound labor market conditions are also needed to guarantee the success of structural reforms, to maintain the social support for those reforms, and to ensure that the benefits are widely distributed. Achieving these targets is crucial to an effective implementation of poverty-reduction strategies and, hence, progress against the Millennium Development Goals.

The international community is increasingly acknowledging the critical role of employment in poverty reduction. The Report from the *World Commission on the Social Dimension of Globalization* is a prominent call to action on this theme. Moreover, all of the World Bank's recent World Development Reports (WDRs) – investment climate (2005), inequality (2006), youth (2007) and the upcoming Report on agriculture – highlight employment as a key issue for development and poverty alleviation. Bilateral donors have encouraged this focus.¹

Not surprisingly, governments of many developing countries are seeking advice on how to promote the creation of more, better, and more productive and rewarding jobs. This growing demand is reflected also in the Bank's lending activity: in 1999, the World Bank issued 19

¹ For example, the German Government established a TF with the World Bank on "Job Creation, Core Labor Standards, and Poverty Reduction in Africa" in late 2003. The Swedish International Development Cooperation Agency held an international conference, *Work Ahead: the Link between Jobs and Poverty Reduction*, in 2005. The EC held an EU member states meeting on Employment and Development in October, 2006.

investment loans with labor market components; in 2004, there were 67. We expect this demand to continue, and we need to better understand the causes of poor labor market outcomes to be able to advise on innovative solutions.

At the World Bank, the work on the creation of more and better jobs has already started and has helped to establish a solid track record in this field. For example, in addition to the WDRs, a structured initiative that took stock of what is known and not known about employment and labor markets in each global region was completed in 2004 and served as a basis for the articulation of a research strategy to fill knowledge gaps in 7 high-priority fields (see Annex).

The research, capacity building, and country level activities supported by this TF will further contribute to better policy-making and job creation. In part, this will be achieved through a strong link to the operational work of the Bank and other international and bilateral organizations. The results of the research will also feed into the ongoing work of the Bank to fully articulate a comprehensive and integrated policy framework for promoting job creation and better labor market outcomes – the MILES framework.² The latter also draws from existing diagnostic tools developed by the Bank – such the growth diagnostics, the poverty diagnostics, the Doing Business indicators, and the Investment Climate surveys.

Trust Fund Activities

The **guiding principles** of this project include the following:

- The majority of activities will target low-income and under-served countries and issues.
- Research funded by the TF will have demonstrated operational and policy relevance, which will allow direct application of new tools and findings. Priority will be given to research proposals which seek to building the capacity of developing country researchers and research institutions. All funded research projects will be expected to adhere to the highest standards of quality and will be subject to rigorous international review.
- All trust fund activities will be geared toward creating strong national ownership. First, through the Technical Advisory Group (see below on the governance of the TF) as well as through direct contacts within countries, the TF will strive to include a broad range of stakeholders, including government officials from ministries of economy/finance, planning, commerce, labor, education, social affairs, etc; trade unions; employers; researchers, and NGOs. Second, capacity building efforts and country-level activities (i.e. pilot projects and analytical work) will reflect countries' priorities, as they will be aligned with Poverty Reduction Strategies, and will thus reinforce country ownership. And third, reflecting their policy priorities, research undertaken by the TF will also attract the attention of national stakeholders.
- Findings from the project will be disseminated widely, with diligent efforts to promote evidence-based policy making in developing countries. Besides involving developing countries, collaboration with donors, international agencies, the EU Commission, and

² The MILES framework encompasses the following five key aspects of the economic, political and institutional context of job-creation: **M** for macroeconomics; **I** for investment climate and infrastructure; **L** for labor market regulations and institutions; **E** for education and skill developments; and **S** for social protection. The use of this framework encourages collaboration among different ministries and connects human development goals with the growth agenda.

others is also foreseen. Moreover, dissemination efforts will be closely linked to the promotion of a policy dialogue at the country level and will include the social partners and other key stakeholders. Indeed, one way to validate the findings of research and test the appropriateness of developed tools is by exposing them to opinions of key stakeholders which have intimate knowledge of local conditions as well as informed insights about key constraints to successful job creation and about policy priorities to tackle them.

- The project management team will make efficient and transparent use of TF resources.

Trust fund resources would be used to fill critical gaps in current efforts to accelerate the creation of good jobs in poor countries. In particular, it will address (1) knowledge gaps; (2) capacity gaps; and (3) experience gaps.

1. Filling the Knowledge Gap

The Trust Fund will be used to mobilize the international research community to produce high quality research on labor issues in developing countries, with direct application in the technical assistance and lending/granting operations of the World Bank and other multilateral and bilateral development institutions. The research results will be regularly presented at conferences and seminars.³

Sample deliverables under the research component include:

- a. *Toolkits.* In a number of areas such as labor market diagnostics and assessment of specific policy, what could emerge are user-friendly toolkits to help frame labor market analysis, identify appropriate indicators and contextualize a particular policy issue.
- b. *Research papers* The research products supported by the Trust Fund will be presented as research papers. Their objective is to provide a coherent, operationally relevant and empirically-based analysis that can guide policy interventions.
- c. *Non-technical notes.* These will provide a framework to think about a particular policy issue. They will also distill the main policy challenges and possible trade-offs of different choices, and provide a list of best practices, depending on country circumstances.
- d. *Flagship reports.* The main findings of research papers in any given area will be summarized in Flagship Reports providing a comprehensive vision on how to assess labor market outcomes, identify policy options while taking into account the complementarities and interactions between different policies – within the labor market and across different markets.

2. Filling the Capacity Gap

Capacity building will be a major priority throughout the project and will be actively pursued in several areas. A broad range of stakeholders will benefit, including researchers from client countries, policymakers from a range of ministries (particularly in African countries), as well as other stakeholders such as trade unions, employers organizations and other civil society groups. As in previous TF-efforts such as the German Trust fund on Job Creation, Core Labor Standards,

³ An example of such a conference was Employment and Development Conference organized by the Institute for the Studies of Labor (IZA) and the World Bank , Bonn, June 8-9, 2007.

and Poverty Reduction in Africa, a close cooperation with bilateral agencies and donors on the ground will be assured. The experience and expertise of partners such as GTZ has proven to be instrumental and the continuation of previous fruitful cooperation is planned.

Experience from recent training and capacity building activities, primarily in Africa, has helped to identify the following successful models that could also be pursued also through this TF:

- a. *Intensive labor economics training.* The new TF project could replicate the successful experience of the June 2006 course on labor economics taught to PhD students from the Africa Economics Research Consortium.⁴ In this model, a two-week course on labor economics is conducted by a research institution or university. Following the course, the students complete labor-related research projects under the continued guidance of the instructors. Based on their progress, two or three promising researchers are selected to serve as fellows at the institution organizing the course.
- b. *Developing strategies to accelerate job growth in Africa.* Policymakers from a range of ministries in interested African countries could be engaged in an intensive multi-year effort to conduct labor market analysis and develop multi-sectoral employment strategies. The effort could include a series of distance learning events, face to face conferences, and ongoing mentoring at the country level. This model is based on experience of the World Bank Institute and Social Protection and Labor Unit in a 3-year project to mainstream the Social Risk Management (SRM) framework into operations.⁵ The SRM project has eventually helped eleven countries to conduct analytical work on risks and vulnerabilities, six of which have already incorporated SRM concepts and programs into their Poverty Reduction Strategies (the remaining five countries have not yet completed a new PRS since the program began).
- c. *Developing and applying a core labor standards toolkit* designed to assist WB staff and stakeholders in client countries to analyze the implementation of these standards.
- d. *Other capacity building efforts* employed by the TF include distance learning and face to face courses. Among others, training efforts could focus on improving capacity to analyze labor data, for example through targeted instruction of data analysis and associated computer programs such as Stata or Eviews. Experience from Ethiopia shows that considerable interest and capacity can be developed with relatively short training interventions and the provision of software.⁶ Research findings and country experiences will also be incorporated into the World Bank's two-week "Labor Market Policy Core Course," thus benefiting a broad audience of policymakers and Bank staff.

⁴ The course was offered as part of the *Job Creation, Core Labor Standards, and Poverty Reduction in Africa* project funded by the German government.

⁵ The project was funded by the Finnish and French governments. More information is available at the WBI Social Protection Website.

⁶ The training of Ministry of labor staff in labor market data analysis using STATA software was another successful experience from the *Job Creation, Core Labor Standards, and Poverty Reduction in Africa* project funded by the German government.

3. Filling the Experience Gap

Many developing countries have employment strategies, but often they are insufficiently grounded in economic and social analysis, and their formulation is considered exclusively the responsibility of the Ministry of Labor. In fact, for these strategies to be successful, not only other ministries and actors need to be involved, but these strategies must also be based on solid analytical underpinnings – and, moreover, countries should be willing to try innovative approaches. This component of the TF will thus seek to support country-level innovations in economic analysis and policies. Calls for proposals will be issued to Bank staff willing to complement existing operational work in line with Country Assistance Strategies and PRS. Such activities might include:

- a. *Innovative ways to assess and address key bottlenecks of job creation* and better labor market outcomes – putting to work the MILES framework. The steps of such an analysis could involve (i) the review and assessment of the policy and institutional framework of the countries (among others, using existing diagnostic tools developed by the Bank – see above); (ii) based on such an assessment, the identification of policies that create key bottlenecks; (iii) the verification/validation of these bottlenecks, among others, by opinion polls among businesses and workers and by checking how aligned the identified bottlenecks are with findings from existing country-level studies; and (iv) the formulation of the policy response, taking into account both the cross-consistency of the proposed initiatives as well as political economy considerations.
- b. *Studies that focus on sub-topics within the labor market* such as analysis of the incidence and effectiveness of training activities of enterprises; the dynamics of the employment in urban informal sector, and prospects for non-farm employment growth in rural areas.
- c. *Pilot projects*. These projects will provide opportunity to test innovative programs to addressing poverty within the labor market context and will include, as a rule, a rigorous, scientific monitoring and evaluation component. Possible pilots include:
 - Enhancing self-employment and family business via entrepreneurship training and services (possible services include assessment of business ideas, technical assistance, classroom training, and one-on-one counseling, provided by local firms). Such programs have been identified, besides skill training programs, one of the two key labor market priorities in Africa by the World Bank.
 - Special youth employment pilots, with similar self-employment and training services as above but with the inclusion of non-cognitive training (for example, life skills training which would address risky behavior such as consumption of alcohol, drugs and tobacco; unprotected sex; participation in gangs; and criminal behavior). Such programs would also benefit from lessons learned by the recently completed Youth Employment Inventory project, undertaken by the World Bank under the YEN-TF.
 - Pre-departure training of migrants. To enhance the benefits of migration, migrants would be trained for jobs in demand in destination countries, as well as given practical information about the conditions and risks they are likely to face.
 - Policy pilots. Key national stakeholders would form a national employment/social policy task force with the objective to develop an employment strategy for their country. Their work would be supported by country level studies, including those

generated under the TF activities, as well as PRSPs and CASs. The development of labor market statistics and capacity building efforts to train stakeholders to use labor market databases would be part of such activities.

Except for policy pilots, other pilots will be rigorously evaluated, preferably via randomized designs that assign candidates randomly into program and control groups. Random assignment ensures that on average, the program group and control group will have the same observable and unobservable characteristics, and thus differences in outcomes between the program and control groups can be directly attributed to program participation. The proposed pilots could consist of relatively small groups (for example, they could start at about 600 participants, if possible representing both rural and urban areas).

Pilots will be implemented according to the following guidelines. In target countries, project collaborators will develop terms of reference for proposed projects, and the project executing agency will be selected via competitive process. Priority will be given to proposals which include a broad range of stakeholders (including trade unions and employers organizations in implementation). (Countries will likely hire part-time project coordinators who will provide technical assistance, monitoring, and supervision). Pilot projects would run approximately one year. A final joint country workshop will be held at the end of the pilot project phase to synthesize lessons learned.

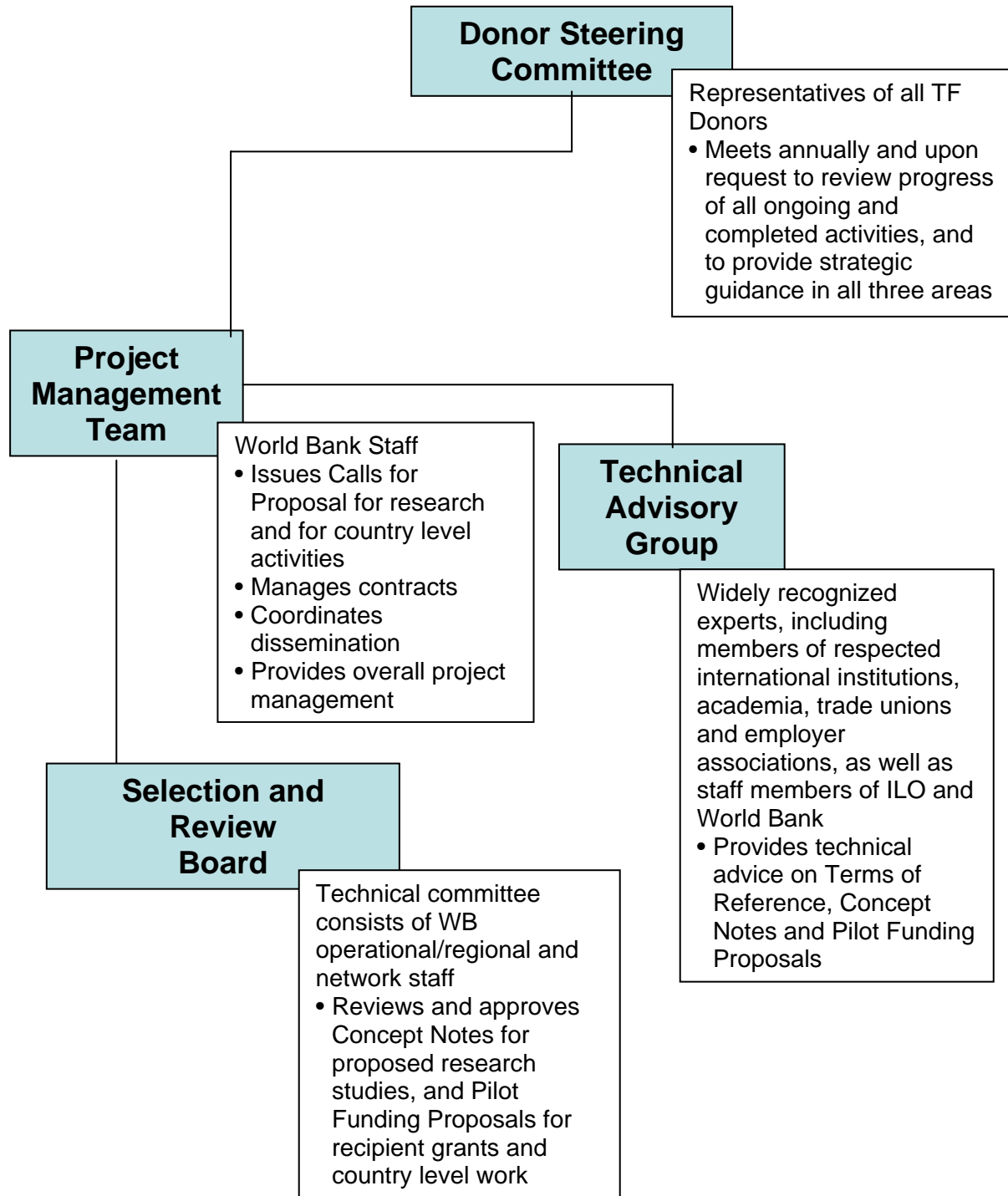
Governance Structure

A Donor Steering Committee will meet annually and upon request to review progress of all ongoing and completed activities, and to provide strategic guidance in all three areas of the project. The Committee's membership will consist of all TF donors. Individual members of a Technical Advisory Group will provide technical advice on Terms of Reference, Concept Notes, and Pilot Funding Proposals, as prompted by the Donor Steering Committee, Selection and Review Board, or Project Management Team. The Group will consist of widely recognized experts, including members of respected international institutions, academia, trade unions and employer associations, as well as staff members of the ILO and World Bank. Finally, a Selection and Review Board will review and approve Concept Notes for proposed research studies, and Pilot Funding Proposals for recipient grants. The Board will consist of World Bank Regional and Network staff (see Figure 1).

The TF will be managed from the Human Development Network, Social Protection and Labor Unit (HDNSP) by the ***Project Management Team***. The Team will issue calls for proposals for research and for country level activities; manage contracts; coordinate dissemination; and provide overall project management. The Program Manager of the TF will be Milan Vodopivec, Senior Labor Market Economist, and the rest of the team will be determined once the TF starts functioning.

Figure 1:

Multi-Donor TF on Employment and Development Proposed Structure and Roles



Project Outcomes and Impacts

This Trust Fund project will improve understanding of how labor markets function in low income countries and offer new evidence about policies which have the potential to create more and better jobs. Africa as a regional focus will be one of major beneficiaries. Because a global, comprehensive strategy is needed to promote more and better jobs, many countries (including African) will benefit not only from the capacity building and country-level work but also from comparative studies and from the development of a comprehensive framework to analyze and address bottlenecks of job creation. In particular, the following major outcomes of the project can be identified:

- a. *Improved and more effective country-level labor market policies* that will address key constraints of the creation of more and better jobs and will be reflected, among others, in CASs and PRSPs. These improvements will result both from the findings of new research and analysis undertaken under the TF as well as from enhanced capacity at the country level.
- b. *Lessons about specific good practices and the inventory of innovative, promising programs* for supporting the poor and vulnerable populations (such as assistance with self-employment and promotion of family business, youth employment programs, and pre-training programs for migrants), resulting primarily from on country-level activities.
- c. *Increased capacity in client countries of a broad range of stakeholders*, above all, of policymakers, researchers, as well as other groups such as trade unions, employers' organizations and other civil society groups. Note that this outcome will be strengthened by the close links of TF activities to WB operations, and by providing incentives to include researchers from developing country when conducting research, as well as by the strong emphasis on outreach and dissemination activities.

The expected development impact is improved evidence-based policy-making in developing countries, in particular in line ministries with responsibilities related to job creation (Finance, Labor, Education, Technical and Vocational Education and Training, Planning, etc.). Ultimately, improved policies will result in more and better jobs, reduced poverty and social exclusion, and improved incomes for those living in developing countries.

Results orientation of the proposed approach

An explicit objective of this TF proposal is to develop operationally relevant approaches in the area of labor market policy, and such approaches will also be relevant for poverty reduction strategies. By measuring labor market outcomes, as well as the number of countries applying the methodology developed under the TF, we will be able to monitor the success of the project. Another measurable indicator is the number of countries that will introduce employment as an identifiable core section of their PRSPs. We will measure if a consultation process has been in place, i.e. if the consultation process among stakeholders has improved. Yet another indicator is whether the Medium Term Expenditure Frameworks foresee expenditure to enhance employment and job creation. All these indicators can also be applied to Country Assistance Strategies (CASs). All papers, toolkits, capacity building and pilot projects will be monitored by the Steering Committee and partners involved through a regular mechanism of reporting which will take place at least twice a year. A quarterly update on project progress will be given to the

donors (SC-members). Upon request, the TF management team, will brief the donor on ongoing trustfund activities throughout all phases of the project. A mid-term self evaluation, as well as an independent external evaluation at the end of the program is foreseen in order to evaluate and monitor project outcomes and impact of the different components.

Dissemination

Project outputs and results as well as information about project ongoing activities will be disseminated through both, web and hardcopy publications; a series of international conferences and seminars; and various working paper series and newsletters. Both, World Bank and ILO-networks, as well as networks of agencies involved in project implementation will be used for dissemination. The project's research findings will also be incorporated into the Bank's annual two-week Labor Market Policies Core Course.

Table 1: Activities by Component

Timeline	Activity	Outputs & Outcomes	Outcome Indicators	Monitoring & Evaluation ⁷
Filling the Knowledge Gap				
Year 1-3	Analysis of seven key research areas	<ul style="list-style-type: none"> • Publications, policy primers, flagship reports, diagnostic tools to assess labor market conditions at different stages of development, website, dissemination via conferences and workshops • Improved and more effective country-level labor market policies 	<ul style="list-style-type: none"> • Number of participating countries that will improve key labor market outcomes • Number of participating countries that will improve passive and active labor market policies by taking into consideration “good practice” policy advice and pilots • Number of countries that will introduce employment as an identifiable core section of their PRSPs 	<ul style="list-style-type: none"> • Evaluation of proposals by Technical Advisory Group • Mid-year reporting on project results • Evaluation of outputs by independent external evaluators

⁷ A mid-term self-evaluation progress report on TF-activities for SC-members, as well as an independent external evaluation at the end of the project will be undertaken.

Timeline	Activity	Outputs & Outcomes	Outcome Indicators	Monitoring & Evaluation ⁷	
Filling the Capacity Gap					
Year 1	Intensive training in Labor Economics (intensive courses, research, fellowships)	<ul style="list-style-type: none"> Enhanced capacity of local economists to analyze labor market issues within their countries' context Stronger focus on labor market issues among economics students in client countries 	<ul style="list-style-type: none"> Improved labor market analysis (monitoring and evaluation of labor market programs) Improved consultation process among key labor market stakeholders Number of newly established/improved labor market databases of significant importance 	<ul style="list-style-type: none"> Students satisfaction with learning modules, training content, and fellowships obtained by participants' survey 	
Year 1	Development of labor market database	<ul style="list-style-type: none"> Better informed policymakers on the LM trends and outcomes 		<ul style="list-style-type: none"> Evaluation of outputs by independent external evaluators 	
Year 1-3	Trainings in labor market analysis and associated computer programs	<ul style="list-style-type: none"> More rigorous LM analysis Improved and more effective country-level labor market policies Enhanced quality of labor market databases 		<ul style="list-style-type: none"> Participants' survey 	
Year 2-3	Series of trainings (distance-learning courses and others) incorporating research results of TF-projects into learning modules	<ul style="list-style-type: none"> Enhanced awareness among stakeholders Improved capacity to analyze labor market issues 		<ul style="list-style-type: none"> Participants' survey 	
Year 2	Workshop/training on Core Labor Standards (CLS)	<ul style="list-style-type: none"> Enhanced knowledge of key stakeholders about fundamental conventions and their relevance to decent work in low income countries 		<ul style="list-style-type: none"> Number of participating countries applying CLS 	<ul style="list-style-type: none"> Participants' survey
Year 2-3	Development and application of a core labor standards toolkit	<ul style="list-style-type: none"> Better enforced CLS Improved working conditions 		<ul style="list-style-type: none"> Improved CPIA ranking of participating countries in areas that include evaluation of enforcement of CLS Number of countries implementing the toolkit 	<ul style="list-style-type: none"> Evaluation of outputs by independent external evaluators

Timeline	Activity	Outputs & Outcomes	Outcome Indicators	Monitoring & Evaluation ⁷
Filling the Experience Gap				
Year 1-3	Innovative ways to assess and address key bottlenecks of job creation and better labor market outcomes	<ul style="list-style-type: none"> Improved and more effective overall employment and job creation policies Improved tools of labor market analysis Enhanced capacity of key stakeholders to analyze labor market issues in the national context 	<ul style="list-style-type: none"> Number of participating countries that will improve key labor market outcomes Number of participating countries that will identify key bottlenecks of job creation and better labor market outcomes Existence of a new tool of determining bottlenecks of job creation and labor market outcomes 	<ul style="list-style-type: none"> Evaluation of proposals by Technical Advisory Group Evaluation of outputs by independent external evaluators
Year 1-3	Country studies focusing on labor market sub-topics (such as training, the labor market dynamics, non-farm employment growth in rural areas)	<ul style="list-style-type: none"> Improved and more effective overall employment and job creation policies Recommendations on how to improve labor market policies and programs 	<ul style="list-style-type: none"> Number of participating countries that will improve specific aspects of labor market policies and programs 	<ul style="list-style-type: none"> Evaluation of proposals by Technical Advisory Group Evaluation of outputs by independent external evaluators
Year 1-3	Pilots -- examples ⁸ : <ul style="list-style-type: none"> Enhancing self-employment and family business via entrepreneurship training and services Special youth employment pilots Pre-departure training of migrants 	<ul style="list-style-type: none"> Studies documenting the impact of specific labor market interventions and providing lessons about good practices Inventory of innovative, promising programs in areas such as skills and entrepreneurship development, youth programs, and migration Improved active labor market policies and employment services 	<ul style="list-style-type: none"> Number of participating countries that will improve specific aspects of labor market policies by taking into consideration “good practice” policy advice obtained from pilots 	<ul style="list-style-type: none"> Pilots will be rigorously evaluated, preferably via randomized designs and based on comparison of outcomes for treatment and control groups Evaluation of proposals by Technical Advisory Group Evaluation of outputs by independent external evaluators
Year 1-3	Policy pilots – national employment and social policy task force developing employment strategy of the country	<ul style="list-style-type: none"> Improved and more effective overall employment and job creation policies Stronger focus on employment issues in PRSPs and CASs; Improved consultation process among key labor market stakeholders Improved use of labor market statistics 	<ul style="list-style-type: none"> Number of countries that will introduce employment as an identifiable core section of their PRSPs; Number of countries introducing Medium Term Expenditure Frameworks that foresee expenditures to enhance employment and job creation Number of different agencies participating in the preparation of the national employment strategy 	<ul style="list-style-type: none"> Survey of the consultation process Evaluation of proposals by Technical Advisory Group Evaluation of national employment strategies by independent external evaluators

⁸ Pilot programs would run approximately 12 to 18 months within the 3-year timeframe of the project.

Timeline	Activity	Outputs & Outcomes	Outcome Indicators	Monitoring & Evaluation ⁷
Dissemination and Evaluation				
Year 1-3	Dissemination through publications, workshops, conferences, website, etc.	<ul style="list-style-type: none"> • Enhanced effectiveness of project outputs through improved awareness • Enhanced partnerships 	<ul style="list-style-type: none"> • Feedback on TF-outputs and results provided and the number of stakeholders and Bank staff using this website. 	<ul style="list-style-type: none"> • Mid-term self evaluation • Final independent external evaluation at the end of the project
Year 1-3	Evaluation	<ul style="list-style-type: none"> • Evaluation reports • Results of surveys 	<ul style="list-style-type: none"> • Number of reports and surveys 	<ul style="list-style-type: none"> • Steering Committee supervision

Table 2: Proposed Budget (in US\$1,000)*

Categories	Year 1	Year 2	Year 3	Total
Research Projects (2-3 topics/year)	\$1,500	\$1,400	\$1,400	\$4,300
Capacity Building	\$600	\$600	\$550	\$1,750
Country Level Activities	\$500	\$500	\$450	\$1,450
Dissemination/ Communication	\$100	\$100	\$100	\$300
Monitoring and Evaluation		\$100	\$200	\$300
Project Management**	\$300	\$300	\$300	\$900
TOTAL	\$3,000	\$3,000	\$3,000	\$9,000

Note:

*Fifty percent of the overall budget will go to low-income countries, which are concentrated especially in Africa.

** Management costs consist of a standard cost recovery fee of 5 percent and an incremental 5 percent costs to cover management cost arising from the complexity of the project (its strong focus on capacity building and filling the experience gaps). The project requires both intense participation of project management team in the preparation and monitoring of project activities, as well as intense field presence during the implementation phase (the presence most effectively done by Bank staff stationed in the field). Project management costs will therefore cover also some Bank staff time.

ANNEX: EMPLOYMENT AND DEVELOPMENT - KEY TOPICS

The research program on "Labor Market, Job Creation and Growth" proposed by the World Bank has been developed in consultation with client countries, international and bi-lateral partner organizations, and the academic community, has identified 7 main topics for priority research:⁹

1. *Diagnosis of labor market conditions and vulnerability in middle and low income countries – Decent Work research agenda and implementation of core labor standards*

Improving our assessment of labor market conditions and policy challenges requires more and better information. In many low-income countries, standard labor market indicators are inappropriate. Most workers cannot afford to be unemployed and may well be engaged in full-time employment, while remaining in poverty. Better diagnosis is particularly needed to identify vulnerabilities in the labor market, including the possibilities of productive employment, and availability of social protection mechanisms. In many countries, the traditional dichotomy of formal/informal employment may not characterize well the vulnerability of workers. Vulnerability may also be the result of misguided policies, lack of enforcement of rights of workers, or social norms that lead to social exclusion and discrimination. Child labor may also result in perpetuation of social exclusion and poverty. While in some countries, social exclusion is entrenched, we only have rough and incomplete measures to identify this phenomenon. A more complete set of labor market diagnostics needs to be developed in order to assess labor market performance and to identify vulnerable groups and design effective policies to improve their welfare. Further research is needed in a number of specific areas, including:

- Reviewing diagnostic tools to assess labor market conditions in countries at different stages of development and with different economic and social structures.
- Improving identification of vulnerability in the labor market.
- Improving identification of vulnerability among children and the youth.
- Understanding the gender dimensions of vulnerability in employment.
- Identifying and facing up to social exclusion.

2. *Links between the business environment, labor demand and poverty reduction.*

The challenge of creating more and better jobs largely relies on improvements in the investment climate in which firms find the incentives and opportunity to invest productively, grow, and hire workers. Existing bottlenecks in the investment climate affect the three main channels through which growth can affect poverty reduction: (i) the sustainable growth path; (ii) the *employment content of growth* (i.e. the elasticity of employment to output growth); and (iii) poverty-reduction effect of employment growth (the poverty elasticity to employment). Moreover, different reforms of the investment climate may affect these three channels in ways that may affect the short-term and long-term effect of growth on poverty reduction. In many developing countries dominated by traditional economic production, two other important issues relating to labor demand concern rural, non-agricultural activity and the efficient migration of rural workers to urban areas where employment opportunities are growing. These have direct and potentially

⁹ The process started with a stock-taking conference at the World Bank in November 2004 about what we know and what we should know that led to the first list of knowledge gaps. It evolved with the consultations with development and knowledge partners during the last three years.

powerful implications for poverty reduction. Further research is needed in a number of specific areas, including:

- Assessing labor demand in countries at different levels of development and with different investment climates.
- Understanding the role of labor in the link between growth and poverty, especially in low-income countries

3. Benefits/costs of structural reforms and globalization for workers

This is closely related to the previous topic. The international evidence suggests that macro, trade, and structural reforms can involve large reallocations of resources – including labor – across firms, sectors, and locations, often with adverse effects on labor markets. In Equatorial and Central Africa, these reforms were accompanied by persistent open unemployment, declining participation, and sometimes, by stagnating real wages. In Latin America and Caribbean countries, the impact of reforms on jobs has been much smaller but often at a cost of substantial wage losses. In many low income countries, increased trade openness is exposing them to greater opportunities but also more exposure to fluctuations of international markets. Further research is needed in a number of specific areas, including:

- Identifying the channels by which different types of reforms affect labor market outcomes
- Identifying the medium-term job growth prospects of structural reforms
- Identifying the optimal sequencing of reforms for job creation
- Identifying the best mechanisms of income support and re-employment for affected firms and workers.

4. Causes and consequences of formality and informality

All labor markets include diverse types of employment in terms of “formal” jobs, “informal” jobs, and variations in between. In many developing and transition countries, informal employment has been growing more rapidly than more formal employment. This has raised many questions for labor market analysis and also for policy-making. It also has close links with the earlier theme on diagnosis and vulnerability. It is obvious that the reality is more complex than the traditional view of an informal “sector” where the poor, unable to find formal jobs, eke out a subsistence living through very low productivity labor. While this characterization applies in some cases, empirical studies in Latin America have shown that some workers seem to be voluntarily moving to the informal sector to improve their lot. Moreover, workers in sectors traditionally considered as “formal” are increasingly employed in temporal, precarious jobs, blurring the line between formal and informal employment. We know little about informality, what drives it, and what its links are to formal labor markets. Further research is needed in a number of specific areas, including:

- Investigating the dynamics of the formal/informal economy
- Re-thinking social protection for informal workers
- Identifying the effects of labor regulations and social protection programs on informality

5. Effects of labor market policy and institutions.

Research suggests that economic growth requires the capacity to reallocate resources, including human resources, from declining to expanding sectors, and from low- productivity to high-productivity activities. However, in many countries labor regulations appear to be ill-suited to facilitate this process. In many developing countries, hiring and firing regulations are much stricter than in high-income countries, hindering the reallocation of labor across uses; on the other hand, few have adequate programs to support the unemployed. Yet it should be recognized that labor market regulations, albeit imperfect, constitute a form of social protection and cannot simply be dismissed. To move beyond a trade-off between labor market flexibility and worker security is necessary (i) to identify the benefit/costs of existing regulations/social protection mechanisms and (ii) to identify potential alternatives, which yield higher benefits at a lower social and economic cost. Further research is needed in a number of specific areas, including:

- Identifying the impacts of labor regulations on total employment levels and growth, formal sector employment growth, informal-formal decisions, productivity growth, consumption smoothing, and risk management strategies
- Identifying the effect of labor market regulations on particular groups of the labor force.
- Assessing the role of international labor standards in trade and development (e.g. on child labor)
- Understanding the political economy of labor reforms
- Identifying alternative protection mechanisms with lower economic costs
- Understanding how to promote social dialogue.

6. Best practices in skills development and skills upgrading

Important skill shortages are identified in most developing countries. In many countries of South Asia and Sub-Saharan Africa, illiteracy rates are still very high, and enrollment in secondary education is still fairly low in many low and middle-income countries. Not surprisingly, many employers in these countries consider skill shortage as one of their main constraints in the operation of their business and potential for growth. Increasing the quality of the labor force is essential to increase the productivity and the earnings of workers. Yet, in many countries, state-provided training services have been inadequate and disconnected from the requirements of employers. Interventions in skill formation should take into account that (i) most training takes the form of on-the-job training; (ii) medium- and high-skill workers are more likely to be trained by firms than low-skill workers; (iii) many workers in developing countries are self-employed; and (iv) economic analysis has often shown that the returns to human capital investments in workers are highest when workers are supported in furthering their general (school-provided) education. With all of these considerations, it remains unclear what the best models are for skills development and skills upgrading of the labor force. Further research is needed in a number of specific areas, including:

- Identifying efficient government interventions in training programs and policies
- Identifying the role of labor force skills in determining economic outcomes in a context of globalization.
- Attempting answering crucial questions like: what are the best training models to build a skilled labor force? What are the appropriate public and private roles? How should the training system interact with the education system, facilitating the entry of young people into the labor market?

7. International migration and labor markets in origin and host countries

The demographic development between the main regions of the world is characterized by large disequilibria as a result of differences in the timing and scope of fertility and mortality trends. As some of these differences will get more pronounced in the decades to come, this will accentuate the divergence in labor force growth between regions. Europe and Japan will have low or even negative growth, and other regions, such as MNA or India, will have continued high growth. For the rich countries in the developed world, a constant or declining labor force implies lower GDP per capita growth, unless a declining labor supply is fully compensated by higher productivity growth. But the latter risks to be negatively impacted by an older and less entrepreneurial population. Labor force stagnation also implies a higher burden through social security programs such as pension and health, which is largely independent of how these programs are funded. On the other hand, the developing countries with continued strong labor force growth will be extremely hard pressed to create the millions of additional jobs needed to accommodate the new entrants. This disequilibrium calls for demographic arbitrage and ideas on how to structure capital as well as labor flows as a win-win-win situation (for sending country, receiving country, and migrants). This includes managed temporary or permanent migration, the better use of remittances in labor-sending countries, and appropriate social policy programs which make return migration individually attractive and fiscally sustainable for the sending country. Further research is needed in a number of specific areas, including:

- Understanding demographic disequilibria and skill gaps
- Assessing migration policies in receiving countries
- Assessing migration policies in sending countries
- Understanding the role of portability of social benefits.