

SUMMARY LABOR MARKET ASSESSMENT

1. The country poverty analysis should include a summary labor market assessment, to be reflected in the country strategy and program (CSP). Given that work is the main source of income for the poor and, as development proceeds, employment becomes the major source of economic support for workers and their families, a labor market assessment is critical to help identify the country's development options. A labor market assessment should recommend policies to ensure inclusive, labor-absorbing and efficient development patterns. Improving labor market operations is an important element of strategies to reduce poverty, assisting human capital development, addressing gender discrimination, allocating a country's human capital resources to their most productive uses, enhancing welfare and encouraging growth and development.

2. The summary labor market assessment should be brief and concise, focused on the determination of country priorities by revealing employment patterns. The size of the formal and informal sectors; sectoral distribution (population engaged in agriculture, industry, and services); rural and urban active population; evolution of real wages; the role of women in the labor force; working conditions; compliance with national and international labor laws and standards including the reported existence of child or bonded labor and violations to other Core Labor Standards—all will provide information to help determine country priorities. In some countries, the priority attention will be to assist unemployed or underemployed working age population to find employment opportunities; or to fight child labor. In others, the rural areas may have been forced to shoulder a disproportionate burden of the country's social problems, and strengthening rural systems may be a priority. Labor absorption is essential to avoid poverty: the country labor market assessment should evaluate which sectors/subsectors and geographical areas have a demand for labor and identify which areas may have an unmet supply of labor, to identify the right mix of public policies. Labor market assessment is thus a key element in the strategic link between economic growth and poverty reduction, and the assessment should provide recommendations to ensure efficient and inclusive development patterns.

3. The summary labor market assessment will be based on secondary sources. Institutions such as the International Labor Office (ILO) have comprehensive country studies; other organizations such as the World Bank also have selected country studies. The key information required for a labor market assessment includes the country's development pattern, the structure of the labor market (supply and demand); the institutional framework (labor market legislation, administrative structure, social stakeholders); and policy analysis. Some indicative, not prescriptive, notes are presented below.

A. The Country's Labor-Absorbing Development Pattern

4. The assessment of the labor-absorbing development pattern of the country should be based on a comparison of the composition of economic growth (primary, secondary, tertiary sectors) and the sectors' labor intensity (labor force in primary, secondary and tertiary sectors), leading sectors of the economy, the size of the informal sector, domestic and foreign investment prospects, and growth projections in the medium and long term.

- ✓ What are the characteristics of growth and poverty? Has the poverty rate been reduced at the same speed as the rate of growth? Has growth been pro-poor, trickled down? Has growth been sufficient to employ all the population of working age?
- ✓ Which are the most dynamic sectors of the economy? Are they labor-intensive?
- ✓ What is the percentage of the population below 18? Will the economy be able to absorb all new entrants into the labor market?
- ✓ Which sector is the country's niche in the world economy? Is this leading sector labor-absorbing? If not, is it taxed? Do the tax revenues benefit those outside the labor market?
- ✓ Is the growth rate low? What are the barriers to investment by the private/public sector? What can be done to accelerate growth while ensuring pro-poor use of scarce public resources?
- ✓ Which sectors, in which geographical regions, should be promoted in the short/long term to secure employment and prosperity for all citizens?

B. The Structure of the Labor Market

5. The main purpose of this analysis is to identify labor market imbalances. This can be done by analyzing the demand and supply for labor separately, and by identifying the major sources of imbalances such as geographical, skills, education or gender factors. Labor supply attends to the human capital available in the nation, while labor demand attends to the human capital needs. This allows the identification of imbalances and mismatches in the supply and demand of labor, which can be addressed in future development policies.

6. **Labor Supply:** The analysis of supply of labor starts with demographic data. Many Asian and Pacific countries have fast growing populations—on average, 40 percent of the population are children and youth below 19 years old. Their economies must therefore grow particularly fast if they are to develop employment in the formal sector. Without that development, employment is confined to the informal, normally subsistence economy, and these countries have an impossible task in reducing their poverty levels. The important consideration is labor force growth—and labor force growth is obviously linked to controlling population growth. The analysis of labor supply should also center on working age population, including the economically inactive. Especially during deep economic changes, substantial flows of workers occur between the economically active and economically inactive pools. Following a typical ILO classification of the population according to labor categories, the statistics below should provide a comprehensive picture of labor supply:

- ✓ Demographic structures by major age groups: children and youth (0-14 or 0-18); working age population (15-60/65 or 19-60-/65); elderly (60/65+); birth, death and natural growth rates;
- ✓ The size, structure (male/female; urban/rural; age; education) and projections of the working age population (WAP = Men 15-60/65 + Women 15-60/65);
- ✓ Employment (and, if available, underemployment) by economic activity, occupation, gender, age, education, urban/rural, formal/informal and public/private sectors
- ✓ Unemployment by gender, age, education and urban/rural sectors
- ✓ Economically inactive population by group (housewives, students, discouraged job-seekers and others), age, gender and education.
- ✓ Labor migration (internal and external) and impact on the structure of the labor force
- ✓ Literacy rates, average years of schooling and changes in the education system affecting school retention;
- ✓ If relevant, changes in the pension system affecting retirement age

7. **Labor Demand:** The basic characteristics of the labor demand that need to be assessed include

- ✓ Economic structure (national and regional, by sector)
- ✓ Wage levels and earnings
- ✓ Relationship between the formal and informal sectors
- ✓ Relationship between rural and urban sectors
- ✓ Size and structure of the public sector
- ✓ Size, structure and potential for private sector development

8. Countries with a significant shortfall between the economic growth rates and the population growth rates are bound to have substantial informal sectors. Assessing labor demand, especially on a detailed industry or occupation level, may be difficult to do except in general terms. For most policy prescriptions, this proxy may be sufficient. For example, quantification of the informal sector requires effort in terms of (i) its definition and, once a definition is agreed, (ii) estimating its size.¹

¹ The formal sector may be defined in terms of business registrations but this would not allow for employment estimates to be made; it could also be defined in terms of those responsible for paying social taxes; however, tax avoidance can be high so that the resulting figures may not be accurate. Another definition is based on the existence of contractual arrangements between workers and employers. Whatever estimates are finally made, they have to cover two elements of the informal sector: (i) rural informal employment (which affects the majority of the

9. The promotion of small and medium enterprises is normally a good practice to generate employment and economic growth. The development of a manufacturing sector, and the type and level of the sector, depends on a variety of factors such as accepted wage levels and the skills of the labor force. Typically, countries at the lower end of development gain immediate improvements in incomes as a result of direct foreign investment into manufacturing but the gains are limited unless there is a longer-term movement towards higher-level manufacturing involving greater skills. Services cover a wide range of sectors, notably tourism and commerce. These sectors are noted for numerous small enterprises and for informal employment in general. Tourism is usually seen as a growing industry [in developing member countries](#) (DMCs) of ADB, but a great deal depends on the nature of the country in question—on its openness, perceived levels of corruption, potential for civil unrest, natural or historical sites and quality of infrastructure.

10. The final stage of the analysis of the labor demand consists in identifying the major constraints for matching labor supply with existing demand.

C. Existing Labor Market Policies

11. Labor market policies (LMPs) comprise active and passive labor market programs. **Active labor market programs** include:

- ✓ direct employment generation (promoting small and medium enterprises, public works);
- ✓ labor exchanges or employment services (job brokerage, counseling) linking supply of with demand for labor; and
- ✓ technical and vocational training, skills development programs (training and retraining of labor).

12. **Passive labor market policies** include unemployment insurance, income support, and a legislative framework that should strike a balance between economic efficiency and labor protection. An appropriate legislative framework will include provisions on issues such as minimum age, maximum hours and overtime, labor contracts, industrial relations, special protection appropriate for new mothers, and antidiscrimination provisions to protect women and minorities. Internationally recognized labor standards, when ratified, are also part of the legislative framework of a DMC. With regard to the Core Labor Standards, no explicit ratification is needed for them to be part of the legislative framework of a country.

The International Core Labor Standards

- The four Core Labor Standards are
- (i) *freedom of association* and the effective recognition of the right to collective bargaining,
 - (ii) *the abolition of all forms of forced or compulsory labor*,
 - (iii) *the elimination of discrimination* in respect of employment and occupation, and
 - (iv) *the elimination of child labor*.

All Asian and Pacific DMCs, by virtue of being members of the International Labour Organisation (ILO), are held to respect, promote, and realize the fundamental Core Labor Standards. The exceptions are the non-ILO members countries: Bhutan, Cook Islands, Maldives, Marshall Islands, Federated States of Micronesia, Nauru, Samoa, Tonga, Tuvalu and Vanuatu.

All ADB interventions must be designed and formulated in accordance with the Core Labor Standards. ADB should take all the necessary and appropriate steps to ensure that ADB-financed procurement of goods and services, contractors, subcontractors and consultants comply with the country's labor legislation (e.g., minimum wages, safe working conditions, social security contributions, etc.), as well as with the international Core Labor Standards.

Source: ADB. 2001. [Social Protection Strategy](#). Manila.

population in Asia) and (ii) informal employment in urban areas, growing due to migration processes, mostly service sectors, particularly transport (taxis, bicycles, rickshaws and the like), retail services (including itinerant trade), and tourism (restaurants, stalls and so on). The problems of these sectors relate to lack or limited access to a social protection program, which, more or less by definition, is confined to the formal sector.

13. The primary goal of looking at the labor legislation are the identification of (i) legislation that acts to restrict the operations of the labor market, and (ii) possible noncompliance with the international Core Labor Standards. All ADB interventions must be designed in accordance with national and international legislation—such as the Core Labor Standards. Specifically, the most relevant labor market legislation may include

- ✓ Legislation on core labor standards
- ✓ Wage policies, which include legislation on minimum wages
- ✓ Job security provisions, which cover the recruitment and separation of employees
- ✓ Working conditions, which cover issues such as working hours, leave provisions, and occupational health and safety
- ✓ Other relevant legislation could include regulations controlling labor mobility (for example, internal passports) and enterprise-based forms of social protection such as pensions or housing.

14. **Administrative Structures:** The analysis of existing labor market policies could include

- ✓ Enumeration of existing LMPs (number and types of policies/programs)
- ✓ Organizations responsible for implementing LMPs including coordination between organizations
- ✓ Sources of finance of LMPs, including flow of funds from central to local units and cost recovery procedures, if any²
- ✓ Target groups and the programs' effectiveness
- ✓ Capacity to adequately inspect working conditions

15. The analysis should avoid long narratives and statistical tables, but concisely evaluate the effectiveness of the country's LMPs and point out areas where development is needed.

D. Recommendations

16. Earlier sections should allow (i) a first assessment of the mismatch of the demand and supply of labor; and (ii) whether the current development pattern of the country and LMPs framework assist in matching the supply and demand of labor. This should allow recommendations on employment-generating policies, investments that may correct national or regional imbalances and address uncovered problems in the labor market.³ The final objective is to ensure that ADB portfolio supports inclusive labor absorbing development patterns, enhances welfare, supports compliance with national and international labor standards, and helps to allocate human capital to their most productive uses.

17. Any proposed ADB labor or social protection intervention requires negotiation with many stakeholders, particularly the social partners. If any, proposed reforms should be discussed with all relevant players, normally with the National Commission for Social Protection or, in its absence, with counterpart ministries, employers and workers organizations, and other civil society partners and development institutions (e.g., ILO, the World Bank) present in the country.

² Finance can come from four main sources: government budgets, special off-budget funds, cost-recovery, and donors; because of budgetary restraints, governments may well be inclined to favor the use of off-budget funds, typically financed by employers, payroll-based levies and employee levies. The capacity to finance labor market policies, whether through budget or off-budget funds, depends on a country's tax base. It is difficult to collect significant amounts of either income taxes or employer-based taxes in countries with large informal sectors. In many countries, cost-recovery procedures are used but with significant exemptions applied, given the low income levels and the opportunity cost of education for the unemployed.

³ The recommendations should be careful not to address symptoms (e.g., unemployment) without recognizing the underlying causes. Retraining programs for the unemployed, for example, may be ineffective where the major cause of unemployment is lack of labor demand—which is the case in many transition economies.