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Labor Markets and Workforce Development

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Denise Lamaute

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More and Better Jobs for the 21st Century

"A mind that is stretched to a new idea never returns to its original dimension."

- Oliver Wendell Holmes



Objectives

In this session we will address these important questions:

- Why does an efficient labor market matter?
- How do we assess labor market efficiency?
- What are the common constraints to labor market efficiency and institutional effectiveness?
- What are some labor market development best practices and program examples?

Labor Market Efficiency: WHY DOES IT MATTER?????

1. To promote productivity, employment and human capital investment
2. To increase educational and economic opportunity
3. To promote political, economic, and social stability



Workforce Development: A Definition

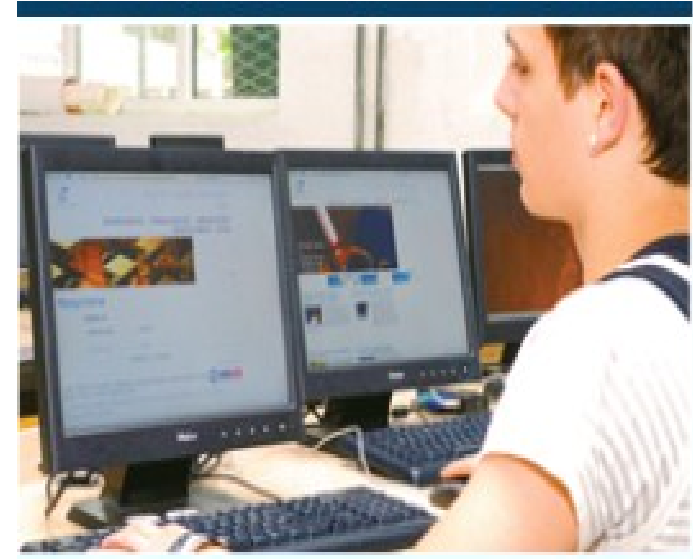
Workforce development is a partnership between the government, business and non-governmental organizations to develop employment opportunities with meaningful and sustainable income

Various partners

- Government
- Education organizations (training and education)
- Economic firms and industry associations
- Youth organizations

Labor Market's Key Actors

1. People acquire the knowledge, skills and attitudes needed to be gainfully employed, increasingly productive, and able to adapt to a changing economy
2. Businesses deploy capital to provide a product or service for a profit with the aid of qualified workers engaged to apply their human capacity most productively and profitably
3. Communities provide the educational, legal, and regulatory environment to promote partnerships and cooperative action that encourages and sustains a community's growth and development



Key Determinants

Four main determinants:

- Labor **demand** (agricultural, manufacturing, construction, and services)
- Labor **supply** and targeting (current and future workforce by age, gender, education, and ethnicity)
- Labor market **efficiency**—labor costs
- **Institutional** barriers—transparency, budget priority and sector efficiency

Labor Demand

Demand for labor reflects change in national economic growth (value added) per capita

Four economic sectors:

- Agriculture
- Industry/utilities
- Construction
- Services

Changes in GDP Growth Per Capita

The main factors that explain changes in GDP growth per capita:

1. Percent change of employment share by sector
2. Percent change of output per worker... by sector
3. Percent change of demographic structure of the population (e.g. active working population by total population)

These three factors explain the change in GDP per capita growth within a specific time period.

What Sectors Contribute the Most?

What sector (Agriculture, Industry and Utilities, Construction, or Services) contributes the most in terms of :

- income?
- output per worker?
- employment share?
- inter-sectoral employment shifts?

Workforce Development

- Skills training:
 - Soft skills (work ethic, attitude, getting to work on time)
 - Basic skills (literacy, numeracy)
 - Specific job skills (carpentry or Web site development)
 - Life skills (financial literacy or basic health practices)
- Job placement assistance (resume writing, interview skills), internships and career counseling
- Firm and industry human resource development (e.g. recruitment fairs, promotion of in-firm training)
- Job creation activities (e.g. economic and educational policies to encourage job creation)

Labor Supply and Target Characteristics

Key questions:

- What is the main age-gender profile of the population?
- What age-gender group has the lowest rates of employment?
- What age-gender group has the highest rates of unemployment?
- What age-gender group has the highest rates of inactivity?
- What is the educational profile of the unemployed?
- What is the educational profile for youth ages 15-19 years of age?
- What is the regional profile of the unemployed?
- What is the ethnic profile of the unemployed?

Major Contributors and Constraints to Efficiency

Labor market efficiency reflects the costs of labor in the economy:

- What is the difficulty in hiring or firing labor?
- What is the rigidity of employment?
- What are the redundancy costs of labor?
- Is Country X competitive in terms of real wages?
- Is Country X competitive in terms of labor tax rates?

Public Sector Constraints and Strengths

- How transparent is the public sector budget?
- How efficient is public sector management?
- Is the education sector efficient?
- Is education a budget priority?
- Do schools teach basic skills, such as reading?
- Are active and/or passive labor market programs a priority?

Case Study: Republic of Macedonia

Main economic issues facing the Republic of Macedonia

- Trade deficits require large fiscal cuts
- Real economy has experienced significant decline, particularly exports
- Credit crunch hitting small businesses hard
- Worker remittances have decreased
- Other issues??

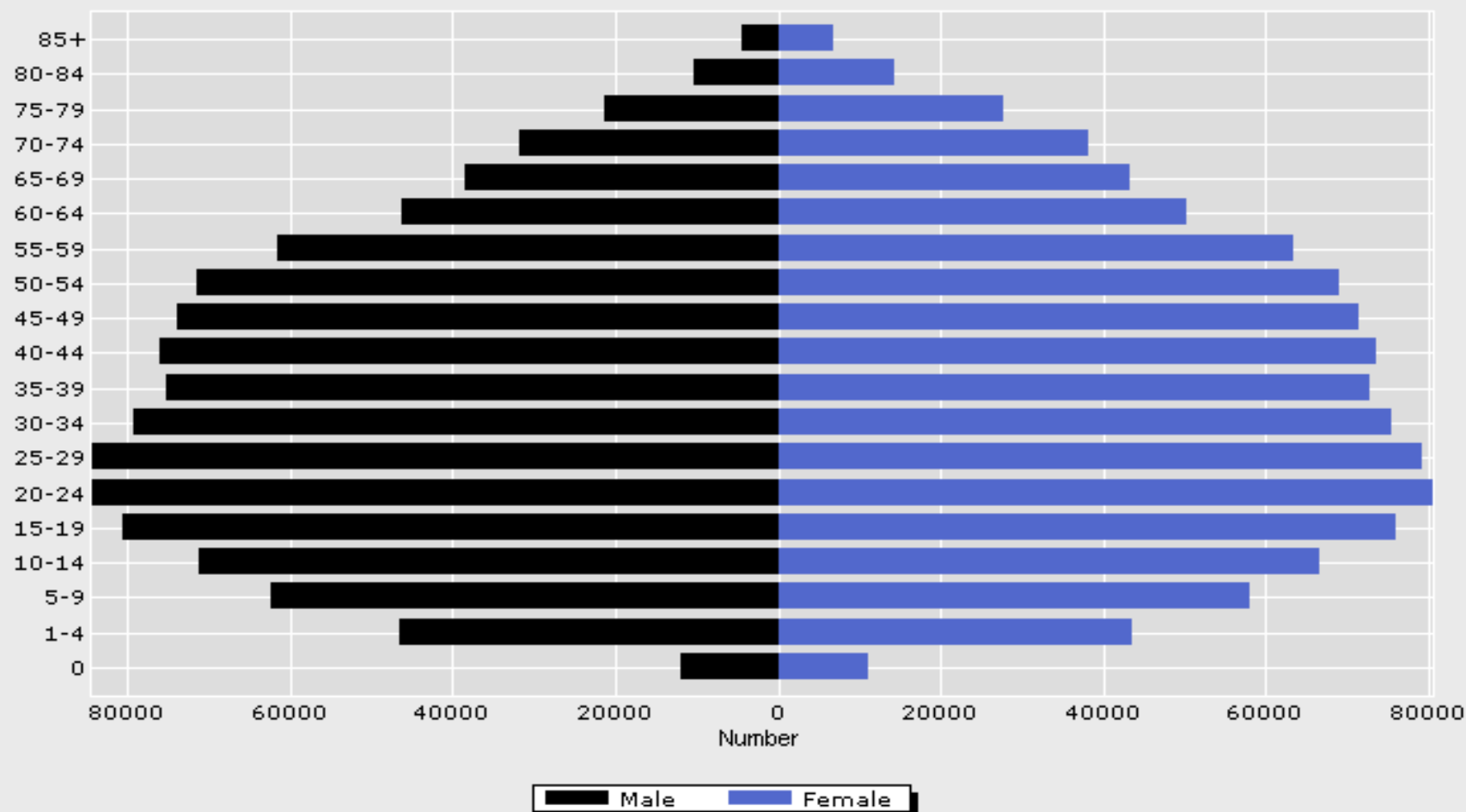


Statistical Profile of Neighboring Countries

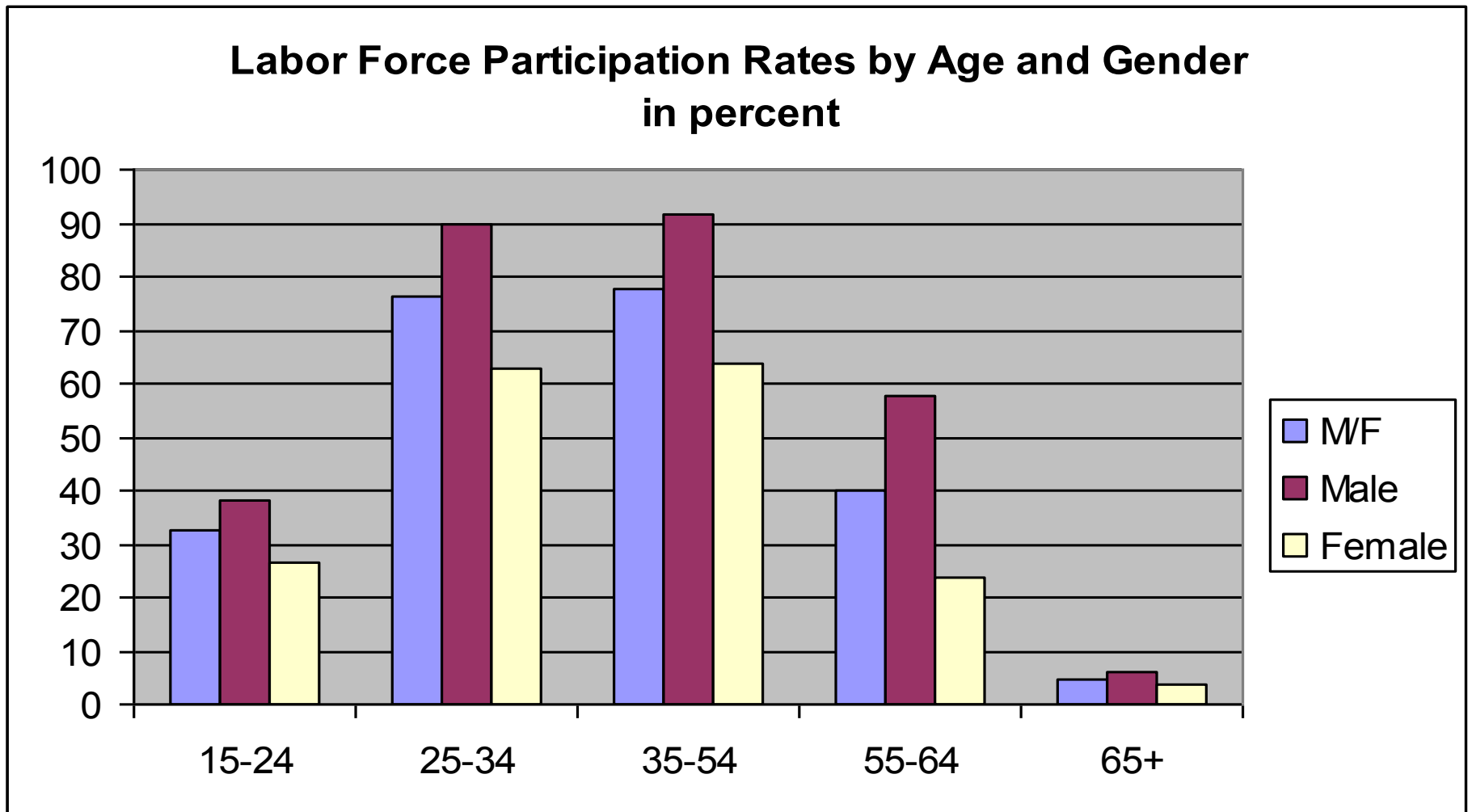
	Bosnia and Herzegovina	Republic of Macedonia	Montenegro	Serbia
Economic Growth				
Per capita income, \$US, 2008	4833.5	4761.3	6509.0	6761.0
GDP growth rates, annual average, 1998-2008	5.5	2.7	3.8	4.0
GDP growth rate, estimate 2009 (EBRD)	-1.0	-1.0	-1.0	-3.0
Exports % of GDP 2008 (WB)	35.0	56.0	41.0	31.0
Exports Growth Rate projected 2008-2012 (WB)	3.0	-0.4	-1.0	-4.0
Labor Force				
Total number in labor force 2008 (000)	1926.1	895.0	178.8	2655.7
Unemployment rate 2007 (Ages 15-64) %	26.0	33.8	30.3	18.8
Labor force participation rate 2008 %	59.0	52.5	50.0	53.7
Female	53.0	40.7	41.9	45.3
Youth Unemployment 2007	58.6	57.5	38.7	43.7
Female	62.3	58.2	N/A	48.3
Youth inactivity rate 2008 %	57.5	67.4	67.5	67.5
Female	61.4	73.5	73.0	73.0
Labor Efficiency				
Labor Efficiency Global Competitiveness(Rank 1-7)	4.1	4.2	4.5	4.2
Labor Efficiency Doing Business (Rank 1-100)	33.0	14.0	13.0	35.0
Institutions (Score 1-7) 1st Pillar⁴				
	2.9	3.7	4.3	3.2

What is the main age-gender profile of the population?

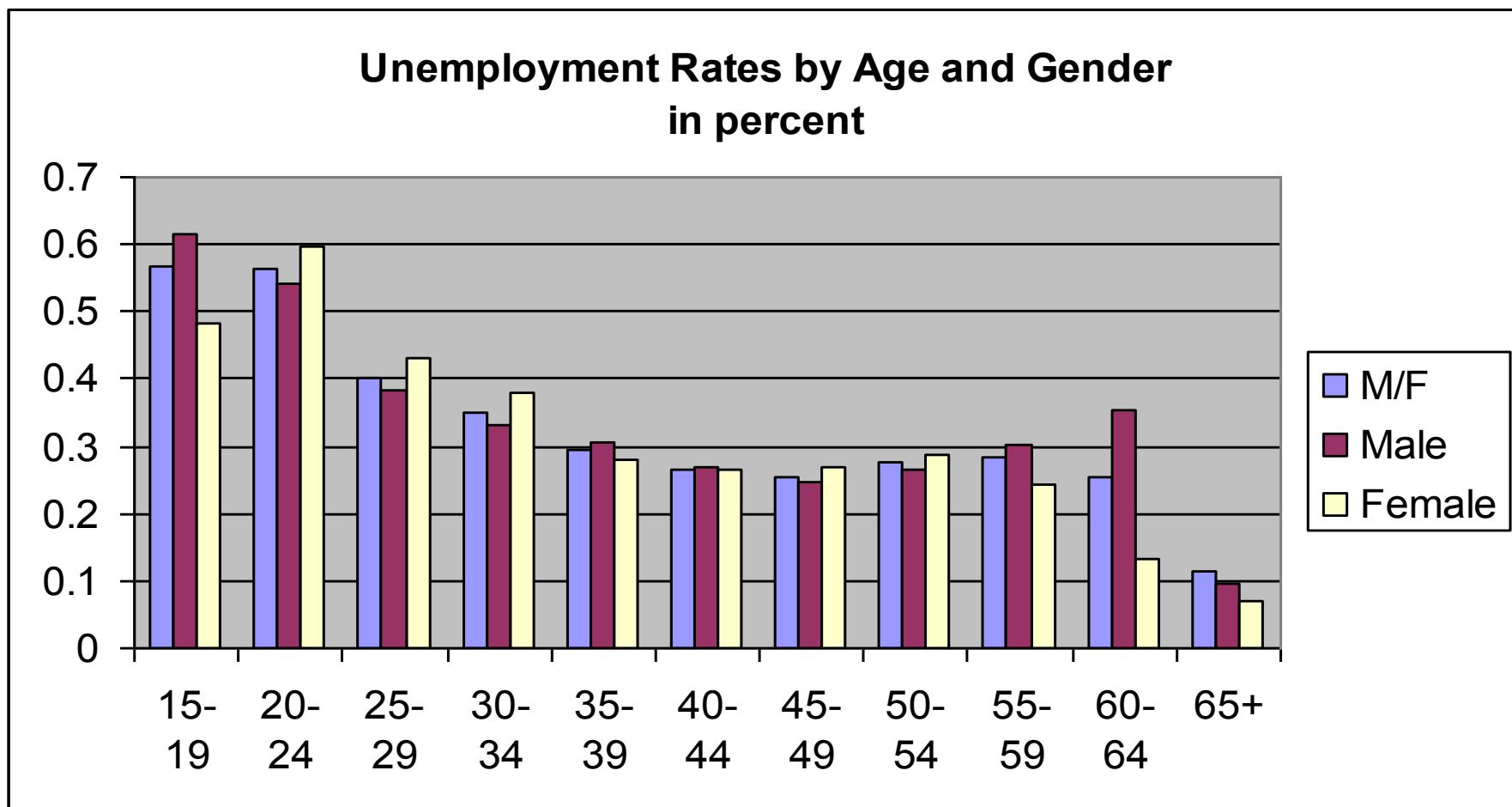
Population at the end of the year (31.12) by sex and age, by regions, 2006-2008
by Sex and Age.
Republic of Macedonia, 2008. (Number)



What age-gender group has the lowest rates of labor market participation?

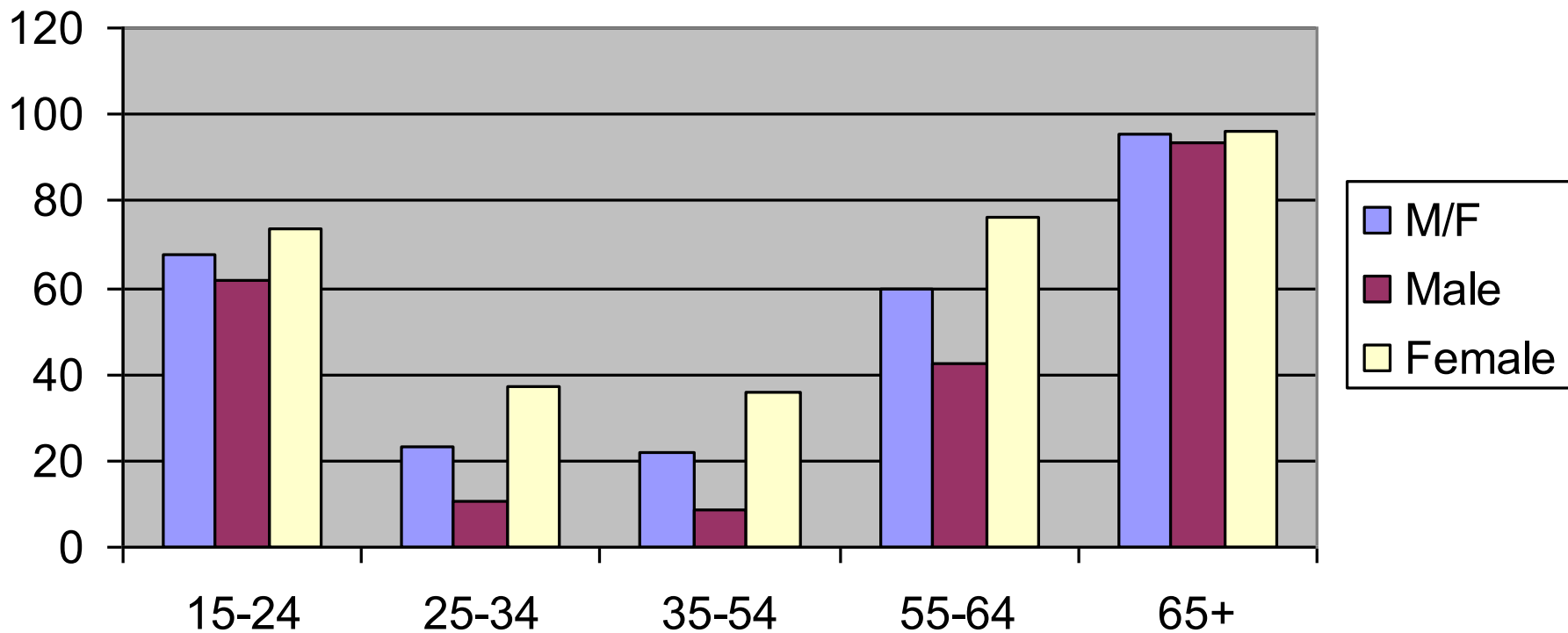


What age-gender group has the highest rates of unemployment?



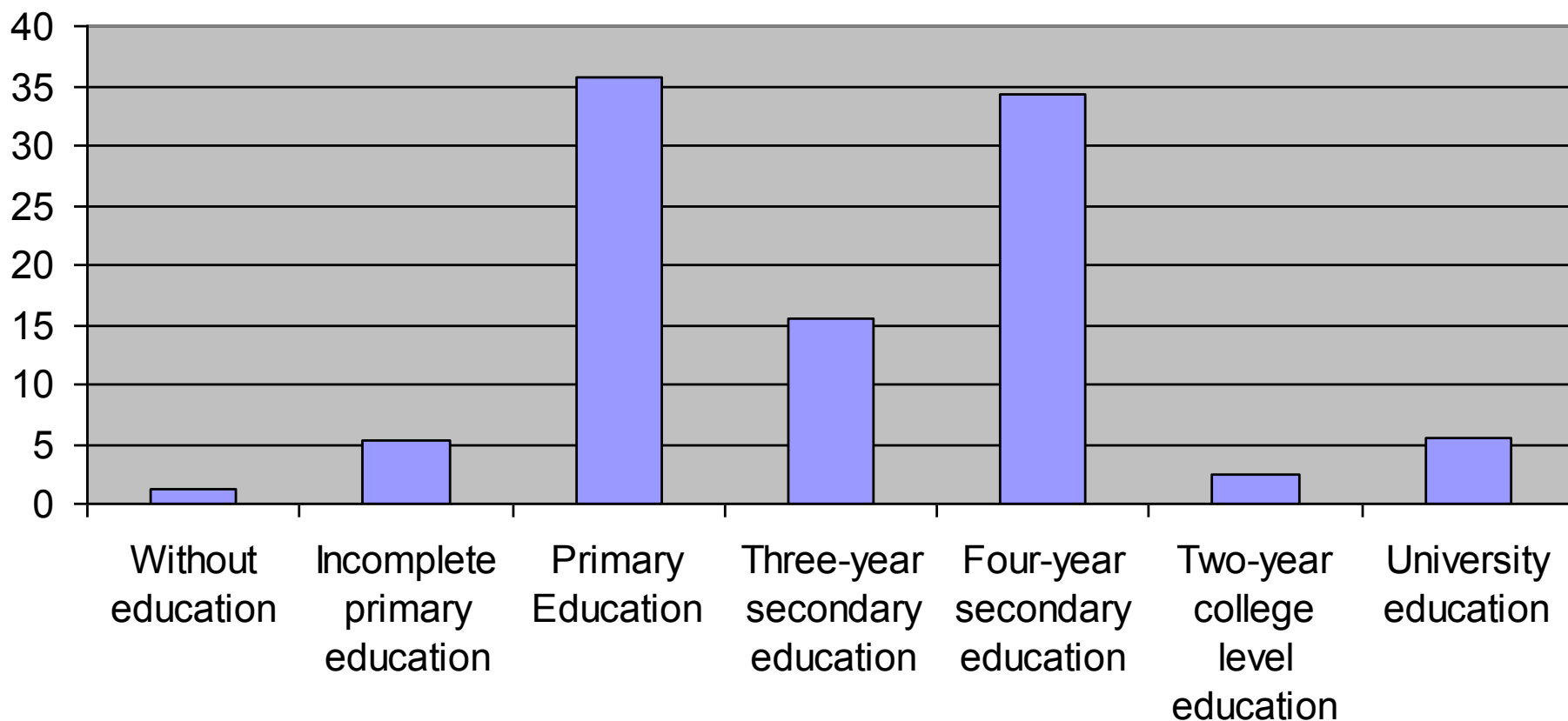
What age-gender group has the highest rates of inactivity?

**Inactivity Rates by Age and Gender
in percent**

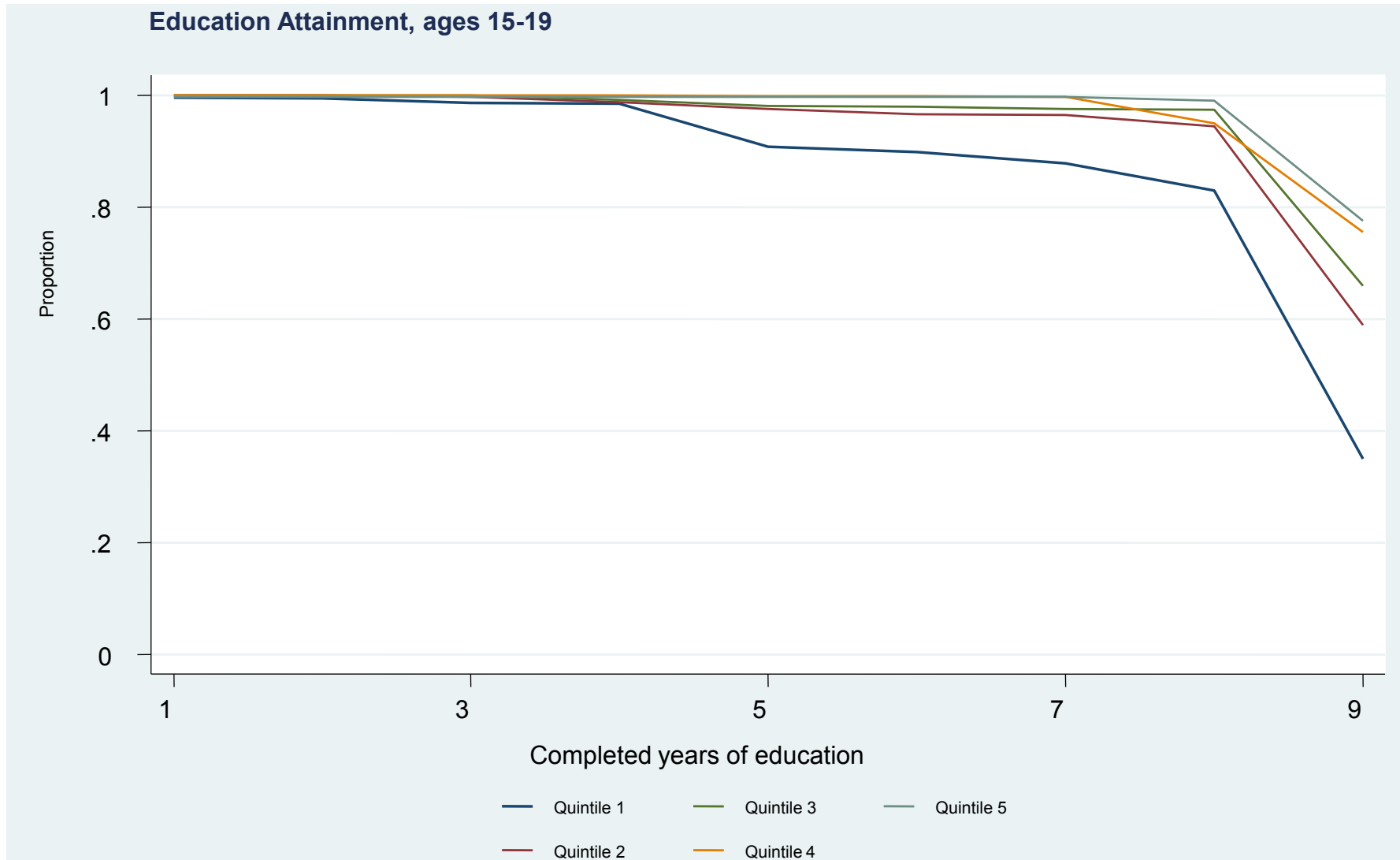


What is the educational profile of the unemployed?

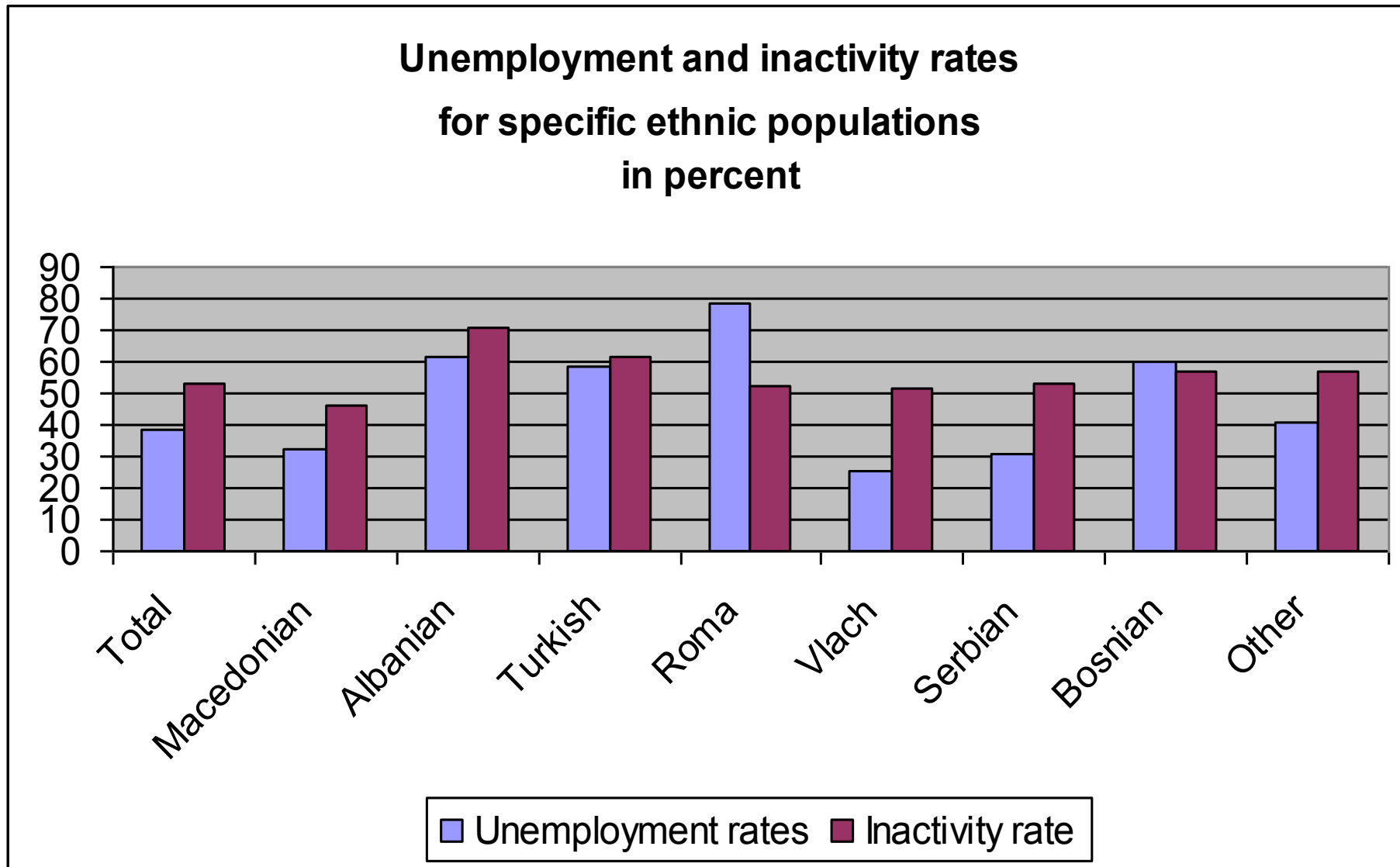
**Educational Level of Unemployed Workers
in percent**



What is the educational profile for youth ages 15-19 years of age?



What ethnic profile has the highest rates of unemployment?



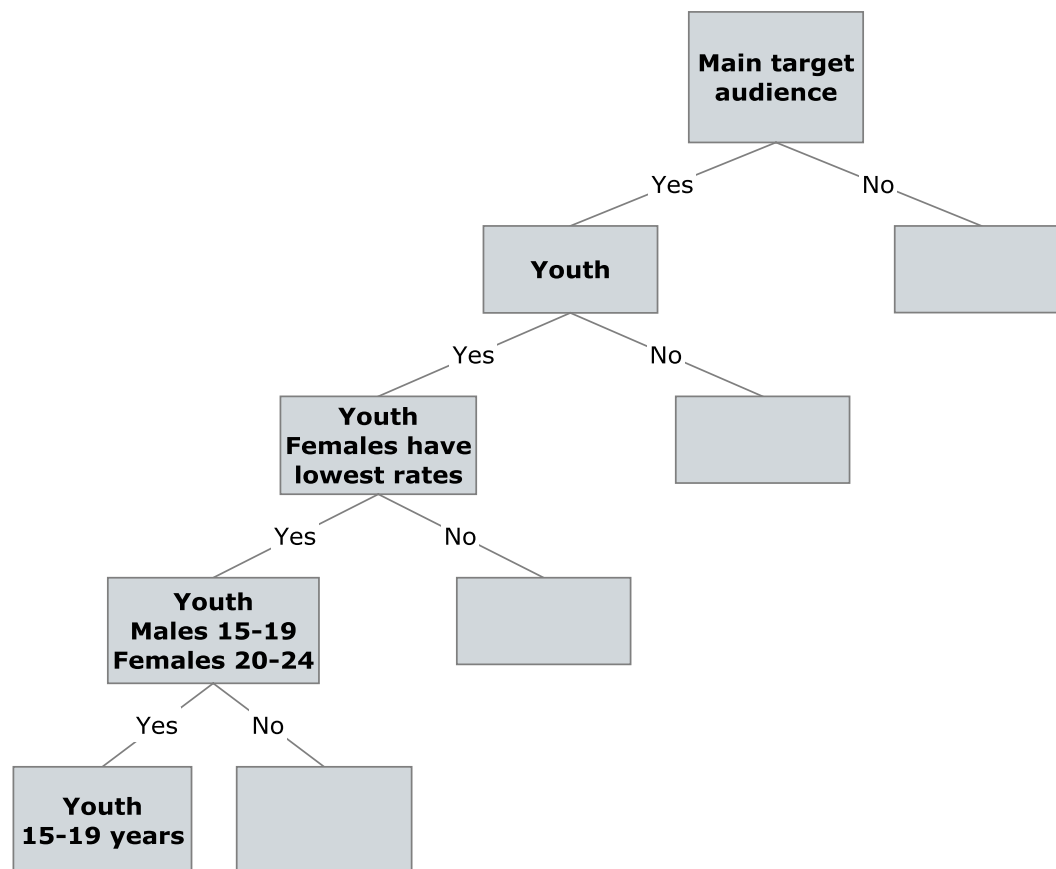
Decision Tree Analysis of Youth Target Population: Republic of Macedonia

What age-gender group is the largest within the Macedonian population?

What age-gender group has the lowest rates of employment?

What age-gender group has the highest rates of unemployment?

What age-gender group has the highest rates of inactivity?

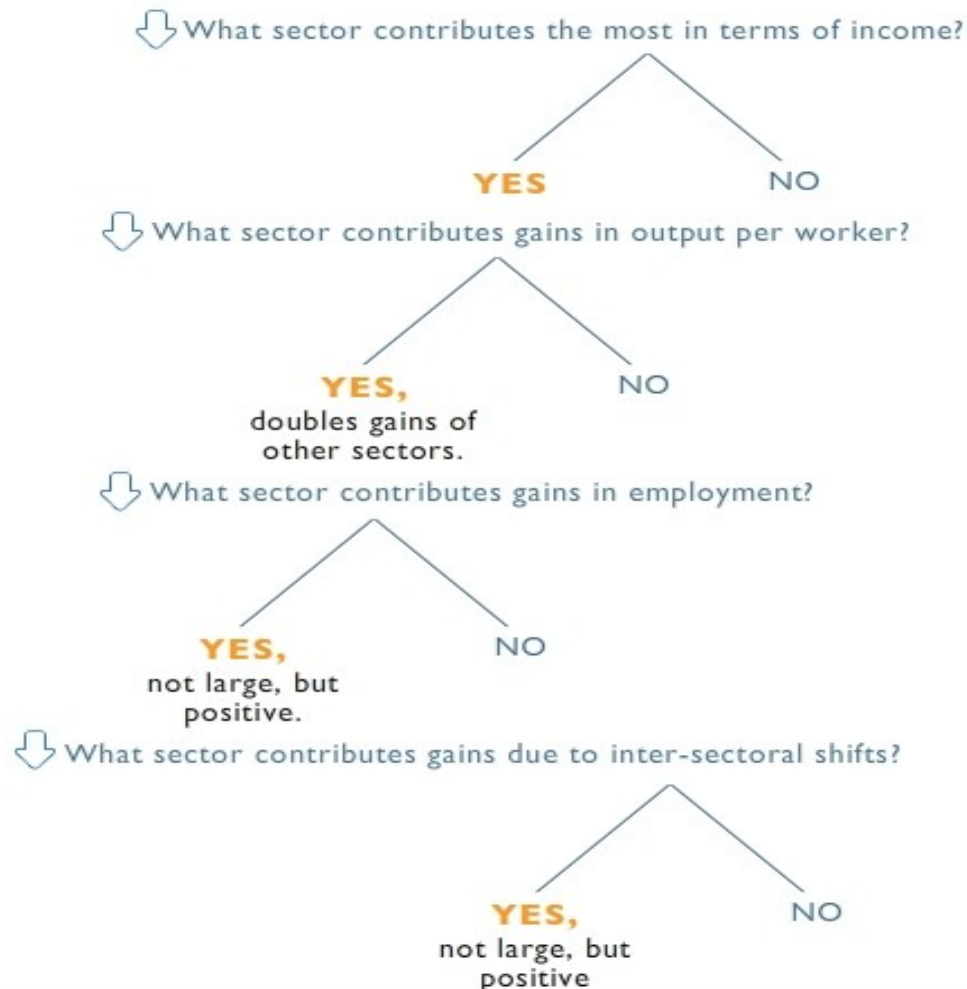


Macedonia Labor Supply and Targeting

- Youth are the largest demographic group
- Youth have the lowest labor participation
- Youth have the highest rates of unemployment
- Youth have the highest rates of inactivity
- Targeting to sub-groups of youth:
 - The poorest youth (decile 1) have the lowest levels of education (primary education)
 - Youth with incomplete secondary education is another sub-group youth population
 - Ethnic groups have the least educated and poorest youth

Service Sector - the Jobs Creation Engine

Decision Tree I: Service Sector and Jobs Creation and Income Growth

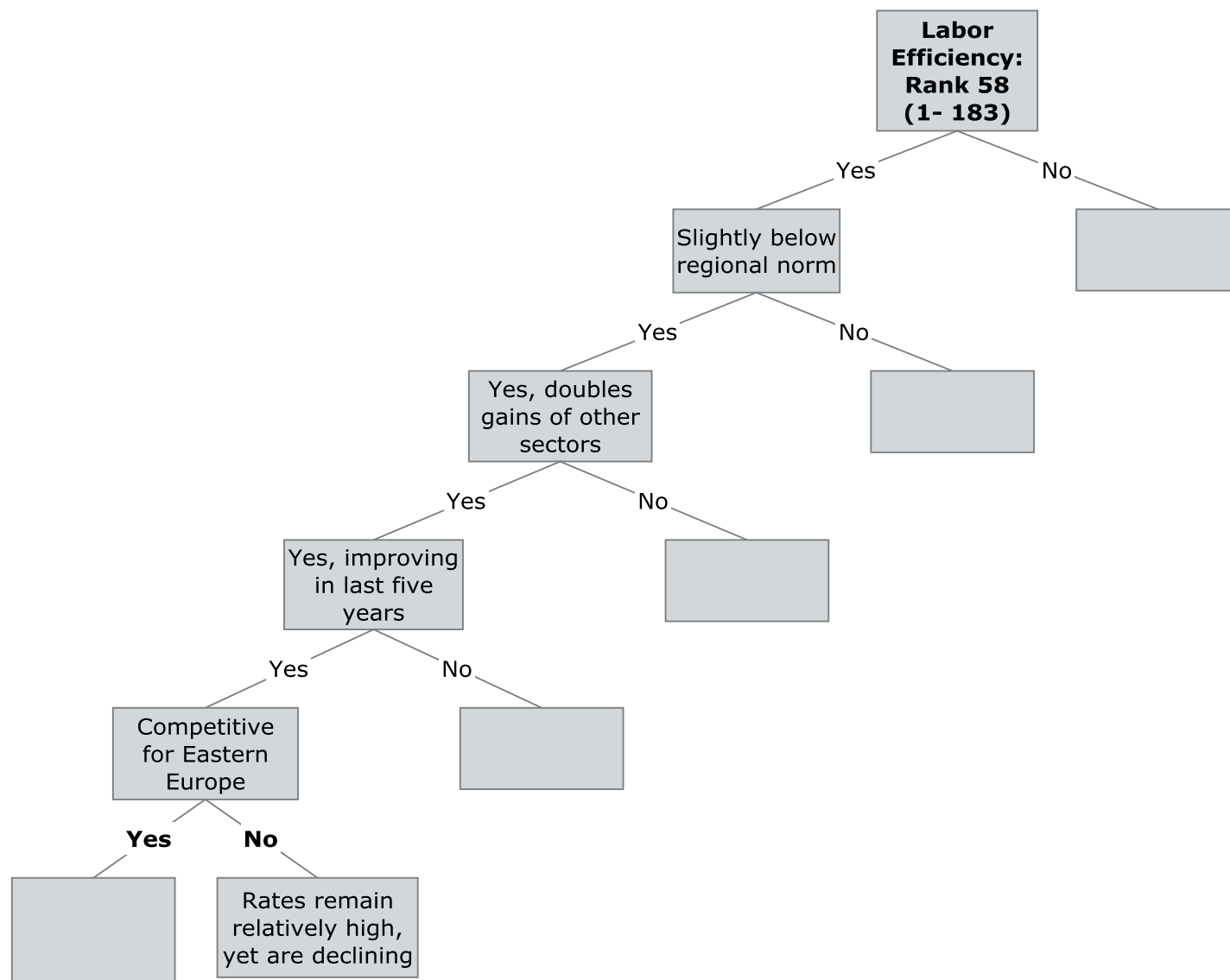


Job Creation in Macedonia

The service sector is a main job generator in Macedonia:

- The greatest contributor in terms of income growth
- The largest contributor in terms of output per worker
- Positive yet not large contributor in terms of employment gains
- Positive yet not large contributor of employment shifts between sectors

Decision Tree of Labor Market Efficiency: Republic of Macedonia



**Low
redundancy
costs?**

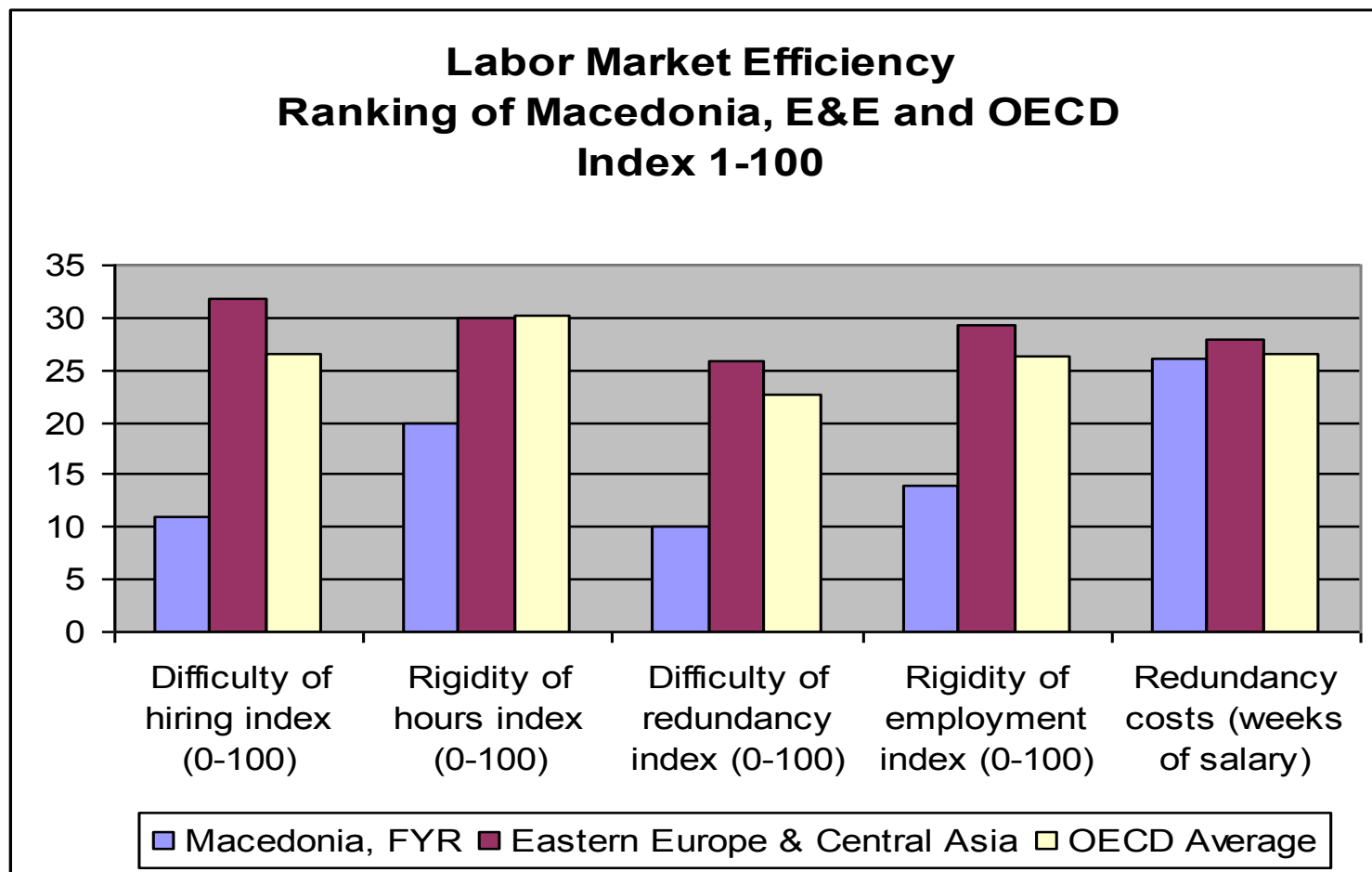
**Labor
flexibility?**

**Low hiring
costs?**

**Are wages
competitive
?**

**Low labor
tax rates?**

Labor Market Efficiency of Rep. of Macedonia, E&E and OECD



Source: World Bank, Doing Business. 2009.

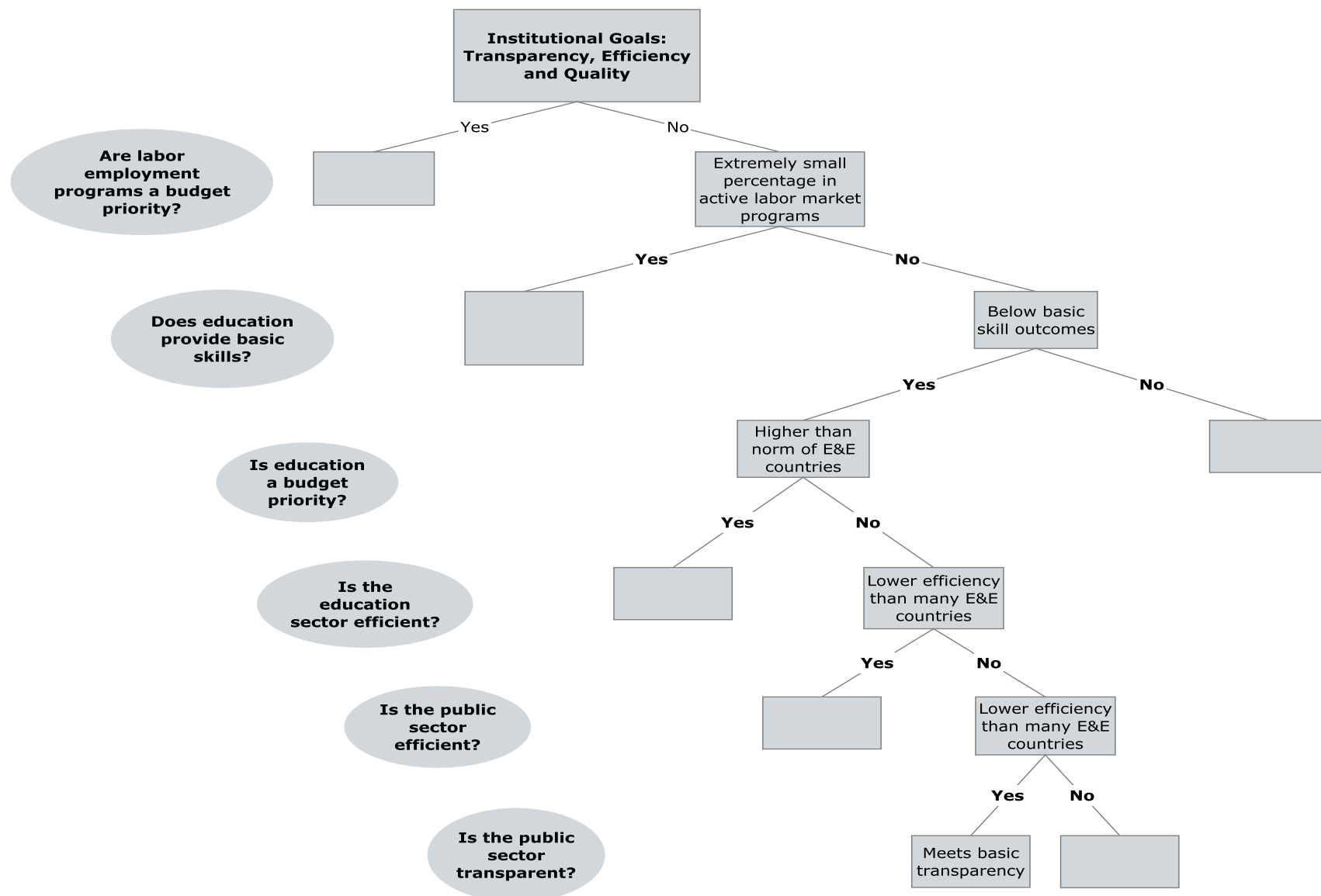
Labor Market Efficiency: Republic of Macedonia

The labor market in the Republic of Macedonia can be characterized by:

- Flexibility in terms of employment contracts
- Low hiring costs
- Relatively low redundancy costs
- Competitive wages
- High tax rates

Based on the analysis, the priority should address labor tax issues through policy reforms.

Decision Tree of Institutional Barriers: Republic of Macedonia



Labor Market Efficiency: Republic of Macedonia Institutional Development

Findings demonstrate the need for:

1. Enhanced institutional transparency
2. Increased public sector efficiency
3. Greater support for active labor market programs

Good Practice Inventory of Development Projects and Programs

Obtain a list of workforce development projects and programs

***EUROPE AND EURASIA'S WORKFORCE
DEVELOPMENT AND LABOR MARKET PROGRAMS:
MORE AND BETTER JOBS FOR A 21ST CENTURY
WORKFORCE***

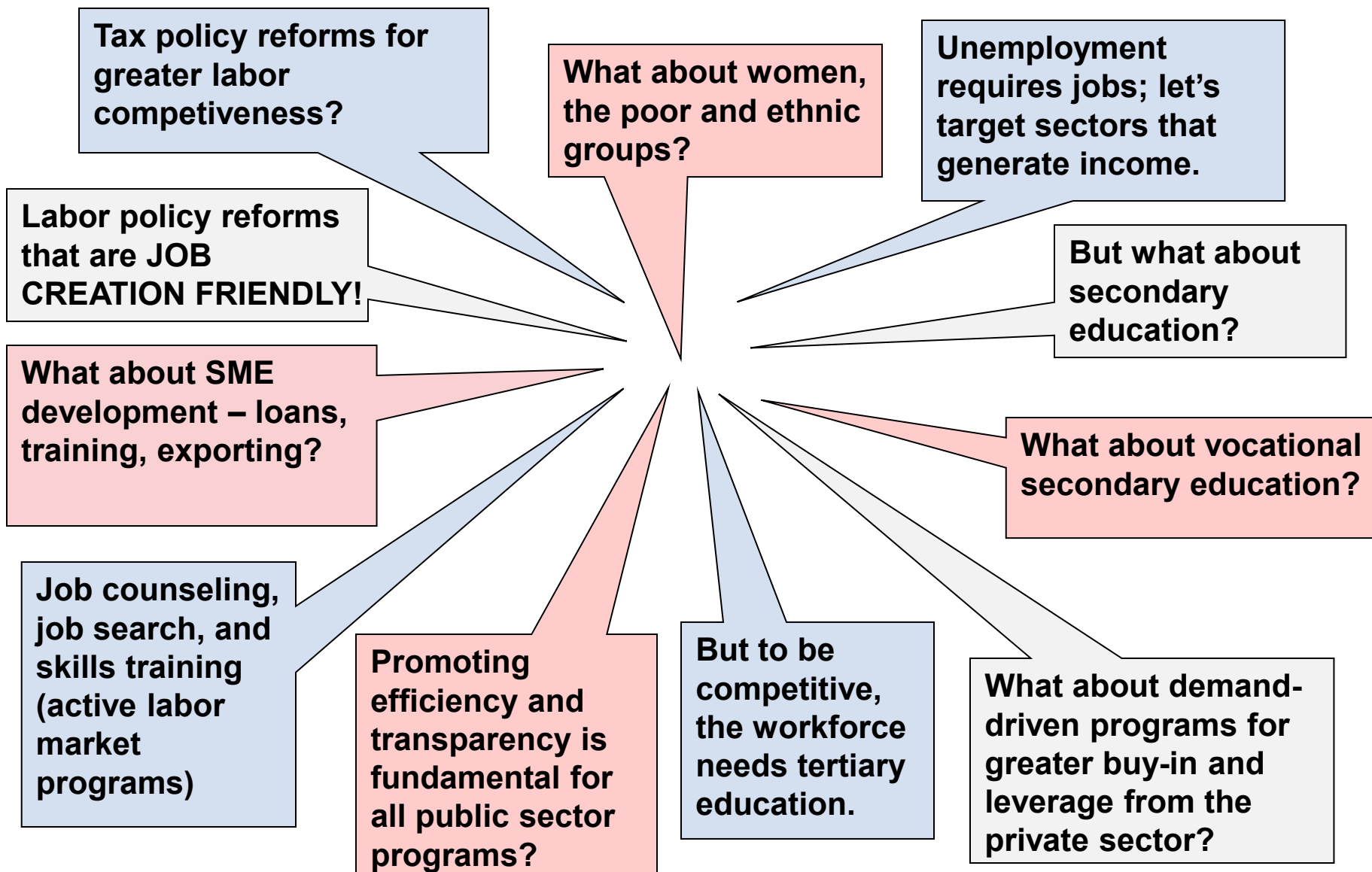
http://pdf.usaid.gov/pdf_docs/PNADM029.pdf

Scenario Building and Project Design

- Identify the current USAID projects and programs in the country – what's missing?
- **Identify the main priorities or constraints for an efficient labor market**
- Decide what additional program(s) will achieve these priorities or address the constraints

This is the brainstorming activity (broad input is the goal) to select a project idea(s) and design the main elements for that project.

Brainstorming Conversation



Checklist of Priorities: A Review

Possible workforce development problem	Findings/Priorities	Priority USAID Program Design Areas
Weak labor demand and sluggish jobs creation	What sector has highest output per worker and income contribution?	Identify various employment pathways into productive service sector
High rates of unemployment and low labor market participation	What group has the highest rate of unemployment and inactivity?	Address employment through active labor market programs. Ensure the role of youth in the programs.
Labor market efficiency contributes little jobs creation	What reforms will contribute to low labor costs and/or low labor tax rates?	Promote policy reforms on labor tax rates with private sector
Weak institutions to implement projects	What are the efficiency and transparency challenges facing the public sector?	Promote active labor market programs and policies. Build capacity in relevant labor and employment agencies.

Project Considerations

- ✓ Timeframe
- ✓ Funding and funding cycle
- ✓ Target beneficiaries
- ✓ Expected Outcome and Impact
- ✓ Counterparts and partnership(s)
- ✓ Other donors

Examples of Projects

1. Support The **Employment Service Agency** in providing better services
2. Assist the GOX implementation its **active labor market measures** plan
3. Focus on the creation of quality, market-driven products and to **improve production capacity** in an industry
4. **Stimulate job creation** by assisting small and medium enterprises adopt high-impact industries and services
5. Support local municipal governments **promote economic growth and competitiveness**

Project Design

Go through the following steps:

1. Review the **main trends** in workforce development and labor markets
2. Identify the **main economic sectors** (or subsectors) contributing to employment and income through data analysis
3. Examine **current programs** and activities to learn if they address the identified labor market and workforce development priorities
4. Propose a specific program to **address the priorities** that are not being addressed fully

Summary

In this presentation we answered:

- Why an efficient labor market matters
- How to assess a labor market's efficiency
- What are the common constraints to labor market efficiency and institutional effectiveness
- How to design a labor market activity based on country priorities as per the analysis

Questions????

Logic will get you from A to B.

*Imagination will take you
everywhere.*

- Albert Einstein

Thank You

Denise Lamaute
dlamaute@usaid.gov