

ABCs OF MSD: W IS FOR... WAVING WANDS AT THE WORLD OF WORK

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Work, jobs, or employment is often a goal of MSD programmes. On paper this is logical since jobs provide people with income and most MSD initiatives are focused on poverty reduction. Many countries are experiencing booming youth populations and donors are increasingly concerned about creating jobs. But, as anyone who has ever worked on a job creation programme can tell you, creating jobs is hard. It takes time, costs money, and probably benefits fewer people than programmes that target poor consumers or producers¹. Which means poor value for money for funders and high stress for implementers.

Whether you've been given a general target of increased employment or have the luxury of doing some sector selection first, a few lessons may help you assess how feasible it will be to encourage businesses to hire more of your target group. A LABOUR of love this is not, but an opportunity to reflect on what is realistic for a typical employment creation initiative.

Labour regulations and technological substitutes: Improved business competitiveness and growth might result in increased employment or better terms and conditions for workers (from the targeted population), so long as the hiring of new workers is not burdened by overly restrictive labour market regulations and obligations, and affordable technological substitutes for labour are not available.

Availability of outsourcing options: As a business grows and wishes to expand, it might avoid hiring additional workers if flexible, cheaper options exist outside the firm. This is often the case if labour regulations are onerous, the business cycle is seasonal, expensive skilled labour is required, or significant investment in complementary technology is also needed. This might mean that impact would need to be observed and measured beyond supported firms. Conversely, firms are less likely to outsource in sectors where reliability and quality control are essential for competitiveness.

Overall industry structure: Where labour supply is tight or outsourcing options are limited, business expansion is more likely to result in better returns to workers or suppliers. The opposite is likely to be the case where there is slack in the labour market and fierce competition among suppliers.

Level of utilisation: If a sector is operating below its capacity, business growth is likely to result in existing labour working more – and possibly earning more – rather than new employment, and existing facilities being utilised more fully, rather than outsourcing to other (smaller) firms.

Readiness to invest in new technology: As a business grows and wishes to expand, it might refrain from hiring additional workers if that requires making additional 'lumpy' equipment purchases or other investment, e.g., adding a new assembly line. Firms might defer hiring until volumes or orders have increased substantially. In such circumstances, it might also choose to outsource additional work to sub-contractors.

The bottom line is that initiatives to stimulate employment or create better jobs need to resolve labour-related competitiveness problems faced by market actors. Hiring more workers or giving them better terms and conditions only makes sense if it contributes to business performance. This might occur when a sector faces a shortage of workers, pervasive deficiencies in skills or labour productivity, or problems of labour retention that cost businesses money or a competitive edge. Innovations that enable businesses to hire, develop and manage their workforce more effectively can result in generate employment and contribute to competitiveness. This is likely to be most applicable in labour-dependent sectors and when substitution of labour with technology is not a viable option.

More employment for more people is a good thing. It's also a difficult thing for external agencies with short time frames to stimulate. Understanding the conditions under which increased employment is more likely to occur can help programmes be more realistic about what's feasible when it comes to stimulating

¹ See, for example, [this paper on MDF's experience in Pakistan](#).

employment opportunities. This entails assessing the specific labour market and sectors in which you aim to generate employment, to consider the supply and cost of labour, labour regulations, substitutes for hired labour, and industry structure, competitiveness and trajectory.