

Nobel symposium in Economic Sciences: Microdevelopment research in the last 20 years

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What are labor market trends in LICs?

1. Open unemployment is less common in LICs.

- In Ethiopia, 5 % national, and 17% urban does not tell the full story
- "Most people work because they cannot afford not to" (WB, 2019)

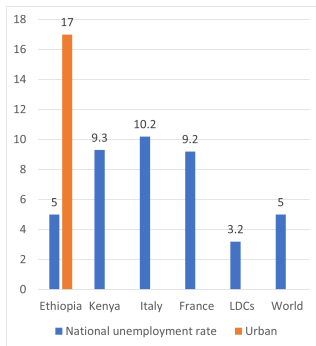


Figure: Unemployment rate

Source: ILO stat

What are labor market trends in LICs?

2. High share of employment is in the informal sector

- Jobseekers queue for wage work (Blattman and Dercon, 2018)
- Self-employment and "slippery job ladder" wage employment (Donvan et al., 2023)

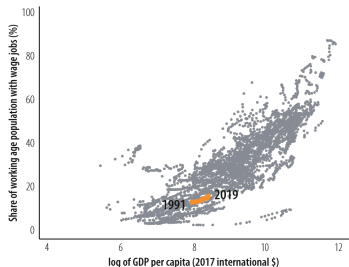


Figure: relationship between wage work and per capita income



Figure: Growth Elasticity of Wage Employment

Source: Africa Pulse 2023

What are labor market trends in LICs?

3. Reemployment rates are low and turnover rates are high

- In India, 80% of garment workers quit in two years (Adhvaryu et al., 2016)
- In Ethiopia, 88% of garment workers quite in four years, with two third quitting in the first year (Abebe et al. *forthcoming*)

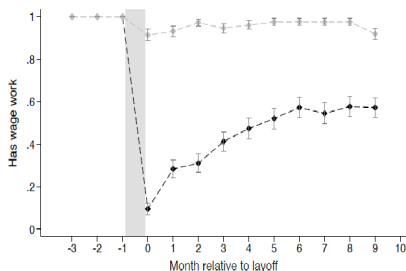


Figure: Women struggle to reintegrate back to the labor market

Source: Abebe et al. (ongoing)

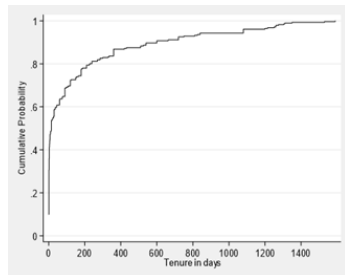


Figure: Turnover rates are the highest the first three months

Source: Abebe et al. (WBER
forthcoming)

What are labor market trends in LICs?

4. Labor intensive manufacturing will create jobs but will remain insufficient to absorb the growing labor force
 - Structural transformation towards services

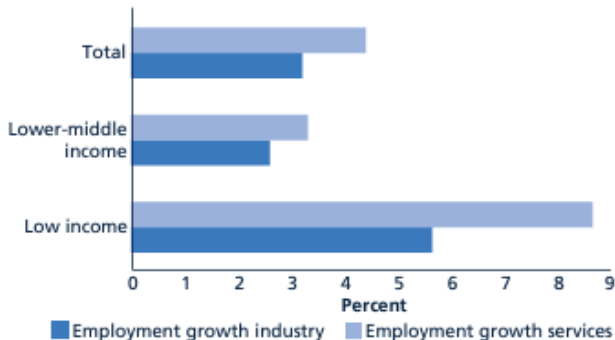


Figure: Changes in urban share of population by income group, 1990–2014

Source: WB (2019)

What are labor market trends in LICs?

5. Substantial gender gap in labor market outcomes.

- Labor market outcomes were worse for women than men during the Covid-19 pandemic (World Bank, 2022).
- Women search differently, work less, likely in low-paying sector and earn less
 - In Nigeria and Ethiopia wages are 22% and 36% lower for women than men

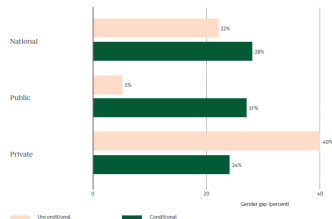
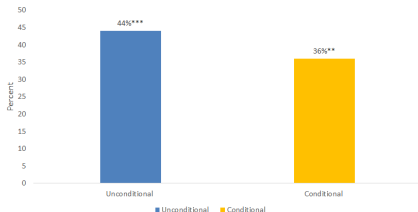


Figure: Gender gap in wages in Ethiopia Figure: Gender gap in wages in Nigeria

Source: WB: Ethiopia and Nigeria Gender Diagnostic Reports, 2020 & 2023

What are labor market trends in LICs?

6. Workers are not protected against the consequences of job loss
- Severance pay may not be suitable for consumption smoothing

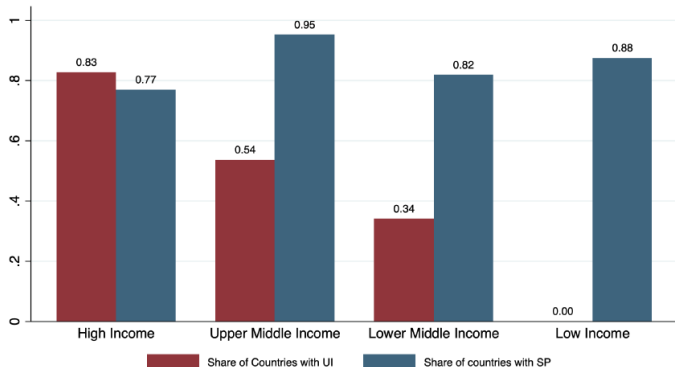


Figure: Distribution of unemployment insurance and severance pay by income group

Source: Expanded data to 160 countries from Gerard & Naritomi (AER 2021)

What are labor market trends in LICs?

7. With the rise of urbanization and the increasing significance of the service sector, both primary and secondary cities continue to thrive as job hubs.

Important Labor Market frictions

7.1 Job search is expensive

- People live away from the city center and hence pay for commuting
- Many applications are not made compared to available vacancies

7.2 Recruitment is hard and expensive

- Screening applicants is difficult (many lack relevant experience, standard job application procedures)
- Recruitment eats into firms resources (money and staff time)
- social networks are important source of hires (Sapin et al., 2020).

ALMP will be increasingly in demand

- Transport infrastructure, such as Bus Rapid Transit (BRT) and rails, can promote inclusivity (Martinez et al. 2020; Kondylis et al. 2020)

What evidence is available from policy evaluations

1. Labor demand: Interventions fostering job creation or reducing cost of labor
 - PSD, IPs, FDI, macroeconomic stability, regulation
 - Limited evidence on the impact of supporting firms with recruitment or wage subsidy (Groh et al., 2016; Hensel et al., 2022)
 - Take-up is limited, when taken-up, effects are short-lived and tends to come at the expense of the control
2. Labor supply: Interventions building on human capital and increasing participation of women.
 - TVET training is widespread but mixed evidence on impact and cost effectiveness (McKenize 2017; Alfonsi et al., 2020)
3. Mobility: attenuating constraints to geographic and sectoral mobility
 - Migration and land policies (Bryan et al., 2014; Bryan and Morten 2019)
 - FCV, IDP, and refugees status
4. Functioning of the markets: Improving labor market flexibility and inclusivity
 - Search and matching frictions
 - Making labor markets work for women

Improving labor markets through tackling search cost and matching frictions:

- Search cost: can be monetary, time, physical and psychological
 - High search cost generates inefficiency and inequality in labour market outcomes
 - Search expense is a significant share of income or spending for unemployed jobseekers
 - In Addis Ababa (Abebe et al., 2021) job seekers spend nearly 16% of overall spending and in Johannesburg (Carranza et al. 2022)18% of income is spent on search related activities.
 - With urbanization, search frictions could become more salient
 - Following urbanization in Nigeria, aggregate household labor supply declined impacting women more adversely compared to men (Animashaun and Emediegwu 2023).
 - In Ethiopia, individual's likelihood of formal employment is negatively related to their home's distance from city center (Abebe et al. 2021)

Various interventions aimed at reducing search frictions show promising results

1. Subsidizing search:

1.1 Transport subsidy: Supporting search through transport subsidy can improve search behavior but results are often short-lived (Franklin 2018; Abebe et al, 2021; Banerjee and Sequeira 2023)

1.2 Application subsidy: Application incentive improves both quantity and the quality of applicants (Abebe et al., 2021)

2. Skills signaling: Supporting search by improving job seekers signaling ability can improve search strategies and labor market outcomes.

- Reference letters and skills certification in South Africa (Abel et al., 2020; Carranza et al. 2022) Ethiopia (Abebe et al., 2021) and Uganda (Bassi and Nansamba 2022).

3. Information: accurate information about the labor market can improve workers' belief, efficacy of job search and firm's retention
- Information about wage growth and promotion prospects improve retention (Wu and Wang 2023)
 - Job fair can help jobseekers adjust their expectations and job search behavior (Beam, 2016; Abebe et al., 2022)
 - A study in Egypt shows that information barriers are as significant a constraint as finance in limiting job fair attendance (Crepon et al., 2020)

What policies work to narrow the gender gap in the labor market

Making labor markets work for women: Some evidence on how to promote women's participation in the labor market

1. Child Care: Access to child care increases women labor force participation at both the extensive and intensive margins (Bjorvatn 2022; Halim et al., 2023)
 - Childcare availability and workplace flexibility (Clark et al. 2019; Ajayi et al. 2022; Donald et al. 2023)
 - Women are willing to participate in labor markets when part-time or home-based work (e.g., gig work) positions are available (e.g., Ho et al., 2023 in India)
 - Mixed evidence on fertility control and contraception use (e.g., Finlay 2021; Bandiera et al. 2020; Branson and Byker 2018)

What policies work to narrow the gender gap in the labor market

2. Household bargaining and control over resources

- Interventions that bestow resource control or alleviate expropriation risks can promote investment in self- and wage-employment (Campos et al., 2024; Field et al., 2021)
- Spousal competition can lead to sub-optimal resource allocation to women businesses and, even worse, could lead to cannibalizing of their businesses (campos et al., 2024)

3. Changing norms/beliefs: misperceptions about community's attitude towards women labor market participation can discourage women's participation

- Stigma against women's labor market participation is likely overstated, and the misperception gap is larger for men (Bernhardt et al. 2018; Bursztyn et al., 2020)

What policies work to narrow the gender gap in the labor market

4. Making public spaces safe during commuting and at work (Christensen and Osman 2023)

- Women accept lower wages for shorter and safer commutes (Le Barbanchon et al., 2021)

5. Hiring and work place discrimination: practices that reduce discrimination and harassment in hiring and workplace can promote labor market participation and good occupational choices for women.

- Real or perceived discrimination can distort women's entry into male-dominated sectors (Alibhai et al., 2015)
- Women may face conscious and unconscious biases during hiring and after employment
- Scarcity of rigorous experimental estimates on the effects of gender-debiasing interventions on firm managers

Future Research

Several avenues for future research

- Does improvements in match quality improve firm productivity and profitability?
 - How to reduce turnover, improve match quality and "lock" workers into jobs?
- More work on ALMP and beyond
 - Long-term impacts of ALMP
 - Spillover and displacement effects of ALMP
 - Psychological support to increase search and labor supply
- FCV, climate change and informal settlements
 - How do local labor markets work for IDPs and refugees?
 - What are the appropriate jobs and social cohesion programs? (E.g, Safetynet programs in refugee receiving Cs, e.g., Jordan, Ethiopia)
- Recruitment technology and search strategies
 - Implications of WFH, gig work, AI and innovative platform design?

Future Research

Several avenues for future research

- Public Employment Services and reentry of women
 - How do PES help in the re-entry of female workers back to the labor market after interruptions arising from childbirth and child-rearing?
 - How do PES support the integration of migrant women into the formal wage market?
 - How do PES address discrimination and safety issues in public spaces?
 - How do PES improve resilience against employment shocks?
- Migration: Government supported migration
 - How does it affect stayers and leavers ?
- Policies supporting growth-oriented entrepreneurship
 - Targeting entrepreneurs with the **right** economic objectives for "jobs growth" intervention?

Thank You

Thank You!