



Canadian International
Development Agency

Agence canadienne de
développement international

PRIVATE SECTOR DEVELOPMENT - ☐



LABOUR MARKET

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Summary

PRIVATE SECTOR DEVELOPMENT - LABOUR MARKET

The *Study on Labour Market Approaches as Variables to Success of the Private Sector Development Program and Projects* constitutes a preparatory study within the *Assessment Phase* for the upcoming full Private Sector Development Major Review (PSDMR). The PSDMR is one of a series of comprehensive performance reviews to be conducted under CIDA's *Performance Review Policy*.

The objectives of the PSD Major Review are: To inform the management of the Agency about the achievements and outstanding issues in the selected categories of private sector development; to provide input to future policy development and implementation; to recommend actions which will contribute to improved design and implementation of the Agency's programs, projects and activities in PSD; to enhance learning in the Agency on PSD interventions through the dissemination of best practices and lessons learned; and to assist reporting to Parliament and the public on CIDA's results in PSD.

The Assessment Phase is a three-part process comprising (1) data collection and analysis, (2) preliminary studies of relevant aspects of PSD and finally, (3) synthesis of the data and studies for the Executive Committee. This study is a contribution to the first two of these components. Within this context, this study addresses *Labour Market Policy, Strategies and Programs*.

Definition

Labour Market Policies, Strategies and Programs refers to the conceptual framework that governs the functioning of the labour market in a given country. To help ensure that a country's labour market functions efficiently, labour market policies, strategies and programs have to be carefully designed to meet the needs of that country.

In the context of the PSD Major Review (PSDMR), the success or failure of CIDA PSD projects in terms of labour market impacts cannot be directly assessed. When the projects were designed and executed, there were no formal requirements to address labour market issues. Thus, the potential impact of labour market policies, strategies and programs in a given country should be looked at in relation to central themes such as poverty reduction, gender equality, labour migration and labour mobility.

Objectives

The objectives of this study are: (1) To review the literature on Canadian and international labour market policies, strategies and programs, and their rationale, with a view to formulating benchmarks against which to assess the development programs, projects and activities selected for the PSD review; (2) with respect to the last ten years, (a) to review and document CIDA experience, approaches and results achieved in selected development programs, projects or activities in which

the availability, development or surplus of human resources played a significant role and where the “central themes” just mentioned are a factor; and (b) to relate that information to the prevailing labour market context, extracting critical success factors, best practices and lessons learned from both successes and failures, and recommend key issues relating to labour market policies, strategies and programs that the full PSDMR should address.

Scope of Work

- The international and Canadian literature on labour market policies, strategies and programs was reviewed, with special reference to the “central themes”. Critical success factors were extracted and best practices and lessons learned were identified.
- A small number of important international projects were reviewed in which labour market policy, strategies and programs, with special reference to the “central themes”, played a significant role.
- CIDA policy, practices and approaches with respect to labour market policies, strategies and programs were reviewed and summarized, with special reference to the “central themes”.
- CIDA projects and program experience over the last ten years, in so far as it relates to aspects of labour market policy, strategies and programs were summarized and reviewed.
- Performance measurement mechanisms were identified that have been developed in these various projects and initiatives to assess project results and to quantify project spin-offs both in Canada and in developing countries.
- Various aspects of labour market policy, strategies and programs that have impacted on the development projects of the Agency were identified.
- At the operational level of program and project implementation, an attempt was made to determine whether there is evidence that the various participants, CIDA staff, Canadian Executing Agency, business people, developing country participants, DFAIT representatives, etc. had a common understanding of the potential impact of labour market policies, strategies and programs on the effectiveness of the development programs, projects or activities that have been selected for review.
- With respect to labour market policy, strategies and programs, an attempt was made to verify how the new CIDA PSD Policy captures the existing programming reality, given the CIDA projects in place. In particular, the question was asked whether, given existing conditions in developing countries and the programming in place, the new Policy would be helpful and viable.
- With respect to labour market policies, strategies and programs, an attempt was made to verify whether CIDA projects are congruent with the new CIDA PSD Policy.
- In assessing labour market policy, strategies and programs, special reference was made to the existence of (a) Labour Market Information Systems, (b) efforts to promote poverty reduction, (c) gender equality, (d) information about the type of work performed by women and children, including the conditions under which such work is performed, and (e) the availability of labour adjustment mechanisms to cope with demand and supply imbalances.
- An inventory of Canadian resources in the area of labour market policies, strategies and programs that are appropriate to developing countries, and which can be applied to address the problems was identified.
- A set of examples of appropriate useful project responses was identified.

- Given lessons learned from both successes and failures in past programming, the question was asked as to what emphasis CIDA should place on labour market policy, strategies and programs.
- Taking into account CIDA's new PSD Policy and given the results of the analysis, the Consultant developed some key recommendations regarding labour market policy, strategies and programs, with special reference to the "central themes" that the full PSDMR should address.

Overview of the Findings

As the planned work was undertaken, it became evident that the paucity of case histories related to the labour market would frustrate the search for preliminary answers to some of the issues that had been contemplated. Out of the 567 CIDA PSD projects contained in the *Corporate Memory*, only 37 (or 6.5%) responded to a labour market related keyword search, a number that upon further investigation, was reduced to 20 useful projects, or only 3.5% of the gross number. Accordingly, the study concentrated on the relationship of the projects which were reviewed to the overarching theme of poverty reduction. Gender issues were addressed in only five of the twenty cases that were reviewed. In the case of child labour, labour migration and labour mobility there was not a single reference in the reviewed cases. Some of these issues will have to be left for the PSDMR.

On the basis of the 3.5% of labour market related PSD cases that were reviewed, it became evident that the PSD's overarching goal was only being marginally addressed. Only 10 of the 20 review cases (or 1.8% of all cases) addressed poverty. When "purpose" and "results" were considered in the 20 reviewed cases, only 30% of the project activities in those cases can be considered to have substantially focused on poverty reduction.

Based on these findings, the Consultant concluded that the major weakness in PSD programming appears to be the pursuit of various, no doubt, valuable activities that nevertheless lack a clear focus on the overarching goal of the PSD, that of poverty reduction.

While searching for an explanation, the Consultant traced the problem, in part, to a potential conflict of objectives between Canada's broader foreign policy, as expressed in *Canada in the World* and the more specific ODA purpose and the PSD Policy. The former portrays, as motivator for Canadian international activities, the promotion of Canadian employment and prosperity, the promotion of security for Canadians by reducing the potential for unrest beyond its borders and the projection of Canadian values and culture. While the ODA purpose *to support sustainable development in developing countries in order to reduce poverty and to contribute to a more secure, equitable and prosperous world* is laudable, the PSD policy appears to lack the necessary rigour to ensure an effective focus on poverty reduction. This may have led to the promotion of an *enabling environment* and to *building linkages* between the Canadian and foreign country private sector as ends in themselves, rather than as vehicles for reducing poverty. This is a matter that needs to be examined more fully in the PSDMR.

The literature review comprised 50 titles relating to the labour market and poverty, some of these being major reviews of multilateral international practice, and two of which provided valuable project experience.

With respect to poverty, the need was identified to distinguish between *transitory* and *structural* poverty, where the former calls essentially for *poverty relief*, while the latter must address *poverty reduction*. The labour market has a strong role to play with respect to the latter, while the former demands, above all, social transfers. Nevertheless, even in the case of transitory poverty, a need for a limited menu of labour market programs was identified, for which apparently no CIDA policy exists.

Thus, it was noted that labour market policies, strategies and programs must be differentiated initially as means to respond to *transitory* poverty on the one hand, and to *structural* poverty on the other.

Within the group of policies, strategies and programs needed to address *structural* poverty, labour market approaches were further differentiated by programming directed to: (1) the rural poor, (2) workers in the urban informal sector, (3) the long-term unemployed and the working poor, and (4) the prevention of new poverty that might result from structural adjustment, privatization, globalization of trade, recession or other disturbances of the labour market.

The study further pointed out that poverty-efficient measures must take the overall policy environment in the receiving country into account, as well as that country's readiness for reform and factors of timing. It was also noted that a good policy environment, while important for long-term poverty reduction, does not produce poverty alleviation automatically. The market can alienate and marginalize the poor. And market distortions, including gender-based distortions, can create inefficiencies and patterns of incentives that fail to maximize individual or national economic well-being. The income "trickle-down" approach may not work, and reliance on the market may leave many people poor. Therefore, PSD programming must be a combination of macro, meso and micro measures involving, as provided in CIDA's excellent *Poverty Reduction Policy*, for policy, focused and targeted interventions.

To help CIDA Desk Officers in assessing PSD project proposals, a Manual was developed that structured a poverty-focused project approval process, with special reference to labour market policies, strategies and programs that are congruent with the requirements of transitory and structural poverty.

A brief review is also provided of the role of several key Federal departments of government in the international arena. In separate sections, the report addresses policy implications and poverty-focused approaches to evaluation that may be useful in the upcoming PSDMR. Separate annexes present an *Annotated Bibliography*, a *PSD Component Matrix*, a *Labour Market/Poverty Matrix* as well as the two GTZ bilateral project reviews.

Critical Success Factors

Critical success factors were identified with respect to poverty reduction, enabling environment, supporting enterprises and building linkages.

Poverty Reduction. The term *poverty reduction* refers exclusively to the reduction of structural poverty, as distinct from *transitory* poverty. Transitory poverty is addressed by *poverty relief* measures that are normally not labour market related, as well as by short-term labour market measures, such as job creation and public works.

Critical success factors for reducing poverty include: Identifying countries for potential CIDA development assistance, first and foremost, on the basis of greatest relative incidence of poverty, and within that group, selecting countries that have a reform-minded leadership with a commitment to create or maintain an appropriate policy environment, then undertake poverty-efficient allocation; reducing structural poverty through right timing, ideas (i.e. policies) and money; managing aid destined to poverty reduction; determining the predominant cause of structural poverty and programming accordingly, determining what type of programming intervention is most appropriate (e.g. targeted, focussed, policy), including the use of technology; specifying desired project outcomes and tailoring and managing potential projects so as to achieve the desired outcomes; a system for tracking employment and poverty is needed

Enabling Environment: Labour Market. To help achieve poverty reduction, the effective and efficient functioning of the labour market (LM) is an important component of the enabling environment. Critical success factors for achieving poverty reduction by means of LM policy, strategies and programs, include: recognizing the impact of LM segmentation on poor women and men, distinguishing formal and informal LMs, LMs serving general and poor populations (where the poor are usually found in the lowest segment), as well as LM segments comprising particular target groups; removing labour market constraints (e.g. rules for hiring and dismissal); designing, targeting (to men and women most in need) and selectively using active LM policies; encouraging the availability of appropriate LM information and LM brokerage; encouraging a participatory environment involving all social partners, including representation of poor men and women by their own organization; designing labour adjustment policies for situations of mass lay-off so as to achieve both economic and social goals, a measure that is critical to avoid new poverty; encouraging the development of appropriate social safety net LM programs (e.g. (un)employment); encouraging client-specific needs determination and service; recognizing that in preparation for the labour market, basic education is the highest priority for the poor; encouraging demand-driven education and training; balancing economic expansion against protection of children and women from abuse.

Enabling Environment: Supporting Enterprises. Supporting enterprises is an effective way of helping to achieve poverty reduction. Critical success factors for achieving poverty reduction by means of support to enterprises, include: assessing the needs of poor women and men in the informal sector and supporting informal sector enterprises. It should be noted that owners of informal enterprises often achieve income above minimum wages, while employees often earn less than minimum wage. Nevertheless, people often work in the informal sector because they have no better options. Thus, in India, the informal sector accounts for 93% of the labour force. To help informal enterprises become more profitable, technical support might be provided, including: carefully counselling, training and accompanying persons seeking self-employment; raising the performance capability of individual companies, as well as institutions and branches of industry; for enterprise-based training, ensuring the availability of strong professional expertise and coordinating capacity; encouraging the development of a labour market information system, which is important to small and micro enterprises to reduce transaction costs; during structural adjustment, economic recession and transition to a market economy, providing social transfers for targeted enterprises (e.g. temporary wage subsidies); encouraging government-backed small loans for enterprise start-up and growth.

To help poor women become more productive and less poor, it is necessary to recognize and address issues relating to labour associated with reproduction, such as child care, fetching fuel, water and other household activities which are very time and energy consuming.

It is also important that policies to support enterprises are gender-aware, ensuring that poor women gain access to infrastructure, such as transportation, electricity, vending licences, etc., as well as business inputs, such as raw materials and other resources.

Best Practices

Best practices were identified with respect to poverty reduction, enabling environment, supporting enterprises and building linkages. It should be noted, however, that “best practices” should not be viewed as *one size fits all* recommendations, since CIDA consultants are not working in a *closed* system environment. Rather, each country has its own dynamic setting to which the consulting response must be fitted. In such *open* systems, a best practice in one country may be a worst practice in another, given that country’s unique circumstances.

Poverty Reduction. Production-oriented poverty alleviation works best by enhancing the productivity of poor women and men through enterprise development, formation and management of cooperatives, and job training. Program interventions designed to increase production capacity of the poor must be targeted to specific groups and not just universally applied. With technological change in the labour market, including women specifically in national training policies, adopting programs to promote and support their participation is a chief means of avoiding placing more women in poverty. Adoption in industry of technologies that are environmentally friendly and that boost production is a key to expansion of employment and perhaps alleviation of *structural poverty* in developing countries. Also, the identification and implementation of measures to reduce structural poverty among the rural poor should occur through a gender-sensitive community-based consultation and development process.

Enabling Environment: Labour Market

Program Planning and Development. Iterative planning and flexible programming works best. District level management with strong institutional partnerships are most effective in the delivery of vocational training and follow-up employment activities. A comprehensive package of assistance is needed for successful employment outcomes from training (including individual financial support, follow-up assistance, additional skills training in some cases). Gender-aware planning could have significant positive impacts on LM outcomes from the perspective of gender equality and economic efficiency.

Human Resource Planning. Best practice includes: The establishment of public-private sector coordinating bodies and consultative groups for HRD planning at the country-wide level; the provision of training in gender-aware human resource planning and development for private firms in key sectors relevant to the emerging, competitive economy; and the establishment of lead partners for planning, coordination and cooperation among partners.

Employment Service. The best practice is offering an electronic employment service, since it is relatively low cost and can be readily updated.

Training. An effective incentive system is the best practice to finance Vocational Education and Training (VET). The following practices are also recognized: Abandon public training, if the private sector can deliver market-oriented training equally well or better; if both are offered, ensure that the government competes with the private sector without subsidy; use pre-employment training only after having assessed its cost-effectiveness; if specialization is needed, specialize both programs and institutions; offer post-school programs only after their potential effectiveness has been assessed; promote enterprise-based training as a first preference; collaboration among government ministries, colleges and universities, and private industry to agree on *an industry responsive model* for the design, development and delivery of training to meet technological change and/or increase skill levels of workers for industry to become more competitive; training targeted to a specific group(s), e.g. poor women, minorities, the disabled, etc.; vocational training must respond directly to the needs of enterprises – a structure must exist for this purpose; involvement of industry, business, labour and government in the planning and design of technical-vocational education so that technical-vocational education better fits the skills needs of the economy.

Labour Adjustment. Offer severance payments in conjunction with active labour adjustment measures; offer a participatory adjustment model, if both employers and workers are willing to collaborate (Government may participate in an ex-officio capacity to offer adjustment programs and services. This model achieves a high degree of buy-in and commitment); establishment of adjustment committees to plan and coordinate delivery of gender aware labour adjustment program interventions for workers displaced and employers affected by structural adjustments in an economy – with the committees focus on effective and efficient matching of displaced workers with emerging employment opportunities in a consensus process.

Productivity Improvement. The best practice for improving productivity if there is a shortage is to acquire and develop technology.

Gender Issues. With technological change in the labour market, including women specifically in national training policies, adopting programs to promote and support their participation is a chief means of avoiding placing more women in poverty; support for the formation of organizations to advocate for change, develop and administer women's development programs, including basic literacy and numeracy, as required; develop a solid base of information regarding gender equality in employment (by type and level of work, reflecting attitudes and stereotypes). All LM planning and policies must be gender-aware.

Enabling Environment: Supporting Enterprises. Best practice for supporting enterprises includes: Promoting small enterprise development among women through a *combination* of increased access to credit, business training for the women, and gender sensitization training for bank managers; the use of revolving credit funds that are jointly financed by external and internal partners; micro enterprise development and establishment of cooperatives will succeed only if a means is set out for providing *credit*; the lender (bank) has an established small credit program that depends on peer pressure to ensure loan repayment and to induce social change; establishment of business advisory services to foster business associations, provide advice to SMEs and necessary training.

Lessons Learned

Lessons learned were discussed under two broad headings: "Poverty reduction" and "enabling environment".

Poverty Reduction. Countries that do not want to reform cannot use poverty relief effectively; to eradicate poverty, a macro level strategy is needed that promotes growth, better distribution and fiscal space; donors must select reform-minded countries and do poverty efficient allocation; poverty reduction must be undertaken by means of a right combination of timing, ideas (i.e. policies) and money; while policy-based initiatives are desirable, other short-term poverty alleviation measures, such as (un)employment insurance, may be required, if unemployment is high; reliance on the market alone leaves many women and men poor; special public works and public service employment reduce transitory poverty; training that may be useful in the modern sector will not help the poor, since modern sector occupations are largely irrelevant in the informal sector; education and training for the rural and urban poor should include several aspects (how to increase production; how to participate effectively in the community; how to use preventive medicine; and how to preserve and protect the environment); training alone is unlikely to improve the earnings of the poor; generic skill competencies provide workers shut out of the market with skills for sustainable employment, raising family incomes and moving some out of poverty; since improvements in the quality of education and training may increase the cost, and since this can lead to the exclusion of the poor, initiatives to reduce the opportunity cost should be considered as a complementary service; shorter courses are more helpful to the poor than longer courses; labour standards and regulations reduce labour market polarization and address

some market barriers faced by disadvantaged groups; labour unions focus on core workers, so that the poor are outsiders in the union structure and have little bargaining power; child labour might reduce short-term poverty, but can cause long-term poverty; economic and labour market policies often focus on efficiency in the labour market, but implementing efficiency policies without increasing demand for labour does not improve the employment prospects of those who are at the lower end of the labour market; blended technologies help to eradicate poverty. As already mentioned, issues related to the burden of labour associated with reproduction should be recognized and addressed, which impact on women's time, energy and mobility.

Enabling Environment: Labour Market

Labour Market Information Systems (LMIS): A coherent, integrated approach to LMIS increases the efficiency and effectiveness of the labour. LMIS facilitate matching people with jobs, increasing efficiency. LMIS are important to small and micro enterprises to reduce transaction costs.

Labour Market Forecasting: Labour market forecasting based on macro economic modelling is not helpful due to rapid change, while less sophisticated "labour market signalling" is usually more effective.

Stakeholder Participation: Stakeholder participation and good collaboration creates stability in labour market supply of qualified workers in the formal sector and encourages the payment of fair wages.

Labour Unions: Labour Unions focus on core workers, so that the poor are outsiders in the union structure and have little bargaining power.

Marginal Wage Subsidies: Marginal wage subsidies improve employment prospects in the longer term for people with significant employment barriers and they are helpful if the long-term outlook is poor.

Job Creation: Developmental initiatives involving the environmental and social infrastructure are useful, if the longer term outlook is good.

Technology: Public investment promoting the adoption of new technologies is most effective in initiatives supporting medium and small enterprises.

Active Labour Market Programs: Active labour market programs are most cost effective if kept small, well managed and targeted to those most in need.

Job Search Assistance: Job Finding Clubs have proven to be cost effective with up to 80% placements at 10% of the cost of retraining.

Self-employment: Self-employment generates in the longer term employment opportunities for people with medium and low skill levels.

Labour Adjustment, Severance Payments: Severance payments alone are inadequate as a medium- and longer-term solution.

Training. If there is strong population growth, adopt growth-oriented economic policies that emphasize human resources, using training policies to respond to that challenge; the effectiveness of training depends on the quality of general, especially basic, education; technical and vocational training are most effective if separated from general education; training that may be useful in the modern sector will not help poor illiterate women and men, since modern sector occupations are largely irrelevant in the informal sector; education and training for the rural and urban poor should include various elements (how to increase production; how to participate effectively in the community; how to use preventive medicine; and how to preserve and protect the environment); consider the condition of the labour market and enrollment patterns before offering technical and vocational training to the academically disadvantaged; if the labour market shows excess labour and low levels of basic education, training for wage employment in the modern sector is NOT a viable option; due to the high cost, do NOT consider VET policies, unless there is employment growth; training alone is unlikely to improve the earnings of the poor; generic skill competencies provide workers shut out of the market with skills for sustainable employment, raising family incomes and moving some out of poverty; since improvements in the quality of education and training may increase the cost, and since this can lead to the exclusion of the poor, initiatives to reduce the opportunity cost should be considered as a complementary service; post-school training programs are more effective if offered as part of job creation policies; shorter courses are more helpful to the poor than longer courses; on-the-job training, or specific skills training, are most effective in terms of job placement.

Gender Issues. Economic expansion achieved through abuse of child and women's labour is not sustainable when trade barriers are removed and trade is globalized; women can benefit from pre-employment training if demand exists; however, such jobs are seldom available to very poor women; training women in non-traditional occupations is helpful. Training courses must take into account women's needs, as for example, with labour related to reproduction, as well as social and cultural constraints on women's mobility. Research is showing that it is generally better to increase the productivity of women's current economic activities (which may be what they are doing at subsistence levels), where they have existing skills and networks, than to train them in new skills or areas of activity.