JOBS AND ECONOMIC TRANSFORMATION:
DRIVERS, POLICY IMPLICATIONS AND WORLD BANK GROUP SUPPORT

Executive Summary

This paper frames the World Bank Group’s approach to the Jobs and Economic Transformation (JET) agenda. The urgency of this agenda is widely accepted.

The jobs gap is widening across the world, particularly in IDA countries. Between 2020 and 2035, 620 million people are expected to join the labor force. Most of the demand for jobs, about 84 percent, will be in Sub-Saharan Africa and South Asia, mostly in IDA countries. There is also a need to improve the quality of jobs for the hundreds of millions more who are underemployed or work in the informal sector.

A business-as-usual approach will not be enough to address these challenges. IDA countries are often highly indebted, geographically remote, less economically diversified, and beset by conflict and political instability. Regions with a youth bulge have a potential asset, but also face a heightened need for jobs, while in other countries the population is aging, raising concerns about fiscal sustainability. Several middle-income countries are amid stalled economic transformations. These challenges are compounded by dimming global growth prospects, trade policy uncertainties and the changing nature of work.

Economic transformation is key to creating more and better jobs. This means shifting from lower to higher-productivity activities, within and across sectors and firms, from rural to urban areas, and from self- to wage-employment:

- **Moving out of subsistence agriculture and into industry and services is a critical determinant of productivity growth at early stages of development.** Raising productivity within sectors—and within firms and farms—is important across all income levels. Boosting productivity within the agriculture sector can increase the quantity and quality of jobs while enabling more people to move off-farm to cities to pursue other opportunities. The potential of services as standalone sectors—and as enabling sectors for manufacturing—needs to be harnessed.

- **Growth by itself is not enough to create transformation and good jobs.** GDP growth and employment generally move together, but there is variation in the relationship. Growth generated by booms in consumption or commodity prices have usually not resulted in better jobs and economic transformation. Economies rich in natural resources have experienced jobless growth. In many IDA countries, moreover, underemployment has been a greater challenge than unemployment. The lesson from countries that have achieved economic transformations, particularly in East Asia and increasingly in parts of South Asia, is that productivity growth delivers better jobs. Productivity growth to deliver better jobs is what is needed, not simply more jobs.

- **The private sector is the largest engine of economic transformation and provider of good jobs.** Transformation depends on a growing private sector and a shifting role for the public sector—from a primary source of formal wage employment to facilitator and enabler of efficient markets. International experience shows that opening up economic sectors to domestic and foreign private investment and trade, while restructuring state-owned enterprises (SOEs) can be mutually reinforcing. They can help achieve dynamic growth and efficient market outcomes.

The list of policies to achieve JET is long and prioritization should reflect country contexts:

- **Endowments and geography matter—but outcomes also depend on choices made by governments.** Country endowments, geography, and stability can shape policy priorities. For example, connectivity can help overcome the challenges of remote locations. Expanding job
opportunities for youth in fragile and conflict-affected areas can reduce the risk of violence. Most countries that recently achieved successful economic transformations benefited from being close to large markets and by undertaking reforms to integrate into global value chains.

- **Stage of transition shapes the sequencing of policies.** Successful transformers share key policies: macroeconomic-stability, openness to international trade and investment, an enabling environment for private investment, strengthening human capital, and often a mix of targeted interventions. Within these policy areas, however, priorities need to evolve. Countries transitioning from commodities to simple manufacturing and services face different challenges than countries transitioning to more advanced activities. In countries where the process of transformation has stalled, the priority should be to make markets more contestable and to strengthen the capabilities of firms and workers to enable them to adjust to greater competition. As demands for skills shift, education and training programs need to adjust. Opportunities for life-long learning should be expanded and social protection systems should facilitate transitions to new job opportunities.

- **Getting the enabling environment right matters—but may not be sufficient.** More targeted interventions—usually with a sector or spatial lens—can potentially address market failures, coordinate needed interventions and jumpstart transitions. However, although the appeal of these approaches is widespread, the success rate is limited. The evidence highlights the importance of focusing on comparative advantage industries, being connected to foreign markets, and being open to competition. It is also important not to pick winners and losers and rather carry out broader interventions where spillovers are more likely and where the government has sufficient capacity to implement reforms and address potential governance challenges.

The World Bank Group supports countries’ JET agendas by bringing together analytics, policy advice, and tools to develop and help governments implement JET related programs, while de-risking and catalyzing private investments. Depending on country contexts, the WBG supports:

- **Incorporation of the JET agenda into country programs based on systematic analytics,** through CPFs, identifying the sources of growth and prioritizing the constraints to be addressed.

- **Countries’ implementation of the JET agenda through country programs** with technical assistance, lending and investments, where much of the focus is on key reforms to enable private investment, increase productivity growth, strengthen the labor supply, and achieve better jobs outcomes.

**Going forward, the focus will be on greater coordination and better measurement:**

- **Within the WBG:** better coordination of upstream reforms between IFC, MIGA, and the World Bank to unlock private investment. This involves operationalizing Country Private Sector Diagnostics (CPSDs) and the Maximizing Finance for Development/Cascade (MFD) approach, enhancing de-risking instruments; financing investments that can catalyze further private investment, and, improving techniques to estimate impacts on jobs.

- **Across sectors and within countries:** focusing on creating markets and addressing labor demand and labor supply constraints in an integrated fashion.

- **Across countries:** supporting more regional projects to expand access to markets and to capture synergies with common approaches to infrastructure, trade integration and business regulations.

**Question for discussion:**

What specific policies or investments have been most successful in your country to generate economic transformation and what were the impacts on jobs?
JOBS AND ECONOMIC TRANSFORMATION:
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1. The jobs gap is widening and the failure to close it raises significant economic and social risks. The world’s labor force is estimated to grow by 620 million people from 2020 to 2035, with 84 percent of the demand for jobs from Sub-Saharan Africa (SSA) and South Asia, mostly in IDA countries. In addition, hundreds of millions more are underemployed. Yet, over the past decade SSA and South Asia created, on average, just nine million “good jobs” each year.¹ Regions with a youth bulge have a potential asset, but also face a heightened need for jobs, while in other countries the population is aging, raising concerns about fiscal and financial sustainability. Failure to close the jobs gap raises significant social risks, contributing to fragility and to large-scale international migration. Maintaining the status quo has the potential to create up to 230 million new migrants by 2030, almost equal to the total current stock of international migrants.²

2. This formidable challenge comes at a time when trade policy uncertainty is increasing and the nature of work and what it takes to be competitive is changing. With 10 years left until 2030, continuing with business as usual will not suffice to meet the eighth Sustainable Development Goal (SDG8) on employment, nor related SDGs on reducing poverty (SDG1), inequality (SDG10) and empowering women (SDG5). It is critical that governments undertake the necessary policy reforms to enable economic transformation, incentivizing the private sector to invest and generate jobs. The development community should support reforming governments with resources, knowledge, and technical assistance, bringing in the private sector wherever possible.

3. The main driver for better jobs outcomes is private sector led growth, stimulated by foreign and domestic investment. The list of relevant policies is long. The appropriate policy and investment mix and sequencing depend on country’s labor endowments, capabilities and demographics. With a growing share of the poor in low income and fragile economies, a key focus needs to be on accelerating initial economic transformation, including through appropriately designed targeted interventions. In countries where the process of transformation has stalled, making markets more contestable and strengthening firm and workers’ capabilities to react to greater competition and be more innovative should be prioritized. In aging countries, increasing productivity and higher skills would be needed.

4. This paper frames the World Bank Group’s approach to the Jobs and Economic Transformation (JET) agenda. It aims to define the global jobs challenges countries face, define economic transformation and lay out how faster economic transformation can help solve these challenges. Building on the policies adopted by the successful transformers, the paper explores the experience with targeted policies to address the constraints of particular sectors/locations in catalyzing transformation. The paper outlines how the WBG is supporting countries in incorporating JET agenda in country programs and what needs to be done differently to support upstream reforms to unlock private

¹ “Good jobs” are defined here to exclude “vulnerable jobs” (own-account workers and contributing (unpaid) family workers), and thus to include salaried and waged workers and entrepreneurs with employees. As the share of employers is small and with limited variation, the creation of better jobs is largely captured with changes in the share of wage employment.
² IDA19 Special Theme paper on JET.
investments. With close links to corporate priorities such as the Human Capital Project, empowering women and strengthening FCV economies, the JET agenda is at the heart of the WBG’s mission.

I. WHAT IS “JET” AND WHAT ARE THE KEY CHALLENGES AHEAD?

5. Economic transformation occurs when people shift from lower- to higher-productivity activities, and it is the key to sustainably creating better jobs at scale. Economic transformation is about shifting people and resources from lower- to higher-productivity activities within and across sectors, firms and farms; from rural to urban areas; and from self- to wage-employment (Annex I provides illustrative charts). Economic transformation is achieved through deeper structural changes and market integration that catalyze business opportunities. It is in pursuit of these opportunities that enterprises invest and hire workers. In shifting into higher productivity activities, people can raise their incomes as they earn higher returns on their labor and other assets. Without accelerating economic transformation, the potential to create more and better jobs is limited. To achieve the WBG’s twin goals, what is needed are productivity gains across the range of jobs where the poor are actively engaged or those to which they are able to transition. Thus, the JET agenda aims to prioritize and support policies and investments that foster country-specific economic transformation which can best help to address a country’s job challenges.

6. There is no one path of economic transformation, and for the same real GDP growth, sectoral composition or urbanization there are a broad range of job outcomes. Faster economic transformation provides the potential to raise labor and capital incomes. Higher labor incomes can reduce poverty and create markets for new products - but labor incomes do not always rise with economic growth. Higher returns to capital can create incentives for investors and competition amongst private investors can provide the incentive for innovation - but barriers to entry and protection can stifle these dynamics. While a country’s context and policy choices matter, the following patterns hold on average.

- **Shifting employment from agriculture to industry and services is the main determinant of productivity growth at early stages of development.** As incomes rise, the share of employment and value added tends to decline in agriculture, rise and then fall in industry, and continue to rise in services. Moving across sectors contributes almost two-thirds of productivity growth for low income countries, but closer to one third for middle income countries. At higher levels of income, productivity growth is driven more by gains within sectors – and within firms that are innovating and improving the quality of their products.

- **Raising productivity within agriculture is itself an important source of growth and enables more people to move off-farm to cities to pursue other opportunities.** Growth is twice as high in LICs where agricultural productivity and urbanization are rising. Urbanization (the movement of resources from farm to non-farm activities), supported by infrastructure and public services, provides the basis for scale and specialization to reap the resulting agglomeration benefits. However, what matters for a good job is the productivity and earning potential of activities, not

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3 Nobel laureate Paul Krugman’s often repeated quip that “productivity isn’t everything, but, in the long run, it is almost everything” echoes the earlier reflections of the medieval Arab social theorist Ibn Khaldun (1332–1406), who argued even more portentously in his Muqaddimah that “civilization and its well-being as well as business prosperity, depend on productivity.” Cusolito and Maloney (2018)
necessarily in what sector they are. Moving from rural agriculture to low productivity services in an urban area is “structural transformation”, but it is not necessarily a move to a better job.

- **The potential of services as standalone sectors and as enabling sectors for manufacturing needs to be harnessed.** The traditional emphasis on manufacturing is due to its attractive features: it has scale economies, is tradable, has been a source of significant innovation and technology diffusion, and has absorbed large numbers of relatively unskilled workers. More services are sharing some of these same features, becoming tradable and sources of innovation and sources of productivity growth. Currently, services employ twice as many workers as manufacturing sector.

- **Growth can facilitate, but is not sufficient, to create transformation and enough good jobs.** GDP growth and employment generally move together. However, the evidence from growth episodes driven by commodity price or consumption booms shows that growth is not enough to create better jobs. There is also variation in the employment response to growth, reflecting the relatively high share of people in labor intensive agriculture and demographics. This is particularly the case for many SSA countries where population growth is high and few can afford not to work.

- **Underemployment is a key jobs challenge in most lower income and some middle income countries.** Many jobs do not utilize people’s potential in terms of human capital or provide them with sufficient physical capital or technology to learn as they work and increase their productivity. Targeting sectors just because they are labor intensive can be misguided; the aim should be to expand activities that can absorb labor while raising their productivity.

- **With development, the private sector expands as the engine of economic transformation and provider of good jobs relative to the public sector.** In low income countries, 45 percent of all formal employment is in the public sector. The share decreases to 35-40 percent in lower-middle-income countries and to 20-30 percent in upper middle-income economies. As formal firms expand hiring, many people in the informal sector are willing to transition to these jobs that are usually better paid and have better working conditions and benefits. However, as the informal sector accounts for about 70 percent of employment yet only 30 percent of GDP in emerging market and developing countries, it is important to implement policies to raise the productivity of informal workers. (Maloney 2006; World Bank, January 2019).

- **Opening sectors to domestic and foreign private investment and trade and SOE restructuring complement each other in achieving dynamic growth and efficient market outcomes.** Oftentimes public dominated industries are self-regulating, leading to inherent conflicts of interest between regulatory, policy and operational bodies, and suppression of pro-competitive, productivity enhancing incentives. Catalyzing private investment, including foreign direct investment, is key to spurring economic transformation, raising productivity and creating better jobs. Productive firms then drive the transition from limited to advanced manufacturing and services, by growing in sophistication and size and accounting for a larger share of employment.4

- **Productivity and incomes have risen in countries that became integrated into global value chains**—China, Vietnam, and Bangladesh, among others—and poverty has declined sharply. Between 2003 and 2016, Bangladesh experienced an almost 10 percentage point shift in the share of employment in primary agriculture to manufacturing and services. During this period the working age population grew by 2.1 percent each year, but waged jobs grew by almost 6 percent

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4 See also IMF October 2019 World Economic Outlook Chapter 3 on “The Macroeconomic Effects of Structural Reforms in Emerging and Developing Economies.”
annually and 70 percent of all new jobs went to women. In Vietnam, job creation was driven by strong growth in the service sector and export-oriented manufacturing with the latter propelled by decisive steps at trade liberalization, and Vietnam’s accession to the WTO in 2007.

- Most of the successful recent transformers benefit from geography, of being close to large markets in Europe, northern Asia, North America or near to China, currently producing almost one quarter of all manufacturing value added globally. One challenge for Sub-Saharan Africa is that it has not yet benefited from a geographic ‘anchor’ that can help expand access to markets or bring neighboring countries into GVCs.

7. **Job creation might be even more challenging in the coming years with technology reshaping comparative advantage and trade policy uncertainty rising.** Technological change has always been a driver of productivity. What is different now is the pace of the change, the types of tasks that can be substituted by machines and software, and bigger questions as to whether simple manufacturing production will continue to move to new low locations as earlier industrializers’ wages rise, i.e. whether the export-led manufacturing model is less viable for countries that have not yet industrialized.

8. **The importance of low wages in determining competitiveness is declining but opportunities for export-led manufacturing remain and new technologies can open new growth pathways.** Robots in “smart factories” are changing what it takes for locations to be competitive. If high-income economies are reshoring production or the off-shoring of production from China is limited, this could stifle the potential entry of newcomers in global value chains. However, tasks characterized by a low potential for automation remain feasible entry-points, including commodity-based manufactures as well as labor-intensive tradable goods (Hallward-Driemeier and Nayyar 2017). Further, digital development can facilitate economic transformation by enabling technological leapfrogging, the creation of new jobs in old and new sectors, and new forms of market connectivity. This change is not all biased towards skilled workers – digital technologies can raise the productivity of low skilled farmers and workers (Choi, Dutz & Usman 2019; and Box 3).

9. **Technology presents opportunities for workers -- if their skills and social safety nets respond to the changing nature of work.** Since 2001, the share of jobs requiring non-routine cognitive and socioemotional skills has risen in developing countries. The Human Capital Project emphasizes investing in the skills and health of individuals so they can be productive workers; too many are currently on track to realize less than half of their potential. New technologies can reduce the transitions costs associated with economic transformation by improving the speed, reach, quality, and efficiency of public service delivery – especially in FCV countries (Mainstreaming Disruptive Technologies in the World Bank Group, Development Committee Paper 2018). As the WDR 2019 The Changing Nature of Work outlines, the agenda should be centered around human capital investments and progressively universal social protection to adapt to changing employer-employee relationships and the expansion of gig work.

II. **POLICIES FOR ECONOMIC TRANSFORMATION AND MORE PRODUCTIVE JOBS**

10. **The IDA19 Special Theme Paper on JET provides the policy framework with a focus on two pillars: “creating and connecting to markets” and “building capabilities and connecting workers to**
Under the first pillar, to catalyze private investment and job creation, four policy areas are highlighted:

- Strengthening the enabling environment to provide incentives to invest
- Supporting enabling sectors to raise productivity and directly help connect firms to larger markets
- Spurring regional integration, trade and GVCs to expand access to markets
- Adopting new technologies to raise productivity

The second pillar, to raise worker productivity and improve access to improved earning opportunities, emphasizes:

- Supporting improvements in human capital to improve worker productivity
- Reforming labor market policies and provide basic social protection to support transitions

Table 1 provides more details under each of these headings. These six policy areas are ‘horizontal’, applying to the economy as a whole. Targeted interventions and the conditions needed for their successful implementation are discussed as a 7th policy row in Table 1. Within this framework, countries need to determine their priorities and the appropriate sequencing of specific recommendations within each policy area.

11. First, a country’s endowments, geography and institutions help determine policy and investment priorities. There is no “one size fits all” model due to differences in countries’ endowments, exposure to external factors, the extent of social externalities from including certain groups in employment and stage of structural transformation. Policy priorities should be those that help offset potential disadvantages associated with a country’s fundamental characteristics – and successful transformers build on the comparative advantages associated with their fundamentals:

- **Endowments**: Natural resources can generate export and government revenues but countries need to prepare by diversifying their economies. Over half of SSA countries are resource-dependent and the share of natural resources in their exports has been increasing rather than decreasing. These economies need to prioritize exchange rate policies to avoid misalignment and strengthen the transparency and accountability of their institutions. Regarding demographics, countries with a large youth population require early childhood development and skills training while those with aging societies need to address issues of life-long learning.

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6 The WDR2013 Jobs emphasized that beyond being a source of income and productivity growth, jobs can strengthen social cohesion and provide social externalities.
Geography: Of today’s 34 low-income countries (half the number in 2001), many face more difficult geographic challenges such as being smaller, landlocked or remote. Improved connectivity can address the disadvantage of a remote location. Combining infrastructure connectivity with trade liberalization and trade facilitation are particularly important for small economies.

Institutions: Rebuilding stability and institutions are a critical first step for FCV countries. Strong rule of law and enforcement of contracts and property rights are foundational for economic transformation and job creation. Countries in FCV status need to do more to get the basic policies or enabling environment right to achieve JET, even as many have more limited capacity and resources; development assistance can play an important role.

12. Second, how far along a country is in its economic transformation determines the sequencing of policies and investments. Each row of Table 1 looks at how the specific recommendation in each policy or investment category vary depending on the enabling conditions needed for different types of goods and services a country is producing or seeking to produce. Given the importance of moving out of subsistence agriculture, this transition is the first column. Columns 2 and 3 then look at what it takes to support moving into higher value added and more innovative activities, including within sectors.

13. Finally, sequencing of reforms and investments and the use of targeted policies that address the constraints of particular sectors/locations need to be carefully considered. Many of the benefits from the policies and investments from Table 1 will take time to materialize. Policy makers want to know if there are interventions that could provide additional impact in the short-run or that can catalyze the desired transformation. Taking a sector or spatial lens can help ensure coordination across policies and that complementary reforms are considered together. Special economic zones are also a possible way to pilot liberalization when it may not be possible to rollout the reforms or public investments across the entire country. Targeted approaches may be warranted to address sector or location-specific market failures, like coordination issues or spillovers, such as technology transfer, or there are coordination failures that prevent the industry or location from developing in their absence. In making it attractive to move to certain towns and cities, policies can also generate significant human capital externalities, which are among the most important drivers of urbanization and agglomeration.

14. However, the evidence on the use of targeted policies is mixed, as governments choose the wrong sectors, have weak implementation capacity or are subject to special interests. There have been successes, but many – expensive – failures with market distortions through subsidies and perverse tax incentives. Success has been greater when countries focus on comparative advantage industries, when zones are well connected to larger domestic or foreign markets, and when broader interventions are targeted where spillovers are more likely. Success also depends on government’s ability to assess the effectiveness of its’ interventions, and to involve the private sector in identifying bottlenecks and

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7 The table is adapted from the WDR2020 and modified to recognize the broader JET agenda.
8 The Africa Chief Economist Office’s flagship report “Industrializing for Jobs in Africa” is examining the potential for industrialization in Africa, finding encouraging trends in manufacturing jobs, while highlighting the need to shift from relying on the extensive margin to encourage more productivity growth within firms. See also IMF (2018).
9 See Zeng 2010 on China’s experience with Special Economic Zones and Industrial Clusters.
10 See Maloney and Nayyar (2018) and WDRs 2013 and 2020.
evaluating policies. It is all too often in those situations where the benefits are most needed that the capacity and conditions needed to deliver them are lacking.
Table 1: Policies and Investments to Create Productive Jobs Vary by Stage of Economic Transformation

<table>
<thead>
<tr>
<th>Transitions</th>
<th>Commodities to simple manufacturing &amp; services</th>
<th>Simple to advanced agriculture, manuf. &amp; services</th>
<th>Advanced agriculture manufacturing &amp; services to innovative activities</th>
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</thead>
<tbody>
<tr>
<td>1. Business environment providing incentives to invest</td>
<td>* Macro-economic stability and debt management, avoid exchange rate misalignment</td>
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<td></td>
<td>* Business climate, investment policy</td>
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<td></td>
<td>* Governance: rule of law; political stability; policy predictability; property rights; contract enforcement</td>
<td>Strengthened government capacity for more complex policy implementation</td>
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<tr>
<td>2. Enabling sectors / factor markets</td>
<td>* Access to basic financial services</td>
<td>* Development of longer-term financial markets</td>
<td>* Expansion of risk instruments: venture capital markets, equity markets</td>
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<td></td>
<td>* Infrastructure: Basic energy and transport infrastructure, links to growing urban centers; ports</td>
<td></td>
<td>Multi-modal, digitally-enabled transport infrastructure investments; liberalized transport services environment</td>
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<td></td>
<td>* Access to inputs: Reform of tariffs &amp; non-tariff measures for key inputs</td>
<td>* Access to inputs: Broad-based liberalization of trade and investment in goods and services</td>
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<tr>
<td>3. Market pricing, market access and trade integration</td>
<td>* Market pricing, access and competition policy: lower barriers to entry; lower price and other market distortions, remove perverse tax incentives, SOE reforms, level playing field across markets</td>
<td>Contestability in key enabling sectors; anti-trust and competition policy</td>
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<tr>
<td></td>
<td>* Access to inputs</td>
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<td></td>
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<td></td>
<td>* Regional integration: Preferential trade agreements customs reforms; cross-border infrastructure; GVC</td>
<td></td>
<td>Deep trade agreements (incl investment &amp; services)</td>
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<td></td>
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<tr>
<td>4. Digital economy, technology and innovation</td>
<td>* Basic ICT connectivity</td>
<td>* Advanced ICT services: Infrastructure, competitive markets (liberalized ICT services environment)</td>
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<td></td>
<td>* Enabled ecommerce (digital id; eKYC etc.)</td>
<td>* Enabled digital markets: new business models, services and products, industry 4.0, market regulation 2.0 and expand GovTech</td>
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<tr>
<td></td>
<td>* Innovation: basic standards, technology adoption, agricultural productivity innovation policies</td>
<td>* Innovation: innovation ecosystem (R&amp;D policy, industry-academia links)</td>
<td></td>
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<tr>
<td>5. Human capital and connecting workers to jobs</td>
<td>* Worker skills and basic health: Literacy and numeracy; socio-emotional skills; technical vocational training; managerial skills; medical and nutrition services</td>
<td></td>
<td>Technical skills: tertiary education, entrepreneurship</td>
</tr>
<tr>
<td>6. Labor market regulations and social protections</td>
<td>* Labor market regulations: that provide basic protections while allowing flexibility; ALMP when private sector investment is less than social optimum</td>
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<tr>
<td></td>
<td>* Social protection: universal minimum coverage; not linked to employer contracts; recognize new forms of gig work</td>
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<tr>
<td>7. Targeted approaches</td>
<td>* Industrial infrastructure and zoning to support clustering, investment, access to land</td>
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<td></td>
<td>* Spatial and sectoral approaches: coordinated action to address multiple constraints for a sector or location; support standards and extension services; address coordination failures and foster externalities; address critical governance concerns</td>
<td>* Innovation clusters foster spillovers and wider technology adoption; address critical governance concerns</td>
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</table>
Understanding the underlying causes of a stall in economic transformation is important. Catalyzing economic transformation and the creation of better jobs is not only an agenda for low income countries. Many countries begin to transform only to stall and they may need to improve the enabling conditions to facilitate more firms and farms moving into higher value-added activities. In this case, countries may still need to sequence certain policies as indicated in Table 1. There may still be a case for more targeted interventions, to address important market or government failures to enable continued. It is also critical to improve market contestability and labor market regulations to incentivize and enable transformation, as demonstrated by the Middle East and North Africa (MENA) region’s experience over the last few decades. Labor productivity in MENA is low and the gap with other regions widening. Indicators show that the MENA region lags much of the world in international integration, competition and in anti-monopoly policies. Firm creation is limited, and firms in some countries are more likely to succeed if they are politically connected to the governing elite. This lack of contestability is also limiting investments in technology, exacerbating the region’s low equilibrium outcomes, and increasing the likelihood that many groups, especially youth and women, will be excluded from the workforce. Beyond improving the contestability of services and goods markets, the agenda needs to expand policies for social inclusion by ensuring workers operate in a dynamic labor market that gives both flexibility and social protection to all.

III. HOW CAN THE WBG HELP IN THIS AGENDA?

The World Bank Group supports countries’ JET agendas by bringing together analytics, policy advice, and tools in country programs, and to de-risk and catalyze private investments. This ‘whole of WBG’ approach and the complementarities of the World Bank, the IFC and MIGA is necessary to effectively support countries’ JET agenda. The WBG is increasingly focusing on coordinated approaches, including through integrated operations that address both demand and supply-side constraints, as well through coordinated interventions at the sectoral, portfolio, and national/regional level. The WBG is leveraging considerable resources for this agenda with the addition of JET as a ‘special theme’ in IDA18 and continued for IDA19. Success will depend on countries’ ability and willingness to undertake reforms, many of which are politically challenging.

1. Incorporating the JET agenda in country programs

Thought leadership to inform policy advice: Several recent World Development Reports provide important thought leadership in support of the JET agenda. The World Bank Productivity Project provides the latest evidence on drivers of productivity gains, and regional flagships and country reports bring the relevant framework and lessons to more specific country contexts. This agenda is expanding strategically, particularly with a focus on implications of technology and climate change.

Country diagnostics and support for reforms in country programs and CPFs: Countries need to prioritize among the many possible JET interventions. Jobs Diagnostics, launched during IDA17 and now completed in 40 countries, help identify key jobs challenges with a focus on pathways of economic transformation. Country Private Sector Diagnostics, a new collaborative tool drawing on inputs from across the WBG take a sector lens and systematically identify the most critical policy gaps and the most

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11 Please see the References section on the relevant WDRs and recent flagship reports on productivity and impact of technological change are included at the end.
impactful investment priorities to support the JET agenda. As growth and economic transformation may not create enough good jobs, particularly in the short-run, policies and programs need to have a ‘jobs lens’ to ensure these impacts are taken into account. With systematic analytics, countries can develop their own targeted agendas for JET through CPFs, identifying the sources of growth that are available to them and prioritizing the constraints to be addressed to unlock specific opportunities.

19. **Improving the techniques to estimate jobs impacts, especially ex ante, is an ongoing effort to which WBG and development partners must contribute.** Ongoing efforts are making important progress, notably through the IFC’s AIMM System, MIGA’s ex ante development framework, IMPACT, and the Jobs Umbrella Multi-Donor Trust Fund’s Let’s Work jobs measurement program. Early progress on improving measures of direct job impacts is being complemented by pilots to capture indirect and induced impacts on jobs. While facing more challenging attribution issues, they should provide insights into larger dynamics on productivity and employment. Finally, ongoing efforts to strengthen the capacity of national statistics agencies and to improve access to quality data, particularly on the demand side (firm-level microdata) will be important to improve knowledge and strengthen monitoring capacity.

20. **While new approaches can generate a lot of attention, getting the basics right remains fundamental.** As Table 1 illustrates, the set of JET policies and investments span much of the development agenda. And many of the key policy areas remain critical across all the transitions. The WBG has and is continuing to support countries in designing and implementing policies and programs to getting these basics right. In IDA18, the first time JET was introduced as a special theme, $27 billion has been allocated to JET operations. In IDA19 interest is even higher and has stimulated strong engagement across stakeholders, notably including the multiple seminars in Washington DC, the consultations in Addis Ababa in March, and the JET Non-Paper issued by African borrower representatives and joined by multiple donor representatives at the IDA Deputies meeting in June.

2. **Expanding support for more coordinated approaches**

21. **Going forward, the focus will be on increased coordination to improve effectiveness of delivery.** Recognizing the centrality of much of the JET agenda, the complementarities across components, and the increased ambition of many borrower countries to engage, the WBG has been expanding coordinated approaches on three dimensions: (i) within the WBG; (ii) across sectors within country programs; (iii) across countries in regional programs, expanding partnerships for greater impact.

22. **The World Bank’s efforts on shaping JET programs and reforms are complemented by firm-level technical assistance, investment de-risking and mobilization of private capital that the IFC and MIGA bring.** The JET agenda is central to IFCs’ 3.0 strategy to create markets and the IFC and MIGA bring important complementary engagements to ensure that the upstream reform work is more likely to translate into private investments (see box 1). The MFD approach is increasingly mainstreamed in WBG operations, with successful operations implemented in several IDA countries, including in Afghanistan, Bangladesh, Benin, Madagascar, and the Solomon Islands. According to IDA RMS, US$6.24 billion of private investments have been catalyzed by IDA interventions in FY18. However, to achieve the ‘Billions to Trillions’ agenda more reforms are needed to expand the pipeline for private investment.
23. **MIGA promotes the JET agenda by mobilizing private cross-border investment through its guarantee instruments.** MIGA has prioritized the JET agenda for IDA and FCS countries in its’ FY18-20 strategy—and will keep this priority as it works with stakeholders on its upcoming FY21-23 strategy. MIGA’s already strong track record of private sector mobilization, especially in low-income countries, is expected to be further enhanced as it continues to benefit from the application of its ex ante development assessment framework, IMPACT, and further deployment of the Private Sector Window (PSW) in the most challenging markets for private investors.

<table>
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<th>Box 1. The IFC’s new strategic approach puts JET at the core of its activities</th>
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<td>The emphasis on ‘creating markets’ is fully aligned with catalyzing economic transformation, and the renewed commitment on development impact has jobs as a principal outcome of interest.</td>
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<td>- <strong>IFC contributes to JET through its advisory services, its own investments and by mobilizing other private investors.</strong> There is an increased emphasis on development impact and on investing in IDA and FCS countries as agreed to and enabled by the capital increase and new de-risking instruments such as the Private Sector Window (PSW) and other blended finance instruments. The goals are ambitious: to reach $10bn investments in Sub Saharan Africa in FY30 compared to a $3.2bn target for FY19, and by FY30 to have 40% of investments in IDA / FCS countries. This will allow IFC to invest a substantially larger share of its volume in countries where it is needed most and will have the largest potential on JET.</td>
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<td>- <strong>IFC adopted a strategic approach to economic transformation informed by analytics such as Country Private Sector Diagnostics (CPSDs) and sector deep dives.</strong> The value added of the CPSDs is to look systematically at the main opportunities and constraints to private investments in a country through a sector lens – distinguishing between growth drivers (e.g. sectors with strong export potential) and enablers (e.g. transport and energy). CPSDs are already informing SCDs, CPFs and IFC Country Strategies. They have triggered and informed policy-based lending (Ghana, Nepal, Uzbekistan, Morocco and Kenya) and advisory on investment climate reforms (Ghana, Nepal, Morocco, Angola and Ethiopia) followed by public private partnerships and privatization transactions (Uzbekistan and Angola).</td>
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<td>- <strong>IFC 3.0’s strategy to focus on “creating markets” is reinforced with a new impact assessment and measurement system and clear internal incentives.</strong> By incentivizing market creation and project impact through the AIMM scorecard, IFC sets itself strong incentives toward setting, measuring and monitoring JET-related objectives. In so doing, IFC is building its toolkit to assess direct and indirect Jobs as part of project outcomes, including both the quantity and the quality of jobs. The associated database on market creation is also being developed and will help monitor progress and analyze lessons learned.</td>
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24. **Ghana, Cote d’Ivoire and Madagascar illustrate how the World Bank and IFC’s joint engagements are resulted in notable increases in private sector investment, jobs, and increased business/farm-level revenues.** In Ghana, CPSD recommendations are informing an integrated program to strengthen the investment and business environment; support spatial development to crowd in investment; incubate and accelerate entrepreneurship and enterprise innovation; and complement existing programs that focuses on skills and productive employment in the micro/informal sector. These efforts have already supported new private investments in agribusiness and ICT. Building on the findings of the Jobs Diagnostic, Cote d’Ivoire’s CPSD is focused on facilitate job-creating private investment in higher value-added agriculture. The Cashew Value Chain Competitiveness project is working to reform sectoral governance and improve access to markets and technology, with innovative financing from the IFC to catalyze local private credit access across the value chain. As a result, some 225,000 farmers are expected to see significantly improved earnings and 12,000 direct jobs will be created – half for women – in a new domestic processing sector. The Madagascar Integrated Growth Poles and Corridor lending operation has helped create over 26,000 formal jobs in the targeted
poles/corridors by the end of 2018. The project has helped create strong youth entrepreneurship networks, raise the price paid to cocoa farmers by 50 percent, and provide a sustained boost to cities and rural towns with tax collections up 140%. The project has helped support four private sector investments in tourism, for a total of $80m – with more interest expressed for additional investments.

25. **Multi-sectoral projects enhance coordination and impact on the ground.** Projects can build on synergies and deliver a more effective overall country program. Uzbekistan illustrates a holistic engagement geared to deliver on the JET agenda. It includes foundational reforms to transform from a state-owned to a market economy, coupled with institutional capacity building and a financial sector program. It is supporting integration into value chains, particularly through the adoption of new technologies. The country program is also improving urban infrastructure and services to generate quality jobs in urban centers. This is complemented by improving self-employment and income-generating incomes for rural households via active labor market projects, financial support to employers and entrepreneurial skills programs.

26. **Multi-sectoral approaches require coordination across government agencies – and with donors too.** This is illustrated in the Tunisia Youth Economic Inclusion Project. The project is combines programs to enhance the employability of disadvantaged youth in lagging regions with support to job-rich value chains to generate more jobs in the selected governorates. It is a strategy that involves cooperating and coordination not only with the government, but with other donors and active engagement with the private sector to understand evolving demand for skills and how best to provide the needed training. The new modernization strategy of the National Employment Agency involves coordinating with other donors (EU, ILO, AfDB, UNDP), building a large network of high-quality NGOs and private bureau, supported with funding by the EU.

27. **Regional initiatives, on infrastructure, regulations, the digital economy and trade facilitation can expand opportunities for growth and have to be considered explicitly as part of the JET agenda.** Many low-income countries lack the scale to compete, they have different and sometimes complementary enabling factors, and thus, by analyzing and being explicit about these challenges and sending a strong message (even if restricted to existing regional blocks) may help prevent setbacks on the regional integration agenda. The set of regional projects is expanding. For example, the Central Asia Regional Links Program is increasing transport connectivity between neighboring countries in Central Asia along priority cross-border road links while supporting improvements in road operations and maintenance practices. Through major initiatives like the Digital Economy for Africa (DE4A), the WBG is supporting a comprehensive approach to developing the digital economy to support the jobs of the future. DE4A is helping countries build new infrastructure, regulations, skills and platforms that can be compatible with neighboring countries to enable a larger digital market that can bring new services and job opportunities. Important new analytical work (see box 2) provides early lessons on how to ensure this delivers inclusive jobs outcomes for continental Africa. The WBG is also supporting countries in the Africa Continental Free Trade Area (AfCFTA) with analytical work on the components of a high quality pact, as well as implementation of the necessary reforms and investments to benefit from this treaty. AfCFTA can serve as an anchor for reform and the larger market will make foreign investment in the continent more attractive.
Box 2: Harnessing the potential of digital technologies for economic transformation and jobs in SSA

The continent-wide DE4A is a bold initiative led by the African Union that includes the ambitious targets of doubling broadband connectivity by 2021 and digitally enabling every African individual, business and government by 2030. The initiative is expected to help deliver economic transformation for more and better jobs. How can this promise happen in SSA? Africa has a smaller manufacturing base, so automation is not likely to displace many workers over the next years. Most countries still have low levels of demand for mass consumption products, so the cost and price reductions from technology adoption are more likely to allow firms to grow and create more jobs—provided production takes place in Africa. Finally, the internet provides access to apps that allow workers to learn how to apply better farming practices or sell more effectively through markets, and for low-skilled workers to boost their numeracy and literacy skills—provided digital entrepreneurs have the incentives and capabilities required to develop and scale these apps, and workers can afford them. Initial empirical evidence seems supportive: the arrival of faster internet through submarine cables in SSA during the late 2000s and early 2010s increased the probability that an individual was employed by between 3.1 and 13.2 percent, relative to areas unconnected to the cables. Importantly, even the lower-educated benefited: the increase in the jobs rate was similar for those with primary, secondary and tertiary schooling. New research is underway to expand the evidence base of how digital technologies can contribute to inclusive job outcomes to inform this digital transformation agenda.


28. The whole-of-WBG approach is also made more effective through strengthened coordination with development partners from the public and private sectors. Close collaboration with development partners, both through global and regional strategic initiatives and on-the-ground in countries, remain fundamental. The WBG is also a close partner of the G20 Compact with Africa initiative, supporting private investment in Africa. We-Fi is a US$330 million, multi-partner initiative empowering women entrepreneurs in IDA countries. The Solutions for Youth Employment program housed at the World Bank includes bilateral and multilateral partners as private foundations. Similarly, the World Bank hosts the Partnership for Economic Inclusion, a global partnership to accelerate policy, good practices, and knowledge on interventions to increase earnings, productivity, and assets of the extreme poor. With the large number of potential partners, a country platform approach may be particularly well suited for JET agenda to ensure alignment and coordination to improve impact on the ground.
REFERENCES


14
ANNEX I: Charts illustrate JET pathways across countries and over time

Moving out of agriculture into manufacturing and services is at the heart of economic transformation at lower income levels, with raising productivity within sectors mattering more for middle and high income economies

The shares of employment by sector across income levels have remained largely stable over time, with some increased servicification at higher income levels (fitted values)

The contribution of reallocation to productivity growth is highest in low income countries; within sector productivity growth plays a bigger role in middle and especially high income countries

Transformation is not only about sectoral shifts, it is about raising productivity and organizing work more efficiently – including moving from self-employment to wage work in firms and in realizing scale economies and specialization through urbanization

With economic transformation, not only does the share of workers in agriculture decline, the share of employment in wage work increases significantly, the average size of firms rises and a growing share of firms and workers are in the formal sector.

Urbanization is another dimension of transformation, and is associated with rising shares of wage employment. This dynamic is the same in Sub-Saharan Africa as in other regions.

The extent of transformation varies across countries and over time – with East Asia having led the way with rising GDP per capita and increasing shares of employment in wage work.

GDP growth is not sufficient to deliver transformation or enough good jobs. Employment levels may well be rising – but because of demographics and the fact that many people cannot afford not to work. What matters is raising productivity in a manner that is inclusive. Sustained per capita growth rates means productivity must be rising (although it may not be inclusive). Rising shares of wage employment generally means the share of better jobs is expanding. East Asia Pacific has led with higher rates of GDP per capita growth and larger increases in the share of wage employment, followed by South Asia, particularly in more recent years. Sub-Saharan Africa, while having enjoyed GDP growth in recent years also has high population growth and has seen less impressive productivity growth, and so has achieved lower GDP per capita growth and lower rates of wage employment growth.

At the country level, the positive relationship between per capita growth and wage employment is clear – but has a lot of variation around it. Country characteristics and policy choices matter.

Source: World Development Indictators