Employment Diagnostic Analysis
Concept and methods

Employment Diagnostics

1. Objective and conceptual basis
2. Approach and method
3. Employment Diagnostics in a larger framework
Objective

- Employment diagnostic analysis aims at a stronger focus on productive employment and decent work in development policies...
- ...with a view to achieve job-rich inclusive growth.

To this end:
- it aims to understand the nature of the deficiency of productive employment and the context-specific constraints, challenges and opportunities for increasing productive employment through inclusive and job-rich growth.
- as a basis for social dialogue, prioritisation and policy design.

Conceptual basis

- Productive employment provides the main link between economic growth and improved welfare / reduced poverty
- A view of human resources as creator of growth through productive employment, rather than productive employment as an outcome of growth
- Country-specific situation serves as a starting point: there can be no ‘one-size-fits-all’ solution to specific problems
- Those responsible for designing and implementing policies must be involved at all stages of the analysis
From concept to approach and method

Unemployment rates, 2008

<table>
<thead>
<tr>
<th>Country</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>BiH</td>
<td>24</td>
</tr>
<tr>
<td>Serbia</td>
<td>13.8</td>
</tr>
<tr>
<td>Spain</td>
<td>11.3</td>
</tr>
<tr>
<td>Croatia</td>
<td>8.4</td>
</tr>
<tr>
<td>Hungary</td>
<td>7.8</td>
</tr>
<tr>
<td>Germany</td>
<td>7.5</td>
</tr>
<tr>
<td>Romania</td>
<td>3.8</td>
</tr>
<tr>
<td>Slovenia</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Source: World Development Indicators
One can think of theories to explain these figures - yet each theory would be incomplete by itself as a deficiency of productive employment tends to have complex causes.

Also, each problem has to be looked at in its context. Many countries may face similar situations, yet the causes may differ from country to country, making each situation unique.

So,...there are no ‘one-size-fits-all’ solutions. Each country is unique and requires a customised approach to solving the problems it faces.
Employment diagnostics is this **customised** approach. It is a tool to diagnose the context specific constraints and weaknesses as well as strengths from the perspective of creation of productive employment.

This customised approach follows a **general** framework so that it is neither arbitrary nor ad-hoc. It follows a structure that can be replicated.

So, employment diagnostic analysis is *customised, yet general*.

---

**Step-wise approach**

A structured and stepwise approach is needed

*To combine* a broad approach with in-depth analysis of key issues / problems through a gradual elimination of less important issues and narrowing down of focus on key factors.

*To facilitate participation of key stakeholders*
Phase One

Focuses on **WHAT** has happened and includes a mapping and analysis of:

- Demographic context and other given factors
- Economic growth rates and patterns (including sectoral break-up)
- Patterns and dynamics of employment, income, inequality and poverty

Phase One should:

- Result in a good understanding of the country specific development context and the characteristics of recent economic and labour market development.
- Permit a first broad identification of hypotheses on the main economic and labour market challenges.
- Provide key information for setting of employment targets
**Employment targets – Reducing the deficit of productive employment**

<table>
<thead>
<tr>
<th></th>
<th>Employed</th>
<th>Unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-poor</td>
<td>Productively employed</td>
<td></td>
</tr>
</tbody>
</table>

**A simplified formula**

- The number of working poor, excluding the unemployed poor = the poverty rate $x$ the total employed population aged 15+ (or 15-65)
- Together with the unemployed they make up the deficit in productive employment.

*This equals*

- The total labour force minus those who are productively employed (those who have employment and are not poor).
Main steps in estimating the deficit in productive employment and setting employment targets (I)

1. Collect information on poverty rates, labour force, employed, unemployed for baseline year and calculate number of productively employed and deficit of productive employment
2. Determine targets for poverty reduction / reduction of unemployment for end of plan/strategy period.
3. Forecast growth of labour force during the plan/strategy period.
4. Estimate deficit of productive employment at end of plan/strategy period based on (2) and (3) above.
5. Estimate number of productive jobs needed to achieve the target to reduce the deficit in productive employment

Main steps in estimating the deficit in productive employment and setting employment targets (II)

- Calculate the contribution of the main economic sectors to (A) growth in GDP and (B) growth in employment in the recent past, as well as labour productivity in the main economic sectors
- Use analysis on links between economic growth and employment generation to estimate the rate and sector composition of growth needed to achieve target to reduce deficit of productive employment.
Phase Two

Focuses on **WHY?**

- It consists of in-depth employment diagnostic analysis.
- It is aimed at exploring causal chains, separating the important from the less important factors and identifying key constraints and challenges to increasing productive employment.
- The results of the analysis will provide input into policy discussion.

An employment diagnostic tree, supported with proposals for indicators for all the ‘boxes’, is used to guide and structure the analysis.

### The Employment Diagnostic Tree

1. **Level of human capital / employability**
   - 1.1 Demographics
   - 1.2 Qualitative aspects
   - 1.3 Investments in human resources

2. **Opportunities for and returns to**
   - 2.1 Rate of growth
   - 2.2 Quality of growth
   - 2.3 Unequal resources, access and opportunities

3. **Sustainability**
   - Environmental sustainability / climate change
   - Investment in the young
   - Vulnerability to external shocks

Enhance inclusive job-rich growth and increase productive employment
2. Opportunities for and returns to human capital (employment)

### 2.1 Factors mainly affecting the rate of growth
- 2.1.1 Integration in global economy
- 2.1.2 Cost of finance
- 2.1.3 Social returns to investment
- 2.1.4 Macroeconomy

### 2.2 Factors mainly affecting the quality of growth
- 2.2.1 Sector composition / technology
- 2.2.2 Quality of business environment
- 2.2.3 Domestic terms of trade
- 2.2.4 Rent Extraction
- 2.2.5 Labour market situation

### 2.3 Unequal resource endowment access and/or opportunities
- 2.3.1 Unequal employability
- 2.3.2 Access to labour

---

**An example**

Consider the employment situation in **Mongolia**. Despite high growth the country continues to suffer from high levels of poverty and unemployment. *Why is this?*

- The Mongolian population has quite high levels of education, although there are large rural-urban differences.
- There has been high economic growth, but growth has not created much employment.
- Growth has had a narrow base (mining), manufacturing remains insignificant, large regional imbalances
- Poor international competitiveness is a main constraint →
  a. Inappropriate macroeconomic policies
  b. Poor business environment
  c. Poor quality and relevance of education and skills training
There are always indicators or ‘symptoms’ that direct us to the cause...

- **India:**
  - Symptoms: High working poverty, Quality of growth, Human capital base
  - Cause: High illiteracy, Status of women, Low productivity in agriculture

- **Mongolia:**
  - Symptoms: High unemployment/poverty, Poor quality of growth, Poor competitiveness
  - Cause: this cause is a constraint to inclusive job-rich growth.

**Participation by the end users...**

...in the whole process is crucial for result.

*Emphasis on:*

- User-friendliness
- Participation of constituents and stakeholders on a consultative basis throughout the analytical process and as key actors in the second, diagnostic part of the process and in drawing policy conclusions
**The larger framework**

- Employment analysis and targets
- Policy conclusions
  - Employments strategies
  - Development strategies
  - Other policy/strategy processes

Indepth studies
- Macroeconomic policies
- Gender analysis
- Trade policies
- HRD
- Etc.

---

**Some conclusions so far**

- This is nothing dramatically new, but:
- It is a useful tool for codifying and introducing analytical rigour into an analysis which otherwise may be too intuitive or ad hoc.
- Phase One has proved to be essential for a high quality yet manageable diagnostic analysis in Phase Two
- It is quite user-friendly. It can be used not only for ILO constituents, but also by ILO constituents.
- It may often need to be followed by more in-depth thematic analysis.
- It is a good way of bridging the gap between economic and labour market analysis.
Thank you!