



International
Labour
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► **Global Employment Policy Review 2020**

Employment policies for inclusive
structural transformation

Executive summary

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Structural transformation and sectoral policies are central to inclusive and sustainable job-rich recovery and growth

This review of employment policies for structural transformation comes at a time when the world is looking for medium- to long term solutions to not only overcome the current crisis caused by the COVID-19 pandemic but also to build back better. In this context, this first edition of the Global Employment Policy Review (GEPR) focuses on a number of pertinent issues, in particular:

1. Processes and institutions dedicated to the design and implementation of sectoral policies, including a comparative survey of methods for identifying potentially promising sectors for structural transformation and trade expansion.
2. Developing skills policies for promoting trade and employment.
3. The role of employment-intensive investment programmes in contributing to structural transformation and thereby to peace and resilience.
4. Developing policies that combine the creation of decent work with a just transition to environmental sustainability, particularly in the context of national employment policies (NEPs).
5. A comparison of policy approaches for transitioning to formal employment in Africa, Asia and Latin America.

Structural transformation and sectoral policies are central to the work of the ILO, given its significant work programmes on macroeconomic, skills, trade and labour market policies, as well as on the employment impact assessments of policy interventions, transitions to formal employment and infrastructure investments.

How to design and implement industrial policies for inclusive and effective structural transformation: Processes and methods (Chapter 1)

While the role of industrial policies remains crucial, recent experiences (e.g., Basque Country, Costa Rica, Ghana, South Africa and Viet Nam) show that merely adopting an “industrial policy” is not by itself a guarantee for successful implementation that in turn will lead to structural transformation in a country. Where the design phase was used to accurately identify the nature of the economy and the potential of its different sectors, there was a higher likelihood of successful implementation. Moreover, industrial policies need time to be designed and implemented properly. They need to be part of a coherent policy package and aim for the same developmental and economic goals as the overall strategy for the country. They also have to be flexible and capable of regularly readjusting to changing circumstances. Possibly the most important lesson that can be drawn from the comparison of these case studies is that the identification of sectors and the process of continuous monitoring and evaluation will only succeed when as many partners as possible are involved. For example, a selection of industries dominated by the government will not attract the necessary stakeholder buy-in to ensure successful implementation. The analysis also found little evidence of the involvement of workers’ organizations in most cases and it is likely that their involvement would further increase policy effectiveness.

Identifying the right sectors is a complicated but necessary self-discovery process that should be based on dialogue, the wide-ranging participation of all relevant stakeholders and a rigorous analysis of the situation within a country. That is why the second part of Chapter 1 identifies three methods for providing guidance on identifying promising products and corresponding sectors to promote export expansion and structural transformation: (1) the growth identification and facilitation framework; (2) the economic complexity and product space method; and (3) the International Trade Centre (ITC) export potential and product diversification indicators method.

The comparative analysis of these three methods, accompanied by in-depth country studies, show that structural transformation should not be viewed as an end in itself but as a means to create more and better jobs, that is “decent work”. This will occur through compositional shifts towards higher productivity sectors (whether new or established); associated increases in productivity within both expanding and contracting sectors; and economic growth more broadly. Although all three methods for promoting structural transformation are concerned with job creation, they differ in the degree to which job creation is integral to each method.

How can we make trade more employment-friendly through skill policies: from rhetoric to actionable policies (Chapter 2)

What is the role of skills policies in making trade more employment-friendly, especially as the global trade system is under greater pressure? Investing in skills can help make trade more beneficial by making it more inclusive and employment-friendly, as well as by helping to rebalance the playing field for competition in trade. Investing in skills is both a necessary enabler for effective participation in trade by countries at all levels of development and a key lever for improving the labour market outcomes of trade.

Along with technology, trade is a key factor that shapes the future of work through both the global diffusion of knowledge that it drives and the competitive pressures that it exerts. Trade drives the continual change in workplace skills needs, which calls for effective lifelong learning from pre-school to retirement. Such learning is critically important to the employability of workers at all occupational levels. There is therefore an acute need for lifelong learning to be inclusive and to embrace not only those who are already well skilled but also those at risk of being left behind.

It is widely recognized by policymakers that skills development is important to trade outcomes, which is reflected in both national trade strategies and national skills strategies. However, these strategies frequently lack the granularity of focus that is required to formulate actionable skills policies for tradable industries. The sense of urgency for such policies is growing thanks to the rapid technological changes that are shifting the contours of the global trading system. The analysis of the key aspects of this shift that are relevant to policy learning confirms the importance of making skills development systems more responsive to the requirements of inclusive trade and the related demands of technological change. In doing so, effective governance mechanisms should be established to make skills development systems more responsive and capable of taking actionable measures at a granular level. Furthermore, national, sectoral and regional policies on skills for inclusive trade should make a special effort to target workers who are at risk of being left behind, with a special emphasis on digital skills needs. Policies on skills for trade should also prioritize core employability skills, skills transferable between occupations, skills for modern forms of work organization and the utilization of available skills.

How can employment-intensive investment programmes contribute to sustainable structural transformation and peace and resilience? Learning from decades' experiences (Chapter 3)

The potentials of employment-intensive investment programmes (EIIPs) have not been fully appreciated, especially in responding to profound changes in an increasingly globalized economic system, which has left millions of workers either surplus to the requirements of the labour market or engaged in it yet unable to earn a decent living wage. This situation is exacerbated by factors such as technological advances, protracted conflicts, accelerating climate change and environmental degradation. All of this is contributing to social unrest, migration and conflict.

EIIPs can take the form of either public infrastructure programmes (PIPs), which increase aggregate demand within the national economy, or government-implemented public employment programmes (PEPs). Focusing on PEPs, the analysis shows that ILO innovations in relation to EIIPs can contribute to social justice, promote investment in capabilities, promote resilience through the sustainability of assets created and contribute to peacebuilding. They can also contribute to addressing the challenges of inequality, exclusion and vulnerability by creating a more inclusive labour market, particularly by enhancing household and community resilience as demonstrated by the Jobs for Peace and Resilience flagship programme.

The operational experience of EIIPs in recent decades has also shown that working with community-level and national stakeholders can strengthen and build local institutions and contribute to a more inclusive and productive society. Identifying the fiscal space to implement multisectoral national PEPs that address today's economic, social and environmental challenges may be an appropriate approach to building a more resilient and peaceful society.

How can employment and environmental goals be reconciled in national employment policies?: Towards better design and implementation (Chapter 4)

National employment policies (NEPs) provide a viable entry point for reconciling employment and environmental goals, notably through the promotion of "green jobs". In recent years, NEPs have become more environmentally friendly, encompassing different measures for the creation of decent jobs in the green economy. These have ranged from tax incentives and catalytic investment in promising sectors to training and skills development, including reskilling as part of active labour market programmes. However, there is scope for further improving the design of such policy measures and making their implementation more effective through an integrated approach.


More broadly, green jobs issues have often been included in national development frameworks rather than in dedicated green NEPs with their own specific characteristics. Therefore, there is a need for a coherent set of well-coordinated policies – in particular financial, industrial, employment/labour market, education and skills development policies – for promoting green jobs and a greener economy. A structural transformation towards a green economy with social justice implies radical changes in the way we produce, consume and work, which in turn requires a strong buy-in and commitment at all levels of society. Importantly, it should happen fast.

Based on an extensive review of policy measures and country cases, the analysis suggests that enhanced efforts will be required in order to forge stronger ties between employment and other policies to enhance sustainability, especially through policy research, capacity development, territorial/local approaches, and active labour market policies.

How can policies make larger impacts on informal work? A global comparative analysis of recent policy experiences (Chapter 5)

Formalization policies have varied significantly in different countries and regions. Focusing on Africa, Asia and Latin America and the Caribbean, where informality rates range above 50 per cent of total employment, an extensive review is undertaken to examine the reasons for these cross-regional variations (e.g., productive structures, the composition of labour markets, the nature of informality, institutional settings). The results show that productivity increases have a huge impact in economic growth and structural transformation processes, especially in cases with a higher informality rate, and that these economic drivers boost their potential when properly combined with institutional policies such as incentives and enforcement measures. These findings suggest that impacts tend to be limited when interventions are implemented in an isolated manner. Therefore, it is better to accumulate different interventions that complement each other, thereby supporting multiple and coordinated measures. Different regions need to prescribe the mix of economic and institutional policies according to their own needs; the proportion of 6:4 in Latin America and the Caribbean has been shown to be effective.

Concerning the way forward, many studies have pointed out that labour markets are generating new business models and new forms of employment at a rapid pace and that policymaking should try to adapt to it. Technologies offer the possibility of transforming or upgrading how labour market policies are implemented, in particular those related to the transition to formality. Fortunately, an increasing number of countries are now using new technologies for supporting the transition to formality. These e-solutions provide more transparency, information and innovative approaches for policymakers. However, these tools can only be considered as additions to – and not substitutes for – the structural drivers of the transition to formality that can help the implementation process to facilitate the transition to formality. Whatever other transformations the future may bring, tripartite social dialogue will remain the vehicle for ensuring that the transition to formality leads to better and decent jobs. Informal economy actors know their own problems and concerns best and social dialogue provides a channel for their voice to be heard in policymaking for the transition to formality.



**Advancing social justice,
promoting decent work**

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