

# **INTEGRATING EMPLOYMENT, SKILLS AND ECONOMIC DEVELOPMENT**

**Conceptual framework**  
(June 2005)



## TABLE OF CONTENTS

<b>INTEGRATING EMPLOYMENT, SKILLS AND ECONOMIC DEVELOPMENT .....</b>	<b>1</b>
<b>RATIONALE.....</b>	<b>3</b>
Improving local governance enhances the effectiveness of employment policies .....	3
Economic development also benefits .....	3
Moving further.....	4
<b>THE PROJECT .....</b>	<b>6</b>
Background .....	6
Objectives.....	6
Scope.....	7
Study process.....	8
Output.....	8
Budget .....	8

## **RATIONALE**

### **Improving local governance enhances the effectiveness of employment policies**

It is widely acknowledged that efforts to co-ordinate employment policies with economic development strategies and social inclusion initiatives bring significant benefits. Policy co-ordination is one of three central determinants of local governance, the others being the adaptation of policies to local conditions and the participation of business and civil society in the orientation of measures (OECD, 2001). Each of these aspects of local governance contributes to identifying synergies and increasing the quantity and quality of the information brought to bear in the implementation of programmes. It is thus conducive to enhancing labour market outcomes.

For example, labour market programmes are more likely to be effective when they take into account the local characteristics of their target groups and seek to dovetail them with local labour market needs (Martin and Grubb, 2001). Information provided by local employers and representatives of target groups helps to guide labour market programmes as well as reducing substitution and the displacement effects (respectively, non-subsidised workers and activities displaced by subsidised ones) and deadweight losses (jobs that would have been created anyway) that are associated with active labour market policies. Business organisations, trade unions and community-based organisations often provide services that supplement those of the public employment service, such as vocational training, placement and re-integration services, and joint steering is required to maximise complementarity while avoiding duplication (OECD, 1998). The delivery of employment services must take account of existing infrastructure (and gaps in it), public transport and municipal services. Regional quality of life and the ability to attract and maintain high calibre people in the labour pool is becoming an important element of employment development strategies. Training organisations benefit from networking with businesses to ensure that courses reflect rapidly evolving skills demands and to prepare in advance for forthcoming local investments. Furthermore, helping businesses to access such programmes is conducive to upgrading the skills of low-qualified workers (Research Institute for Small & Emerging Business, 2004), now a priority for labour market policy in many countries.

### **Economic development also benefits**

Economic development also benefits from improved local governance and co-ordination with labour market policy. In an increasingly knowledge-based global economy, one of the key advantages that a locality or region can offer is the quality of its human capital. Strong localities offer both the high level skills required for more specialised areas of the economy, and the middle-order skills required for technical and administrative support functions. In the global economy, it is also increasingly important that local labour forces are able to adapt to change. In recognition of this, labour market policy, or workforce development, is used by governments as a key instrument to stimulate local economic and employment development. Labour market policy comprises a wide array of tools, from job subsidies to vocational training and measures to promote self-employment, all of which can contribute to the development of productive capacity. Employment policy itself channels substantial resources to the local level. It is implemented through country-wide networks of government offices and, in some cases, private/non-profit organisations, which can join other organisations in pursuing common objectives. Eighteen OECD countries devote at least one per cent of GDP to labour market policy (both active and passive measures);

for Denmark, the proportion is five per cent. In depressed areas, workforce programmes generate a particularly useful inflow of resources, which may be used to reinforce efforts to revitalise the local economy and foster endogenous development. The employment administration also provides a range of services locally, such as labour market information, which can play an important role in the design of integrated development strategies.

Labour market policy and economic development policy therefore strongly reinforce each other when developed in partnership. However, the extent to which partnership working actually occurs depends on a number of institutional features including the flexibility of policy instruments, the behaviour of the local employment administration and the capacity for other actors and organisations (economic development agencies, local authorities, employer associations, community-based organisations) to interact with the employment services in the design and implementation of programmes. A wide range of institutional features can affect the capacity of employment and labour authorities in this regard. They include (non exhaustively): i) the degree of decentralisation; ii) the degree of administrative flexibility; iii) management by objectives vs. management by programmes; iv) the structure of funding mechanisms; v) the characteristics of the accountability relationships within the labour administration; vi) third party delivery; vii) the role of tripartite arrangements; and viii) integrated vs. segmented employment services and the linkages between employment services and training (see OECD, 1998 and 1999 for more details on the local management of employment policy).

These characteristics of the national policy and administrative framework normally apply to the entire territory of a country. This does not mean that the extent to which labour market policy contributes to local development is uniform. Agents adapt their behaviour to the existing rules and, as shown by numerous examples of local initiative, take steps to overcome administrative obstacles. As a result, the nature of the interactions varies from area to area, with different outcomes in terms of local development.

### **Moving further**

There are mounting calls to move ahead on this agenda and find ways to co-ordinate economic development activities and labour market policies more systematically. Both policy areas can cross-fertilise and nurture synergies for the benefit of the local community if they are well co-ordinated. Yet, both policy areas are often managed separately. As a result, slow population growth and ageing workforce generate skills shortages and hinder business growth, while many low-skilled workers remain stuck at the bottom of the labour market, representing an untapped resource for the economy. A better co-ordination between economic and workforce development could both foster business development and fight poverty and social inclusion.

Integrating economic and workforce development is now a priority on many government agendas. OECD countries have undertaken to improve local governance and experimented with decentralisation and partnership, reaching various degrees of success (see OECD, 2001, 2003, 2004). Recently, new initiatives have been taken, focusing on the linkages between labour market policy and economic development. The UK's National Skills Strategy *21<sup>st</sup> Century Skills* announced the formation of Regional Skills Partnerships (RSPs) as a key means of integrating activity on skills, training, business support and labour market activity for regional economic development. As a result, in 2004, each region developed plans for Regional and Local Skills for Productivity Alliance (RSPA and LSPA). Similarly, in the United States, the state of Michigan recently embarked on a state-wide initiative to fund 13 regional skill alliances in which local workforce and economic agencies along with key businesses commit to collaborate on meeting the specific needs of key industries. In 2004, the governor of the state of Maine created a workforce cabinet made up of the Departments of Labour, Education and Economic Development, along with the presidents of the Community College and higher education systems. Similar initiatives have been taken in various other countries and regions of the OECD.

It is thus timely to identify the most effective ways to co-ordinate economic and workforce development. How can these policy areas be integrated to maximise benefits for the economy and society in general, with results for local prosperity and quality of life? Given the importance of the two policy areas at local level, identifying ways to harmonise economic development and employment policy will represent a major step towards taking an integrated approach to local development and possibly provide guidance to other policy fields.

## THE PROJECT

### Background

The impetus to launch a new project on ‘Integrating Employment, Skills and Economic Development’ came from the OECD Conference ‘Decentralisation and New Forms of Governance: Tackling the Challenge of Accountability’ (Warsaw, March 2003), which made it clear that the difficulty of coordinating labour market policy and economic development strategies at local and regional levels was a major impediment to the success of local development initiatives, and that area-based partnerships and other new forms of governance had little capacity to correct this failure. A proposal to work on this issue was subsequently put forward by Poland to the LEED Directing Committee at its 42<sup>nd</sup> session (Cuernavaca, Mexico, June 2003). The project was approved as part of the Orientations of the 2006-2010 Mandate of the LEED Programme, which were outlined at the 43<sup>rd</sup> session (Trento, December 2003) and adopted at the 44<sup>th</sup> session (Copenhagen, June 2004). A conceptual framework for the project was adopted by the Directing Committee at its 45<sup>th</sup> session (Paris, November 2004). The project is a follow-up to the Study on Local Partnerships and the work on decentralisation carried out by the LEED Directing Committee (OECD, 2004, 2003, 2001).

### Objectives

The study will aim to identify ways to co-ordinate labour market policy and economic development strategies designed at local and regional levels. In particular, the work will seek to answer the following questions:

- How can economic development and employment policies best be integrated at the regional level?
- How can these policy areas cross-fertilise to meet business needs while providing sustainable solutions to the problems of the disadvantaged on the labour market (social exclusion, poor job retention, low skills)?
- What factors can prevent integrated regional strategies from being effectively implemented? How can regional governance arrangements enable or restrict the implementation of strategies?
- What good practice exists in terms of creating public management frameworks at the national level which are flexible enough to support joined up strategies at the regional and local levels? Is it possible to compare and develop indicators of the degree of policy flexibility in different OECD countries?

## **Scope**

The project will examine the experience of selected countries. In each country, the project will survey: a) the general policy and administrative framework for labour market policy and economic development; b) the strategies for economic development designed at local and regional levels and the local orientations followed by labour market policy; c) and the governance mechanisms used to link labour market policy and economic development at local and regional level.

### ***a) The general policy framework***

The study will review the policy management framework for labour market policy and economic development in selected OECD countries. In particular it will:

- characterise the administrative flexibility and adaptability of labour market policy and national instruments for economic development;
- assess the potential for policy change and policy initiation at local and regional levels;
- build appropriate indicators to facilitate cross country comparison of the administrative flexibility and adaptability of programmes

### ***b) Area-based strategies***

The study will identify and survey regional initiatives taken to co-ordinate employment, skills and economic development in selected countries. In particular, it will:

- examine the content of regional development strategies and assess the degree of integration between labour market and economic development policies;
- investigate the outcome of such strategies: have they resulted in changes to regional policies and practices? Do employment programmes and services now better meet local business needs with regard to employment and training? Have they increased potential for economic development activities to support labour market development, foster social inclusion and improve skills?

### ***c) Governance mechanisms***

The study will assess the extent to which the regional governance context has an influence on: i) the process of designing integrated strategies; ii) the implementation process: to what extent are strategies actually implemented and lead to policy change and new action; iii) the effectiveness of strategies. To do this, it will examine the regional governance mechanisms used to link the various activities and actors involved in employment, skills and economic development, considering:

- strategic planning methods;
- communication;
- structural relationships between institutions (including networking and the joint implementation of services)
- funding flows and the compatibility of different funding streams
- performance management, monitoring and evaluation;

- extent of capacity building at local level;
- the role of employers and social partners and the existence of third sector (cooperatives, social economy) approaches
- extent of local trust and social capital.

## **Study process**

The study process will consist in three main stages:

### ***1<sup>st</sup> Phase: Analysis of the general policy framework (2005)***

In co-operation with the host organisation (a national or regional government organisation) and an external researcher in the participating countries, the OECD Secretariat will analyse and compare the degree of flexibility and adaptability of each national policy framework and assess the potential for co-ordination and integration at regional and local levels.

### ***2<sup>nd</sup> Phase: Case studies (2005-2006)***

The host organisation in each participating country selects a local or regional case for examination. It gathers background information and organises a 2-day programme of visits and meetings for the OECD Secretariat and its experts. An external researcher will prepare a draft report prior to the visit and a case study report after it, in consultation with other experts and under the supervision of the Secretariat. Conclusions are discussed with the host organisation.

### ***3<sup>rd</sup> Phase: Final report (2007)***

The Secretariat prepares a final report according to the conceptual framework on the basis of the work done to analyse the national policy framework, the study visits, the case studies and further research and analysis. The conclusions and policy recommendations will be reviewed by the host organisations and the LEED Directing Committee. Overall and country-specific results may be discussed in national seminars to obtain feedback from policy-makers and practitioners and to spur dissemination of lessons.

## **Output**

In addition to the reports and conferences, an OECD publication will be released, comprising the final report and country chapters.

## **Budget**

The cost of the project is split among the participating countries. A preliminary budget will be prepared for discussion with each host organisation.