Effective local strategies to boost quality job creation, employment, and participation

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Effective local strategies to boost quality job creation, employment and participation

Rationale in the context of the G20

In their September 2013 declaration, G20 leaders agreed that creating more and better quality jobs should be at the heart of government policies in the recovery, not only to create growth, but to reduce poverty and increase social cohesion. G20 leaders also agreed on the importance of better integrating and coordinating policies to restore public confidence in the global economy. These concerns remain today as the global economy continues to recover at a moderate pace (OECD 2013a). Growth prospects are strongest in the emerging economies; however they are weaker than past projections. There is also a worrisome slowdown in world trade growth, in foreign direct investment flows and in fixed investment.

Unemployment remains stubbornly high, particularly in Europe. At the same time, those who are in work are increasingly at risk of low incomes, job instability and poor career prospects (OECD 2013b). In emerging economies, informal employment remains an important issue, with many people working long hours for low pay with limited social protection. Certain groups of people have been more affected than others by the crisis, including youth, women, low-skilled people, single parents, people with disabilities, and older workers.

Job creation can be stimulated through a stable macroeconomic framework, but also structural policies which encourage innovation, skills, and business development. In order for new jobs to be created, businesses need access to skilled people, to business networks, to finance, and to space to start up and expand. Central governments manage a range of policies whose impact can reinforce each other and contribute to fulfilling economic potential, business expansion and social cohesion at the local level. Where national policies are sufficiently flexible and adjustable, local level actors can develop integrated approaches to growth, maximising employment opportunities, and helping to tackle inequalities and social exclusion in their communities.

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1 This note was produced by the OECD (LEED Programme, in collaboration with the Directorate for Employment, Labour and Social Affairs) with inputs from the International Labour Organisation (ILO), the World Bank, and the World Association of Public Employment Services (WAPES). An earlier version of this report was reviewed by the G20 Taskforce of Employment in Sydney on 5-6 February 2014. This version incorporates all comments received from G20 countries.

The Local Economic and Employment Development Programme is a division of the OECD focusing on the implementation and cross-cutting aspects of employment, skills and economic development policies. Its mission is to contribute to the creation of more and better quality jobs through more effective policy implementation, innovative practices, stronger capacities and integrated strategies at the local level.
Removing obstacles to new jobs growth

New jobs are created as industries expand and as new firms start up and grow. Net job creation is typically led by a small number of young firms, as evidenced by both the OECD (2013c) and World Bank research on firms in Eastern Europe and Central Asia (Dávalos et al. 2014). While many businesses operate globally, new firms are strongly dependent on the local economic contexts in which they emerge, with most high growth firms developing in localities with high population density and high levels of tertiary education. Cities, in particular, have been described as vital ‘cylinders in national economic growth engines’ (OECD, 2013d) with the 275 OECD metropolitan areas accounting on average for more than half of OECD-wide growth between 2000-10 (OECD, 2013e). By hosting important concentrations of people and ideas in one place, cities enable knowledge sharing which is crucial to innovation (OECD, 2013f).

In general, more diverse local economies with complex supply chains and strong links to markets are particularly likely to support new job growth through import substitution and the development of new products and services. Policy makers can support this process by helping to make available technology and capital, affordable premises, and start up financing, while promoting networking between firms. The interdependence between firms at the local level means that interventions may be particularly effective when designed at the level of local value chains (ILO, 2007; Herr and Muzira, 2009). Policies which build capacity for broader sectors of society to engage in entrepreneurship may spur more inclusive job creation. The OECD and European Commission have identified the importance of providing entrepreneurial support to under-represented groups, pointing to a number of ‘missing entrepreneurs’ such as young people, older people, women, ethnic minorities and migrants, as well as people with disabilities (OECD 2013g).

Flexible training, education and employment services are required to proactively respond to skills gaps that may act as barriers and obstacles to business growth and expansion. The ILO/G20 Training Strategy calls for sector skills strategies with employers, workers, government and training providers working together to ensure the relevance of training, while the G20 Employment Task Force’s report on Key Elements of Quality Apprenticeships (2012) highlights the importance of locally embedded apprenticeship strategies. Local level actions can spur employers to offer more in-work training and internships, particularly in firms that traditionally offer low levels of training such as SMEs (OECD, 2013h). In addition to building relevant technical skills, local policy makers need to ensure that individuals have the generic skills to be adaptable and innovative (Froy, Giguère and Meghnagi, 2011). School to work transitions for youth, and employment transitions over the lifecycle, can be facilitated by the development of clear local pathways between education and work (OECD, 2009, Hamilton, 2012).

As barriers to employment become more complex, a horizontal approach is often needed

OECD indicators show strong regional variation in unemployment rates in some G20 countries, such as Italy, Spain and Turkey (see Figure 1). A disproportionately high percentage of a country’s unemployment is typically found in a limited number of regions (OECD, 2013e). In 10
OECD countries, more than 40% of the increase in unemployment over the past five years was concentrated in just one region.

Figure 1. Regional variation in the unemployment rate for OECD, 2013

![Graph showing regional variation in unemployment rates across OECD countries.]

Note: The OECD has classified two levels of geographic units: the higher level (Territorial level 2 [TL2]) consists of 362 larger regions while the lower level (TL3) is composed of 1,794 smaller regions. For Canada and Finland the data refers to 2012.

Source: OECD Regions at a Glance, 2013

Youth unemployment has been a particular problem for many local economies following the downturn. In many countries, regional disparities in youth unemployment have grown wider, with the youth unemployment rate now exceeding 40% in some regions in Italy, Mexico and Spain. While young people without skills and experience can find it hard to break into the labour market for the first time, other populations and communities can also experience important barriers to employment. Immediate barriers to work can include a lack of affordable childcare, poor transport links and complex welfare arrangements that make reconciling work and benefits difficult. In the longer term, living in areas which are isolated from the labour market, have high levels of drug and criminal activity, poor health outcomes can create structural impediments to growth.

As barriers to employment become more complex, a horizontal approach is often needed to tackling them, involving employment service providers, vocational education and training...
institutions, economic development agencies and social welfare organisations. While in some local areas such partnership working focuses on specific groups, in other areas a decision is taken to focus on particular places, for example local areas experiencing high relative deprivation in cities. In many cases, good local data can act as a catalyst for action, stimulating people to work across policy silos to build concrete engagement around critical issues.

**Labour market policy plays a central role in supporting job creation, through ensuring that businesses can access people with the right skills to help them to start up and grow.** Policies to build employability and promote mobility are thus conducive to higher productivity and efficient matches between skills and opportunities. At the same time, the search for efficiency in the delivery of national policies and programmes can lead to a lack of attention to the negative effects that a “one size fits all” approach can have in certain regions. This can undermine productivity and slow down structural adjustment in the country as a whole (see Box 1 below).

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**Box 1. Trade-offs in the delivery of labour market policy**

**Geographical mobility vs. economic resilience:** Governments promote labour mobility as this is one of the best ways to reduce skills mismatches at the national level. On a macroeconomic level, this is also a way to contain inflationary pressures. At the same time, mobility entails costs. There is a risk that skills are lost if they are not fully utilised in the workplace at destination (Froy, Giguère and Meghnagi et al, 2012) and there are costs involved in integrating workers into their new local labour market (particularly in the case of international migration) (OECD, 2006). There is also an opportunity cost related to the alternative use that could have been made of these skills in the local economy left behind. This is particularly the case when such local economies are attempting to move towards higher skilled methods of production and services, through raising product market strategies and re-orientating investments towards new sources of growth.

**Activation vs. dependence of employers:** Effective active labour market policies and strong activation programmes for the unemployed are essential in making the labour market more efficient. However, they may create dependence among local employers on quick fixes from the Public Employment Service (PES). The PES sometimes responds quickly to employer needs even if the quality of the jobs on offer is not particularly high and high turnover (hence low productivity) ensues. When jobs are vacant for a long time, or are repeatedly vacant, this may suggest that working conditions are poor and work organisation is deficient. Governments may be unintentionally reducing the capacity of the economy to become more productive and to structurally adjust by continuously helping businesses to fill poor quality jobs.

**Short term results vs. sustainable outcomes:** The PES is often under pressure to attain short-term objectives in terms of placement or training. While this may produce efficiency gains in the short term, in the longer term it may not be the best way of building a more adaptable and inclusive labour force. People are sometimes not matched with work which is commensurate with their skills, and which might offer a more sustainable and long term outcome in terms of job retention and career progression. Many of the most disadvantaged in the labour market require both intensive investment and sustained support in order to achieve good career outcomes. Longer-term investment may be needed now to create more sustainable outcomes in the future.
The need to balance a ‘one-size fits all’ approach to policy with more strategic joined-up approaches at the level of local labour markets becomes particularly clear when looking at the issue of skills. The OECD Skills Strategy and the recent OECD Adult Skills Survey have highlighted the growing importance of skills to economic success (OECD, 2012; OECD, 2013i). However, skills are not always effectively used by employers, and this can be particularly the case within certain sectors and regions. OECD research has highlighted considerable variation in the supply and demand for skills at the local level (Froy, Giguère and Meghnagi, 2012). Some local economies are characterised by low-skilled, low-quality and poorly productive jobs. Such regions can fall into a ‘low-skills equilibrium’, where it does not pay for people to invest in skills when they are not valued by local employers.

The OECD has been mapping local areas in G20 countries, highlighting regions that fall into a low-skills equilibrium, a high-skills equilibrium, skills surplus and a skills gap (see Figure 2 which shows local labour markets in the United Kingdom. In low-skills equilibrium regions, labour shortages often occur when vacancies remain unfilled either due to a sheer lack of local people to fill them, or because people are not attracted by the pay, job contract provisions or working conditions of the positions. Arguably, by helping employers to fill such vacancies, the public sector is subsidising business activity in a way that leads to poor efficiency in the use of public resources (particularly as such placement often leads to poor job retention and labour market "churning") while also contributing to low productivity.
A more integrated approach to skills can help local economies make structural adjustments and achieve national employment and productivity objectives. In some cases, this will mean actively working with firms and providing management training to help raise product market strategies and increase the skills intensity of local production processes. Local vocational education and training (VET) institutions in Canada, Italy, and the UK for example, are actively engaged in stimulating productivity and increasing the utilisation of skills in local SMEs through joint R&D and innovation projects.

In emerging economies, such approaches can play an important role in helping regions to avoid the ‘middle-income trap’. They can also provide help in tackling informal employment. Sectors requiring higher skills have a higher proportion of formal employment, as opposed to those with a larger proportion of semi-skilled or unskilled labour (Srinivasan, 2013). Partnerships are needed between the public, private and union sectors to improve working conditions and support transitions to formality. The ILO highlights the role that trade unions can play in ensuring that local firms better harness skills and offer decent working conditions. This includes lowering the barriers to job creation for small and medium sized enterprises and entrepreneurs. The World Bank (2013) notes the importance of helping informal workers to gradually buy into greater coverage of social safety nets, increasing labour and business inspection, and ensuring
that informal workers are targeted within mainstream activation and labour market integration policies.

_Taking an integrated approach to skills, productivity and economic growth requires strong coordination and social dialogue at the local level as well as active outreach by public employment and business support agencies._ In Turkey, provincial directorates of the Social Security Institution operating at the local level have close contact with employers, employees, and other social partners. This leads to more accurate analysis of regional experiences in combatting informality, and to a better understanding of what firms, and particularly SMEs, face in their attempts to increase their productivity.

**Labour mobility in G20 countries will bring both benefits and challenges** in this context. While mobility is an effective mechanism for overcoming mismatches between skills supply and demand and reducing unemployment at the national level, the migration of skilled people out of certain regions can negatively impact the overall competitiveness of a region and exacerbate challenges in attracting new investments and opportunities. At the same time, many urban areas are developing local strategies for the integration of new rural migrants as a way of increasing their labour supply. In Shanghai, for example, this has become an increasing priority over time in the city’s skill strategy (OECD, 2009a). In general, as international mobility recovers after the crisis, G20 countries will need to become better at integrating newcomers and offering support for them to adapt their skills, through foreign credential recognition programmes as well as language courses (OECD, 2006, 2009a).

**Effectively targeting investment and supporting new sources of growth**

As the recovery progresses, public and private investment can lever more jobs at the local level through promoting labour intensive activities (such as infrastructure investment) and actions that increase the returns to labour (for example investment in technology). A more proactive approach to public procurement can be a critical tool to improve job quality and skills utilisation, such as by awarding contracts to tenderers who offer quality jobs (e.g., for vulnerable groups). Using public procurement to stimulate local job quality requires acknowledgement that value for money is not about the lowest cost but also includes social, economic and environmental benefits which may yield returns over a longer period.

**OECD reviews on local growth and investment strategies demonstrate that local leaders can have a significant role in steering this process effectively** (OECD, 2013d). They can also help guide the private sector towards new areas of global economic growth, such as the green economy. In localities such as Betim and Porto Alegre in Brazil, participatory approaches with local stakeholders have been central to the local development of the renewable energy sector. However while greening brings opportunities for new job growth, particularly in rural regions, it also brings the threat of lay-offs, and targeted skills development may be needed to help people transition to new industries and sectors (Martinez-Fernandez et al., 2013b).

The social economy (also called the third sector or not-for-profit sector and including foundations, associations, mutuals and social enterprises) can also make an important
contribution to job creation activities by targeting public investments to tackle social exclusion and supporting people into employment (Noya and Clarence, 2007; Noya, 2009). Social enterprises can be used more effectively by engaging them to deliver employment programmes. They can support local people in starting new businesses while also engaging with employers to demonstrate the public and private benefits of employing people from outside the existing employed workforce.

Principles for effective action at the national and local levels

Policy support for local job creation will require robust cross-sector coordination at the local level. Local and regional contexts are the settings where “coalitions of purpose” can be effectively built across the public, private and not-for-profit sectors, with local actors often building long-term relationships with each other based on proximity and exchange. Partnerships at the local and national level can often help to formalise this process (OECD, 2010). In the United States, for example, Local Workforce Investment Boards (WIBs) have played an important role in embedding employment and skills policies within broader economic development strategies since 1998 – each board is business-led, with representatives from the employment, economic development and training sectors. In Korea, new ‘four party’ Local Associations of Labour, Management, Government and Community were established in 2010 to steer job creation policies. In India, a National Skill Development Coordination Board has been set up to develop solutions to regional imbalances in the skills infrastructure.

However, such joined-up approaches require adaptable policy management frameworks to be effective. This means providing local agencies, including local public employment agencies, with more discretion in how interventions are designed, budgets are managed, performance targets are set and activities are outsourced (Giguère, 2008). It is important that such adaptability is awarded alongside continued mechanisms for retaining accountability, and the achievement of national policy goals. Management flexibility can be awarded incrementally (Froy et al, 2011). In the United Kingdom, larger cities have been awarded ‘City deals’, where increased flexibility in the implementation of skills policy has allowed Manchester, for example, to set up an Apprenticeships and Skills Hub which has created 2 755 apprenticeships in SMEs. In Korea, the Local Associations and local authorities that perform well in creating jobs qualify for extra funding through a local job creation support programme, which supports 276 projects in Korea with total funding of KRW 30.9 billion. Projects include training programmes tailored to local industries. In Turkey, Provincial Employment and Vocational Training Boards, in which NGO’s, public authorities, academicians and other related stakeholders participate, are effective in determining labour market needs and implementing active labour market policies at local level.

Local institutional capacity needs to be developed in G20 countries, with the resources currently available to public employment services, for example, being often too low to support active engagement in local partnerships. At the same time, the evidence-base for local employment and skills policies needs to be strengthened, with national statistical offices providing more disaggregated data.
Bearing in mind these governance aspects, and building on the expertise of the OECD LEED Programme, the ILO, the World Bank and WAPES, a set of policy principles to help national governments better support place-based approaches to job creation can be formulated as follows (see Box 2).

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<th>Box 2. Policy principles to guide action at the national and local levels</th>
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<tr>
<td><strong>1.</strong> Make national employment and training policy frameworks more adaptable to local labour market conditions. It should be possible for the local public employment services and training organisations to influence the strategic orientations in the implementation of programmes, while they remain fully accountable and efficient.</td>
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<td><strong>2.</strong> Support partnership approaches within local economies (and in some cases around specific sectors or value chains) leading to better integrated policies and more effective and efficient strategies. Labour market institutions should collaborate regularly with business, trade unions, civil society, higher education institutions, economic development agencies and local authorities to set strategic priorities, pursue synergies between policies and programmes, and resolve concrete challenges and problems.</td>
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<td><strong>3.</strong> Give priority to creating an adaptable labour force that is able to innovate, progress, and transfer between sectors, hence building local resilience. While it is important for local institutions to develop skills that are in demand within local economies, individuals need a broad set of generic skills to be adaptable to changing labour markets.</td>
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<td><strong>4.</strong> Support labour market transitions throughout the life-cycle by building comprehensive local career information and well-articulated training to employment pathways. This requires joint work between careers services, local firms and employers and education institutions to map local job opportunities and associated competencies required.</td>
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<td><strong>5.</strong> Stimulate productivity and innovation by working with employers and trade unions to better utilise the skills of the existing workforce. In many cases this will involve management training and advice on effective work organisation, while in some regions it will require concerted attempts to raise product market strategies to produce higher quality employment.</td>
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<td><strong>6.</strong> Develop place-based initiatives to support inclusive growth by reducing the barriers that can exclude people from the labour force over generations, including youth, women, older workers, people with disabilities and immigrants. In developed countries much of this work will be about improving labour market access and attachment and boosting entrepreneurship. In emerging economies, this will require work to tackle the informal economy.</td>
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<td><strong>7.</strong> Ensure that appropriate social protections are available at the local level especially among the highly disadvantaged. Local institutions are well placed to match the supply and demand of social protection services and ensure their accessibility to the populations concerned.</td>
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<td><strong>8.</strong> Invest in social infrastructure and institutions to strengthen networks within and between local economies, including those which are performing more highly. It is important that the environment in which these networks operate supports their role and added-value work to foster</td>
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inclusive economic growth.

9. **Support the development of the social enterprise sector and innovative approaches, such as social impact investments.** Outreach, support, training and work integration activities are features of many social enterprises and their traditionally strong local links enable them to work with individuals who may have become disconnected from mainstream actors.

10. **Support evidence-based policies by developing comprehensive labour market information systems, which disaggregate data on jobs and skills to the level of local labour markets.** A well-developed system of labour market information at the national and local level will support the continuous improvement of labour market policies and programmes, making them more appropriate and pertinent, while also serving as a catalyst for joint working across sectors and institutions.

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