

More and Better Jobs in South Asia

South Asia Region
Flagship Report

1 March 2012

Colombo, Sri Lanka

Three Questions

1

Has South Asia been creating more and better jobs?

2

What determined the quality of job creation and what is the employment challenge ahead?

3

What demand and supply-side bottlenecks need to be eased to meet the employment challenge?

Three Messages

1

South Asia has created many, mostly better jobs

- Almost 800,000 jobs/month created during 2000 - 2010
- Job quality improved: real wages grew and poverty rates declined for all groups of workers
- Improved job quality due to growth in some countries, outmigration in others

2

Most of the region faces an enormous employment challenge, but its demography can help the reforms needed

- In the future, SAR needs to absorb 1 - 1.2 million entrants into the labor force per month at rising productivity levels
- The demographic dividend can enable the factor accumulation needed for faster inter and intra-sectoral reallocation of labor in most of the region
- Sri Lanka, being an aging country, will need to absorb two-thirds fewer workers than in 2000 to 2010, but at rapidly rising productivity levels

3

Creating more and better jobs for a growing labor force calls for multi-sectoral reform agenda

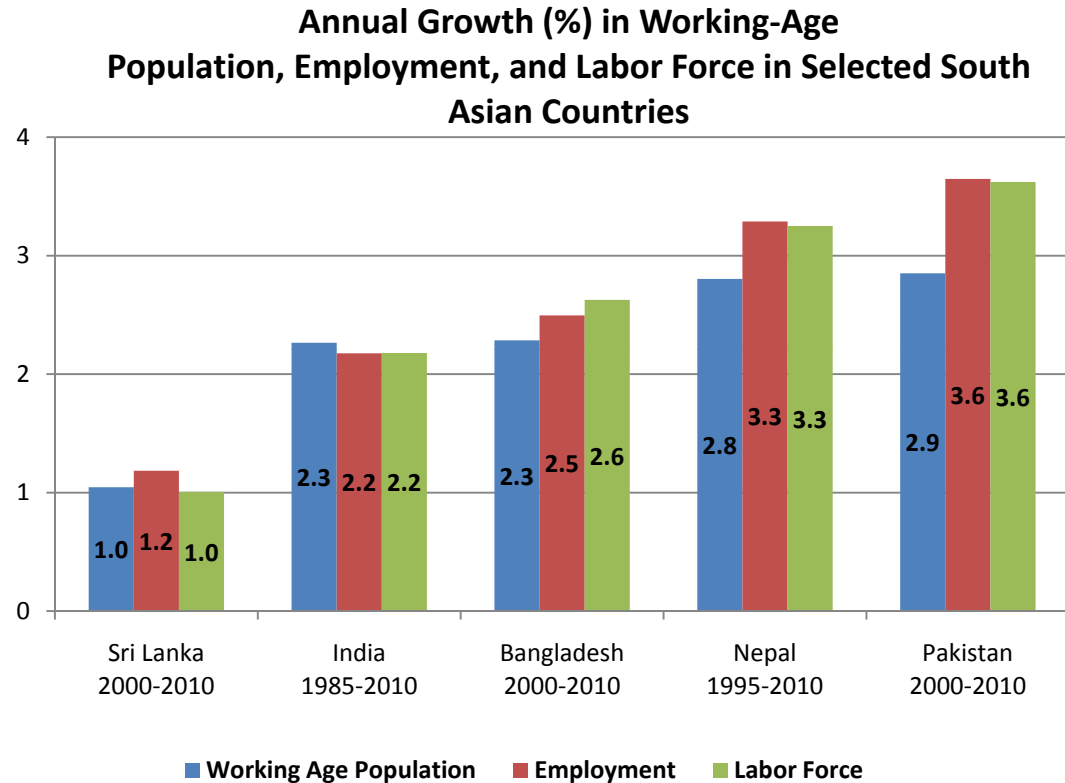
- The power sector—invest and reform governance
- Improve nutrition in early childhood and prioritize quality of learning at all levels of the education and training system
- Reform labor institutions to protect workers not jobs

Question 1

HAS SOUTH ASIA BEEN CREATING MORE AND BETTER JOBS?

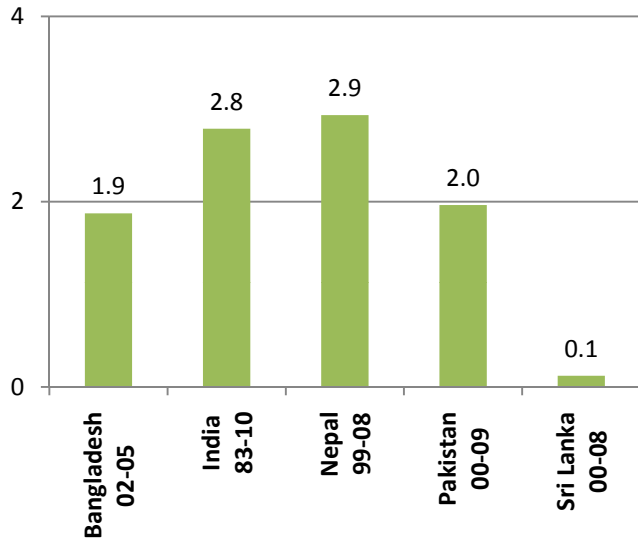
South Asia has created more jobs – growth has not been jobless

- Total employment in South Asia rose from 473 million to 568 million in 2010, creating just under 800,000 new jobs a month between 2000 and 2010.
- The rate of employment growth has broadly reflected growth in the working age (15–64) populations.
- This is expected as the lack of a safety net generally precludes high rates of open unemployment.

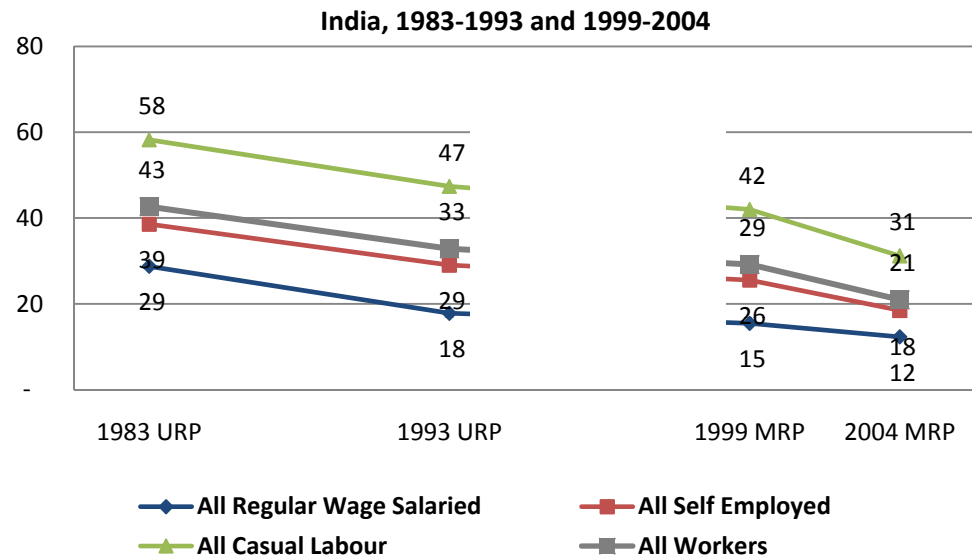


Better Jobs? Real wages have grown and poverty rates have fallen for all types of workers in Bangladesh, India, Nepal, Pakistan and Sri Lanka

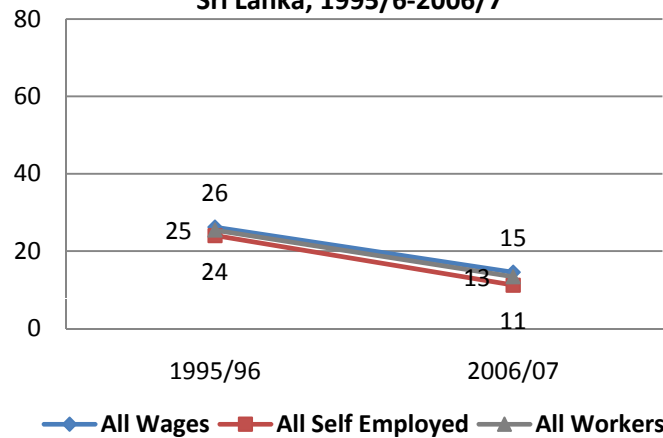
Average Annual Growth (%) in Real Wages



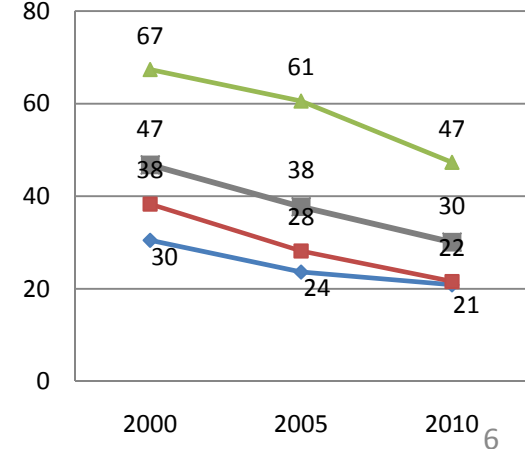
% of Workers in Households below the Poverty Line



Sri Lanka, 1995/6-2006/7



Bangladesh, 2000-2010

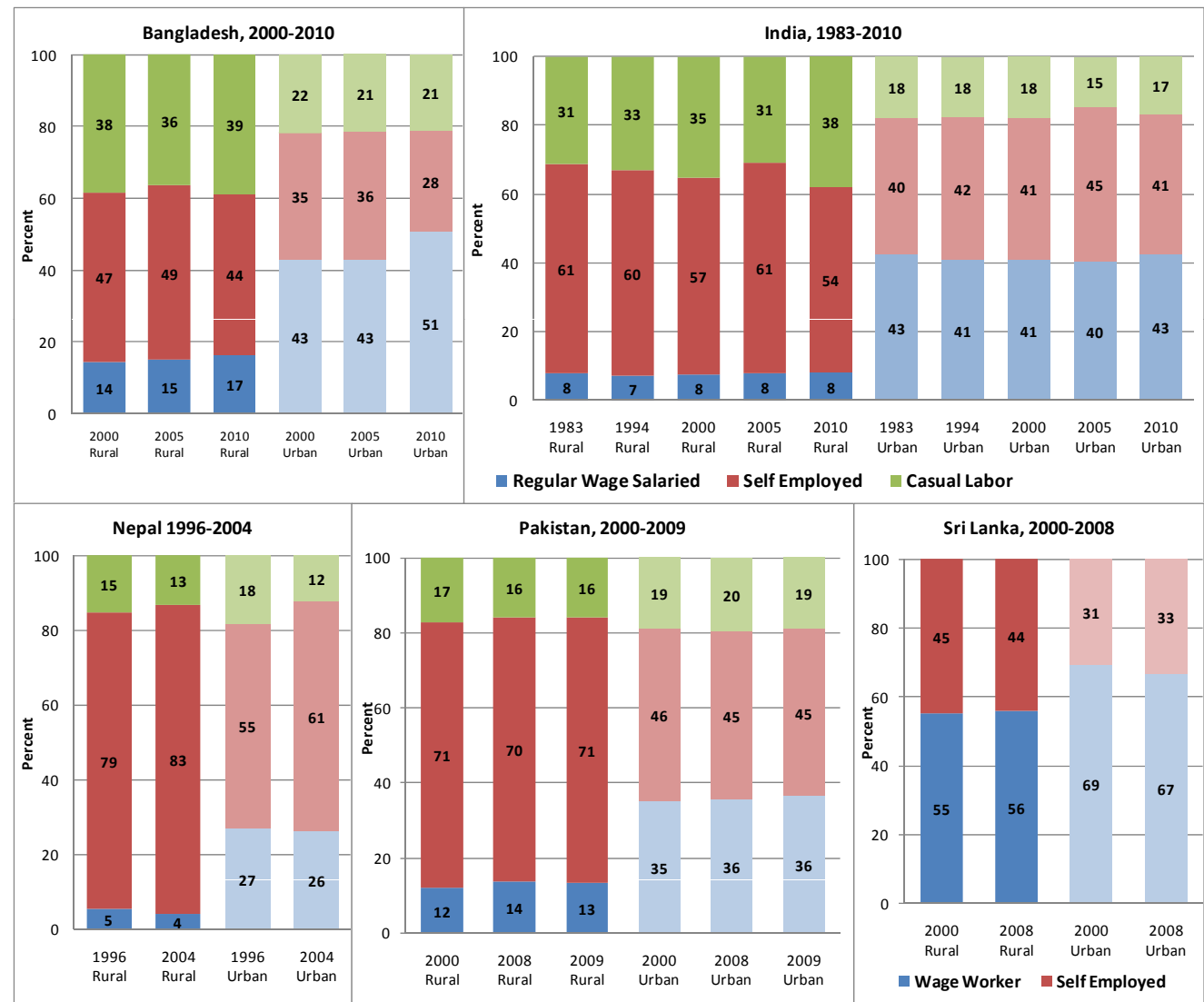


Source: Authors, based on data from national labor force and household surveys.

Better jobs have been created mainly due to improving quality within employment types rather than reallocation of workers across types

- The proportion of workers in different employment types has remained largely constant in rural and urban labor markets.
- The shares of regular wage and salaried workers have not increased over time.

Share of rural and urban workers, by employment type

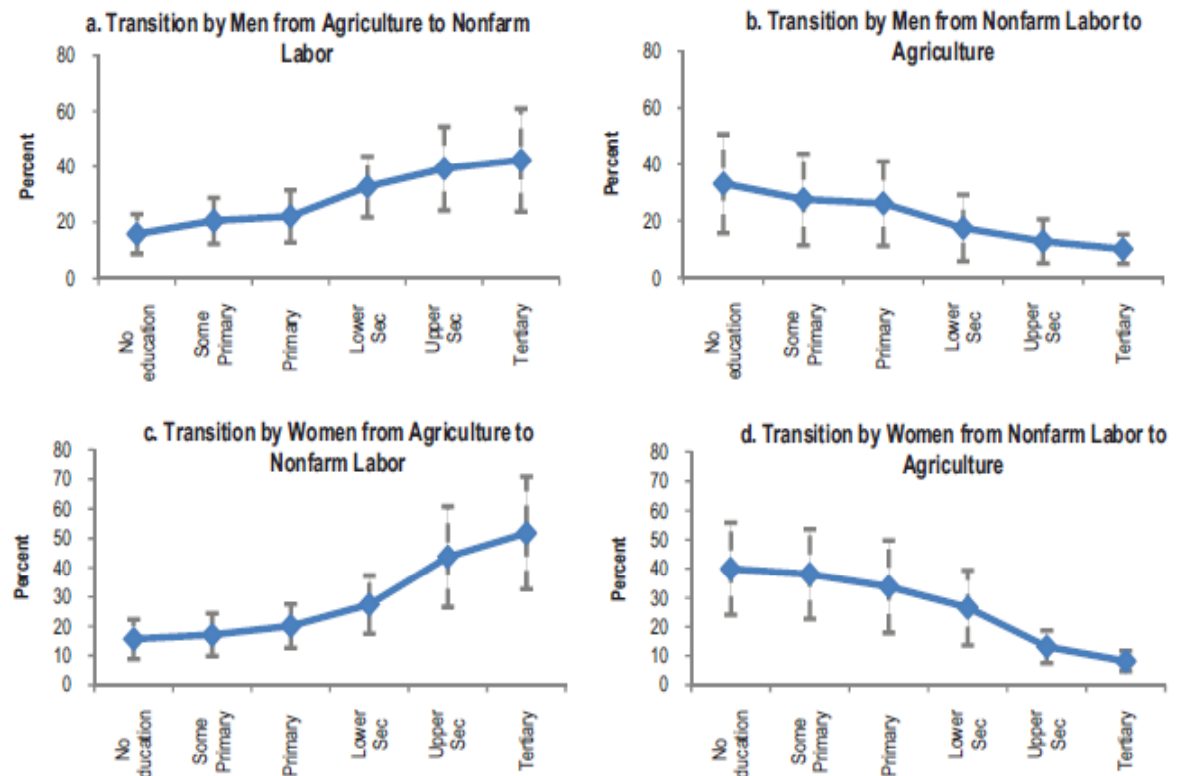


Source: Authors, based on data from national labor force and household surveys.

Education helps workers to access better jobs and labor to reallocate between and within sectors

- For both men and women, higher levels of education increases the likelihood of moving to better jobs:
 - Rural areas: from agriculture to the nonfarm sector
 - Urban areas: from casual labor/low end self employment to regular wage jobs and high end self-employment.
- These findings are consistent across countries.

**Conditional probability of moving into and out of better jobs
Rural India, between 2005 and 2008
by education level and gender**



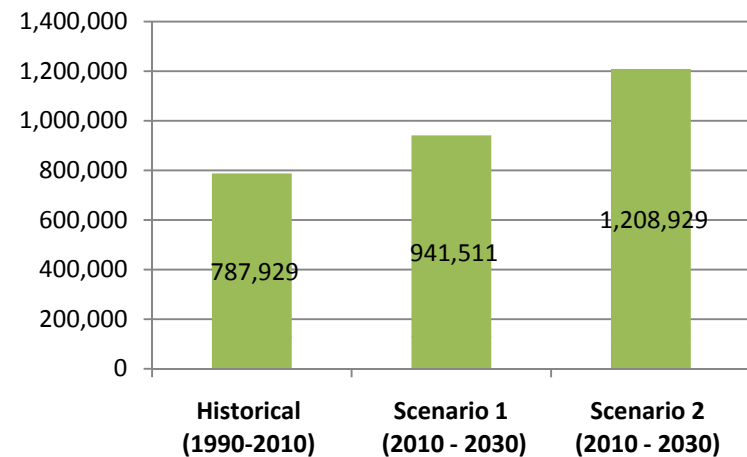
Question 2

WHAT HAS DETERMINED THE QUALITY OF JOB CREATION, AND WHAT IS THE EMPLOYMENT CHALLENGE AHEAD?

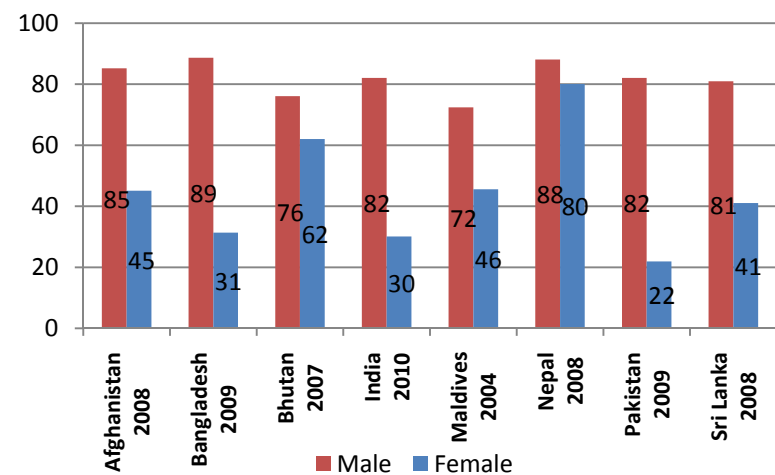
The employment challenge ahead for South Asia is to absorb higher numbers of new labor force entrants at rising levels of productivity

- There will be an estimated 1 - 1.2 million new entrants to the labor force every month over the next two decades - an increase of 25–50 percent over the historical average.
- The scenario will depend on whether South Asian female participation rates, which are currently very low, will increase - as they did in East Asia.
- Sri Lanka will need to absorb two-thirds fewer entrants into the labor force compared to its historical average, but at more rapidly rising levels of productivity.

Number of new labor force entrants per month

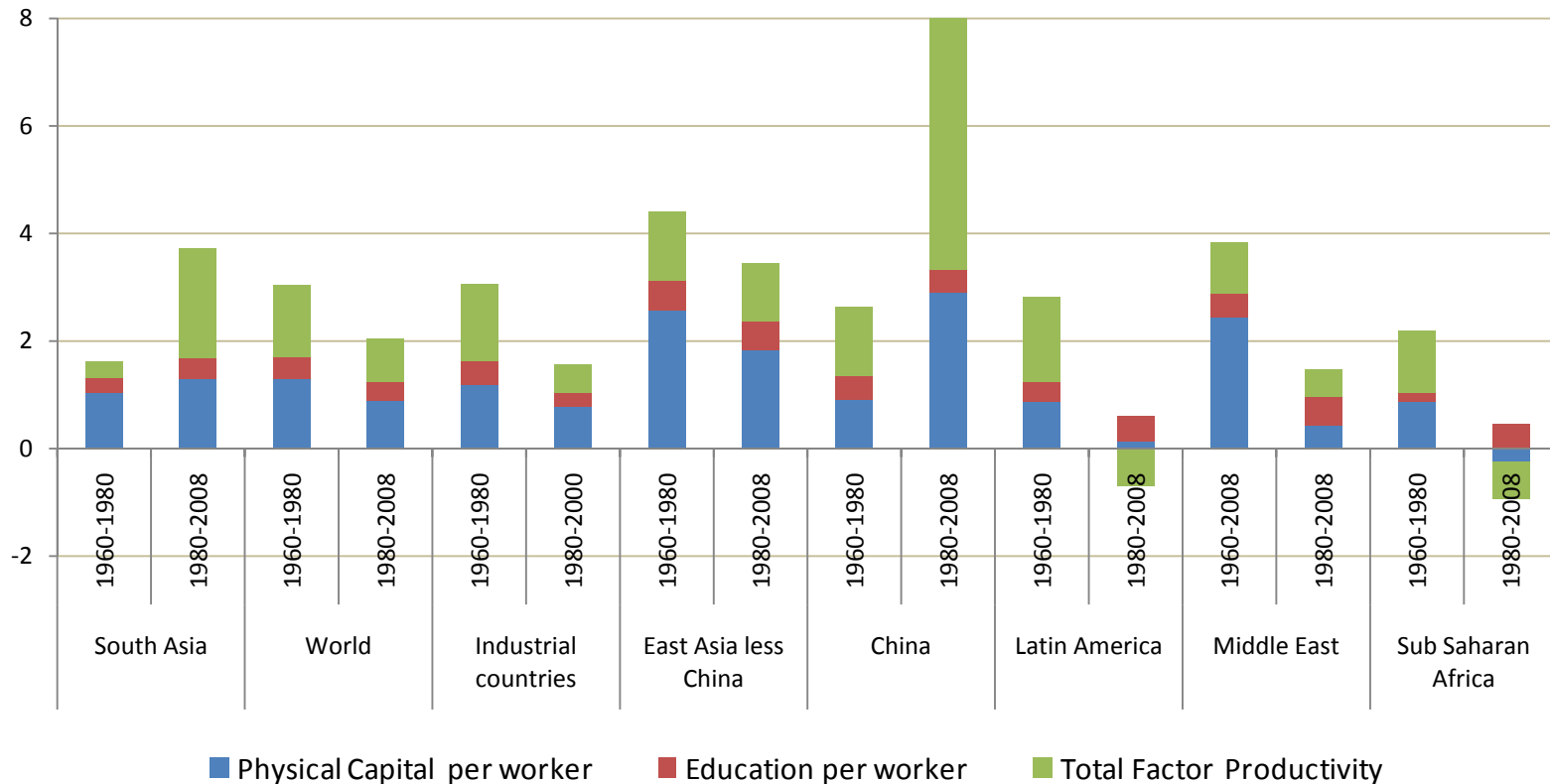


Male and female labor force participation rates



Improved job quality occurred due to an acceleration of labor productivity growth in some countries - driven mostly by total factor productivity growth

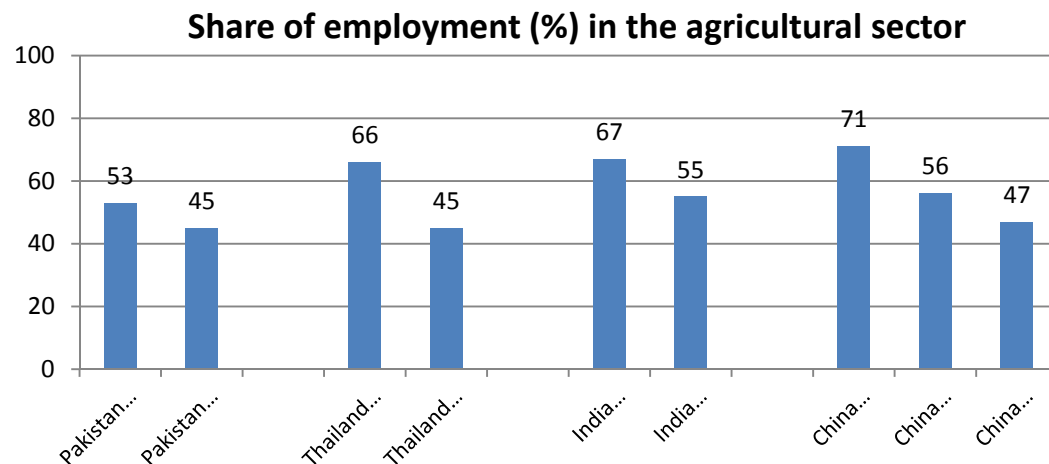
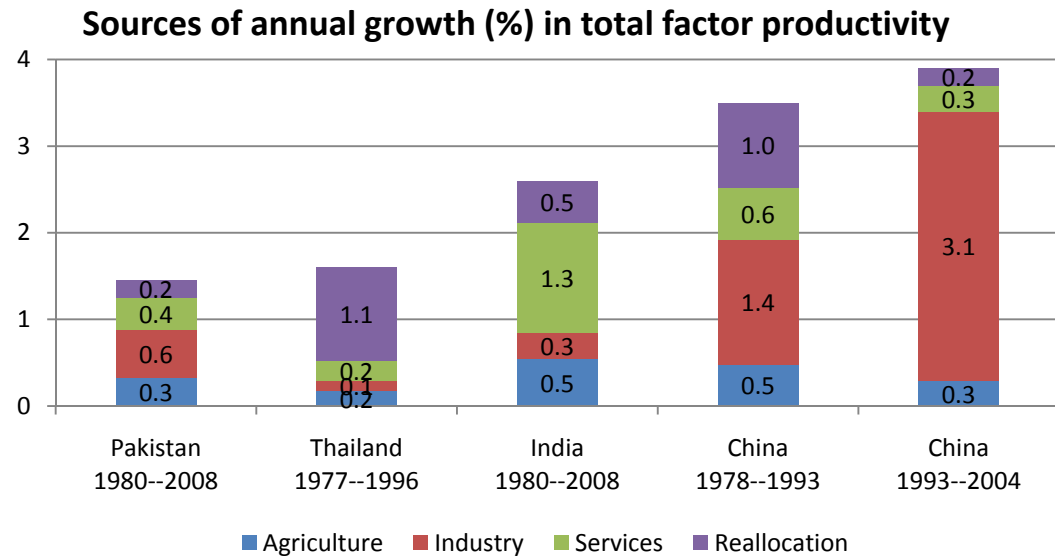
Sources of annual growth (%) in labor productivity, by region



- In other countries, notably Nepal, growth has been slow. Massive out-migration and workers remittances have driven reductions in poverty across a wide swath of households.

Going forward, higher rates of factor accumulation and continued TFP growth through faster labor reallocation out of agriculture is needed

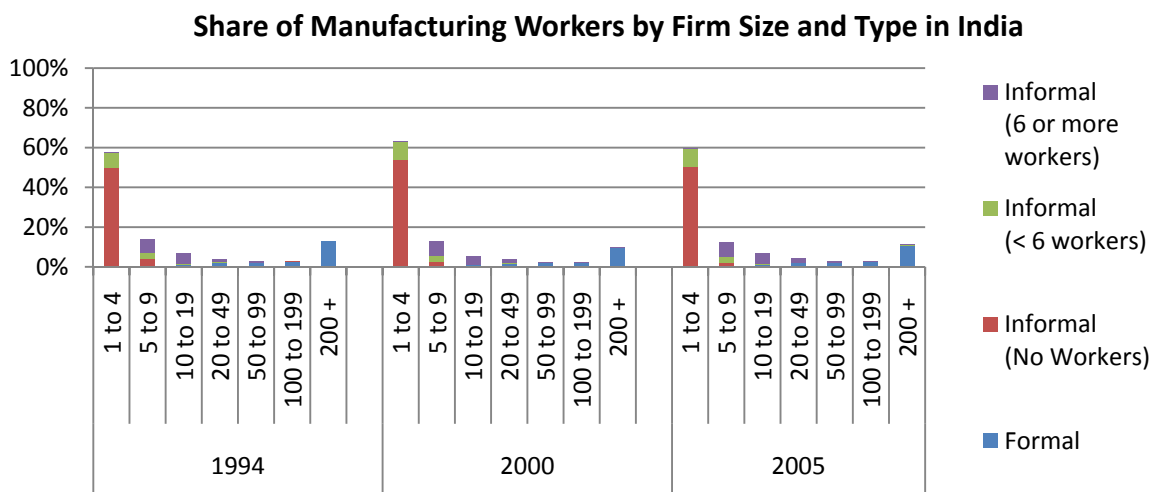
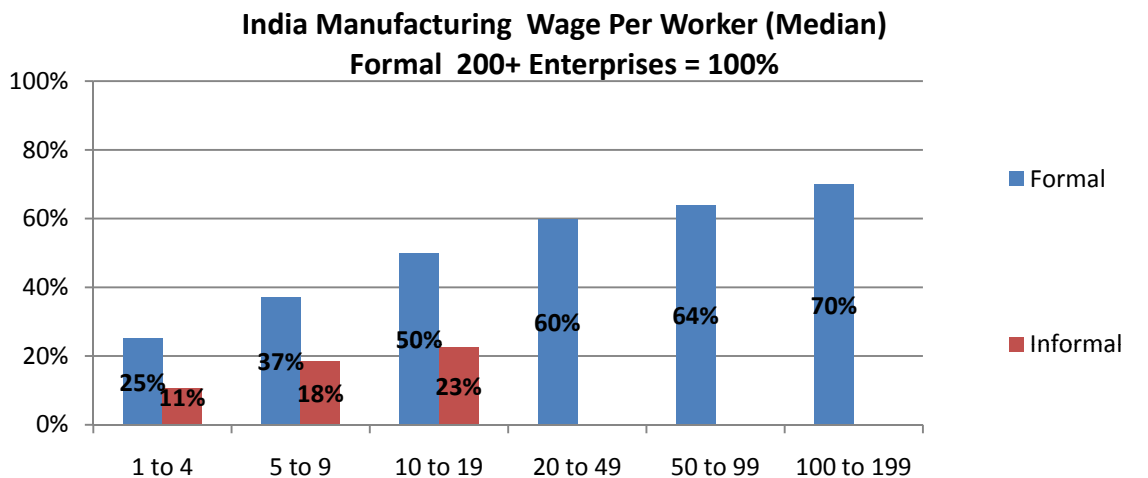
- Total factor productivity growth can also be increased through a faster reallocation of labor from agriculture to industry and services - where there is higher TFP growth.
- The contribution of reallocation to TFP growth has been lower in South Asia than in East Asia, where share of labor in agriculture has fallen more rapidly.



Reallocation across sectors needs to be complemented by moving labor out of lower-productivity into higher-productivity firms in industry and services

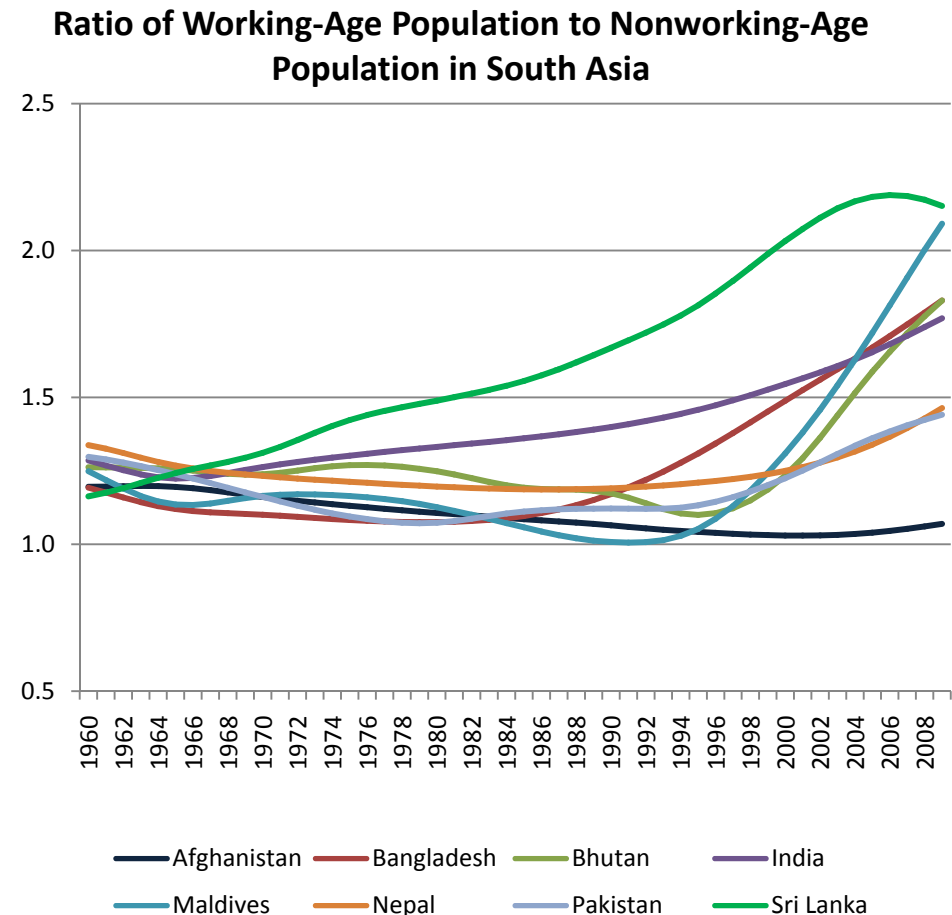
Indian manufacturing and services:

- Average wages are lower in smaller firms relative to larger firms, and lower in informal firms compared to formal firms of the same size class – this reflects lower productivity, capital intensity and skills.
- But the majority of manufacturing and services employment is in informal, micro and small firms - these features have not changed over time.



The changing demographic profile in most of South Asia can help it meet the enormous employment challenge it faces

- Reallocation across and within sectors will require physical and human capital accumulation.
- The “demographic transition”—the period during which the number of workers grows more rapidly than the number of dependents—can help, because the extra resources saved from having fewer dependents provides a “demographic dividend”. With a conducive policy framework, this dividend can be used for high-priority investments.
- The window of demographic opportunity is expected to close around 2040 for most countries and lends urgency to the reform agenda.

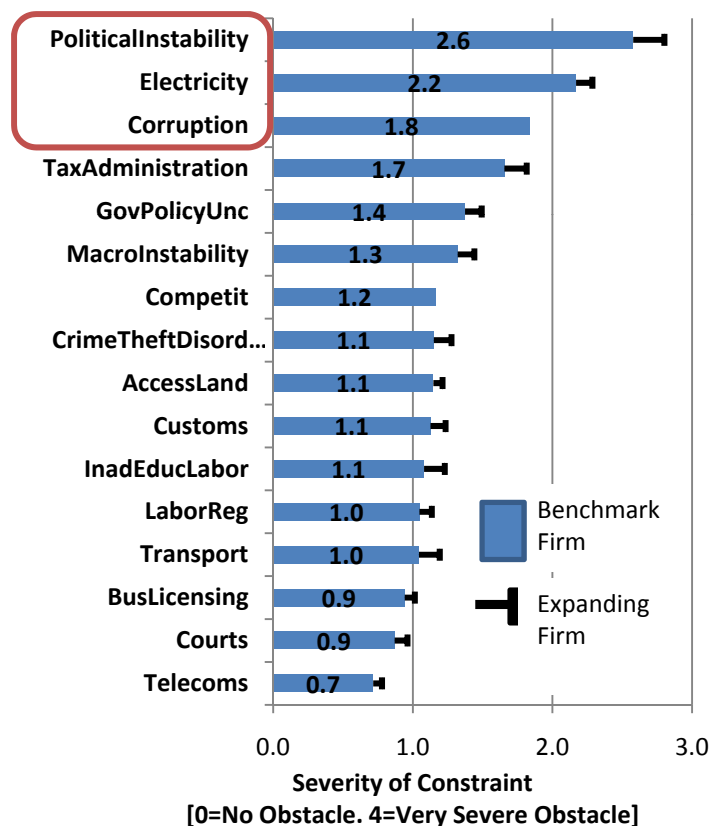


Question 3

**WHAT DEMAND AND SUPPLY-SIDE BOTTLENECKS
NEED TO BE EASED TO MEET THE EMPLOYMENT
CHALLENGE IN THE FACE OF INTENSIFYING
DEMOGRAPHIC PRESSURE?**

The most severe constraints for job creating firms in the urban formal sector in SAR are electricity, corruption and political instability

Severity of Constraints Reported by SAR Benchmark and Expanding Firms Urban Formal Sector



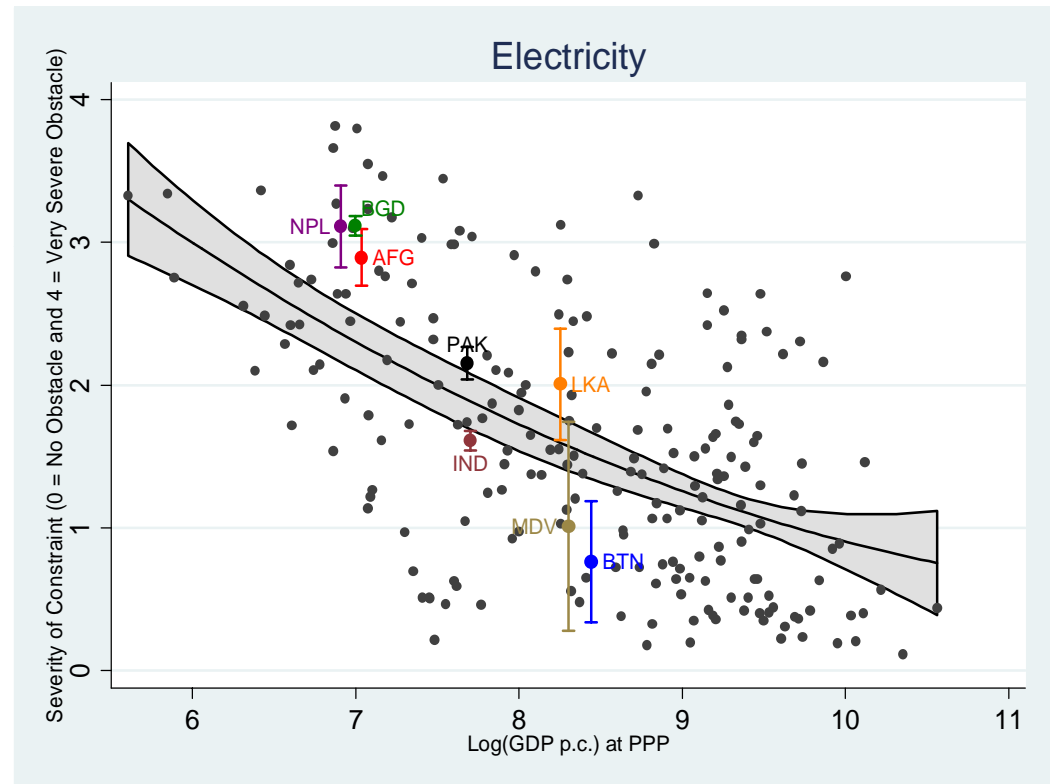
Top 3 Most Severe Constraints Reported by Expanding Firms Urban Formal Sector

Constraint	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Political Instability	1	2		n/a		1	=1	n/a
Electricity	2	1		2		2		1
Corruption		3		1			=1	
Transport			1			3		
Inadequate Educated Labor			2		2			
Government Policy Uncertainty							3	2
Crime Theft Disorder	3				3			
Access to Land					1			
Tax Administration				3				
Labor Regulations			3					
Macro Instability								3

Investing in reliable electricity supply is critical. South Asian firms of all types rate electricity as one of the top constraint to operations

Reported Severity of Electricity Constraint with Cross Country Comparison
Benchmark Firm in Urban Formal Sector

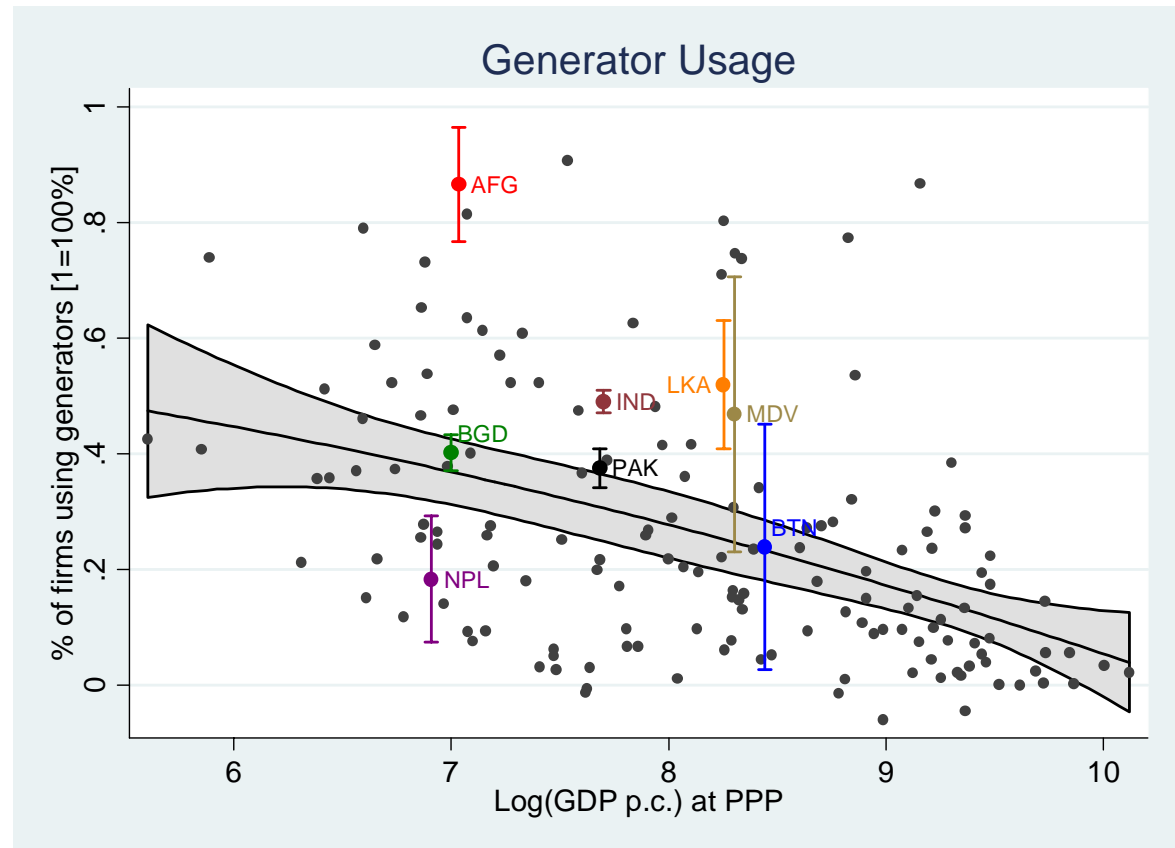
- Severity of electricity constraint is higher than other countries at similar GDP levels for Nepal, Afghanistan and Bangladesh.
- Consistent with this, almost 100% of firms reported outages in Nepal, Afghanistan and Bangladesh.



To mitigate against unreliable electricity supply, firms in South Asia use generators more heavily than in countries at similar income levels.....a costly solution

- Firms in Afghanistan, India, and Sri Lanka report higher usage of generators than firms in other countries at similar GDP per capita levels.
- The gap between demand and supply of electricity is large. Meeting the gap involves both massive public and private investments and governance reforms in the public utilities.

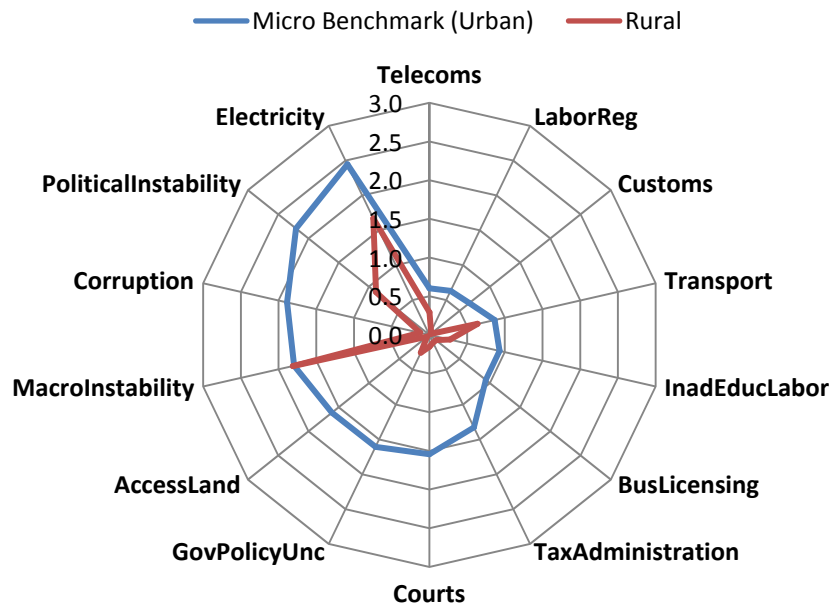
Percentage of firms using generators with cross country comparison



Addressing constraints facing informal and rural firms will require additional policy focus on transport and access to land

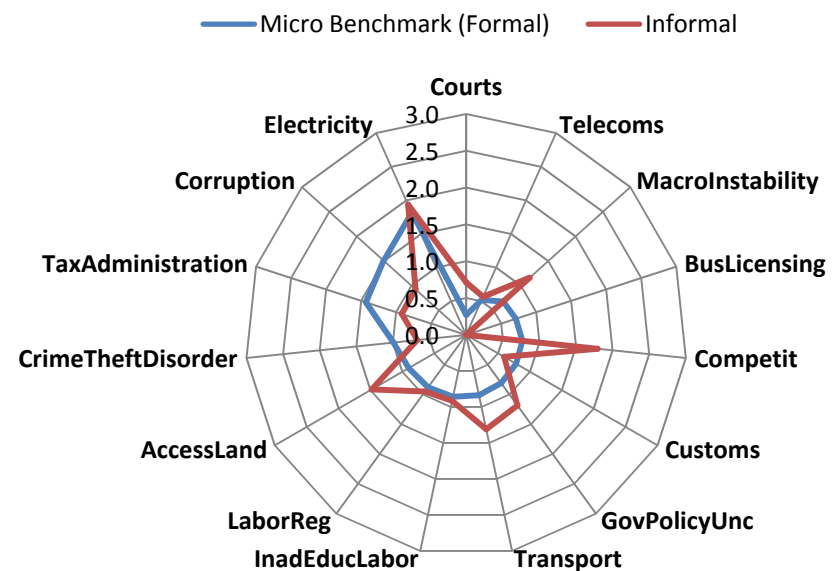
- For firms in the rural nonfarm sector, electricity remains a top constraint, while weak transport, which limits access to larger markets, becomes more binding.

Severity of Constraint Reported by Micro Benchmark Firm In Urban and Rural Sectors
Pakistan, Bangladesh and Sri Lanka



- For informal firms, electricity is still a top constraint, while corruption and tax administration are problematic. Access to land is more binding for informal firms.

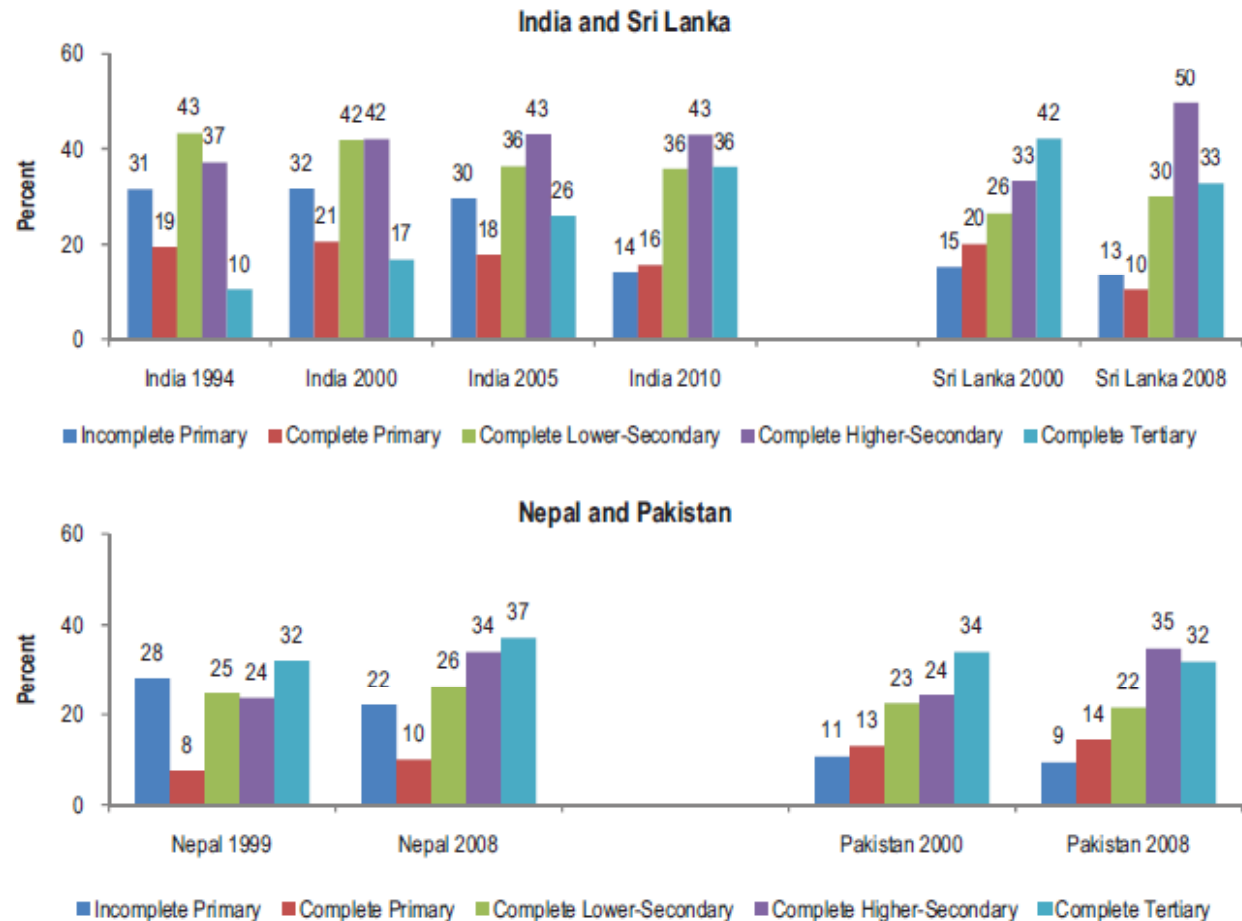
Severity of Constraint Reported by Micro Benchmark Firm In Urban Formal and Informal Sectors
India



Demand for skilled workers is increasing, as evidenced by rising wage premiums for higher levels of education in all countries

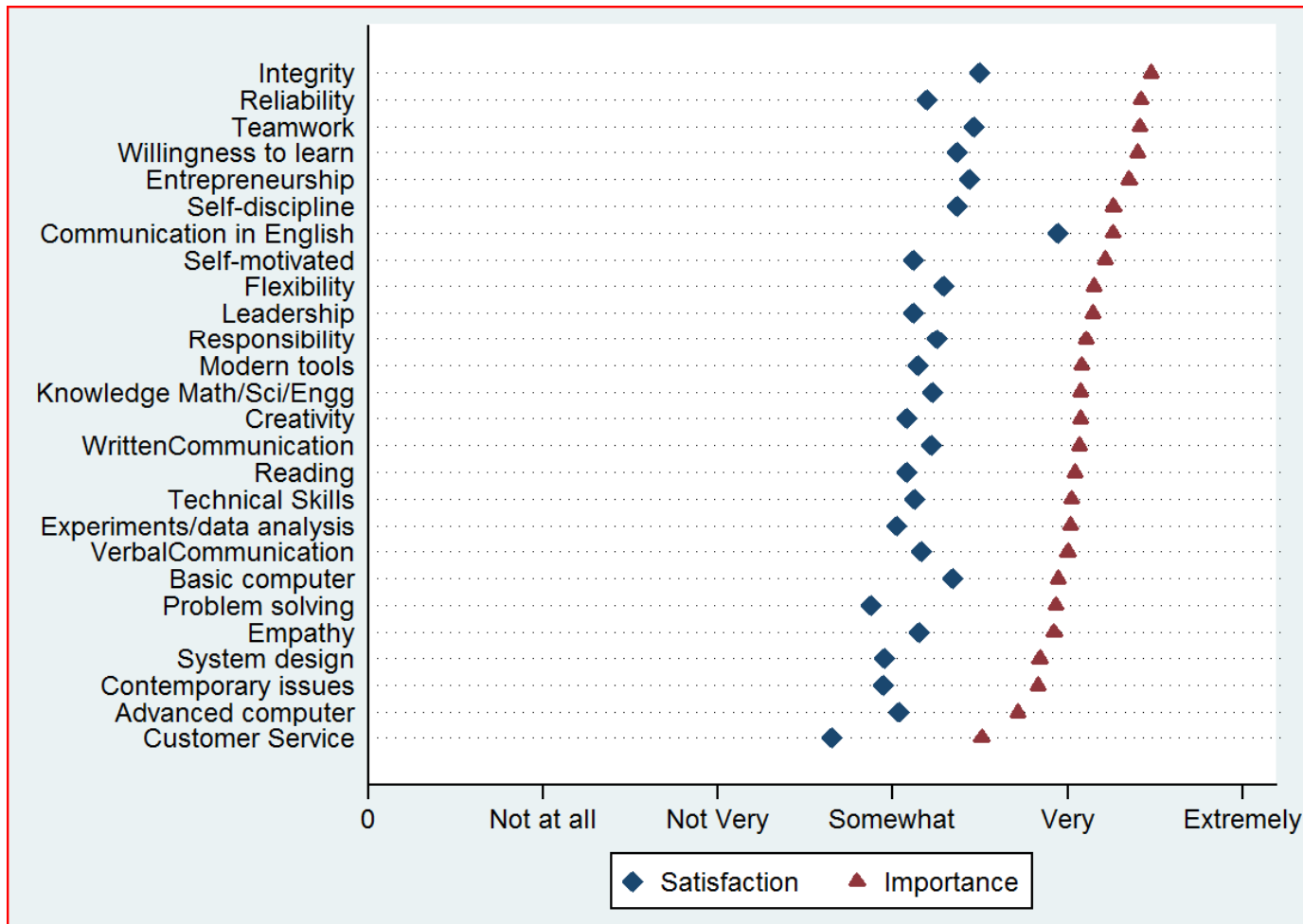
- Returns for higher levels of education are rising or steady over time; returns for lower levels are falling.
- This is happening while the supply of educated workers has increased.

Wage Premiums, by Level of Education



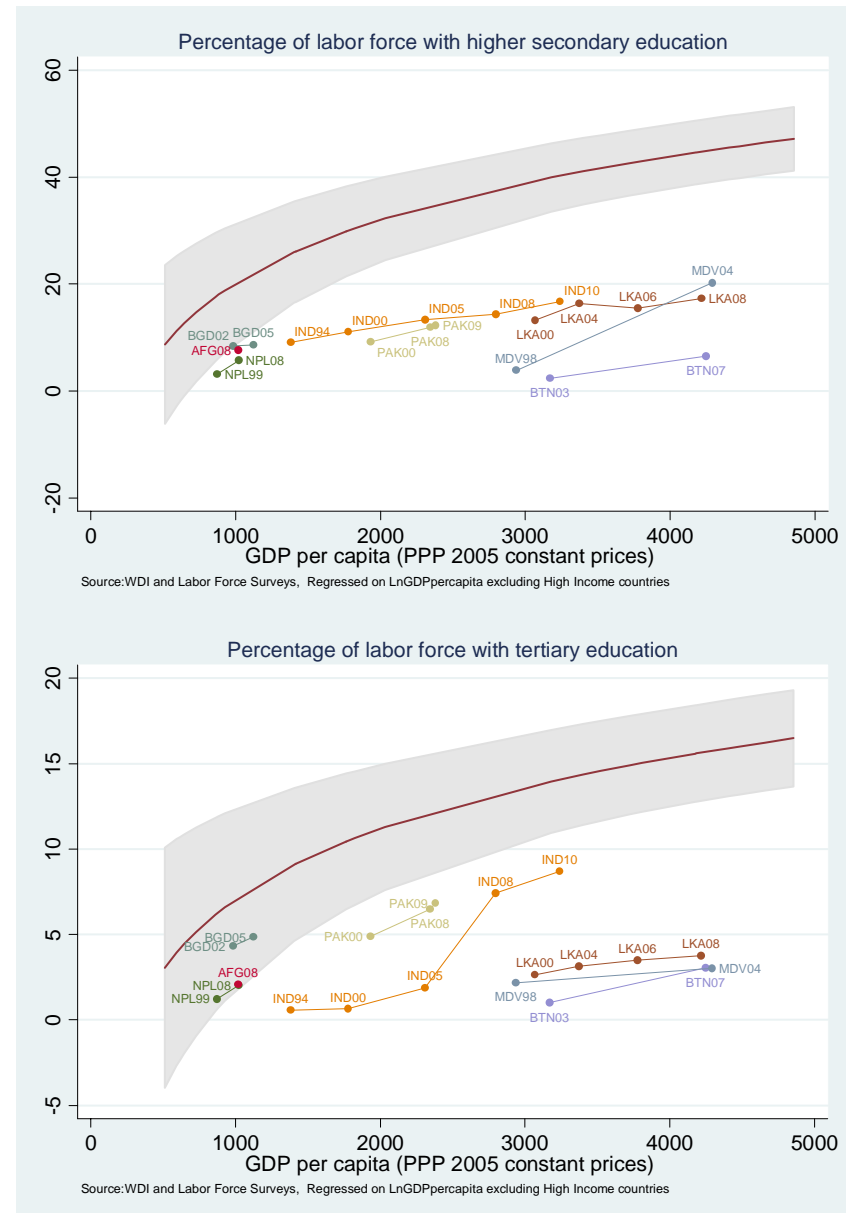
Employers are only somewhat satisfied with the skills of recent engineering graduates in India

Employers' perceptions of skills of recently graduated engineers in India



Education reform is key to improve quality of learning at all levels

- Sri Lanka's traditionally strong attainment in primary and lower secondary education relative to its neighbors does not carry over to upper secondary and tertiary attainment.
- Policy makers must strengthen the quality of learning at all levels, to equip tomorrow's workers, not only with academic and technical skills, but also the behavioral, creative and problem-solving skills employers increasingly demand.
- This requires strengthening incentives and building capacity at all levels of the education and training system.



Reforming labor market institutions is essential for formal sector job creation in India, Nepal, and Sri Lanka, where firms report labor regulations among their top five constraints

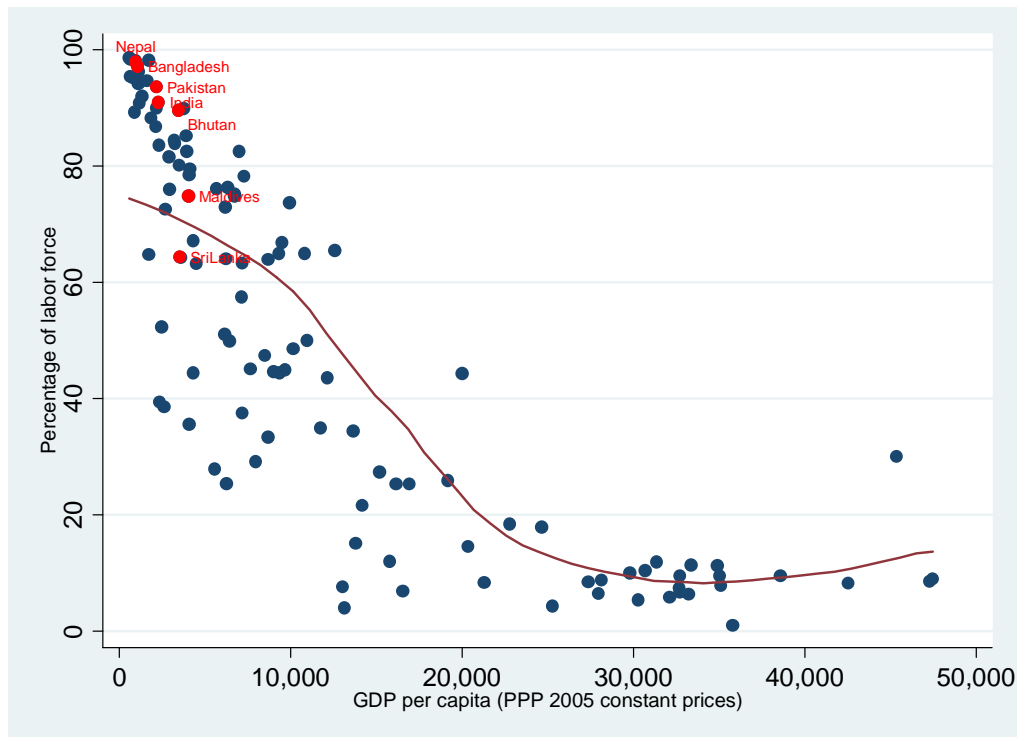
Reported Severity of Labor Regulation Constraint with Cross Country Comparison
Benchmark Firm in Urban Formal Sector



- Firms in India, Nepal and Sri Lanka report labor regulations as being a more severe constraint to their operations than average for countries at their income level.
- Further, evidence from the region shows:
 - Tighter regulations associated with lower investment, employment, productivity and output in formal manufacturing, slower growth of labor intensive industries, and lower labor reallocation.
 - Output and employment costs of employment protection legislation are higher where it is more difficult to resolve disputes.

Labor market institutions need to move away from protecting jobs to protecting workers.

Share of labor force not covered by pension scheme
with cross country comparison



- Labor market rules in South Asia have failed to protect workers, for two main reasons:
 - Less than 10 percent of the labor force is covered in most countries
 - Noncompliance: firms employ strategies to avoid them, reducing de facto protection
- Going forward South Asian countries could benefit from reorienting labor market policies from “protecting jobs” to protecting workers” by:
 - Moving away from strong job security laws
 - Providing workers in the formal and informal sectors better tools to adjust to labor market shocks and improve their future earnings potential

Three Messages

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South Asia has created many, mostly better jobs

- Almost 800,000 jobs/month created during 2000 - 2010
- Job quality improved: real wages grew and poverty rates declined for all groups of workers
- Improved job quality due to growth in some countries, outmigration in others

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Most of the region faces an enormous employment challenge, but its demography can help the reforms needed

- In the future, SAR needs to absorb 1 - 1.2 million entrants into the labor force per month at rising productivity levels
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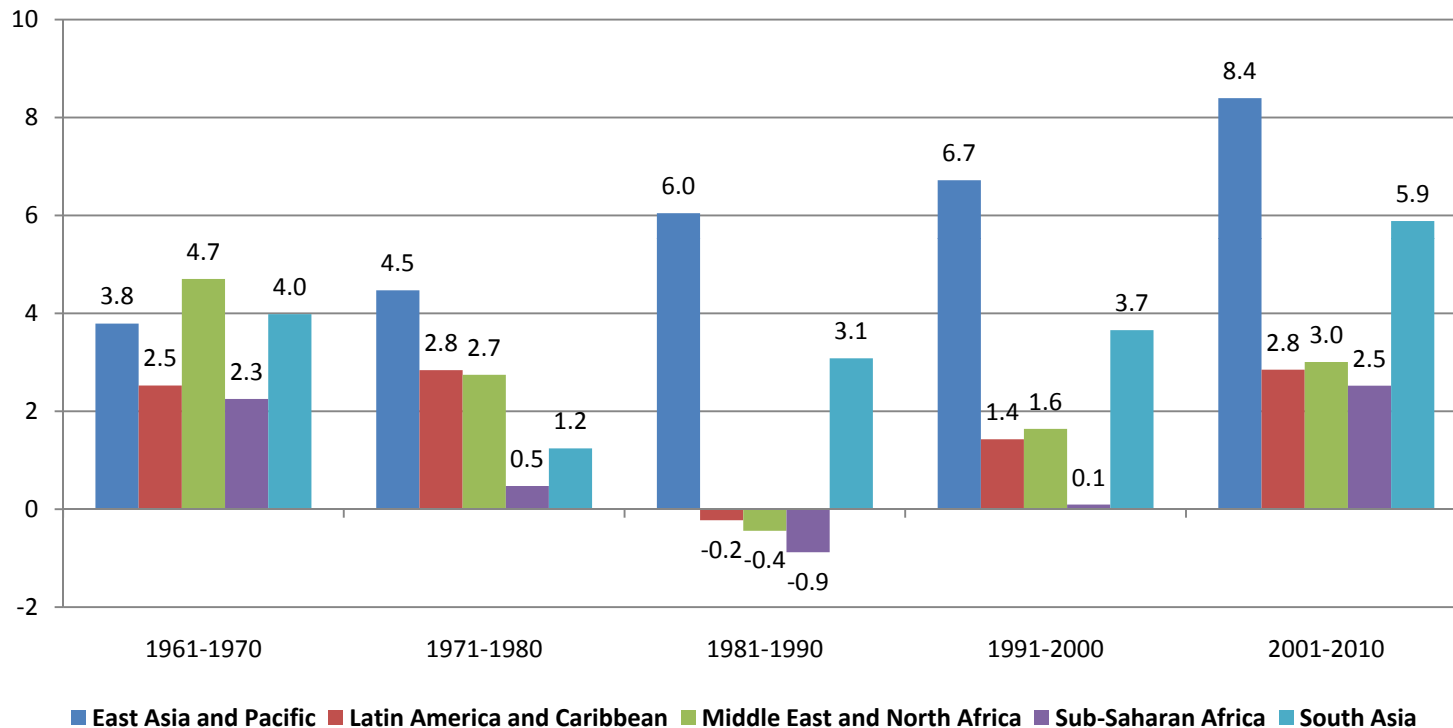
- The power sector—invest and reform governance
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Back Up

GDP per capita growth has picked up in South Asia (1)

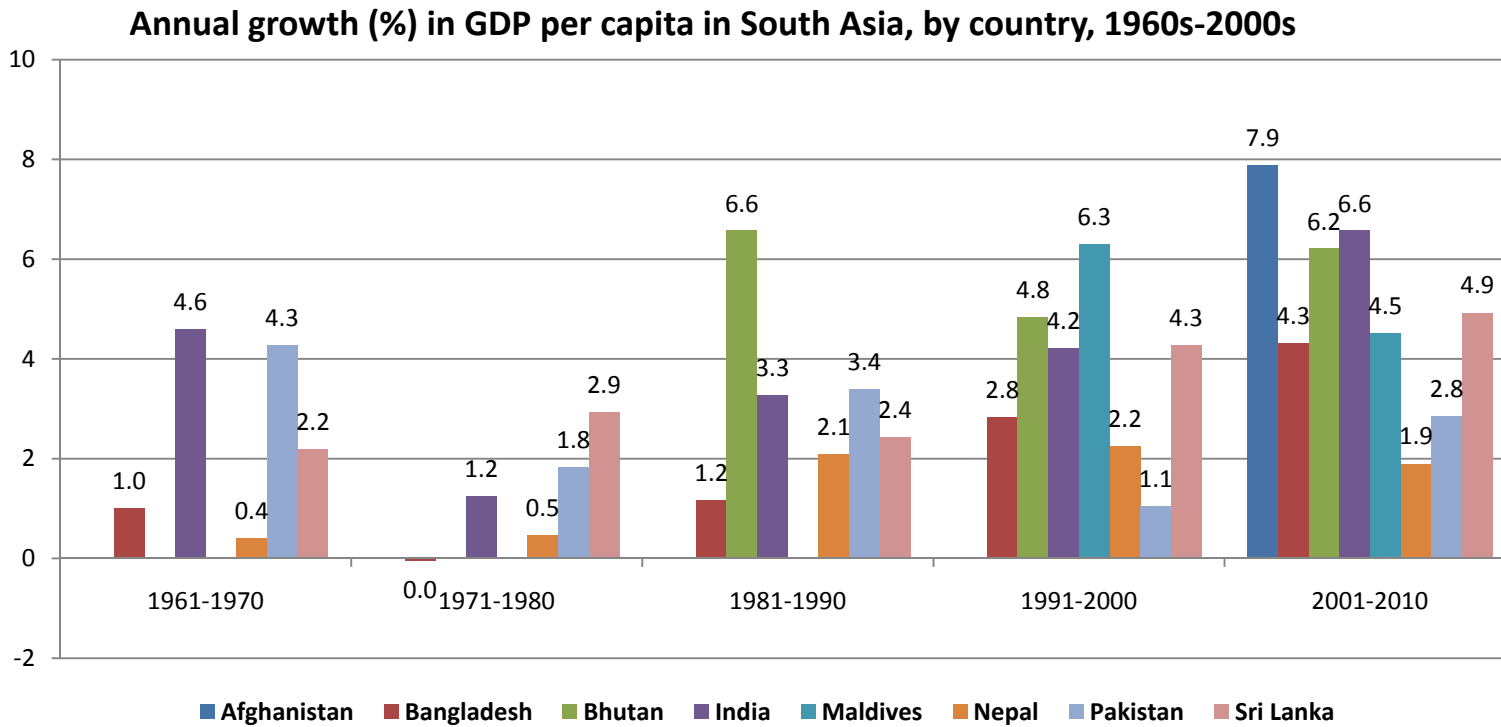
- Real GDP per capita growth rates in South Asia have picked up since the 1980s although not in all countries.

Annual growth (%) in GDP per capita, by region, 1960s-2000s



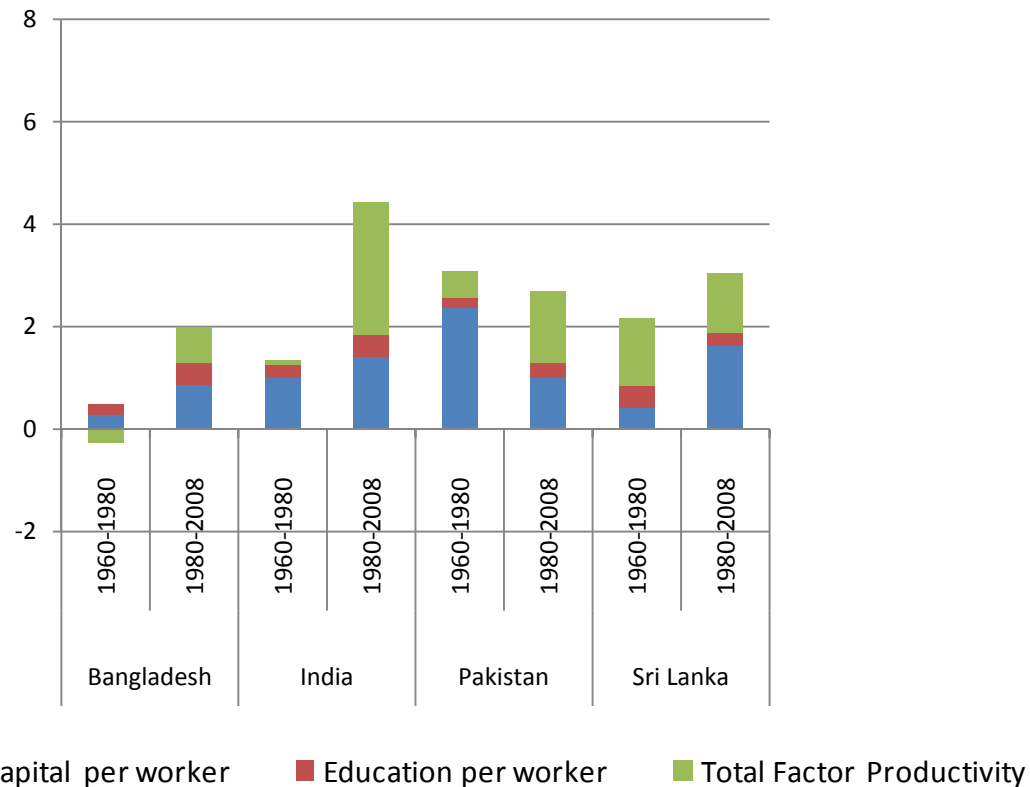
GDP per capita growth has picked up in South Asia (2)

- Real GDP per capita growth rates in South Asia have picked up since the 1980s although not in all countries.



Improved job quality occurred due to an acceleration of labor productivity growth in some countries, which has been driven primarily by TFP growth

Sources of annual growth (%) in labor productivity
South Asian Countries

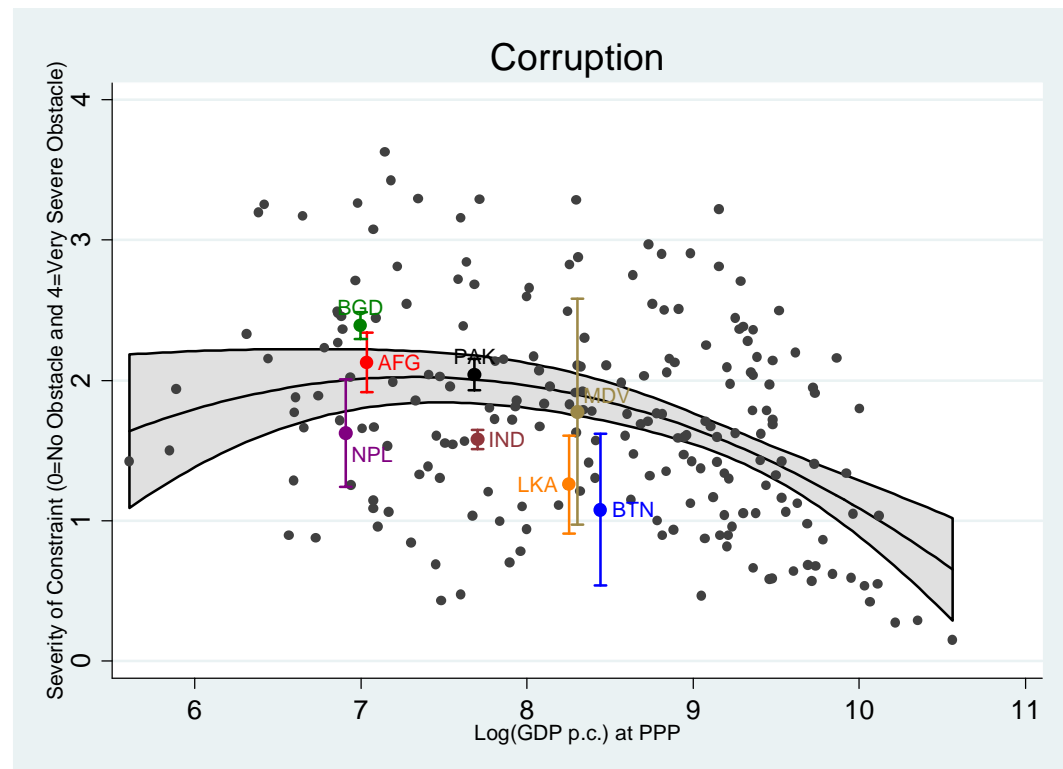


- In others countries, notably Nepal, growth has been slow. Massive out-migration and workers remittances have driven reductions in poverty across a wide swath of households.

Corruption is one of the top constraints reported by firms in South Asia, but is generally no more severe than in countries at similar income levels

- Corruption levels are lower with less variability in higher income countries; they are higher with more variability in low income countries.
- Of the five South Asian countries in which corruption was among the top five constraints, only Bangladesh has higher levels of reported severity than typical for countries at the same level of per capita GDP.

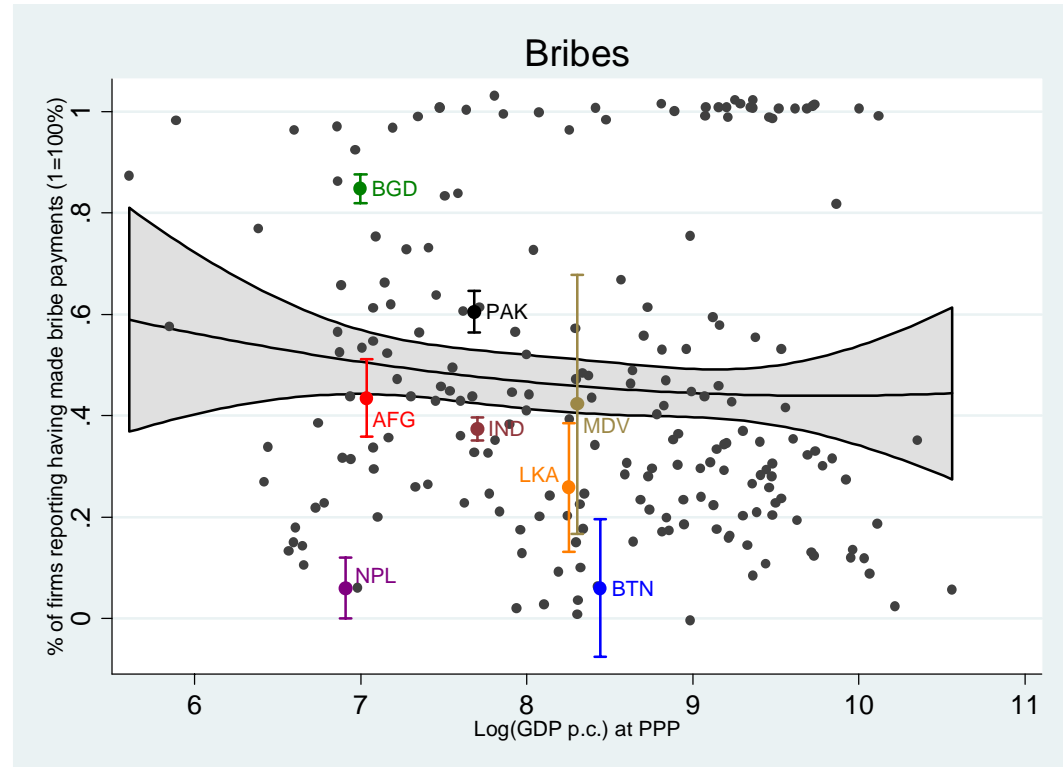
Reported Severity of Corruption Constraint with Cross Country Comparison
Benchmark Firm in Urban Formal Sector



The prevalence of bribe payments is consistent with the incidence of corruption

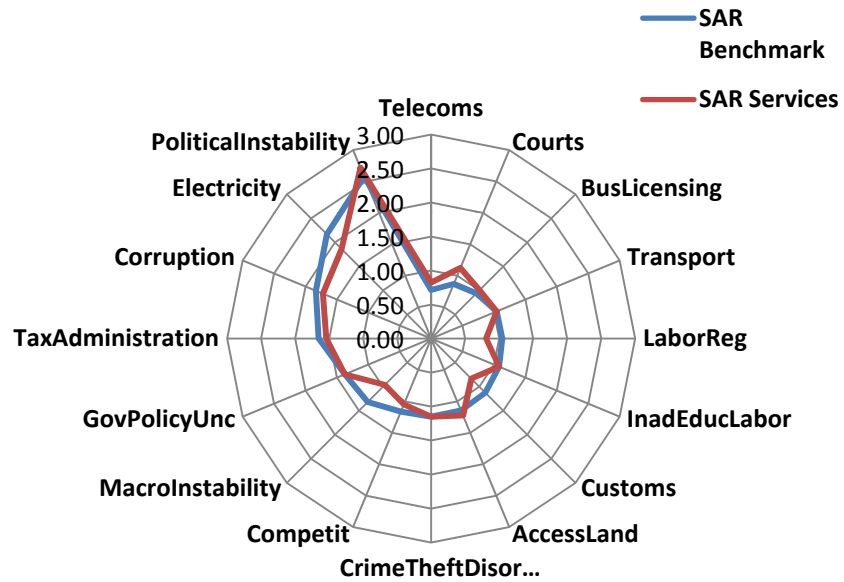
- Firms in India report slightly lower incidence of bribe payments compared to countries with similar income level.
- Firms in Bangladesh report a very high prevalence of bribe payments in absolute and relative terms.
- Pakistan also has a higher prevalence of bribes than is typical at its level of per capita GDP.

Percentage of Firms Reporting Bribes Payments with Cross Country Comparison
Benchmark Firm in Urban Formal Sector

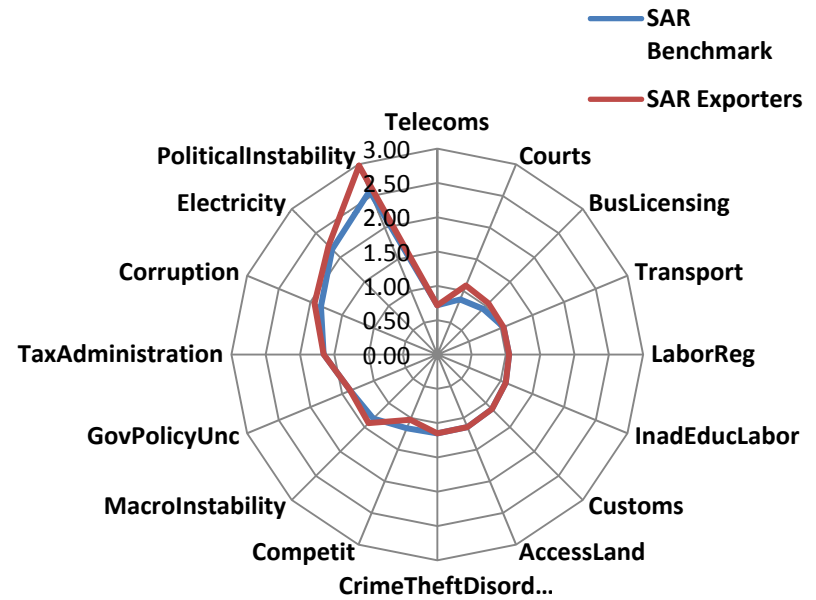


Urban Formal Non Benchmark Firms

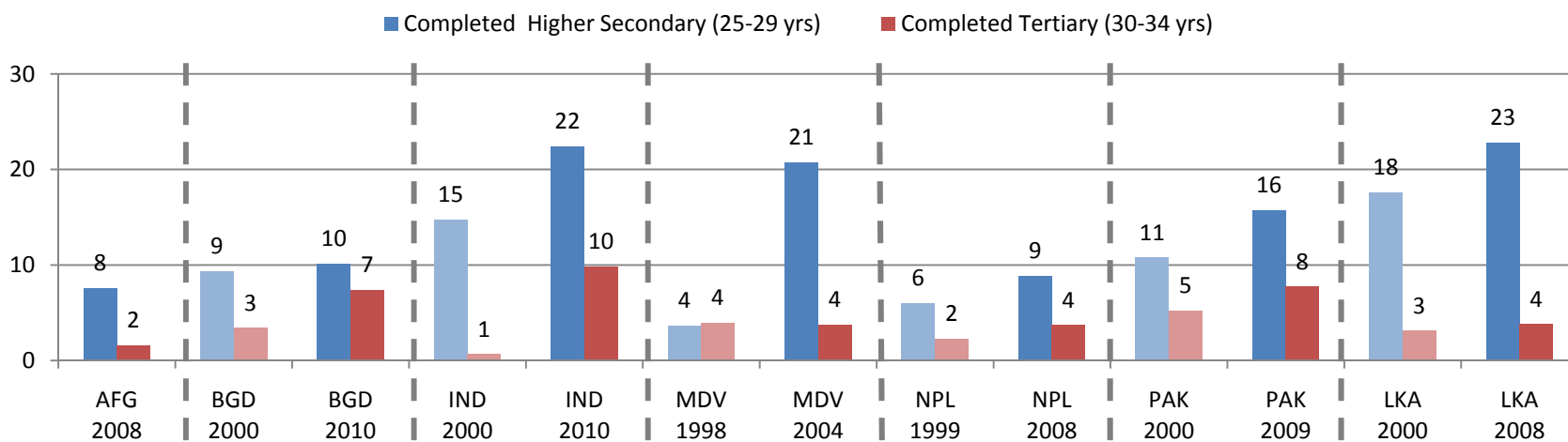
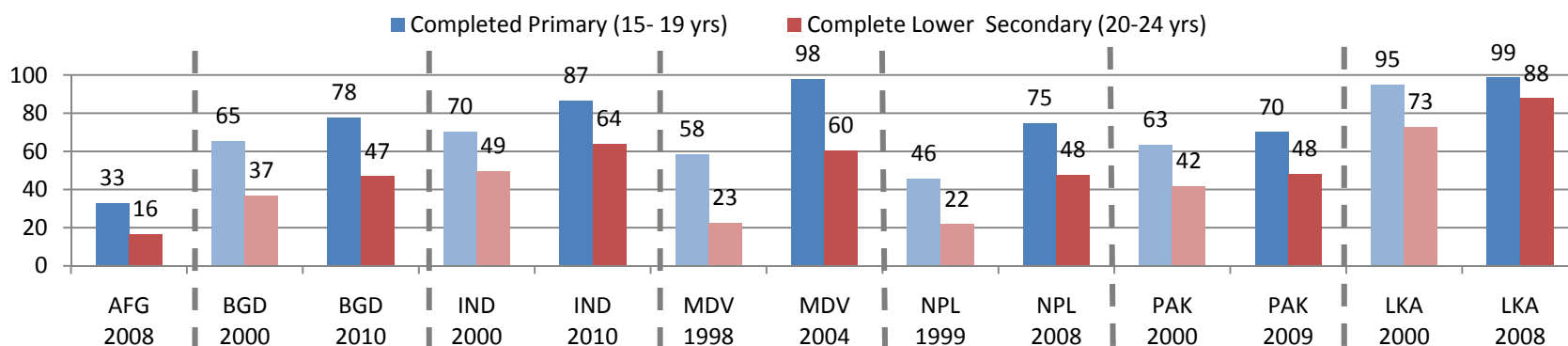
Severity of Constraint Reported by SAR Benchmark and SAR Services Firms



Severity of Constraint Reported by SAR Benchmark and SAR Exporting Firms

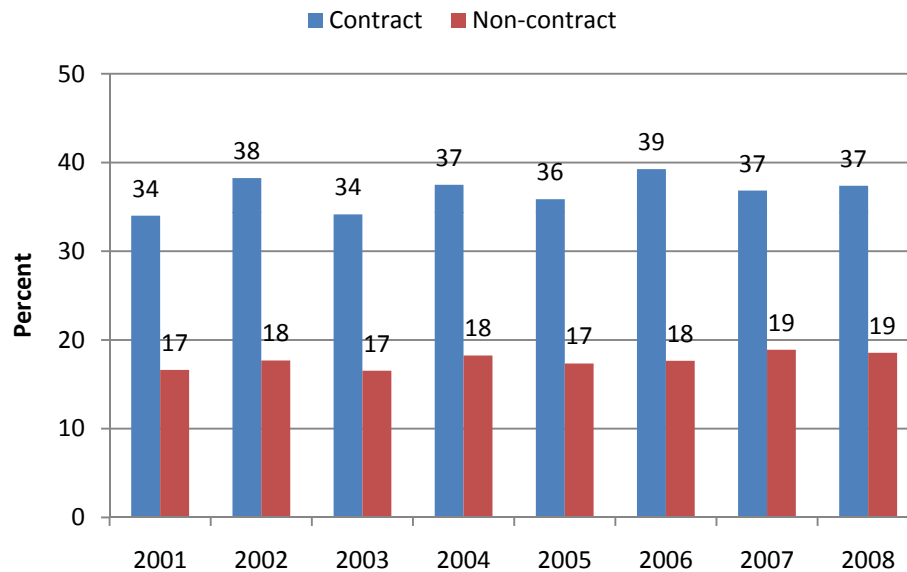


Share of young cohorts with primary, secondary, and tertiary attainment in South Asia



Employers in firms with more than 100 employees in India use contract workers more heavily to adjust their labor force

Job reallocation rate for contract and non-contract workers



Source: Authors, based on data from various rounds of Annual Survey of Industries.

- Job reallocation rate (job creation rate plus job destruction rate) is higher for contract workers than for non-contract workers
- This is consistent with earlier evidence from Sri Lanka

Conflict exaggerates the employment challenge - business constraints are more severe and the workforce is less educated in conflict areas

- The workforce in conflict-affected areas is less educated, and more likely to be in agriculture.
- In Afghanistan, firms in higher conflict intensity areas report being more constrained. Lack of security, inadequate infrastructure and weak governance are significant deterrents.
- Labor market programs (e.g. Disarmament, Demobilization, and Reintegration programs, broader public works) have an important role in initial post-conflict environments.
- Business regulation reforms, temporary tax-breaks and public private partnerships can enable the private sector to eventually create more jobs.
- Jobs need to be at the center of the post-conflict agenda, not only to help restore livelihoods but as an instrument for peace.

