



# PAGE

## Policy Analysis for Growth and Employment

### List of priority issues for the second (2013) PAGE call for proposals

In what follows, we briefly introduce the specific policy research issues identified for the second round of PEP's call for research proposals for its PAGE program. In order to ensure that the outputs (findings and recommendations) yielded by PAGE-supported projects will eventually serve to address the most salient issues and needs in terms of policymaking in developing countries, a group of international policy experts have been convened to identify the series of priority topics – under the broad theme of inclusive growth and employment – outlined below for this call for proposals.

We encourage applicants to consult an **overview of the overall thematic focus** for the PAGE program at: [http://www.pep-net.org/fileadmin/medias/pdf/Call\\_for\\_proposal/PAGE\\_2013/PAGE-Themes.pdf](http://www.pep-net.org/fileadmin/medias/pdf/Call_for_proposal/PAGE_2013/PAGE-Themes.pdf)

Also, to assist applicants in designing their research proposal, PEP resource persons have prepared a complete review of existing scientific literature on each of the themes listed below. Find these **lists of recommended readings** here: [http://dasp.ecn.ulaval.ca/PAGE\\_references\\_R2/index.htm](http://dasp.ecn.ulaval.ca/PAGE_references_R2/index.htm)

**IMPORTANT:** For each policy research issue outlined below, applicants are encouraged to explore impacts on inequality across gender, socio-demographic groups and age groups. Consideration of gender aspects should be included for all issues.

#### 1. Safety net complementarities

This first issue proposes to explore policies/programs to expanding safety net complementarities to promote income growth and poverty reduction. Safety nets aim to protect populations from economic risks, vulnerability, extreme poverty and deprivation. Governments often fear that long term provision of cash transfers destroy households' ability to participate in the labor markets by making them dependent on transfers.

At the same time, poor and vulnerable households receiving cash transfers are often affected by limited access to capital resources, productive activities, functional markets, credit and savings facilities to enable them to have profitable livelihoods and thus aid their graduation and exit from safety nets. Complementary programs are an important element in promoting income growth and exit from safety nets, yet very little attention has been paid to the implications for the design and implementation of safety net programs. Some possibilities (among others) may include agricultural investment, micro financing, human capital investments, exploiting value chains, etc.

## **2. Providing social protection to the informal sector**

Informal sector growth has been strong in the recent past. It is estimated that 72 percent of the labor force in Sub-Saharan Africa are in the informal sector (ILO 2002) and 93 percent of the jobs created in the 1990s were in the informal sector. In China 80 percent of employment is in the informal sector. What would it take to ensuring social protection in the informal sector?

- What is the role of unions in securing social protection in the informal labor market? ILO laws?
- How do we prioritize social protection for low income earners in the informal sector?
- What is the impact of social protection on the informal labor market?

## **3. Youth employment and entrepreneurship**

Developing regions of the world are at different stages of demographic transition. Those in earlier stages, notably in Africa and some Asian countries are faced with rapidly expanding supply of youth labor. In this context, more jobs need to be created for youth in order to effectively combat poverty and social unrest, while fostering economic growth. As youth show a greater risk of being in poverty and at the margin of more productive sectors, and because they depend heavily on labor revenues, inclusive labor markets and institutions are crucial to improve their well-being as well as to contribute to the economic development in their countries. Policy guidance could be provided on the following questions:

- While school enrolment and graduation rates have increased significantly in developing countries over the last decade, are current education/training curricula generating the right mix of labor skills required in the labor market? Youth employment will not grow if employers (esp. in manufacturing and modern services) do not find sufficient numbers of workers with the right skills to employ them. Are current technical and vocational education and training systems (TVET), back-to-school programs and soft skill learning in developing countries creating employable youth?
- What are the policy options that governments can implement so that unemployed youth (including university graduates) can be gainfully employed? Policies such as wage subsidies, tax breaks/holidays for companies, active labor market policies (public employment, employment subsidies, etc.) can be considered in different economic environments. Relatedly, do labor market regulations represent a barrier that particularly affects youth employment?
- What are the policy options to promote entrepreneurship among the youth? Some of the schemes that can be considered include: business training programs; guarantees to commercial banks to lend to prospective entrepreneurs; effects of business friendly legislation; risk pooling ventures through microfinance; innovation incubators...
- Accurate policy targeting, as informality and entrepreneurship populations tend to overlap according to common indicators (self-employment), whereas evidence clearly distinguishes distinct drivers for both phenomena. The challenge consists then in encouraging youth entrepreneurship without deteriorating job quality.

#### **4. Employment intensity of non-agricultural growth**

With globalization there has been an increase in the import-intensity of non-agricultural output in developing countries. With growth, structural transformation will happen in the economy only if both output and employment in manufacturing, non-manufacturing industry and services increases. However, recent evidence from many developing countries suggests that with increasing import-intensity has come high capital intensity of non-agricultural output, and employment is not growing outside of agriculture. With levels of urbanization and non-agricultural employment still low, particularly in Sub-Saharan Africa and Asia, there is an urgent need to examine policy avenues to address the low employment intensity of non-agricultural output growth in developing countries:

- Increased supply of qualified workers with the appropriate skills set (see discussion under the "youth employment" heading)?
- Transfers/development of more appropriate technologies?
- Are fiscal incentives to create employment in the non-agricultural sector feasible and desirable?
- How do discoveries of new reserves of natural resources influence the growth process and labor market demand? How important is exchange rate appreciation ("Dutch disease") in mediating this? How could the revenue from exploiting these natural resources be invested in the labor market or social protection?
- What policies could government consider to mitigate eventual negative impacts of external shocks?
- What policies could facilitate the mobility of workers between sectors and how much would they cost?
- How could such complementary policies/programs be financed within government budget constraints?

#### **5. Discrimination in credit access for female entrepreneurs**

Access to start up and growth capital is essential to the success of any business, and is one of the greatest challenges faced by male and female entrepreneurs worldwide. There are several reasons why women business owners may find it more difficult than men to access external financing. Under traditional lending models, women can be rejected for credit because of informality, lack of credit histories and collateral, not fitting banks' marketing strategies or client profiles, low education levels, lack of formal work experience and exclusion from entrepreneurial networks.

Yet women may also face more difficulties in accessing credit than men due to discriminatory attitudes of financial institutions or informal lending groups. This discrimination may be involuntarily built into the credit criteria of financial institutions or may be part of banks' preconceptions of women owned businesses. A lack of market information about women entrepreneurs at formal financial institutions is an additional constraint that disproportionately affects women entrepreneurs.

Research on these issues should focus on factors leading to financial institutions' biases in lending to female entrepreneurs and should highlight policy recommendations to address them. Research could also explore consequence of this discrimination in terms

of reduced production volumes, productivity, employment, household welfare, economic growth, etc.).

## **6. China's growth: challenges and opportunities for developing country labor markets**

China's manufacturers have been rapidly penetrating developed and developing country markets, presenting a challenge to these economies in their attempts to make the structural shift towards an increase in the share of industry in output and employment. Despite recent increases in labor costs in China, the combination of high productivity and relatively lower labor costs have enabled it to capture large shares in developing country consumption of manufactured goods. At the same time, China's rapid growth constitutes a new and important market for certain categories of developing country exports, notably natural resources.

Analysis is required to design appropriate policies to improve and protect the quality and quantity of employment in developing countries in the face of these developments. For example:

- What are the impacts of China's increased FDI in developing countries, and its growing market for exports from developing country labor markets, on these countries labor markets: labor demand, skills mix, job quality (wage rates, etc.)?
- What are the consequences of China's infrastructure programs in some African countries on the labor market? Is there some substitution in terms of the public investment program?
- How do the growth and nature of imports from China, and competition from China in traditional export markets, affect developing country labor market conditions?

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