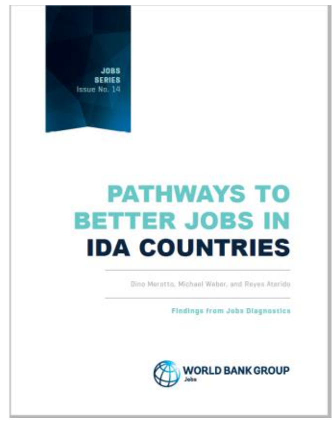
WORLD BANK GROUP
Jobs

Pathways to better jobs
At a glance



Jobs drive inclusive development. Economies grow when more people find work, when they get better at what they do, and as they move from low-productivity work (such as self-employment and unpaid family work in farming) to better, higher-productivity jobs (such as waged jobs in the manufacturing or service sector). These jobs-related transitions —workers increasing their hours worked, becoming more productive in their work, moving between locations, changing sectors and occupations, and shifting from self- to waged employment and from less to more successful firms— are the pathways people follow to better jobs.

FIVE KEY FACTS ABOUT JOBS IN LOW INCOME COUNTRIES (LICs)

1. Economic growth doesn't always bring enough good jobs. Growth has not always created the right number and distribution of jobs for the expanding workforce in IDA countries.

2. Underemployment is a huge challenge. In many LICs, employment rates are high. But people work short hours and in low-quality, low-productivity jobs.

3. Structural transformation drives productivity growth. The movement of labor into services and industry is the main source of better jobs

4. Structural transformation starts with productivity gains in agriculture and is linked to urbanization. The migration of surplus labor from farms to urban areas raises agricultural productivity and generates new jobs in the cities.

5. Wage work matters. A big increase in the share of wage jobs (both formal and informal) is central to the transformation from low income to middle income status.

ABOUT THIS PUBLICATION

This report presents broad findings and benchmarks developed and refined in using the Jobs Diagnostics global data tools and from country examples, with an emphasis on IDA countries. The findings are drawn from three sources. The macroeconomic section analyzes over 16,000 overlapping episodes of economic growth in around 120 countries. The labor supply section analyzes the latest household surveys in over 140 countries around the world. The firm-level analysis draws on business data from countries' Jobs Diagnostic.

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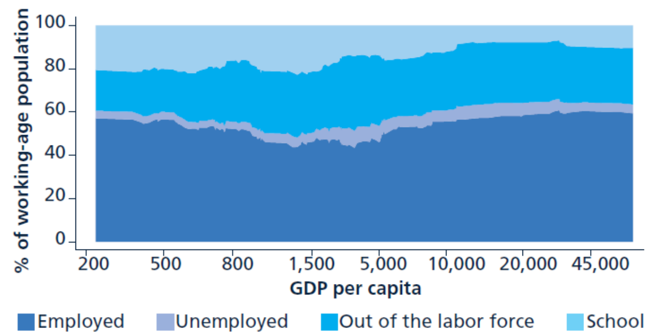
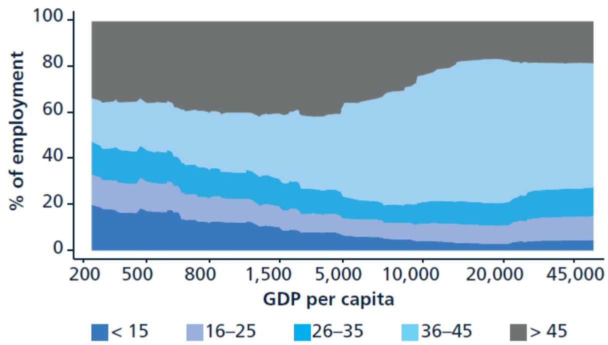
1. In low-income countries, most people work because they cannot afford not to. Labor force participation rates and employment rates are highest in low-income countries. In lower-middle-income countries, inactivity is higher and unemployment rates lower. The employment rate starts to rise again around the upper-middle-income threshold and gets progressively higher as gross domestic product (GDP) rises.

Labor force participation for population age 15–64



Working hours along GDP per capita



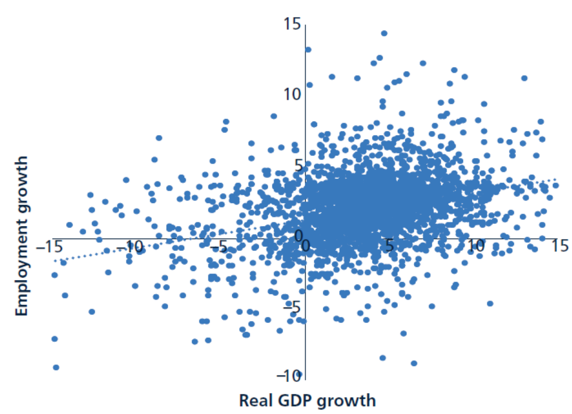
2. Underemployment, not unemployment, is the main challenge for many low-income countries. On average, 40% of employed workers work fewer than 35 hours per week in low- and middle-income countries. On the other hand, around a third of employed people in low-income countries work over 45 hours a week, indicating that hourly productivity is low, so they need to work long hours to survive. Only in upper-middle-income countries do most people work around 35 hours per week.

3. Inactivity for women is lowest in LICs, but rises in LMICs, and then drops again for UMICs. The U-shape for female labor force participation has been found to exist in studies within and between countries. It suggests that after a certain level of income, families decide that women should work in the household rather than take undignified or unsafe jobs. But at higher income levels, as better jobs become available, women return to the labor force.

Labor force participation for population age 15–64 by sex

4. Economic growth has not always created the right number and distribution of jobs for the expanding workforce in International Development Association (IDA) countries. There is no guarantee that economic growth will be labor intensive, nor that productivity gains will be shared by all workers. Since most people in low-income countries work, employment in these countries tends to follow the growth of the labor force and is weakly correlated with GDP. What drives GDP growth is productivity growth. Growth can be more inclusive when it is labor intensive, so more workers experience gains in their productivity by moving to better jobs.

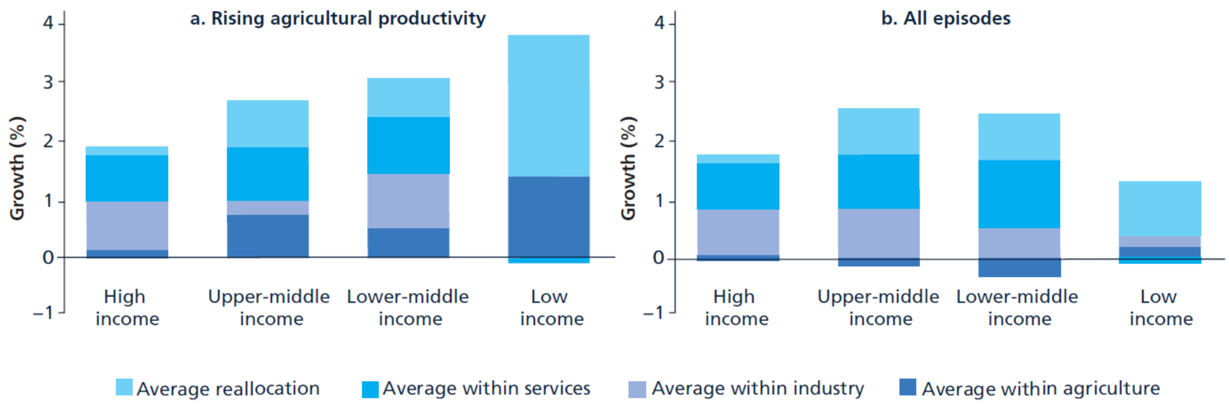
Employment growth and real GDP growth for five-year growth episodes, 1991–2015



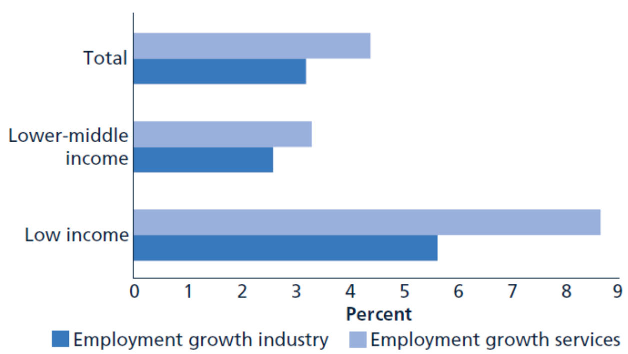
5. Economic transformation is the main driver of productivity growth in low-income countries. Our analysis of growth episodes suggests that almost 80% of labor productivity growth in low-income countries comes from the reallocation of labor from lower-productivity agriculture into relatively higher-productivity services and industry. However, overall labor productivity growth tends to be lower in low-income countries than in lower- and upper-middle-income countries because the economy is often unable to absorb all the workers released from agriculture into higher-productivity jobs.

6. Raising agricultural productivity is critical in catalyzing growth and economic transformation in low and lower-middle-income countries. When agricultural productivity is growing, labor moves out of agriculture and GDP growth is faster. The opposite is also true. When agricultural productivity is falling, labor is moving into agriculture: family members return to the farm, which reduces agricultural productivity and lowers economic growth.

Productivity decompositions: all growth episodes and those in which agriculture grows



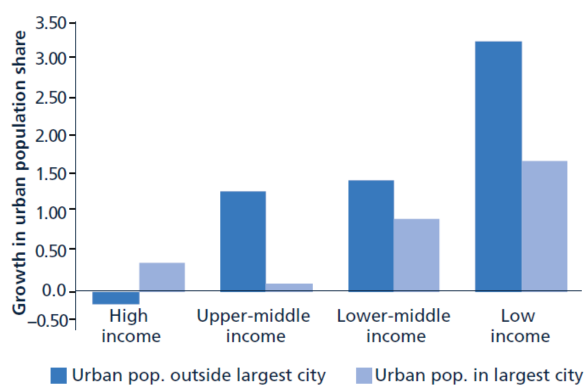
Average annual growth in employment in services and industry for five-year growth episodes, 1991–2015



7.The gains in economic transformation in low- and lower-middle-income countries are limited by the prevalence of low-productivity self-employed and service activities. During the growth episodes in low-income countries analyzed for this report, more workers typically moved into services than into industry. Annual average employment growth in services was 37% higher than employment growth in industry. In 70% of the growth episodes in low-income countries where labor moved into services, the average labor productivity of the service sector declined. For lower-middle-income countries, this is true only in 25% of cases—suggesting that the growth of value added in modern services in lower-middle-income countries tends to be faster than in low-income countries.

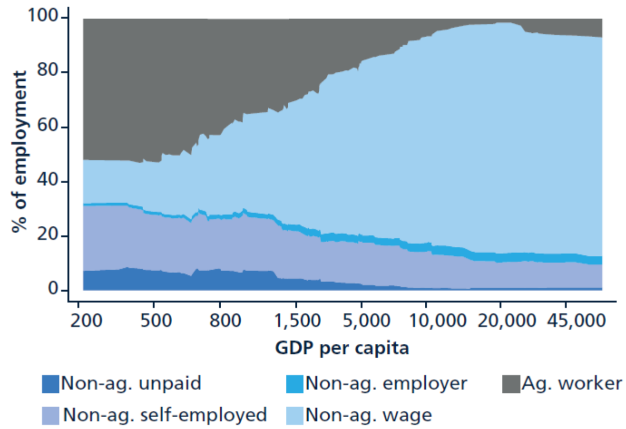
8. Urbanization, especially in secondary cities, is a key complement to sectoral transformation in low- and middle-income countries. In low-income countries, the growth in the share of the urban population in secondary towns and cities is double that of the primary city. In low-income countries that are urbanizing faster than average, labor reallocation from agriculture adds four times as much to per capita income growth as it does in countries with slower than average urbanization.

Changes in urban share of population by income group, 1990–2014

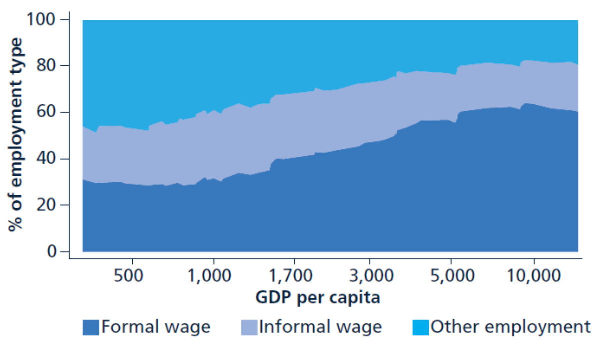


9. The share of waged employment in total employment is lowest in low-income countries, and is progressively higher for lower-middle-income countries and upper-middle-income countries. For countries with annual per capita income below $600, this share is about 20%; it reaches 63% of employment in middle-income countries. The shares of agricultural workers, unpaid family workers, and self-employed workers decline. This suggests that the creation of waged employment is an important aspect of the economic transformation countries make as they progress toward higher per capita income. This is one of our most significant findings, supporting the conclusion of the 2013 World Development Report that there are important developmental gains from waged jobs (even when they are informal), because they are better than the own-account jobs they tend to replace.

Employment types along GDP per capita



Formal wage, informal wage, and other employment by GDP per capita, age 15–64

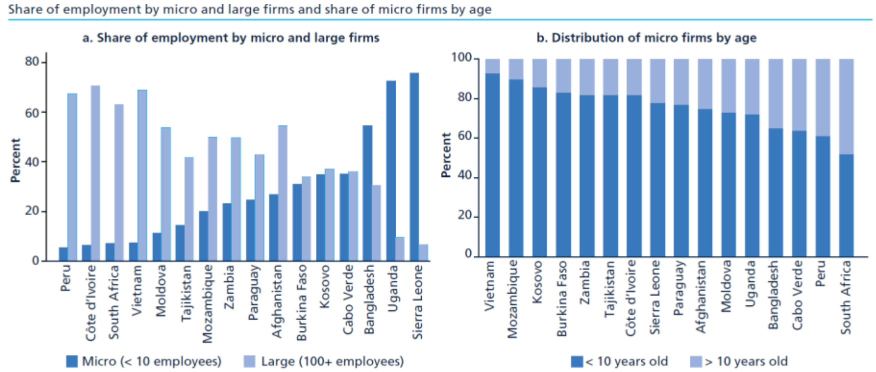


10. The growing share of wage jobs observed as countries become less poor includes both informal and formal jobs. The share of wage employment is steadily increasing with GDP per capita for low- and middle-income countries, due almost solely to increases in formal wage employment, which accounts for about 20% of all employment types at around $250 per capita and increases to around 55% at about $14,000 per capita. The share of informal wage employment remains at around 20%, while the shares of other types of employment—mostly self-employment, either formal or informal—decrease.

11. In the private sector, job creation comes from new and young firms; large firms are significant employers, but micro firms tend not to expand employment.

Data are hard to come by in low- and middle-income countries, but these results are robust in the Jobs Diagnostics where such data do exist, even after adjusting for firm size and sector of activity. In many countries, micro firms are the majority. But large firms are significant employers of waged workers, and they pay higher wages. Micro firms tend to employ only family members. Although they are subject to a lot of churning, many persist as micro firms beyond 10 years without hiring paid employees—meaning they tend not to be job creators in the wider labor market.

Share of employment by micro and large firms and share of micro firms by age



12. Public sector waged employment in low- and lower-middle-income countries is a significant share of total waged employment. Public sector waged workers account for about 40% of waged work on average (45% in low-income countries). Since most waged jobs in the public sector are teachers, nurses, police, and soldiers, these jobs provide careers and social mobility for many members of society and are important jobs in development.

Public, private, and other employment by GDP per capita, age 15–64