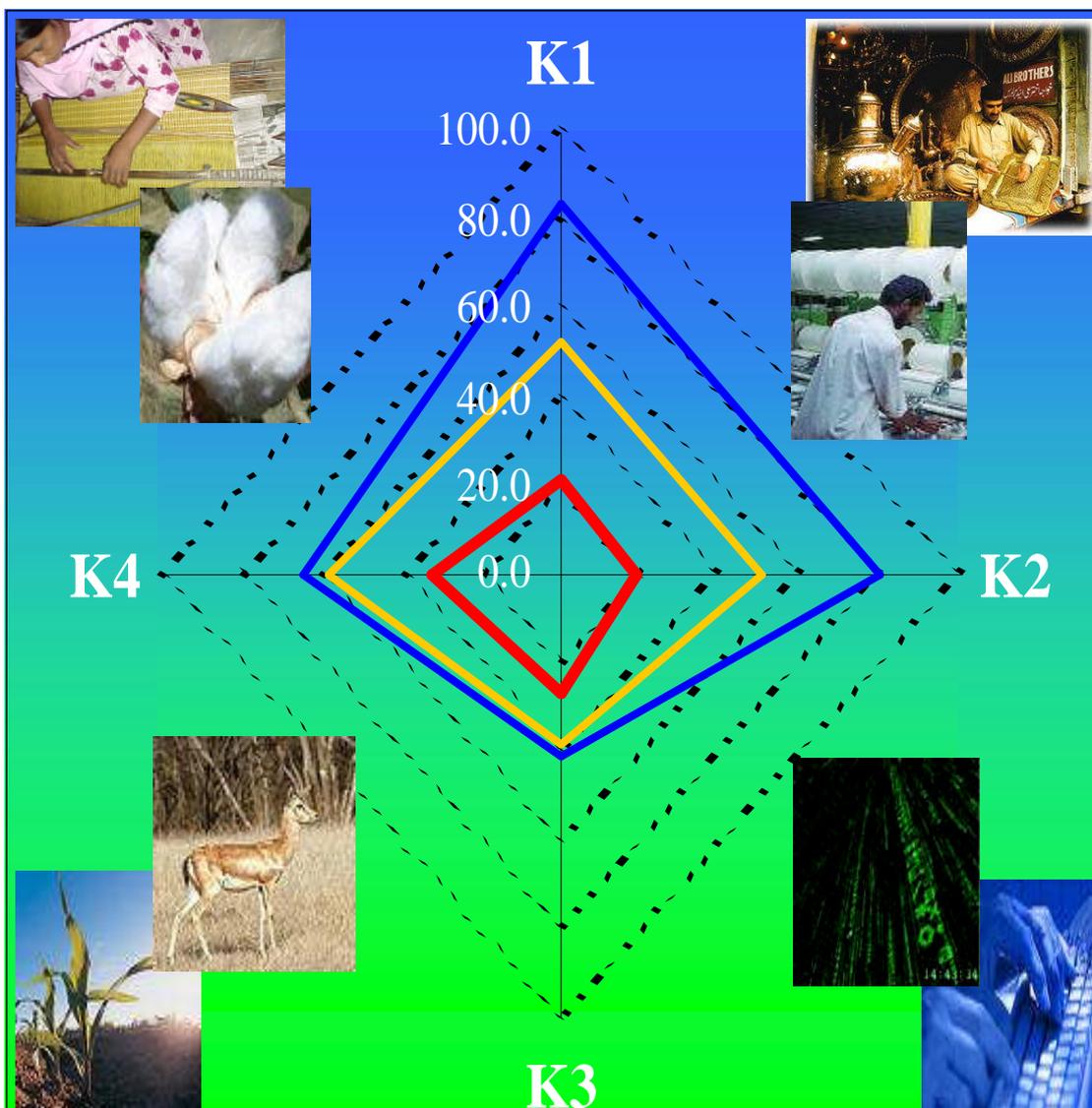




PAKISTAN EMPLOYMENT TRENDS 2007



Ministry of Labour, Manpower and Overseas Pakistanis
Labour Market Information and Analysis Unit
Government of Pakistan



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June 2007

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ISLAMABAD

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Foreword

During the 1990s, the poor performance of the economy, crucially linked with gainful and productive employment, exacerbated the worsening employment situation in the country and a rising trend of unemployment was witnessed among youth generally and higher educated groups specifically. This situation was a cause of concern for policy makers and indeed a challenge for the government. The government took significant steps to address this challenge through the development and implementation of a new economic and employment policy framework.

To inform further development of this framework, as well as to monitor labour markets, reliable and up-to-date labour market information and analysis is a pre-requisite. Therefore, this Ministry launched a project 'Labour Market Information and Analysis (LMIA)' in the HRD Wing of the Labour and Manpower Division. The objective of this project is to collate data and information from various sources at both federal and provincial level, and establish a database containing an internationally adopted set of key indicators of the labour market. The database is used to monitor employment trends, produce labour market analysis and to provide analytical inputs for policy development.

This first LMIA report, titled *Pakistan Employment Trends*, covers ten key indicators of the labour market and has been prepared with the technical assistance of the ILO. The report analyses the labour market in Pakistan for the period 2000-2006, using indicators such as labour force participation rate, employment-to-population rate and unemployment rate. The structure of employment is examined using status in employment, employment by sector, educational attainment and other indicators that can be used to assess the attainment of decent work. The significance of this analysis is that it particularly informs poverty reduction strategy, evolving employment strategy, as well as promotion of decent work agenda.

The *Pakistan Employment Trends* provides a solid starting point for improved LMIA. Subsequently, the second and third publications, scheduled for later this year, will focus on *labour market analysis* by covering some more indicators regarding *skills and youth employment*, as well as deeper insights into indicators already covered. This will help to inform skills policies, local economic development and youth employment policies respectively, which are currently on the top agenda of the government. Coordination and cooperation has been established with the Federal Bureau of Statistics in order to refine and extend the current Labour Force Survey in order to improve the coverage of data collected. As well, separate surveys on wages and earnings will be developed along with data collection mechanisms to better inform skills policies and TVET reforms.

I appreciate the efforts made by the staff of the LMIA unit and the ILO, in particular through the Chief Technical Adviser, Dr Theo Sparreboom, in the preparation of this first labour market report.

Malik Asif Hayat
Secretary

Message from the ILO Director

The ILO Office in Pakistan wishes to express its gratitude for the leadership provided by Mr Malik Asif Hayat, Secretary, Labour and Manpower Division, in the establishment of a Labour Market Information and Analysis Unit, which is supported by the ILO and the UNDP.

The promotion of opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity is the overarching objective of the International Labour Organization, and provides an overall framework for action in economic and social development. In Pakistan, the ILO's Decent Work Country Program (DWCP), which has been drawn up by the Government and Employers' and Workers' Representatives, spells out a strategy and plan of action to promote the creation of decent work.

As reflected in the DWCP, the formulation of decent employment and labour policies in rapidly changing labour markets calls for up-to-date and timely Labour Market Information and Analysis (LMIA). The work of the LMIA Unit therefore allows for a deeper understanding of labour markets in Pakistan.

Pakistan Employment Trends is the main dissemination channel of the work of the LMIA Unit. This first issue of Pakistan Employment Trends draws on labour force surveys and other sources of information to highlight decent employment issues that are relevant to the policy formulation process in Pakistan. The analysis presented in the publication explicitly takes current employment and labour policy development processes into account, and future issues will focus on integrating labour market analysis and labour policies.

In the context of the DWCP the ILO will continue to provide technical assistance to the Ministry of Labour to further develop the Labour Market Information and Analysis Unit as a key instrument in achieving decent employment outcomes in Pakistan.

Donglin Li
Director
ILO Office for Pakistan

Executive summary

Like many developing countries, Pakistan is also facing a number of labour market challenges. Some of these are; unemployment, underemployment, illiteracy, mismatches between the demand and supply of skills, productivity and the impact of labour legislation. In order to address these issues, there is a need for proper Labour Market Information and Analysis (LMIA). Current LMIA in Pakistan is however characterized by a number of shortcomings such as (1) lack of timely and focused analysis and interpretation of basic labour market and related indicators; (2) lack of awareness among policy makers, social partners and other stakeholders about the basic international concepts, classifications and definitions; (3) lack of comprehensive data pertaining to important issues like youth employment and local economic development; and (4) limited integration of labour market analysis and policy development.

With a view to addressing the above shortcomings the Labour and Manpower Division has launched a project to develop a *Labour Market Information and Analysis System*. The LMIA system aims to provide up-to-date and timely Labour Market Information and Analysis that serves as an input into the formulation and monitoring of labour and employment policies. The project is being implemented with the assistance of UNDP and ILO.

In order to bring together labour market stakeholders and social partners, an Advisory Panel has been constituted, comprising Representatives from P&D Divisions, Federal Bureau of Statistics (FBS), UNDP, ILO, four Provincial Labour Departments, Employers' and Employees' Federations, etc. This Panel, instead of following the traditional methodologies, has adopted a new approach for analyzing labour market issues. It discussed an internationally accepted set of twenty Key Indicators of the Labour Market (KILM). Out of these, ten indicators were selected for the purpose of the first report on LMIA. Microdata (available from labour force surveys) were used to calculate and systematically store these indicators in the LMIA database, and to carry out a comprehensive analysis of these indicators.

Based on the above analysis, the first LMIA report entitled *Pakistan Employment Trends* has been prepared. This is the first time that a consistent time series of an internationally accepted subset of KILM indicators has been analyzed. This first issue of *Pakistan Employment Trends* reviews the labour market in Pakistan during the period 1999-2000 to 2005-2006, using best practice in statistical analysis and presentation, including an explanation of all classifications and definitions used.

Future issues of *Pakistan Employment Trends* will cover additional KILM indicators and deepen the analysis of labour markets in Pakistan using appropriate statistical analysis. Besides the current set of labour market indicators, future issues will focus on labour market information and analysis to provide guidelines for skills policies and youth employment policies.

In order to ensure sustainability, the LMIA project also concentrates on capacity building of officials of the Government of Pakistan, both at federal and provincial levels. In this way, they will be able to continue labour market analysis as a regular feature in order to meet future labour and employment policy challenges.

The review of the labour market in Pakistan in the light of decent employment objectives in Chapter 4 provides a mixed picture regarding the attainment of decent employment objectives. There is clear evidence that improvements have been achieved in opportunities for work and equity in work, but also that considerable challenges remain in terms of the structure of employment, closing the gender gap and raising the productivity of workers, in particular through human resource development.

The *analysis* can be summarized as follows:

- (1) *Employment opportunities have expanded in line with economic development*, which has been robust in recent years (the last four years registered economic growth in excess of the average during the 1990s); an average annual employment growth rate of more than four per cent was achieved during 1999-2000 and 2005-2006, which exceeds the targeted growth rate of the MTDF for the second half of the decade (projected at around three per cent).
- (2) The analysis points at a *strong labour absorptive capacity of the economy*; the labour force participation rate increased by 3.2 percentage points between 1999-2000 and 2005-2006, the employment-to-population rate by 3.6 percentage points, while the unemployment rate decreased by 1.6 percentage points; in absolute numbers, unemployment remained the same (at 3.1 million) despite population growth and increasing labour force participation.
- (3) *Women benefited in particular from the improvement in labour market performance*, with the female unemployment rate registering single digits for the first time in 2005-2006 (9.3 per cent, as compared to 17.3 per cent in 1999-2000).
- (4) Similarly, the relative *position of youth* in 1999-2000 has strongly improved in the period under review, with a series of indicators pointing at a convergence between the position of 'youth' (aged 15-24) and 'adults' (aged 25 and above).
- (5) Less impressive has been the *creation of wage and salaried employment*; only 43.0 per cent of employment creation between 1999-2000 and 2005-2006 fell in this employment status group, as compared to 45.7 per cent unpaid family workers.
- (6) In the case of women, more than two thirds (70.6 per cent) of employment creation between 1999-2000 and 2005-2006 consisted of unpaid family workers; *the gender gap is still very wide in Pakistan* as reflected in labour market indicators such as employment by status, labour force participation, and unemployment.
- (7) Concerns also remain regarding *productivity as reflected in long working hours*; more than 40 per cent of the employed are working excessive hours (more than 49 hours per week); the bulk of those working excessive hours are active in agriculture and trade, while large concentrations of such workers can be found in the manufacturing, transport and services sector.
- (8) Another concern is the *labour force participation of children aged 10-14*, which increased by 4.3 percentage points between 1999-2000 and 2005-2006; less than a quarter of the employed in this age group has more than a year education, and roughly one out of five is working excessive hours.

Broad *policy implications* can be summarized as follows:

- (1) There is a strong need *to improve labour productivity* through education and training policies, both for new entrants to the labour market and the current labour force (46 per cent of the labour force has one year education or less).
- (2) Policies are needed to address the educational and other *needs of children aged 10-14*.

- (3) Policies to lower barriers to female employment should be continued and reinforced *to reduce the wide gender gap* in the labour market.
- (4) Policies should be developed to ensure *decent employment for workers working excessive hours*, in particular in agriculture and trade.
- (5) Policies are needed *to stimulate wage and salaried employment creation*, based on *an appropriate balance between labour market flexibility and adequate job security*; such policies involve adequate labour legislation and regulation as well as enforcement.
- (6) Finally, the continued need for *policy development to reduce unemployment* should be highlighted, for example through enhancing the role of employment services in job matching, education and training.

The analysis of labour market developments in this report illustrates that, using a limited set of indicators, labour market segments can be identified which warrant investigation and policy analysis. Subsequent issues of *Pakistan Employment Trends* will increasingly integrate labour market analysis and policy planning with a view to improving employment policies. A number of recommendations in this context are part of the conclusions of this report.

List of acronyms

DSS	Demographic Sample Survey
DWCP	Decent Work Country Program
EMIS	Education Management Information System
EPR	Employment-to-population rate
FBS	Federal Bureau of Statistics
GDP	Gross domestic product
GTZ	German Agency for Technical Cooperation
HIES	Household Income and Expenditure Survey
HRD	Human resource development
ICLS	International Conference of Labour Statisticians
ICSE	International Classification by Status in Employment
ILC	International Labour Conference
ILO	International Labour Organization
IMF	International Monetary Fund
ISCED	International Standard Classification of Education
ISCO	International Standard Classification of Occupations
ISIC	International Standard Industrial Classification
KILM	Key Indicators of the Labour Market
LMIA	Labour Market Information and Analysis
LF	Labour force
LFS	Labour Force Survey
LFPR	Labour force participation rate
MDG	Millennium Development Goal
MLMOP	Ministry of Labour, Manpower and Overseas Pakistanis
MTDF	Medium Term Development Framework
NILAT	National Institute for Labour Administration and Training
NWFP	North West Frontier Province
OECD	Organisation for Economic Co-operation and Development
PIHS	Pakistan Integrated Household Survey
PRSP	Poverty Reduction Strategy Paper
PSLM	Pakistan Social and Living Standards Measurement Survey
SMEs	Small and medium enterprises
SNA	System of National Accounts
TEVC	Technical and vocational competence
TVET	Technical and vocational education and training
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization

1. TOWARDS DECENT EMPLOYMENT IN PAKISTAN

1.1 Promoting decent employment

Employment and labour policies are formulated to ensure that labour markets develop in an efficient way and generate decent work for all. The promotion of decent work has been adopted as an objective by the Government of Pakistan as reflected in a number of policy documents including the Medium Term Development Framework (MTDF) for 2005-10 and documents relating to labour markets such as the 2002 Labour Policy, the 2006 Labour Inspection Policy, the 2006 Labour Protection Policy and the draft Employment and Service Conditions Act. Pakistan also completed the ratification of all Fundamental human rights Conventions in 2006.

Pakistan's Decent Work Country Program (DWCP) spells out a strategy and plan of action to promote the creation of decent work. A National Tripartite Forum on Employment and Skills was jointly organised by the Labour and Manpower Division of the Ministry of Labour, Manpower and Overseas Pakistanis (MLMOP) and the ILO in April 2006. The Forum aimed to provide a platform to examine the employment and labour market challenges facing Pakistan, and to assist the Government, and Employers' and Workers' representatives in the formulation and implementation of concrete decent work policies and programs. One of the components of the Action Plan for Decent Employment Generation and Skills Development that is based on the Forum concerns the need for employment and labour market monitoring (Ghayur, 2006a). This report aims to address this need in the context of the current government policy framework and the DWCP.

The concept of decent work brings together multiple goals regarding rights at work, employment, social protection and social dialogue in an integrated manner. In the context of this report it is useful to conceptualize decent work as consisting of six dimensions that can be summarized as follows (Anker et al, 2003, pp. 151-152):

- (i) First, *opportunities for work* refers to the need for all persons who want work to be able to find work, since decent work is obviously not possible without work itself. The underlying concept of work is a broad one, encompassing all forms of economic activity, including self employment, unpaid family work and wage employment in the informal and formal sectors.
- (ii) Second, the idea of *work in conditions of freedom* underscores the fact that work should be freely chosen – i.e. not forced on individuals – and that certain forms of work are not acceptable in the twenty-first century. Specifically, this means that bonded labour, slave labour and the worst forms of child labour should be eliminated in accordance with applicable International Conventions. It also means that workers should be free to join workers' organizations and free from discrimination.
- (iii) Third, *productive work* is essential for workers to have acceptable livelihoods for themselves and their families, as well as to ensure sustainable development and the competitiveness of enterprises and countries.
- (iv) Fourth, the notion of *equity in work* represents workers' need to enjoy fair and equitable treatment and opportunity in work. It encompasses absence of discrimination at work and in access to work, and the possibility of balancing work with family life.
- (v) Fifth, *security at work* is a reminder of the need to safeguard health, pensions and livelihoods, and to provide adequate financial and other protection in the event of

sickness and other contingencies. It also recognizes workers' need to limit the insecurity associated with the possibility of loss of work and livelihood.

- (vi) Sixth, *dignity at work* requires that workers be treated with respect at work, and that they be able to voice their concerns and participate in decision-making about their own working conditions. An essential aspect of this is workers' freedom to represent their interests collectively.

These six dimensions of decent work can be promoted using a range of policies, programs and activities. Examples are public works programs, legislation and regulations concerning labour utilization and working conditions, education policies and skills development programs, social security legislation and support for social dialogue between workers, employers and the government. Furthermore, macroeconomic policies including fiscal, monetary and trade policies have important effects on labour markets and can be made instrumental in achieving decent work objectives.

Which policies and programs should be designed and developed at a particular time depends on the state of the labour market, including the extent to which decent work is being generated or not. Labour markets are however dynamic and labour supply and demand is continuously changing in response to the economic and social environment, including the employment policy framework itself. Requirements of the world of work change in response to, for example, technological advances, industrialization, globalization, and changes in work organization. Important factors that determine shifts in labour supply are education and training policies and individual preferences.

The formulation of policies promoting decent work in changing labour markets therefore calls for up-to-date and timely Labour Market Information and Analysis (LMIA), and monitoring current labour market developments constitutes the basis for employment, human resource development (HRD) and labour policy formulation. Labour market monitoring requires the use of a set of indicators to build a picture or diagnosis of the labour market that is sufficiently comprehensive to inform policy processes such as formulation, implementation, monitoring and evaluation, and ideally covers all dimensions of decent work listed before.

1.2 Developing Labour Market Information and Analysis

Over the years, Pakistan has made progress in producing up-to-date and timely Labour Market Information and Analysis. Various projects have been undertaken in this area, which covered not only data collection, but also labour market analysis and capacity development. It is important to note that the labour force survey has been conducted for more than 40 years by the Federal Bureau of Statistics (FBS), which has been regularly reviewed and refined and provides a source of quality information on labour markets in Pakistan at the national and provincial level.

Nevertheless, a number of challenges have persisted, in particular concerning the analysis of labour market information and vis-à-vis policy development. These include:

- Limited integration of labour market analysis and policy development, in part due to lack of coordination among institutions responsible for data collection and users of information and analysis.
- Low awareness of basic international concepts, classifications and definitions among policy makers, social partners and other stakeholders.

- Lack of timely and focused analysis and interpretation of basic labour market and related indicators.
- Lack of data pertaining to topics that are high on the policy agenda such as youth employment and local economic development.

These challenges have gained importance in view of the far stronger emphasis that has recently been placed on the formulation, coordination and monitoring of employment policies, as well as on the role of HRD in economic and social policies in Pakistan (see e.g. Ghayur, 2006, and Planning Commission, 2005).

In this context the Ministry of Labour, Manpower and Overseas Pakistanis in collaboration with the ILO and the United Nations Development Programme (UNDP) initiated the development of a *Labour Market Information and Analysis system*, which became operational in the second half of 2006. The aim of the system is to provide up-to-date and timely Labour Market Information and Analysis that serves as an input into the formulation of decent employment and other policies.

The LMIA system consists of three components which we will discuss in turn:

- (1) Labour Market Information and Analysis Unit
- (2) Institutional arrangements
- (3) Labour market information and analysis tools
 - (a) Analytical tools
 - (b) Reporting tools

(1) The LMIA Unit has been staffed with a team of professionals working on information system development and policy analysis in the employment and labour field. The staff of the Unit is being trained with support from the ILO and other institutions, in particular the FBS. Training activities include on-the-job training, training in general and specific software that can be used for statistical analysis and data management, as well as specialised training in labour market analysis.¹

(2) Institutional arrangements enable the LMIA Unit to effectively bridge the gap between data collection and labour market analysis on the one hand and decent employment and other policy formulation on the other. These arrangements start from the formal and informal linkages of the LMIA Unit as it is located in the institutional set up of the MLMOP. In addition, an *Advisory Panel* has been established which brings together labour market stakeholders and social partners. The Advisory Panel reviews the outputs and activities of the Unit on a regular basis and fosters linkages between data collection, analysis and policy development at the national and provincial level. In this way the Panel ensures continued policy relevance, ownership and sustainability of the Unit.²

(3) The LMIA uses two sets of tools, namely analytical and reporting tools. The approach that has been adopted regarding the analytical tools (3a) is to start with the development of a

¹ See Ministry of Labour, Manpower and Overseas Pakistanis, *Training Workshop on Labour Market Information and Analysis*, March 5-14, Islamabad; in addition, a one day Training Workshop on LMIA was organised in Karachi in April 2007 as part of a GTZ-supported course on *Issues in Economic Statistics* for the benefit of the FBS and the National Institute for Labour Administration and Training (NILAT).

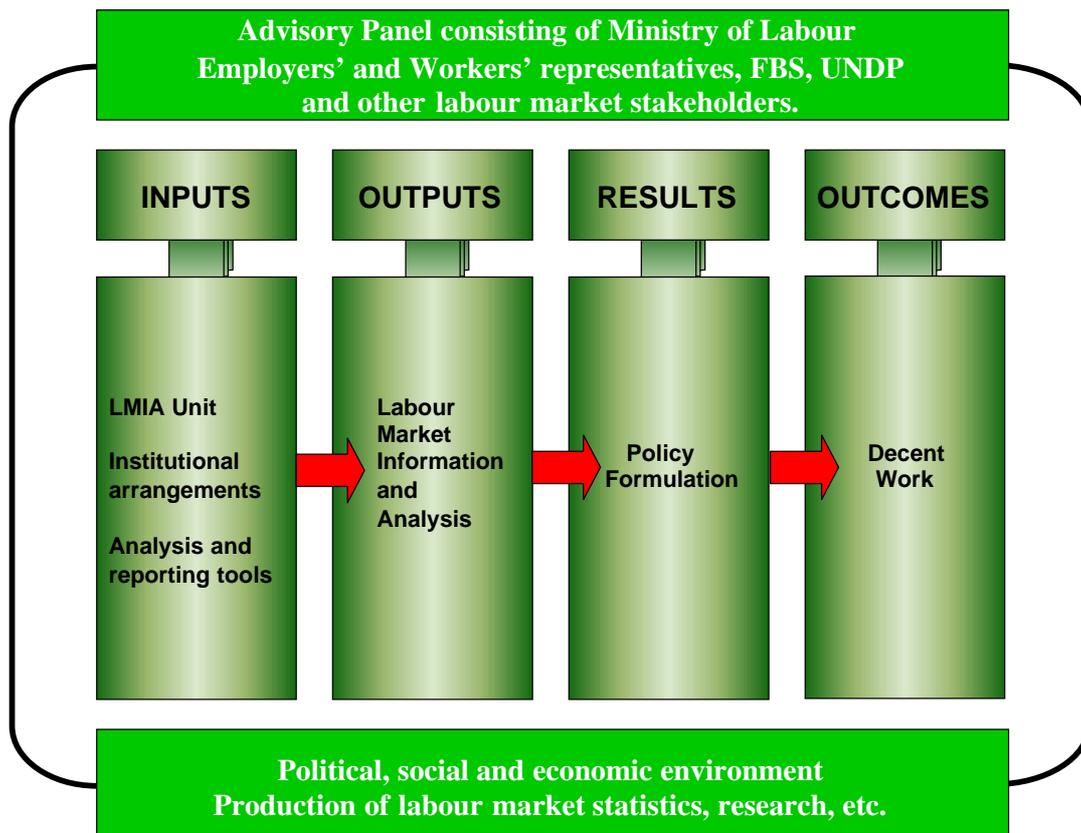
² LMIA activities at the provincial level may justify future provincial Advisory Panels.

national LMIA database containing a limited number of key labour market indicators. These indicators have been identified, produced and stored in accordance with international standards and reflect best practice in LMIA development. Over time, this set of indicators will be expanded in response to the demand for information and the capacity of the LMIA Unit to maintain and update the database.

The national database will be used as a model for the development of provincial and local databases. In terms of contents the latter are not limited to the information stored at national level, but will follow the structure and methodologies underlying the national database that will be set out in subsequent sections of this report.

Regarding the dissemination and reporting tools (3b), the LMIA Unit intends to produce a series of reports on the labour market entitled *Pakistan Employment Trends*. This first issue of *Pakistan Employment Trends* is based on the initial set of key labour market indicators. Future reports will be expanded or adapted in line with the development of the database and the demand for information and analysis, and also include new data on selected topics which will be collected in collaboration with the FBS. The second report, scheduled for later this year, will focus on skills development. The third report will focus on provincial and local labour market information as well as youth labour market issues.³

Diagram 1. The role of LMIA in decent work



³ The third issue of *Pakistan Employment Trends* will also address linkages with employment services in the context of the LMIA system.

The role of the LMIA Unit in the promotion of decent work is illustrated in Diagram 1. The three components of the LMIA system can be seen as inputs into the production of Labour Market Information and Analysis. LMIA, together with other inputs from the government and stakeholders in the social and economic environment, is used to formulate policies which in turn are expected to contribute to the achievement of decent work objectives in Pakistan.

The extent to which decent work objectives are being achieved is monitored by various institutions using a range of instruments. Of particular importance are the activities of the Federal Bureau of Statistics. The LMIA Unit draws on the statistical data produced by the FBS, as well as on research produced by other institutions in Pakistan. As set out before, the Advisory Panel at the top of the diagram guides the activities of the LMIA Unit and provides an opportunity to receive feedback from stakeholders.

1.3 Structure of the report

This issue of *Pakistan Employment Trends* consists of four chapters. The introductory Chapter 1 describes the rationale behind the report, and gives an overview of how it was compiled. Chapter 2 summarizes the global methodology towards monitoring labour markets developed by the International Labour Organization. The approach adopted in Pakistan has been modelled on the ILO's work, translated to the national context. In particular, Chapter 2 highlights a series of Key Indicators of the Labour Market (KILM) which serve as the basis for monitoring Pakistan's labour markets and as a guiding post for LMIA development. Chapter 3 sets out how indicators, as well as other information, are stored in the LMIA database.

Chapters 1-3 provide the background information for the analysis in the last chapter. Analysis will make up the mainstay of future issues of *Pakistan Employment Trends*. Chapter 4 reviews the information that has been collected to date on labour markets in Pakistan, and analyses recent employment trends. Finally, this chapter contains a series of recommendations aiming to better integrate LMIA and policy development.

2. KEY INDICATORS OF THE LABOUR MARKET

The Labour Market Information and Analysis system draws on the Key Indicators of the Labour Market (KILM) developed by the ILO. This section summarizes the background of the KILM programme and highlights the subset of these indicators that is used in subsequent chapters. Annex A1 explains the definition and use of these indicators in detail, mostly based on extracts from ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*. Readers are referred to that document for a comprehensive explanation of the global KILM approach and use of indicators.

2.1 Background of KILM

Data needed for monitoring and assessing the current realities of the world at work is essential for any organization, institution or government that advocates labour-related strategies. In recognition of this, the International Labour Office (ILO) launched the Key Indicators of the Labour Market programme in 1999 to complement the regular data collection programmes and to improve dissemination of data on the key elements of the world's labour markets.

The KILM programme (Box 1 and ILO, 2006) is designed with two primary objectives in mind: (a) to present a core set of labour market indicators; and (b) to improve the availability of the indicators to monitor new employment trends.

Box 1. Key Indicators of the Labour Market

KILM 1.	Labour force participation rate
KILM 2.	Employment-to-population rate
KILM 3.	Status in employment
KILM 4.	Employment by sector
KILM 5.	Part-time workers
KILM 6.	Hours of work
KILM 7.	Employment in the informal economy
KILM 8.	Unemployment
KILM 9.	Youth unemployment
KILM 10.	Long-term unemployment
KILM 11.	Unemployment by educational attainment
KILM 12.	Time-related underemployment
KILM 13.	Inactivity rate
KILM 14.	Educational attainment and illiteracy
KILM 15.	Manufacturing wage indices
KILM 16.	Occupational wage and earning indices
KILM 17.	Hourly compensation costs
KILM 18.	Labour productivity and unit labour costs
KILM 19.	Employment elasticities
KILM 20.	Poverty, working poverty and income distribution

Source: ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

The indicators were initially chosen in a collaborative effort involving the ILO Employment Sector and the Bureau of Statistics in consultation with experts from ILO field offices, the Organisation for Economic Co-operation and Development (OECD) and several national representatives from Ministries of Labour and national statistical offices. The selection of the indicators was based on the following criteria: (a) conceptual relevance; (b) data availability; and (c) relative comparability across countries and regions. The design and presentation of the core indicators has evolved slightly since the first edition. Two new indicators were added in the second edition (2001-2002) – occupational wages and earning indices (KILM 16) and labour market flows (KILM 19). The KILM 4th Edition maintains the 20 indicators with one significant change: the replacement of the labour market flows with that of employment elasticities in KILM 19. Other enhancements to the indicators are identified in ILO (2006, Executive Summary).

2.2 Labour market analysis using multiple KILM indicators – An overview

While more and more countries are producing national unemployment and aggregate employment data, users should be cautioned about the limitations of the statistics if used alone and are urged to take a broader view of labour market developments, necessitating a broader range of statistics. The advantage of using aggregate unemployment rates, for example, is their relative ease of collection and comparability for a significant number of countries. But looking at unemployment (or any other labour market indicator) alone ignores other elements of the labour market that are more difficult to quantify. It is important to realize that unemployment is only one aspect of labour force status.

The first step in labour market analysis, therefore, is to determine the breakdown of labour force status within the population. The working-age population can be broken down into persons who are inactive (outside of the labour force, KILM 13), employed (KILM 2) or not working and seeking work (unemployed, KILM 8). A large share of the population in either unemployment or inactivity, or both, indicates substantial underutilization of the potential labour force and thus of the economic potential of a country. Governments facing this situation should, if possible, seek to analyse the reasons for inactivity, which in turn could dictate the policy choice necessary to amend the situation.

If the majority of the inactive population is made up of women who are not working because they have household responsibilities, the State might wish to encourage an environment that facilitates female economic participation through, for example, the establishment of day care centres for children or flexible working hours. Alternatively, programmes to promote the employment of the disabled could help to lower the inactivity rate if disability is a common reason for inactivity. It is more difficult to recapture persons who have left the labour market because they are ‘discouraged’, i.e. because they feel that no suitable work is available, that they do not have the proper qualifications or because they do not know where to look for work, unless perhaps their confidence can be boosted by participation in training programmes and job-search assistance. Regardless, the correct mix of policies can only be designed by looking in detail at the reasons for inactivity.

Unemployment, as well, should be analysed according to sex (KILM 8), age (KILM 9), length (KILM 10) and education level (KILM 11) in order to gain a better understanding of the composition of the jobless population and therefore to target unemployment policies

accordingly. Other characteristics of the unemployed not shown in the KILM, such as socio-economic background, work experience, etc., could also be important to analyse, if available, in order to determine which groups face particular hardships. Paradoxically, low unemployment rates may well disguise substantial poverty in a country (see KILM 20), whereas high unemployment rates can occur in countries with significant economic development and low incidence of poverty. In countries without a safety net of unemployment insurance and welfare benefits, many individuals, despite strong family solidarity, simply cannot afford to be unemployed. Instead, they must eke out a living as best they can, often in the informal economy or in informal work arrangements within the formal economy. In countries with well-developed social protection schemes or when savings or other means of support are available, workers can better afford to take the time to find more desirable jobs. Therefore, the problem in many developing economies is not so much unemployment, but rather the lack of decent and productive work opportunities for those who are employed.

This brings us to the need to dissect the total employment number as well in order to assess the well-being of the working population, under the premise that not all work is 'decent work'. If the working population consists largely of self-employed or contributing (unpaid) family workers (see KILM 3) then looking at the indicator on the total employed population (KILM 2) loses its value as a normative measure. Are these people employed? Yes, according to the international definition. Are they in decent employment? Possibly not. Although technically employed, some self-employed workers' or contributing family workers' hold on employment is tenuous and the line between employment and unemployment is very thin. If and when salaried jobs open up in the formal economy, this contingent workforce will rush to apply for them. Further assessment should also be undertaken to determine if such workers are generally poor (KILM 20), engaged in traditional agricultural activities (KILM 4), selling goods in the informal market with no job security (KILM 7), working excessive hours (KILM 6a) or wanting to work more hours (KILM 12).

In an ideal world an analysis of labour markets using a broad range of indicators such as those available in the KILM would be an easy matter because the data for each indicator would exist for each country. The reality, of course, is quite different. A glance at KILM table E2 (ILO, 2006), which indicates the availability of KILM data for each country, shows that despite recent improvements in national statistics programmes and in the efficiency of collection on the part of the KILM, many holes still exist whereby data are not available. No country listed has data for all 20 KILM indicators. The closest to perfect coverage are developed economies such as Canada, Denmark and Ireland, which are lacking only the data relating to the informal sector (KILM 7) and Mexico, which lacks coverage in the time-related underemployment indicator (KILM 12).

2.3 Ten selected key indicators

The ten indicators that constitute the initial selection of the Key Indicators of the Labour Market for the purpose of monitoring labour markets in Pakistan are listed in Box 2. These ten indicators have been selected from the internationally adopted set of twenty KILM indicators in view of the capacity constraints of the newly established LMIA Unit as well as some data limitations. As will be shown later in this report the set of ten nevertheless allows for insightful quantifications and analysis of the Pakistani labour market, and more key indicators will be added in subsequent labour market reports.

Box 2. Selected Key Indicators of the Labour Market in Pakistan

KILM 1.	Labour force participation rate
KILM 2.	Employment-to-population rate
KILM 3.	Status in employment
KILM 4.	Employment by sector
KILM 6.	Hours of work
KILM 7.	Employment in the informal economy
KILM 8.	Unemployment
KILM 9.	Youth unemployment
KILM 11.	Unemployment by educational attainment
KILM 14.	Educational attainment and illiteracy

To value and understand these indicators some basic concepts need to be explained first. This explanation is provided in Annex A1, which details the concepts of working-age and non-working-age population, economically active population (current and usual), and the definition of employment. Annex A1 also contains a series of (annex) boxes summarizing the definition and the use of each indicator listed in Box 2.

3. LMIA TOOLS: DATABASE DEVELOPMENT

The indicators and data discussed in the previous chapter need to be stored in a Labour Market Information and Analysis database to facilitate user-friendly access and retrieval, and to allow for analysis of employment trends. This chapter sets out the structure, tables and fields that have been created for these purposes. It will be shown that although the initial database has been developed for the ten selected KILM indicators, the database can conveniently be expanded to include additional indicators as long as certain basic rules and criteria are taken into account.

3.1 Structure and content of the LMIA database

The LMIA database has been created in Microsoft Access. This programme allows for exchange of data and information with other software to manipulate data and use of advanced analytical functions that are not available in Access itself.

As detailed in Box 3, there are currently three groups of tables in the LMIA database, namely:

- (1) Tables with meta information describing the data itself;
- (2) Tables with Key Indicators of the Labour Market; and
- (3) Tables with other information that is relevant for the understanding labour markets in Pakistan.

The relationships linking the tables in the database are graphically presented in Annex A2.

An overview of the indicators in the LMIA database, including the classifications and breakdowns, is presented in Box 4. Annex A1 provides detailed information regarding the international classifications.

3.2 Additional sources of information and data

The ten Key Indicators of the Labour Market can be produced using labour force surveys that are conducted by the FBS. The LMIA database has therefore been populated using data from the four surveys that have been completed since 1999/2000.

A review of sources of data and information has been started and the process of the identification of sources is on-going. The following sources are being considered for inclusion in the database (see Annex A3 for an example of the format that is used for this exercise).

- Establishment and related surveys (FBS)
- Administrative information (MLMOP)
- Education and skills surveys and information

Box 3. The LMIA database

The Labour Market Information and Analysis database has been developed to allow for easy access to and retrieval of information. The basic structure of the database in terms of tables, fields and relationships is as follows.

(1) Tables with meta information

Tables with meta information describe the datasets and data contained in the database. There are two tables with meta information: *Repository* and *Source*.

- Information regarding the repository (institution) of the data is stored in *Repository*. This table has fields with for example:
 - the full title of the publication used to extract the numbers and percentages from
 - the website where the data can be found
 - the institution that produced the data, including its physical address
- The table *Source* contains information on the characteristics of data stored in the database, including:
 - the type of source of the data, for example a household survey, national accounts or a population census,
 - the year to which data refer (e.g. the survey year)
 - whether the coverage of the data is national or not

Meta information is used to produce a *repository code*, and this code is used in turn to link all quantitative data to the source of this data in the meta information tables.

(2) Tables with Key Labour Market Indicators

There are ten tables with Key Indicators, as follows:

KILM 1.	Labour force participation rate
KILM 2.	Employment-to-population rate
KILM 3.	Status in employment
KILM 4.	Employment by sector
KILM 6.	Hours of work
KILM 7.	Employment in the informal economy
KILM 8.	Unemployment
KILM 9.	Youth unemployment
KILM 11.	Unemployment by educational attainment
KILM 14.	Educational attainment and illiteracy

Each table has been designed in line with the description of the indicators and classifications in Annex A1, with appropriate breakdowns according to sex and age (see Box 4 for an overview). Each table also contains a *repository code*, linking the data to the tables with meta information.

(3) Tables with other indicators

These tables contain additional indicators that are relevant to the labour market. Examples are:

- Population and labour force numbers
- GDP growth and GDP by sector
- Enrolment in education and training institutions and programmes

Similar to the KILM indicators, each table contains a *repository code* .

Box 4. Overview of indicators

Table name	Main variable	Classification	Breakdowns	Unit
A1 Population	POP		Sex: MF, F, M Age: 10+, 15+, 15-24	Number
A2 Labour force	LF= EMP+UNEMP		Sex: MF, F, M Age: 10+, 15+, 15-24	Number
B1 GDP growth	GDPG			%
B1 GDP by sector	GDP	<i>International Standard Classification of all Economic Activities (ISIC – Rev. 2, 1968)</i>		%
KILM 1 Labour force participation rate	LFPR= LF/POP		Sex: MF, F, M Age: 10+, 15+, 15-24	%
KILM 2 Employment-to-population-rate	EPR= EMP/POP		Sex: MF, F, M Age: 10+, 15+, 15-24	%
KILM 3 Status in employment	EMP	<i>International Classification by Status in Employment (ICSE 1993)</i>	Sex: MF, F, M Age: 10+, 15-24	%
KILM 4 Employment by sector	EMP	<i>International Standard Classification of all Economic Activities (ISIC – Rev. 2, 1968)</i>	Sex: MF, F, M Age: 10+, 15-24	%
KILM 6 Hours of work	EMP	1-19, 20-29, 35-39, 40-44, 45-49, 50-59, 60+	Sex: MF, F, M Age 10+, 15-24	%
KILM 7 Employment in the informal economy	EMP	<i>ICLS Resolution concerning employment in the informal sector (1993)</i>	Sex: MF, F, M Age: 10+, 15-24	%
KILM 8 Unemployment	UNEMP		Sex: MF, F, M Age: 10+, 15-24	Number %
KILM 9 Youth unemployment	UNEMP		Sex: MF, F, M Age: 15-24	%
KILM 11 Unemployment by educational attainment	UNEMP	<i>International Standard Classification of Education (ISCED 97)</i>	Sex: MF, F, M Age: 10+, 15-24	%
KILM 14 Educational attainment and illiteracy	LF	<i>International Standard Classification of Education (ISCED 97)</i>	Sex: MF, F, M Age: 10+, 15-24	%

3.3 Provincial and local LMIA

All indicators will be produced and stored at the national as well as the provincial level.

In addition, the national database will be used as a model for the establishment of a Labour Market Information and Analysis database at provincial and district levels on a pilot basis.

In terms of contents the provincial and district databases are not limited to the information stored at national level, but will follow the structure and methodologies underlying the national database set out before. There will not be a need for remote access to the national database, and exchange of data and information will take place using email, CDs or other devices.⁴ This prevents the reliance on sophisticated infrastructure which is not always available, especially at the provincial and district levels.

⁴ The national database will be made accessible for users, including users in provinces, on the internet.

4. EMPLOYMENT TRENDS

The preceding chapters set out the approach towards the development of an effective Labour Market Information and Analysis system in Pakistan, and highlighted a number of important concepts and definitions that are used internationally to analyse labour markets. This chapter analyses the information that has been captured in the database to date. This information covers the set of selected KILM indicators (Box 2), which are based on labour force survey data, as well as other indicators.

We start with a summary of economic and labour market developments and policies and then proceed with a detailed examination of the labour market. A number of employment policy issues will be highlighted, some of which will be taken up in future issues of *Pakistan Employment Trends*.

4.1 Summary of economic and labour market developments

4.1.1 Macroeconomic context

Pakistan's recent macroeconomic performance has been impressive. Growth in gross domestic product (GDP) has accelerated since the beginning of the decade (Table 1), and according to the IMF's staff appraisal Pakistan's economy continues to gain momentum benefiting from private transfers, textile exports, and foreign investment, despite security and governance concerns. The medium term fiscal framework is deemed broadly appropriate with key public and external debt indicators projected to continue improving, even though some remain very high by emerging market standards (IMF, 2005).

Table 1. Economic growth (%)

	1990s	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
GDP growth	4.6	3.9	2.0	3.1	4.7	7.5	8.6	6.6
Agriculture	4.4	6.1	-2.2	0.1	4.3	2.3	6.7	2.5
Manufacturing	4.8	1.5	9.3	4.5	6.9	14.0	12.6	8.6
Commodity producing sector	4.6	3.0	0.8	1.4	4.3	9.2	9.2	4.3
Services sector	4.6	4.8	3.1	4.8	5.2	5.9	8.0	8.8

Source: Finance Division, 2006, *Economic Survey 2005-06*.

4.1.2 Employment policies and labour market targets

Building on the improved macroeconomic foundation the Medium Term Development Framework (MTDF) for 2005-10 focuses on sustaining high economic growth rates, establishing a just and sustainable economic system for reducing poverty and achieving the Millennium Development Goals (MDGs). The overall MTDF target for poverty reduction is 21 per cent by 2010, within the framework of the MDG target of 13 per cent by 2015.

The economic strategy includes (Planning Commission, 2005):

- (i) in agriculture, besides crops, development of livestock and fisheries;
- (ii) in manufacturing, enhancement of the production base;
- (iii) expansion of the social and physical infrastructure;
- (iv) providing an enabling environment to foster local and foreign investment and enhance both public and private savings.

The MTDF discusses investment plans, sectoral development plans and assumptions and risks in detail. Central in the framework is the area of human resource development, which, together with physical infrastructure, has been identified as a key constraint in Pakistan. Sustained high economic growth rates require greater investment in social sectors such as education and training.

Employment growth is projected to increase from 2.8 per cent in 2005-06 to 3.3 per cent in 2009-10. By 2009-10, the unemployment rate should be reduced to 4.0 per cent. The strategy of employment intensive economic growth particularly focuses on agriculture, livestock, industry including small and medium enterprises, telecommunications and information technology, services, housing and construction and natural resources. Employment expansion is expected to reduce the high income inequality in Pakistan.

Apart from employment expansion policies, which include public works programs, employment policies consist of employment activation policies ('employee enhancement') and employment safety net policies ('employee protection'). Employment activation policies include training in the context of an expanding education and training system that meets the needs of the economy and fosters productivity growth. Technical and vocational training will play an enhanced role based on a new governance system and a larger coverage of the eligible population. Increasing annual training capacity to one million has been set as a medium term target. Another important element of employment activation policies consists of microfinance services for self-employment, which support people to run their own business.

Employee protection policies include minimum wage policies that aim to lift households out of the poverty trap and reduce or eliminate the number of working poor. Employee protection policies also include social security programs.

A new Labour Policy document was adopted in 2002 (Ministry of Labour, Manpower and Overseas Pakistanis, 2002). Among other objectives, the policy envisages a consolidation or rationalization of labour legislation that is currently in progress, and specific goals/targets have been set regarding particular policies.

Finally, it should be noted that comprehensive national policies are under development in the areas of (i) employment; (ii) overseas migration; and (iii) human resource development.

4.1.3 Labour market developments

Pakistan's macroeconomic performance and renewed employment policy framework provide the basis for a move towards the achievement of decent employment objectives. The review of labour market developments in this report aims to establish to which extent this is happening, and to make recommendations on how better labour market outcomes can be achieved making optimal use of labour market information and analysis.

Examination of labour market developments since 1999-2000 using labour force survey and other data provides evidence that improvements have been achieved in opportunities for work and equity in work. As shown in Table 2, labour force participation, employment and unemployment indicators have changed in line with higher economic growth rates in recent years. The labour force participation rate has increased by 3.2 percentage points since the beginning of the decade, the employment-to-population rate increased by 3.6 percentage points and the unemployment rate decreased by 1.6 percentage points. The decrease in unemployment occurred despite the increase in labour force participation, suggesting a strong absorptive capacity of the economy.

Women benefited in particular from the improvement in labour market performance, with the female unemployment rate registering single digits for the first time, while an important part of the improvement is explained by the labour market position of the youth (aged 15 to 24). Overall, an average annual employment growth rate of more than four percent was achieved during 2000-2006, which exceeds the targeted growth rate of the MTFD for the second half of the decade (projected at around three per cent).

The record regarding other dimensions of decent employment such as productivity, security at work and dignity at work as captured in the structure of employment is less impressive, and suggests persistent labour market imbalances and challenges. The examination of hours of work, status in employment and employment in the informal economy shows that the structural change taking place in the Pakistani economy, as reflected in the increasing share of industry and the decreasing share of agriculture in total employment (Table 2), is not yet benefiting the bulk of workers that lack decent employment.

Work in the informal economy increased from 66 per cent of the non-agricultural employment in 1999-2000 to 73 per cent in 2005-2006. During the same period, wage and salaried employment increased by not more than 1.7 percentage points of the employed, and the size of the status group of own account workers decreased by more than seven percentage points. The proportion of the employed working excessive hours declined slightly, but only because the proportion of females in total employment increased. The proportion of male workers working excessive hours rose to more than 47 per cent.

Despite recent gains in terms of employment and unemployment, the labour market indicators reviewed highlight the gender gap in labour markets in Pakistan. Women continue to be underutilized in the economy and labour market as reflected in their overall participation as well as the distributions in terms of economic sector and status groups. Qualitative changes in employment and work prove to be much more difficult to achieve than increasing participation.

Two important areas that can either hamper or facilitate structural change in the labour market are human resource development and labour market institutions. Preliminary review of HRD in Pakistan shows the low educational attainment of the labour force, and the large gender gap in this area. Similarly, a review of selected labour market indicators and research points at shortcomings of labour market institutions including legislation and regulation. Both areas warrant further investigation and improved linkage of policy objectives with labour market monitoring and evaluation.

Table 2. Selected key indicators of the labour market (%)

10+	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
Labour force participation rate					
Both sexes	42.8	43.3	43.7	46.0	+3.2
Males	70.4	70.3	70.6	72.0	+1.6
Females	13.7	14.4	15.9	18.9	+5.2
Employment-to-population rate					
Both sexes	39.5	39.8	40.4	43.1	+3.6
Males	66.1	65.6	66.0	68.0	+1.9
Females	11.3	12.1	13.9	17.2	+5.9
Unemployment rate					
Both sexes	7.8	8.3	7.7	6.2	-1.6
Males	6.1	6.7	6.6	5.4	-0.7
Females	17.3	16.5	12.7	9.3	-8.0
Share of industry in total employment					
Both sexes	18.0	20.8	20.3	20.7	+2.7
Males	19.5	21.7	21.4	22.1	+2.6
Females	9.0	15.6	15.0	14.9	+5.9
Share of agriculture in total employment					
Both sexes	48.4	42.1	43.0	43.4	-5.0
Males	44.4	38.2	38.1	37.2	-7.2
Females	72.9	64.6	67.3	68.9	-4.0
Share of trade in total employment					
Both sexes	13.5	14.9	14.8	14.7	+1.2
Males	2.6	1.9	1.7	2.1	-0.5
Females	15.3	17.1	17.5	17.7	+2.4
Share of wage and salaried employees in total employment					
Both sexes	35.6	39.9	37.9	37.3	+1.7
Males	36.0	40.3	39.2	40.0	+4.0
Females	33.1	37.1	31.2	25.7	-7.4
Share of the employed working 50 hours or more					
Both sexes	41.3	40.2	42.2	40.1	-1.2
Males	45.9	44.8	48.3	47.4	+1.5
Females	13.0	13.5	11.9	9.5	-3.5
Share of the employed in agriculture working 50 hours or more					
Both sexes	40.3	36.9	36.6	31.2	-9.1
Males	47.7	43.5	45.8	41.5	-6.2
Females	12.9	14.0	11.1	8.2	-4.7
Share of the employed in trade working 50 hours or more					
Both sexes	63.7	62.1	68.8	67.6	+3.9
Males	64.5	62.8	69.7	68.5	+4.0
Females	35.3	25.7	21.9	38.2	+2.9

Source: FBS, various years, *Pakistan Labour Force Survey*.

4.2 Towards decent employment in Pakistan – Analysis of Key Indicators of the Labour Market

Labour Market Information and Analysis for decent employment policy formulation, monitoring and evaluation can be produced using a variety of sources of data and information. These include household surveys, establishment surveys, administrative information, national accounts and so on. Among these sources household surveys, in particular labour force surveys based on questionnaires administered at the household level, have a special position. These surveys allow for a comprehensive quantification of the labour market in terms of the labour force, employment and unemployment, disaggregated as appropriate, as well as an analysis of numerous aspects of employment and unemployment. Such a comprehensive quantification serves not only to directly analyse labour markets and inform employment and labour policies, but also provides benchmark information against which information from other sources can be assessed.

For these reasons we start the analysis with an examination of indicators which are based on labour force survey data since 2000. The indicators used in the analysis are part of the ILO's set of Key Indicators of the Labour Market which has been developed to monitor labour markets at the global, regional and country level.

Given the focus of *Pakistan Employment Trends* on employment, as well as limitations in both analytical capacity and availability of comprehensive data, the current report cannot examine all dimensions of decent work. In particular, indicators and issues regarding rights at work, social protection and social dialogue are not examined in much detail. It will nevertheless be shown that a set of selected indicators can provide important insights into the extent to which the labour market is generating decent work or not.⁵

⁵ For more information on decent work in Pakistan see the websites of the ILO: <http://www.ilo.org> and <http://www.ilo.org.pk>.

4.3 Population and labour force

Three widely used indicators to characterize labour markets are the labour force participation rate, the employment-to-population rate and the unemployment rate. As will be shown below these indicators can be used, together with other information and indicators, to assess several dimensions of decent work listed in Chapter 1, namely *opportunities for work* and *equity in work*.

The overall population and labour force figures that have been used to calculate the indicators in Pakistan are those that were available at the time of publication of the respective national labour force survey reports (see Table 3). Subsequent revisions have thus not been taken into account. It should be noted that these revisions only affect the size of the population and labour force, and not the distributions presented in most of the tables that follow.

The national population at the beginning of 2006 was estimated at 155.4 million people, and the average annual growth rate of the population during 2000-2006 was around two per cent. Most of the population is concentrated in Punjab and Sindh, while Balochistan is by far the least populated province. Around two thirds of the population is living in rural areas.

Table 3. Population and labour force (millions)

Pakistan	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006
Population	136.0	145.8	148.7	155.4	+19.4
Urban	43.0	47.4	49.7	52.1	+9.1
Rural	93.0	98.4	99.0	103.3	+10.3
Population 10+	92.1	99.6	103.4	108.8	+16.7
Punjab	57.1	58.3	59.3	61.9	+4.8
Sindh	19.7	23.3	25.7	27.0	+7.3
NWFP	11.7	13.6	13.6	14.9	+3.2
Balochistan	3.6	4.3	4.8	5.0	+1.4
Labour force 10+	39.4	43.1	45.2	50.1	+10.7
Punjab	25.8	27.0	27.8	30.3	+4.5
Sindh	7.7	9.4	10.4	11.6	+3.9
NWFP	4.5	4.9	5.0	5.9	+1.4
Balochistan	1.4	1.7	1.9	2.3	+0.9

Source: FBS, various years, *Pakistan Labour Force Survey*.

The first indicator, the labour force participation rate, is defined as the ratio of the labour force (or economically active population) to the working-age population (see Annex A1). The latter consists in the case of Pakistan of all individuals aged ten years and above, while the labour force consists of the sum of the employed and the unemployed. The labour force participation rate (LFPR) is an indicator of the magnitude of the supply of labour in the economy, which can be used as an important planning instrument in the design of human resource development policies in general and employment and training policies in particular.

Table 4. Labour force participation rate (KILM 1, %)

Pakistan	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
National - both sexes					
10+	42.8	43.3	43.7	46.0	+3.2
15+	50.4	50.5	50.7	53.0	+2.6
National – males					
10+	70.4	70.3	70.6	72.0	+1.6
15+	83.2	82.7	82.7	84.0	+0.8
National – females					
10+	13.7	14.4	15.9	18.9	+5.2
15+	16.3	16.2	18.0	21.1	+4.8
Urban (10+)					
Both sexes	38.1	39.9	39.2	40.7	+2.6
Males	65.0	66.9	67.1	68.7	+3.7
Females	8.8	10.0	9.4	10.6	+1.8
Rural (10+)					
Both sexes	45.1	45.2	46.2	48.9	+3.8
Males	73.1	72.2	72.6	73.8	+0.7
Females	16.1	16.8	19.5	23.4	+7.3
Provincial - both sexes (10+)					
Punjab	45.1	46.3	47.0	48.9	+3.8
Sindh	39.1	40.5	40.5	42.9	+3.8
NWFP	38.7	36.4	37.2	39.7	+1.0
Balochistan	39.2	40.2	40.0	45.2	+6.0
Provincial - males (10+)					
Punjab	72.7	71.6	71.8	72.6	-0.1
Sindh	67.0	70.4	70.8	72.7	+5.7
NWFP	65.4	65.2	65.7	68.0	+2.6
Balochistan	69.0	68.0	68.1	71.5	+2.5
Provincial - females (10+)					
Punjab	16.8	19.9	21.8	24.9	+8.1
Sindh	6.9	6.1	6.6	9.1	+2.2
NWFP	12.1	7.2	10.2	13.0	+0.9
Balochistan	5.1	6.0	7.6	12.6	+7.5
South Asia (15+)	2000	2002	2004		
Both sexes	60.2	60.2	60.0		
Males	83.3	82.8	82.2		
Females	35.9	36.3	36.8		
East Asia (15+)	2000	2002	2004		
Both sexes	76.9	76.0	75.0		
Males	83.7	82.9	82.0		
Females	69.8	68.8	67.7		

Source: FBS, various years, *Pakistan Labour Force Survey*, and ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

The labour force participation rate in Pakistan is low if considered from a global or regional perspective (see Table 4). Globally, the LFPR amounted to around 66 per cent during 2000 to 2004 for the age group fifteen and above, but important regional differences can be observed. High rates can be found in East Asia, while low rates are registered in the Middle East and North Africa (ILO, 2006). Closer to Pakistan, the regional average in South Asia was 60.0 per cent in 2004,⁶ much higher than Pakistan's rate at 50.7 per cent for this age group.

Considering participation rates at the provincial level, Table 4 shows that the LFPR is highest in Punjab, and that there are large differences with the other three provinces for all survey years. Particularly low are female labour force participation rates in Sindh, NWFP and Balochistan. Rural rates are higher than urban rates, especially for women. The female rural labour force participation rate was more than twice the female urban rate in 2005-2006.

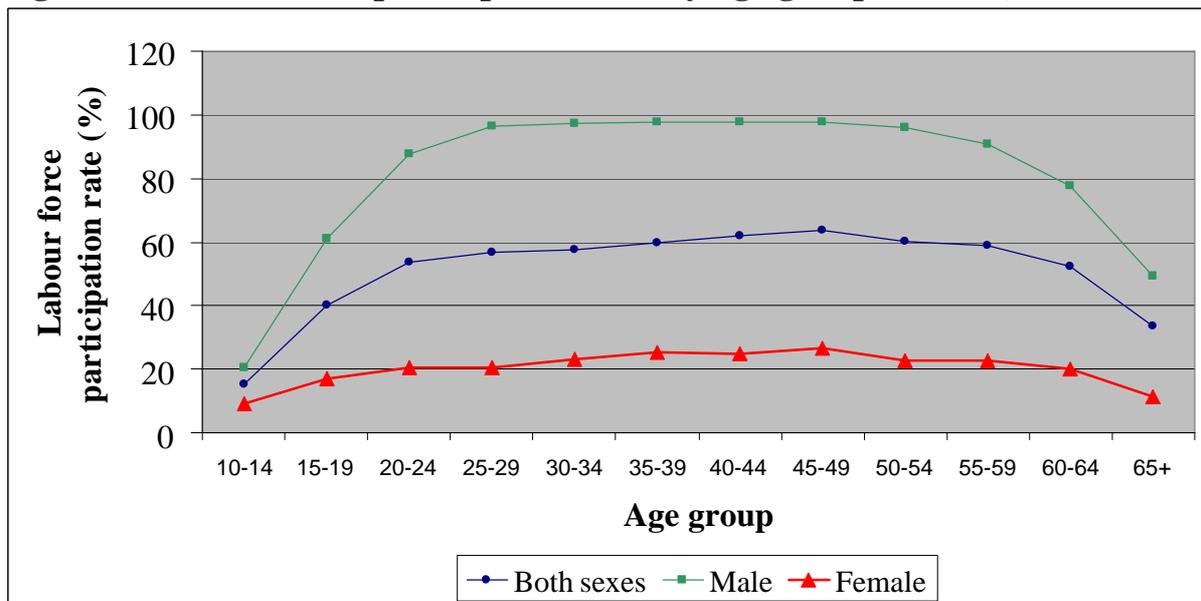
Several observations can be made regarding Pakistan's relatively low LFPR. Apart from the participation rates reported in Table 4, the Federal Bureau of Statistics (FBS), the agency responsible for conducting labour force surveys in Pakistan, produces higher rates which are based on a list of specific questions that aim to better capture employment by women (FBS, 2004, p. 14). Taking these questions into account for 2005-2006, for example, would result in a female LFPR of 41.1 per cent for the age group ten and above as opposed to the 18.9 per cent reported in Table 4, and the national LFPR would accordingly rise to 57.1 per cent. What these 'augmented' rates really mean is somewhat confusing. Although some countries always include the list of specific activities in their measurement of participation rates, others continue to treat them separately for various reasons, including the possible 'marginal' nature of these activities.⁷

The most important factor contributing to Pakistan's (as well as South Asia's) relatively low LFPR is indeed the low participation rate of women that is measured in household surveys. As shown in Figure 1, participation rates for males rapidly rise with age to close to 100 per cent for the 25-29 age bracket and remain at that level until the 50-54 age bracket. There is therefore little scope to increase male participation rates if this would be an objective of employment policies. Age specific participation rates for females on the other hand increase much slower with age and hardly rise above the 25 per cent. Adopting the augmented rates produced by the FBS would reduce but certainly not eliminate the gender gap in participation rates, and as is shown below this gap is also manifest in other labour market indicators in Pakistan.

⁶ South Asia comprises of, apart from Pakistan, Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka.

⁷ Adopting the augmented rates would result in inconsistencies between the measurement of employment on the one hand and the measurement of production on the other in Pakistan.

Figure 1. Labour force participation rate by age group and sex, 2006



Source: FBS, 2006, *Pakistan Labour Force Survey 2005-2006*.

Turning to the development of the participation rate over time, it can be noted that until recently this indicator showed little change, even if long periods are considered. Both in 1980 and in 1990, the ILO registered 49.3 per cent for Pakistan, not that much different from the 50.7 per cent in Table 4 for 2003-2004. However, the results from the labour force survey conducted in 2005-2006 show a rise in participation rates. The difference with the preceding survey year (2003-2004) amounts to 2.3 percentage points for the age group ten and above, which is mostly explained by the increase in female rates (an increase of 3.0 percentage points as compared with 1.4 for males). In Balochistan, female participation increased by 5.0 percentage points and in Punjab by 3.1 percentage points.

The rise in labour force participation is related to economic growth rates. Economic growth has been robust in recent years, and macroeconomic performance in general has been impressive in Pakistan. In particular, the last four years registered economic growth in excess of the average during the 1990s (4.6 per cent, see Table 1). In this high growth environment people have benefited from new employment opportunities which, as is shown below, is confirmed by decreasing unemployment rates. Policies to lower social, cultural barriers and other barriers for female labour force participation may have contributed to this positive scenario.

4.4 Employment and unemployment

Employment-to-population rates are becoming increasingly popular to analyse labour markets. The employment-to-population rate (EPR) is defined as the proportion of the working-age population that is employed, expressed as a percentage (see Annex A1). Similar to the labour force participation rate, the employment-to-population rate in Pakistan is relatively low if considered from an international perspective (see Table 5). This is no coincidence, as the employed constitute the major part of the labour force and the low LFPR in Pakistan is to an important extent due to the low EPR for women.

Although the male EPR in Pakistan for the age group fifteen and above is close to the average in South Asia (15+) in recent years, the difference in the female EPR between Pakistan and South Asia amounts to around 20 percentage points. In comparison with the East Asian female EPRs, this gender gap is more than 50 percentage points for each of the years 2000, 2002, 2004 and 2006.⁸ In Sindh, NWFP and Balochistan the gap is even more pronounced.

The 2005-2006 labour force survey shows an important change in employment-to-population rates that in particular benefits women. Following a period during which rates increased slowly (0.9 percentage points between 1999-2000 and 2003-2004), the male employment rate increased by 2.1 percentage points, and the female employment rate by 3.3 percentage points between 2003-2004 and 2005-2006 for the age group ten and above. In the case of female employment, this increase follows an already strong rise between 2003-2004 and 2001-2002, resulting in an overall positive change of almost six percentage points since 2000.

Overall labour supply in the economy consists of the employed as well as the unemployed. The unemployment rate, defined as the quotient resulting from dividing the total number of unemployed by the corresponding labour force in terms of age, sex or geographic area, measures the part of labour supply that is not utilized (Annex A1). The standard definition that is used to measure the number of unemployed persons is those individuals without work, seeking work in a recent past period, and currently available for work. Labour market analysts often promote the measurement of unemployment according to the 'relaxed definition', meaning relaxing the criterion of seeking work, in situations in which the application of this criterion is likely to undercount the untapped human resources of a country. In Pakistan, the unemployment rate measured on the basis of the relaxed definition is the one most widely quoted, which is justified given the limited relevance of conventional means of seeking work, as reflected in the size of the informal economy and the large proportion of the self-employed in overall employment which will be discussed in a later section.

⁸ This gap would be reduced, but not closed, if the list of economic activities discussed before would be included in the calculation of the female employment-to-population rates.

Table 5. Employment-to-population rate (KILM 2, %)

Pakistan	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
National - both sexes					
10+	39.5	39.8	40.4	43.2	+3.7
15+	46.8	46.5	47.0	49.7	+2.9
National – males					
10+	66.1	65.6	66.0	68.1	+2.0
15+	78.6	77.6	77.6	79.6	+1.0
National – females					
10+	11.3	12.1	13.9	17.2	+5.9
15+	13.7	13.6	15.6	19.0	+5.3
Urban (10+)					
Both sexes	34.4	36.0	35.4	37.5	+3.1
Males	60.2	61.7	61.5	63.9	+3.7
Females	6.2	7.6	7.6	8.9	+2.7
Rural (10+)					
Both sexes	42.0	41.8	43.1	46.3	+4.3
Males	69.1	67.8	68.5	70.4	+1.3
Females	13.8	14.4	17.3	21.6	+7.8
Provincial - both sexes (10+)					
Punjab	41.3	42.4	43.5	46.0	+4.7
Sindh	37.8	38.4	38.1	41.0	+3.2
NWFP	34.1	31.6	32.4	35.0	+0.9
Balochistan	36.4	37.1	36.7	43.8	+7.4
Provincial - males (10+)					
Punjab	67.6	66.6	67.0	68.4	+0.8
Sindh	65.5	67.6	67.4	69.8	+4.3
NWFP	60.0	58.0	59.0	62.5	+2.5
Balochistan	65.6	64.2	63.8	69.6	+4.0
Provincial – females (10+)					
Punjab	14.2	17.1	19.7	23.2	+9.0
Sindh	6.0	4.9	5.3	8.4	+2.4
NWFP	8.3	4.9	7.2	9.2	+0.9
Balochistan	2.9	3.8	5.5	11.8	+8.9
South Asia (15+)	2000	2002	2004		
Both sexes	57.5	57.4	57.2		
Males	79.8	79.2	78.5		
Females	34.1	34.5	34.8		
East Asia (15+)	2000	2002	2004		
Both sexes	73.9	73.1	72.3		
Males	80.0	79.3	78.6		
Females	67.6	66.7	65.7		

Source: FBS, various years, *Pakistan Labour Force Survey* and ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

Table 6. Unemployment rate (KILM 8, %)

Pakistan	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
National - both sexes					
10+	7.8	8.3	7.7	6.2	-1.6
15+	7.2	7.8	7.4	6.1	-1.1
National – males					
10+	6.1	6.7	6.6	5.4	-0.7
15+	5.5	6.2	6.2	5.2	-0.3
National – females					
10+	17.3	16.5	12.7	9.3	-8.0
15+	15.8	16.4	12.9	9.6	-6.2
Urban (10+)					
Both sexes	9.9	9.8	9.7	8.0	-1.9
Males	7.5	7.9	8.4	6.9	-0.6
Females	29.6	24.2	19.8	15.7	-13.9
Rural (10+)					
Both sexes	6.9	7.6	6.7	5.4	-1.5
Males	5.4	6.1	5.6	4.6	-0.8
Females	14.0	14.1	10.9	7.7	-6.3
Provincial - both sexes (10+)					
Punjab	8.5	8.5	7.4	6.0	-2.5
Sindh	3.2	5.1	6.0	4.4	+1.2
NWFP	12.0	13.1	12.9	11.8	-0.2
Balochistan	7.1	7.8	8.2	3.2	-3.9
Provincial - males (10+)					
Punjab	7.0	7.0	6.7	5.7	-1.3
Sindh	2.2	4.0	4.8	4.0	+1.8
NWFP	8.4	11.0	10.1	8.2	-0.2
Balochistan	4.9	5.6	6.3	2.7	-2.2
Provincial – females (10+)					
Punjab	15.3	14.4	9.6	6.9	-8.4
Sindh	13.7	19.8	19.6	8.2	-5.5
NWFP	31.4	32.1	29.4	29.6	-1.8
Balochistan	42.2	37.4	27.7	6.5	-35.7
South Asia (15+)	2000	2002	2004		
Both sexes	4.5	4.6	4.8		
Males	4.3	4.3	4.5		
Females	5.0	5.1	5.2		
East Asia (15+)	2000	2002	2004		
Both sexes	3.9	3.8	3.6		
Males	4.5	4.4	4.2		
Females	3.1	3.1	2.9		

Source: FBS, various years, *Pakistan Labour Force Survey* and ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

From an international perspective the unemployment rates measured on the basis of the relaxed definition are high in Pakistan (Table 6), albeit on a decreasing trend. The decrease in the unemployment rate between 2003-2004 and the preceding survey (from 8.3 to 7.7 per cent) is strongly continued in the 2005-2006 survey (from 7.7 to 6.2 per cent). The latter decrease is particularly noteworthy for women, as the female unemployment rate declined for the first time to single digit levels in 2005-2006. This is a significant improvement in comparison with the high rates registered early in the decade (17.3 per cent in 1999-2000, 29.6 per cent in urban areas).

Unemployment rates at the provincial level do not necessarily follow the national trends. In Sindh, the provincial unemployment rate increased during the period 1999-2000 to 2005-2006, even though the female unemployment rate decreased. The decrease in the female unemployment rate during the same period in Balochistan, by almost 36 percentage points, warrants further investigation.

Table 7 shows unemployment rates based on a strict definition (available for work and seeking work during the past four weeks). As can be expected, the strict rate is considerably lower than the relaxed rate, and more in line with the regional average in South Asia. The difference between male and female rates when both are measured using the strict definition however continues to be much more pronounced in Pakistan than in South Asia as a whole.

Table 7. Unemployment rate (strict definition, %)

Labour force 15+	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
National - both sexes					
10+	5.4	5.7	5.1	4.4	-1.0
15+	4.7	5.2	4.8	4.3	-0.4
National - males					
10+	4.2	4.4	4.3	3.8	-0.4
15+	3.7	3.9	4.0	3.6	-0.1
National - females					
10+	11.9	12.2	8.8	6.7	-5.2
15+	10.6	11.9	8.9	7.0	-3.6

Source: FBS, various years, *Pakistan Labour Force Survey*.

4.5 Improved labour market prospects

The review of labour market indicators undertaken so far suggests that the state of the labour market has considerably improved in Pakistan since 2000. In absolute figures, the increase in the employment-to-population rate since 1999-2000 (by 3.7 percentage points) translates into more than three million additional employed persons if the population during this period would have remained the same. If population growth is duly taken into account (in the denominator of the EPR), the total net increase in the employed population since 1999-2000 (including the rise in the EPR) amounts to 10.6 million persons, or an average annual rate of employment growth of more than four percent. Employment growth during the first half of the decade thus exceeds the targeted growth rate of around three per cent envisaged for the second half of the current decade in the MTFD.

This significantly better labour market performance raises several questions. A first question is whether part of the measured employment expansion has been the effect of changes in the way the labour force survey has been conducted. A second question is, if the improvement is real, whether it can be expected to continue if growth rates continue at their present levels. A third and final question is whether we are moving in the direction of decent employment in Pakistan? We will look at each of these questions in turn.

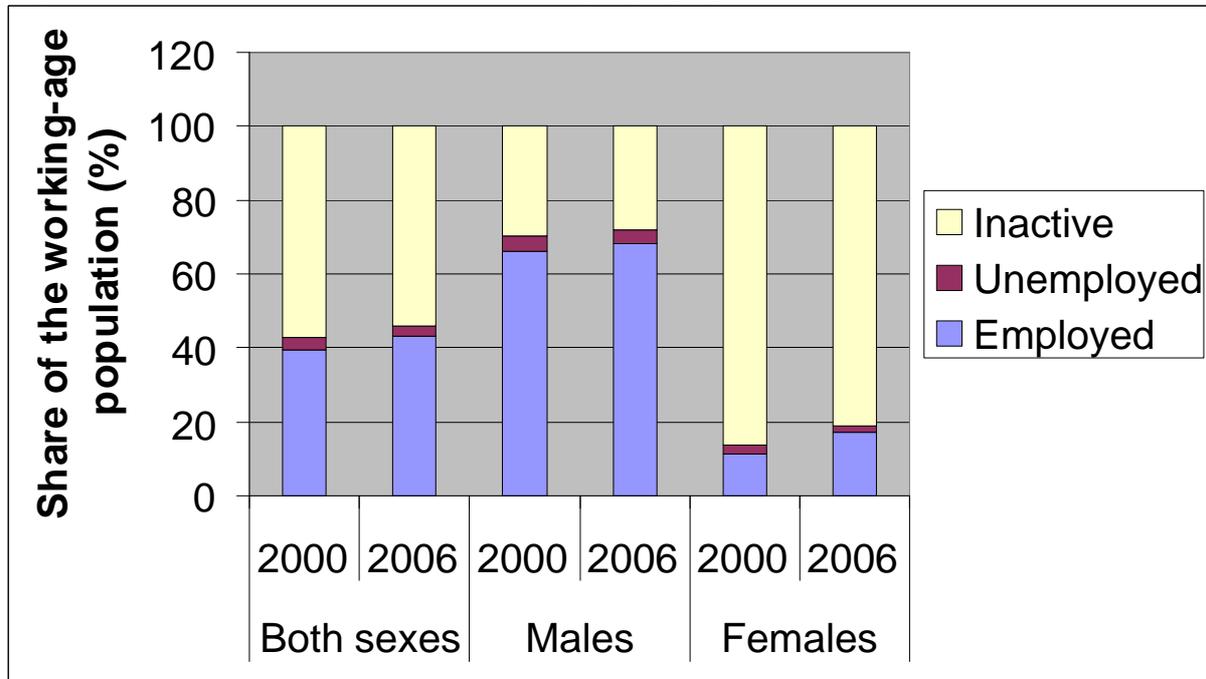
It should be noted that the most recent labour force survey (2005-2006) methodologically differs from preceding surveys as the FBS introduced quarterly as opposed to annual surveys and reports starting with this year. Although this change entailed an expansion of the sample and interview schedule, no substantive changes in the methodology of data collection have been made. The results from the four quarters taken together should therefore be comparable with previous years, and provide for the additional benefit of allowing for an analysis of seasonal labour market patterns.

Turning to the second question, and looking at the regional averages in South Asia and East Asia, there certainly is much scope for continued increase in participation and employment rates in Pakistan, especially if barriers to female employment are removed and women can become more active in the labour market. At the same time it must be realised that a future increase in especially the LFPR is likely to be countered by increasing participation of the youth in education and training if current policies aiming to expand the education and training system prove to be successful. In other words, continued economic growth will not necessarily be reflected in a higher national LFPR, but may have important effects on other labour market indicators, and in particular indicators showing the position of women and youth in the labour market.

The LFPR, EPR and unemployment rate show an improvement in opportunities for work in accordance with recent economic growth rates. Given the enormous gender gap in all three indicators the improved female rates should in particular be welcomed as they signify some movement towards equity in the labour market (see Figure 2). The figure however also illustrates that there remains a huge untapped potential in the labour market. The large difference between the participation rate and the 'augmented' participation rate for women can be considered as an indication of this potential.

Another policy concern is unemployment among males as well as females. Even though rates are mostly decreasing, the number of unemployed is still counted in millions of people (3.1 million in 2005-2006, and more research is needed to establish how these people can be assisted. Investigations should cover the qualifications and experience of the unemployed, and how they can benefit from new opportunities to gain decent employment.

Figure 2. Distribution of the working-age population, 2000 and 2006



Source: FBS, various years, *Pakistan Labour Force Survey*.

Opportunities for work and equity in work also affect people's perception of the economic situation. It is therefore interesting to note that the results of the 2004-2005 Pakistan Social and Living Standards Measurement (PSLM) Survey showed that the number of people perceiving positive change (in comparison with the year preceding the survey) exceeded those perceiving a worsening of the situation (FBS, 2005, Table 5.1). However, the PSLM also estimates that more than half of the population perceived no change in their economic situation.

Indicators showing opportunities for work do not provide information on the structure of employment. We continue this report with an examination of labour market indicators that provide such information, and are either directly related to the concept of decent work or capture key aspects of the economic and social context of decent work.

4.6 Structure of employment

The three indicators examined before concern the size and breakdown of the economically active population into employed and unemployed. We now analyze a series of indicators that can be used to understand the nature of employment, namely hours of work, employment by sector, employment by status and employment in the informal economy. These indicators not only serve to further investigate *opportunities for work* and *equity in work*, but also speak to other dimensions of decent work that have been listed in Chapter 1 such as *productive work*, *security at work* and *dignity at work*.

4.6.1 Hours of work

Productive work is essential for workers to have acceptable livelihoods for themselves and their families, as well as to ensure sustainable development and the competitiveness of enterprises and countries. One way to gain insight in the extent to which work is productive is an examination of hours of work. Although hours worked vary greatly across countries and regions, and nothing can be assumed about how many hours people might wish to work, a 'normal' or 'full-time' work-week is thought of as 35-40 hours. More than 49 is often considered 'excessive', for reasons including the detrimental effects to physical and mental health, and the difficulties such hours entail in balancing work and family life. Excessive hours are also likely to signal inadequate hourly pay, in turn reflecting low productivity work. Investigation of the development of hours of work over time may contribute to an understanding of the growth-employment-poverty nexus, in other words the role of the labour market in explaining the effects of economic growth on poverty trends in Pakistan (see Amjad, 2006).

Table 8 shows the development in the number of hours worked per week since 1999-2000. It is clear that a large proportion of the employed is working long hours. More than 40 per cent is working at least 50 hours per week. Even though part of the employed in Pakistan are in a position to voluntarily work long hours, the income distribution and prevalence of poverty in the country suggests that the majority of those working excessive hours do so to ensure some minimum level of income while performing low-productivity work.

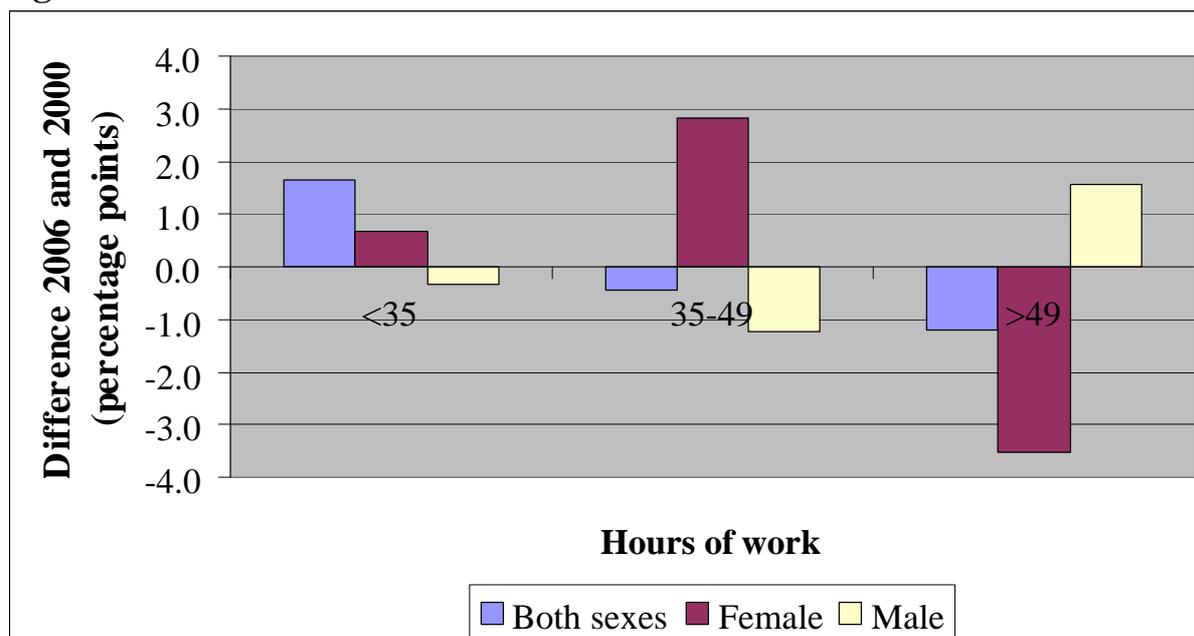
Looking at the number of hours worked over time, there seemed to be little change between 1999-2000 and 2005-2006. During this period, the mean of the hours worked in the reference week only decreased marginally from 48.2 hours in 1999-2000 to 47.7 hours in 2005-2006. However, the lack of change in the national mean masks some variations over time in the number of hours worked by females and males, respectively. In the case of males, the tendency was to work more hours (0.7 hours on average), while the average number of hours worked by females decreased by 1.8 hours. As illustrated in Figure 3, a shift away from the normal working week can therefore be noted towards working either short hours (females) or excessive hours (males).

Table 8. Hours of work (KILM 6, %)

Employed 10+	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
Fewer than 20 hours					
Both sexes	2.3	2.8	2.6	3.9	+1.6
Males	1.4	1.7	1.4	2.0	+0.6
Females	7.4	9.3	8.7	11.6	+4.2
20-29 hours					
Both sexes	6.6	6.3	6.6	7.5	+0.9
Males	3.8	3.8	3.3	3.8	+0.0
Females	23.5	20.7	22.9	22.8	-0.7
30-34 hours					
Both sexes	4.9	4.4	4.9	4.1	-0.8
Males	3.9	3.4	3.2	3.0	-0.9
Females	11.0	10.2	13.2	8.3	-2.7
35-39 hours					
Both sexes	10.0	10.0	10.0	11.9	+1.9
Males	8.5	8.6	8.3	9.0	+0.5
Females	19.2	18.4	17.9	24.2	+5.0
40-44 hours					
Both sexes	14.7	15.6	13.4	13.4	-1.3
Males	14.4	15.1	13.0	12.9	-1.5
Females	16.5	18.4	15.8	15.3	-1.2
45-49 hours					
Both sexes	20.2	20.7	20.3	19.2	-1.0
Males	22.0	22.6	22.5	21.9	-0.1
Females	9.2	9.4	9.6	8.3	-0.9
50-59 hours					
Both sexes	20.2	20.6	20.9	17.7	-2.5
Males	22.1	22.5	23.4	20.4	-1.7
Females	8.5	9.7	8.4	6.3	-2.2
Greater than 59					
Both sexes	21.1	19.6	21.3	22.4	+1.3
Males	23.8	22.3	24.9	27.0	+3.2
Females	4.5	3.8	3.5	3.2	-1.3
All hours					
Both sexes	100.0	100.0	100.0	100.0	
Males	100.0	100.0	100.0	100.0	
Females	100.0	100.0	100.0	100.0	

Source: FBS, various years, *Pakistan Labour Force Survey*.

Figure 3. Shifts in hours of work between 2000 and 2006



Source: FBS, various years, *Pakistan Labour Force Survey*.

The increase of the mean hours worked by males, and the proportion of the employed working excessive hours, raises questions about the impact of economic growth on the majority of workers. If economic growth would have had a positive impact on living conditions other than through an improvement in opportunities for work, one would have expected a stronger decrease in the proportion of the employed working excessive hours. Additional indicators need to be examined to allow for a comprehensive assessment of this impact.

Below we identify those who are working excessive hours in terms of economic sector and status in employment. We will first consider the overall development of these indicators since the beginning of the decade.

4.6.2 Employment by sector

It was mentioned before that since 1999-2000 more than ten million employed persons have been added to the labour force. Table 9 shows the relative shifts in employment by sector that accompanied employment creation during this period, as well as the changes in relative importance of economic sectors in terms of value added (contribution to Gross Domestic Product, GDP). Similar to previous tables, Table 9 only shows the years in which labour force surveys were undertaken (the picture is therefore incomplete). Furthermore, the classification of economic activities used by the FBS to allocate employment to economic sectors, which is in line with international standards (see Annex A1), differs from the one used to allocate value added to economic sectors. Therefore, not all employment can be unequivocally allocated to economic activities in accordance with the national accounts.

When analysing Table 9 it should be borne in mind that the table shows the structure of the economy in a high growth environment. This means that the share of certain sectors may decline while these sectors registered positive, but below average, growth for all years since

2000. This is the case, for example, with transport, storage and communication, as healthy economic growth in this sector nevertheless resulted in a declining share in the economy.

In terms of the economy (value added) and total employment, agriculture remains the largest sector, and an important part of the additional employment that has been created since 2000 (more than a quarter) has been absorbed in this sector. With around 43 per cent of the employed population in agriculture, Pakistan is one example of the group of countries in which the largest proportion of people is employed in agriculture, followed by services and then by industry. Globally, this group is probably the largest, even though the majority of countries for which data is available have the largest share of employment in the services sector, followed by industry, and a small proportion, usually less than ten per cent, in agriculture (ILO, 2006).

The share of agriculture in terms of both value added and employment is however declining. During the 2000-2006 the share in employment declined by five per cent. The largest relative increase during this period was registered in the manufacturing sector, 2.3 per cent in terms of employment and 3.5 per cent in value added. Other important sectors in terms of employment creation have been trade, a large sector that has been expanding from 13.5 per cent of overall employment in 1999-2000 to 14.7 per cent in 2005-2006 and community, social and personal services. The most labour intensive sector as measured by dividing the economic share by the share in employment was construction. This sector also registered an increase in employment despite a declining share in the economy.

Broad shifts in employment can be analyzed by looking at 'major division' (as shown in Table 9). The changes envisaged in the Medium Term Development Framework and the impact of economic and other policies can also be tracked using more disaggregated groupings of economic activity ('divisions' or 'major groups'). Furthermore, to complement data from labour force surveys, it would be useful to have establishment survey data as well as information on vacancies and skills needs from other sources. Using different sources of information, skills requirements in selected industries can be analyzed in the context of the current planning framework. These topics will be taken up in later issues of *Pakistan Employment Trends*.

Table 10 shows aggregated economic sectors (agriculture, industry and services). Both this table and Figure 4 suggest that sectoral employment trends in Pakistan since 2000 are in line with the textbook case in which economic growth is accompanied by a shift in employment from agriculture to the industrial (especially manufacturing) and services sectors (in particular trade and community, social and personal services).

Table 9. Structure of the economy and employment (%)

Employed 10+	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
Agriculture, forestry, hunting and fishing					
Share in the economy	25.9	24.1	22.9	21.6	-4.3
Share in employment	48.4	42.1	43.0	43.4	-5.0
Mining and quarrying					
Share in the economy	2.3	2.4	2.6	2.6	+0.3
Share in employment	0.1	0.1	0.1	0.1	0.0
Manufacturing					
Share in the economy	14.7	15.9	17.3	18.2	+3.5
Share in employment	11.5	13.8	13.7	13.8	+2.3
Electricity, gas and water					
Share in the economy	3.9	3.0	3.7	3.0	-0.9
Share in employment	0.7	0.8	0.7	0.7	0.0
Construction					
Share in the economy	2.5	2.4	2.0	2.2	-0.3
Share in employment	5.8	6.1	5.8	6.1	0.3
Wholesale and retail trade, restaurants and hotels					
Share in the economy	17.5	17.8	18.2	19.2	+1.7
Share in employment	13.5	14.9	14.8	14.7	+1.2
Transport, storage and communication					
Share in the economy	11.3	11.4	10.9	10.5	-0.8
Share in employment	5.0	5.9	5.7	5.7	+0.7
Financing, insurance, real estate and business services					
Share in the economy	3.7	3.5	3.4	4.6	+0.9
Share in employment	0.8	0.9	1.1	1.1	+0.3
Community, social and personal services					
Share in employment	14.2	15.5	15.0	14.4	+0.2
Ownership of dwellings					
Share in the economy	3.1	3.2	3.0	2.8	-0.3
Public administration and defence					
Share in the economy	6.2	6.4	6.3	5.8	-0.4
Other services					
Share in the economy	9.0	9.8	9.7	9.5	+0.5
All activities					
Share in the economy	100.0	100.0	100.0	100.0	
Share in employment	100.0	100.0	100.0	100.0	

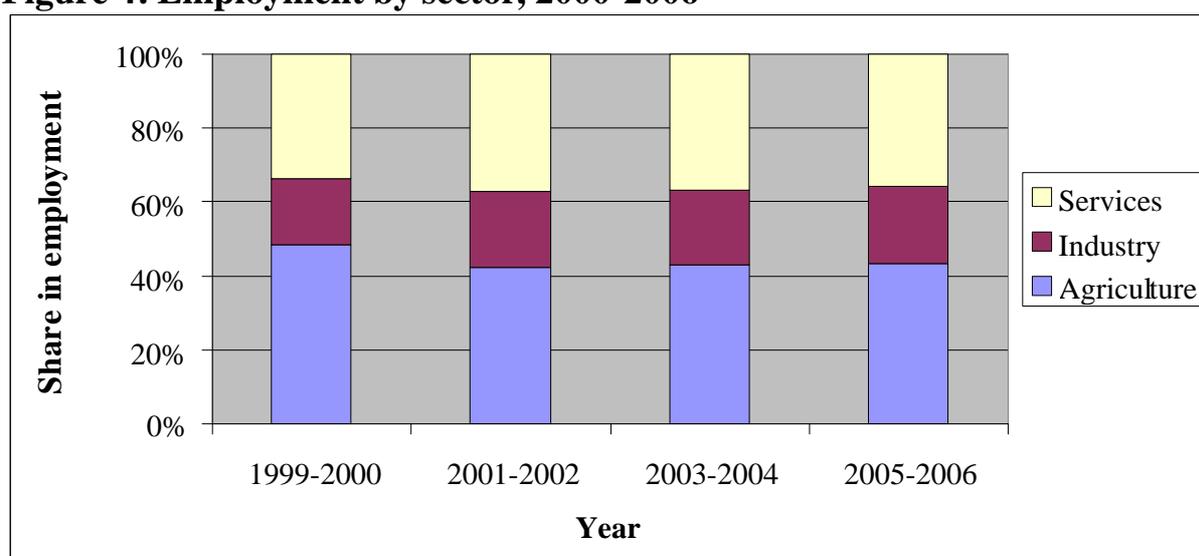
Source: FBS, various years, *Pakistan Labour Force Survey*, and Finance Division, 2006, *Economic Survey 2005-06*.

Table 10. Employment by sector (KILM 4, %)

Employed 10+	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
Agriculture					
Both sexes	48.4	42.1	43.0	43.4	-5.0
Males	44.4	38.2	38.1	37.2	-7.2
Females	72.9	64.6	67.3	68.9	-4.0
Industry					
Both sexes	18.0	20.8	20.3	20.7	+2.7
Males	19.5	21.7	21.4	22.1	+2.6
Females	9.0	15.6	15.0	14.9	+5.9
Services					
Both sexes	33.5	37.1	36.6	35.9	+2.4
Males	36.1	40.1	40.5	40.6	+4.5
Females	18.1	19.8	17.6	16.2	-1.9
All sectors					
Both sexes	100.0	100.0	100.0	100.0	
Males	100.0	100.0	100.0	100.0	
Females	100.0	100.0	100.0	100.0	

Source: FBS, various years, *Pakistan Labour Force Survey*.

Figure 4. Employment by sector, 2000-2006



Source: FBS, various years, *Pakistan Labour Force Survey*.

4.6.3 *Employment by status*

The industrialisation process usually goes together with shifts in the distribution of the labour force by status in employment. Shifts in proportions of status in employment groups are however often not as sharp or as clear as shifts in sectoral employment, especially in countries with a large informal economy in both the industrial and services sectors. As can be seen in Table 11, this is also the case in Pakistan, at least as far as wage and salaried employment (employees) is concerned. The increase in the proportion of employees during 2000-2006 was limited to 1.7 per cent (as compared to sectoral shifts of 2.7 and 2.4 per cent in industry and services, respectively).

Table 11 nevertheless shows a number of important shifts in status in employment. The share of own account workers decreased by no less than 7.2 per cent while the share of contributing family workers rose by 5.5 per cent. In analysing these numbers it should be realized that Table 11 shows *relative* sizes of each status in employment group; even the status group of own account workers *increased* in absolute numbers during 2000-2006. Nevertheless, the large proportion of labour market participants opting to join family businesses instead of starting their own business raises questions regarding economic policies, in particular business promotion policies. The shifts in status in employment warrant an investigation into the objectives,⁹ effectiveness and impact of business promotion programs, taking characteristics of these programs such as geographical coverage and number of participants into account.

Tables 8-11 show that the industrialisation process in Pakistan does not benefit men and women equally. Considering changes within the group of males and females, respectively, Table 10 shows that women are more likely to remain in the agricultural sector, while the shift to the services sector affects relatively more men. Similarly, Table 11 shows that women are less likely to benefit from new opportunities for wage employment: the share of wage and salaried workers in female employment actually shrunk by more than seven per cent during 2000-2006. Furthermore, the share of contributing family members in female employment rose dramatically by more than nine per cent, the largest shift in employment status during this period.

This does not mean that women did not benefit from the employment expansion. Taking a different angle, a broad measure of the position of women in the labour market is the one included as part of the set of Millennium Development Goals. MDG number three, the promotion of gender equality and empowerment of women, target number 11, is the share of women in wage employment in the non-agricultural sector of the economy. In Pakistan, this share increased from 8.3 per cent in 2000 to 10.9 per cent in 2006 for the age group fifteen and above.

⁹ The objective of business development programs may have been the promotion of family businesses, while other employment policies may have contributed to a shift towards contributing family workers.

Table 11. Status in employment (KILM 3, %)

Employed 10+	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
Employees					
Both sexes	35.6	39.9	37.9	37.3	+1.7
Males	36.0	40.3	39.2	40.1	+3.9
Females	33.1	37.1	31.2	25.7	-7.4
Employers					
Both sexes	0.8	0.8	0.9	0.9	+0.1
Males	0.9	0.9	1.0	1.1	+0.2
Females	0.1	0.3	0.1	0.1	0.0
Own-account workers					
Both sexes	42.2	38.5	37.1	35.0	-7.2
Males	46.4	42.4	41.4	39.8	-6.6
Females	16.6	15.7	15.9	15.0	-1.6
Contributing family workers					
Both sexes	21.4	20.8	24.2	26.9	+5.5
Males	16.7	16.4	18.3	19.1	+2.4
Females	50.1	46.9	52.8	59.2	+9.1
All status groups					
Both sexes	100.0	100.0	100.0	100.0	
Males	100.0	100.0	100.0	100.0	
Females	100.0	100.0	100.0	100.0	

Source: FBS, various years, *Pakistan Labour Force Survey*.

Table 12. Status in employment in manufacturing

Employed 15+	1999-2000		2005-2006	
	thousands	percentage	thousands	percentage
Employees				
Both sexes	2,472.7	100.0	4,146.9	100.0
Males	2,274.9	92.0	3,576.0	86.2
Females	197.8	8.0	570.9	13.8
Employers				
Both sexes	78.6	100.0	110.5	100.0
Males	78.3	99.7	109.4	99.0
Females	0.3	0.3	1.1	1.0
Own-account workers				
Both sexes	1,054.4	100.0	1,324.2	100.0
Males	918.5	87.1	951.0	71.8
Females	135.9	12.9	373.2	28.2
Contributing family workers				
Both sexes	379.2	100.0	610.0	100.0
Males	312.6	82.4	338.6	55.4
Females	66.6	17.6	271.5	44.5
All status groups				
Both sexes	3,984.8	100.0	6,191.6	100.0
Males	3,584.3	89.9	4,975.0	80.4
Females	400.5	10.1	1,216.6	19.6

Source: FBS, various years, *Pakistan Labour Force Survey*.

Opportunities and limitations in wage and salaried employment for women can be illustrated with the case of the manufacturing sector (see Table 12). This has been the most important sector for the creation of female employment outside agriculture. The table shows that the sector as a whole has contributed considerably to the creation of wage and salaried employment (an increase of 1.7 million people in six years), and the share of female employment in total employment in manufacturing almost doubled during this period (from 10.1 to 19.6 per cent).

Even though the share of female employment in wage employment in manufacturing increased as well, the rate of expansion in the status groups of own-account workers and contributing family workers was much greater (the status group of female employers, though growing rapidly, remains a tiny fraction of all employers in manufacturing). The increasing share of females in wage employment (+5.8 per cent) therefore falls short of what could have been expected in view of the overall increase of the proportion of women in the manufacturing sector (+9.5 per cent). In other words, qualitative changes appear not to be in accordance with quantitative changes in female employment in the manufacturing sector nor in the economy at large.

4.6.4 Employment in the informal economy

A labour market indicator that is closely related to employment status is employment in the informal economy. Because of the importance of the informal sector in employment creation, production, and income generation, statistics on employment in the informal economy are essential to obtaining a clear idea of the contributions of all workers to the economy. At the same time, the informal economy often represents a challenge to policy-makers faced with goals such as improving working conditions, and legal and social protection of persons employed in the informal economy. Poverty, too, as a policy issue, overlaps with the informal economy.

Measuring employment in the informal economy is not an easy task. Although an international statistical definition was adopted in 1993, many countries have difficulties in adequately capturing the informal economy in employment statistics. In particular, the criterion of legal organization of the enterprise is often not (correctly) used (see Annex A1), resulting in an overestimate of employment in the informal economy.

In Pakistan, the FBS claims to measure employment in the informal economy in accordance with the international standards, difficult as this may be, and consistently finds that the overwhelming majority of workers are active in the informal economy. The proportion of workers in this part of the economy, excluding agriculture, increased from 66 per cent in 1999-2000 to 73 per cent in 2005-2006. Such very large proportions underline empirical findings in many countries pointing at the mixed composition of the informal economy, consisting of both survival activities and dynamic businesses that have potential for growth. More information is required to establish the composition of the informal economy in Pakistan.

Table 13 shows the share of employment in the *formal economy*, defined here as the complement of the informal economy, for each economic sector in 2005-2006. Nationally, this share amounted to not more than 27 per cent during this survey year. For only two sectors the percentages indicate a clear majority of workers in the formal economy: mining and electricity, gas and water.

The table points at positive correlation between the share of employment in the formal economy and the share of the status group of wage and salaried employees. Although the two labour market indicators certainly not provide the same information, and have been measured using a very different methodology, there is a tendency for them to move together in many sectors.¹⁰ An exceptionally large difference can be found in the construction sector.

Table 13. Employment in the formal economy, 2006

Employed 10+	Share of employment in the formal economy in total employment in each economic sector (1)	Share of wage and salaried employment in total employment in each economic sector (2)	Difference (1)-(2)
Agriculture, forestry, hunting and fishing	Excluded		
Mining and quarrying	56.0	93.6	-37.6
Manufacturing	36.4	66.6	-30.2
Electricity, gas and water	97.9	99.4	-1.5
Construction	7.3	91.8	-84.5
Wholesale and retail trade, restaurants and hotels	3.0	20.8	-17.8
Transport, storage and communication	20.4	60.3	-39.9
Financing, insurance, real estate and business services	46.2	56.7	-10.5
Community, social and personal services	49.0	73.4	-24.4
All economic sectors	27.1	58.8	-31.7

Source: FBS, 2006, *Pakistan Labour Force Survey 2005-2006*.

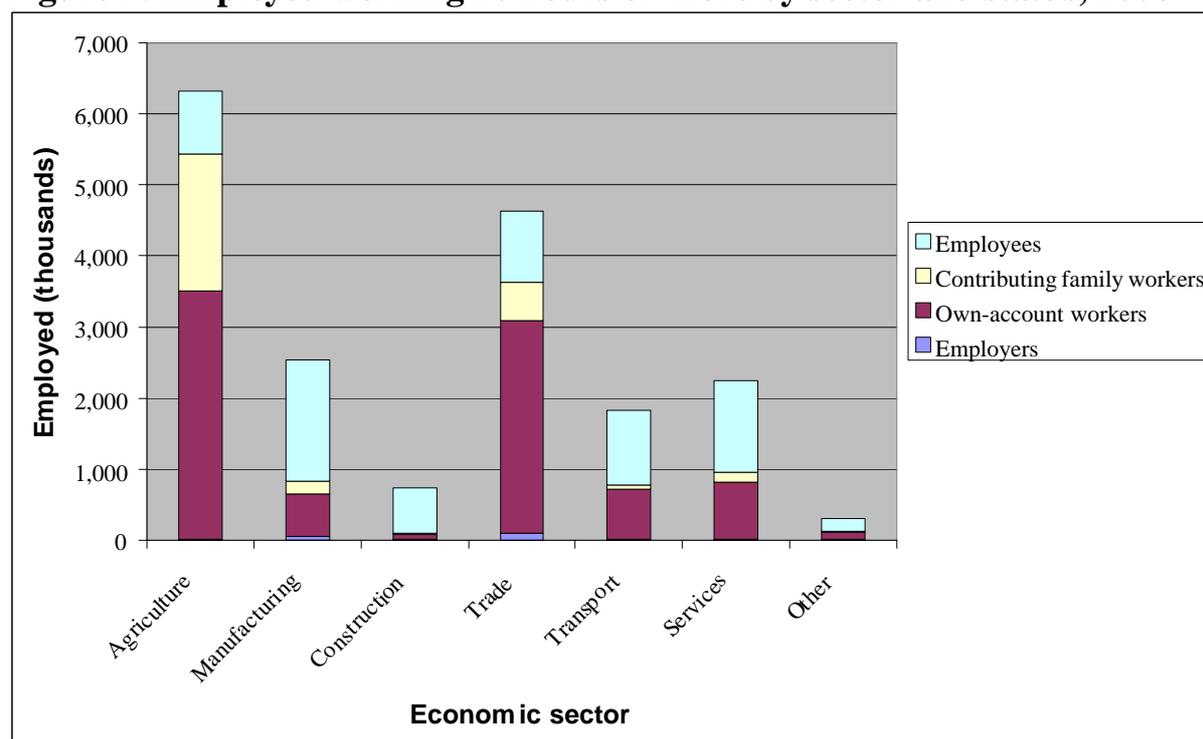
4.6.5 Decent employment?

We now return to the identification of those working excessive hours using the other three employment indicators examined thus far. Figure 5 shows that in terms of economic sector the bulk of those working excessive hours are active in agriculture and trade. Together, these two sectors account for almost 11 million out of the 18.6 million employed who are working excessive hours. Contrary to the agricultural sector, in which a reduction of the proportion of the employed working excessive hours can be observed over time, the proportion of the employed working excessive hours in trade is rising (see Table 14).

In terms of status in employment, the largest single group consists of the status group own account workers, and this group makes up almost half of all the employed working excessive hours. Contributing family workers are concentrated in agriculture, while the manufacturing, trade, transport and services sectors have large concentrations of the status group employees working excessive hours (one million workers or more).

¹⁰ The correlation coefficient between columns (1) and (2) in Table 13 is 0.61; excluding construction the coefficient rises to 0.88. Dependency between employment in the formal economy and the status group wage and salaried employment is confirmed by a chi-square test at a significance level of 1 per cent in a cross tabulation of these two variables (employee or not and employed in the formal economy or not).

Figure 5. Employed working 50 hours or more by sector and status, 2006



Source: FBS, 2006, *Pakistan Labour Force Survey 2005-2006*.

Table 14. Share of the employed working excessive hours by sector (%)

Employed 10+	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
Agriculture, forestry, hunting and fishing	40.5	37.0	36.8	31.2	-9.3
Mining and quarrying	22.1	28.2	19.0	64.3	+42.2
Manufacturing	38.0	37.2	41.1	39.5	+1.5
Electricity, gas and water	12.4	19.4	18.6	18.3	+5.9
Construction	20.2	20.4	23.6	26.0	+5.8
Wholesale and retail trade, restaurants and hotels	64.0	62.4	69.2	67.6	+3.6
Transport, storage and communication	61.0	62.6	63.1	68.4	+7.4
Financing, insurance, real estate and business services	22.2	20.3	39.9	42.4	+20.2
Community, social and personal services	29.3	31.8	32.4	34.6	+5.3
All sectors	41.3	40.2	42.2	40.1	-1.2

Source: FBS, various years, *Pakistan Labour Force Survey*.

Finally, it can be noted that those working excessive hours outside the agricultural sector are predominantly working in the informal economy, and more so than the employed population as a whole (83 per cent among those working excessive hours versus 73 per cent for all workers in 2006, excluding agriculture).

The development of policies to improve the labour market position of these groups lies at the heart of decent employment generation in Pakistan. Not only because of the detrimental effects of working excessive hours in itself, but also because those working excessive hours are likely to be falling short with respect to other dimensions of decent employment such as security at work and dignity at work. Workers in the informal economy, for example, are more likely to face poor working conditions, lack social protection and lack mechanisms to voice their concerns and participate in decision making. Similarly, contributing family workers will not have formal social protection and are dependent on the family to take care of their interests.

The policy issue of improving the working conditions of the large group of workers in agriculture and trade is also central to the growth-employment-poverty nexus in Pakistan. For growth to be sustainable and translate into poverty reduction, labour productivity has to increase for the majority of workers. If economic sectors are ranked according to labour productivity, for example measured as the share in the economy divided by the share of employment in Table 9, it can be seen that sectors in which the bulk of those working excessive hours can be found are also the sectors at the bottom of this ranking, namely agriculture, trade (and construction). This does not mean that economic policies should necessarily target these sectors as 'engines of growth', but it does mean that that productivity in these sectors will have to rise for an improvement of the living conditions of the bulk of the workers that lack decent employment. The next section considers factors that are important in this context.

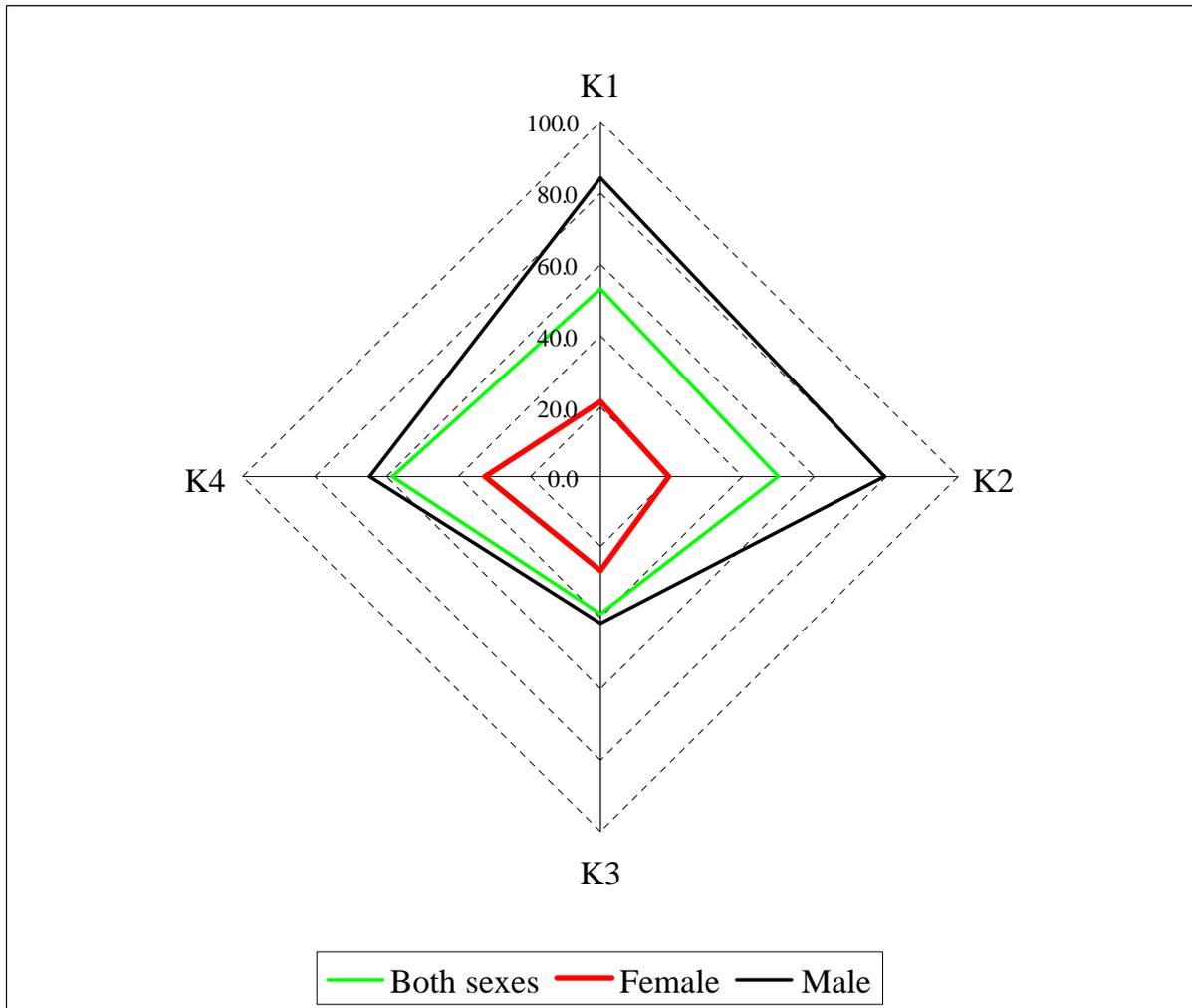
4.7 Persisting labour market imbalances

The set of indicators on the structure of employment in Pakistan suggests less impressive labour market developments than one would expect on the basis of indicators on overall employment and unemployment levels. Particularly in the survey year 2005-2006 the labour market was clearly gaining momentum, and employment and unemployment indicators increasingly reflected the high economic growth rates witnessed in recent years. Although the structure of the economy and the labour market is changing as well, note the higher share of employment in the industrial sector as a whole, positive change is hardly visible in indicators such as status in employment and employment in the formal economy. The share of the status group of employees is only increasing slowly, and the proportion of unpaid family workers is rapidly expanding at the cost of own account workers. Work in the formal economy is steadily shrinking as a proportion of non-agricultural employment.

What we are seeing in the labour market is that a considerable number of employment opportunities have been created since the beginning of the decade but that certain labour market imbalances in the structure of employment, and in the extent to which decent work is generated, tend to persist or even worsen. The large proportion of the labour force working excessive hours is a clear signal that economic growth is not necessarily benefiting the majority of workers, especially in large sectors such as trade, and sectors that are of great importance for new employment creation such as manufacturing.

Despite recent gains labour market imbalances also persist along gender lines. Although both men and women have benefited from new opportunities, a wide gender gap has remained in the labour market, not only regarding the level of employment and unemployment but in particular regarding the structure of employment as measured through indicators such as employment by status and employment by sector. Four dimensions of this gap are shown in Figure 4, namely the gap in labour force participation, employment, wage employment and employment in the non-agricultural sectors of the economy. As argued by Siddiqui (2006), an increase in employment opportunities for women is not the same as equality of opportunity between males and females at home and outside home (see also Siddiqui et al, 2006). Bridging the gender gap requires interventions in the labour market that address all underlying causes of this gap, and are not limited to the creation of employment opportunities.

Figure 6. A gender gap: selected indicators by sex, 2006



Source: FBS, 2006, *Pakistan Labour Force Survey 2005-2006*.

K1 = labour force participation rate; K2 = employment-to-population rate; K3 = status in employment: share of the employed in wage employment; K4 = employment by sector: share of the employed in non-agricultural employment; all indicators calculated for the population aged 15 and above.

Important questions are therefore why economic growth in Pakistan, despite certain positive effects on the labour market, has not led to stronger shifts in the structure of employment, and which factors constrain women from participating in an equitable fashion. Both questions warrant investigation in at least two areas which can either facilitate or hamper positive change:¹¹

- (1) The area of human capital formation, i.e. education, training and skills development. Shifts in the employment structure, such as an increasing share in wage employment, can only take place if the required skills are available or can be acquired in a reasonably short period of time and as we will see below this is often not the case.
- (2) The area of (labour market) institutions which can have both positive and negative effects on labour market performance in general and the employment structure in particular. Institutions in a broad sense consist of several levels, including labour market legislation, regulations, and institutions of governance but also, at a higher level, customs, traditions and norms. Both of these areas can only be touched upon in this report, and will be examined in more detail in future issues of *Pakistan Employment Trends*.

Average educational attainment of the labour force in Pakistan is very low. In 1999-2000, more than half of the labour force was illiterate, and less than five per cent had attained a university degree (Table 15). A positive development is therefore that attainment levels have improved across all levels since the beginning of the decade. Nevertheless, low attainment levels have led to skills shortages in the economy, and will continue doing this in the future. Particularly worrying is the large, albeit declining, proportion of people with hardly any formal education. Illiteracy hampers the trainability of the labour force, and therefore the capacity of the labour market to adapt to economic change in the short run.

Table 15 also reveals the enormous gap between levels of educational attainment of men and women. The illiteracy level is much higher for the female population, and proportions of several education levels in the male labour force are double the proportions in the female labour force.

It can be recalled that only a small proportion of women is economically active, roughly one out of five if 'marginal activities' are ignored (see Table 4 and the analysis of labour force participation rates). It is therefore important to examine educational attainment levels not only of employed women, but also of women that are either unemployed or outside the labour force. As shown in Table 16, educational levels of both groups are in general higher than those of employed women (except at the university degree level for those who are inactive).

There are several possible explanations for the fact that educational attainment levels of unemployed females are relatively high. For example, indicators such as employment by status and employment by sector point at labour market segregation along gender lines, which is confirmed by research on the occupational distribution of the employed disaggregated by sex (e.g. Nasir, 2005). In other words, women who are qualified for a certain type of jobs may face barriers which prevent them from obtaining these jobs. This issue certainly warrants more investigation and research.

¹¹ Other areas that are important in this context but will not be discussed are macroeconomic, trade and investment policies.

Table 15. Educational attainment of the labour force (%)

Labour force 15+	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
Less than one year of education					
Both sexes	53.3	48.1	47.2	46.2	-7.1
Males	48.1	43.8	41.7	40.0	-8.1
Females	80.6	71.3	72.7	71.8	-8.8
Pre primary education					
Both sexes	2.0	3.5	3.7	3.3	+1.3
Males	2.2	3.9	4.2	3.7	+1.5
Females	0.6	1.2	1.4	1.6	+1.0
Primary but below middle					
Both sexes	14.2	14.9	14.7	15.5	+1.3
Males	16	16.3	16.3	17.1	+1.1
Females	5.0	7.6	7.4	9.0	+4.0
Middle but below matric					
Both sexes	10.4	11.2	11.1	11.5	+1.1
Males	11.8	12.5	12.7	13.4	+1.6
Females	2.8	4.2	3.4	3.4	+0.6
Matric but below intermediate					
Both sexes	11.4	12.3	12.6	12.8	+1.4
Males	12.5	13.3	13.9	14.5	+2.0
Females	5.2	6.9	6.5	6.1	+0.9
Intermediate but below degree					
Both sexes	4.1	4.6	4.7	4.8	+0.7
Males	4.5	4.7	5.0	5.3	+0.8
Females	2.4	4.1	3.1	2.9	+0.5
Degree					
Both sexes	4.6	5.3	6.0	5.9	+1.3
Males	4.9	5.4	6.1	6.1	+1.2
Females	3.4	4.7	5.5	5.1	+1.7
All education levels					
Both sexes	100.0	100.0	100.0	100.0	
Males	100.0	100.0	100.0	100.0	
Females	100.0	100.0	100.0	100.0	

Source: FBS, various years, *Pakistan Labour Force Survey*.

Table 16. Educational attainment of women, 2006 (%)

Females 15+	Employed	Unemployed	Not economically active	Population of working age
Less than one year of education	73.2	64.9	56.6	59.6
Pre primary education	2.2	1.9	6.5	5.7
Primary but below middle	9.3	9.6	15.3	14.2
Middle but below matric	3.1	3.7	8.0	7.1
Matric but below intermediate	5.3	8.8	7.9	7.4
Intermediate but below degree	2.5	4.8	3.4	3.2
Degree	4.5	6.2	2.3	2.7
All education levels	100.0	100.0	100.0	100.0

Source: FBS, 2006, *Pakistan Labour Force Survey 2005-2006*.

Another explanation for the relatively high educational attainment levels of female unemployed is a mismatch between the skills required and those supplied. Indicators regarding the (pre employment) educational attainment of the labour force are not sufficient to assess the extent to which the education and training system provides the skills that are required by the economy. Continuing economic and technological change have led to a situation in which the bulk of human capital is now acquired, not only through initial education and training, but increasingly through adult education and enterprise or individual worker training, within the perspective of lifelong learning and career management. Indicators that monitor developments in the acquisition of knowledge and skills beyond formal education in Pakistan will be examined in a later issue of *Pakistan Employment Trends*.

Nevertheless, even though most employers will consider training workers in firm specific skills, they are often reluctant to fund more general education and skills development. Therefore, enterprise or individual worker training is not a substitute for a well-developed general education system.

Skills formation is linked to labour legislation and regulation, and to labour market institutions in general, in many ways. An important part of this linkage consists of the role of legislation and regulation in promoting stable employment relationships in which both employers and employees can gain from productivity improvements that are due to training. According to a recent study by the World Bank, ‘excessive labour regulation’ in Pakistan has tended to choke off job creation, and has undermined the development of industrial skills by raising the cost of durable employment relations (World Bank, 2006). The high cost of durable employment relations, according to the study, has resulted in an exceptionally high share of temporary workers in Pakistani businesses as well as in suppression of the development of industrial skills. The study is based on a detailed examination of labour regulations and skill formation in Pakistan in comparison with other countries including India and Bangladesh.

In other words, Pakistani employers seek informal work arrangements as opposed to the formal arrangements set out in labour market legislation and regulations. Informalization of the labour market in this sense may be an important factor in explaining why wage employment growth in Pakistan is low in the face of high economic growth rates, and can also be related to the strong increase in the proportion of unpaid family workers. Many of those working in the formal, growing economy do not consider or report themselves as wage employees as formal working agreements are lacking. The informalization of the labour market is likely to negatively affect not only skill formation, but also dimensions of decent work such as social protection and social dialogue.

In view of the findings of the World Bank study it is interesting to have a closer look at employment by status, and in particular the group of wage and salaried employees. This group is made up of four sub-groups, including not only ‘regular paid employee with fixed wage’ but also ‘casual paid employee’ and ‘paid worker by piece rate or work performed’.¹² The World Bank study would suggest that not only the overall growth rate of wage and salaried employment is held back, but also that a shift towards non-regular forms of pay can be expected.

¹² The fourth sub-group, ‘Paid non-family apprentice’ will not be analyzed in this report.

Table 17. Shifts within the status of group of employees (%)

Employed 10+	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
Employees (proportion of the employed)					
Both sexes	35.6	39.9	37.9	37.3	+1.7
Males	36.0	40.3	39.2	40.0	+4.0
Females	33.1	37.1	31.2	25.7	-7.4
Regular paid employee with fixed wage rate (proportion of employees)					
Both sexes	51.7	48.9	50.5	55.3	+3.6
Males	54.3	50.8	52.3	57.2	+2.9
Females	34.1	36.5	39.8	43.5	+9.4
Casual paid employee (proportion of employees)					
Both sexes	26.0	26.6	28.2	26.8	+0.8
Males	27.1	29.3	30.4	28.3	+1.2
Females	18.7	9.7	14.8	16.9	-1.8
Paid worker by piece rate or work performed (proportion of employees)					
Both sexes	22.4	24.5	21.3	17.9	-4.5
Males	18.6	19.8	17.4	14.5	-4.1
Females	47.2	53.7	45.4	39.6	-7.6

Source: FBS, various years, *Pakistan Labour Force Survey*.

As shown in Table 17, there has indeed been a tendency for the group of casual paid employees to grow, but at the expense of paid workers by piece rate. The most recent labour force survey showed a strong increase in the status group of regular paid employees as a proportion of all employees, and in particular so for women (by 9.4 per cent). It seems therefore that the informalization of the labour market highlighted by the World Bank study has a stronger effect on the size of the status group of employees than on shifts within this status group.

How to counter the informalization of the labour market is a major policy issue which forms part of the labour market reforms that are in progress. Considering labour regulation as undermining durable employment relations is one view, but another view would be to consider the limited enforcement of such regulations as an important factor hampering the development of stable employment relations. This issue needs more investigation, for example through a survey of actual contractual arrangements of workers including those classified as regular paid employees. Such a survey, which could be integrated in the current labour force survey, can be used to find an appropriate balance between labour market flexibility and adequate job security. In this context it is also important to develop mechanisms in which those that are not able to benefit from social protection can voice their concerns.

4.8 The position of youth in the labour market

The youth are an important segment of the labour force for various reasons. In many countries, and especially in developing ones, the youth represent a significant share of the population and labour force. From an economic point of view, the youth also represent that part of the labour force which can be expected to remain economically active for a long period, and returns on investment in education and training are therefore relatively high. At the same time, the youth are a vulnerable segment in view of their limited labour market and economic experience. Furthermore, and especially at younger ages, economic arguments do not suffice to analyse youth issues in their proper context. Considerations regarding citizenship, moral and political arguments can be invoked to reinforce the case for interventions targeting the youth.

Whatever the precise argument, fact is that there is a growing recognition of the need to address youth employment issues with some urgency. At the 2005 International Labour Conference discussion on youth employment, ILO constituents concluded that ‘there are also too many young workers who do not have access to decent work. A significant number of youth are underemployed, unemployed, seeking employment or between jobs, or working unacceptably long hours under informal, intermittent and insecure work arrangements, without the possibility of personal and professional development; working below their potential in low-paid, low-skilled jobs without prospects for career advancement; trapped in involuntary part-time, temporary, casual or seasonal employment; and frequently under poor and precarious conditions in the informal economy, both in rural and urban areas’. Youth unemployment has also been adopted as one of the indicators to monitor the attainment of the Millennium Development Goals.

For the purpose of analyzing the labour market position of the ‘youth’ in this report, the term will be used for persons aged 15 to 24, and adult refers to persons aged 25 years and over. In Pakistan, the youth defined in this way is a growing segment of the labour market, from 18.2 per cent of the total population in 2000 to 20.2 per cent in 2006. As shown in Table 18, changes in key labour market indicators such as the labour force participation rate and the unemployment are more pronounced for this age group than for the adult population. The unemployment rate for adults actually increased somewhat during 2000-2006, while the youth unemployment rate decreased by 4.7 percentage points during this period.

Apart from the youth unemployment rate (youth unemployment as a percentage of the youth labour force), the table shows three other measurements of the youth unemployment problem: (1) ratio of the youth unemployment rate to the adult unemployment rate; (2) youth unemployment as a proportion of total unemployment; and (3) youth unemployment as a proportion of the youth population. All three measurements move in the same direction, indicating that the difference between the position of adults and that of youth has converged since the beginning of the decade. In the case of women, ratio (1) was equal to one in the most recent survey year, suggesting that the problem of female unemployment is not specific to youth, but is country wide.

Table 18. Youth unemployment (KILM 9, %)

	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point, except (1))
LFPR - both sexes					
15-24	40.5	43.4	43.6	45.9	+5.4
25+	55.3	54.2	54.6	56.8	+1.5
LFPR – males					
15-24	69.3	70.2	70.5	72.2	+2.9
25+	90.1	89.4	89.4	90.5	+0.4
LFPR – females					
15-24	10.2	14.8	16.1	18.6	+8.4
25+	19.2	17.0	19.0	22.4	+3.2
Unemployment rate - both sexes					
(a) 15-24	13.3	13.4	11.7	8.6	-4.7
(b) 25+	4.9	5.5	5.5	5.0	+0.1
Unemployment rate - males					
(a) 15-24	11.1	12.0	11.0	8.4	-2.7
(b) 25+	3.4	3.8	4.2	3.8	+0.4
Unemployment rate - females					
(a) 15-24	29.3	20.5	14.9	9.6	-19.7
(b) 25+	12.2	14.5	12.0	9.7	-2.5
(1) Ratio youth unemployment rate to adult unemployment rate [(a)/(b)]					
Both sexes	2.7	2.5	2.1	1.7	-1.0
Males	2.0	3.1	2.6	2.2	+0.2
Females	1.9	1.4	1.2	1.0	-0.9
(2) Youth unemployment as a proportion of total unemployment					
Both sexes	49.9	51.1	48.0	43.6	-6.3
Males	55.9	56.9	53.0	49.2	-6.7
Females	38.6	39.3	36.5	31.1	-7.5
(3) Youth unemployment as a proportion of the youth population					
Both sexes	5.4	8.4	5.1	4.0	-1.4
Males	7.7	5.8	7.7	6.1	-1.6
Females	3.0	3.0	2.4	1.8	-1.2

Source: FBS, various years, *Pakistan Labour Force Survey*.

Although the overall improvement of the position of youth in the labour market since 2000 should be welcomed, it can also be noted that the problem of unemployment is still unequally distributed. Despite the gains in this respect, note that at the beginning of the decade the unemployed male youth accounted for 55.9 per cent of the total number of male unemployed, in 2006 still almost half of the total number of unemployed males were youth. Furthermore, the labour market imbalances that were noted before often affect the youth at least as much as the adult population. For example, the share of the employment status group of wage employees hardly increased among the youth since the beginning of the decade.

The population aged between 10 and 15 presents a special case. Although in many countries this age group is excluded from the labour force (the ILO standard for the lower age limit of the working-age population is also fifteen years), the reality especially in developing countries is often such that a considerable proportion of those aged between 10 and 15 are participating in the labour market. Even if only economic arguments are invoked, labour market participation of this age group is problematic. Increasingly, the education standard for labour market entry and upward mobility is a completed secondary education, which cannot be achieved if employment consists of anything more than occasional or temporary activities.

Table 19 shows that the labour force participation of those aged 10-14 in Pakistan cannot be ignored. The LFPR for this age group actually increased from 10.9 per cent in 1999-2000 to 15.2 per cent in 2005-2006, and more than one out of five males were participating in the labour market in the latter year. In absolute numbers the employed population increased from 1.5 million to 2.8 million. The table also shows that the majority work in agriculture, and are active as contributing family worker. Nineteen per cent of those aged 10-14 are working excessive hours.

As indicated before a very problematic characteristic of the employed population aged 10-14 concerns education. Less than a quarter have more than one year education. The overall non-enrolment rate in the age-group from five to 14 years was 36.7 per cent in 2005-2006, down from 41.3 per cent at the beginning of the decade (Table 20). This large group of people with hardly any education presents a major challenge for decent employment policy formulation.

Table 19. Participation and education of the population aged 10-14

	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
Labour force participation rate (%)					
Both sexes	10.9	12.0	12.8	15.2	+4.3
Males	18.3	17.2	18.4	20.7	+2.4
Females	2.8	6.3	6.7	9.2	+6.4
Employed (millions)					
Both sexes	1.5	1.9	2.1	2.8	+1.3 million
Males	1.4	1.4	1.6	2.0	+0.6 million
Females	0.1	0.4	0.5	0.8	+0.7 million
Employment sector: agriculture (%)					
Both sexes	63.3	63.2	65.6	70.8	+7.5
Males	65.5	62.1	62.0	66.7	+1.2
Females	33.3	66.4	75.8	80.6	+47.3
Employment status:					
contributing family worker (%)					
Both sexes	63.6	61.4	65.0	74.5	+10.9
Males	63.9	63.2	63.6	71.8	+7.9
Females	59.8	55.7	69.0	81.2	+21.4
Employed with less than one year formal education (%)					
Both sexes	74.7	80.2	82.8	77.4	+2.7
Males	73.7	79.6	80.0	73.2	-0.5
Females	88.2	82.1	90.8	87.3	-0.9

Source: FBS, various years, *Pakistan Labour Force Survey*.

Table 20. Non-enrolment rate of the population aged 5-14 (%)

	1999-2000	2001-2002	2003-2004	2005-2006	Change 1999-2000 to 2005-2006 (percentage point)
Both sexes	41.3	40.1	37.6	36.7	-4.6
Males	33.3	33.4	31.2	30.9	-2.4
Females	50.1	47.6	44.7	43.1	-7.0

Source: FBS, various years, *Pakistan Labour Force Survey*.

4.9 Concluding observations and recommendations

4.9.1 Conclusions on decent employment

Decent employment can be conceptualized as consisting of six dimensions that cover opportunities for work, work in conditions of freedom, productive work, equity in work, security at work and dignity at work (see Chapter 1). Measuring the extent to which labour markets generate decent employment can be undertaken using a set of labour market indicators. The indicators discussed in this report consist of an internationally accepted subset that can be used to analyze the labour market and decent employment, but is not intended to capture all aspects or dimensions of decent work that are important in Pakistan. Further measurement and testing is needed taking the national context into account.

Nevertheless, the review provides a point of departure for more comprehensive and in-depth analysis of decent employment. The review highlights areas in which gains have been made, in particular regarding opportunities for work and to a certain extent equity in work, and areas in which the labour market falls short of decent work objectives such as productive work, security at work and dignity at work.

A first attempt has been made to identify those workers that lack decent employment using standard indicators such as status in employment, work in the informal economy, employment by sector and hours of work. It should be emphasized that none of these indicators is in itself sufficient to distinguish those who have decent work from those who have not. However, taken together, and used in conjunction with other information, it is possible to make an assessment of the labour market in view of decent work objectives.

The assessment in this report highlights a number of challenges in the attainment of decent employment objectives. These include large numbers of women that are not participating in the labour market at all and may be relegated to activities that are not their choice, children that are working when they should be at school, and the unemployed. Among the employed, large concentrations of workers in the trade and agricultural sectors fall short of decent employment objectives, and concentrations of such workers have also been identified in the manufacturing, transport and services sectors.

4.9.2 Policy issues and research topics

Based on the examination of labour market indicators a range of policy issues emerges that warrants further investigation. These issues will be addressed in future issues of *Pakistan Employment Trends*.

1. Policies to reduce *unemployment and underemployment*;¹³ for example, enhancing the role of employment services in job matching, education and training, as well as in business promotion and related services.
2. Policies to redress the *gender gap* as reflected in female labour market participation rates and the lack of ‘qualitative’ change in female employment.

¹³ Underemployment will be analyzed in a subsequent issue of *Pakistan Employment Trends*.

3. Policies to ensure decent employment for the bulk of workers working excessive hours in *agriculture and trade*, as well as in manufacturing, transport and services. Such policies should address productivity concerns as well as social protection and social dialogue.
4. Policy development to address the needs of *children aged 10-14 years*.
5. The objectives, effectiveness and impact of *business promotion policies and programs* in view of shifts in employment by status, at the national and desaggregated levels (e.g. by geographical coverage).
6. *Human resource development policies* in line with requirements of the economy and economic plans and programs, including literacy programs and skills development for the employed.

4.9.3 Labour Market Information and Analysis development

Labour Market Information and Analysis should be developed to progressively achieve better linkages between policy formulation, implementation and monitoring, and to enable policy makers to monitor and act upon the extent to which decent employment objectives are being achieved or not. The following areas are important in this context.

1. Enhancing the *Labour Market Information and Analysis system* at the *national level* and promoting the development of such systems at the *provincial and district levels* to support employment and HRD policy formulation and monitoring.
2. The need for *indicator identification* (or development) in line with the renewed *employment policy framework*.
 - Identification/development of indicators/targets that speak not only to opportunities in employment, such as the indicators/targets in the current Medium Term Development Framework, but also to other dimensions of decent work. For example, status in employment indicators could be used to monitor reforms of labour legislation.
 - Tracking (sub-) sectoral employment changes to monitor implementation of the MTDF at the national and provincial levels.
3. Development of the *LMIA system on education and skills*, using labour force data as well as other sources of information (sectoral establishment surveys, sectoral skills needs surveys, etc.), in conjunction with the reforms of the TVET system to facilitate effective skills development mechanisms at the sector level.
4. Labour market policies aiming to redress the gender gap warrant investigation of labour market segregation by gender in economic sectors, status in employment, and occupation, using statistical as well as qualitative research methods. An example of the latter would be a *qualitative study of female employment in manufacturing*.
5. Informalization of labour markets, in particular the growth of temporary workers, can be analyzed using a *qualitative study of working arrangements* in growing sectors such as manufacturing.

6. *Hours of work* are currently only measured in the labour force survey on the basis of a short reference period. Measurement of annual hours of work would be useful to allow for a comprehensive analysis of hours of work in the context of decent employment objectives.

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Annex A1. Definition and use of ten selected key indicators

The ten indicators that constitute the initial selection of the Key Indicators of the Labour Market for the purpose of monitoring labour markets in Pakistan are listed in Box 2 in Chapter 2. This annex summarizes the underlying concepts, and explains the definition and use of each indicator (see ILO, 2006, for more information).

A1.1 Population of working-age, labour force and employment

The population of a country can be divided into the population of working-age and the population of non working-age. Often the population of working-age consists of individuals aged fifteen and above, but sometimes a lower and/or upper age limit is adopted. The ILO standard for the lower age limit is, in fact, fifteen years. For many countries, this age corresponds directly to societal standards for education and work eligibility. However, in some countries, particularly developing ones, it is appropriate to include younger workers because ‘working age’ can, and often does, begin earlier.

In turn, the working age population can be divided into the economically active population or labour force and the economically inactive population. In principle, the non-working age population can also be divided into economically active and the economically inactive, but this will only be attempted in the context of specialised studies.

The labour force participation rate (KILM 1) is defined as the ratio of the labour force (or economically active population) to the working-age population. The labour force participation rate (LFPR) is an indicator of the magnitude of the supply of labour in the economy, which depends, among other factors, on the stage of the development of a country. At the individual level participation rates are related to age and sex. The formal definition of the LFPR as well as the use of this indicator is summarized in the box on KILM 1 below.

The labour force is also referred to as the *currently* economically active population, which means that the determination of a person’s activity status (economically inactive or active) is based on a specified brief reference period (a week or a day). Activity status can also be determined on the basis of a long reference period such as a year, in which case we refer to the *usually* economically active population. Differences between the current and usual activity status can be substantial, especially in countries where an important share of the active population does not work throughout the year and seasonal employment is important (e.g. employment in agriculture or the tourist industry).

Economically active persons are either employed or unemployed, in other words the labour force of a country is the sum of the number of employed persons and the number of unemployed persons. We first consider employment and the five employment indicators in our set (KILM 2, KILM 3, KILM 4, KILM 6 and KILM 7), before turning to unemployment indicators (KILM 8 and KILM 9) and indicators on education and skills (KILM 11 and KILM 14).

KILM 1. Labour force participation rate

Definition

The labour force participation rate is defined as the ratio of the labour force to the working-age population, expressed as a percentage.

Use of the indicator

The indicator for labour force participation rate plays a central role in the study of the factors that determine the size and composition of a country's human resources and in making projections of the future supply of labour. The information is also used to formulate employment policies, to determine training needs and to calculate the expected working lives of the male and female populations and the rates of accession to, and retirement from, economic activity – crucial information for the financial planning of social security systems.

The indicator is also used for understanding the labour market behaviour of different categories of the population. According to one theory, the level and pattern of labour force participation depend on employment opportunities and the demand for income, which may differ from one category of persons to another. For example, studies have shown that the labour force participation rates of women vary systematically, at any given age, with their marital status and level of education. There are also important differences in the participation rates of the urban and rural populations, and among different socioeconomic groups.

Source: ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

Employment is defined in the resolution adopted by the 13th International Conference of Labour Statisticians (ICLS) as persons above a specified age who performed any work at all, in the reference period, for pay, profit (or pay in kind) or family gain, or were temporarily absent from a job for such reasons as illness, maternity or parental leave, holiday, training or industrial dispute.¹⁴ The resolution also states that unpaid family workers who work for at least one hour should be included in the count of employment, although many countries use a higher hour limit in their definition. Members of the armed forces are typically included among persons employed; however, some countries restrict measurement to civilian employment.

The concept of work for pay, profit or family gain is limited to *economic* activity defined in terms of the production of goods and services as set forth by the United Nations System of National Accounts (SNA). The System of National Accounts covers all market production as well as certain types of non-market production, including for example production and processing of primary products for own consumption. In practice, manuals for surveys and censuses may include lists of activities that should be considered as 'work'.

14 Resolution concerning statistics of the economically active population, employment, unemployment and underemployment, adopted by the 13th International Conference of Labour Statisticians, Geneva, 1982; website: <http://www.ilo.org/public/english/bureau/stat/download/res/ecacpop.htm>.

The number of employed divided by the number of people of working-age results in the employment-to-population rate (see the box below for definition and use). Employment-to-population ratios are becoming increasingly common as a basis for labour market comparisons across countries or groups of countries. Employment numbers alone are inadequate for purposes of comparison unless expressed as a share of the population who could be working.

KILM 2. Employment-to-population rate

Definition

The employment-to-population rate is defined as the proportion of a country's working-age population that is employed, expressed as a percentage.

Use of the indicator

The employment-to-population rate (or ratio) provides information on the ability of an economy to create employment; for many countries the indicator is often more insightful than the unemployment rate. Although a high overall ratio is typically considered as positive, the indicator alone is not sufficient for assessing the level of decent work or the level of a decent work deficit. Additional indicators are required to assess such issues as earnings, hours of work, informal sector employment, underemployment and working conditions. In fact, the ratio could be high for reasons that are not necessarily positive – for example, where education options are limited so that young people take up any work available rather than staying in school to build their human capital. For these reasons, it is strongly advised that indicators should be reviewed collectively in any evaluation of country-specific labour market policies.

Source: ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

The employment-to-population rate (EPR) calculated at the national level is an indicator regarding employment in the economy as a whole. Both the EPR and LFPR can be broken down to provide information regarding particular socioeconomic groups such as women and youth (aged 15-24) or regarding geographical areas such as rural/urban areas or provinces.

A1.2 Classifying employment

The EPR does not provide information regarding the nature of employment. Four indicators that can be used to classify and analyse employment are hours of work (KILM 6), employment by status (KILM 3), employment by sector (KILM 4) and employment in the informal economy (KILM 7).

It may be recalled that employment is defined as persons above a specified age who performed any work at all. KILM 6 provides information what ‘work’ means in terms of time devoted to it (see the box below). In recent years interest in issues related to working hours has intensified. Full-time workers in some developed economies express concern about long working hours and their effects on family and community life. The number of hours worked have an impact on the health and well-being of workers as well as on levels of productivity and labour costs of establishments. Measuring the level and trends in the hours worked in a society, for different groups of workers and for workers individually, is therefore important when monitoring working and life conditions as well as when analysing economic developments.

Employers have shown interest in enhancing the flexibility of working arrangements, and non-standard working arrangements are increasingly negotiated. An employee may work only part of the year or part of the week, work at night or at weekends, or enter or leave the workplace at different times of the day. He or she may have variable daily or weekly schedules, perhaps as part of a scheme that fixes total working hours over a longer period, such as one month or one year. Consequently, the daily or weekly working time of employed persons may show large variations, and a simple count of the number of people in employment or the weekly hours of work is insufficient to indicate the level and trend in the volume of work. Estimates of actual annual hours of work are particularly useful for investigating the extent to which reductions in weekly working hours are correlated with increases in the number of employed persons and reductions in the number of unemployed persons, and in estimating the net effect on the total number of hours worked by all employed persons.

The indicator of status in employment (KILM 3, see box) distinguishes between three categories of the total employed. These are: (a) wage and salaried workers (also known as employees); (b) self-employed workers; and (c) contributing family workers (also known as unpaid family workers). The self-employed group (b) is divided into three subcategories – self-employed workers with employees (employers), self-employed workers without employees (own account workers) and members of producers’ cooperatives.

A high proportion of wage and salaried workers in a country can signify advanced economic development. If the proportion of own-account workers (self-employed without hired employees) is sizeable, it may be an indication of a large agriculture sector and low growth in the formal economy. Contributing family work is a form of labour – generally unpaid, although compensation might come indirectly in the form of family income – that supports production for the market. It is particularly common among women, especially women in households where other members engage in self-employment, specifically in running a family business or in farming. Where large shares of workers are contributing family workers, there is likely to be poor development, little job growth, widespread poverty and often a large rural economy.

KILM 6. Hours of work

Definition

This indicator provides information on the distribution of the workforce (employed population) by hours of work. Two measurements related to working time are included in KILM 6 in order to give an overall picture of the time that the employed throughout the world devote to work activities. The first measure relates to the hours an employed person works per week. The number of employed are presented according to the following hour bands: less than 20 hours worked per week, less than 34 hours worked per week, between 20 and 29 hours, between 30 and 39 hours, 40 hours and over and 50 hours and over, where available. The second measure is the average annual number of hours worked per person.

Statistics on the percentage of persons in employment by hours worked per week are calculated on the basis of information on employment by usual-hour band provided primarily by household surveys, which cover all workers, with some exceptions identified in the data notes to the relevant tables in ILO (2006). In all cases workers who were totally absent from work during the reference period are excluded. Annual hours of work are estimated from the results of both household-based surveys and establishment surveys. For the most part, all workers are covered.

See ILO (2006), pp. 297-299 on estimation procedures and the definition and use of actual and usual hours of work, as well as the relation of KILM 6 with KILM 5 (Part-time workers) and KILM 12 (time-related underemployment).

Use of the indicator

The two measures of KILM 6 together allow an examination of trends in working hours over the past two decades. Specifically, one might wish to look at the share of employed persons working short hours (fewer than 20) and long hours (more than 40 or, even better, more than 50 (where available)) thus showing the extent of diversion from the standard fulltime work-week. 'Excessive' hours of work, indicated by the share of persons working greater than 40 hours, may be a concern when individuals work more than a normal work-week because of inadequate wages earned in the job or jobs they hold. Long hours can be voluntary or involuntary (imposed by employers). 'Inadequate employment related to excessive hours', also called 'overemployment', has been defined as 'a situation where persons in employment wanted or sought to work less hours than they did during the reference period, either in the same job or in another job, accepting a corresponding reduction of income'. Few countries have measured 'overemployment', but the measure of persons employed for more than 40 hours a week may be seen as a proxy for this, as it indicates the persons in employment who usually work beyond what is thought to represent a 'normal' work-week. Still, because this is regardless of whether or not this situation is actually desired, nothing can be assumed about how many hours people might wish to work. Clearly, the number of hours worked will vary across countries, depending on such important aspects as cultural norms and real wages.

Source: ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

KILM 3. Status in employment

Definition

This indicator provides information on the distribution of the workforce (employed population) according to the International Classification by Status in Employment (ICSE). The present six categories of status in employment were defined by the International Conference of Labour Statisticians (ICLS) in 1993 as follows:

- i. *Employees* are all those workers who hold the type of jobs defined as ‘paid employment jobs’, where the incumbents hold explicit (written or oral) or implicit employment contracts that give them a basic remuneration that is not directly dependent upon the revenue of the unit for which they work.
- ii. *Employers* are those workers who, working on their own account or with one or a few partners, hold the type of jobs defined as a ‘self-employment jobs’ (i.e. jobs where the remuneration is directly dependent upon the profits derived from the goods and services produced), and, in this capacity, have engaged, on a continuous basis, one or more persons to work for them as employee(s).
- iii. *Own-account workers* are those workers who, working on their own account or with one or more partners, hold the type of jobs defined as a ‘self-employment jobs’ (see ii above), and have not engaged on a continuous basis any employees to work for them.
- iv. *Members of producers’ cooperatives* are workers who hold ‘self-employment jobs’ (see ii or iii above) in a cooperative producing goods and services.
- v. *Contributing family workers* are those workers who hold ‘self-employment jobs’ as own-account workers (see iii above) in a market-oriented establishment operated by a related person living in the same household.
- vi. *Workers not classifiable by status* include those for whom insufficient relevant information is available, and/or who cannot be included in any of the preceding categories.

Use of the indicator

This indicator can be used to answer questions such as what proportion of employed persons in a country (1) work for wages or salaries; (2) run their own enterprises, with or without hired labour; or (3) work without pay within the family unit? According to the ICSE, the basic criteria used to define the status groups are the types of economic risk that they face in their work, an element of which is the strength of institutional attachment between the person and the job, and the type of authority over establishments and other workers that the job-holder has or will have as an explicit or implicit result of the employment contract. Employment status may be used to confirm or refute claims of an increasing informalization of labour markets, as indicated by a decline in numbers of employees with formal working agreements. Companies may try to create more flexible enterprises to meet fluctuating demands, using temporary labour rather than permanent staff. Examination of data on numbers of temporary workers in conjunction with this indicator could verify or refute claims that temporary jobs are crowding out more stable forms of employment.

Source: ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

The indicator of status in employment (KILM 3) is strongly linked to the employment-by-sector indicator (KILM 4). This indicator divides employment into groupings according to economic activity. The International Standard Industrial Classification System, Revision 2, distinguishes ten major divisions, which can be aggregated in three sectors: agriculture, industry and services.¹⁵

KILM 4. Employment by sector

Definition

This indicator provides information on the distribution of the workforce (employed population) according to the International Standard Industrial Classification (ISIC) System. ISIC Revision 2 (1968) consists of ten major divisions, as follows:

Major division 1. *Agriculture, hunting, forestry and fishing*

Major division 2. *Mining and quarrying*

Major division 3. *Manufacturing*

Major division 4. *Electricity, gas and water*

Major division 5. *Construction*

Major division 6. *Wholesale and retail trade and restaurants and hotels*

Major division 7. *Transport, storage and communication*

Major division 8. *Financing, insurance, real estate and business services*

Major division 9. *Community, social and personal services*

Major division 0. *Activities not adequately defined*

Use of the indicator

Sectoral information is particularly useful in identifying broad shifts in employment and stages of development. In the textbook case of economic development, labour flows from agriculture and other labour-intensive primary activities (major division 1) to industry (major divisions 2-5) and finally to the services sector (major divisions 6-9); in the process, workers migrate from rural to urban areas.

An analysis of employment by 'major divisions' (one digit codes), 'divisions' (two-digit codes), 'major groups' (three digit codes) and 'groups' (four digit codes), allows identification of individual industries and services where employment is growing or stagnating. Teamed with information on job vacancies by sector, the more detailed information, viewed over time, should provide a picture of where demand for labour is focused and, as such, could serve as a guide for policy makers designing skills and training programmes that are aimed to improve the match between labour supply and demand.

Source: ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

¹⁵ For full details, see United Nations: *Statistical Papers*, Series M, No. 4, Rev. 2 (New York, 1968); website: <http://unstats.un.org/unsd/cr/registry/>.

With economic growth, one would expect to see a shift in employment from the agricultural to the industry and services sectors (reflected in KILM 4), which, in turn, would result in an increase in the number of wage and salaried workers (reflected in KILM 3). Also, a shrinking share of employment in agriculture would result in a lower proportion of contributing family workers, who are often widespread in the rural sector in developing economies. Countries that show falling proportions of either the share of own-account workers or contributing family workers, and a complementary rise in the share of employees, accompany the move from a low-income situation with a large informal or rural sector to a higher-income situation with high job growth.

Another way to classify the employed population is to consider employment in the informal versus the formal economy (KILM 7). The informal sector represents an important part of the economy, and certainly of the labour market, in many countries, especially developing economies, and plays a major role in employment creation, production and income generation. In countries with high rates of population growth or urbanization, the informal economy tends to absorb most of the expanding labour force in the urban areas. Informal economy employment is a necessary survival strategy in countries that lack social safety nets, such as unemployment insurance, or where wages – especially in the public sector – and pensions are low. In these situations, indicators such as the unemployment rate (KILM 8) and time-related underemployment (KILM 12) are not sufficient to describe the labour market completely.

In other countries, the process of industrial restructuring in the formal economy is seen as leading to greater decentralization of production through subcontracting to small enterprises, many of which are in the informal economy. Global competition – so-called globalization – is also likely to have contributed to the informalization of the workforce in many countries. This is because global competition erodes employment relations by encouraging formal firms to hire workers at low wages with few benefits or to subcontract (outsource) the production of goods and services.

Because employment in the informal economy is in practice difficult to capture unequivocally in employment statistics, this indicator is particularly prone to variations in definitions and methodology of data collection at the national level. The box on KILM 7 below summarizes the international definitions.¹⁶

Most countries still adhere to national definitions of the informal economy and are not, therefore, always in line with the international statistical definition as adopted by the 15th ICLS and the SNA 1993. A major deviation from the international definition is that many countries, especially those using labour force or other household surveys to measure employment in the informal economy, do not yet use the criterion of legal organization of the enterprise (unincorporated enterprise). Also countries often do not use the criterion of lack of a complete set of accounts in their national statistical definition of the informal economy; in other words, the data provided often refer to employment in small or microenterprises, including small corporations and quasi-corporations.

¹⁶ Resolution concerning statistics of employment in the informal sector, adopted by the 15th International Conference of Labour Statisticians, Geneva, 1993; website: <http://www.ilo.org/public/english/bureau/stat/res/infsec.htm>.

KILM 7. Employment in the informal economy

Definition

The KILM 7 indicator is a measure of employment in the informal economy as a proportion of total employment, i.e. the ratio between the number of persons employed in the informal economy and the total number of employed persons, expressed as a percentage.

In 1993, the 15th International Conference of Labour Statisticians adopted an international statistical definition of the informal sector. The definition was subsequently included in the revised System of National Accounts (SNA 1993), adopted by the United Nations Economic and Social Council on the recommendation of the United Nations Statistical Commission. Inclusion in the SNA was considered essential, as it made it possible to identify the informal economy as a separate entity in the national accounts and hence to quantify the contribution of the informal economy to gross domestic product.

Employment in the informal economy: all jobs in informal economy enterprises or all persons who, during a given reference period, were employed in at least one informal enterprise, irrespective of their status in employment and whether it was their main job or a secondary job.

Criteria for informal economy enterprises:

- (i) They are private unincorporated enterprises (excluding quasicorporations), i.e. enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners, and for which no complete accounts are available that would permit a financial separation of the production activities of the enterprise from the other activities of its owner(s). Private unincorporated enterprises include unincorporated enterprises owned and operated by individual household members or by several members of the same household, as well as unincorporated partnerships and cooperatives formed by members of different households, if they lack complete sets of accounts.
- (ii) All or at least some of the goods or services produced are meant for sale or barter, with the possible inclusion in the informal economy of households producing domestic or personal services in employing paid domestic employees.
- (iii) Their size in terms of employment is below a certain threshold to be determined according to national circumstances, and/or they are not registered under specific forms of national legislation (such as factories acts or commercial acts, tax or social security laws, professional groups' regulatory acts, or similar acts, laws or regulations established by national legislative bodies as distinct from local regulations governing trade licences or business permits), and/or their employees are not registered.
- (iv) They are engaged in non-agricultural activities, including secondary nonagricultural activities of enterprises in the agricultural sector.

Use of the indicator

Because of the importance of the informal sector in employment creation, production, and income generation, statistics on employment in the informal economy are essential to obtaining a clear idea of the contributions of all workers, women in particular, to the economy.

The informal economy represents a challenge to policy-makers faced with the following goals: improving the working conditions, and legal and social protection of persons employed in the informal economy; increasing the productivity of informal economic activities; developing training and skills; organizing informal economy producers and workers; and implementing appropriate regulatory frameworks, governmental reforms, urban development, and so on. Poverty, too, as a policy issue, overlaps with the informal economy.

Source: ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

A1.3 Unemployment and youth unemployment

The unemployment rate is probably the best-known labour market measure and certainly one of the most widely quoted by the media in many countries. Together with the employment-to-population ratio (KILM 2), it provides the broadest indicator of the labour market situation in countries that collect information on the labour force.

KILM 8. Unemployment

Definition

The unemployment rate is defined mathematically as the quotient resulting from dividing the total number of unemployed (for a country or a specific group of workers) by the corresponding labour force, which itself is the sum of the total persons employed and unemployed in the group.

According to the resolution adopted in 1982 by the 13th ICLS, the standard definition of unemployed persons is those individuals without work, seeking work in a recent past period, and currently available for work.

Use of the indicator

The overall unemployment rate for a country is a widely used measure of its unutilized labour supply. If employment is taken as the desired situation for people in the economically active population (the labour force), unemployment becomes the undesirable situation. Still, some short-term unemployment can be both desirable and necessary for ensuring adjustment to economic fluctuations. Unemployment rates by specific groups, defined by age, sex, occupation or industry, are also useful in identifying groups of workers and sectors most vulnerable to joblessness.

Source: ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

In many national contexts there may be persons not currently in the labour market who want to work but do not actively ‘seek’ work because they view job opportunities as limited, or because they have restricted labour mobility, or face discrimination, or structural, social or cultural barriers. The exclusion of people who want to work but are not seeking work (often called the ‘hidden unemployed’ or ‘discouraged workers’) is a criterion that will affect the count of both women and men although women may have a higher probability of being excluded from the count of unemployed because they suffer more from social barriers overall that impede them from meeting this criterion. As stated in the resolution,¹⁷ there are situations where the conventional means of seeking work are of limited relevance – for example, in developing economies where the informal economy is rampant and where the labour force is largely self-employed. In such cases, the standard definition of unemployment would greatly undercount the untapped human resources of a country and would give a picture of the labour market that was more positive than reality would warrant. Labour market analysts, therefore, often promote the measurement of unemployment according to the ‘relaxed definition’, meaning relaxing the criterion of seeking work.

¹⁷ Resolution concerning statistics of the economically active population, employment, unemployment and underemployment, 13th International Conference of Labour Statisticians, Geneva, 1982); website: <http://www.ilo.org/public/english/bureau/stat/download/res/ecacpop.pdf>.

An important sub-group of the unemployed consists of the youth. Youth unemployment is generally viewed as an important policy issue for many countries, regardless of their stage of development.

KILM 9. Youth unemployment

Definition

For the purpose of this indicator, the term ‘youth’ covers persons aged 15 to 24 years and ‘adult’ refers to persons aged 25 years and over. The indicator consists of four distinct measurements, each representing a different aspect of the youth unemployment problem. The four measurements are: (a) youth unemployment rate (youth unemployment as a percentage of the youth labour force); (b) ratio of the youth unemployment rate to the adult unemployment rate; (c) youth unemployment as a proportion of total unemployment; and (d) youth unemployment as a proportion of the youth population.

Use of the indicator

There is a growing recognition of the need to address youth employment issues with some urgency. At the 2005 International Labour Conference (ILC) discussion on youth employment, ILO constituents concluded that ‘[t]here are also too many young workers who do not have access to decent work. A significant number of youth are underemployed, unemployed, seeking employment or between jobs, or working unacceptably long hours under informal, intermittent and insecure work arrangements, without the possibility of personal and professional development; working below their potential in low-paid, low-skilled jobs without prospects for career advancement; trapped in involuntary part-time, temporary, casual or seasonal employment; and frequently under poor and precarious conditions in the informal economy, both in rural and urban areas.’

Source: ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

For example, the challenge of youth employment is showcased as Goal 8, Target 16 of the UN Millennium Development Goals: ‘In cooperation with developing countries, develop and implement strategies for decent and productive work for youth.’¹⁸

The indicator on youth unemployment (KILM 9) illustrates the different dimensions of the lack of jobs for young people (see box above). In general, the higher the four rates (youth unemployment rate, the ratio of the youth unemployment rate to the adult unemployment rate, youth unemployment as a proportion of total unemployment; and youth unemployment as a proportion of the youth population), the worse the employment situation of the young. These measurements are likely to move in the same direction, and should be looked at in tandem in order to assess fully the situation of young people within the labour market.

¹⁸ A framework of eight goals, 18 targets and 48 indicators to measure progress towards the Millennium Development goals was adopted by a consensus of experts from the United Nations Secretariat and ILO, IMF, OECD and the World Bank. For more details on the UN Millennium Development Goals, see website: <http://www.un.org/millenniumgoals>.

A1.4 Education and skills

In all countries, human resources represent, directly or indirectly, the most valuable and productive resource; countries traditionally depend on the health, strength and basic skills of their workers to produce goods and services for consumption and trade. The advance of complex organizations and knowledge requirements, as well as the introduction of sophisticated machinery and technology, means that economic growth and improvements in welfare increasingly depend on the degree of literacy and educational attainment of the total population. The population's predisposition to acquire such skills can be enhanced by experience, informal and formal education, and training.

Although the natural endowments of the labour force remain relevant, continuing economic and technological change means that the bulk of human capital is now acquired, not only through initial education and training, but increasingly through adult education and enterprise or individual worker training, within the perspective of lifelong learning and career management. Unfortunately, quantitative data on lifelong learning, and indicators that monitor developments in the acquisition of knowledge and skills beyond formal education, are sparse. Statistics on levels of educational attainment, therefore, remain the best available indicators of labour force skill levels to date. These are important determinants of a country's capacity to compete successfully and sustainably in world markets and to make efficient use of rapid technological advances. They also should affect the employability of workers.

The KILM indicator capturing the educational attainment of the labour force (KILM 14) covers the educational attainment of both women and men in the entire labour force, and also focuses on the proportion of young workers (aged 25 to 29 years) having completed tertiary education. KILM 14 includes literacy, defined as the skills to read and write a simple sentence about everyday life, as a separate measure of educational attainment.

KILM 14. Educational attainment and illiteracy

Definition

KILM 14 reflects the levels and distribution of the knowledge and skills base of the labour force. The indicator includes two measures pertaining to educational level of the labour force (educational attainment of the labour force aged 15 years and above; and the labour force aged 25 to 29 with completed tertiary education), and a third measure estimating illiteracy in the youth and adult population.

[Continued on next page]

KILM 14. Educational attainment and illiteracy (continued)

Definition (continued)

The seven categories of educational attainment used in KILM 14 are conceptually based on the ten levels of the International Standard Classification of Education (ISCED 97 and ISCED 76) designed by the United Nations Educational, Scientific and Cultural Organization (UNESCO). The major attainment levels in KILM 14 are primary, secondary and tertiary education. Primary education aims to provide the basic elements of education (for example, at elementary or primary school and lower secondary school) and corresponds to ISCED levels 1 and 2. Curricula are designed to give students a sound basic education in reading, writing and arithmetic, along with an elementary understanding of other subjects such as history, geography, natural science, social science, art, music and, in some cases, religious instruction. Some vocational programmes, often associated with relatively unskilled jobs, as well as apprenticeship programmes that require further education, are also included. Students generally begin primary education between the ages of 5 and 7 years and end at 13 to 15 years. Literacy programmes for adults, similar in content to programmes in primary education, are also classified under primary education.

Secondary education is provided at high schools, teacher-training schools at this level, and schools of a vocational or technical nature. General education continues to be an important constituent of the curricula, but separate subject presentation and more specialization are also found. Secondary education consists of ISCED levels 3 (designated 'upper secondary education') and 4 (designated 'post-secondary non-tertiary education'), and students generally begin between 13 and 15 years of age and finish between 17 and 18 years of age. It should be noted that the KILM classifications of primary and secondary education differ from the classifications used in UNESCO publications, in which level 2 is termed 'lower secondary education'.

Tertiary education is provided at universities, teacher-training colleges, higher professional schools and sometimes distance learning institutions. It requires, as a minimum condition of admission, the successful completion of education at the secondary level or evidence of the attainment of an equivalent level of knowledge. It corresponds to ISCED levels 5 6 and 7 (levels 5A, 5B and 6 in ISCED-97 and levels 5, 6 and 7 in ISCED-76). In addition to primary, secondary and tertiary education, KILM 14 also covers three other categories of educational attainment that correspond to ISCED levels: less than one year of schooling (level X); less than primary (level 0); and education not defined by level (ISCED-76 level 9).

Use of the indicator

The ability to examine educational levels in relation to occupation and income is useful for policy formulation, as well as for a wide range of economic, social and labour market analyses. Statistics on levels and trends in educational attainment of the labour force can: (a) provide an indication of the capacity of countries to achieve important social and economic goals; (b) give insights into the broad skill structure of the labour force; (c) highlight the need to promote investments in education for different population groups; (d) support analysis of the influence of skill levels on economic outcomes and the success of different policies in raising the educational level of the workforce; (e) give an indication of the degree of inequality in the distribution of education resources between groups of the population, particularly between men and women, and within and between countries; and (f) provide an indication of the skills of the existing labour force, with a view to discovering untapped potential.

While not a labour market indicator in itself, the illiteracy rate of the population may be a useful proxy for basic educational attainment in the potential labour force. Literacy and numeracy are increasingly considered to be the basic minimal skills necessary for entry into the labour market.

Source: ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

The last indicator in our set of selected KILM indicators is number 11, unemployment by educational attainment. The information provided in this indicator can have important implications for both employment and education policy. If it is confirmed that persons with low education levels are at a higher risk of becoming unemployed, the political reaction may be either to seek to increase their education level or to create more low-skill occupations within the country. Alternatively, a higher share of unemployment among persons with higher education could indicate a lack of sufficient professional and high-level technical jobs. In many countries, qualified jobseekers are being forced to accept employment below their skill level. Where the supply of qualified workers outpaces the increase in the number of professional and technical employment opportunities, high levels of skills-related underemployment are inevitable. A possible consequence of the presence of highly educated unemployed in a country is the ‘brain drain’, whereby educated professionals migrate in order to find employment in other areas of the world.

An important policy question is whether unemployment by educational attainment affects women and men differently. A substantially higher level of women’s unemployment at any education level could be a reflection of discrimination in the labour market, or of a mismatch between skills required and those supplied (which a measure of educational attainment alone cannot reveal). On the other hand, it could mean that married women, protected by the spouse’s earnings, can afford to be choosier in searching for a job. Research has shown, however, that women with higher education generally have more labour market opportunities than women with less education so that the opportunity costs for them of withdrawing from the labour force or undertaking an extensive job search is higher.

KILM 11. Unemployment by educational attainment

Definition

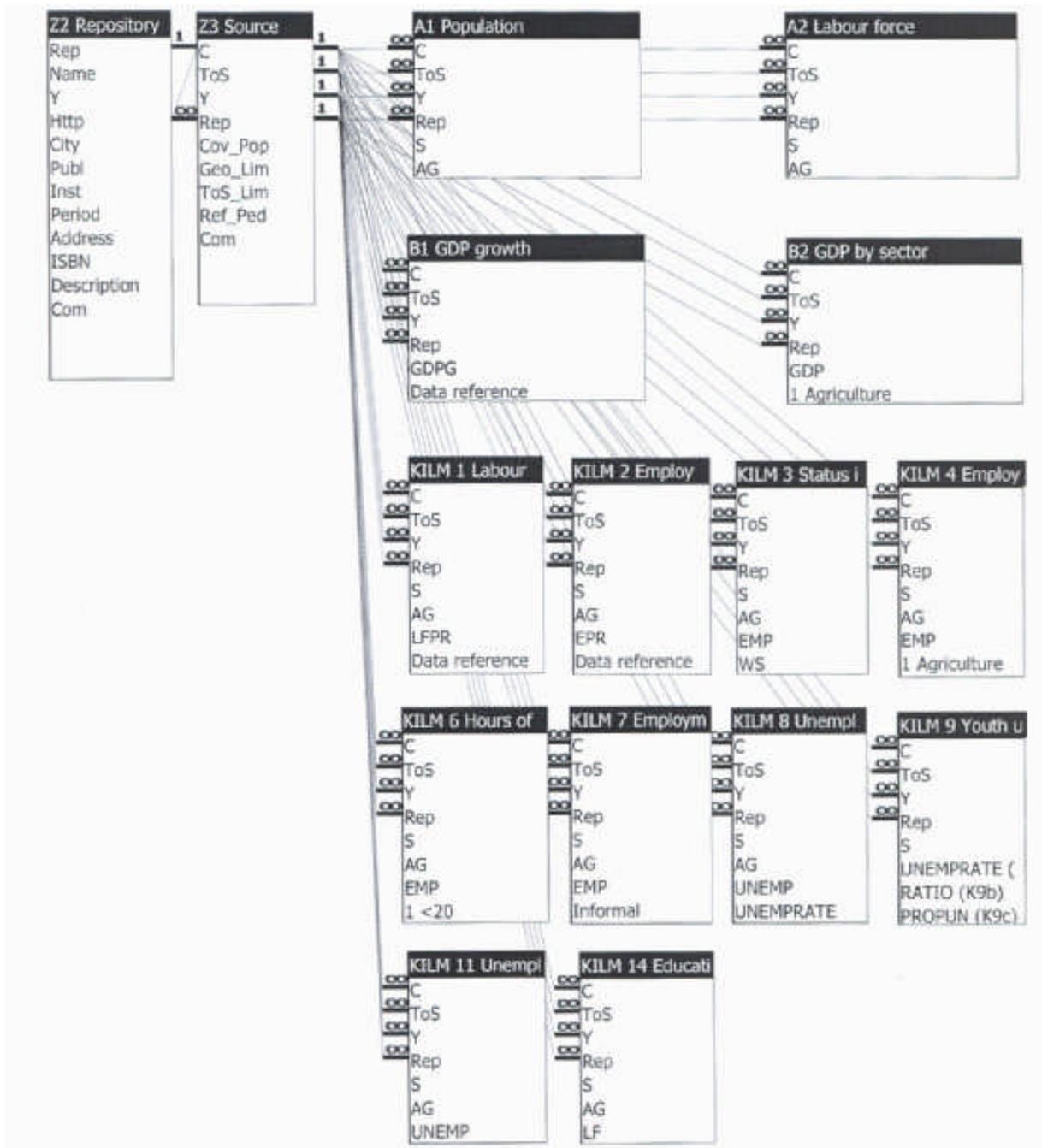
This indicator focuses on unemployment among workers categorized by their level of educational attainment. Specifically, the indicator is the percentage distribution of a country’s total unemployed according to five levels of schooling – less than one year, less than primary level, primary level, secondary level, and tertiary level.

Use of the indicator

This indicator can provide important insights into the relationship between the educational attainment of workers and unemployment. This allows researchers to discern a key characteristic of a country’s or region’s unemployed labour force and, in so doing, assists in identifying the likelihood of different groups of workers experiencing unemployment. The information in the indicator may also be used to draw inferences relating to changes in employment demand. By focusing on the education characteristics of the unemployed, the KILM 11 indicator can aid in analyses designed to shed light on how significant long term events in the country, such as ongoing skill-based technological change, increased trade openness or shifts in the sectoral structure of the economy, alter the experience of high and low-skilled workers in the labour market.

Source: ILO, 2006, *Key Indicators of the Labour Market, Fourth edition*.

Annex A2. Relationships in the LMIA database



Annex A3. Example of a review of sources of information

Field	Explanation	Information
Rep	Repository code	PK_NAC_0506
Name	Full title of the publication	Pakistan Economic Survey 2005-06
Y	Year of publication	2006
Http	Official web site address	www.finance.gov.pk/survey/home.htm
City	Place of publication	Islamabad
Publ	Publisher	Economic Adviser's Wing, Finance Division, Government of Pakistan
Inst	Official producer of information	Ministry of Finance
Period	Periodicity	Annual
Address	Agency contact address	
ToS	Type of source	NAC (national accounts)
Cov_Pop	Population coverage	T (total population)
Geo_Lim	Geographical limitations	
Description	Publication description	Comprehensive overview report of the economy based on various sources including national accounts
Ref_Ped	Period of reference	Year
Rem	Comments on the usability of the publication	The economic survey is well established and can be used as an important source for the Labour Market Information system at national and provincial level, especially with respect to national account information (GDP, breakdowns by components, trade, fiscal and monetary indicators, etc.).