



IDA18

**Special Theme:
Jobs and Economic Transformation**

**IDA Resource Mobilization Department (DFiRM)
May 25, 2016**

ACRONYMS AND ABBREVIATIONS

Fiscal year (FY) = July 1 to June 30

CCSA	Cross-Cutting Solutions Area
CPF	Country Partnership Framework
ECA	Europe and Central Asia Region
FCSs	Fragile and Conflict-affected States
FCV	Fragility, Conflict and Violence
FY	Fiscal Year
GDP	Gross Domestic Product
GP	Global Practice
GVCs	Global Value Chains
IDA	International Development Association
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
JIPs	Joint Implementation Plans
LCR	Latin America and the Caribbean Region
MIGA	Multilateral Investment Guarantee Agency
OECD	Organization for Economic Co-operation and Development
SCD	Systematic Country Diagnostic
SDGs	Sustainable Development Goals
SEZs	Special Economic Zones
SME	Small and Medium Enterprise
UN	United Nations
WBG	World Bank Group

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EXECUTIVE SUMMARY

- i. **The job creation challenge is immense in IDA countries, and is aggravated by demographic pressures with an estimated 600 million new entrants into the labor market over the next decade.** In IDA client countries, the large majority of jobs are in informal self-employment, particularly in agriculture, and formal wage employment is unlikely to account for a majority of jobs in the near future. Therefore, beyond expanding the quantity of jobs, better jobs, i.e., raising productivity and thus earnings, and more inclusive jobs are needed to deliver poverty reduction, female empowerment, and social cohesion, as well as moderating migration and displacement from fragile and conflict-affected states (FCSs) and countries facing youth bulges.
- ii. **The private sector is at the heart of creating sustainable, higher earning jobs in IDA countries, which requires economic transformation – moving workers from lower to higher productivity activities.** Starting with increased productivity in agriculture, *structural transformation* moves workers into higher value adding sectors, and is typically accompanied by a *spatial transformation and urbanization*, as the pull of new jobs draws rural agricultural workers into secondary towns and cities.
- iii. **Developing a competitive, job-creating private sector requires facilitating connectivity to market opportunities and building the capabilities of firms and people to take advantage of these opportunities.** Connectivity can be facilitated through domestic, regional, and global value chains (GVCs) as well as through support for urbanization and for labor mobility. Capability-building starts from early childhood development through targeting jobs-relevant skills, as well as improving entrepreneurship and management capacity in firms. It also requires access to critical assets, notably finance. Finally, encouraging private investment is reinforced by an economy-wide *incentive framework*, including well-functioning product and factor markets, a supportive investment climate, and efficient and effective regulatory institutions. Underpinning this all is investment in quality infrastructure, which not only provides short-term jobs stimulus, but supports competitiveness and job creation over the long term by improving market access and raising productivity. Sustainable, private sector-led job creation is also buoyed by robust social protection programs, which can offer a bridge toward productive employment and investment, and are particularly critical in FCS environments.
- iv. **Support for job creation through private sector-led economic transformation has long been at the forefront of the World Bank Group’s (WBG’s) activities.** While ‘Jobs and Economic Transformation’ may be new as a special theme in IDA18, it is a well-established domain in IDA, with investment in private sector development already accounting for 38 percent of IDA’s US\$19 billion in commitments and guarantees in FY15. IDA has a successful track record in addressing jobs and economic transformation, and the cross-cutting nature of the theme underscores IDA’s comparative advantage in coordinating broad and deep sectoral expertise and in convening across the public and private sector. WBG has had success in leveraging the synergies of the ‘One WBG’ (IDA-IFC-MIGA) during IDA17, including through development of Joint Implementation Plans (JIPs).
- v. **Delivering on the commitment from IDA17, WBG has put considerable resources into strengthening its knowledge base through in-depth Jobs Diagnostics, which are being delivered in 15 IDA countries, including five FCSs.** In addition, new approaches such as the

Africa Gender Innovation Labs have enabled much greater understanding of the nature and determinants of gender segmentation in labor markets, and of how to overcome them.

vi. **Moving forward, commitments in IDA18 build on lessons from WBG’s long experience to support jobs and private sector-led economic transformation, as well as building on momentum from successful actions in IDA17.** Specific policy commitments in IDA18 include:

Analytics to inform current operations	<ul style="list-style-type: none"> • IDA will undertake eight inclusive global value chain analyses to understand how they can contribute to inclusive job creation and economic transformation. • IDA will expand the use of spatial mapping and spatial data analysis tools to assess jobs dynamics, urbanization trends, and infrastructure impacts.
Learning and measurement to inform future operations	<ul style="list-style-type: none"> • IDA will carry out Impact Analyses of Small and Medium Enterprise (SME) and entrepreneurship programs in eight countries, including in four FCS, to understand overall impacts and differentiated outcomes for women and youth. • IDA will develop and implement measurement tools and systems to gain a deeper understanding on the impacts of investment operations on the number, nature, and inclusiveness of jobs, with a specific emphasis on gender outcomes
Leveraging the WBG for private sector investment	<ul style="list-style-type: none"> • WBG will enhance existing and introduce new operational instruments to improve risk sharing in projects and crowd-in private capital in high risk investment environments.

vii. **This paper is linked closely to other IDA18 Special Themes.** Concretely, reliable water, transport, and energy systems, and sustainable urbanization are critical to managing the impact of *climate change* on economic activity and jobs. In the FCS context, difficult business environments and sector-specific challenges constrain private investment flows. Under the *FCV special theme*, IDA is committed to establishing a US\$2 billion regional IDA sub-window to help refugees and host communities address, among others, opportunities for job creation. A scale-up of joint IDA-IFC-MIGA efforts will support this, and more broadly attract the infrastructure investments in power, utilities, and transportation that unlock bottlenecks to the private sector. Such activities will be complemented by IDA’s continuing work on the regulatory environment, strengthening governance and building capable institutions with specific commitments in IDA18 under the *institutions and governance special theme* on adopting investment-friendly regulation, improved public investment management, and new regulatory frameworks for transparency and corruption. Finally, as countries diversify from agriculture and move up the value chain, it will be critical to help women break occupational segregation in the labor market, with special efforts to increase the productivity both of those working formally and informally. This can be achieved, for instance, by promoting women’s higher participation in higher value-added paid employment as described in the *gender special theme*. Efforts will build on ongoing work with the Jobs Diagnostics – all those produced to date draw on sex-disaggregated data as a step to identify actions that can bring about more, better and inclusive jobs, and collect information on gender norms/occupational segregation.

I. INTRODUCTION

1. **Jobs and increased earnings through private sector-led growth are the cornerstones of a self-sustaining development model.** The global job creation challenge is immense, and will become more so with depressed global commodity prices, a slowdown in trade, and climate-induced vulnerabilities expected to lower growth and increased volatility. More than 200 million people worldwide, disproportionately youth, are unemployed, while another 2 billion working age adults, mostly women, remain outside the workforce.¹ On top of this, demographic pressures mean 600 million additional jobs will be needed over the next 15 years just to keep pace with new entrants to the labor market.² This will create immense social and political pressures, and contribute to growing international migration. Thus, job creation will be fundamental for governments to deliver on the social contract and for the global community to achieve the Sustainable Development Goals (SDG8); it will also play a pivotal role in the 2030 Agenda for Sustainable Development as described in the Forward Look. Beyond expanding the quantity of jobs, better jobs, i.e., raising productivity and thus earnings, are at the heart of delivering on the twin goals. Between 30 and 70 percent of strong poverty reduction episodes in the last 15 years are associated with increases in the employment and labor incomes of the poor.³ And productive earnings opportunities are central to catalyzing self-sustaining development processes in post-conflict recovery. Moreover, the degree to which jobs and earnings opportunities are inclusive – to youth, women, to residents of lagging regions, and the bottom 40 percent – has implications for the pace of poverty reduction, for social cohesion, and for moderating forced displacement and migration, particularly in FCSs and countries facing youth bulges.

2. **The jobs agenda in IDA countries includes creating diversified, formal sector jobs but also increasing productivity and earnings in the informal sector.** It is widely reported that 9 out of every 10 jobs are in the private sector.⁴ This is, however, defined broadly to include farmers, informal employment, and individual businesses as well as formal enterprises.⁵ While globally traded but capital intensive resource sectors drive economic growth in many IDA countries, most jobs are found in small-scale agriculture and informal services. In Sub-Saharan Africa and South Asia three out of four workers are either self-employed or a family worker.⁶ And reliance on vulnerable employment is dramatically higher for women – in South Asia, for example, women are four times less likely than men to have a full-time job and overwhelmingly account for unpaid workers in the informal sector. Even under optimistic scenarios, formal wage employment is likely to continue to account for a minority of jobs in most IDA countries in the near future (Figure 1).⁷

3. **Delivering sustainable, higher earning jobs in IDA countries requires facilitating the process of economic transformation – moving workers from lower to higher productivity**

¹ World Bank (2013) World Development Report 2013: Jobs. Washington, DC.

² Ibid.

³ Azevedo, J.P., Inchauste, G. Olivieri, S. Saavedra, J., and Winkler, H. (2013) 'Is Labor Income Responsible for Poverty Reduction? A Decomposition Approach' Policy Research Working Paper Series 6414, World Bank Group, Washington, DC.

⁴ IFC (2013) IFC Jobs Study: Assessing Private Sector Contributions to Job Creation and Poverty Reduction. Washington, DC: World Bank Group.

⁵ World Bank (2012) World Bank Group Innovations in Leveraging the Private Sector for Development: A Discussion Note. Development Committee, March 8, 2012.

⁶ ILO (2015) World Employment and Social Outlook. Geneva: International Labour Organisation.

⁷ World Bank (2014) Youth Employment in Sub-Saharan Africa. Washington, DC.

activities. This starts with raising productivity within the agricultural sector, eventually releasing workers to begin building capabilities in more productive sectors and activities, including industry and tradable services (Figure 2). The growth of non-farm employment opportunities not only increases earnings but raises demand from and investment back into the agricultural sector. This *structural transformation* toward higher productivity sectors is typically accompanied by a *spatial transformation*, as the pull of new jobs draws rural agricultural workers into secondary towns and cities. To the degree that structural and spatial transformations are accompanied by a *transformation to formalization*, they also offer potential to support domestic resource mobilization through expansion of the tax base. Integrating women more effectively into labor markets, decreasing occupational sex-segregation, and closing gender wage gaps, as well as improving working conditions will support these transitions and contribute to rising productivity at both the micro and aggregate levels.⁸ Especially in new sectors of labor demand, such as green jobs, climate-smart agriculture, and some sectors of the digital economy, opportunities exist to achieve positive labor outcomes for women before traditional gender barriers become established.

Figure 1. Formality and Informality in Jobs – Wage Versus Self-Employment Share of Jobs (in percent)

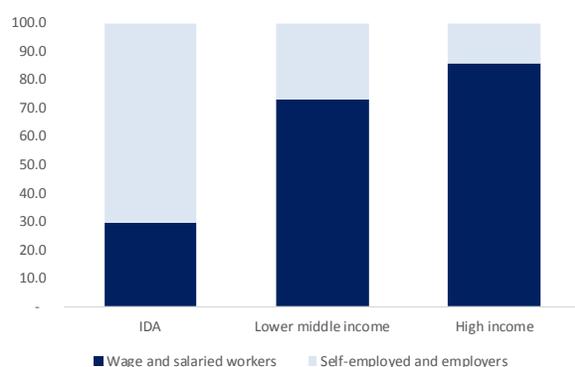
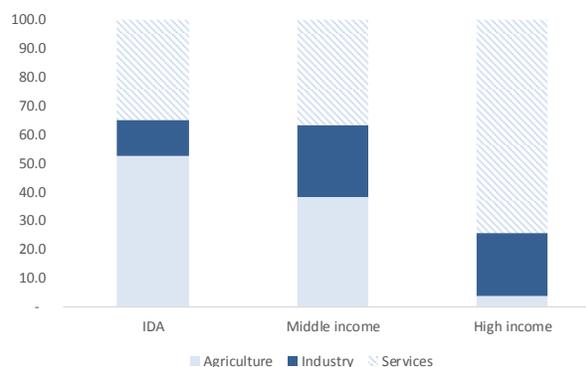


Figure 2. Economic Transformation and Jobs – Distribution of Employment by Sector (in percent)



Source: Figure 1 – World Bank Jobs Data (based on ILO KILM database); Figure 2 – World Bank WDI.

Note: Figures for IDA exclude small island states; latest data available by country (2010-15).

4. The private sector is the key driver of economic transformation and job creation. The experience of high growth economies – from Asia to Africa – demonstrates how enhanced private sector competitiveness and integration with global markets can lead to unprecedented reductions in poverty by creating more and better-paying jobs.⁹ Support for a competitive, job-creating private sector comes through facilitating *connectivity* of firms and people to ever-expanding market opportunities, including domestic, regional, and global markets for goods and services. Exploiting these market opportunities requires building *capabilities* of both firms and workers. This includes investing in jobs-specific skills (technical and behavioral) and managerial capacities but it starts much earlier – with a focus on critical early childhood development and foundational education, which establishes the human capital base to support economic transformation. Building capabilities also includes development of entrepreneurial capacity and promoting self-

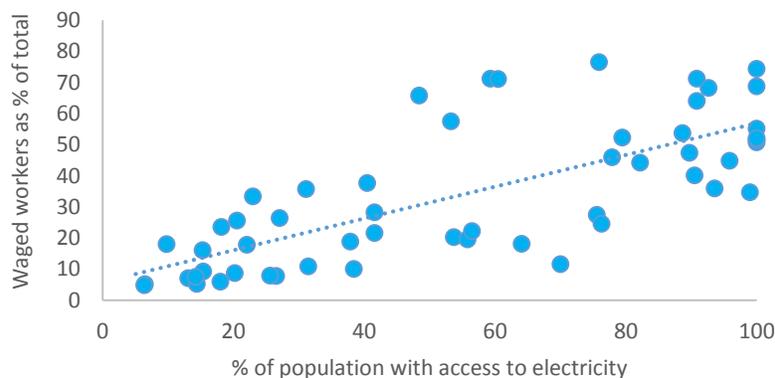
⁸ Countries with large gender gaps are estimated to incur income losses of up to 30 percent of per-capita GDP- See “Global Employment Trends in 2014: Risk of a Jobless Recovery?” ILO, 2014.

⁹ GMR 2014/15, p. 36 and the Growth Commission.

employment, which is particularly critical for youth and women and in FCS environments where the scale of the private sector is often insufficient to absorb most labor market entrants. Finally, encouraging investments by all market actors is reinforced by an economywide *incentive framework*, including well-functioning product and factor markets, an investment climate with robust investment and competition policies, and efficient and effective regulatory institutions.

5. **Private-sector led economic transformation and job creation are underpinned by quality infrastructure through its impact on inclusion, connectivity and productivity.** In the short term, infrastructure is a powerful jobs stimulus which is especially important in growth downturns, in FCS contexts and in improving labor market inclusion, especially for youth. The employment impact of infrastructure varies significantly by sector and by country, depending on the relative technology intensity and domestic supply linkages.¹⁰ Infrastructure is also central to the longer-term process of economic transformation, through increasing the effective size of the labor market (connecting people to jobs) and raising productivity. Evidence from a recent study of rural road investments in India shows that road construction to previously unconnected villages leads to a 10 percentage point shift of workers from rural agriculture to wage employment.¹¹ By lowering mobility and time barriers, infrastructure has a particularly strong impact on female participation in the labor force. A similar dynamic plays out with electricity access (Figure 3). And communities that invest in multiple infrastructure services – such as roads along with power and telecommunications, for example – reap far greater benefits in the form of job creation and non-farm wages than those which invest in a single sector.¹² Infrastructure also drives economic transformation through the productivity gains that come from large-scale network investments in transport, power, and telecommunications, all of which lay the foundations for competitive, job-creating firms. The growth dividends from investments are especially large for low-income countries.¹³

Figure 3. Relationship between Electricity Access and Wage Employment in IDA Countries



Source: World Development Indicators; latest data available by country (2010-15).

¹⁰ Schwartz, J.Z., Andres, L.A., and Dragoiu, G. (2009). Crisis in Latin America: Infrastructure Investment, Employment and the Expectations of Stimulus. Policy Research Working Paper 5009. World Bank Group; Estache et al (2013). Infrastructure and Employment Creation in the Middle East and North Africa. Washington, DC: World Bank Group.

¹¹ Asher, S. and Novosad, P. (2016). Market Access and Structural Transformation: Evidence from Rural Roads in India. January 11, 2016. Department of Economics, University of Oxford.

¹² Torero, IFPR (2009).

¹³ IMF (2014) estimates the medium-term multiplier of public investment in infrastructure at between 0.5 and 0.9. Source: IMF (2014) World Economic Outlook. October, 2014. Washington, DC: IMF.

6. **Robust social protection programs offer a bridge toward productive employment and investment, and are particularly critical in FCS environments.** In a number of countries, social protection tools have been integrated to pave the way for long-term development and to respond to the immediate needs of vulnerable groups, including returning combatants and forcibly displaced people. Social protection programs boost consumption in the short-term while supporting productive investment in the medium-term through increased human capital investment and enhanced local economic activity.¹⁴ Moreover, expansion of traditional public works to encompass social services, especially care services for children, the sick, and elderly, offers an opportunity to better integrate women into labor markets. In FCS environments, where both state and private sector capacity may be low, social protection (along with cash transfers and other social safety nets) are particularly critical.¹⁵ Indeed, in FCSs, integrated strategies of social protection along with support for earnings and productivity in sectors that employ large parts of the population, including agriculture and family-owned business, are central to catalyze self-sustaining development processes and support social cohesion.

7. **Jobs and economic transformation represents a natural focus area for IDA and the wider WBG.** The wide-ranging nature of the jobs challenge makes IDA well-positioned to support policymakers, given its integrated delivery model of financing, advisory, and convening services. WBG's global, sector, and industry knowledge (drawing on the Global Practices (GPs) and Cross-Cutting Solutions Areas (CCSAs), as well as IFC and MIGA) provides an integrated perspective to advise governments on policies to promote private sector-led job creation and economic transformation. IFC and MIGA's connection with the formal private sector contributes to an effective convening power to bring together key stakeholders to address the challenges of jobs and economic transformation. This is supported by a wide range of financing instruments, through IDA, IFC, and MIGA, that can leverage effective combinations of public and private investment. Indeed, IDA resources deployed alongside IFC and MIGA in IDA and FCS markets can play an important role to better allocate risk and catalyze domestic and foreign investment flows into jobs-intensive investments that may otherwise not take place due to high perceived investment risks. The coordinated delivery of IDA, IFC, and MIGA instruments ensures the greatest leveraging of each institution's shareholder capital, and catalyzes private investments that provide positive externalities to subsequent entrants, as well as creates jobs and delivers critical infrastructure in IDA and FCS markets.¹⁶

II. RECENT PROGRESS AND LESSONS LEARNED

8. **Support for job creation through private sector-led economic transformation has long been at the forefront of the WBG's activities.** While 'Jobs and Economic Transformation' may be new as a special theme in IDA18, it is a well-established domain in IDA, and a growing strategic focus. In FY15, 38 percent of IDA's US\$19 billion in commitments focused on private sector development. The IFC had US\$4.0 billion in annual long-term investments in IDA countries in FY15, twice the level of a decade earlier. Nearly half of MIGA's FY15 projects and 37 percent of

¹⁴ In the case of Ghana's Livelihood Empowerment Against Poverty (LEAP) program, beneficiaries spend nearly 80 percent of the transfers inside the local economy.

¹⁵ Non-contributory programs, including, for example, conditional and unconditional cash transfers, nutritional support, and subsidies and vouchers for basic services such as education, health, housing or utilities.

¹⁶ Collier, P. (2013) Aid as a Catalyst for Pioneer Investment. WIDER Working Paper No. 2013/004. UNU-WIDER, Helsinki.

their outstanding portfolio supports private investment in IDA countries.¹⁷ A recent analysis of the World Bank operational portfolio shows that 21 percent of lending projects in IDA countries had an explicit focus on job creation over the past two decades.¹⁸ WBG activities under this theme encompass a wide variety of operational approaches including support for critical quality infrastructure, value chain development, market access, special economic zones, as well as support for firm-level upgrading. Infrastructure funding in IDA countries has been particularly significant, averaging US\$9 billion annually during IDA16, with one-fifth of this coming from IFC and MIGA.¹⁹ This represents more than half of WBG's global investment on infrastructure. IDA17 shows a similar pattern.

9. IDA has a successful track record and a comparative advantage in addressing the jobs and economic transformation challenge. Evaluations of IDA support over the past three decades point to a long and relatively effective track-record in supporting some vital aspects of the jobs and economic transformation agenda. This includes, in particular, support to help connect firms to markets through improving trade and competition, as well as fostering a more favorable investment climate for productivity-enhancing private sector investment. Evaluations have shown IDA has been particularly effective when it also supports complementary efforts on diversification, agglomeration, trade finance, and social inclusion, including through inclusive labor markets. Similarly, investments in health, education, and other social services are at the heart of WBG's support to build the productive human capital that is critical to achieve successful economic transformation. Significant progress has been achieved in supporting improved and equitable access to education and health services, including notable success on early childhood development, where nearly US\$3 billion has been invested in just the past two years.²⁰ The cross-cutting nature of the jobs challenge underscores IDA's comparative advantage in coordinating broad and deep sectoral expertise and convening across the public and private sector.

10. The WBG has leveraged the synergies of IDA, IFC, and MIGA in IDA countries, with strong results in delivering critical infrastructure, particularly in FCSs. This has been achieved by the preparation of joint Country Partnership Frameworks (CPFs), joint advisory services, and an increasing number of joint investment projects. Under IDA17, WBG (IDA-IFC-MIGA) committed to developing JIPs in up to 20 IDA countries, including in 10 FCSs, with a focus on power and agribusiness sectors. As of March 2016, JIPs were in progress in 27 countries, including nine FCSs.²¹ Two energy-related JIPs are already under implementation in FCSs, and examples of 'One WBG' support on infrastructure is not restricted to JIPs. For example, in Afghanistan, IDA, IFC, and MIGA have combined to transform the telecom sector (Box 1). And in countries such as Côte d'Ivoire, Myanmar, Nepal, and Pakistan, joint projects have invested in much-needed energy infrastructure to unlock private sector investment. Infrastructure support, particularly in the transport sector, has also included innovative efforts to support women. For example, the 'charter for cross-border traders' initiative has helped to overcome systematic harassment of informal, female traders operating across borders in Eastern and Southern Africa, contributing to improved job quality and higher, more predictable earnings.

¹⁷ As of September, 2015.

¹⁸ Source: Jobs – Portfolio Analysis; Jobs CCSA.

¹⁹ Including energy, water, transport, and ICT.

²⁰ Including in health, nutrition, social protection and education.

²¹ Burundi, Côte d'Ivoire, Myanmar, Nigeria, Nepal and Pakistan are being implemented; another 10 are in preparation/design stage of which 4 in FCS, and 11 are in early stage, of which 6 in FCS.

11. **Combined WBG support is also targeting agricultural transformation and SME competitiveness through value chain development, productivity enhancement, and access to finance.** In Cameroon, where 60 percent of the population works in agriculture (two-thirds of them women), IDA and IFC are working to upgrade competitiveness in the three largest agricultural value chains – targeting 150,000 farmers. The project includes measures to support improved farmer productivity and strengthen linkages to established value chains. It provides access to credit and productive assets to producer organizations, contributing to growth in both on- and off-farm employment along the value chain. In Burundi, combined IDA and IFC technical assistance on the business regulatory environment helped double the number of annual registered firms in two years. WBG is also working closely with external partners to deliver integrated solutions to jobs and earnings. For example, in Rwanda the IFC, working with the Clinton Health Access Initiative and private investors, is supporting private sector-led strengthening of the maize value chain and the production of nutrient rich fortified food for young children while delivering both improved food security and higher, more stable earnings for smallholder farmers.

Box 1. Examples of Integrated Solutions in IDA Countries

- **Myanmar power:** WBG is supporting an increase in generating capacity through a US\$140 million IDA credit to help a natural gas-fired power plant double its output capacity while lowering emissions. To increase the efficiency of power distribution, IFC is engaging with power utilities in both Yangon and Mandalay to improve operations. Jointly, IFC and IDA are supporting the development of about 750 MW of new gas-fired power generation. Upon commissioning in 2017, this will be the largest private power plant in the country and is expected to help improve services for 1.5 million people. Another 225 MW Myingyan gas power plant in Mandalay is also being supported by IFC, as senior lender, and MIGA, as political guarantor. It is the country's first internationally competitively tendered power project. The participation of IFC and MIGA is enabling the project to access long-term U.S. dollar funding and to mobilize commercial financing, is expected to have an important demonstration effect for future IPPs seeking foreign investment capital. This project came forward through the WBG JIP and the IFC's C3P played a crucial role acting as the Government's advisor for the project's bidding and award process. Reliable electricity in Myanmar is expected to play a vital role in helping people to overcome poverty by boosting income-generating activities and employment and enabling continuous and sustained industrial activity.
- **Afghanistan telecoms:** IDA, IFC and MIGA have helped turn around a barely functioning telecom sector following decades of conflict. IDA financed the digital transmission network, the World Bank and IFC helped the government reform the policies and regulations needed to attract private investment, and MIGA came in with a guarantee to support the mobile operator against noncommercial risks. IFC also provided a US\$65 million loan to Roshan, Afghanistan's largest mobile network operator, to support the roll-out of a 3G network, bringing the Internet to Afghans across all 34 provinces. Roshan expects to cover 80 percent of the population in five years and expand mobile banking services to help local businesses grow. As of 2015, 20 million people have access to a phone compared with only 57,000 functioning phone lines in 2002.
- **Côte d'Ivoire agribusiness value chains:** The world's second largest producer and top exporter of cashews, Côte d'Ivoire sees most of its production exported to Asia and Latin America without meaningful value addition. Trade and Competitiveness and the Agriculture GP are jointly leveraging a suite of advisory and convening services as well as grant funding and IDA lending to strengthen the cashew supply chain. Initiatives include private-public dialogue, investment promotion, and support for the legal and regulatory warehouse receipts framework to expand access to credit. Targets include US\$5 million in credit released to the sector, benefiting at least 10,000 users; US\$20 million in investments generated; and 5,000 jobs created in cashew processing.

12. **IDA is also expanding its range of guarantee instruments to support a better allocation of risks of private sector investment, particularly in FCS contexts.** This provides a critical addition to the WBG set of analytical, financial, and operational tools. Such an approach is being developed in Sierra Leone in the CEC Africa project. Here, IDA will help mitigate off-taker risk through a combination of a US\$40 million Partial Risk Guarantee along with a US\$56 million package of extensive support, including sector upgrading, reform, and capacity building. IFC will arrange US\$100 million financing, while MIGA is expected to provide US\$34 million in political risk insurance for equity investors and will mobilize private re-insurers.

13. **Delivering on the commitment from IDA17, WBG has put considerable resources into strengthening its knowledge base through in-depth Jobs Diagnostics.** Jobs Diagnostics analyze both the supply and demand side of the labor market to give a comprehensive assessment of the opportunities and challenges for job creation. The patterns of growth and economic transformation and their links to jobs vary considerably across IDA countries. At the same time, a common theme in many IDA countries is that despite growth, economic transformations lag or the process of transformation fails to generate quality, sustainable jobs. Jobs Diagnostics analyze both the supply and demand side of the labor market to give a comprehensive assessment of the opportunities and challenges to address these gaps. As of March, 2016, Jobs Diagnostics are underway or completed in 12 IDA countries, including 4 FCSs, and are already being used to inform the design of operations, for example in Zambia and Kenya.²² A number of findings emerge from these Diagnostics on the nature of the jobs and economic transformation challenge, and how these differ across IDA countries (Box 2).

14. **Significant WBG efforts have enabled much greater understanding of the nature and determinants of gender segmentation in labor markets, and of how to overcome them.** For example, the Africa Gender Innovation Labs has documented gender gaps in productivity, assets, wages, and other labor market outcomes and carried out rigorous evaluations of more than 75 projects to understand what works to close these gaps. The program covers issues of agricultural productivity, school-to-work- transitions, occupational sex-segregation, and entrepreneurship, among others. The Adolescent Girls Initiative has piloted successful interventions to promote the transition of girls from school to productive employment in eight, mainly IDA countries. Findings from this and other research can be further scaled up.

²² Twelve countries that have launched the Jobs Diagnostics tool in FY15: Afghanistan, Bangladesh, Burkina Faso, Cameroon, Côte d'Ivoire, Kenya, Kosovo, Kyrgyz Republic, Nigeria, Rwanda, Sierra Leone, and Zambia; Five countries are expected to launch the tool in FY16-17: Democratic Republic of Congo, Ghana, Tajikistan, Moldova, and Nepal.

Box 2. Key Findings from Jobs Diagnostics in IDA17

Creating *better* jobs is central to achieving transformations, although the need for more jobs rises with youth bulges and downturns in growth:

- Employment and labor force participation are high in most low income countries, because most people cannot afford not to work. Underemployment is the main challenge, underscoring the need to raise productivity and encourage labor mobility across products and potential locations.
- With the recent easing in commodity prices and tighter capital markets, many IDA countries are facing slower growth prospects, which will necessitate diversified, export-led job creation as Governments cut back on ambitious spending programs that have buoyed consumption.

Limited economic transformation: Jobless growth, or jobs limited to certain sectors/locations:

- A group of IDA countries dependent upon extractive industries have seen relatively *jobless* growth, with growth driven by capital-intensive extractives, and limited backward linkages to the economy. While these countries have seen rapid productivity growth in enclave industries and some have seen short-term job-creating public investment-financed construction and urban retail booms, most failed to capitalize on past commodity price windfalls to diversify their economies and achieve sustained, broad-based job creation. In FCS, this is a potential missed opportunity to advance stability.
- In most IDA countries, most new jobs have come in services in urban centers and in small, informal firms; few manufacturing jobs have been created.

Limited formalization and low productivity: More but not better jobs:

- Informality is high in IDA countries outside of ECA and LCR, and in most African IDA countries with large youth populations, rural and informal economies are absorbing much of the youth population in low productivity work in agriculture or in micro firms in rural services. These informal firms are seldom connected in the value chain of larger formal firms.
- The shift of labor into retail services from agriculture creates one-off “static gains” in productivity from the inter-sectoral shift; however, these jobs are lower in productivity compared to those in the existing services sector, thus dragging down overall services sector productivity.
- Expanding access to value chains, including linking smaller and informal enterprises to larger, formal ones, has shown potential to raise productivity and encourage formalization.
- Low income FCSs share these characteristics of service-driven informal growth, often supported by high levels of aid inflows.

Inclusive urbanization, including secondary towns, can expand better jobs:

- Added to the limited formalization, several IDA countries are lagging in urbanization compared to LMICs and MICs. Contrary to common wisdom, in several of the urbanizing African countries, the share of the urban population in the primary city is not increasing, with secondary towns expanding rapidly, and representing the largest source of non-agricultural jobs.

Migration and jobless growth:

- Finally a number of IDA countries, in the face of jobless growth and youth bulges, have started to export labor, with remittances driving the path of consumption-led, service-driven growth. Several need to expand job creation as more migrants return in declining opportunities abroad.

15. **Several priorities emerge from the Jobs Diagnostics for delivering more successful jobs outcomes.** First, expanding access to markets through improved infrastructure, trade integration, and value chain strengthening is central to improving firm dynamics, job creation, and

productivity, and to enabling more rapid structural transformation. Second, supporting labor mobility through building skills, risk mitigation, and enhanced access is critical to better connect workers to jobs. Such approaches must also include a differentiated strategy for job placement for women and youth. Third, supporting urbanization, including the development of secondary towns helps establish an environment that supports both the demand and supply side of the jobs equation. Finally, translating the themes above into jobs and economic transformation requires addressing constraints to private sector investment by strengthening the capabilities of firms and enhancing the risk-return environment, including through infrastructure investment, an improved investment climate, and markets that provide the right incentives.

16. Jobs Diagnostics also highlight important data and knowledge gaps, particularly around the dynamics of job creation from SMEs and microenterprises. One promising lesson is the potential to use new technology and techniques to capture and monitor jobs dynamics in FCSs, where data is normally scarce. For example, South Sudan has implemented surveys of both workers and firms, and Sierra Leone carries out a multipurpose survey using mobile phone technology to understand – in real time – the impact of the Ebola crisis on labor markets and livelihoods, allowing for much more rapid and targeted operational responses. The use of spatial analytic tools has also shown promise to identify jobs dynamics in data scarce environments. Drawing on some of these new tools, the WBG is developing a rapid Enterprise Survey for deployment in the early stages of a post-crisis situation to set the stage for interventions to support the private sector. Experimental analysis using “big data”, including satellite information and mobile phone records, has been undertaken to estimate firm production activities during conflict as well as mismatches between the locations of workers and of jobs in Afghanistan and Haiti.

III. WAY FORWARD AND PROPOSED POLICY COMMITMENTS

A. COMPREHENSIVE APPROACH TO JOBS AND ECONOMIC TRANSFORMATION

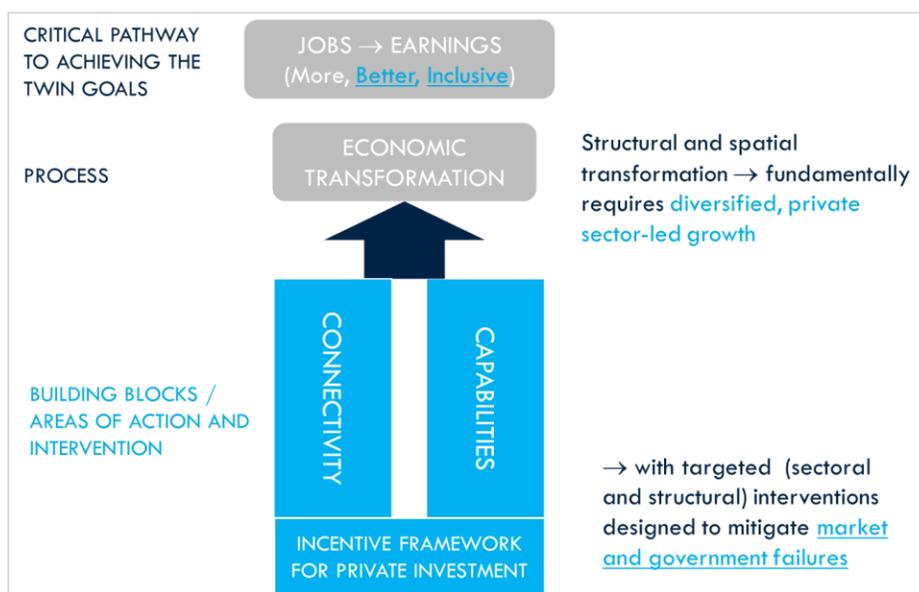
17. Policy and operational priorities to address job creation and economic transformation depend on the individual circumstances of each country. Differences are stark in the patterns of growth and in the nature of the economies – IDA countries include those that are: resource-rich and resource-poor; densely populated and small-island states,²³ stable and democratic as well as FCS; stagnant and robustly growing.²⁴ Thus, policy choices and operational emphasis will need to be context dependent. That said, the discussion above helps outline an agenda under which country-specific priorities may be defined.

18. Drawing on lessons learned from IDA17, the WBG will continue to support IDA countries with a comprehensive, action-oriented approach to job creation and economic transformation. This approach includes the following dimensions (Figure 4): (i) *Facilitating connectivity to markets*; (ii) *Building capabilities for increased productivity and earnings*; and (iii) *Establishing an economywide incentive framework that facilitates private investment*.

²³ Populations of IDA countries range from just 10,000 to 185 million.

²⁴ In the period 2006-2014, 21 IDA countries experienced average annual per capita growth below 1 percent, with 11 experiencing absolute decline. By contrast average annual per capita growth in IDA countries was 3.1 percent and 34 countries experienced even faster growth. Overall, average annual growth ranged from a low of 8.0 percent to a high of 7.7 percent.

Figure 4. Jobs and Economic Transformation – Approach



Connectivity: connecting people and firms to market opportunities through infrastructure, information, and networks.

19. **IDA will support productivity and jobs-enhancing investment by the private sector by supporting market access and exploiting the potential of regional integration and of Global Value Chains (GVCs).** Improving access to markets and opening new markets ensures sufficient scale of demand for products and services. This will help expand growth, improve firm dynamics and job flows, and raise productivity and earnings. Given most jobs in IDA countries are in agriculture and the informal sector, particular emphasis should be placed on diversification through agri-processing, and on connecting small farmers and service firms to lead firms in regional and GVCs, taking into account specific challenges facing women and youth smallholders and entrepreneurs.

20. **Implementation of JIPs offer an opportunity to support competitiveness through private sector investment in agribusiness value chains.** This will help raise on-farm earnings as well as increasing off-farm employment. In several IDA countries, even as economy wide efforts proceed, there are important opportunities to make productivity improvements and move up the ‘quality ladder’ in the agribusiness sector. Seizing such opportunities can help propel structural transformation efforts and the expansion off-farm employment. It also creates significant opportunities to expand market access and raise productivity of small producers through value chain integration. For WBG, success depends in many cases on coordinating agriculture sector dialogue and investments with agribusiness competitiveness efforts and IFC investments. As of March 2016, Agribusiness JIPs are in design or implementation stages in 15 IDA countries, including in several FCSs. If they can be successfully implemented they may provide a strong platform for demonstrably leveraging investment and jobs through combined support for building productive capacity, connecting to markets, and support private investment.

21. **IDA will continue to invest in quality infrastructure to ensure that firms can connect to markets, and to enhance productivity in SMEs and microenterprises.** Investments in

quality, sustainable infrastructure, including transport, ICT, energy, and water, are critical to improving productivity worldwide. Within IDA countries this requires emphasis not only on urban, rural, and international road corridors but also, critically, on improving access to quality and competitively priced electricity, which represents the single biggest constraint identified by firms in IDA countries in Enterprise Surveys. Access to land and industrial infrastructure are equally critical to encourage anchor investments and to enable firms to invest for growth. Accompanying soft infrastructure, including the trade and domestic regulatory environment will boost the effectiveness of hard infrastructure and support inclusive market access.

22. In post-conflict environments, rebuilding infrastructure links will be complemented by efforts to foster competition, promote business entry, and rebuild business relationships.

Trade impacts of conflict are often deep and long-lasting.²⁵ Deepening and strengthening local value chains can be a critical part of the solution to developing a sustainable and competitive private sector capable of supporting quality jobs. Targeted social protection interventions can also support private sector development in post-conflict reconstruction efforts through both infrastructure and business environment channels. Labor-intensive public works and cash for work can be designed to promote income generation opportunities while investing in infrastructure to build productive capacity; technical skills and education programs can also help connecting the demand for labor with the local market's needs. Business relationships can be strengthened or re-established also through an accompanying package of behavioral skills, such as compliance with the workplace basic rules, civic engagement, and peaceful mechanisms of dispute resolution.

23. IDA will leverage urbanization, including in secondary towns, to maximize the creation of productive jobs. Agglomeration can be supported by corridor development, urban infrastructure and services, and expansion of industrial infrastructure, including through special economic zones (SEZs). While many IDA countries are experiencing rapid urbanization, the rates of growth are arguably insufficient and overall levels of urbanization remain very low in many countries – for example, just 20 percent of Ethiopia's population and 34 percent of Bangladesh's are urban versus 79 percent of Mexico's and 73 percent of Turkey's. Unlocking the productivity and job creation potential of urbanization requires addressing not only serious infrastructure gaps, poor coordination of infrastructure investments, and failures to consider sustainability, but also highly distortive product and factor markets – in particular land markets – which hinder efficient patterns of investment.²⁶ Workers must also be able to access emerging urban labor markets. This requires support for mobility, and not just accessing the largest cities – in fact, the largest share of migrations coinciding with economic transformation tend to involve movements from rural areas into secondary towns.²⁷ Developing the capacity and competitiveness of cities to serve as hubs of trade, investment, and job creation, and facilitating the access of workers to safe transport, housing, public services, care services, and information about markets for labor, goods, and services, will help ensure sustainable, productive transformations.

²⁵ It has been estimated that trade declines by as much as 25 percent in the first year of a civil war, with impacts sometimes lasting as long as 25 years. Cali, M. (2015). *Trading Away from Conflict: Using Trade to Increase Resilience in Fragile States*. Washington, DC: World Bank.

²⁶ Lall, S. (2016). "Opening Doors To The World: Can African Cities Deliver on the Promise of Growth?". *Africa's Pulse*, April, 2016. World Bank Group, Washington, DC.

²⁷ Christiaensen, L., De Weert, J., and Kanbur, R. (2015). *Urbanization and Poverty Reduction: The Role of Secondary towns in Tanzania*. Working Paper.

Capabilities: enabling firms and individuals to build assets and to leverage those assets in order to raise productivity and expand earnings.

24. **Facilitating access to finance will remain a priority to support the growth of SMEs and microenterprises and to catalyze entrepreneurship among women and youth.** A recent study shows that microenterprises and SMEs with access to finance grow employment between 1 and 4 percentage points higher than firms without access.²⁸ In FCS, grants programs to support youth entrepreneurs are showing encouraging results at pilot scale and are ready for trial scale-up.²⁹ Moreover, ensuring equitable access to finance for women is critical to facilitating the growth of women-owned businesses – at present more than 70 percent of women in IDA countries are unbanked and gender-biased asset ownership remains a significant hindrance to financial access.

25. **IDA will increasingly supplement infrastructure and business environment interventions with support to build management capacity in SMEs and microenterprises.** Ensuring an effective supply response to major interventions to improve the investment climate will require improvements to both the scale and capacity of the private sector. This calls for a revitalized SME agenda with an emphasis on providing ongoing support for entrepreneurs and young firms, including strengthening management capacity, and enabling firms to be ready and able to take advantage of new technologies and innovations, including through technology extension and linkages into lead firms within established value chains. Evidence from recent evaluations suggests that effective support programs that integrate and sequence delivery of business development services and technology extension along with SME finance (lines of credit, partial risk guarantees, private equity schemes, and matching grants) lead to incremental improvements in productivity and growth.³⁰

26. **IDA will also continue to focus on ensuring workers and the self-employed have the capabilities, along with supporting assets to transition into higher productivity employment.**³¹ This includes strengthening human capital through ongoing investments in education and health, where increasing emphasis is being placed on universal childhood development programs and on building foundational, transferable cognitive and non-cognitive skills that give individuals the flexibility to adapt to changing technical and labor market environments. In post-conflict settings, behavioral skills programs can provide forcibly displaced people with a set of portable skills they can use productively, whether they eventually return to their homes, settle in the host communities, or relocate. More broadly, supporting workers through transitions also requires institutions that facilitate labor market entry, such as healthcare, childcare, and transport – all of which are critical for women in the labor market – but also through productive safety nets. The latter may play a critical role in rural economies helping households and youth transition from agriculture to service sector and other opportunities. Finally, IDA will focus on

²⁸ Ayyagari et al (2016). Access to Finance and Job Growth: Firm-Level Evidence Across Developing Countries. Policy Research Working Paper 6704. World Bank Group, Washington, DC.

²⁹ Blattman and Ralston (2015). Generating employment in poor and fragile states: evidence from labor market and entrepreneurship programs. Working paper.

³⁰ Gonzalez, A. (2015). Learning to Grow: Revitalizing the SME Agenda in ITC. SME Competitiveness Outlook 2015. Geneva: International Trade Commission.

³¹ This refers to the ‘asset-based’ framework for explaining micro-macro drivers of shared prosperity. See Bussolo, M. and Lopez-Calva, L.F. (2014) Shared Prosperity: Paving the Way in Europe and Central Asia. Washington, DC: World Bank Group.

helping IDA countries build modern labor market institutions that can facilitate labor market matching and worker mobility, while managing the policies and practice of migration (Box 3).

Box 3. Migration and Development in IDA Countries

In the coming years, demographic imbalances, climate change, persistent income disparities, along with declining communication and transportation costs, will contribute to rising international migration. But migration is already an integral aspect of IDA countries. In 2015, IDA countries (including IBRD-IDA blend countries) were home to over 25 million migrants, out of a global international migrant stock of 250 million (Table 1). Outward migration from IDA countries numbered just over 64 million, of which 26 percent went to other IDA countries, 30 percent to IBRD countries, and 44 percent to high-income countries. Globally, South-South migration is larger than South-North migration.

Overall, the evidence points to migration delivering positive welfare gains for migrants, their home and host countries. Migrants from the poorest countries, on average, experienced a 15-fold increase in income, a doubling of school enrollment rates and a 16-fold reduction in child mortality after moving to a developed country.³² Migrants benefit their countries of origin via remittances, skill and technology transfers and investments. IDA countries received US\$123 billion in remittances in 2015, almost double the size of official development assistance. In the host countries, voluntary migration increases the labor force and availability of skills. Recent OECD studies show that migrants contribute more in taxes and social contributions than they receive in individual benefits in OECD countries.

There are, however, challenges associated with voluntary migration. Migrants may be separated from family, and they may become vulnerable to exploitation and abuse by traffickers and employers. Inflows of large numbers of migrants may also cause social tensions which need to be carefully managed. Migration of high-skilled workers can lead to shortage of skills in critical sectors (such as health and education) in small countries, while large-scale migration of low-skilled workers may dampen wage growth at the low end of the labor market.

Policies that boost growth and employment in home countries affect the decision of migrants to go back, and may moderate migrant outflows, although this typically occurs only when a country's economy has reached middle income level. Thailand, for example, went from having a large net outflow of migrants to having a net inflow as its economy grew rapidly through the 1990s and 2000s.

IDA countries are large sources as well as destinations for migrants – Number of international migrants (millions)

<u>Source region</u>	<u>Destination region</u>				Total
	IDA	IBRD	High-income countries	Others	
IDA	16.4	19.5	28.1	0.1	64.1
IBRD	6.1	34.1	93.6	0.1	133.9
High-income countries	1.1	6.8	33.1	0.2	41.2
Others	1.5	5.4	3.9	0.0	10.8
Total	25.1	65.8	158.7	0.4	250.0

Source: World Bank

³² UNDP (2009). Overcoming barriers: Human mobility and development, 2009 Human Development Report. New York: United Nations.

***Incentive framework:* underpinning interventions to advance connectivity and capabilities with an economywide framework that establishes the incentive for firms and individuals to invest for productivity, growth, and job creation.**

27. **IDA will continue to promote sound institutional and macro-fiscal environments to encourage firms to establish, expand, and invest in learning and workforce development.** Fundamental institutions such as a strong rule of law, protection of property rights (notably land to support agricultural transformation), contract enforcement, and well-designed regulation can ensure inclusive and socially optimum outcomes. These are critical in supporting small firms to grow and create jobs, and are targeted in parallel through the governance special theme. In addition, a stable macro-fiscal context that allows the private sector to assess investment risk, avoids government crowding out the private sector for scarce domestic capital, and eschews fiscally and environmentally unsustainable subsidies that work against job creation, are critical enablers. Moreover, raising domestic savings and establishing an institutional environment and financial markets that can mobilize these savings is critical to establish sustainable sources of long-term investment. In fragile contexts, progress on institutions is often hard-won, and macro-fiscal reform can present difficult trade-offs with short-term employment and stability. Yet, peace dividends can sometimes be realized on priority issues including exchange rate regimes, regulatory reform to reduce rents, land titling, or fiscal resilience to volatility and rents arising from natural resource endowments.

28. **Efforts will be strengthened to ensure efficient and competitive factor and product markets to limit distortions facilitate transformative investment.** Well-functioning factor markets support smooth and equitable access to land, capital, and labor. Equally important are product markets, including open trade regimes, competitive domestic markets, and favorable investment climates. Significant progress has been made over the past decade in rationalizing and reforming a wide range of business regulatory environment barriers (licensing, tax regimes, regulation, etc.). Increasing attention is being given to regulatory and governance agendas that promote competition by ensuring free entry into both factor and product markets, supporting individual firm productivity and aggregate output by driving labor and capital toward the most productive firms. Such institutions should avoid protecting incumbents and be inclusive – in many countries there remain explicit legal barriers to women’s access to assets, especially land and housing, and legal capacity³³ as well as important non-regulatory barriers that need to be addressed to realize efficient as well as equitable outcomes. Finally, pursuing opportunities for regional approaches to create and expand markets for goods, services, and labor contributes strongly to growth, productivity, and job creation.

29. **Where clear externalities exist, IDA will target sector-specific and structural impediments preventing the private sector from creating jobs and vulnerable groups from accessing better job opportunities.** Industry-level regulations, standards, and support institutions can foster firm entry and growth. Provision of public and common-use infrastructure helps realize agglomeration economies and connect lagging regions to markets. Regulations and governance play a role in shaping firm level incentives, for example, through inter-firm linkages, access to technology and skills, or knowledge acquisition processes, as do specialized efforts to shape entrepreneurial intent and build firm capabilities such as early start-up financing, industrial and agricultural extension programs, and business incubators, among others. Identification of specific

³³ World Bank (2016) Women Business and the Law 2016. <http://wbl.worldbank.org/>.

constraints which, if removed, could unlock transformative investments and job creation will vary from country to country. For example, in Ethiopia, targeted IDA investments in rural infrastructure and services, supported by productive safety nets, helped facilitate substantially higher earnings for small-scale farmers. At the same time, in Bangladesh, specific policies to facilitate trade (e.g., bonded warehousing and back-to-back letters of credit) combined with infrastructural investments (SEZs) were successful in catalyzing large-scale job creation, mainly for poor women, in urban light manufacturing. These project outcomes demonstrate the inter-connectedness of the special themes.

30. IDA will support targeted interventions together with adequate instruments to address constraints in factor and product markets that will enhance private returns and promote firm survival and growth, particularly in highly risky environments like FCSs. In many IDA countries, particularly in FCSs, private investors face multiple, severe constraints including: small markets and uncertain demand; weak legal and regulatory frameworks; fragile institutions; poor access to infrastructure, finance, and services; undeveloped supply chains; and difficulties in accessing markets. As a result, many of these markets remain perceived as too risky for most investors. Moreover, transaction costs are extremely high, especially for first movers, who create powerful demonstration effects allowing other investors to follow. Foreign Direct Investment can be biased to few large, high-yielding projects (notably, in the resource sector) with poor linkages and few externalities. In this context, facilitating greater and more broad-based private sector investment will require adequate instruments to balance private investor risk-return considerations by both reducing these unique costs and shifting some of the idiosyncratic risks to entities able to bear them, and at an acceptable price. Beyond these instruments, policy interventions, including support for trade agreements and introduction of external enforcement mechanisms, combined with support to infrastructure investment and policy reform, will be critical to establish a sufficiently attractive incentive framework in FCS markets. The opportunity for gains from such interventions must be kept consistent with long-term goals of a healthy, competitive private sector, avoiding unintended distortions.

31. Finally, across all aspects of the jobs and economic transformation agenda, IDA will move forward in IDA18 emphasizing two key principles: (i) ensuring learning informs operations; and (ii) ‘One WBG’ collaboration. WBG will put increasing emphasis on ensuring that results of analytical work are translated into action in operations, and that learning from operations – what works and what does not – informs subsequent operations. In the jobs and economic transformation agenda, this will include careful consolidation of the learning from the 15 Jobs Diagnostics carried out in IDA17 to help ensure that their contributions to informing operations are not restricted solely to the countries in which they were conducted. Building on the learning from the development of JIPs in IDA17, and in line with established WBG priorities, IDA, IFC, and MIGA will continue to seek opportunities to enhance collaboration in design and delivery during IDA18.

B. POLICY COMMITMENTS

32. Drawing on this approach, commitments in IDA18 build on lessons from WBG’s long experience to support jobs and private sector-led economic transformation, as well as on momentum from successful actions in IDA17. Policy commitments outlined below are organized under three headings: (i) *Analytics to inform current operations*; (ii) *Learning and*

measurement to inform future operations; and (iii) Leveraging the WBG for private sector investment.

Analytics to inform current operations:

33. **IDA will undertake eight inclusive global value chain analyses to understand how they can contribute to inclusive job creation and economic transformation.** As production of goods and services are increasingly dispersed, GVCs integrate the know-how of lead firms with suppliers of components along all stages of production in multiple companies and locations. GVCs allow countries to specialize in specific tasks and bundles of tasks while reaching the scale to compete globally. As such, there is growing recognition in developing countries of the importance of integrating with GVCs as a means of connecting to the global economy and thereby driving economic growth, job creation, and raising living standards. WBG has been at the forefront of global knowledge development on GVCs, working with partners such as the OECD, the European Union, and the governments of China, Japan, and the United Kingdom. Demand is growing to ensure that integration with GVCs features centrally in growth diagnostics and policy dialogue. Analyses of GVCs, as a tool to inform Systematic Country Diagnostics (SCDs), provides the basis for identifying and supporting policies that not only affect the cost of GVC production and supply chain trade, but maximize their developmental impact, in particular through integrating SMEs and small agricultural producers into competitive value chains. Working with partners, IDA will apply the most recent analytical methods – those that identify economy wide, sectoral, and spatial constraints to GVC integration – in eight IDA countries.

34. **IDA will expand the use of spatial mapping and spatial data analysis tools to assess jobs dynamics, urbanization trends, and infrastructure impacts.** Spatial tools offer an increasingly powerful way of understanding complex development challenges. They can also offer a route to capturing critical data and information in otherwise data-poor environments. The development of spatial tools, including both mapping and analytical methods, has grown exponentially in recent years. WBG is already at the leading edge of the use of some of these tools, but more can be done to leverage their capabilities to support the analysis and support of critical aspects of the jobs and economic transformation challenge, including the role of infrastructure and urbanization. In IDA18, IDA will consolidate the tools, data, and expertise that exists across the institutions as well as coordinate with international partners to develop a center of excellence for spatial data analysis. This will be used to support diagnostics, project design, and evaluation in IDA countries. Pilots will be designed to leverage the potential of spatial tools in critical FCS contexts, including in the design and roll-out of the rapid Enterprise Survey tool, as well as in new requests for Jobs Diagnostics where data availability permits.

Learning and measurement to inform future operations:

35. **IDA will carry out Impact Analyses of SME and entrepreneurship programs in eight IDA countries, including in four FCS, to understand overall impacts and differentiated outcomes for women and youth.** IDA provides extensive support to SMEs, microenterprises, and the self-employed across an array of countries and through a wide range of interventions. This size class of firms continue to employ a large share of workers, and are therefore an essential pillar of any country's job agenda. In recent years, IDA, along with a number of partners (including the B20/G20), has launched efforts to revitalize the SME agenda. These efforts focus more systematically on determinants of firm growth and dynamics; managerial upgrading with a view

to enhancing innovation and GVC linkages; and improved design and efficiency of firm level support (for instance, bundling access to finance with business development services and technology extensions, and ensuring support for market access). Critical to this agenda is understanding what works under different conditions – including, critically, for different categories of beneficiaries (SMEs versus microenterprises versus self-employed). IDA18 will focus on proactively assessing the effectiveness of SME and entrepreneurship programs such as cash grant and matching grants schemes, technology extension, incubators, skills development, etc., recognizing that multi-pronged approaches have typically been more successful. The impact analysis will seek to understand differences in outcome by gender and how these are shaped by the differing constraints faced by men and women (e.g., property rights, mobility, access to finance and digital services, skills, care services, and networks). In addition, these impact analyses will aim to identify how interventions can be best designed to address the specific contexts and constrained faced by youth entrepreneurs, both in the urban economy and in small farm settings. In FCS environments, this will include assessing the impact of scaled-up versions of programs offering cash and near-cash transfers for entrepreneurship, which have proven successful in small-scale pilots.

36. IDA will develop and implement measurement tools and systems to gain a deeper understanding on the impacts of investment operations on the number, nature, and inclusiveness of jobs, with a specific emphasis on gender outcomes. The World Bank will support efforts to improve measurement of the impacts of investments on jobs, both at the level of the individual and the firm. While it is understood clearly that attribution of investments to jobs is always a challenge, there is a recognition among development partners and donors that it is critical to deepen our understanding of the jobs impacts and the channels through which they occur. The aim will be to strengthen the analytical understanding between types of investments and types of job creation impacts, including measuring direct, indirect, and induced jobs, earnings, and distribution. All data will be monitored on a sex-disaggregated basis in order to improve understanding of the gender dimensions of the links between investments and jobs. Jobs-focused measurement systems, including indicators, survey instruments, and administrative systems, under development in the Jobs CCSA are being implemented in a number of IDA countries, including Zambia, Mozambique and Afghanistan, as well as in non-IDA countries such as Tunisia and Kazakhstan, extending the ability to cross-fertilize learning across IDA and non-IDA countries. Demands for these tools are coming from a number of IDA countries, particularly in the development of CPFs where the SCD has highlighted jobs as a top priority.

Leveraging the WBG for private sector investment:

37. IDA will enhance existing and introduce new operational instruments to improve risk sharing in projects and crowd-in private capital in high risk investment environments. Expanding instruments and innovation, including through a private sector window in IDA18, to leverage greater private sector funding in IDA, and in particular FCS countries, is critical to support job-creating investment. This would include enhanced project-level guarantees and risk sharing to cover selected project risks especially related to off-taker and other government commitments, with greater availability and flexibility than current IDA and MIGA offerings. These could also include local currency guarantees and MIGA portfolio risk participation. It may also include flexible risk mitigation instruments to make pioneering investments in highly developmental sectors commercially viable, including for new sectors beyond the current SME,

agribusiness and climate change programs, and for supporting related mobilization of debt and equity investors.

C. LINKS WITH OTHER SPECIAL THEMES

38. **Jobs and Economic Transformation plays a critical, cross-cutting role in supporting IDA countries toward achieving the SDGs.** As such, there are a number of important links between Jobs and Economic Transformation and the other special themes, as summarized below.

39. **Climate Change:** Understanding better how climate change is likely to impact jobs and earnings in key sectors (e.g., agriculture, forestry, and fisheries) and regions where the poor are concentrated will be critical to designing appropriate policy and investment solutions. Deepening these links will support identification of opportunities to enhance resilience and also promote adaptation, through infrastructure, urbanization, and technology adoption at the firm level. Concretely, reliable water, transport, and energy systems and quality housing are critical to managing the impacts of climate changes on economic activity and individuals' well-being. If investment in resilient assets is postponed inhabitants and economies will be at increased risk.

40. **Fragility, Conflict and Violence:** In FCSs, employment creation has remained flat, due to weak infrastructure, high costs, low productivity and depressed levels of investment. Employment levels will remain substantially below what is required, raising risks to stability, unless private-sector led economic transformation is jumpstarted. But difficult business environments and sector-specific challenges constrain private investment flows into many FCS markets. Regulatory environment issues and investment climate issues contribute to the ease (or lack thereof) of doing business and affect support for basic infrastructure investments in power, utilities and transportation that private businesses need to conduct their operations. Sector-specific challenges – frequently due to weaknesses, financial or otherwise, of the institutions and players that comprise these sectors - complicate countries' ability to attract investment to priority areas even more. These in turn constrain IFC and MIGA's ability to scale up business to support private investment into FCS. Given different country situations, targeted approaches are needed in FCS.

41. **Gender:** Jobs are at the core of the new WBG gender strategy. As countries diversify from agriculture and move up the value chain, it will be critical to help women break occupational segregation in the labor market, with special efforts to increase the productivity both of those working formally and informally. This could build on ongoing work with the Jobs Diagnostics – all those produced to date draw on sex-disaggregated data as a step to identify actions that can bring about more, better and inclusive jobs and collect information on gender norms/occupational segregation. The connectivity and capability provided by energy, water, transport, and telecommunications infrastructure brings opportunities for better earnings, access to health care, markets and education (e.g., minimizing travel times allows women to balance overlapping schedules of work and household responsibilities). Furthermore, where infrastructure services fail, it is the women of the developing world who suffer disproportionately. In cities, for example, personal safety and security is compromised by poor transit systems and unreliable and unpredictable transport systems.

42. **Governance and Institutions:** Strengthening governance and building capable institutions is fundamental to delivering growth and jobs. At the heart of this is creating an efficient, effective, and inclusive institutional environment for enterprise and business. A strong legal basis for secure

property and contract rights and predictable, transparent business regulations are critical influences on the development of the private sector and economic growth – and thus on the creation of jobs and better livelihoods. Well designed and properly implemented regulatory reforms complemented by strong institutional oversight can promote private sector growth by eliminating bureaucratic obstacles, reducing the cost and time constraints to doing business and improving the efficiency of legal institutions. A well-functioning and accountable justice system, moreover, facilitates the efficient and effective resolution of both commercial and non-commercial disputes, reduces violence and insecurity, and increases citizen support of and trust in government. It also underpins the forms and functions of other institutions that deliver public services and regulate access to resources. Finally, improving the capabilities of the agencies which prioritize, design, and oversee public infrastructure investments, will be critical to support the establishment of a competitive environment for private sector investment and job creation.

Annex 1: IDA18 Commitments

OBJECTIVES	RECOMMENDATIONS/PROPOSED ACTIONS
Analytics to inform current operations	<ul style="list-style-type: none"> • Global Value Chains: IDA will undertake eight inclusive global value chain analyses in IDA countries to understand how they can contribute to inclusive job creation and economic transformations
	<ul style="list-style-type: none"> • Spatial data analysis tools: IDA will expand the use of spatial mapping and spatial data analysis tools to assess jobs dynamics, urbanization trends, and infrastructure impacts
Learning and measurement for future operations	<ul style="list-style-type: none"> • SME Impact Analysis: IDA will carry out Impact Analyses of SME and entrepreneurship programs in eight IDA countries, including in four FCS, to understand overall impacts and differentiated outcomes for women and youth.
	<ul style="list-style-type: none"> • Jobs Measurement Tools: IDA will develop and implement measurement tools and systems to gain a deeper understanding on the impacts of investment operations on the number, nature, and inclusiveness of jobs, with a specific emphasis on gender outcomes
Leverage WBG for private sector investment	<ul style="list-style-type: none"> • IFC/MIGA Facility: WBG will enhance existing and introduce new operational instruments to improve risk sharing in projects and crowd-in private capital in high risk investment environments