



International
Labour
Office
Geneva

Employment Diagnostic Analysis

A methodological guide



Employment
Sector

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Employment diagnostic analysis: a methodological guide / International Labour Office, Employment Sector – Geneva: ILO, 2012

ISBN 978-92-2-125987-9 (print);
ISBN 978-92-2-125988-6 (web pdf)

International Labour Office; Employment Sector
employment / unemployment / labour force participation / human resources / economic analysis / methodology
13.01.3

ILO Cataloguing in Publication Data

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Foreword

The challenge of productive employment creation is today arguably more daunting than ever, in both developing and developed countries. Faltering growth and structural weaknesses in many of the largest economies have undermined the prospects for a sustained and rapid global economic recovery. To make matters worse, the past few decades have been characterised by a secular trend of decreasing employment content of growth and increasing inequality. Overall, economic growth per se has become less and less efficient as a vehicle for generating productive employment and incomes from labour at the same time as the gap between the rich and the poor has widened.

Inclusive, job-rich growth has never been a natural outcome of economic growth; there is no constant or invariant relationship between the two. Yet, standard analysis of economic development has not focused sufficiently on the challenges of making economic growth more job-rich and more inclusive. For a long time the ruling paradigm, as translated into political economy at both multilateral and national levels has been based on an assumption that employment is a derivative outcome – a residual – of growth and on a ‘trickle down’ assumption, that growth will eventually also benefit the poor.

Employment diagnostic analysis aims to understand the nature of the deficiency of productive employment and the context-specific constraints, challenges and opportunities for increasing productive employment through sustainable and inclusive job-rich growth as a basis for a sharper and more effective focus of policies and strategies on productive employment. The purpose of the present guide is to provide a user-friendly methodological tool for such analysis. The methodology has been developed with three important considerations in mind:

- It should facilitate a clear identification of the causes behind the main constraints and challenges, through a highly structured and step-wise approach, with a view to provide a basis for prioritisation and a sharp focus in policy-making
- The country specific situation should serve as a starting point and basis for the analysis
- Participation by the end users in the analytical process is crucial for result. Those responsible for designing and implementing policies should also play an active role in the identification of the constraints and challenges that need to be addressed

The development of this guide was made possible by a generous financial contribution by the Swedish International Development Agency (Sida) within the frame of a partnership between the ILO and Sweden. The final product has been strongly influenced by experiences and lessons from extensive testing in a number of countries and has benefited greatly from collaboration and constructive comments from a large number of experts within the ILO as well as ILO constituents. It is our hope that the Guide will be extensively used within as well as outside the ILO and that it will prove its worth as a useful tool for achieving knowledge for policy discussion and for policy making aimed at achieving productive employment and decent work.

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Executive Director
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Acknowledgements

The present guide was developed by Per Ronnås, Miranda Kwong and Leyla Shamchiyeva, within the framework of a project on *Promoting Inclusive Job-Rich Growth* generously funded by the Swedish International Development Cooperation Agency (Sida) in partnership with the ILO. Empirical testing has played a key role in the development of the methodology and the experiences and lessons learnt from its application in a wide range of countries and settings have strongly influenced the final product. Not least the decision to opt for a highly participatory mode of analysis, where ILO constituents themselves play a main role, resulted from the highly positive experiences and feed-back received as this approach was tested in different settings. Hence, the present guide is very much the result of a collective effort. The work has benefitted greatly from the constructive interaction, comments and involvement of a large number of ILO colleagues, both at headquarters and in the field. Comments and feedback from ILO constituents in different countries have been similarly crucial. The authors alone bear responsibility for any remaining shortcomings.

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Abbreviations

BAPPEDA	Regional Body for Planning and Development
BiH	Bosnia and Herzegovina
BPS	Central Bureau of Statistics of Indonesia
DySAM	Dynamic Social Accounting Matrix
EDA	Employment Diagnostic Analysis
GDP	Gross Domestic Product
HBS	Household Budget Survey
ICLS	International Conference of Labour Statisticians
ILO	International Labour Organization
LF	Labour Force
LFP	Labour Force Participation
LFS	Labour Force Survey
MDGs	Millennium Development Goals
NA	National Accounts
NTT	Nusa Tenggara Timur Province of Indonesia
PREMPR	Poverty Reduction and Economic Management, Poverty Reduction Group
SAKERNAS	Indonesian National Labour Force Survey
SUSENAS	Indonesian National Socio-economic Survey
WB	World Bank
WDI	World Development Indicators

CHAPTER ONE:

Conceptual and methodological considerations

1. INTRODUCTION AND GENERAL CONSIDERATIONS

The purpose of the present guide is to provide a tool for context-specific analysis of the dynamics and characteristics of employment and to identify and understand the causes behind the main constraints and challenges, as well as opportunities for increasing productive employment in an inclusive and sustainable manner. It aims to provide a tool:

- That allows for the combination of a broad-based approach with focus and depth in the final analysis
- where the country specific situation serves as a starting point and basis for the analysis, and
- which facilitates a highly participative form of analysis and the combination of in-depth knowledge of the local situation with sound theoretical and generic knowledge

A main target group for the guide is the ILO constituents – governments and social partners – who in various capacities play a central role in designing and implementing policies and interventions where productive employment and decent work is a main objective. It is our hope that ILO staff and others with a professional interest in employment will also find the guide useful.

In general terms, *the objective of diagnostic analysis for inclusive and job-rich growth*, hereafter referred to as *employment diagnostics*, is to understand the nature of the deficiency of productive employment and to identify the constraints on and opportunities for enhancing inclusive job-rich growth. The analysis is to provide a sound knowledge base for effective policies, institutional reforms and other interventions aimed at reducing the deficiency of productive employment.

The most important role of employment diagnostics is as an instrument for the broad-based charting and understanding of the country specific ‘landscape of employment and economic development’; for a first diagnosis of where the main constraints, challenges and opportunities for enhancing inclusive job-rich growth are to be found. Through a well-structured process of deduction and elimination it aims to identify the issues that require priority attention in order to enhance productive employment and to reach established employment targets. A related important role is as an aid to narrowing down the focus for any further in-depth analysis and providing a context specific basis for subsequent thematic analysis. Pursuing the parallel with pathology (where the concept has its origin), it is as a tool for the general practitioner to make a diagnosis before remitting the patient to more specialised analysis and care that employment diagnostic analysis has its most clear-cut role. It precedes, provides the basis for and needs to be complemented by, forward looking analyses and development policies¹ aimed at guiding structural change onto a path of inclusive and sustainable job-rich growth.

The present guide consists of three main chapters. Chapter One lays down the conceptual framework. Chapters Two and Three provide a detailed guide on how an employment diagnostic analysis can be undertaken.

¹ Which are likely to require a strategic combination of human resources development, economic, industrial and other policies.

1.1. DEFINING INCLUSIVE AND PRODUCTIVE EMPLOYMENT

In headcount terms, deficiency of productive employment at a given point in time can be quantified and defined as the *sum of unemployed and working poor*.² In other words, the deficit of productive employment consists of those who are in the labour force, but do not have productive employment. Achieving full and productive employment, which is a Millennium Development Goal Target, requires the elimination of this deficit.³ The working poor may be further categorised according to the proximate causes and expressions of the inadequate returns to labour:⁴

- Underemployment
 - Open underemployment; those working less than full-time, but who would like to work more hours, and whose income is insufficient to permit an escape from poverty
 - Disguised underemployment; those working full time but at a low intensity, within an institutional framework that permits both work sharing and income sharing
- Low returns to labour
 - Those working for low returns to labour, as wage workers or own account entrepreneurs, because they have to compete with potential entrants (a pool of surplus labour), who have a very low reservation wage – the *surplus labour* syndrome
 - Those working with poor skills, poor technology and/or inadequate complementary factors (e.g. capital and/or land) – the *low productivity* syndrome
 - Those suffering from *adverse terms of trade* because of either low product prices or high input costs or both – the adverse terms of trade syndrome

The proximate causes behind deficiencies in productive employment are obviously not mutually exclusive, but may come in a large variety of combinations.

The objective is thus to reduce the deficiency of productive employment and decent work, with the ultimate aim of eliminating it, through quantitative increases and qualitative improvements in employment. The relative emphasis on the quantitative versus qualitative aspects depends on the nature of the proximate causes and expressions of the deficiency of productive employment and on the growth rate of the labour force.

2. THE CONCEPTUAL FRAMEWORK

The fundamental importance of human resources and employment to economic growth and to increased material well-being and freedom from poverty stems from two considerations:

- Employment and income derived from employment (self-employment or wage employment) are the most important links between economic growth on the one hand and increased material well-being and freedom from poverty on the other hand
- Human resources and their deployment in the pursuit of economic gain in the form of productive employment are a key factor in the production and achievement of sustainable economic development

² The working poor are defined as employed persons living in a household whose members are estimated to be below the nationally defined poverty line.

³ MDG Target 1B is formulated as *To achieve full and productive employment and decent work for all, including women and young people*. For a guide to measuring and setting targets for productive employment, see *Understanding deficits of productive employment and setting targets: A methodological guide* (Geneva: ILO, Employment Sector, 2012).

⁴ See Siddiqur Osmani in 'Exploring the Employment Nexus: The Analytics of Pro-Poor Growth' in Rizwanul Islam *Fighting Poverty: The Development – Employment Link* (Boulder, CO & London: Lynne Rienner, 2006).

- Human resources also determine the pace at which productive transformation in the form of structural change, absorption of new technologies and the mode of production can be achieved. An important dimension of a society's capability to achieve sustained economic development resides with human resources⁵

For the vast majority of people and households, returns to own labour are by far the most important source of income. Returns to capital and rents obtained from land or other sources do not provide a main source of income for most people. Public cash transfers can and should provide a crucial form of sustenance for the most vulnerable and can play an important role in redistributing income across households and individuals in a society, but should have a complementary role to income from labour. Indeed, the fundamental importance of productive employment and decent work to the elimination of poverty, explicitly recognised by the international community as *achievement of full and productive employment and decent work for all, including women and young people*, was adopted in 2007 as a third target with the overriding goal of eradicating extreme poverty and hunger.

Sustained, high levels of investment in human resources – in the form of education, health etc. – are an absolute prerequisite for achieving high levels of sustainable economic development.⁶

Viewing human resources as a creator of growth through productive employment and decent work, rather than productive employment as an outcome of growth.

The traditional analytical approach has typically focused on growth per se, as economic growth has tended to be seen not only as a prerequisite, but as a more or less sufficient condition for generating productive employment and reducing poverty. Standard growth models tend to assume full or near-full employment as a state of market equilibrium and to ascribe deviations from this norm to market failures. Indeed, even economic analysis aimed at poverty reduction has tended to focus on growth to the point where productive employment has been treated as a residual outcome, and an implicit standard 'trickle down' assumption, sometimes complemented by assumptions of redistribution policies and basic social security, has de facto been the reigning paradigm.

An alternative and arguably more conducive and logical approach, is to view human resources and the labour force not primarily as beneficiaries of growth, but as creators of growth. Just as increases in employment and in labour productivity combined, by definition, make up economic growth, investments in a qualitative development of human resources, together with improved opportunities to maximise and enhance the economic returns to these resources make up the foundation and essence of job-rich growth. On moral as well as efficiency grounds two additional considerations need to be added to the conceptual framework: inclusiveness and sustainability. A focus on inclusiveness is particularly important from the perspective of increasing productive employment, as this requires a special focus on the working poor and the unemployed.

Hence, the human resource base provides the point of departure for understanding and addressing the constraints, challenges and opportunities for inclusive and sustainable job-rich growth. The outcome, in terms of the sustainable generation of productive employment and in the reduction of the number of working poor and unemployed in an economy, can be seen as a result of the combined impact of four categories of factors:

- *The supply side.* The human resource base, i.e. the rate of growth of the labour force and the qualitative level, structure and characteristics of the human resource base, e.g. the structure of

⁵ Irmgard Nübler, *Industrial policies and capabilities for catching up: Frameworks and paradigms*, Employment Working Paper No. 77 (Geneva: ILO, 2011).

⁶ Commission on Growth and Development, *The Growth Report: Strategies for Sustained Growth and Inclusive Development* (Washington D.C.: The World Bank, 2008).

educational and skills attainment, health status. In the medium to long term the institutional capacity to develop human resources – the societal capability – needs to be brought into the picture

- *The demand side.* Opportunities for / returns to employment, which in turn requires a focus on the rate and the quality of economic growth from an employment perspective. In the short term, the level of employment (labour utilisation rate) is determined by the level and composition of aggregate demand. The growth of the potential for employment is largely determined by private and public investments. Public policy can foster growth in the medium and long term, while in the short term it can ensure that the potential output is realised
- *Equality and inclusiveness.* The equity aspects of the ‘supply side’ and ‘the demand side’ (above). This includes equality in access to quality education, health care and other important aspects of human resources development and employability.⁷ Equality in access to other production factors, such as land and capital is also important. It also includes equal and fair access to employment and to economic opportunities
- The *sustainability* of the present trajectory of job-rich growth and the sustainability considerations of alternative, future trajectories. That is, the extent to which present job-rich inclusive growth is achieved in a manner that does not compromise the possibility for the coming generation(s) to access productive employment

2.1. THE HUMAN RESOURCE BASE

‘Investments in the health, knowledge, and skills of the people – human resources base – are as important (for growth) as investments in the more visible, physical capital of the country.’⁸ The qualitative attributes that determine employability⁹ – education, skills, health, cognitive abilities etc. – set the parameters for individuals’ ability to access productive employment as well as for the scope for technological advancement, increased labour productivity and returns to labour at the aggregate national level.

There is a strong interrelationship between human resource development and economic development. Economic resources are needed for investing in education, health and other forms of human resource development at the same time as the qualitative level and characteristics of the human resource base set limits for both the pace and pattern of economic development. The long lead times required for investments in human resources development imply a need for strategic long term planning and provide grounds for policy-guided structural change and economic development. Hence, the need for investments in human resources will need to be cast against the desired future development trajectory.

If the economy is not in a position to offer employment opportunities *at par* with the capabilities and productive capacities of the labour force, then labour is likely to migrate abroad attracted by better opportunities elsewhere. Conversely, inadequate levels of human development may impose a truly binding constraint on economic development. For instance, a high share of workers with

⁷ Employability refers to the endowments of the labour force with qualitative attributes that enhance a person’s attractiveness on the labour market, their capabilities as independent economic agents and their productivity.

⁸ Commission on Growth and Development, *The Growth Report: Strategies for Sustained Growth and Inclusive Development* (Washington D.C.: The World Bank, 2008) p.37.

⁹ The concept of employability is interpreted to refer to the combined qualitative attributes (education, skills, health etc.) that determines/sets the limits for a person’s capability to be economically productive/to get maximum returns for her/his own labour. Although employability inevitably contains an element of context specificity, it should not be confused with opportunities to make full and optimal use of one’s resources, which may be constrained by a poor economy, institutional factors, discrimination, lack of basic security etc.

only primary education may suffice to attract FDI in low technology sectors, but may act as a binding constraint on entering into high-tech activities.

An assessment of the human resource base from the perspective of employability and productive capabilities needs to be context specific. However, because of the long gestation periods such assessments should not only be cast against the present characteristics of the economy, but also against the desired development trajectory of the economy. Furthermore, assessments need to be made of both the level and characteristics of the stock of human resources and the investments and institutional capacity to invest in human resources, viz. the institutional systems for education and vocational training, health care systems etc.

2.2. OPPORTUNITIES FOR AND RETURNS TO HUMAN RESOURCES THROUGH PRODUCTIVE EMPLOYMENT

The opportunities for and returns to productive employment depend on the combined impact and the interaction of three types of factors.¹⁰

- *The quantitative economic growth factor:* The rate of economic growth as measured by (per capita) GDP
- *The qualitative growth factor:* The qualitative aspects of growth pertain to the efficiency by which the growth is translated into more productive employment, i.e. more employment **and/or** higher returns to labour, in a sustainable manner.¹¹ In other words, the larger the weight of labour (as a production factor) **and** returns to labour in GDP and GDP growth, the higher the quality of economic growth from the perspective of productive employment
- *The equality factor:* Differences and inequality with regard to employability and access to productive employment opportunities. The extent to which the working poor and the unemployed have the necessary resources, opportunities and protection against vulnerability to be able to participate fully, and on an equal footing, in the economic development process and fully benefit from the fruits of their participation in this development

2.2.1. THE QUANTITATIVE GROWTH FACTOR

A dynamic economic environment is essential for generating opportunities for productive employment. Hence, growth diagnostics need to be an integral component of the demand side of employment diagnostics. A great deal of effort has been devoted over the years to understanding the triggers and ingredients of growth. This generation of knowledge has not always been cumulative. Indeed, the past few decades have seen a variety of quite diverse schools of thought succeeding each other as the dogma of the day. The Commission of Growth – established in the context of a progressive erosion of the dominance of the Washington Consensus¹² and in the wake of a soul-searching retrospective assessment by the World Bank¹³ – provides an authoritative

¹⁰ This discussion draws heavily on earlier conceptual work done by Rizwanul Islam and by Siddiquir Osmani *op. cit.* pp. 12-13.

¹¹ It should be noted that the efficiency concept used is broader than the standard definition of employment elasticity which refers to the relationship between the growth of GDP and the growth of employment in quantitative terms. A distinction is made between sustainability in the medium term and in the long term. The latter is treated as a separate consideration (below).

¹² See for instance Dani Rodrik, 'Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's Economic Growth in the 1990s: Learning from a Decade of Reform' in *Journal of Economic Literature*, vol. 44, no. 4 (December 2006).

¹³ World Bank, *Economic Growth in the 1990s: Learning from a Decade of Reform* (Washington D.C.: World Bank, 2005).

synthesis of what we know (and do not know) about how high rates of growth can be achieved and sustained.¹⁴ For the purpose of employment diagnostics the findings and conclusions of this report provide a useful basis for understanding the growth factor.¹⁵ While stressing that there is no blueprint for achieving sustained growth, the Commission did identify a number of shared characteristics of countries that have managed to sustain a high level of growth over several decades. These included:

- Engagement with the global economy as a source of demand and knowledge
- Macroeconomic stability
- High levels of savings and public and private investments, including high levels of public investment in human resources and in physical infrastructure
- The quality of the business environment
- Reliance on markets for resource allocation and continuing structural transformation, fostering flexibility and resource mobility
- Credible government commitment to inclusive growth combined with capable administration

2.2.2. THE QUALITATIVE GROWTH FACTOR

As defined above, the quality of growth essentially hinges on the use of and returns to labour in the creation of value added in the economy. In other words, it depends on the relative weight of use and returns to labour as against the use of and returns to other production factors, such as capital, land, material property and extraction of rents in various forms. This, in its turn, will be influenced by and warrants a focus on several important features of the growth process, such as:¹⁶

- The sectoral composition of growth and choices of technology
- The domestic terms of trade, i.e. the extent to which movements in the domestic terms of trade favour or disfavour the employment intensive sectors of the economy¹⁷
- The prevalence of various forms of rent-seeking
- Wage bargaining power
- Regional concentration of growth
- Social protection

The efficiency by which growth translates into the generation of productive employment is influenced by the sector composition and product-mix. In a situation of free trade and open economies one might expect that the law on comparative advantages would compel a labour abundant economy to specialize in products and services with a high labour content. There are a number of reasons why this may not take place; such as market imperfections at the global and national level, policy distortions favouring capital over labour, a large share of non-tradables in the economy, unequal land distribution, poor infrastructure and, not least poor employability and/or restricted labour market access of parts of the labour force. Hence, one should not assume that internal and external liberalisation of the economy will automatically result in adequate improvements in the demand for labour.

¹⁴ Commission on Growth and Development, *The Growth Report: Strategies for Sustained Growth and Inclusive Development* (Washington D.C.: The World Bank, 2008).

¹⁵ This should not be interpreted as an unreserved endorsement of the Report. For a critical review see comments by José Manuel Salazar-Xirinachs.

¹⁶ For a discussion of the first three of these, see Siddiqur Osmani, *op.cit.* pp. 15-17.

¹⁷ Strictly speaking it is not just the labour intensity of the sector in question that matters, but the labour intensity of the sectors providing inputs into the sector in question, that is the entire value added chain, should also need to be brought into the equation.

The sector composition also has a strong bearing on the sustainability of growth. A broad economic and export base where tradables play the predominant role as growth engine is generally perceived as a prerequisite for sustaining a high rate of economic growth. Economic growth that is driven by non-tradables tends to be self-limiting, as does growth that is based on the export of raw materials. Excessive reliance on natural resources as a source of growth and export often leads to a 'resource curse' where volatility, a crowding out of the private sector, rent-seeking and exchange rate appreciation undermine the prospects for sustained and inclusive job-rich growth.

Technology choice is closely linked to the product mix and sector composition. Stringent requirements with regard to standardisation and detailed product specification, not least in the OECD countries, and a demand for both uniform and high quality are some of the factors imposing restrictions on the choice of technology in the production of tradeables. However, even within these confines there may be scope for the use of alternative technology that is better in tune with a country's relative endowment of capital and labour. Within the non-tradeable sectors the scope for technology choice is likely to be much less restricted. The HIMO (Haute Intensité de Main-d'Œuvre) initiative, providing labour intensive alternatives for the construction of public physical infrastructure, clearly shows that there may indeed be a large scope for selecting more labour intensive technologies.

Extraction of rents can take a variety of forms, many of which are legal as well as taxable (viz. rent generation) while others are illegal, such as most forms of rent seeking¹⁸. Rent generation typically refers to economic benefits obtained from control over finite resources or a monopoly position. Land rents extracted by land owners from tenants are a classic type of rent extraction, as are excessive profits¹⁹ derived from control over natural resources. Generation of rents can also take the form of excess profits derived from a monopoly situation which may be due to control over immaterial property rights or other circumstances. Rent seeking is often associated with corruption, i.e. the dishonest abuse of power for personal gain. Informal and non-authorised 'fees' levied by government officials and other public servants are a case in point, but it may also take other forms, such as protection rackets or excessively high fees charged by middlemen on labour migrants. Belonging to the weakest groups in the labour market, the working poor are arguably particularly exposed to various forms of rent seeking as they tend to be the underdogs in any power relationship. Some forms of rent seeking do not only affect the employment content of growth negatively, but can also significantly impair the rate of growth as well as labour market access.

More broadly, the quality of the business environment, or the investment climate, exerts an influence both over the rate and the quality of economic development. A wide variety of factors are subsumed within this concept, such as the legal and regulatory environment, the quality of governance and political stability. Much work has been put into measuring the quality of the business environment, which has resulted in a number of different sets of indicators and composite indices.²⁰ The methodology and indicators developed by ILO to analyse the environment for sustainable enterprises also captures the essence of the business environment, as well as a range of other aspects.²¹

¹⁸ Economic rent is defined as an excess distribution to any factor in a production process above the amount required to draw the factor into the process or to sustain the current use of the factor.

¹⁹ Excess profits are profits above what the firm would need to pursue its activities.

²⁰ See for example the *Doing Business* survey by IFC (www.doingbusiness.org), World Bank *Investment Climate Assessments* (www.wbginvestmentclimate.org) and the *Global Competitiveness Reports* produced by the World Economic Forum.

²¹ www.ilo.org/employment. See also International Labour Conference, June 2007, 'Conclusions concerning the promotion of sustainable enterprises' (Geneva: International Labour Office).

The institutional structure of the labour market also has a strong bearing on the employment intensity of growth. Asymmetric power relationships in the labour market tend to work to the detriment of workers and not least the working poor as they are often in a very weak bargaining position. Respect for the principles of collective bargaining and unionisation of workers can help overcome the asymmetry in power relationships and enhance the returns to labour in the form of higher wages. The organisation of workers in trade unions can also help protect against intimidation and discrimination at the work place. Minimum wages, if judiciously determined and labour regulations may also serve as instruments for enhancing the employment content of growth and the efficacy by which growth results in increased productive employment and reduction in the number of working poor.

Regional concentration of growth, or more generally, the regional distribution of economic activities and productive employment opportunities, has implications for the quality of economic development from an employment perspective. Labour is not perfectly mobile. Moving from one place or part of the country to another is usually associated with high economic and social costs, and often also with considerable risks. A regional concentration of growth arguably reduces the quality of economic growth as well as increases inequality of opportunity. It implies that human resources in economically deprived areas remain underutilised. Workers will typically face the choice of low quality jobs or unemployment, unless they are willing and able to assume the costs and risks of relocation to the main centre(s) of economic growth.

Social protection matters to the quality of economic growth for a number of reasons. A social protection floor offers protection against unacceptably low returns to labour as it raises the minimum wage for which a worker is prepared to work (the so called reservation wage). It also facilitates mobility of labour. Moving from one job to another requires a certain amount of risk-taking, particularly when the jobs are far apart. Social protection makes it possible for workers to assume a calculated risk that they would otherwise not be able to afford.

2.3. THE EQUALITY FACTOR

Sustained economic growth always entails structural change. The sectors, occupations and geographical areas with the greatest potential for growth change over time, but they seldom coincide with those where the majority of the working poor are to be found. For the working poor to be able to access opportunities offered by growth *and* structural change they must be sufficiently endowed with the factors that determine employability, they must be sufficiently mobile and they must enjoy a basic economic and social security that allows them to take calculated risks. Reversing inequality may be particularly difficult in situations where it is entrenched and has resulted in social value systems characterised by a high tolerance of inequality among the elite. Inequality of resource endowment and of opportunities and a lack of basic security to permit calculated risk-taking not only constrain the inclusiveness of economic development, but also undermine its robustness and pace *inter alia* through inefficient resource use.

At the most basic level, the capabilities – employability profiles – of the working poor and unemployed must meet the requirements of emerging and existing opportunities for productive employment. However, there are also a large number of other factors that may limit the opportunities of the working poor and unemployed to access productive employment opportunities, even when employability *per se* is no hindrance. Poorly functioning markets, not least credit markets, corruption and illegitimate forms of rent seeking tend to discriminate against the working poor in their role as entrepreneurs, thus unduly reducing their competitiveness and returns to labour. In certain situations labour market institutions may create insider – outsider problems. Poor geographic,

vocational and social mobility may prevent the working poor and unemployed moving to more dynamic areas of the country and sectors of the economy. Cultural and social stereotypes may result in a fragmentation of the labour market along gender, ethnic or other lines, thus confining large parts of the labour force to specific segments of the labour market. A society that severely constrains the access of women to productive employment opportunities, will not only see higher inequality, but also lower growth and a lower employment content of growth than a society that offers equal opportunity. An inordinate burden of reproductive work may also limit women's ability to engage in economically productive work. The list of possible inhibiting factors is long. Indeed, most of the factors that influence the development of the human resource base and the rate and quality of economic development, discussed above, also have important equity dimensions.

Poor employability, access and lack of basic security lead to unemployment and/or working poverty. It leads to an expansion of the ranks of unemployed and discouraged workers and forces people into vulnerable forms of employment and involuntary self-employment. For the self-employed, it restricts their room for manoeuvre and results in low productivity, which is often combined with long working hours under precarious conditions.

2.4. THE ISSUE OF SUSTAINABILITY

Promoting inclusive and productive employment at present must be done in a manner that does not compromise the possibilities for the coming generation(s) to access productive employment. Productive employment, much like growth, needs to be sustainable. Policies aimed at achieving inclusive and productive employment need to take the legitimate rights and interests of future generations, as well as those of the present, into account. Three broad groups of aspects pertaining to sustainability deserve to be singled out: environmental aspects, investments in the young and climate change. The importance of safeguards against environmental degradation and depletion of the natural resource base is so obvious that it ought not to need any elaborate justification. The well-being of future generations will crucially depend on their ability to benefit from the same ecosystem services that we do. Long term investment in the young to ensure that the next generation obtains a human resources endowment and a level of employability that makes them attractive to the labour market of tomorrow and permits them to access productive employment is another core aspect of sustainability. In view of the increasing evidence that the impact of climate change on economies and livelihoods will be both pervasive and rapid, exposure to the impact of climate change and measures taken to adapt to these should arguably be included as a third key aspect of sustainability.

2.5. SOME ADDITIONAL CONSIDERATIONS

While the categories and types of factors determining outcome in terms of generation of productive employment discussed above have considerable explanatory power, a static review of them would leave some issues unaddressed. The quantitative and qualitative aspects of growth and employability and access factors exert considerable influence on each other, as does economic growth for investments in the human resource base. Hence, a purely static analysis will not suffice, but the interrelationship between the different factors and the dynamics this creates also need to be understood. This also implies that the qualitative and quantitative aspects of growth need to be analysed jointly and that this combined growth analysis should not only inform but also be informed by an analysis of the employability, access and sustainability factors. Similarly, the interplay between the qualitative development over time of the human resource base and the rate and characteristics of economic development needs to be understood as far as possible. As will

be elaborated further below, this is also one argument for a stepwise analysis that proceeds from the general to the more specific.

The concept implicitly assumes a labour market confined by the borders of the country in question, i.e. the labour market equivalent of a closed economy. Relaxing this constraint by allowing for cross-border movement of labour, which de facto is a major and increasing phenomenon in many countries, can change the picture significantly. The working poor and unemployed are no longer limited to aspiring to the productive employment opportunities on offer at home, but if attracted by prospects of better employment and income opportunities elsewhere they may choose to invest their labour abroad.²² At the same time the domestic labour force, and not least the working poor, may face increased competition on the domestic labour market from migrant workers arriving from other countries.²³

3. FROM CONCEPT TO METHODOLOGY

The above framework helps us understand how employment outcomes result from the interplay of different types of factors and thus helps us structure an employment diagnostic. However, while it does give guidance on what to analyse, it does not answer the question of how to do it.

3.1. MAIN CONSIDERATIONS

A main consideration in the design of the methodology has been that participation by the end users, that is ILO constituents and other policy-makers, is crucial to the result. Those responsible for designing and implementing policies should also play an active role in the analysis leading up to the identification of the constraints and challenges that need to be addressed and the opportunities and strengths that may be exploited. Involving the stakeholders in the analysis is essential for achieving impact; in order to forge a strong link from analysis to policy design to policy implementation. Another compelling reason for a close involvement of the ILO constituents in the analysis has to do with quality and relevance. Combining the theoretical and methodological knowledge and an outsider's perspectives with the detailed situation-specific knowledge of local ILO constituents provide the best basis for achieving a high quality and policy-relevant analysis.

The need for close involvement of the ILO constituents in the analytical process has been a guiding principle in the design of the methodology. It calls for a structured, stepwise knowledge building process with a clearly defined modality for involvement of the ILO constituents in the different stages of the analysis. To this end, the methodology outlined below has two distinct phases.

The first phase aims at arriving at a common understanding of **what** has happened and includes an analysis of the characteristics and development of the labour force, the economy and the

²² Despite the often very high costs and risks involved and the total absence of anything resembling a free movement of labour, the number of overseas labour migrant is estimated to have increased from 156 million in 2000 to 214 million in 2010 (<http://esa.un.org/migration>). Officially recorded remittances by international migrants are estimated to have increased from 132 billion USD in 2000 to 338 billion USD in 2009 (World Bank Migration and Development Brief [April 23, 2010] Outlook for Remittances Flows 2010-11 [<http://econ.worldbank.org>]).

²³ For statistical purposes migrant workers are included in the labour force of their country of origin if they are residing or expected to reside less than a year abroad. If their stay abroad exceeds one year they are included in the labour force of the country of destination. In practice, it is often difficult to distinguish between short term and long term migrant workers. In countries with large in and/or out flows of migrant labour a special effort is needed to incorporate this aspect into the analysis. For a comprehensive treatment of migrant workers from an ILO perspective, see *Report VI, Towards a fair deal for migrant workers in the global economy*, International Labour Conference, 92nd Session (Geneva: ILO, 2004).

labour market and of the interaction between economic development, the labour market, employment, incomes and poverty. The methodology applied in this phase is presented in detail in Chapter Two, below.

The second phase focuses on ‘why’ and consists of a comprehensive employment diagnostic analysis aimed at exploring causal chains and identifying key constraints and challenges to increasing productive employment. The second phase is ideally done by the ILO constituents themselves during an analytical workshop. To this end, a methodology based on a well-structured, stepwise diagnostic approach has been developed (see Chapter Three, below).

3.2. TAKING THE GROWTH DIAGNOSTIC APPROACH AS A STARTING POINT

The development of an analytical and conceptual framework for growth diagnostics by Hausmann, Rodrik and Velasco has had a major impact on growth analysis.²⁴ Inspired by medical science, it combines a binding constraint approach²⁵ with the use of a ‘decision tree’ as tools for disentangling causal chains and identifying the fundamental, rather than proximate, constraints on growth.

The growth diagnostics approach has a number of attractive features:

- The ‘funnel-shaped’ step-by-step approach facilitates a combination of breadth and depth in the analysis and the highly structured nature of the analysis makes it ideally suited to a participatory approach, not least because it provides methodological rigour to a discussion-based analysis
- The focus is on understanding causal links and identifying core factors, rather than on addressing symptoms and proximate causes. The use of the decision tree facilitates, indeed compels, such a focus
- It requires situation-specific analysis and results in country-specific conclusions. The approach does not lend itself to stereotype prescriptions or a narrow ex ante focus
- Its focus on identifying the key constraints and challenges to productive employment creation makes it an effective tool for prioritisation and sequencing of policies and reforms

However, the approach also has limits and weaknesses. The most fundamental of these arguably has to do with the limits of the parallels between pathology and economics and the appropriateness of a wholesale adoption of an analytical method designed for pathology on the economics. Physical health may be seen as a normal state. Deviation from this state in the form of illness is due to one or several causes. Once these causes have been identified and removed it may be expected that health will be restored. By contrast, sustained and inclusive job-rich economic development can hardly be characterised as a natural state. Indeed, history has proven it to be the exception rather than the rule. The reasoning that the absence of high and inclusive growth is due to one or at most a few binding constraints (causes of ill health) and that such growth will be more or less automatically obtained if these constraints are removed therefore begs some questioning. It may be argued that sustained high rates of inclusive job-rich growth are the result of a fortuitous combination of a wide variety of factors, the nature and combination of which will have to vary over time and place. A diagnosis that identifies constraints and obstacles will often need to be complemented with analyses which focus on identifying and developing actual and

²⁴ For a detailed presentation of the concept as applied to growth, see Ricardo Hausmann, Dani Rodrik and Andrés Velasco, *Growth Diagnostics*, John F. Kennedy School of Government, Harvard University (Cambridge, Mass., 2005). For a more general discussion, see for instance Ricardo Hausmann, Dani Rodrik and Andrés Velasco, *Getting the Diagnosis Right, Finance and Development* Vol. 43, No. 1 (Washington D.C.: IMF, 2006).

²⁵ A binding constraint (on productive employment) is defined as the constraint that, if relaxed, will boost productive employment in a given situation.

potential comparative advantages and strengths, combined with which it should lay the basis for well-informed policies for guided structural change and development.

While the growth diagnostic approach provides a framework for the structured analysis of constraints on growth and causal chains, it is in its traditional form limited to a sorting out of uni-directional causal chains. The decision tree concept is based on an assumption of primary causes, which in their turn branch down into secondary, tertiary and root causes. Reality is typically more complex. There are likely to be inter-relationships between 'branches' and not only uni-directionally along 'branches'. The interaction of different factors may create vicious circles that prevent the economy from generating productive employment and the working poor and unemployed from accessing productive employment. An in-depth analysis may therefore require an exploration of these dynamics, resulting from horizontal as well as vertical inter-relationships.

Some of the strengths of the approach are at the same time potential weaknesses. Both the binding constraint concept and the use of a 'decision tree' lend themselves to abuse as well as good use. The identification of one or a few binding constraints may indeed be a powerful tool when correctly done but, if abused, may be an equally powerful tool for leading policy-makers astray. While it may be possible to scientifically establish clear-cut links between symptoms and causes and cause and effect in the field of pathology, such linkages tend to be much more ambiguous in the field of economic development. A judicious analysis therefore requires a combination of sound theoretical knowledge with in-depth context-specific, local knowledge. A strong emphasis on a participatory analysis is essential for addressing this weakness.

Another important weakness is that the original approach has a strong focus on the short term; on identifying present constraints. Hence, there is a risk of losing sight of the sustainability aspects of growth.

The approach will therefore in most instances need to be combined with an understanding of the dynamic processes and interrelationships that can create 'vicious' as well as 'virtuous circles'. The First Phase of the analysis is designed to help provide such an understanding.

3.3. ... FROM GROWTH DIAGNOSTICS TO A METHODOLOGY FOR EMPLOYMENT DIAGNOSTICS

The arguments for the use of a diagnostic approach aimed at identifying constraints and challenges, but also opportunities, for inclusive job-rich growth are quite persuasive. Foremost among these is no doubt the importance of an analytical framework that is designed to facilitate prioritisation and sequencing of policies, reforms and other interventions. Identifying and addressing constraints and weaknesses are also preconditions for the success of any subsequent policies aimed at exploiting strengths and comparative advantages.

Relaxing the binding constraint concept. The flaws in the analogy between pathology and economic growth analysis provide compelling reasons for modification of the binding constraint concept. Firstly, its use should be characterised by a great deal of pragmatism and be informed by a clear understanding of its limitations. Its strength lies in identifying prerequisites for inclusive and productive employment, but not necessarily in coming up with a fully-fledged recipe. Secondly, the focus should be on identifying bundles of constraints that can realistically be addressed within a specific period of time, rather than on identifying *the* binding constraint. There may be important inter-linkages between different constraints making it necessary to address several constraints jointly. Extending the analysis to include more than one binding constraint also reduces the risk of missing important factors. Thirdly, some policies and reforms yield results with long time lags. Hence, future constraints may need to be addressed today, even though they are not binding at present.

Recasting the ‘decision tree’ to make low opportunities for returns to investment in labour/human resources the point of departure.

As discussed above, in an employment diagnostic analysis the focus is on enhancing growth *and* enhancing the weight of the use of and returns to labour in economic activities and in the growth process in an inclusive manner. Hence, the structure of the ‘decision tree’ needs to be recast to make constraints on enhancing opportunities for and returns to investments in labour (rather than financial capital) the main point of departure.

A pragmatic approach and judicious application. The factors inhibiting the expansion of inclusive job-rich growth are even more diverse and context-specific than those inhibiting growth, and a decision tree capturing all of these factors thus more complex than that developed for growth diagnostics. The flaws in the analogy between pathology and economic analysis also imply that such a ‘decision tree’ tool has to be used judiciously. Its main use is as an instrument for structuring analysis, but without imposing limits on it. The pitfall of arriving at a stereotypical and mechanical application of an insufficiently developed and comprehensive decision tree must also be avoided. To paraphrase Dani Rodrik, a decision tree for employment diagnostics will, even under the best of circumstances, only provide support for a more systematic and structured application of ‘an inquisitive, detective’s mind-set’ and for judicious analysis based on a thorough understanding of the specific situation and on profound knowledge of a more generic nature. For these reasons, it is better to think in terms of an analytical ‘reference tree’ rather than a ‘decision tree’ and to view this as one of several analytical tools.

A stepwise analysis. The main strength of the diagnostic methodology is that it permits the inclusion of a broad array of complex factors into the initial analysis, and offers a method for a systematic narrowing down to a focus on root causes of constraints on productive employment, through a process of elimination of less important factors and a disentanglement of causal chains. The shift in focus from growth to inclusive and sustainable job-rich growth implies the need to bring a considerably broader range of factors into the analysis. The importance of the role of the diagnostic methodology, as a funnel for narrowing down the focus to a limited number of core factors, is thus heightened. In order to achieve this and to take account of inter-linkages between the different types of factors a stepwise analysis is needed. A stepwise approach in the analysis is also conducive to dialogue and to the active involvement of national stakeholders in different stages of the work.

Depending on the context and the needs, an employment diagnostic analysis may be undertaken as a stand-alone exercise. However, it may also be undertaken as a first component in a more comprehensive analytical endeavour, which would subsequently involve more in-depth analysis of the dynamic interaction between different factors resulting in ‘vicious’ or ‘virtuous’ development processes and/or analysis of strengths, opportunities and comparative advantages aimed at informing industrial or other development policy.

4. IMPLEMENTING AN EMPLOYMENT DIAGNOSTIC ANALYSIS

The objective of employment diagnostic analysis is to inform, through a structured knowledge building process, policies and interventions with a view to enhancing productive employment through inclusive and job-rich growth. This objective can only be achieved if there is an active involvement throughout the knowledge building process of those who will have the main responsibility for translating this knowledge into policies and for implementing these policies and interventions. To this end, it is often useful to establish a steering committee consisting of key

national counterparts and experts and to explicitly build in opportunities for consultation in the implementation plan. Other aspects too, such as the need to ensure the high quality and situation specific relevance of the analytical work, underscore the need for a participatory process. The scope for 'hands-on' involvement of the ILO constituents in the actual employment diagnostic analysis should also be actively sought and exploited. A model for achieving this has been developed and successfully tested and is presented below.

Within the parameters of the imperative of a participatory process, there is scope for a great deal of flexibility in the mode of implementation. In all instances the starting point will need to be a broad-based and explicit demand from the ILO constituents in the country in question. Two possible modes of implementation, which have both been tested, are presented below.

4.1. IMPLEMENTATION MODEL A

1. In-country meetings with constituents and national counterparts to agree on the objective, scope and mode of implementation of the proposed employment diagnostic and targeting work. At this point it should also be clarified what national policy processes - national development strategies/PRS, Decent Work Country Programmes, national employment strategies etc. – the work is expected to feed into as well as the implications for the time-frame of the work
2. Establishment of a core analytical team, preferably including national researcher(s), a steering committee and principles for coordination and communication
3. Implementation of the First Phase of the Employment Diagnostic Analysis: Development and Employment Dynamics and a first round (Tour d'horizon) of the Second Phase: A Structured Diagnostics including the assembly of data on the main indicators
4. Development of estimates of deficits in productive employment (disaggregated by working poor and unemployed and by sex) and of projections on the need for productive employment creation in the years to come, to meet established targets for poverty and unemployment reduction
5. Preparation of background material and presentations for an EDA workshop based on the methodological guide and the results of the analytical work undertaken under (3) above
6. Holding of a 2½ to 3 days EDA workshop with the ILO constituents and counterparts at the heart of which will be a guided implementation by the participants themselves of a structured, stepwise employment diagnostic analysis as outlined in Chapter Three of the present guide. While the focus of the workshop will be joint knowledge-building on the country specific constraints, challenges and opportunities for enhancing inclusive job-rich growth, it can also serve the purpose of capacity building among our constituents in the field of employment analysis and, not least, social dialogue. At the end of the workshop the participants should have arrived at a common understanding of key employment challenges, based on the joint analysis, and ideally also on the type of policies needed to address these challenges
7. Discussion and agreement on follow up-activities, including any further in-depth analytical work
8. Assistance with policy formulation

4.2. IMPLEMENTATION MODEL B

1. In-country meetings to agree with constituents and national counterparts on the objective, scope and mode of implementation of the proposed employment diagnostic and targeting work. At this point it should also be clarified what national policy processes - national develop-

ment strategies/PRS, Decent Work Country Programmes, national employment strategies etc.
– the work is expected to feed into as well as the implications for the time-frame of the work

2. Establishment of a core analytical team, preferably including national researcher(s), steering committee and principles for coordination and communication
3. Implementation of the First Phase of the Employment Diagnostic Analysis: Development and Employment Dynamics
4. Development of estimates of deficits in productive employment (disaggregated by working poor and unemployed and by sex) and of projections on the need for productive employment creation in the years to come to meet established targets for poverty and unemployment reduction
5. Drafting of inception report based on (3) and (4), above
6. In country presentation of inception report and discussion of main findings and conclusions of work done under point 3-4, above. Discussion and agreement on the follow-up work
7. Implementation of the main diagnostic analysis and finalisation of work on employment forecasting / targeting
8. Presentation and discussion of findings and policy conclusions of the main and final diagnostic and targeting work. Discussion and agreement on follow up-activities
9. Assistance with policy formulation

CHAPTER TWO:

The First Phase of the analysis:

Understanding the dynamics of employment, the labour market and the economy

First phase of the diagnostic analysis methodology includes a broad mapping of the economy and the labour market, an assessment of its strengths and weaknesses, and a gradual distilling of the main factors affecting the inclusiveness and job-intensity of growth. Its aim is to arrive at a good understanding of what has happened in terms of the development of the labour market, employment and economy. It also serves the purpose of providing a projection of the need for productive employment creation in the years to come.

The first step is an analysis of the country/regional setting and of contemporary patterns and dynamics of employment and economic development. At this stage the objective is to achieve an understanding of the country or region-specific conditions that are sufficiently comprehensive to permit a first broad identification of hypotheses about the development context and employment situation. This analysis should provide an overview of: (1) demographic and other given factors; (2) employment and labour force characteristics; (3) qualitative aspects of the human resource base; (4) nature of poverty and inequality, and (5) sector-specific economic and employment growth, productivity dynamics. The first part of the analysis follows a structure represented by the following formula:²⁶

$$\frac{GDP_t}{Population_t} = \frac{WorkingAgePopulation_t}{Population} \times \frac{LabourForce_t}{WorkingAgePopulation_t} \times \frac{Employment_t}{LabourForce_t} \times \frac{GDP_t}{Employment_t}$$

That is:

$$G_t = S_t \times A_t \times E_t \times P_t$$

In other words, changes in GDP per capita can be seen as the sum of changes in the following:

- Age structure, S_t
- Activity rate, A_t
- Employment rate, E_t ²⁷
- Labour productivity, P_t

Section (6) builds on the knowledge obtained from the earlier stages of the analysis and includes estimates of the deficit of productive employment and projections of the need for productive employment in order to achieve targets for reduction of unemployment and poverty. By contrasting the need for productive employment creation in the years to come with dynamics of the

²⁶ The formula builds on the one presented in *The Role of Employment and Labor Income in Shared Growth: What to Look for and How*, PREMPR, Jobs and Migration Group, (World Bank, 2007)

²⁷ Note that this is not exactly how employment rate is defined, but it expresses the same information

development of the economy and of employment in the past years, a broad idea of the magnitude and nature of the challenge of meeting the need for productive employment creation in the years to come can be obtained.

1. DEMOGRAPHIC STRUCTURE AND ITS DYNAMICS

The first part of the development and employment dynamics analysis reviews the main external forces that serve as parameters for the subsequent analysis. The *demographic structure and its dynamics* is a useful starting point, as it has a strong bearing on both the necessity and the ability of the economy to generate productive employment. The entry point of the analysis is to get acquainted with the factors that are given and cannot be easily influenced or controlled by the state in the short or medium term, such as the rates of population growth, fertility, age and sex structure of the population and the age-based dependency ratio²⁸ as well as in- and out-migration.

Data sources: Recent census data; current national demographic statistics. It should be kept in mind that censuses tend to offer the most reliable source of demographic information.

1.1. POPULATION: AGE AND SEX COMPOSITION

The ratio between children and the elderly on the one hand and the working age population on the other hand determines the age-based dependency ratio, i.e. the number of people each working age person has to support. The age based dependency ratio has a direct impact on per capita income, poverty and the number of working poor (as defined by the ILO);²⁹ it also exerts an influence on savings and investments not least in human resources. The difference between the age-based and actual dependency ratio gives an indication of the scope for improving the dependency ratio by increasing labour force participation. A distinction should be made between a high dependency ratio due to a large number of youth in the population and a high dependency ratio resulting from a large number of elderly. The demographic structure can be succinctly illustrated in a form of a pyramid expressing the age and sex structure of the population. Changes in the dependency ratio have a direct impact on per capita income and influence the need for increasing labour productivity and incomes in order to reduce working poverty. A high dependency ratio implies that each breadwinner has to support a large number of people and thus needs a higher income to escape from poverty than would have been the case with a lower dependency ratio.

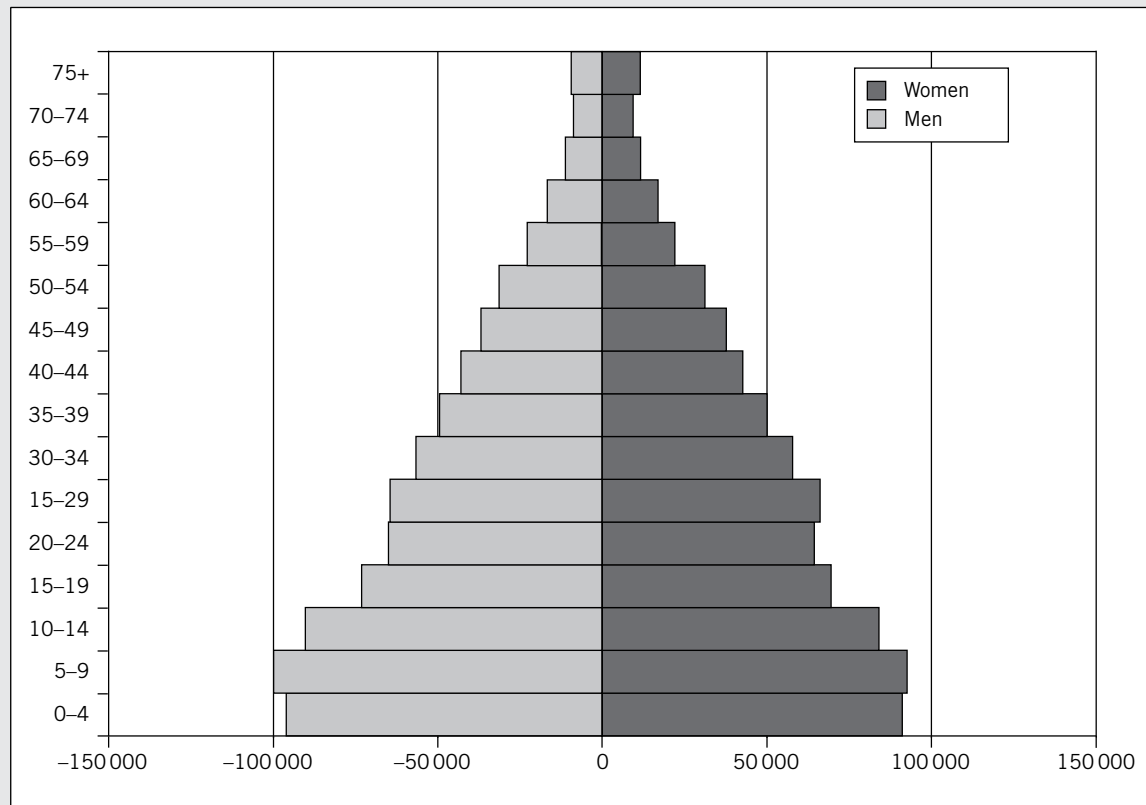
The rate of growth of the total population and of the working age population age groups has a major impact on the need for productive employment and, hence, the subsequent analysis. The current age structure of the population is a main factor in determining the need for employment generation – new jobs – over the next 15-20 year period, the other main factors being the need to reduce unemployment and working poverty.

²⁸ The age-based dependency ratio can be defined as the total population in the inactive age-groups (typically under 15 and over 65) divided by the total working-age population, typically 15-64. The actual dependency ratio depends also on the labour force participation rate of the working age population and can be calculated as (total population – the labour force) / the labour force.

²⁹ The working poor are defined as those in the labour force who have employment, but whose income is insufficient to bring themselves and their dependents out of poverty.

Figure A below presents the population pyramid of Maluku Province of Indonesia, where a “bottom heavy” structure reflects a predominantly young population and rather favourable dependency ratio – people in the working age make up a majority of the population. As the lower cohort of the pyramid – those younger than 15 – grow older in the next fifteen years, the size of the working-age population will rapidly increase, posing an additional pressure on the labour market to create jobs. The dent in the pyramid among the 20-24 year olds suggests a net outmigration of young men and women (in this case outside the province).

Figure A Population pyramid, Maluku, Indonesia, 2010



Source: [Hasil sensus penduduk 2010, Data Agregat per Provinsi] Population Census Results 2010, Aggregate data by Province, BPS. Jakarta, Indonesia

1.2. MIGRATION

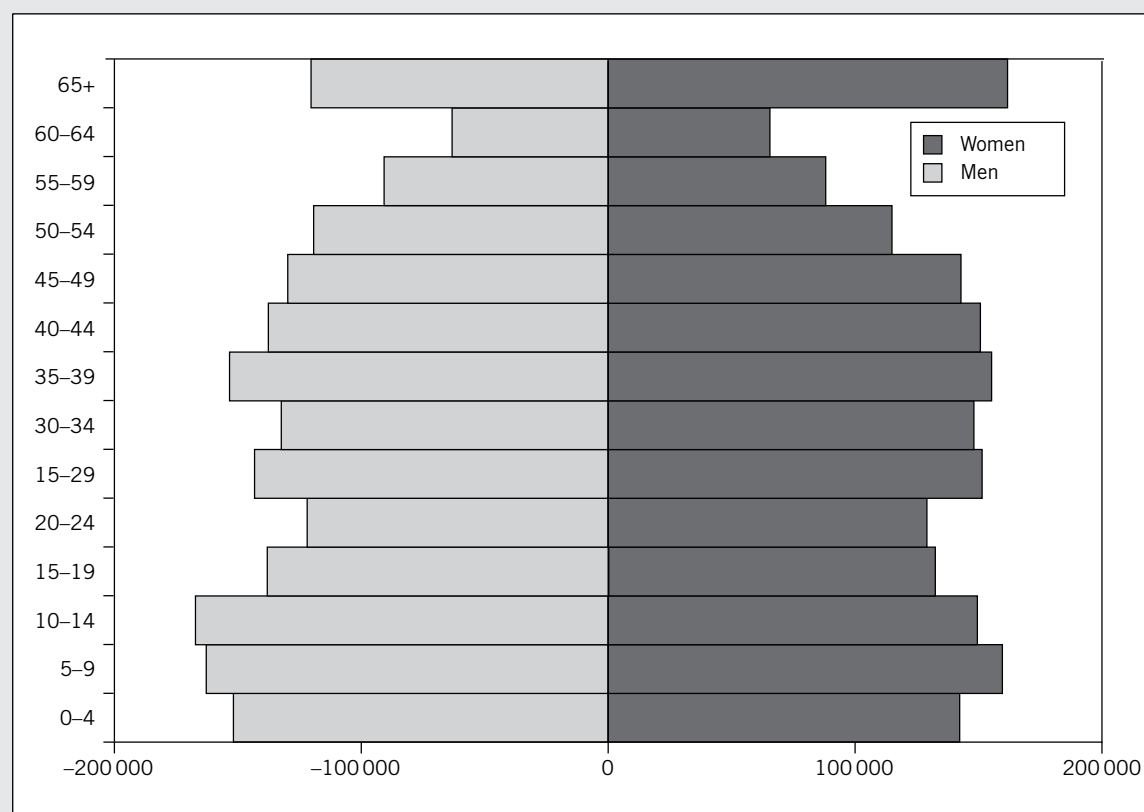
Labour migration is a complex phenomenon that has become an integral part of globalisation. In situations with substantial migration the analysis should provide an understanding of the dynamics of internal migration (rural-urban, urbanisation, seasonal migration for work), and out-migration or emigration. There are costs and benefits of labour out-migration that need to be acknowledged in the analysis. On the one hand, labour migration satisfies the demand for labour in the recipient country and facilitates skills acquisition, thereby contributing to economic growth in the recipient country. In the source countries labour migration tends to provide temporary benefits at the expense of long term development. In the short term, migration reduces the pressure on the labour market and the economy to create jobs, at the same time as providing additional income for households and releasing demand constraints on the economy as a whole. In the long run, it may well slow down the economic development of the source country as migration results in

a loss of human resources and talent, hence the domestic human resource base for development declines. The fact that migration tends to be selective – it is usually the young and the most enterprising who migrate – reinforces this process. It can create a migration culture where people look abroad for economic opportunities and to fulfil their aspirations, rather than at home, resulting in a decline in entrepreneurship. Importantly, it also reduces the pressure to undertake necessary reforms at home as consumption becomes geographically detached from production. In addition, the migration of persons of reproductive age affects birth rates and demographics at large.

A very contrasting picture to the demographic situation in Maluku is presented by the demographic composition of another Indonesian province – East Java. Here the age-based dependency ratio is still favourable with about 70 per cent of the population in the working age bracket; however East Java's population is ageing as evident from the shrinking lower cohort of the pyramid (Figure B). The population pyramid clearly shows the impact of overseas migration. The age groups 15-34 (in particular 15-25) are considerably smaller than the older 35-39 age groups. This must be due to outmigration from the province of people in this age group, which may well be the underlying cause of the small number of births in the past five years as many women in the most fertile age groups are away.

The East Java patterns of out-migration imply a reduction of the working age population residing in the province and also, at least temporarily, a fall in birth rates and a slowdown in population growth. As can be seen from the pyramid, it also results in a much more rapid ageing of the population than would have been the case otherwise. The implications of this very much depend on whether the migration is temporary or not and to what extent the migrants leave behind families and send remittances home.

Figure B Population pyramid, East Java, Indonesia, 2009



Source: Indonesia National Socio-economic Survey, 2009

Migration has immediate as well as long term indirect effects on the size of the domestic labour force. A positive net migration increases the labour force and need for productive employment generation, while a net outflow of labour migrants has the opposite impact. Migration can also have a more long term impact, as it often results in the separation of families or the postponement of marriage, with a fall in birth rates as a result. Sustained rates of out migration tend to result in an acceleration of the ageing of the population. In situations of large scale labour migration it also becomes particularly difficult to forecast the need for productive employment creation.

Data sources: Population censuses; migration statistics.

2. LABOUR FORCE CHARACTERISTICS

2.1. WORKING AGE POPULATION

An analysis of the working age population and an overview of the main dynamics and patterns of the labour force and employment – represented by the activity rate and the employment and unemployment rates – provide an initial understanding of the situation in the labour market. Figure C below gives an overview of categories of the working age population.

As to the characteristics of the working age population, the questions that need to be answered include: What is the share of economically active people in the total working age population? How does the labour force participation rate differ between men and women and across age groups? Who are the economically inactive and why? It is important to break down all the information by age group, sex and area of residence. Activity rates are often low among those aged 15-24 due to their enrolment in school, but also sometimes due to long transition periods between completing education and finding their first job. Information on the reasons for inactivity is usually available

Table 1 shows the key labour force information for Indonesia: About 160 million people are in the working age group of 15-64. Of these 70 per cent participate in the labour market, and the rest are inactive. Activity rates are high among men, but much lower among women. Most of those in the labour force are employed; consequently, significant disparities in labour force participation between the sexes are also reflected in the employment rates. Unemployment rates are lower for men than for women. These gender disparities, consistent across provinces, are an indication of inherent gender inequalities that deserve to be addressed in closer detail.

Table 1 Labour force characteristics by sex, Indonesia, 2010.
In millions, except when stated otherwise

	Male	Female	Total
Working age population 15-64	80.19	79.52	159.71
Labour force 15-64	68.79	42.74	111.53
Employed 15-64	64.41	38.96	103.37
Unemployed 15-64	4.38	3.78	8.16
Activity rate (%)	85.8	53.7	69.8
Employment rate (%)	80.3	49.0	64.7
Unemployment rate (%)	6.4	8.8	7.3

Source: Labour Force Situation (hereafter LFS) in Indonesia, August 2010

Box 1 Key labour force definitions

The economically active population comprises all persons of either sex who furnish the supply of labour for the production of goods and services during a specified time-reference period.

The employed comprise all persons above a specific age who during a specified brief period, either one week or one day were either in paid employment or self-employment, as well as employers, own account workers, and unpaid family workers.

The unemployed comprise all persons above a specified age who during the reference period were “without work”, i.e. were not in paid employment or self-employment, “currently available for work”, i.e. available for paid employment or self-employment during the reference period and “seeking work”, i.e. had taken specific steps in a specified reference period to seek paid employment or self-employment.

Underemployment is underutilisation or inefficient use of a worker's skills, qualifications or experience, or where the worker is unable to work as many hours as he or she is willing to do.

The working poor are employed persons, whether for wages, on their own account or as unpaid family helpers, whose income is insufficient to bring themselves and their dependents out of poverty.

Productive employment encompasses those who are in the labour force and who are neither unemployed nor working poor.

The informal economy forms part of the market economy. It covers informal employment both in informal enterprises (small unregistered or unincorporated enterprises), and outside informal enterprises. Informal entrepreneurs and workers share one important characteristic: they are not recognised or protected under existing legal and regulatory frameworks. The informal economy does not include the criminal economy and the reproductive or care economy.

Informal employment includes all remunerative work, i.e. both self-employment and wage employment, that is not registered, regulated or protected by existing legal or regulatory frameworks, as well as non-remunerative work undertaken in an income producing enterprise. Informal workers do not have secure employment contracts, worker's benefits, social protection or workers' representation.

Vulnerable employment is defined by labour market status and includes those who are working on their own account or as contributing family workers (unpaid family workers).

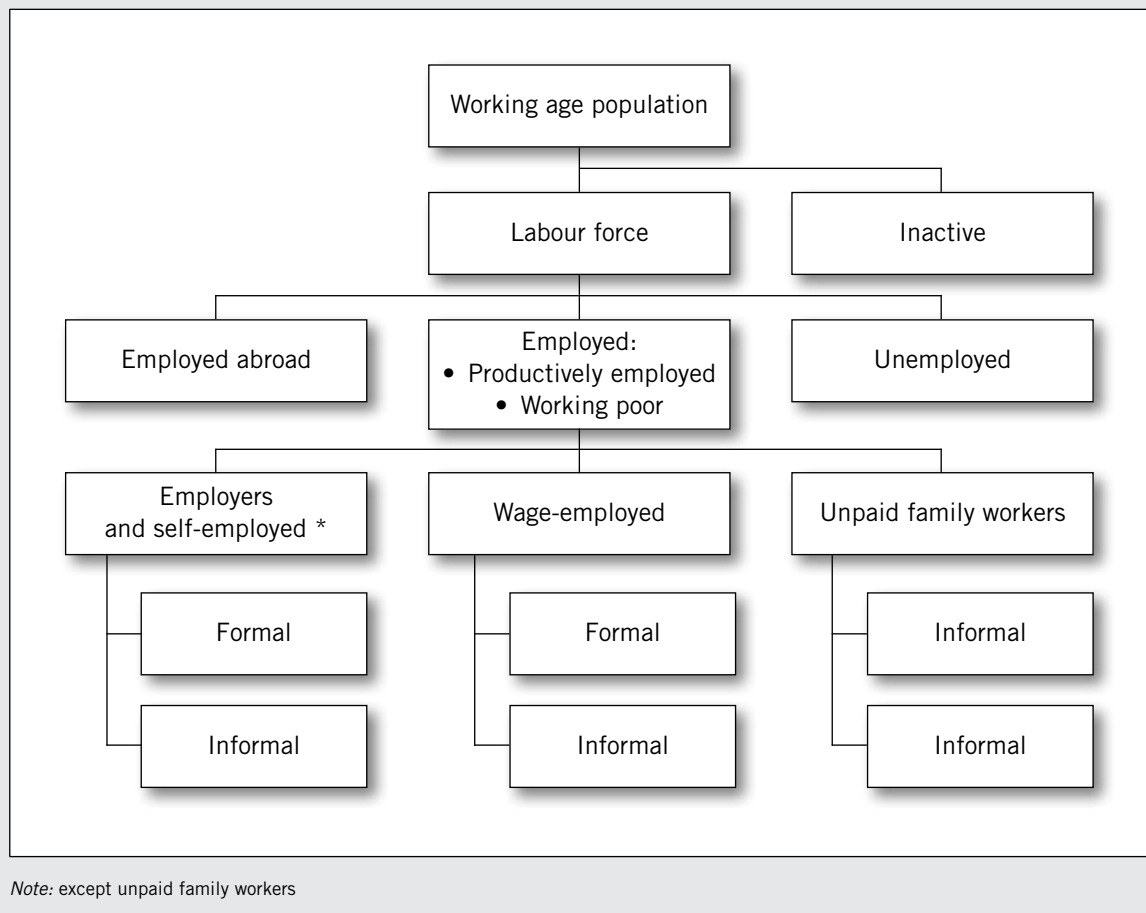
For more detailed definitions of employment and unemployment, see ILO definitions as adopted by the resolution at the Thirteenth International Conference of Labour Statisticians (Geneva, 1982): <http://laborsta.ilo.org/applv8/data/c2e.html> and *Guide to the new Millennium Development Goals Employment Indicators* (Geneva: ILO, 2009).

from the labour force surveys and shows if the inactive are in school or involved in housekeeping. Discrepancies in activity rates between women and men can signal gender inequality that should be further examined. Housekeeping, that is still often the preserve of women, affects one's availability to work. Better access to care-taking/childcare facilities, but also access to facilities such as tapped water and electricity, ease the burden of housekeeping and frees up time for productive activities.

Data sources: Labour force surveys; population censuses.

2.2. LABOUR FORCE PARTICIPATION: EMPLOYMENT AND UNEMPLOYMENT

Further analysis in this section focuses on the main characteristics of the labour force. The labour force comprises persons of working age who work or are currently seeking work (the

Figure C Labour force status of working age population diagram

employed and unemployed). The analysis should result in a sound understanding of the age and sex structure of the labour force, the level of education by area of residence and sex, and the dynamics over time. The employed should be considered by sector of employment, as well as employment status. Informal employment should be analysed separately where data is available.

The main information in this section can be organised into a simple table containing total working age population, labour force, the number of employed and unemployed – all broken down by sex and area of residence. From these figures one can calculate the labour force participation rate, or activity rate, employment and unemployment rates (following formulas in Box 2). The *actual* dependency ratio gives an idea of how many people one income-earner has to sustain. Doing the same calculations for different points in time will show how the patterns of labour force participation have changed over time.

An unemployed person is defined as a person of working age who is not working, available for work and actively looking for work. This narrow definition does not cover all aspects of lack of work. Those who work less than full time, but would like to work more are underemployed, which may be considered as a form of partial unemployment. Another category, which is not included in the labour force, consists of those who would be available to work and would like to work, but have given up actively searching for work. The former category can be captured through time-use surveys, which are carried as part of socio-economic household surveys or independently in some countries. The latter category can often be identified through questions on reasons for inactivity in labour force or socio-economic household surveys. Where data permits,

Box 2 Calculating labour force indicators

$$\begin{aligned}\text{Activity rate} &= \frac{\text{LF}}{\text{Working age population}} \times 100 \\ \text{Employment rate} &= \frac{\text{Employed}}{\text{Working age population}} \times 100 \\ \text{Unemployment rate} &= \frac{\text{Unemployed}}{\text{Labour force}} \times 100 \\ \text{Dependency ratio (actual)} &= \frac{\leq 14 + \geq 65 + \text{Inactive} + \text{Unemployed}}{\text{Employed}} \times 100\end{aligned}$$

the underemployed in terms of time and the ‘discouraged’ should be identified and included in the analysis of the labour force.³⁰

2.3. INFORMAL EMPLOYMENT

Decent work conditions and fair remuneration for work are often compromised in the informal employment where workers lack secure contracts, benefits and representation. Yet, it is often a major domain of employment and economic activities. The ILO defines the “informal economy” as all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements.³¹ Informal employment has a somewhat broader coverage as it includes not only those working in the informal economy, but also those working in formal enterprises, but who lack a formal contract and are deprived of workers’ rights and benefits and representation.³²

Informality is closely linked to employment status: most own account workers, casual workers as well as contributing family workers and domestic workers³³ fall under the category of informally employed. It is also in practice closely linked to certain sectors and occupations, such as agriculture and low-skilled services. A distinction should be made between agriculture, where own-account employment on a family farm is often the norm, and informal employment in other sectors of the economy, where it can usually justifiably be seen as a vulnerable form of

³⁰ For details on time use surveys and a list of countries where such surveys have been carried out, see <http://unstats.un.org/unsd/demographic/sconcerns/tuse/>.

³¹ Resolution concerning decent work and the informal economy, ILC 90, 2002

³² ILO Department of Statistics. For references, see the *Resolution concerning statistics of employment in the informal sector* adopted by the 15th ICLS (January, 1993) and the *Guidelines concerning a statistical definition of informal employment* adopted by the 17th ICLS (November, 2003)

³³ In 2011 the Convention 189 on Domestic Workers has been adopted by the International Labour Conference, granting a formal recognition to all domestic workers as workers.

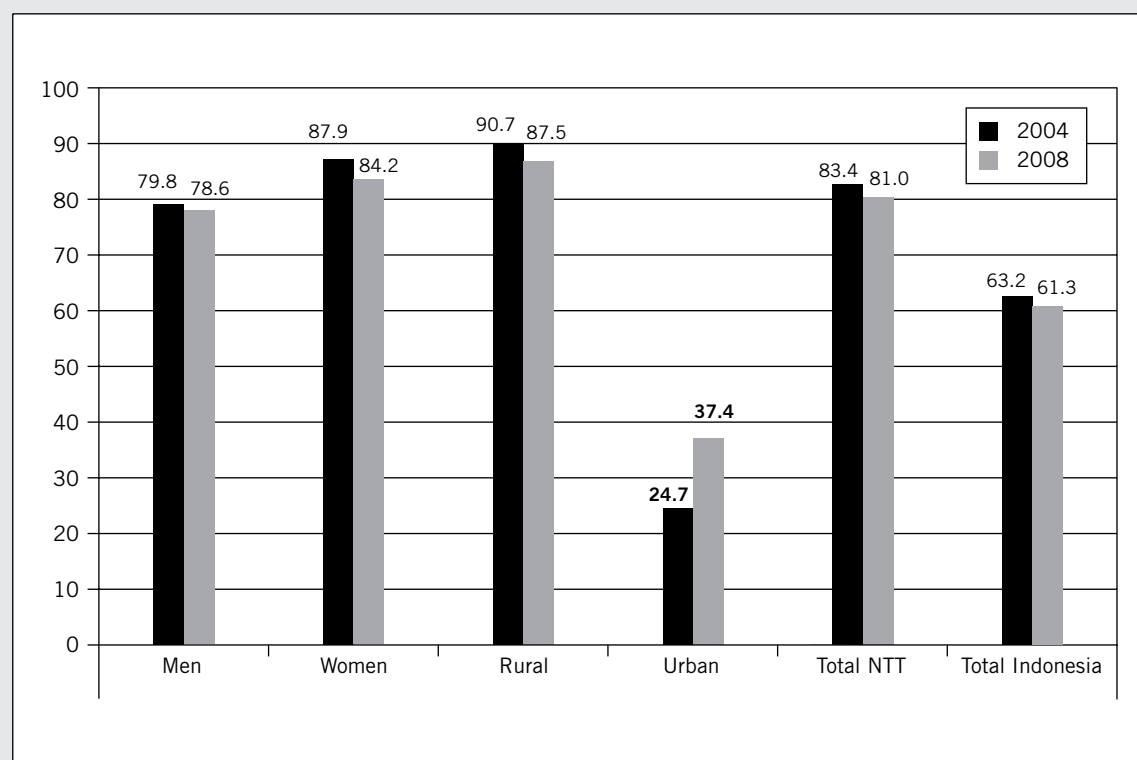
employment. The heterogeneity and the broad definition of informality, as well as the inherent difficulties in collecting data on the informal economy, make it difficult to analyse. Nevertheless, the issue of informality should not be ignored. The approaches to the analysis will vary greatly depending on the country specific contexts, as well as data availability.

Data sources: Labour force surveys are the primary source of information on informal employment. In most countries labour force surveys include modules that would allow computation of the extent of informality in the labour market.

Informality is closely associated with vulnerability and poverty, as earnings in the informal economy tend to be lower on average than in the formal economy and as the social protection and rights at work are weaker.

Figure D shows the extent of informal employment in the province of Nusa Tenggara Timur (NTT) in Indonesia. Some 81 per cent of the employed were in the informal economy in 2008 as compared to 61 per cent at the national level. The prevalence of informal employment in rural areas is mainly due to the role of agriculture in the provincial economy and the informality normally associated with this sector. A distinction should be made between (i) high informality due to the low level of development and predominance of agriculture and (ii) high informality due to rapid urbanisation and slow growth of urban formal employment, i.e. structural change driven by despair and push factors rather than dynamic development of the non-agricultural sectors of the economy. The growing informality in urban areas reflects a situation where employment has increased faster than the growth of the number of formal jobs. This suggests that rural – urban migration may largely be driven by push factors, such as low incomes in agriculture, rather than attractive job opportunities in urban areas.

Figure D Informal employment as percentage of total employment, NTT and Indonesia, 2004/2008



Source: LFS in Indonesia, August 2008, August 2006

Informal employment tends to be more common among workers with lower levels of education. The case of NTT shows that the higher the level of education the lesser the probability of informal employment (Table 2). In 2008, 80 per cent of the labour force with a junior high school education were working informally, as opposed to 50 per cent of senior high school graduates and 10 per cent of higher education graduates. Among those who had not even completed primary education less than one in ten had a formal job. This relationship persists across all age groups and for women more than for men.

Table 2 Share of informally employed as a percentage of total employed by education attainment level, NTT, 2008

	Less than primary	Primary school	Junior High School	Senior High School	Higher education	Total
Women	92.0	93.0	85.9	45.3	9.3	84.2
Men	91.5	87.4	78.2	48.1	9.2	78.6
Total	91.7	89.9	81.1	47.1	9.3	81.0
Rural	93.3	92.5	88.0	58.3	14.0	87.5
Urban	60.3	53.6	48.3	28.9	4.5	37.4
Total Indonesia	82.4	74.0	60.4	37.9	11.7	61.3

Source: LFS in Indonesia, August 2008

Remarks: Persons with "less than primary" education level are those with no schooling, or who have not yet completed primary school at the time of the survey. Persons with higher education are those who have a Diploma I/II/III and/or a university degree.

The incidence of informality varies by sector, with most of the informal employment concentrated in agriculture, followed by manufacturing. Two thirds of jobs in manufacturing are informal, which makes the manufacturing sector in NTT distinctly different from that in Indonesia as a whole, where less than 30 per cent of the employment was informal. It is noteworthy that in NTT informal jobs in manufacturing are mainly in rural, small-scale cottage industries that operate at a pre-industrial level with very low levels of productivity and thus are strongly associated with poverty. Informality is also prevalent in the services sector, especially in trade, restaurants and hotels. In Indonesia public sector wage employment is per se defined as formal.

Table 3 Informal employment as a percentage of total employment by sector, NTT, 2008

	Agriculture, Forestry, Hunting and Fishery	Manufacturing industry	Wholesale trade, retail trade, restaurant and hotels	Community, social and personal services
Women	99.5	72.4	66.2	5.4
Men	98.0	51.3	46.7	6.2
Total	98.6	66.5	58.0	5.9
Rural	98.8	68.6	60.7	4.1
Urban	86.6	47.3	55.9	7.7
Total Indonesia	91.5	29.2	53.6	18.9

Source: Ibid.

3. DEVELOPMENT OF THE HUMAN RESOURCE BASE

3.1. THE QUALITATIVE ASPECTS OF HUMAN RESOURCES: EDUCATION AND SKILLS, HEALTH AND EMPLOYABILITY

This section reviews human capital as a productive resource. It examines the qualitative attributes that determine an individual's ability to access productive employment and assesses the employability and productive potential of the labour force. At the national level the human resource base sets limits for the capability and capacity to embrace technological advancement, increase labour productivity and returns to labour. At the core are aspects such as education, skills and cognitive abilities but it also includes health aspects and nutrition.

The employability of human resources refers to the endowments of the labour force with qualitative attributes that enhance their attractiveness on the labour market, their capabilities as independent economic agents, and their productivity. The present level and characteristics of human resources from an employability perspective, the level and quantitative and qualitative characteristics of investments in human resources, and the institutional capacity to invest in human resource development – should all be assessed.

Data sources: Population censuses; labour force surveys; socio-economic surveys; educational and health statistics.

The education attainment rates in Bosnia and Herzegovina (hereafter, BiH) presented in Table 4 show that almost half of the people of working age – 45.3 per cent – have only attained primary education (that is up to 7 or 8 years of school). The BiH Labour Force Survey reports that in 2009, as much as 78 per cent of the working-age population with primary education or less were out of the labour force; and only 16.3 per cent of them were in employment (Figure E). The small numbers of unemployed among those with only primary education was due to wide-spread discouragement stemming from low employability among people with primary or lower levels of education, which resulted in high inactivity rates. With a completed secondary education the chances of finding employment improved considerably.

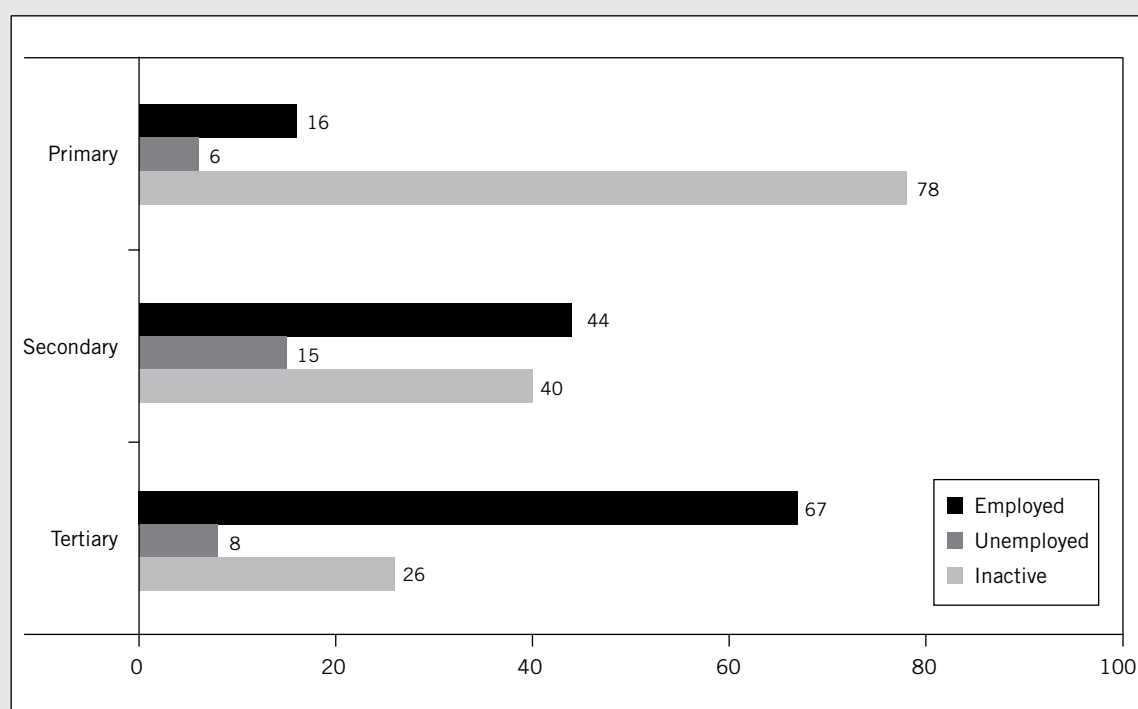
Table 4 Education attainment rates in Bosnia and Herzegovina, 2009. Percentages

Population aged 15+	Primary	Secondary	Tertiary	All levels
Working age population	45.3	47.6	7.1	100.0
– men	34.2	57.5	8.3	100.0
– women	55.7	38.3	6.0	100.0
In the labour force	22.9	65.0	12.1	100.0
– men	21.2	68.4	10.4	100.0
– women	25.7	59.3	15.0	100.0
Employed	22.4	63.3	14.3	100.0
– men	20.0	67.8	12.2	100.0
– women	26.4	55.7	17.9	100.0
Unemployed	24.6	70.2	5.1	100.0
– men	25.8	69.9	4.3	100.0
– women	23.6	70.0	6.4	100.0
Inactive	62.7	34.1	3.2	100.0
– men	50.8	43.5	5.6	100.0
– women	69.9	28.4	1.6	100.0

Source: LFS in BiH, 2009: Table 4

Figure E clearly illustrates the interdependency between the level of education and employment status: The higher the level of education the better the chances of finding employment. Furthermore, those with higher education have a better chance of finding well-remunerated jobs abroad. The so called *brain-drain* exhausts the qualified human resource base of the country and poses an additional challenge to the labour market. To reverse this tendency, job opportunities for the highly-skilled labour in the national economy need to be improved.

Figure E Labour market participation by the education attainment levels in BiH, 2009.
Percentages



Source: LFS in BiH, 2009

Assessing the situation from a gender perspective reveals a striking disparity between labour force participation and educational attainment. More than half of women of working-age have completed no more than 8 years of school, and only 11 per cent of this category work. The vast majority of women with only primary education – 85.4 per cent – are economically inactive. In comparison, one third of men in the labour force have attained only primary education and ‘only’ two thirds of them are inactive (Table 5). Gender differences in the employment rates are relatively smaller for those with secondary education than for those with lower education. Yet, half of working-age men with secondary education are employed, against only a third of women.

Contrary to the general trend in BiH, there are more inactive men than women with tertiary education. The dramatic variations in employment rates between different educational attainment groups point to the significance of education and skills in the competition for jobs and access to the labour market. They further suggest that the importance of education for accessing employment is considerably greater for women than for men. Low levels of education among a large part of the working age population, especially women, are clearly a major constraint on their ability to access employment.

Table 5 Labour force characteristics by level of education as a percentage of the working age population (15+) in BiH, 2009

	Primary	Secondary	Tertiary
In labour force	22.0	59.6	74.5
– men	34.8	66.8	70.2
– women	14.7	49.4	80
Employed	16.3	44.1	66.8
– men	25.2	51.0	63.5
– women	11.2	34.4	71.3
Unemployed	5.7	15.5	7.6
– men	9.8	15.8	6.7
– women	3.5	15.0	8.8
Inactive	78.0	40.4	25.5
– men	65.2	33.2	29.8
– women	85.4	50.6	18.8
Unemployment rate	25.9	26.0	10.2
– men	28.2	23.7	9.6
– women	23.6	30.3	10.9

Source: LFS in BiH, 2009: Table 5

3.2. INVESTMENT IN HUMAN RESOURCES DEVELOPMENT

Investment in education, vocational training and health care, as well as institutional and other constraints on the capacity to undertake such investments have a strong bearing on the development of the human resource base. Investments in the development of human resources, together with improved opportunities to enhance the economic returns of these resources, provide the foundation for job-rich growth.

The main indicators for this stage of the analysis can be divided into input factors and output factors. Examples of indicators of input factors in human resources development are public investment in education, the share of education and health expenditure in GDP, teacher to pupil ratios, doctors per 1,000 inhabitants, etc. Output factors can be measured by a series of education and health related indicators, such as literacy rates, education attainment rates, enrolment in education by level of education, transition rates to secondary and tertiary education, completion/graduation rates by level and type of education and other.³⁴ The qualitative aspect of education is captured by the PISA scores that compare levels of knowledge among students of the same age or in the same grade across countries.³⁵ Among the important health indicators are infant, child and maternal mortality rates, stunting and wasting among children and HIV/AIDS prevalence. The choice of indicators will depend on their context specific relevance. For instance, indicators such as literacy, basic education and maternal mortality may be highly relevant in least developed countries, while other indicators are more relevant in middle-income countries. All indicators should be broken down by sex and where possible by area of residence.

³⁴ For more relevant indicators, see the Education section of the World Development Indicators database.

³⁵ See www.pisa.oecd.org.

4. INCOME INEQUALITY AND POVERTY

4.1. INCOME INEQUALITY

Information on wages for those in formal wage employment is as a rule easily obtainable from establishment surveys, which in many countries are undertaken several times per year. Wages statistics are also usually included in the labour force surveys. It is much more difficult, however, to collect income data for own-account workers and workers in the informal economy. As a result, wage data are often not representative for the whole working population, as wage employment tends to be limited either to specific sectors and urban areas and as workers in non-wage employment are left out of the picture. Household budget surveys gather household income data, yet the reliability of this data is often poor as those surveyed tend to be reluctant to give accurate information. Potentially valuable information on sources of incomes and on employment-related income is therefore hard to get hold of. In the absence of income data, data on consumption is often used as a proxy for household income and to measure poverty. This information is typically collected at the household and not at the individual level.

The Gini coefficient is commonly used to measure income inequality. The Gini coefficient ranges from 0 to 1: the higher the Gini coefficient, the higher the inequality. The percentage share of total income/consumption accrued by each income/consumption decile offers another way of measuring inequality. Absolute equality would imply that each decile accounts for an equal (10 per cent) of the total income/consumption. The higher the share of income/consumption accrued by the top deciles and the lower the share accrued by the bottom deciles, the higher the inequality. By comparing the distribution of income/consumption across the population deciles, one can obtain a good picture of how the total growth in income/consumption has been distributed across income/consumption groups over a specific period of time.³⁶

4.2. POVERTY AND THE WORKING POOR

Poverty has both economic and social dimensions as well as both an absolute and a relative dimension. Our concern here is with economic poverty in an absolute sense; an inability to afford basic human needs. The incidence of poverty, that is the headcount poverty rate, is the share of the population whose income or consumption is below a pre-defined poverty line.³⁷ The poverty line represents the minimum per capita income a household needs in order to achieve a material standard of living that qualifies as 'not poor' at a given time and place.³⁸ The depth of poverty establishes how far below the poverty line the average poor household is.³⁹ It also provides an idea of the total increases in income that would be needed to bring the poor out of poverty.⁴⁰ This information is available from household income expenditure surveys and can be broken down by area of residence and other household characteristics, but as a rule not by individual household members. The concept of the working poor is directly linked to the definition of economic

³⁶ Such measurements are often presented as *growth incidence curves*. See for example Michael Grimm, Stephan Klasen and Andrew McKay, *Determinants of pro-poor growth* (Palgrave Macmillan, 2007).

³⁷ This may be a nationally established poverty line and/or the internationally established poverty lines of a per capita income or consumption level of less than 1.25 USD (PPP) for extreme poverty or of 2.00 USD per day. The 1.25 USD poverty line is linked to the MDG Goal One, 'To halve extreme poverty...'

³⁸ Martin Ravallion, Poverty comparison – *A guide to concepts and methods*, in Living Standards Measurement Papers 88 (Washington D.C.: World Bank, 1992)

³⁹ *Choosing and estimating poverty indicators*, <http://web.worldbank.org/>

⁴⁰ For more, please see *Technical note measuring poverty and analyzing changes in poverty over time*, World Bank, http://siteresources.worldbank.org/INTPA/Resources/tn_measuring_poverty_over_time.pdf

poverty and defined as those in the labour force whose income is insufficient to bring themselves and their dependents out of poverty. Together with the unemployed they make up the deficit in productive employment.

Access to the micro-data of household income expenditure surveys can yield a wealth of valuable information on the characteristics of the working poor as well as allowing for precise estimates of the number of working poor. Alternatively, existing analysis of the results of household income expenditure surveys, for instance in the form of poverty analysis, may be used to obtain some information on the working poor.⁴¹ Information on the characteristics of the working poor, such as employment status, sector of activity, education, age, gender etc., which cast light on who the working poor are is of particular importance to the EDA. Poverty by level of education of the head of household, and school dropout rates among pupils from poor households are useful in estimating how closely poverty is linked to education. More often than not the lower the education level of the head of household, the higher the incidence of poverty. High dropout rates among children from poor households result in a vicious circle, whereby an interplay of poverty and low education results in a transmission of poverty from one generation to the next.

FACTORS ASSOCIATED WITH POVERTY AND THE WORKING POOR

Work is the primary means of income generation for the poor. Increasing productivity of the poor, improving their employability and creating productive employment opportunities for the poor is the most important way of fighting poverty.

Poverty is also strongly linked to the size of the household and the household dependency ratio. Households with higher dependency ratios are more prone to be poor. The poverty incidence may often be lower in female-headed households than in households headed by men, but this is primarily due to the fact that female-headed households tend to be smaller and have fewer dependents. The poverty incidence also varies by the age of the head of household, as the dependency ratio is often higher in younger households with many children than older households. However, a high incidence of poverty in younger households may reflect the fact that young people have difficulties in getting a firm foothold in the labour market.⁴²

The relationship between poverty and unemployment is not straightforward. In countries with fairly well developed systems of social protection, poverty among the unemployed is often higher than among the employed. In less developed countries, with little or no social protection poor people cannot afford to be unemployed, but are forced to accept any work, even at extremely low levels of productivity and income. Hence, in these countries unemployment tends to be less frequent among the poor than among the non-poor.

Data sources: Household socio-economic or income expenditure surveys; living standard measurement surveys (LSMS); poverty analyses.

Comparing poverty indicators over a number of years, and a mapping of changes and patterns in income inequality and poverty will help establish the outcome of economic development in terms of the reduction of poverty and inequality and how efficiently growth has translated into improved employment opportunities and incomes for the poor. This information should be broken

⁴¹ For more on poverty analysis, see *Introduction to Poverty Analysis* (World Bank Institute, 2005) <http://siteresources.worldbank.org/PGLP/Resources/PovertyManual.pdf>

⁴² For a more detailed, evidence-based examination of the characteristics of the working poor, see KILM, 8th Edition (Geneva: ILO, 2011).

In countries lacking basic social protection, unemployment and poverty do not go hand in hand. In Maluku, Indonesia, it is evident from Table 6 that only a small portion of the poor are unemployed. In the absence of adequate social security coverage people cannot afford to be out of a job; thus in this case unemployment is a preserve of the privileged. A vast 97.8 per cent of the poor in the labour force in Maluku, Indonesia, are working. It is noteworthy that as many as 81.7 per cent of all poor work in agriculture. A number of factors presumably underpin this situation: i) jobs in agriculture are of such low productivity that they do not provide a high enough income to sustain a family above the poverty line, ii) agriculture is a source of employment of last resort for the poor, who might not be qualified enough to obtain a job in a more productive sector.

Table 6 Labour force and poor people by sector and labour market status, Maluku, Indonesia, 2009. Percentages

	Unemployed	Working in agriculture	Working in non-agriculture	Total
Labour force	10.6	50.3	39.1	100.0
Poor	2.2	81.7	16.1	100.0

Source: LFS in Indonesia, August 2009; [Data dan Informasi Kemiskinan, Kabupaten / Kota 2009] Data and information on poverty, by District/City 2009, [Badan Pusat Statistik 2009] (hereafter BPS) Central Bureau of Statistics.2010: Table 3.2)

down by sex where possible to detect and assess any differential impact on men and women. The more detailed this information is, the more targeted and thus more effective the ensuing policy recommendations.

The focus of the present analysis is not just on employment but productive employment; on reducing the deficit of productive employment in the form of both working poor and unemployment. A tool presented in Section (6) of Chapter Two of the present guide was developed as part of a current methodological toolkit and aims at facilitating the estimation of deficits in productive employment projections and the need for productive employment creation in the years to come.

5 ECONOMIC AND EMPLOYMENT GROWTH: PATTERNS AND DYNAMICS

Economic growth is a prerequisite for increasing productive employment; it is the combined result of increases in employment and increases in labour productivity. Hence, the rate of economic growth sets the absolute limits within which growth in employment and growth in labour productivity can take place. However, the pattern or nature of growth matters too. The impact of economic growth on productive employment creation depends not only on the rate of growth, but also on the efficiency by which growth translates into productive jobs. The latter depends on a range of factors, such as the sector composition of growth and the capital/labour intensity of growth within the individual sectors. There is usually a need to increase both the number of jobs **and** incomes from employment. A review of economic development from an employment perspective should therefore assess to what extent economic growth has met both the need for more jobs and higher incomes. Such an assessment needs to be broken down by sector to yield meaningful insights. The analysis of the dynamics of the economy and productive employment generation should be undertaken in light of a forecast of the projected need for productive employment generation in the coming years (See Chapter Two, Section 6).

An assessment of economic development should also be made from the perspective of inclusiveness and sustainability. While an in-depth analysis of the equity aspects of development is undertaken in the second phase of the analysis, a first review of the inclusiveness or lack of inclusiveness of economic development should be made already at this stage. A first rough picture can be obtained from casting the performance of the economy against registered changes in income poverty, working poor and from changes in the Gini coefficient. Various techniques and measurements, such as growth incidence curves (see Chapter Two, Section 4) can provide a more detailed picture of the inclusiveness of growth at the aggregate level. Further analysis of the sectoral and regional pattern of economic growth disaggregated by sex, when cast against information on who the working poor and the unemployed are and where they are found and on sex specific labour force participation rates, will yield information on the extent to which the pattern of economic development has been conducive to creating productive employment opportunities for the working poor and the unemployed. Information on the education and skills profiles of the working poor and the unemployed and, where available, on geographical, occupational and social mobility, will further enrich the analysis.

The sustainability of economic development has a number of dimensions. Environmental sustainability, climate change mitigation and adaptation and investments in the young – all need to be effectively addressed to ensure long-term sustainability. The extent to which economic growth is associated with and driven by a productive transformation is of major importance to the sustainability of economic development in both the short and the medium term. In other words, at the heart of economic development is a productive transformation characterised by structural change, adoption of more sophisticated technologies and knowledge and diversification into non-traditional and higher value added goods and services. Such a development, in its turn, needs to be accompanied by a continuous building of knowledge and capabilities at the individual and institutional levels for development.⁴³ While it would be beyond the scope of the present analysis to explore these aspects in-depth, a first rough indication can nevertheless be obtained from an analysis of the sector (and sub-sector) composition of growth, changes in productivity at the sector level and, not least, the share of tradable goods and services in GDP and in GDP growth.

Following a broad-brush overview, preferably with a long time perspective, the analysis should be disaggregated by main economic sectors and geographical areas and employed women and men, with a view to obtaining a more detailed understanding of the main aspects of development over the past five to ten years. This analysis should be made against the backdrop of demographic development, education and skills, poverty and inequality. Where reliable and representative data is available, wages should be examined as an instrument in distributing economic growth to the working population.⁴⁴ The patterns and changes in wages and incomes from labour over time and across sectors can cast additional light on the extent to which growth has been job-rich and inclusive.

Data sources: Labour force surveys, national accounts.⁴⁵

⁴³ For a detailed discussion, see Irmgard Nübler, *Industrial policies and capabilities for catching up: Frameworks and paradigms*, Employment Working Paper No 77 (Geneva: ILO, 2011).

⁴⁴ For a detailed growth decomposition methodology, see also *Job Generation and Growth Decomposition Tool: Understanding the Sectoral Pattern of Growth and its Employment and Productivity Intensity*, Reference Manual and User's Guide Version 1.0, PREM, (World Bank, 2007)

⁴⁵ To understand National Accounts better, see *National Accounts: A Practical Introduction*, Studies in Methods Series F, No. 85, (New York: United Nations, 2003)

5.1. SECTOR COMPOSITION AND GROWTH DYNAMICS OF EMPLOYMENT AND GDP

Growth may be concentrated in sectors which are inefficient in terms of generation of productive employment, i.e. with low labour intensity and/or low returns to labour, or in sectors to which the working poor and unemployed have poor access. Growth may also be concentrated in sectors with small multiplier effects. A concentration of growth in sectors with low shares of tradable goods would flag problems of competitiveness and sustainability. An analysis of the sector specific dynamics of growth of value added employment and labour productivity will provide useful insights. This can be based on a few basic tables depicting economic development over the past 5-10 years, which should include:

- The rate of GDP growth in the past 10-20 years, broken down by periods and by source of growth, i.e. (i) growth of employment and (ii) growth of labour productivity
- The sector composition of total value added (GDP) and of employment at present and in selected previous years, expressed as percentages
- The contribution of the main economic sectors to (i) growth in aggregate value added/GDP and (ii) to employment, expressed as percentages
- Labour productivity by main economic sectors at present and in selected previous years. This may be expressed as an index, with the national average at each year = 100
- The employment elasticity of growth by main economic sectors (measured over at least a five year period). The rate or percentage growth of labour productivity over the same period(s)

Combined with information on the development of the labour force, employment, productive employment, working poor and unemployment this can yield a quick yet fairly accurate picture of the strengths and weaknesses of economic development from an employment perspective. Some of the questions that one would need to answer would be:

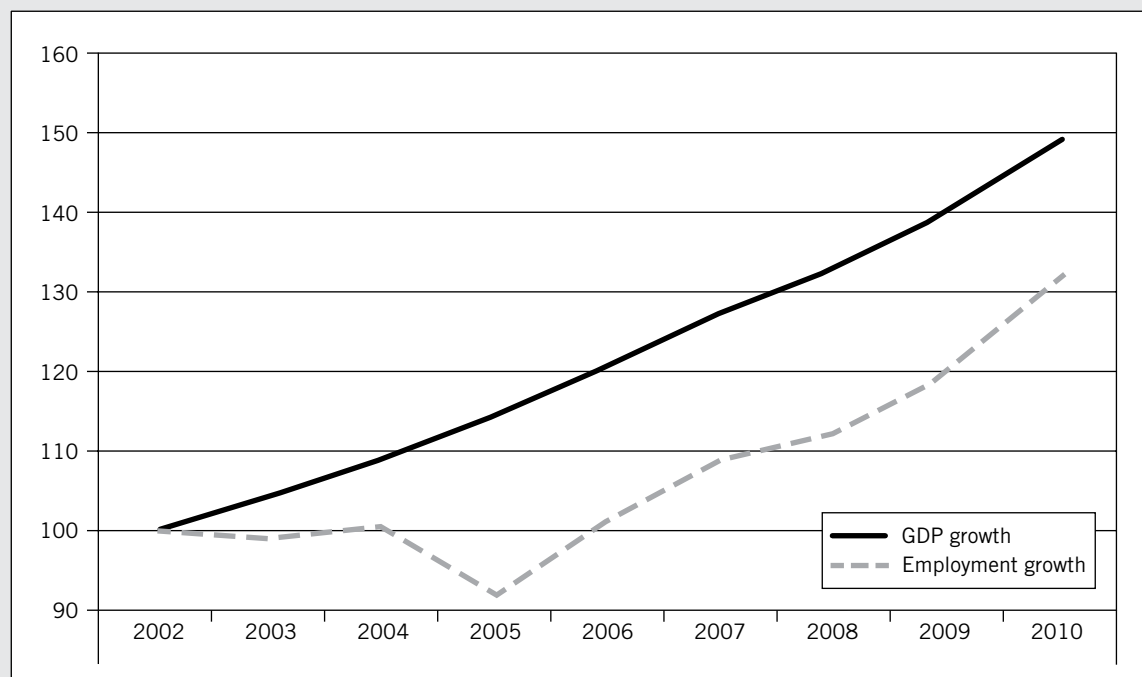
- To what extent has economic development been associated with structural changes of total value added/GDP and of employment?
- What are the most important sectors in terms of employment and in terms of value added? Are these also the main sources of growth of GDP and of employment? What is the sex distribution of employment in these sectors?
- Are the sectors registering the highest economic growth the same as those creating most new employment? Are there sectors where employment growth is much faster than economic growth, i.e. where employment growth is taking place at the expense of productivity and, presumably, wages and incomes? What is the sex distribution of employment in these different sectors?
- How large are the differences in labour productivity between sectors? Have these been decreasing or increasing over time?
- Are the sectors producing tradable goods and services (agriculture, manufacturing and some services) among the largest sectors in the economy? Among those that grow fastest?

Because economic dynamics can differ greatly within a country/province, it is important to differentiate by geographical areas, e.g. urban and rural areas, regions or districts, centre and periphery. An understanding of these differences can be achieved through a comparative regional analysis. Key indicators in such analysis would include each region's share of the total population and of the total GDP; per capita GDP indices (where the per capita GDP for the whole country = 100), comparison of labour market indicators as well as of sector composition of growth and employment by regions. Good infrastructure, notably roads and an effective transportation system, is among the factors that are important to a balanced distribution of growth, and therefore poverty reduction, and should be a part of the analysis. The scope for non-agricultural activities should also be assessed.

The case of Maluku, Indonesia, is provided below to illustrate the outcome of an initial analysis

Figure F illustrates the development of the economy and of employment in Maluku over time. At first sight, the picture appears very positive: The economy of the province grew by 50 per cent between 2002 and 2010, at an average rate of about 5 per cent per year. The composition of growth seems positive, with growth achieved mainly through growth in employment, but also through a respectable growth in productivity. However, this aggregate conceals major problems in the pattern of economic growth in Maluku that a series of tables helps to reveal: Economic and employment growth took place in different sectors. Agriculture was the main driver of economic growth, whereas most of the jobs were created in the services sector.

Figure F Provincial GDP and employment growth index, Maluku, Indonesia. 2002-2010 (2002=100)



Source: BPS, Maluku

To complete the picture, economic development also needs to be assessed from the perspective of inclusiveness. To what extent have the productive jobs created been accessible to the working poor and the unemployed? This requires a breakdown of economic development by region and/or rural-urban and, for employment, also by sex. Information on the education and skills requirements of the new jobs created or changes in the education and skills composition of the employed by sector and sex will add important additional information. Some of the questions to which answers should be sought would be:

- To what extent have productive jobs been created in the areas, sectors and occupations where the working poor and the unemployed are predominantly found?
- What has been the rate of growth of labour productivity and the contribution of productivity growth to total growth in the sectors with a high share of working poor? To what extent has productivity growth translated into higher wages and incomes?
- Is there evidence of gender-based inequality in access to productive employment? If so, is it likely to be due to inequality in terms of employability (education, skills levels) and/or opportunity and access?

- Do the (i) working poor and the (ii) unemployed have the necessary education and skills to access the occupations and sectors that have been the main drivers of productive employment creation and/or where the best prospects of future productive employment creation are likely to be found?

Finally, this section should also include an analysis of the given context, institutional and otherwise, for global economic interaction and integration. In countries with high rates of overseas labour migration this aspect should also be incorporated into the analysis. Understanding these dynamics can help shed light on whether structural changes and trends are due to ‘pull’ or ‘push’ factors, i.e. demand-driven or a result of distress situations.

Comparing the sector composition of GDP against that of employment casts light on the economic and labour market dynamics in the province. The economy of the province is predominantly agrarian, although there has been a noticeable shift from agriculture to other sectors of the economy. Still, by 2010 agriculture accounted for almost a third of GDP and for more than half of all employment. The share of agriculture in GDP has declined more slowly (by 4.2 percentage points between 2002 and 2010) than its share in total employment, which dropped by almost 15 percentage points (Table 7). This signals an increase in productivity in agriculture, albeit from a low level. The services sector dominates the non-farm economy entirely, a dominance that has increased over the past decade. By 2010 services accounted for over 60 per cent of GDP and for 40 per cent of all employment. Trade, restaurants and hotels services accounted for over a quarter of GDP, while the social and personal services sector, which is dominated by public sector services, accounted for slightly less than a fifth of the GDP. The industrial sector remained quite insignificant. Manufacturing accounted for no more than 5 per cent of either GDP or employment and there was no indication that these shares were increasing.

Table 7 Contributions of sectors to GDP and employment, Maluku, Indonesia, 2002/2010. Percentages

Year	% share of GDP		% of employment	
	2002	2010	2002	2010
Agriculture	35.5	31.3	66.3	51.4
Industry	7.5	7.8	8.2	9.0
Mining and quarrying, electricity, gas etc	1.4	1.2	0.6	0.8
Manufacturing	4.9	4.8	5.2	5.0
Construction	1.2	1.8	2.3	3.2
Services	57.0	60.9	25.5	39.6
Trade, restaurants	24.0	25.7	8.3	14.6
Transport & communication	7.9	10.9	4.9	6.2
Social and personal services	19.5	18.9	10.6	17.9
All sectors	100.0	100.0	100.0	100.0

Source: LFS in Indonesia, August 2010, August 2002; *Maluku Provincial Economic Studies* (Bank of Indonesia, 2010; GDP 2010 data provided by the BPS, Maluku)

Another table showing the contributions of different sectors to growth in GDP and employment (Table 8) puts the structural patterns of development in the province in a stark light.

The contribution of sectors to growth is calculated as a share of the change in GDP or employment by sectors in a change in total GDP or employment over a given period

In Maluku agriculture accounted for almost a quarter of the economic growth between 2002 and 2010. However growth in employment in agriculture was by no means commensurate and accounted for less than five per cent of new jobs over the period (Table 8). This development should be considered as positive. Growth in agriculture was primarily attributed to an increase in productivity and such an increase is crucial in view of the high incidence of working poor in this sector. A continued increase in productivity and incomes rather than an increase of employment in agriculture is needed to achieve a greater impact on poverty. Most of the economic growth took place in the services sector, which accounted for over two thirds of the growth between 2002 and 2010. Trade, restaurants and hotels accounted for almost 30 per cent of the GDP growth, slightly increasing its share in the economy. Social and private services, i.e. primarily public sector services, and transport and communications each accounted for 17 of the growth of GDP. The predominant role of the services sector was even more pronounced as a source of employment growth. In the absence of a strong manufacturing sector and with virtually no employment growth in agriculture, the increase in employment was largely confined to the services sector, which accounted for 84 out of every 100 new jobs created over the period. One third of the total increase in employment took place in trade, restaurants and hotels while two out of five new jobs were in social and private services, i.e. mostly publicly funded.

The rapid growth of employment in the services sector generally took place at the expense of productivity. The very high employment elasticities in trade, restaurants and hotels (2.20) and in public and private services (2.76) implied that employment grew two to three times faster than value added in these sectors. As a consequence, productivity fell by 31 and 35 per cent respectively and by 22 per cent in the services sector overall, at the same time as it increased by 29 per cent in agriculture (Table 9). In view of the large differences in productivity between agriculture on the one hand and the services sector on the other hand, this might be considered as a positive development: Labour shifted from a low productivity sector (agriculture) to the services sector where productivity was much higher. As a consequence, GDP grew as productive resources moved from areas of low productivity to areas of high productivity, incomes from labour presumably increased and the number of working poor fell.

Table 8 Contribution of sectors to growth in GDP and employment, Maluku, Indonesia, 2002-2010. Percentages

2002-2010	GDP growth	Employment
Agriculture & fishing	22.8	4.5
Industry	8.4	11.5
Mining and quarrying, electricity, gas etc.	0.9	1.3
Manufacturing	4.5	4.3
Construction	3.1	6.0
Services	68.7	84.0
Trade & restaurants	29.3	34.6
Transport & communications	17.0	10.3
Social and private services	17.7	41.0
All sectors	100.0	100.0

Source: Ibid.

Box 3 Calculating productivity and productivity growth

Labour productivity is calculated as the value added created per unit of input of labour used (ideally measured as total number of days or hours of work). GDP over employment or total value added produced in a sector over employment in the sector often provides a good estimate of labour productivity in the absence of time-use data. Employment elasticity can be measured as the percentage change in employment resulting from a one per cent growth of value added/GDP. It shows the extent to which growth is a result of an increased use of labour. Optimal employment elasticity is situation specific and depends on the relative need to increase productivity and incomes versus jobs. An analysis of the nature of the deficit in productive employment and the need for productive employment creation (see Section 7), can provide a good indication of desirable employment elasticity. Employment elasticity should range between 0 and 1. Negative employment elasticity implies that growth has gone hand in hand with a fall in employment. Employment elasticity higher than 1 implies employment growth is resulting in a fall of productivity. Employment elasticity needs to be disaggregated by main economic sectors as aggregate figures can mask important sector differences. In situations with very low or negative rates of economic growth figures on employment elasticities should be interpreted with extreme care and may not yield much meaningful information.

Growth of labour productivity can be calculated as the percentage growth of value added at constant prices per worker (or hour worked) over a specific period of time.

However, this development is hardly sustainable. There is clearly a limit to the number of jobs that can be created in the public sector and a continued employment growth in trade, hotels and restaurants at the expense of productivity and incomes is rather undesirable. While the main strength has been the rapid growth of value added in agriculture, the main weakness of the structure of growth was arguably the weak development of manufacturing, which also suggested a weak position of tradable goods in the growth. A main conclusion resulting from the analysis was that continued economic development would require a further intensification and market-orientation of agriculture, fishing and aquaculture. This would need to be combined with a diversification of the economy, with priority given to developing linkages to and from agriculture, to building and strengthening value added chains and to the development of a modern manufacturing sector.

Table 9 Productivity growth and employment elasticity by sectors, Maluku, Indonesia, 2002-2010. Percentages

2002-2010	Productivity growth	Employment elasticity
Agriculture	29	0.07
Industry	7	0.81
Manufacturing	15	0.57
Mining, electricity, gas & water	-22	2.16
Construction	23	0.66
Services	-22	1.76
Trade, hotels & restaurants	-31	2.20
Transport & communication	24	0.63
Financing, insurance, real estate, business	115	-0.82
Public and private services	-35	2.76
All sectors	13	0.64

Source: Ibid.

5.2. WAGES AND RETURNS TO LABOUR

A wage is essentially an economic compensation for labour. According to the ILO definition, the word “wage” refers to total gross remuneration received by employees during a specified period of time for time worked as well as time not worked, such as paid annual leave and paid sick leave. It excludes employers’ social security contributions.⁴⁶ Wages and returns to labour are a critical component of decent work⁴⁷ and should not be overlooked in the analysis.

In principle, increasing the productivity of labour should lead to a more or less commensurate increase in wages; however this does not always take place: Weak bargaining power and a large supply of unemployed or under-employed labour are among the factors that may keep down the wages, even in situations of high and/or increasing productivity. Wages statistics can therefore cast additional light on the degree to which economic growth has been job-rich. Wages should be analysed by sector and by sex in order to establish the gender pay gap; a time series will reveal patterns and dynamics over time.

Data sources: Enterprise Surveys; Global Wage Database (maintained by the ILO), legal information on country-specific minimum wages available at the ILO Database on Conditions of Work and Employment Laws. ILO, Geneva: <http://www.ilo.org/dyn/travail>. The ILO Department of Labour Statistics (Laborsta: <http://laborsta.ilo.org/>) collects annual wages by economic activity and on wages and labour cost in manufacturing, as well as occupational wages.

6. SETTING TARGETS FOR PRODUCTIVE EMPLOYMENT

6.1. BACKGROUND

Forecasting the need for productive employment generation with a view to setting employment targets and employment diagnostic analysis are highly complementary activities. The former tells what needs to be achieved in terms of productive employment generation, while the latter allows identifying and understanding the challenges that must be overcome in order to reach the target.

While the reduction of economic poverty is well-established as a key target in national development strategies and progress with regard to the reduction of poverty is regularly measured and monitored, productive employment and decent work has yet to achieve the same level of prominence and operationalization in the development strategies of most countries.

However, in recognition of the importance of productive employment and decent work in the eradication of poverty (Millennium Development Goal 1: to eradicate extreme poverty and hunger) a new MDG target was added in 2008 *to achieve full and productive employment and decent work for all, including women and young people*. This new MDG target includes four indicators among which the indicator related to the concept of **working poor** provides a direct, quantifiable link between the two objectives of poverty reduction and placing employment at the heart of development strategies.⁴⁸ This concept makes it possible to derive targets for productive employment

⁴⁶ “Global Wage Report 2010/11: Wage policies in times of crisis”, (Geneva: ILO, 2010)

⁴⁷ Decent work indicators: Maternity protection: maternity leave (including weeks of leave, replacement rate and coverage), paternity and parental leave; Working time: maximum hours of work and paid annual leave; Minimum wages: minimum wage setting procedure and level.

⁴⁸ See *Guide to the new Millennium Development Goals Employment Indicators* (Geneva: ILO, 2009). Also, a detailed conceptual and empirical analysis of all four of these indicators in the context of Sub-Saharan Africa is provided in Theo Sparreboom and Alana Albee (eds.), *Towards Decent Work in Sub-Saharan Africa: Monitoring MDG Employment Indicators* (Geneva: ILO, 2011).

from already established poverty reduction and unemployment targets. This serves the purpose of bridging economic analysis and policy with employment and labour market analysis and policy and provides a basis for policy coherence. In addition, deriving these targets helps to overcome the gap between establishing what needs to be achieved and how it can be achieved. Lastly, it puts employment in the focus of policy-making by means of quantification of employment targets.

6.2. THE METHODOLOGY

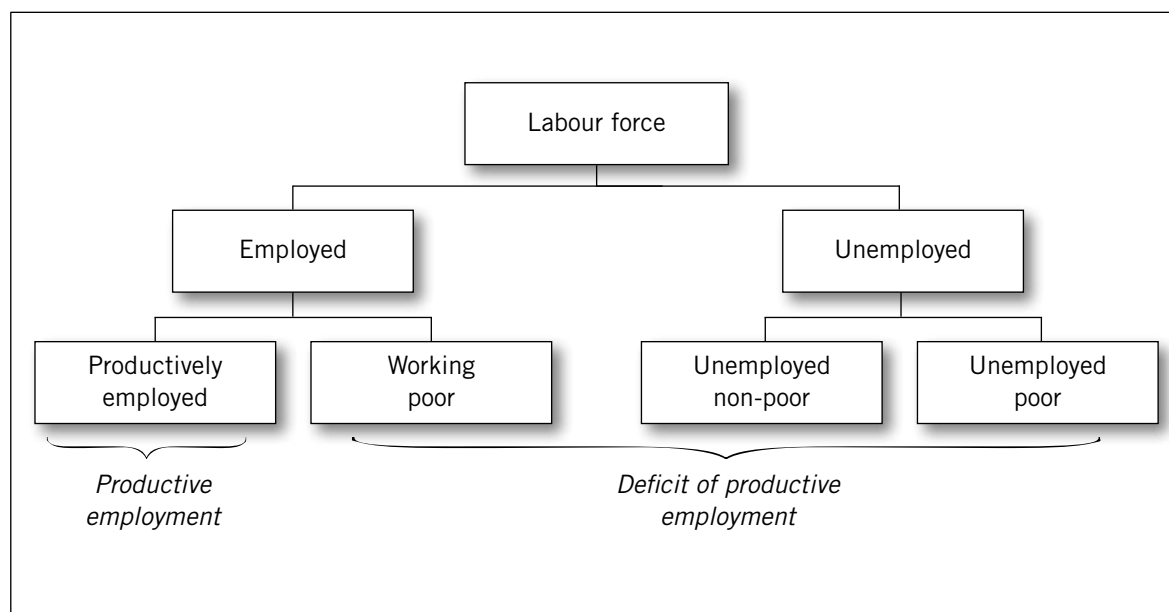
The ILO has developed a user-friendly methodology on how existing targets for reducing poverty and unemployment can be used to derive targets for productive employment generation as well as to monitor, assess and forecast advancement towards the goal of productive employment for all.⁴⁹ The main target groups of the guide are the ILO constituents, ILO staff as well as other practitioners who are interested in the topic.

6.2.1. CONCEPTS

The concept of *productive employment* stands for employed persons, whose income is sufficient to permit them and their dependants a level of consumption above the poverty line. By contrast, the *working poor*⁵⁰ are those who are working but do not earn enough to bring themselves and their families out of poverty. The *deficit of productive employment* consists of those who are in the labour force but do not have productive employment and encompasses the two categories – the working poor and the unemployed.

Figure G below summarizes the above concepts and depicts how poverty and labour force status combined define the working poor and the productively employed.

Figure G Decomposition of the labor force from a poverty perspective diagram



⁴⁹ See, *Understanding deficits of productive employment and setting targets: a brief methodological guide* (Geneva: ILO, forthcoming)

⁵⁰ Nomaan Majid, *The size of the working poor population in developing countries* (Geneva: ILO, 2001)

6.2.2. METHODOLOGICAL APPROACHES TO MEASURING WORKING POVERTY

■ The preferred method using micro data:

This method is based on information on the actual number of working poor that can be obtained from household income expenditure surveys or other similar surveys. It involves counting the total number of employed persons in the households identified as poor. This is the preferred method as it yields precise figures. The use of detailed survey data also makes it possible to explore labour force characteristics in a much more detailed way- such as by sex, age, employment status, sector of activity – and thus obtain a fairly detailed picture of the working poor.⁵¹

Combined with information on total employment and on unemployment, data on working poor at different points in time make it possible to chart changes in the deficit of productive employment over time as well as the generation of productive employment. Forecasts on the need for creation of productive employment and, conversely, forecasts on the need for reducing the deficit of productive employment (either in the form of unemployment or working poor) can then be derived based on poverty and/or unemployment targets in combination with projections of the working age population and the labour force.⁵²

■ The simplified method:

However, in situations where it is not possible to obtain the detailed survey-based data needed for precise calculations of working poverty, the following simplified method may be used to obtain an approximate number of working poor and to forecast the need for productive employment in order to meet targets to reduce poverty and unemployment.

This method is based on the following simplified formula:

$$\text{Working poor} = \text{total employed population aged 15+} \times \text{headcount poverty rate}^{53}$$

ASSUMPTIONS AND IMPLICATIONS OF THIS SIMPLIFIED METHOD

The formula above is based on the assumption that the actual average intra-household dependency ratio (i.e. the number of mouths each breadwinner has to feed) is the same in non-poor and in poor households.⁵⁴ Put differently, it assumes that:

- The poverty rate of working age people is equal to that of the population as a whole
- The labour force participation rate of the poor is the same for the poor as it is for the population as a whole
- The employment rate is the same for the poor as it is for the population as a whole

⁵¹ Data on working poor along with other labour market indicators can be found on the Key Indicators of the Labour Market database (KILM, 7th edition) www.ilo.org/kilm

⁵² Labour force projections can be found on: http://laborsta.ilo.org/applv8/data/EAPEP/eaep_e.html

⁵³ Stefan Berger, Claire Harasty, *World and Regional Employment Prospects: Halving the World's Working Poor by 2010* (Geneva: ILO, 2002)

⁵⁴ This means that the ratio between the non-working and working members of the household is on average the same in poor and non-poor households. This is unlikely to be the case in households where there are more dependants, meaning that higher incomes are needed for each breadwinner to maintain the household level of consumption above the poverty line. Hence, in most instances the real number of working poor will be lower than the estimates derived from the basic model outlined. Yet, the simplified model provides quite accurate estimates of working poverty in less developed countries. In middle income countries the situation can be different, reflecting the fact that there are other causes of poverty apart from low returns to labour.

Empirical analysis suggests that despite these assumptions the basic formula provides a quick way of arriving at an approximate estimate of the number of working poor in most low-income countries with poorly developed systems of social protection, while in middle-income countries it may be less reliable.⁵⁵

6.3. WHAT TARGETS?

The precise nature of employment targets will obviously vary from country to country. Overall targets for increasing productive employment, reducing the number of working poor and unemployment may be complemented with specific targets to increase youth employment, address gender inequality, reduce regional differences in employment, etc. A breakdown of employment targets by sex is to be recommended, although it should be noted that poverty is measured at the household and not at the individual level, which makes a disaggregation by sex difficult when the simplified method is used. Where appropriate, targets may also be related to specific, vulnerable groups.

While the reduction of the number of working poor tends to be the key issue in less developed countries, many developed countries also face serious deficits of productive employment in the form of high unemployment and, not least, very high youth unemployment. In either case it is an expression of a lack of productive employment, although the response by those affected differs depending on their economic circumstances, access to social protection and institutional factors.

Targets aimed at reducing the deficit of productive employment, both in its guise of working poverty and unemployment, are arguably in most instances more relevant than targets focusing exclusively on unemployment or on job creation irrespective of levels of productivity and income.

It is also possible to translate sector specific economic growth targets into sector specific employment forecasts / targets. Several sophisticated methods exist for linking economic growth by sectors to probable employment outcomes and for making simulations to explore the likely employment outcome of different combinations of rates and sector patterns of economic growth. Sector specific analysis can also provide information on the sector specific potential for employment generation.⁵⁶

6.4. LINKING TARGETS TO THE EMPLOYMENT DIAGNOSTIC ANALYSIS

The identified/proposed employment targets should be cast against the employment diagnostic analysis to yield a good understanding of the magnitude of the 'employment challenge' and the nature of the deficit of productive employment. These targets should be part of the employment diagnostic analysis, representing what needs to be achieved as a basis for assessing the constraints that need to be overcome.

- The number of working poor and unemployed, together with projections of the labour force, provide a picture of the deficit of productive employment and therefore the extent to which the focus should be on creating new jobs or on increasing productivity. It reflects the ability/inability of the economy to make full and productive use of the human resources at a level of productivity that allows a level of consumption above the poverty line

⁵⁵ For a more detailed discussion on the concepts, definitions and assumptions, see *Understanding deficits of productive employment and setting targets: A brief methodological guide* (Geneva: ILO, forthcoming).

⁵⁶ See for instance, Souleima El Achkar Hilal, *The Mongolia Employment Projection Model* (Geneva: ILO, 2011. Draft) and Jorge Alarcon, Christoph Ernst, Bazlul Khondker and PD Sharma, *Dynamic Social Accounting Matrix (DySAM): Concepts, Methodology and Simulation Outcomes, The case of Indonesia and Mozambique*, Employment Working Paper No 88 (Geneva: ILO, 2011).

- The number of working poor gives the number of jobs that need to be upgraded or replaced either because they yield too low an income (which is usually associated with low levels of productivity) and/or because they do not have enough work and would like to work more
- In situations where the unemployment rate is high, this may require a focus not only on productive employment creation, but also on social protection and measures to facilitate the access to productive work for the unemployed⁵⁷

*Refer to the section on **labor force characteristics** (see Chapter Two, Section 2)*

- The actual demographic structure of the population will have implications on the need for productive employment generation in the future. Changes in the working age population can affect the actual dependency ratio and thus the need for productive employment
- A high proportion of children and elderly and a low share of working-age members in the household indicate an absolute shortage of labour resources, in which case inter-generational social transfers (e.g. child allowances, pensions) and social protection more generally will inevitably have to be a main instrument for reducing poverty

*Refer to the section on the **demographic structure and its dynamics** (see Chapter Two, Section 1)*

- Changes in the activity rate will have implications on the need for productive employment. An increase in the activity rate will require more jobs, at the same time as it will reduce the income needed by each breadwinner to escape from poverty. A disaggregation by sex and age groups will show which groups are less active on the labour market. In situations of low female participation rates in the labour force, interventions aimed at making it possible for women in poor households to attain productive employment may be a particularly effective way of reducing poverty as well as the number of working poor

*Refer to the section on **labour force characteristics** (see Chapter Two, Section 2)*

- Employment targets can also be linked to challenges in the areas of employability and human resource development. For example, targeted measures that facilitate labour market entry and access to productive employment for women may be needed to increase the female labour force participation rate, complemented by social protection schemes. Preparing young women and men for the labour market by improving their employability may need to be a priority in the medium to long run

*Refer to the section on the **development of the human resource base** (see Chapter Two, Section 3)*

- The nature and magnitude of changes in terms of the rate and quality of growth – and not least the sector composition of growth – needed to achieve the targets can also be assessed through the employment diagnostic analysis

*Refer to the section on the **economic and employment growth** (see Chapter Two, Section 5)*

⁵⁷ Although poverty is directly linked to low returns to labour and often also to unemployment, there are also instances where poverty and unemployment are not strongly related. This is often the case in countries where a lack of social protection and alternative sources of income imply that the poor cannot afford to be unemployed.

A case example – Mongolia: A need to increase the quality of growth⁵⁸

Although Mongolia has enjoyed robust growth in the past decade, poverty has remained high. Despite an increase in GDP by 65 per cent in real terms between 2002 and 2008, the headcount poverty rate remained virtually unchanged at 35 per cent. Although lack of access to the relevant micro data precludes a detailed analysis, a fairly comprehensive picture on the nature of employment may nevertheless be achieved by combining information from different sources and surveys.⁵⁹

By 2008 only 59 per cent of the labour force was productively employed. Hence, the deficit of productive employment amounted to some 41 per cent of the labour force, equivalent to about 415 thousand jobs (Table 10 and Table 11). About one third, that is 310 thousand, of those employed were working poor. In addition there were over 100 thousand unemployed, among which more than half were poor (some 54 per cent of the unemployed were also poor). The poverty incidence among households with an employed head of household was only slightly below the average for all households (34.3 per cent versus 35.2 per cent), suggesting that low income from employment is the main cause of poverty.

Table 10 Estimates of productive employment and of the nature of the deficit of productive employment in Mongolia, 2008. In thousands

	Poor	Non-poor	Total
Employed	310.2	594.2	904.4
Unemployed	57.1	47.8	104.9
Total	367.3	642.0	1009.3

Sources: LFS in Mongolia, 2008; Mongolia Household Socio-economic Survey 2007-2008.

Remarks: Deficit of productive employment shaded

Table 11 Estimates of productive employment and of the nature of the deficit of productive employment in Mongolia, 2008. Percentages

	Poor	Non-poor	Total
Employed	30.7	58.9	89.6
Unemployed	5.7	4.7	10.4
Total labour force	36.4	63.6	100.0

Source: Ibid.

Combining data from the labour force surveys and the socio-economic surveys with Government forecasts of the growth of the working age population and the development of the activity rate makes it possible to make a rough calculation of the need for productive employment generation in order to achieve poverty and unemployment targets (Table 12). The estimates were based on an official target to reduce headcount poverty to no more than 18 per cent by 2015 and an assumed target to reduce unemployment to no more than 5 per cent. Two alternative estimates were made: One (A) assuming unchanged labour

⁵⁸ This section is based on: *Understanding deficits of productive employment and setting targets: A methodological guide* (Geneva: ILO, Employment Sector 2012)

⁵⁹ Three main sources were used for this analysis: Aggregate published statistics from labour force surveys, aggregate published statistics from the house socio-economic surveys of 2002/03 and 2007/08 and other statistics published by the National Statistical Office.

force participation rate at 61 per cent and another (B) using a Government estimate of the labour force participation rate in 2015 (67.5 per cent).

Assuming constant LFP rates, it can be seen that productive employment would need to increase by some 63 thousand per year under scenario A and by almost 79 thousand under scenario B between 2008 and 2015. Most of this – 51 and 70 thousand jobs respectively under the two scenarios – would have to be in the form of new, productive jobs for the fairly large number of net entrants into the labour force each year and to reduce unemployment between 4'500 and 5'500, depending on the scenario. In addition, the number of working poor would have to be reduced by between 8 and 12 thousand per year, either through an upgrading of the productivity and incomes of the present jobs or by shifting working poor to other jobs and occupations where the prospects for a higher income are better.

The magnitude of the challenge of productive employment generation is perhaps best gauged when cast against the past performance of the labour market and the economy in Mongolia. High economic growth is not sufficient to generate productive employment and reduce poverty, but the quality of growth would need to be improved. It can be estimated that despite an average annual GDP growth of 8.2 per cent between 2002 and 2008, productive employment increased by no more than 17 thousand jobs per year, i.e. by no more than a fourth of what would be required each year between 2008 and 2015. The failure of growth to generate sufficient productive employment would seem to have had several main causes. First, there was a very low overall employment elasticity of growth; which reached no more than 0.26 between 2003 and 2007. In other words, despite high growth total employment did not increase much. There was a severe mismatch between the sectors with high rates of growth of production on the one hand and employment growth on the other. Economic growth was narrowly based and the sectors, notably mining, that registered high economic growth created little new employment. Most of the increase in the labour force was absorbed in services, primarily trade, which did not register high economic growth, with falling productivity as a result.

Table 12 Change in labour force in Mongolia, 2008-2015

	2008	2015 A	2015 B	Annual change A	Annual Change B
Population aged 15+	1,651.7	2,176.0	2,176.0	74.9	74.9
LFP rate	0.61	0.61	0.675		
Labour force	1,009.3	1,327.4	1,468.8	45.4	65.6
Employed	904.4	1,261.0	1,395.4	50.9	70.1
Unemployed	104.9	66.4	73.4	-5.5	-4.5
Unemployment rate	10.4	5.0	5.0		
Poverty rate	34.3	18.0	18.0		
Working poor	310.2	227.0	251.2	-11.9	-8.4
Productive employment	594.2	1,034.0	1,144.2	62.8	78.6

Sources: Figures for 2008 based on Mongolia Labour Force Survey 2008 and Mongolia Household Socio-Economic Survey 2007-2008 (poverty rate). Estimates for population aged 15+ and LFP rate in alternative B according to Government estimates (see Souleima El Achkar Hilal, The Mongolia Employment Projection Model, ILO Geneva 2011)

Remarks: Alternative A assumes unchanged LFP rate, Alternative B is based on official estimate of LFP rate in 2015. Change in working age population according to official estimates. The poverty rate for 2015 is based on official MDG target. Unemployment rate 2015 based on an assumed target of 5 per cent.

Table 13. Poverty incidence by characteristics of head of household and location in Mongolia, 2007-2008. Percentages

	Urban areas	Rural areas	All areas
In the labour force:	25.6	46.1	36.4
– Employed	24.1	45.3	34.4
– Unemployed	48.1	65.6	54.4
Employed in:			
– Agriculture	40.0	50.0	49.1
– Industry	29.8	44.3	32.8
– Services	18.7	28.6	23.1
Employed and living in:			
– Rural areas			45.3
– Urban areas			24.1

Source: Mongolia Household Socio-Economic Survey 2007-2008

Economic growth was not only sector-wise, but also geographically narrow as it was mainly confined to the capital city and a few mining centres. The lack of sectorally and regionally broad-based growth severely reduced the employment generating and poverty reducing impact of growth. It also resulted in an increase in inequality and a rapidly increasing economic and welfare gap between the capital city on the one hand and much of the country on the other hand.

The incidence of working poor varies greatly by economic sectors and by location. At 45 per cent, the poverty incidence among rural households with an employed head of household was almost twice as high as among those in urban areas. The very large rural – urban differences in the incidence of poverty was largely, but not exclusively, due to the predominance of agriculture in rural areas. Almost half of the households headed by herders or others working in agriculture were poor in 2007-08 -which reflects an increase from 41 per cent in 2002/03- as against less than a third of those working in industry and about a fifth of those in the services sectors (Table 13). However, even within the broad sectors of agriculture, industry and services, the incidence of working poor was much higher in rural than in urban areas.

The level of education exerted a strong incidence on the exposure to poverty. More than half of the households where the head of household had at most primary education were poor, as against 35 per cent where the head of household had completed secondary education, 25 per cent of the households where the head of household had vocational training and less than 10 per cent of the households where the head of household had some tertiary education.

The picture that emerges above provides compelling reasons for the introduction of quantitative employment targets at the heart of development planning in Mongolia. The generation of productive employment needs to be geared up considerably if the goal to bring down headcount poverty to 18 per cent by 2015 is to be reached and if Mongolia is to make significant progress towards the goal of productive employment and decent work for all. The problem is not lack of growth, but the quality of growth. Forceful policies are needed to break the past pattern of growth and to make economic development more balanced, both sectorally and regionally, as well as more inclusive and job-rich. Employment targets are needed to guide such policies and to monitor their effectiveness. A main employment target could either be expressed in terms of increases in the share of the labour force that is

productively employed or in terms of reduction of the share/number of working poor and unemployed. In view of the rapid growth of regional and rural-urban inequality in recent years, there is a strong case for complementing the overall employment target with regional targets for productive employment creation.

CHAPTER THREE:

The Second Phase of the analysis – The joint employment diagnostic analysis

THE PARTICIPATORY WORKSHOP APPROACH

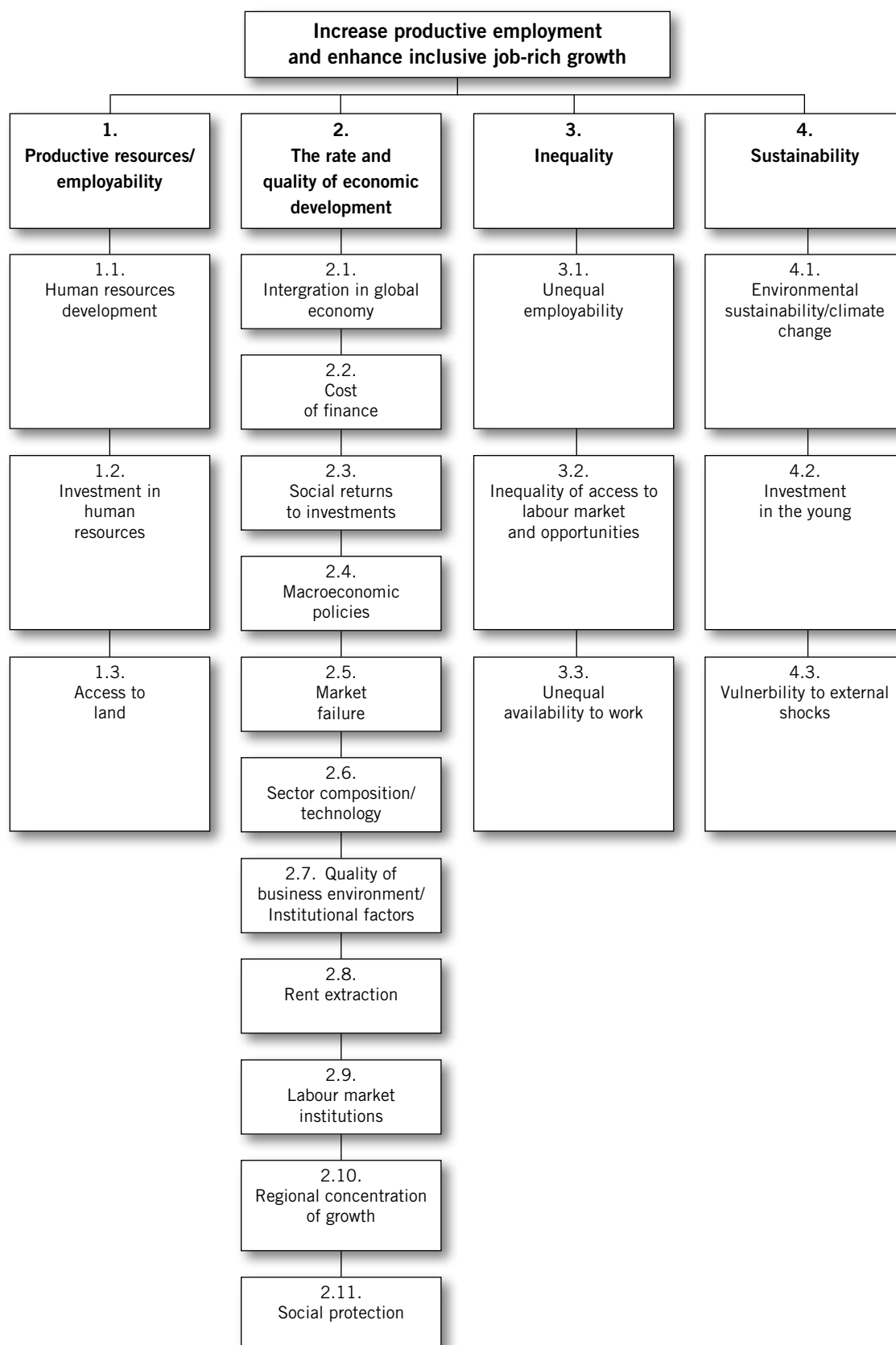
In the second phase of the diagnostic analysis the focus is shifted from finding out **what** has happened to **why**. This implies a shift in focus to explore causal chains, and to separate the important from the less important factors with a view to identifying the key constraints and challenges to increasing productive employment as a basis for prioritisation, sequencing and focus in policy development. The analysis is structured around an ‘employment diagnostic reference tree’ (see below). This diagnostic process may be seen as a funnel. Starting from a broad array of often inter-related factors a structured process of elimination and disentanglement of causal links results in a stepwise narrowing down of the focus and in the identification of core constraints, challenges and opportunities for inclusive job-rich growth.

As the study moves from the **First Phase** to the **Second Phase**, the mode of implementation changes to a guided implementation by the ILO constituents themselves of a structured, stepwise employment diagnostic analysis. Thus, the main actors in the analysis in the second phase are ILO constituents and national stakeholders who, within the framework of an analytical workshop, arrive at informed conclusions on the nature and causes of the constraints, challenges and opportunities for inclusive job-rich growth. Ultimately, the purpose is not just to produce another study, but to undertake an exercise of joint knowledge-building and to arrive at a common understanding of key employment challenges. The participatory approach to the diagnostic analysis also serves the purpose of social dialogue and of training in employment analysis.

The joint employment diagnostic analysis, in the form of a participatory workshop, should be informed by the findings and conclusions of the analysis undertaken in the First Phase. Existing development and/or employment strategies provide another important background to the analysis. The knowledge gained from the analysis in the First Phase will facilitate an interpretation of the indicators attached to the various ‘branches’ in the reference tree and speed up the process of elimination of irrelevant factors, the disentangling of causal chains and the identification of core causal factors and constraints without compromising on the robustness and relevance of the conclusions drawn.

Indeed, while the ‘employment diagnostic reference tree’ may seem fairly complex, it should be remembered that a main feature of the diagnostics is that of the early and step-wise exclusion of non-relevant aspects. As depicted below, the sequence of the analysis is to be followed level by level, although some flexibility is needed. The attention and importance accorded to each branch and sub-branch of the employment diagnostic reference tree will depend on their identified significance as constraint or challenge to enhancing inclusive and job-rich growth, which inevitably will vary from one situation to another. Hence, all branches need not be explored in equal depth. For instance, in a situation of high levels of human resources, the ‘Human resources development’ branch and sub-branches may not need in-depth attention. Conversely if, for instance, inequality is

Figure H The Employment diagnostic reference tree



identified as a key issue, then this 'branch' will require special attention. It is important to note that causal relationships do not necessarily follow branches, but there may also be important interplay and causal links across the main branches. An unsuitable sector composition of growth may not only exert a negative impact on the quality of growth, but may also impair the inclusiveness and sustainability of growth. A high degree of inequality with regard to opportunities is likely to have a negative impact on the rate of growth. In some instances there may be a long term vicious circle between low levels of human resources development and poor opportunities in the form of slow or poor quality growth and of inequality. The list of possible interrelationships across branches is long. Hence, the exploration of vertical causal chains along the branches of the employment diagnostic reference tree will need to be combined with analysis of probable horizontal inter-relationships across branches.

The role of the facilitators is fundamental during the workshop as they are the ones who assist the participants in structuring the analysis and in placing their detailed empirical knowledge in a coherent analytical framework. The key to obtaining high relevance and quality in the analysis consists of combining the in-depth country-specific knowledge of the participants with the general theoretical knowledge and outsider's perspective of the ILO specialists and facilitators within a well-structured analytical and methodological framework.

The following sections are organized around the above employment diagnostic reference tree which serves as a basis for presentations and discussions during the participatory workshop. Participants refer to the employment diagnostic reference tree which sets out a structure for the sessions and guides the ensuing discussions during group work. Each branch and sub-branch of the tree is detailed below. The associated indicators provide some guidance in the analysis of each theme; their relative importance will depend on the participants' points of view.

Box 4 The workshop approach

Four consecutive sessions address each of the four main branches of the employment diagnostic tree in turn. Each session will typically start with: (i) a general presentation on each of the 'sub-branches', their essence and why and how they matter; and (ii) a presentation of any findings or conclusions related to the specific sub-branch from the analysis undertaken in the First Phase. This is followed by group discussions where the facilitators guide the discussions based on a few pre-defined questions. The objective of group discussions is to examine relevant factors and issues pertaining to the branch, eliminate the branches deemed to be of less importance and narrow down the analysis to one or several branches identified as presenting particularly important challenges to increasing productive employment. Following the group discussions, the conclusions of each group are presented and a synthesis of the findings and conclusions of all the groups is made. This synthesis may include a further narrowing down and ranking of the issues recognised as *presenting the most crucial challenges to increasing productive employment*.

1. PRODUCTIVE RESOURCES/EMPLOYABILITY

Comment: Human resources and the labour force are the creators of economic growth and not just the beneficiaries of growth. Investments in a qualitative development of human resources together with improved opportunities to enhance the economic returns of these resources make up the foundation of job-rich growth. The qualitative attributes that determine employability – education, skills, health, cognitive abilities etc. – set the parameters for an individuals' ability to

Box 5 The workshop approach applied in NTT, Indonesia: A summary of Branch 1

An introductory presentation of the “productive resources/employability” summarised the findings of the initial analysis of the first branch of the diagnostic reference tree.

The findings concluded that NTT is trailing behind the rest of Indonesia in several important respects. Although primary education is well developed and has reached almost full coverage, access to secondary education as well as to vocational training is limited and enrollment rates in secondary education are well below the average for Indonesia. It was also noted that there are large gender-based disparities as well as special (rural – urban) disparities in access to post-primary education and vocational training. Another major cause of concern were the very high rates of malnutrition among children. This is particularly worrisome as severe malnutrition in the early years of life causes irreparable damage to their ability and capacity to learn and benefit from education. It was noted that public spending on both education and on health has increased significantly in recent years, but also that much remains to be done before NTT catches up with the rest of Indonesia. A subsequent presentation focused on the importance of skills to economic development in general and to intensification of agriculture and the development of value added chains linked to agriculture in particular. Examples from other parts of Indonesia were used to illustrate how a skills needs assessment can be undertaken and used.

access productive employment as well as for the scope for technological advancement, increased labour productivity and returns to labour at the aggregate level.

Employability refers to the endowments of the labour force with qualitative attributes that enhance their attractiveness on the labour market, their capabilities as independent economic agents and their productivity.

This main ‘branch’ covers several aspects, including both quantitative and qualitative analyses of the productive resources and employability:

- The level and characteristics of the human resource base at present from an employability perspective disaggregated by sex.
- The level and characteristics, both quantitative and qualitative, of present investments in human resources, disaggregated by sex.
- The institutional capacity to invest in human resource development.

These assessments need to be made against the current as well as expected future needs (5-10 year horizon) and requirements of the economy. Much of the information needed for the analysis will already be available from the First Phase.

■ The sections below provide some indicators to guide the analysis of the branch.

1.1. HUMAN RESOURCES DEVELOPMENT

Comment: This includes all the qualitative attributes that determine an individual’s ability to access productive employment. At the core are aspects such as education, skills and cognitive abilities, but it also includes health aspects. The information needs to be disaggregated by sex. The choice of indicators will depend on their context specific relevance. For instance, indicators such as literacy, basic education and maternal mortality may be highly relevant in least developed countries, while other indicators are more relevant in middle-income countries.

Main indicators:

■ Education:

- Educational attainment of adult population (25+) and/or labour force
- Educational attainment of youth (15-19 and 20-25)
- Enrolment in education by level and possibly type
- % transition to secondary & to tertiary education
- Graduation / success rate in education by level / type of education
- (II)Literacy rates
- Quality assessments, PISA scores
- Student assessment rates; PISA scores

■ Health:

- Infant/child and maternal mortality
- HIV/AIDS prevalence
- Stunting and wasting among children
- Other relevant health related indicators

Main sources:

- www.uis.unesco.org (Unesco, education statistics)
- <http://data.worldbank.org/> (World Development Indicators)
- <http://apps.who.int/ghodata/> (WHO health statistics)
- www.pisa.oecd.org PISA scores

1.2. INVESTMENTS IN HUMAN RESOURCES

Comment: This covers quantitative and qualitative aspects of the current investments in human resources – education, vocational training, health care etc. – as well as the institutional constraints and capacity to undertake such investments. Where appropriate the information should be disaggregated by sex.

Main indicators:

- Public expenditure on education and on health care / per capita and as share of GDP
- Teacher per thousand aged 5-15
- Doctors/ qualified nurses/1000 inhabitants
- Class sizes at different levels

Main sources:

- data.worldbank.org (World Development Indicators)
- www.uis.unesco.org (Unesco, education statistics)
- national statistics

1.3. ACCESS TO LAND

Comment: Access to land, land distribution and clear and secure property or user rights over land are crucial aspects in economies where a large part of the labour force work in and derive their living from agriculture. In agrarian economies the distribution of land is also a main determinant

of inequality. Access to other production factors, such as capital, is dealt with in section 2 'The rate and quality of economic development (below).

Main indicators:

- Distribution and size of (arable) land holding among rural households
- Access to common resources
- The share of rural / agricultural households possessing formal land certificates / deeds

Box 6 Example of questions for group work in NTT: 'Productive resources'

In NTT, the group discussions were organised around a set of questions that helped establish the underlying factors affecting the quality of resources and their productive use or under-utilisation.

Three main questions were put forward to guide the discussions:

1. What are the 3-4 main problems/issues that need to be addressed to increase the level and quality of education of the present and future workforce in NTT?
2. Is spending on education/health sufficient in NTT compared to Indonesia as a whole?
If not, how to increase spending and what areas should be prioritised? (In education, health or other sectors)
3. What would be the most important measure to reduce malnutrition and to achieve food security for all?

Box 7 Some findings from group work presentations in NTT, Indonesia: 'Productive resources'

- Inequality in access to high quality education and healthcare was identified as a major problem. Rural areas in particular suffer from poor physical infrastructure (insufficient and low quality of school facilities), a shortage of teachers and a low level of qualification among teachers (many teachers lack formal certification and the best teachers work in the towns). There are few secondary schools outside the main urban centres and as a result rural children have difficulty accessing secondary education due to long distances.
- Gender inequality in access to post-primary education was also perceived to be a major problem. Cultural factors and conservative attitudes towards the role of women were seen to be the main factors restricting the access of girls and young women to education.
- The situation in the health sector has many similarities to that in the education sector. Qualified doctors and nurses are almost exclusively found in the main towns, as working conditions in rural areas are unattractive. In rural communities there is a general lack of information on health related issues and there is no system for disseminating such information in rural areas. In many areas access to medicine is also a problem and stocks of medicine are often depleted. The health care infrastructure in rural areas needs to be improved and strong incentives should be created to attract qualified health staff to work in rural areas. There is also a need to conduct regular health campaigns in rural areas.
- Malnutrition was generally recognised to be a severe problem not only in its own right, but also as it impairs mental and physical development and leads to poor health. Malnutrition is a widespread seasonal phenomenon in NTT due to the long dry season. Improved crop mixes and crop diversification can improve the situation, but elimination of malnutrition will require both intensification and a diversification of farming. It will also require a system for providing additional food for the poor, for instance in the form of a school lunch/milk programme, and a reactivation of the *posyandu* (community health services at the village level).

Source: Extract from the NTT Workshop Report

Sources: Some of this information can be obtained from household socio-economic surveys, living standard measurement surveys, agricultural censuses and surveys.

2. THE RATE AND QUALITY OF ECONOMIC DEVELOPMENT

Comment: The opportunities for and returns to productive employment depend largely on the ability of the economy to generate productive employment opportunities. This, in its turn, depends both on the rate and the quality of economic growth. The rate of economic growth sets the absolute limits within which growth in employment and growth in labour productivity can take place. Often, there is a need to increase both the number of jobs and the economic returns to employment, which in its turn requires an increase in labour productivity. To meet both of these needs, sustained high rates of economic growth are often needed. However, the efficiency by which economic growth translates into productive employment can vary greatly. Economic growth can be more or less job-rich. Hence, the quality of growth needs to be examined as well. A number of broad types of factors, detailed below, need to be explored to identify constraints and factors impeding the rate and quality of economic development. In the analysis it is useful to distinguish at an early stage between (i) factors that are externally determined and may be considered as 'given', (ii) factors found to be of lesser importance and (iii) factors found to be of crucial importance for increasing productive employment creation and which may be addressed by policies and other interventions.

Main indicators:

- GDP growth
- Per capita GDP growth
- Labour force participation rates
- Rate of growth of productive employment
- Changes over time of the deficit of productive employment, broken down on unemployment and working poor and disaggregated by sex
- Growth rate of labour productivity (GDP/person employed)
- The share of labour income in GDP
- Employment rates (employment to population ratio)
- Proportion of own-account and contributing family workers in total employment (vulnerable employment rate)
- Labour migration abroad

The data should be sex-disaggregated where possible.

Sources:

- Labour force surveys, censuses, national accounts
- www.ilo.org/kilm and laborsta.ilo.org/ for labour market information
- unstats.un.org/unsd/snaama/ for national accounts

Box 8 The workshop approach applied in NTT, Indonesia: ‘The rate and quality of economic development’ session summary

The “rate and quality of economic development” session began with an overview of the main findings of the initial analysis of the branch.

A brief review of the economic development in NTT over the past decades shows that the rate of economic growth has been lower than in Indonesia as a whole. Growth has stagnated at a level of 3-4 per cent per year and as a result NTT has increasingly fallen behind the rest of Indonesia in terms of economic development, productive employment and incomes. The low rate of growth is linked to the structure of the economy. The economy is still dominated by subsistence-oriented agriculture and a growing services sector, in which public sector services play a main role, while the role of manufacturing in the economy remains miniscule. Putting the economy on a path of sustainable and rapid growth needed to ensure productive employment for all and an elimination of poverty will require:

- Intensification and increased market-orientation of agriculture
- Diversification of the economy, with priority given to developing linkages to and from agriculture, strong domestic value added-chains and modern manufacturing
- Intensification and development of export niches
- Achieving growth with equity: Economic development must be inclusive and pro-poor

The rate and quality of economic growth is influenced by a wide range of factors. The employment diagnostic reference tree was used to structure the analysis.

Broadly speaking the factors influencing growth could be divided into three categories:

- Factors beyond the control of the provincial authorities in NTT. These included macro-economic policies, integration in the global economy, terms of trade and cyclical factors
- Factors presenting crucial challenges for achieving high rates of growth and rapid increases of productive employment in NTT
- Factors of less importance to economic development and productive employment creation in NTT at present

- The sections below provide some indicators to guide the analysis of the branch.

2.1. INTEGRATION IN GLOBAL ECONOMY

Comment: This branch includes both the degree and nature of integration in global economic structures and the terms of this integration. This exercises an influence not only over the rate of growth, but also over the structure, sustainability and quality of growth. It also exerts a strong influence over the policy space available to the government.

2.1.1 DEGREE OF INTEGRATION IN GLOBAL ECONOMIC STRUCTURE

Main indicators:

- Trade as % of GDP (may be broken down by goods and services)
- Inflows of FDI (average over several years). Same as for 2.2.1 ‘Access to international finance below
- Cross-border flows of migrants (net or gross)

- Stock of migrant workers in the country
- Stock of migrant workers working abroad
- Composition of exports and imports (raw material, intermediate goods, final goods)
- Direction of exports (regional/non-regional)
- Member of WTO, membership in regional trade blocs

Sources:

- data.worldbank.org (World Development Indicators)
- comtrade.un.org (Trade data base)
- www.wto.org (country trade reviews)
- Trade policy analysis, STED analysis (ILO)

2.1.2. TERMS OF INTEGRATION IN GLOBAL ECONOMIC STRUCTURES

■ *Locational factors*

- Landlocked countries or small island-states at considerable distance from main global centres.
- Per capita GDP of neighbouring countries
- One or several neighbouring countries suffering from conflict or other severe governance problems.

■ *External terms of trade.*

- Development of external terms of trade (Net barter terms of trade)

■ *External barriers to trade and the free flow of production factors*

Comment: External barriers to trade and to competition and economic exchange with the outside world on equal terms.

Indicator: Changes in external terms of trade

Sources:

- data.worldbank.org (World Development Indicators)
- comtrade.un.org (Trade data base)
- www.wto.org (country trade reviews)
- Trade policy analysis; STED analyses (ILO)

2.2. COST OF FINANCE

Comment: The cost of finance is one of the determining factors of the level of investments in an economy, the other being the expected returns to investments. Experience shows that in order to achieve high rates of growth over a long period of time you need high rates of savings and of investments as well as a banking system that is efficient in mobilising savings and in providing credits for investments. The cost of capital can depend on a range of factors, such as the level of domestic savings, access to international capital, monetary policies and the functioning of the capital markets. Different types of economic actors often do not have equal access to external capital. In situations of poorly functioning financial markets or inefficient institutions and

mechanisms for contract enforcement and establishment of property rights, small firms tend to suffer disproportionately from poor access to external finance.

Sources: Macroeconomic policy analyses (e.g. IMF Article IV reviews www.imf.org, growth diagnostic studies www.worldbank.org, financial sector analysis, sustainable enterprise environment analysis (ILO).

2.2.1. ACCESS TO INTERNATIONAL FINANCE

Main indicators:

- International credit ratings
- Terms of borrowing from abroad
- Inflow of FDI as percentage of GDP and of total gross capital formation
- Access to ODA

Source: data.worldbank.org (World Development Indicators)

2.2.2. AVAILABILITY/ACCESS TO LOCAL FINANCE

Comment: Low rates of total and private domestic savings restricting the availability of domestic capital for investments. High rates of domestic public borrowing can crowd out private borrowing.

Main Indicators:

- Domestic total, private and public savings rates
- Public domestic borrowing / debt
- Domestic credit as % of GDP
- Real lending rate to prime customers

Source:

- data.worldbank.org (World Development Indicators)
- www.imf.org (IMF Article IV reviews)

2.2.3. FINANCIAL INTERMEDIATION

Comment: The functioning of capital markets is important for overall access to capital as well as for equality in access to finance. A poor functioning of capital markets may have a wide range of causes, but are often rooted in ineffective systems for contract enforcement and property rights and inadequate channels and sources of information to assess risks. The spread between lending and savings rates and the spread of lending rates between different types of borrowers are good indicators of the functioning of the financial markets, but may need to be complemented by indicators of access to formal capital markets, access to medium- and long term credits and access to micro-finance.

Main indicators:

- Spread between lending and saving rates
- Spread in lending rates
- Difficulty of accessing credits (e.g. from Doing Business reports)
- Access to micro-finance facilities

Source:

- World Development Indicators
- www.imf.org (IMF Article IV reviews)
- www.mixmarket.org (on micro finance)
- www.weforum.org/issues/global-competitiveness (The Global Competitiveness Report, World Economic Forum)

2.3. SOCIAL RETURNS TO INVESTMENTS

Comment: The social returns to investments refer to the ability of the economy as a whole to make use of and benefit from private investments, and of the innovations, technology and knowledge that are embedded in these investments. This should be interpreted in a broad sense as the returns to society at large of the accumulation of physical capital, human resources, technology, etc. To give an example: Assume that a multinational company establishes a factory in the country. If there is plenty of well-educated and skilled labour, then the factory will be able to employ local labour rather than bringing in skilled labour and specialists from abroad. If a well-developed and diverse ‘fauna’ of domestic enterprises already exists, then the scope for sub-contracting and procuring inputs locally will be greater, which in its turn will create additional jobs. With a large pool of highly trained people it will also be easier to make a wider use of the technology and know-how that the firm brings with it; there will be a larger scope for technological spill-over. With good physical infrastructure it will also be possible for firms and labour elsewhere in the country to benefit from the new firm in different ways. Hence, the social returns to investment depend on a range of factors such as:

GEOGRAPHICAL FACTORS

Comment: Space imposes a high friction on economic transactions. This is also closely linked to bad infrastructure and poorly functioning markets.

Main indicator: Costs of transport

LEVEL OF HUMAN RESOURCES DEVELOPMENT

Comment: Similar to 1. ‘Productive resources/employability’ (above), but here as an impediment to growth.

Main indicators: Result and conclusions from analysis of productive resources, above.

INFRASTRUCTURE

Comment: Poor physical infrastructure and ITC, but also more broadly poor environment for technological diffusion.

Main indicators:

- Km all-weather road per square kilometre
- Extent of electrification
- Irrigation
- Access to telephone, internet
- International internet bandwidth bits per second/capita

Sources:

- www.itu.int/ITU-D/ict/publications (ICT Development Index)
- data.worldbank.org (World Development Indicators)
- www.itu.int/ITU-D/ict/index.html
- national statistics
- Information from local informants, such as government agencies responsible for development planning, employers' organizations, trade unions

2.4. MACROECONOMIC POLICIES

2.4.1. MACROECONOMIC (IN)STABILITY

Comment: Macroeconomic instability distorts incentives, and reduces the predictability of the overall economic environment needed for medium and long term investments. Even fairly brief economic shocks can have a long term negative impact on employment. Hence, ensuring a high degree of predictability in the economic environment and minimising exposure and vulnerability to both externally and internally induced economic shocks is crucial. Macroeconomic instability and uncertainty, erratic reforms and other macro level factors affecting predictability are included here.

Indicators:

- Level and fluctuation of inflation
- Fluctuation of interest rates and exchange rate
- Sustainability of public debt
- Frequency of abrupt policy changes
- Exchange rate regime
- Capital market controls
- Degree of integration in global financial systems

Sources:

- www.imf.org (IMF Article IV country reports)
- data.worldbank.org (World Development Indicators)
- www.weforum.org/issues/global-competitiveness (The Global Competitiveness Report, World Economic Forum)

2.4.2. MACROECONOMIC POLICIES IMPAIRING / AIDING GROWTH

Comment: Macro-economic stability is necessary, but seldom sufficient to achieve sustainable and inclusive job-rich growth. Macro-economic policies may be conducive to stability, at least in the short run, yet may be detrimental to competitiveness, sustained investments in human and physical capital, institutional capacity building or various types of counter-cyclical policies, which are the overall goals of job-rich growth. Hence, macro-economic policies need to be assessed from the perspective of enabling / constraining sustainable job-rich growth

Indicators:

- Share of tradables in GDP and in export
- Evolution of real exchange rate

Source: This will require typically independent macroeconomic analysis. For a conceptual paper on the topic see, Sara Anwar and Iyanatul Islam, *Should Developing Countries Target Low, Single Digit Inflation to Promote Growth and Employment?*, Employment Working Paper 87 (Geneva: ILO, 2011).

2.5. MARKET FAILURES

Comment: This heading covers the whole gamut of market malfunction: e.g. geographical market fragmentation, poorly functioning factor markets and markets for inputs and outputs, lack of learning and coordination externalities⁶⁰ and positive agglomeration effects. The main aspects to look at are:

- The ease of access to markets for inputs, credit, labour and services and for the sale of produce: The cost of market access in terms of time and money.
- The reliability and predictability of these markets: Will the buyers / sellers be there when I need them? Can I predict the price I will get / will have to pay?
- The efficiency of markets: Are there many competing buyers and sellers? Is it easy to get price information and to compare prices?
- Geographical market integration; The strength of rural – urban economic linkages, small towns – large city economic linkages and economic links between regions. How well integrated is the economy of the country/province geographically?

Indicators:

For example, regional variations in market prices, seasonal fluctuations in food prices. The presence and intensity of competition. Density of firms. Value added chain analyses. 'From farm to consumer price analyses'.

Source:

- www.weforum.org/issues/global-competitiveness (*The Global Competitiveness Report*, World Economic Forum), various country level studies and sector and regional analyses;
- Information from local informants, e.g. employers' and farmers' organisations, chambers of commerce, trade unions, government agencies

2.6. SECTOR COMPOSITION OF GROWTH AND TECHNOLOGY

Comment: At the heart of any sustainable economic development is a continuous process of productive transformation characterised by structural change and changes within the economic sectors of product mix and the modes of production. This process should also involve the adoption of more sophisticated technologies and knowledge, and diversification into non-traditional and higher value added goods and services. It is important that this productive transformation takes a form that maximises the generation of productive employment in a sustainable manner, makes the best possible use of the country's human resources while at the same time contributing to the development of these resources.

⁶⁰ Learning externalities refer inter alia to the ease by which learning can be transmitted from innovating 'advanced' firms to others (*knowledge and technological spillover*) as well as high threshold costs and economies of scale in searching for information needed to enter and embark on new markets, products, etc. Coordination externalities to the reduction of transaction costs that follows from a high density and diversity of local enterprises and increased ease of establishing vertical and horizontal linkages between enterprises.

Growth may be concentrated in sectors which are inefficient in terms of generation of productive employment, i.e. with low labour intensity and/or low returns to labour, or in sectors to which the working poor and unemployed have limited access. Growth may also be concentrated in sectors with small multiplier effects. A concentration of growth in sectors with low shares of tradables would flag problems of competitiveness and sustainability.

Indicators: The analysis of this aspect of economic development should primarily be based on the analysis of the dynamics of the development of the economy and employment undertaken during the First Phase of the analysis. More sophisticated tools such as value-added chain analysis, product space analysis and construction of Social Accounting Matrices (SAMs), DySams and CGEs may also be useful in this context. For public investments, tools developed for analysing the employment impact of employment intensive investment programmes may be used.⁶¹

2.7. QUALITY OF BUSINESS ENVIRONMENT / INSTITUTIONAL FACTORS

Comment: The institutional, political and social environment, often referred to as the business environment or investment climate, exerts a strong influence on both the rate, quality, sustainability and inclusiveness of growth. This broad group of factors covers a wide range of issues and aspects, which may broadly be categorised into four main areas: peace and political stability, respect for human rights, the legal and regulatory environment and good governance. It is often useful to undertake this analysis against the backdrop of four criteria:

- predictability and the rule of law
- accountability
- transparency
- equal treatment and a level playing field

A large number of methods have been developed for measuring the quality of the business environment in a manner allowing cross-country comparability. Some of the most well-established are the *Global Competitiveness Reports* by the World Economic Forum, the *Doing Business Reports and Investment Climate Reports* by IFC and the World Bank.⁶² The Country Political and Institutional Assessments (CPIA) undertaken by the World Bank for many developing countries also provide information on a wide range of factors in the form of scores. ILO has developed a methodology for assessing the environment of sustainable enterprises (ESEE), based on seventeen main indicators.⁶³ This methodology takes a broader, tripartite approach and explores aspects that pertain not only to government, but also to employers and trade unions. Its emphasis is on economically and socially responsible stewardship and it takes a more comprehensive and long term approach than most other types of surveys in this field. For the purpose of the present analysis, the ESEE approach is recommended as the most suitable. In countries where ESEE surveys have been undertaken, these should be used. Elsewhere, the seventeen indicators on which this approach is based provide a good guide to the analysis.

Sources:

- www.weforum.org/issues/global-competitiveness (Global Competitiveness Reports)
- www.doingbusiness.org (Doing business reports)

⁶¹ See for instance 'Analysing the employment impact of public investments and sectoral policies – the DySAM methodology (Geneva: ILO, August 2011).

⁶² www.weforum.org/issues/global-competitiveness; www.doingbusiness.org; www.wbginvestmentclimate.org/.

⁶³ International Labour Conference, June 2007, 'Conclusions concerning the promotion of sustainable enterprises', (Geneva: International Labour Office)

- www.wbginvestmentclimate.org (Investment climate reports)
- www.worldbank.org (CPIA scores)
- www.ilo.org (Enabling environment for sustainable enterprises surveys EESE surveys)
- Local informants, such as employers' organisations, chambers of commerce, trade unions

2.8. RENT EXTRACTION

Comment: Rent extraction may take a variety of forms e.g. excessive profits derived from a position of monopoly or oligopoly; rents accrued from natural resource extraction; and not least abuse of position of power or influence for personal gains (corruption). It diverts income from those who produce it and thus reduces the returns to labour. Some form of rent extraction may also affect employability and access negatively and may have an adverse effect on growth.

Indicators: A combination of indicators is needed to capture this factor. For rent extraction resulting from corruption Transparency International's Corruption Perception Index provides a composite index, which may be used as proxy. The Global Competitiveness and Doing Business reports provide other sources of more detailed information. The local knowledge of ILO constituents provides another invaluable source.

Source:

- Global Corruption Barometer: http://www.transparency.org/policy_research/surveys_indices/gcb, see also sources for 2.7 'Quality of business environment' above

2.9. LABOUR MARKET INSTITUTIONS

Comment: Unionisation of workers and respect for the principles of collective bargaining can help overcome unequal power relations in the labour market and enhance the returns to labour in the form of higher wages. Trade unions can also help protect individual workers against intimidation and discrimination at the work place. Minimum wages and labour regulations may serve as instruments for enhancing the employment content of growth and productive employment.

Indicators: Participation rates in trade unions / employers' organisations; collective bargaining coverage rate, ratification of fundamental ILO conventions. Assessments by ILO constituents.

Sources:

- www.ilo.org (ratification of conventions and standards, decent work country reports)
- Local informants, such as trade unions and employers' organisations

2.10. REGIONAL CONCENTRATION OF ECONOMIC GROWTH

Comment: A high degree of geographical concentration of economic activities and growth and a mismatch between the spatial distribution of the labour force and of economic activities have a negative impact on access to productive employment and tend to increase inequality. See Also Employability and Access, below. Most of the input to analysis of this output should come from the analysis undertaken under the First Phase.

Indicators:

- Regional / geographical differences in per capita GDP
- Regional differences in working poverty, unemployment and in poverty

- Regional differences in the sectoral composition of GDP and of employment and of the labour force status of the employed (e.g. share of vulnerable workers)

Sources:

- National statistics
- Local economic development analyses, regional development analyses
- Local informants such as regional development and other government agencies, regional chambers of commerce, employers' organisations and trade unions

2.11. SOCIAL PROTECTION

Comment: The establishment of a social protection floor that guarantees adequate social protection is fundamental for achieving economic development and structural change in an inclusive manner. Social and economic security is a prerequisite for achieving a high degree of labour mobility that is governed by the principle of equal opportunity, and for ensuring that no part of the population is deprived of opportunities to actively participate and benefit from economic development and structural change. Hence, social protection has an influence on the quality, sustainability and inclusiveness of economic development.

The notion of social protection covers all measures providing benefits, whether in cash or in kind, to secure protection, *inters alia*, from:

- Lack of work-related income (or insufficient income) caused by sickness, disability, maternity, employment injury, unemployment, old age, or death of a family member
- Lack of access or unaffordable access to health care
- Insufficient family support, particularly for children and adult dependants
- General poverty and social exclusion

Indicators:

Public social security expenditure as % of GDP, share of labour force benefitting from unemployment protection, share of the population covered by basic health care provisions, share of the labour force contributing to a pension scheme, minimum wages (levels and coverage), employment guarantee schemes, share of labour force benefitting from maternity/paternity leave, share of population aged 65+ benefitting from a pension.

Sources:

- <http://kilm.ilo.org/KILMnet/>. ILO data base KILM
- www.worldbank.org (World development indicators)
- www.undp.org (Human development reports)
- www.ilo.org (Ratification of ILO standards and conventions, decent work country assessments and reports)
- National statistics
- Results from household socio-economic surveys
- Government agencies, trade unions, employers' organisations and other informants.

Box 9 Some findings from group work presentations in NTT: ‘The rate and quality of economic development’

The subsequent group discussions focused on the identification of the main constraints and challenges to (i) intensification of agriculture and (ii) economic diversification and the development of manufacturing. The analysis resulted in an agreement that the main constraints and challenges belonged to three ‘branches’ of the ‘employment diagnostic tree’ which therefore needed priority attention by policy makers. Namely:

Poorly functioning markets

The problem of poorly developed and functioning markets takes many forms. The markets for agricultural products function poorly. Farmers often have difficulty in accessing markets to sell their products. Most markets are small and poorly integrated with each other and local supply and demand can vary greatly resulting in large price fluctuations. Farmers also often get very unfavourable prices for their products because they are in the hands of monopoly buyers who provide credits and inputs. If markets were better developed, farmers would benefit from more predictable as well as more advantageous prices. This would create incentives for farmers to produce more and to invest in more use of fertilisers, improved seeds and other yield-enhancing technologies.

Another cause of poorly functioning markets is the high cost and difficulty of transport between different parts and islands of the provinces. This was found to be an obstacle to the creation of an integrated and efficient economy comprising the entire province. One illustration of the low level of integration of the domestic economy is that much of the food sold in the shops in Kupang and other large towns comes from Java and other parts of Indonesia although it could be supplied locally. NTT is an integrated part of the large Indonesian economy and could potentially benefit greatly from exporting to this large market. However, this export potential remains largely untapped. Most producers in NTT are small and lack the information and knowledge to export successfully.

A poorly functioning or non-existent land market was also found to be a main constraint and an important obstacle to attracting investments. Most land is collectively owned, and as a result it is difficult to obtain secure property rights over land which discourages potential investors.

Access to finance / credit

Poor access to finance and credit can be viewed as a result of poorly functioning markets. Small businesses and farmers suffer because they do not have access to loans from banks and other financial institutions. The banking sector remains rather poorly developed, most loans are for consumption and there is still very little long term lending for investments. In agriculture, where large seasonal fluctuations in both incomes and expenditures create particular needs for credit, farmers find it difficult to access credit on reasonable terms. As a result, they often fall victim to local money lenders charging very high interest rates.

Another aspect of poor access to finance and credit is the very low savings rate standing at 4 percent of the provincial GDP in NTT, compared to 25 per cent for Indonesia as a whole. Low levels of savings result in lack of availability of capital for investments and a low capacity of the local banks to lend money.

This is also reflected in the much lower level of investments in NTT as compared to the country as a whole. Addressing the problem of the low level of investments and of poor access to finance will need to go hand in hand with strong efforts to increase savings and to promote savings in banks and in credit cooperatives.

The quality of the business environment

Participants identified corruption, 'unsupportive attitude of bureaucrats' and unnecessarily complicated rules and procedures for setting up and running businesses as impediments to the business environment and economic development. However, at least as important was a lack of policies that actively promote business development in a coherent manner. There is a need for the systematic mapping of local potential, to improve physical infrastructure in support of economic development and for improved dialogue between government and the private sector. Many participants were also of the opinion that the planning and policy-making capacity of the provincial and local authorities needed to be improved with greater coherence and consistency over time of policies and plans.

Source: Extract from the NTT Workshop Report

3. INEQUALITY: FORMS AND CAUSES

Comment: This branch aims to capture the various dimensions of inequality in access to productive employment, its sources and causes. Inequality weakens the link between economic growth and a reduction of working poverty in particular and productive employment creation generally. It reduces the quality as well as sustainability of economic development. Most aspects analysed in the sessions on human resources and economic development, above, can have more or less serious equity implications. Hence, it is useful to explicitly identify the main equity aspects throughout the analysis during the Second Phase of the EDA.

The analysis on inequality should start with an identification of the main forms of inequality, such as gender-based inequality, inequality between rural and urban areas, regional inequality etc. Often, this will already have resulted from the earlier analysis.

Main indicators:

- The Gini coefficient for income
- Employment and unemployment rates disaggregated by sex. Working poverty rates disaggregated by sex, where available
- Regional differences in per capita/GDP, poverty rates, unemployment rates etc
- Gender-based differences in wages
- Large gender differences in the sector distribution of the labour force

Sources:

- kilm.ilo.org
- laborsta.ilo.org
- data.worldbank.org (World Development Indicators)
- *World Development Report 2012: Gender equality and development* (Washington D.C.: World Bank, 2011)
- www.undp.org (*Human Development Reports*, both global, regional and national)
- *Women in labour markets: Measuring progress and identifying challenges* (Geneva: ILO, 2010)
- *Guidelines on Gender in Employment Policies* (Geneva: ILO, Employment Sector)

- The sections below provide some indicators to guide the analysis of the branch.

3.1. UNEQUAL EMPLOYABILITY

Comment: Employability refers to the endowments of the labour force with qualitative attributes that enhance their attractiveness on the labour market, their capabilities as independent economic agents and their productivity. This requires essentially the same analysis as for 1. *Productive resources/employability*, but with a focus on aspects of inequality. The analysis should be disaggregated by sex.

Sources:

- The same sources as listed for branch (1) and (2) above, broken down by sex, rural – urban and/or regions. Particular attention should be given to the factors identified as key challenges in the preceding analysis
- Local informants, including not least the workshop participants themselves

3.1.1. EDUCATION AND SKILLS

Indicators: Same indicators as for 1. *Productive resources/employability*, but with a focus on variations. Data broken down by e.g. sex, rural/urban, household income.

3.1.2. HEALTH AND NUTRITION

Indicators: Life expectancy, mortality/infant mortality rate, same indicators as for 1. *Productive resources* but with a focus on variations. Data broken down by e.g. sex, rural/urban, household income.

3.1.3. ACCESS TO PRODUCTION FACTORS OTHER THAN LABOUR

Comment: Refer to section 1.3 *Access to land and other production factors* i.e. access to land, capital and arguably technology. Gender-based inequalities should be explored.

Indicators: Distribution and size of (arable) land holding among rural households; access to capital; access to common resources; access to technology (tools, machinery, physical capital). Gender differences in inheritance rights.

3.2. INEQUALITY OF ACCESS TO LABOUR MARKET AND OPPORTUNITIES

Comment: Endowment with resources to engage in productive work (employability) needs to be matched with opportunities to make optimal use of these resources. The analysis of this aspect will need to capture gender-based inequalities. Geographical aspects are also important. If rural-urban or regional inequality have been identified as main forms of inequality, then issues of mobility, the functioning of the labour market and access to information attain particular importance.

Indicators: Employment/unemployment rates, percentage of the working poor, employment status, wages/returns to labour by key variables such as sex and age, rural/urban, region etc.

Sources: Population censuses often include information on geographical mobility. Labour force surveys and household socio-economic surveys are key sources provided that the data can be disaggregated by sex and by rural/urban and region. National statistics often provide a breakdown of many relevant variables by region, sex and rural-urban.

3.2.1. GEOGRAPHICAL, OCCUPATIONAL AND SOCIAL MOBILITY

Comment: As the most dynamic economic sectors and regions seldom coincide with those where the working poor and unemployed are found, mobility is crucial for accessing productive employment opportunities and for benefitting from opportunities created by structural change. Differences in mobility of men and women should be captured.

GEOGRAPHIC MOBILITY

See also 2.10 '*Regional concentration of economic growth*' above.

Indicators: Large regional aggregate and intra-occupational variations in earnings and in poverty, co-existence of occupation specific unemployment and shortages of labour, census data on residential mobility and on temporary mobility.

OCCUPATIONAL MOBILITY

Indicators: Inter-occupational and inter-sectoral differences in earnings. Persistent inter-sectoral mismatches in supply and demand for labour; structural unemployment; insufficient facilities for retraining and other active labour market policies; occupational history.

SOCIAL MOBILITY

Comment: This includes cultural stereotyping of occupations along gender, ethnic, religious or other lines and other similar impediments.

Indicators: Local informants, including not least the participants in the workshop. Gender/group specific differences in unemployment, earnings and access to productive employment.

3.2.2. FUNCTIONING OF LABOUR MARKETS

POORLY FUNCTIONING LABOUR MARKET INTERMEDIATION

Indicators: For example, rates of frictional unemployment, frequency of use of formal channels for labour market intermediation, high fees for labour market intermediation (not least for labour migrants).

INAPPROPRIATE LABOUR LEGISLATION / RULES, INSIDER – OUTSIDER PROBLEMS

Indicators: Prevalence and growth of informal sector wage employment, differences in earnings, working conditions and social protection between workers in the informal and formal sectors of the economy. Other indicators of asymmetry of power between 'insiders' and 'outsiders'.

3.2.3. BUSINESS ENVIRONMENT FOR THE WORKING POOR AND UNEMPLOYED

Comment: Essentially the same analysis as 2.7 '*Quality of business environment*' and 2.8 '*Rent extraction*', above, but with a focus on small businesses and entrepreneurs. The gender dimensions should also be captured as far as possible.

Indicator: Incidence of participation in the formal economy among small scale non-farm entrepreneurs. Percentage of businesses headed by women.

3.3. UNEQUAL AVAILABILITY TO WORK

Comment: Time constraints on labour force participation, typically due to heavy and unequally shared burdens of reproductive and household work.⁶⁴ Availability and affordability of day care and pre-school facilities.

Indicators: Participation rates in the labour force by age and sex; Time use studies (broken down by sex); HIV/AIDS prevalence rates (AIDS reduces not only the availability of the sick, but also of those who nurse them).

Sources:

- Household socio-economic surveys and other surveys providing time-use data
- <http://www.unescap.org/publications/detail.asp?id=802> *Integrating Unpaid Work into National Policies* (Bangkok: ESCAP, 2003)
- Local informants

Box 10 Results of group discussions on the subject of 'Inequality' in NTT, Indonesia

Throughout the workshop, inequality in various forms was raised in the discussions as an important aspect of the development challenge. Indeed, all the factors identified as critical challenges for the development of human and other productive resources and for creating productive employment opportunities for growth were found to have important dimensions of inequality.

In the ensuing discussions, the participants identified three types of inequality as particularly serious.

- Inequality between rural and urban areas
- Gender based inequality
- Inequality due to regional differences in economic development, access to education, health and other public services and in productive employment opportunities

4. SUSTAINABILITY

Two broad groups of aspects pertaining to sustainability deserve to be singled out: (i) environmental sustainability and climate change adaptation and mitigation, and (ii) investment in the young. Promoting inclusive and productive employment must be done in a manner that does not compromise the opportunities for coming generation(s) to access productive employment.

Main indicator: Discrepancy between growth of green GDP and growth of 'traditional' GDP. To be complemented by information on exposure to climate change. Child mortality rates and enrolment rates in primary and secondary education.

⁶⁴ For a detailed treatment of this issue, see for instance *Integrating Unpaid Work into National Policies* (Bangkok: ESCAP, 2003) www.unescap.org/publications/detail.asp?id=802

- The sections below provide some indicators to guide the analysis of the branch.

4.1. ENVIRONMENTAL SUSTAINABILITY / CLIMATE CHANGE

Comment: Economic development, productive employment and, indeed, human life are dependent on a wide range of resources and processes that are supplied by natural ecosystems, so called ecosystem services. They include products such as fresh air, clean water, biodiversity and rich soil, but also processes such as waste decomposition. Overexploitation of these ecosystem services results in environmental degradation and implies that development is environmentally unsustainable. While many ecosystem services can be regenerated some, such as minerals and fossil fuels, are finite. Excessive dependence on extraction of non-renewable natural resources is similarly environmentally unsustainable.

Indicators: A wide range of indicators on use/abuse of ecosystem services have been developed over the past decades. Calculations of adjusted net savings / net savings are an effort to come up with a synthesising aggregate indicator. More detailed indicators are often needed and may usefully be grouped by main categories: viz. emissions and air pollution, water use and pollution of water, soil related indicators (e.g. deforestation, land erosion, loss of soil nutrients), energy use and share of renewable and non-polluting energy sources in energy use, extraction of minerals and other finite natural resources.

Country specific analysis of the expected impact of climate change. CO2 emissions (total, per capita, per GDP unit, development over time). Separate analysis of adjustment and mitigation measures needed.

Source:

- The Intergovernmental Panel on Climate Change (IPCC) (www.ipcc-data.org) offers a good entry point for information
- www.worldbank.org (*The Little Green Databook*, published annually by World Bank)
- geodata.grid.unep.ch (The Global Environment Outlook, published by UNEP)
- earthtrends.wri.org (Earthtrends, published by the World Resources Institute)
- data.worldbank.org (World Development Indicators)
- *National statistics*

4.2. INVESTMENT IN THE YOUNG

Comment: Inadequate investment in the education and health of young people. Nutritional deficiencies among young and pregnant women.

Indicators: Prevalence of stunting and wasting among children, child mortality rates, net enrolment and graduation rates in primary and secondary education. Prevalence of child labour. All data and analysis should be disaggregated by sex whenever possible.

Sources:

- www.unicef.org (The State of the World's Children, annual publication; Progress for Children).
- Same sources as for Branch 1, above

5. CONCLUSIONS

The conclusions from the various sessions and parts of the workshop-based employment diagnostic analysis under The Second Phase should be brought together during the final, concluding sessions of the workshop. The objective of this session is to synthesise the conclusions from the previous sessions, including a summary of the key constraints and challenges to increasing productive employment identified during the analysis and an identification of the main linkages between these and other branches on the 'employment diagnostic reference tree'. If necessary, a further prioritisation of the key issues should be undertaken, with a view to arriving at a maximum of 3-4 critical issues/branches.

In order to fully bring the issues of inequality to the heart of the conclusions of the analysis, it can be useful to devote a session to mainstreaming the key equity aspects, as identified during the session on inequality, into an analysis and discussion of the 3-4 other critical issues / branches identified in the course of the analysis. For instance, if the need to address market failures has been identified as a key issue, the analysis in this session should aim to identify the main equity aspects of market failure. That is, how do poorly functioning markets affect women and men, the rural and urban population or people living in different regions.

The final part of the concluding session should aim to bring out some of the main policy implications and general policy recommendations that result from the conclusions of the analysis. However, the session and the workshop would normally stop short of prescribing policies in great detail. The main objective of the employment diagnostic analysis is to identify and prioritise the main constraints and challenges to increasing productive employment in an inclusive and sustainable manner, with a view to informing – and facilitating a sharper focus in – development strategies and policies. This will typically be followed by a process of strategy development and policy formulation.

Box 11 Examples of conclusions

The First Phase of employment diagnostic analysis in Nusa Tenggara Timur provided a broad understanding of the province-specific development context and employment situation in recent years.

This first analysis showed that the relatively low rate of growth is linked to the structure of the economy which is still largely dominated by subsistence-oriented agriculture and a growing services sector, in which public sector services play the main role, while the role of manufacturing in the economy remains very small. It was concluded that in order to put the economy on a path of sustainable and rapid growth needed to ensure productive employment for all and an elimination of poverty, the province would need specifically to:

- Intensify and increase the market-orientation of the agriculture sector.
- Diversify its economy, with priority given to developing linkages to and from agriculture, strong domestic value added-chains and modern manufacturing. The somewhat limited potential for agricultural development provides another strong reason for economic diversification.
- Intensify and develop niches for exports.
- Achieve growth with equity where economic development must be inclusive and pro-poor.

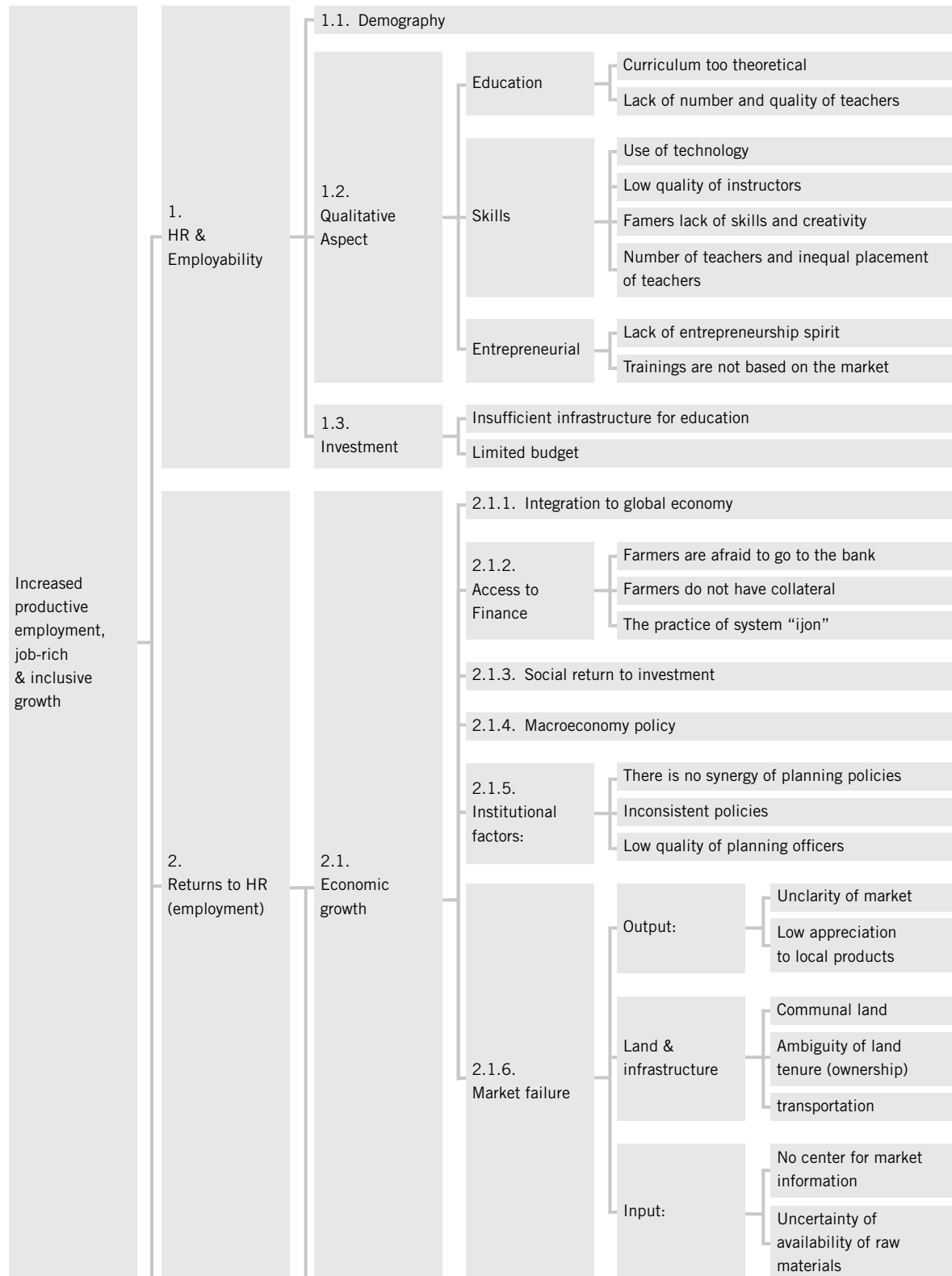
The Second Phase of the employment diagnostics analysis was undertaken in the framework of a workshop where constituents themselves identified the key constraints and challenges to productive employment in NTT. Following

the narrowing down process of the methodology of the employment diagnostics tree (see below the employment diagnostics tree applied in NTT), key constraints were underlined. Conclusions and critical areas for enhancing productive employment were identified and are summarized in the following five points.

1. The current quality of human resources in NTT is insufficient to drive economic development. The shortcomings in the field of human resources range from the planners in government bodies to the technical agencies, to the farmers. Some causes were identified e.g. while primary education existed in almost all regions in NTT, there is a lack of quality and availability of secondary education in the province, especially in rural areas and notably in some remote districts. For farmers, remoteness led to inequality of access to information and knowledge, holding back the intensification of agriculture. Inequality of access to education between women and men was also identified.
2. A lack of access by farmers to finance was identified as a major constraint to agricultural development. While collateral for credit was an issue among farmers, local banks and financing agencies are also short of capital. One of the reasons was the low level of savings. Therefore, government needs to promote saving among farmers and villagers.
3. Markets for agricultural products and inputs remain poorly developed and pose a constraint on the intensification of agriculture. The lack of access to market information – especially prices, buyers, price trends both in the external and internal markets – has led to inappropriate crop management in most areas. There is also a severe lack of agro-processing facilities and the backward and forward linkages to agriculture are generally poorly developed. The crop mix is also often poorly adapted to the natural conditions (soil, rainfall etc.) and this is one of the reasons for the low levels of production. In some areas, land issues and lack of secure and clear property and user rights of land aggravate the problems, creating an additional constraint on achieving sustainable and intensive agriculture as well as deterring potential investors. Poorly functioning markets and difficulties of intra-regional transportation systems are also obstacles to the creation of a dynamic economy that integrates all parts of the province.
4. The business environment was considered as unfavourable; some issues like corruption, complex bureaucracy, poor incentives, lack of infrastructure has led to a reduced interest amongst investors (both external and internal).
5. Aspects and sources of inequality need to be fully understood and mainstreamed into policies and other interventions aimed at addressing development challenges in the four priority areas identified. Three main forms of inequality were identified; gender-based, rural-urban and between regions/islands. In a final session of the workshop the key equity aspects related to the 4-5 identified crucial factors constraining productive employment were discussed, identified and presented in the form of a matrix, with a view to facilitating the mainstreaming of these equity aspects in the development of policies to address the identified crucial factors/branches.

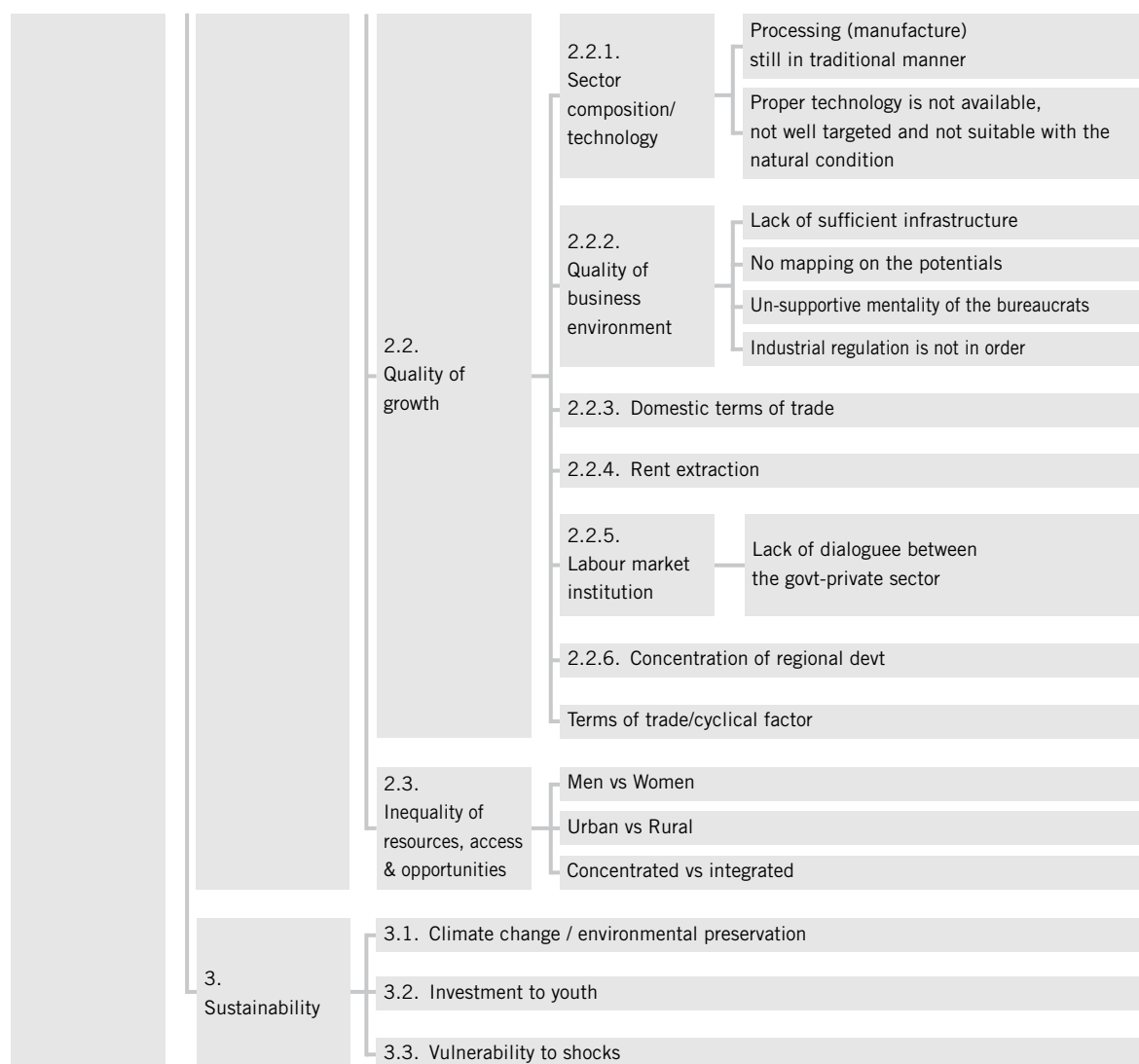
Source: Extract from Working Paper No. 95, “Employment diagnostic analysis: Nusa Tenggara Timur, Indonesia” – Employment Sector, ILO

Figure I The employment diagnostic reference tree in Nusa Tenggara Timur (NTT), Indonesia⁶⁵



⁶⁵ This diagramme was based on an earlier version of the employment diagnostic reference tree.

Figure I (cont.)



ANNEX 1. EXAMPLE OF A WORKSHOP AGENDA
(NUSA TENGGARA TIMUR, INDONESIA, JANUARY 2011)

Time	Session
DAY 1	
08:30 – 09:00	Registration
09:00 – 10:00	Opening Opening <i>ILO NTT Staff</i> Opening Remarks <i>Country Director, ILO Jakarta</i> Official Opening <i>Governor of the Nusa Tenggara Timur province</i> Photo Session
09:30 – 10:00	Press Conference (for Journalists) Coffee Break (for Participants)
10:00 – 10:25	Introduction Introduction to the workshop: expected objectives and outputs. Agreeing on the workshop schedule and methodologies. <i>ILO staff & Facilitator</i>
10:25 – 11:00	Session 1. Employment Diagnostic Analysis: Concepts and methods Presentation and QA on concepts and methods of the Employment Diagnostic Analysis <i>ILO staff</i>
11:00 – 11:35	Session 2. ADB/ILO development constraints analysis for Indonesia Presentation and QA on “Main findings of the ADB/ILO development constraints analysis for Indonesia” <i>ILO staff</i>
11:35 – 12:10	Session 3. NTT Development Strategy Presentation and QA on “NTT Development Strategy” <i>Head of the Provincial Planning Bureau (BAPPEDA), Nusa Tenggara Timur</i>
12:10 – 13:10	Lunch Break
13:10 – 14:20	Session 4. The dynamics of employment, the economy and the labour market in NTT Presentation and QA on “The dynamics of employment, the economy and the labour market in NTT” The results and conclusions of the ‘Part One’ analysis. <i>ILO staff</i>
14:20 – 14:35	Coffee break

Time	Session
14:35 – 17:10	Session 5. Human resources development in NTT ■ Presentation of the structure and rationale of this ‘analytical branch’. Recap of main relevant findings from Part One of the analysis ■ Group discussion resulting in identification of key issues ■ Presentation of group discussion results in plenary and discussion <i>ILO staff, facilitator and workshop participants</i>
17:10 – 17:15	Closing Day 1
DAY 2	
09:00 – 09:10	Recapitulation of main discussion points and conclusions from Day 1 <i>Facilitator</i>
09:10 – 10:15	Session 6. Increasing employment opportunities – A focus on the economy ■ Presentation of the structure and rationale of the analytical branch on the rate and quality of economic growth. Presentation of main relevant findings from Part One of the analysis and other tentative findings. <i>ILO staff</i>
10:15 – 10:30	Coffee Break
10:30 – 12:20	Session 6. Increasing employment opportunities – A focus on the economy (contd.) ■ Group discussions resulting in identification of key issues. <i>Workshop participants, facilitator</i>
12:20 – 13:20	Lunch break
13:20 – 13:50	Session 6. Increasing employment opportunities – A focus on the economy (contd.) ■ Presentation of results of group discussions. Plenary discussion and agreement on synthesis conclusions and identification of key issues. <i>Workshop participants, facilitator</i>
13:50 – 14:55	Session 7. Achieving development with equality ■ Presentation of the structure and rationale of this ‘analytical branch’. Recap of main relevant findings from Part One of the analysis. ■ Group discussions <i>ILO staff, facilitator and workshop participants</i>
14:55 – 15:10	Coffee break
15:10 – 17:30	Session 7. Achieving development with equality (continued) ■ Continued group discussions resulting in identification of key issues ■ Presentation of results of group discussions. Plenary discussion and agreement on synthesis conclusions and identification of key issues. <i>Workshop participants, facilitator</i>

Time	Session
DAY 3	
09:00 – 09:10	Recapitulation of main conclusions from Day 2
09:10 – 10:30	Session 8: Synthesis analysis and discussions Brief group discussion followed by plenary discussions on main issues, challenges and opportunities identified and on the policy implication of these <i>Workshop participants, ILO staff, facilitator</i>
10:30 – 10:45	Coffee break
10:45 – 11:15	Session 8: Mainstreaming inclusiveness and sustainability This session focused on identifying the most important equity and sustainability aspects related to the key constraints and challenges identified in session 5 and 6 and on suggestions as to how these equity and sustainability concerns should be taken on board in the development of policies to address these key constraints and challenges. ■ Group work followed by plenary presentations and discussions. <i>Workshop participants, facilitator, ILO staff</i>
11:15 – 11:55	CLOSING Evaluation Closing remarks <i>ILO staff</i>

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