

# Labour Market Structure, Unemployment and the Role of VET in OIC Countries



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# **OIC OUTLOOK REPORT**

## **Labour Market Structure, Unemployment and the Role of VET in OIC Countries**

### Abstract:

This study provides a detailed account of labour market conditions in OIC member countries with a view to identifying and assessing the fundamental problems and challenges in the labour markets of OIC countries. After providing major structural properties of the OIC labour market, this study accentuates the role of vocational education and training (VET) in response to unemployment problem in OIC member countries. It highlights practical approaches that are regarded to be crucial in supporting and enhancing employment opportunities in order to reduce unemployment and avoiding impairment of the skill endowment of labour force.

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## 1. INTRODUCTION

It is now beyond contention that the recent global economic and financial crisis was severe by any metric. It left long-lasting harms on real economies in terms of output contractions, large deficits and high unemployment rates. Although the negative impacts of the crisis on the real economy varied widely among countries and regions, the sharp increase in unemployment rates around the world was the common and most severe one. A heavy price has been already paid in terms of lost jobs, reduced hours and associated income losses. Low-skilled workers, young people and workers on temporary contracts with limited employment protection have suffered quite a lot. In response to these challenges, interventions at labour market mostly concentrated on training, reductions in working hours and job search assistance (ILO, 2010). However, during the following six years since the onset of the crisis, global unemployment could not be contained and remain well above the pre-crisis level.

In the literature, much of the discussion on finding solutions to the unemployment problem has centred on the pivotal role of faster economic growth and cuts in real wages. With expansionary monetary policies, central banks around the world targeted to foster economic growth in an effort to facilitate generating more jobs after the crisis. Cuts in real wages were also believed to reduce the costs of labour and increase the ability of firms to employ more workers. Yet, how much growth and how large a fall in real wages would be required to reduce the size of the unemployment problem both remain matters for debate. The literature suggests a number of other solutions to the unemployment problem, including policies for reducing the supply of labour such as work sharing, early retirement, and reducing migration. However, these policies have not found enough support from economists.

While aiming to reduce their unemployment rates, countries could take some approaches to support their decision making. These approaches include, among others, improving the methods of accumulation and dissemination of information on available jobs through developing a nationwide integrated database of jobs, employers, and available employees. This type of database could reduce the time spent by an average worker on the unemployment roll and thus reduce the unemployment rate. After careful analysis on the demand and supply of skills in the labour market, countries can develop/improve efficient and effective education and training programs provided to young people, with a greater focus on vocational skills in order to reduce the skill mismatch. There may also be a role for unemployment programmes that target various groups of jobless persons, such as unemployment programmes aimed at reducing cyclical, frictional, seasonal, and structural unemployment. While some of these programmes aim at preparing people to match the existing jobs, others aim at creating jobs to match the existing skills of workers.

While unemployment is a serious concern, **inactivity** in OIC countries **with 40.5%** is even a more serious concern.

Share of inactive population in other developing countries is 34.1% and in developed countries 39.3%.

Therefore, **OIC countries need special measures to encourage people to enter actively into the labour market.**

The aim of this study is not to go into details of the discussions on how to solve the unemployment problem. This study primarily provides a detailed account of labour market conditions in OIC countries in order to be able to identify and assess the fundamental problems and challenges in the labour markets of OIC countries. In the second part of the study, the role of vocational education and training (VET) is considered in response to unemployment problem in OIC member countries. The focus of the second part is enhancing employability and employment opportunities through promoting capacity building, particularly vocational education and training (VET) programmes. It highlights practical approaches that are regarded to be crucial in supporting and enhancing employment opportunities in order to reduce unemployment and avoiding impairment of the skill endowment of labour force.

## 2. MAJOR LABOUR MARKET INDICATORS

Vulnerable employment reflects working under inappropriate conditions.

**Female workers** in OIC countries **with 65% of in vulnerable employment** represent a more fragile situation compared to **male workers with 50.3% in vulnerable employment.**

The four main indicators of labour market are the unemployment rate, the labour force participation rate, the employment-to-population ratio and inactivity rate. Changes in the unemployment rate reflect movements in the labour force participation rate and the employment-to-population ratio. Chart 1 presents the structure of population from labour market perspective. To clarify the relationship of unemployment, employment, labour force participation and inactivity rate, the following expressions will be beneficial.

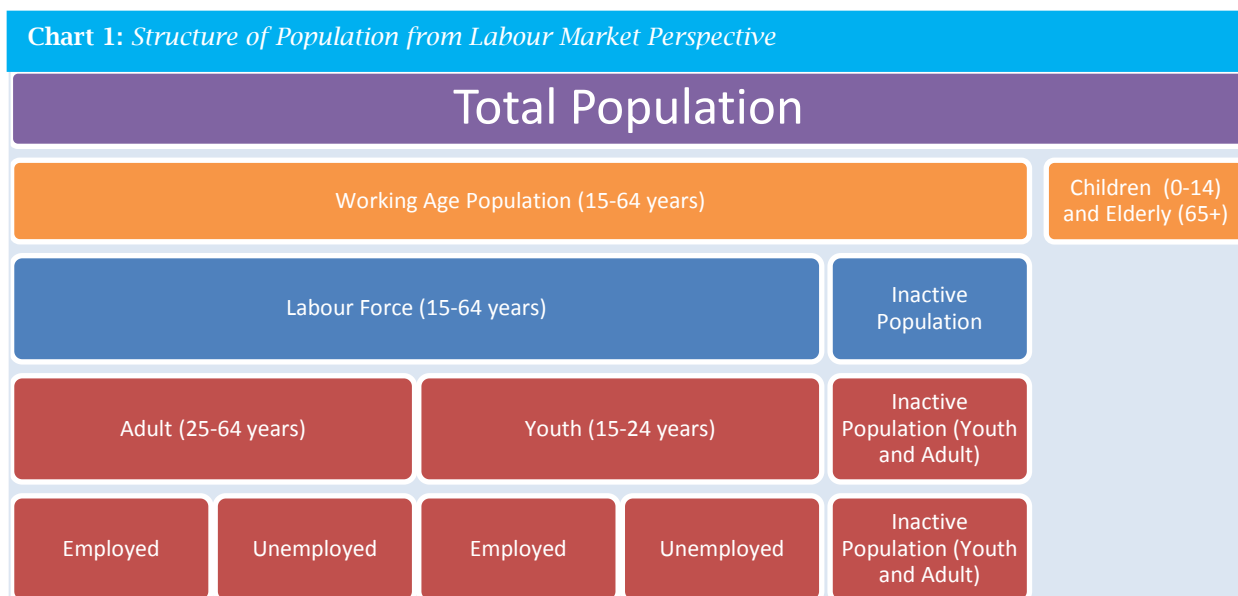
$$\begin{aligned} & \frac{\text{Employment}}{\text{Population}} \\ &= \frac{\text{employment}}{\text{employment} + \text{unemployment}} \times \frac{\text{employment} + \text{unemployment}}{\text{population}} \\ &= (1 - \text{unemployment rate}) \times \text{labour force participation rate} \\ &= (1 - \text{unemployment rate}) \times (1 - \text{inactivity rate}) \end{aligned}$$

Or,

$$\text{Unemployment rate} = 1 - \left( \frac{\text{employment-to-population}}{\text{labour force participation rate}} \right)$$

Therefore, holding labour force participation rate constant, unemployment will increase if employment-to-population decreases. Or, holding employment-to-population rate constant, unemployment rate will increase if labour force participation rate increases.

It will be also useful to have an overall look at the structure of labour market in OIC countries in line with Chart 1. In this fashion, Figure 1 shows the shares of employed, unemployed and inactive proportions of total population, disaggregated by age (youth and adult). In total working age population, around 55% of people are employed in 2012,



44% of which are adult and 11% are youth. Share of unemployed people represents only 4.5% of total working age population (2.5% adult and 2% youth). On the other hand, 40.5% of people at working age are inactive, namely not engaged actively in the labour market, either by working or looking for work. The message is clear: while unemployment is a serious concern, inactivity is even a more serious concern. Share of inactive population in other developing countries is 34.1% and in developed countries 39.3%. Therefore, OIC countries need special measures to encourage people to enter actively into the labour market.

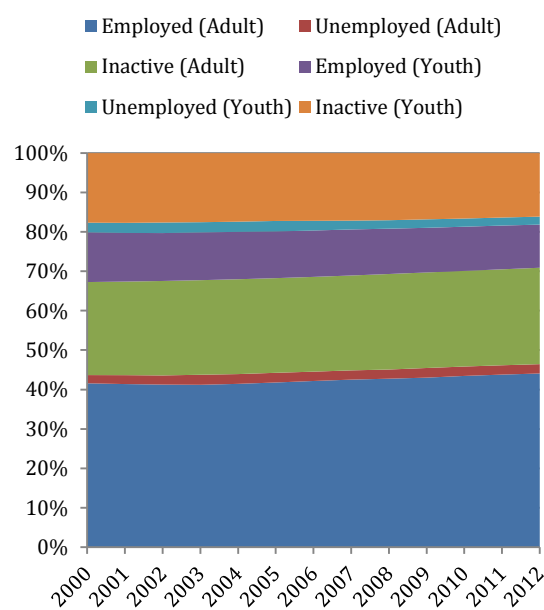
With these linkages and overall structure of labour market in mind, this section provides a detailed account of major labour market indicators for OIC countries. These include labour force participation rate, employment to population ratio, vulnerable employment, employment by sector, unemployment, youth unemployment, inactive population, educational attainment and labour productivity.

**Labour force participation rate**

Although unemployment rate is accepted as one of the leading macroeconomic variable measuring the state of the economy, it may not accurately reflect the health of labour market as the definition focus on people seeking employment for pay but not the magnitude of people who are not working actually. Due to these deficiencies, it might be ideal to start with labour force participation rate, which measures the proportion of people aged 15 and above that engages actively in the labour market, either by working or actively searching for a job. It provides an indication of the relative size of the supply of labour available to engage in the production of goods and services.

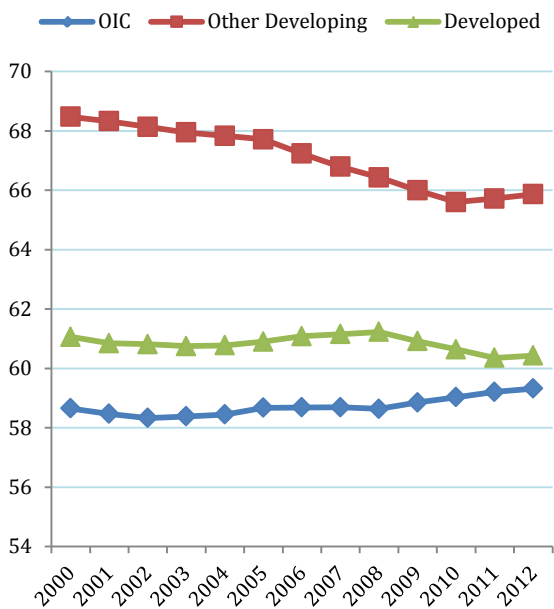
As shown in Figure 2, in OIC member countries the total labour force participation rate, contrary to other country groups, follows a slightly

**Figure 1: Structure of Labour Market in OIC Countries (2000-2012)**



Source: ILO, KILM 8<sup>th</sup> Edition.

**Figure 2: Labour Force Participation Rate (2000-2012)**



Source: ILO, KILM 8th Edition. Note: The sample includes 57 OIC, 99 other developing and 33 developed countries.

increasing trend, which stood at 59.3% in 2012 compared to 64.1% in the world, 65.9% in other developing countries and 60.4% in developed countries. In case of labour force participation rate for the male population, OIC member countries recorded a rate of 77.7% compared to 77.1% in the world, 78.6% in other developing countries and 68.1% in developed countries. Although OIC member countries registered globally comparable performance in terms of total and male labour force participation rates, their performance in case of female labour force participation rate remained significantly lower. As shown in Figure 3, in OIC member countries labour force participation rate for the female population was recorded at 40.6%, which is significantly lower than the 51.1% in the world, 53.1% in other developing countries and 53.2% in developed countries.

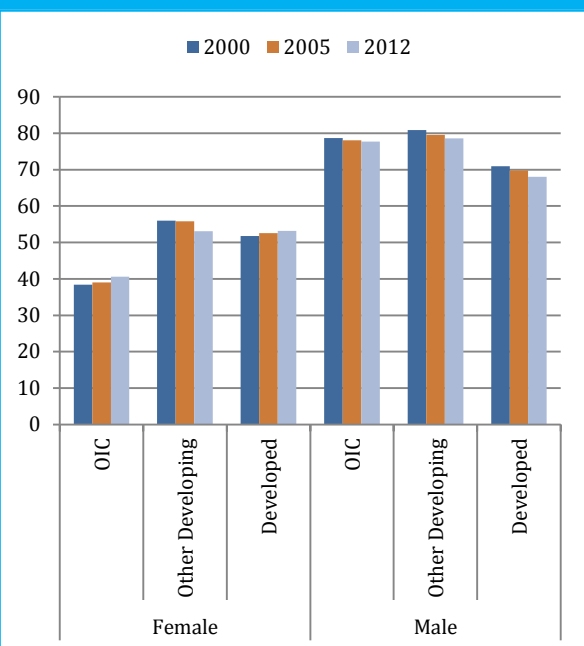
However, there is an increasing trend in labour force participation rates in OIC countries, particularly in female participation rates. Since 2000, female participation rate increased from 38.4% to 40.6%. An upward trend in this indicator is also observed in the case of developed countries but in other developing countries, female participation shows a declining trend.

At the individual country level, Qatar registered the highest labour force participation rate of total people aged 15-64 (86.7%) in 2012, followed by Mozambique (84.4%), Burkina Faso (83.5%), Togo (80.9%) and United Arab Emirates (79.3%). It is worth mentioning that with the exception of Qatar and United Arab Emirates, all top 10 performing member countries belong to least developed countries according to UN classification (Figure 4). On the other hand, lowest participation rate was recorded in Palestine with 41%. It is followed by Jordan (41.3%), Iraq (42.2%), Syria (43.6%) and Algeria (43.7%). At the global level, with respect to labour force participation rate, Qatar is ranked at 3<sup>rd</sup>, Burkina Faso at 8<sup>th</sup> and Mozambique at 10<sup>th</sup> position. It is also worth to mention that 13 of 20 countries with lowest participation rates in 2012 are the OIC member countries.

With respect to young population aged 15-24, a declining trend is observed in the labour force participation in all country groups (Figure 5). The global youth labour force participation rate, at 47.4% in 2013, remains more than 2 percentage points below the pre-crisis level, as more young people, frustrated with their employment prospects, continue to drop out of the labour market (ILO, 2014). In OIC countries between 2000 and 2012, youth labour force participation decreased from 45.9% to 44.4%, but it decreased even more significantly in other comparison groups, from 53.1% to 47.2% in developed countries and from 56% to 49.4% in other developing countries. The world average has accordingly declined to 48.5% in 2012 compared to its level of 52.9% in 2000. This trend can largely be explained by rising participation of young people to education and vocational training programmes, longer stay in school and tough labour market policies avoiding the work of teenagers.

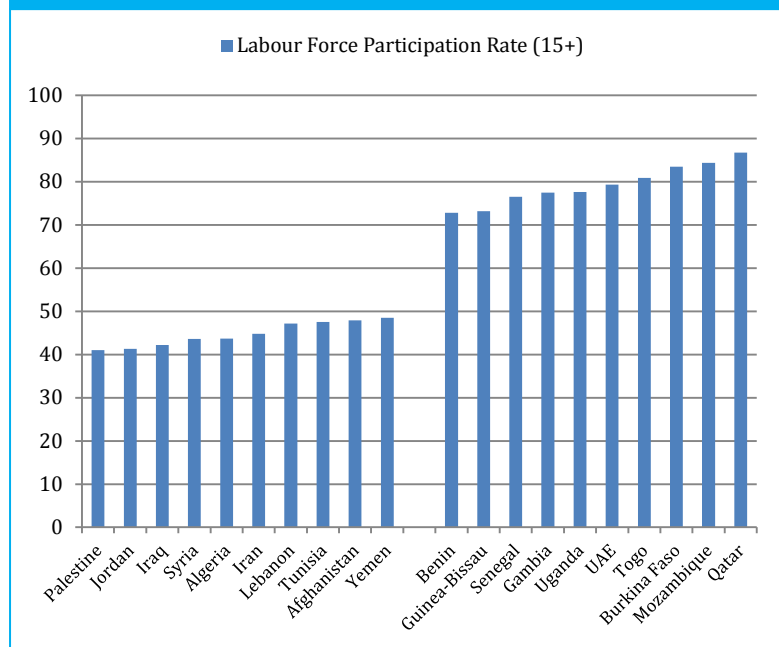
Albeit slow, only increase in youth labour force participation was observed in young female population in OIC countries, which

**Figure 3: Labour Force Participation Rate by Gender**



Source: ILO, KILM 8th Edition. Note: The sample includes 57 OIC, 99 other developing and 33 developed countries.

**Figure 4: Top 10 Countries with Highest and Lowest Participation Rates (2012)**



Source: ILO, KILM 8<sup>th</sup> Edition.

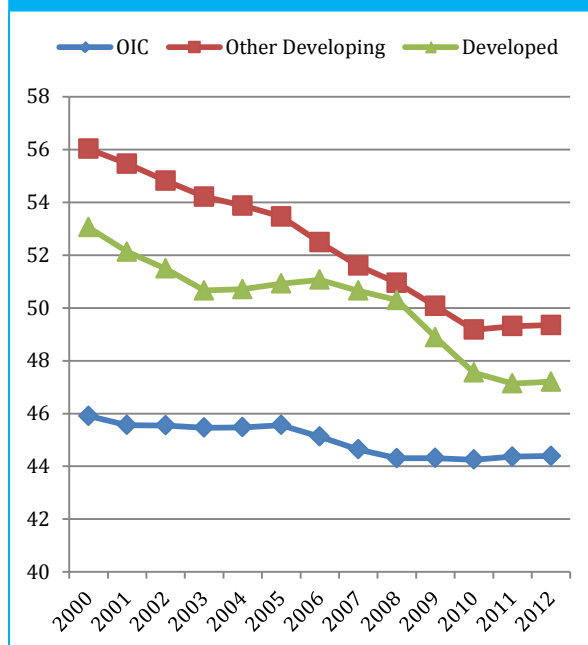
increased from 32.3% to 32.7% (Figure 6). However, despite falling trend in other country groups, youth female participation in OIC countries continues to remain significantly below the averages of other country groups. Male participation, on the other hand, showed a declining trend in all country groups during the period under consideration. It decreased from 59.1% to 55.7% in OIC countries, from 64.1% to 57.1% in other developing countries and from 55.3% to 48.5% in developed countries. Accordingly the male participation in the labour force in the world decreased from 60.9% in 2000 to 56.1% in 2012.

At the individual country level, highest youth labour force participation is recorded in Burkina Faso (76.6%), Qatar (68.5%), Senegal (66.4%), Togo (66%) and Mozambique (65.7%). Except Qatar, other countries with highest participation rates are least developed countries. On the bottom side, Saudi Arabia is the country with lowest participation of young people to labour force with 17.7% only. Jordan (24.6%), Gabon (25.6%), Palestine (25.6%) and Suriname (28.6%) are the other countries with lowest youth participation to labour force (Figure 7).

**Employment-to-population ratio**

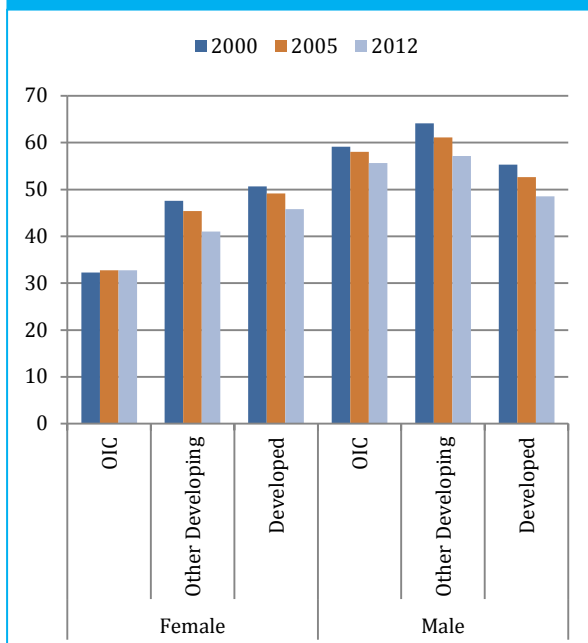
The employment-to-population (E2P) ratio is defined by ILO as the proportion of a country's working-age population that is employed. A high ratio means that a large proportion of a country's population is

**Figure 5: Youth Labour Force Participation Rate (2000-2012)**



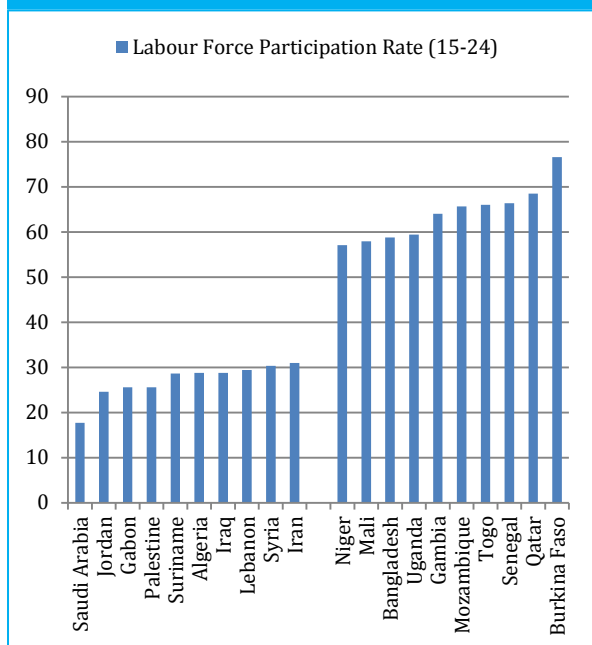
Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 57 OIC, 99 other developing and 33 developed countries.

**Figure 6: Youth Labour Force Participation Rate by Gender**



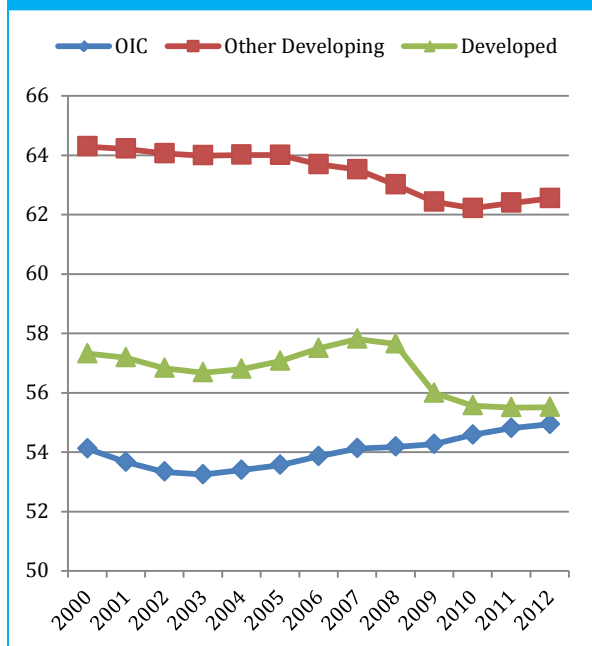
Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 57 OIC, 99 other developing and 33 developed countries.

**Figure 7: Top 10 Countries with Highest and Lowest Youth Participation Rates (2012)**



Source: ILO, KILM 8<sup>th</sup> Edition.

**Figure 8: Employment to Population Ratio (2000-2012)**



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 56 OIC, 89 other developing and 33 developed countries.

employed, while a low ratio means that a large share of the population is not involved directly in market-related activities, because they are either unemployed or out of the labour force altogether. The global employment-to-population ratio stood at 59.6% in 2012 and still well below the pre-crisis level of 60.7%. The male employment-to-population ratio at global level stood at 72.2% and the female ratio at 47.1%.

Since 2003, there is a steady increase in the E2P ratio in OIC countries, which increased from 53.2% in 2003 to 54.9% in 2012 (Figure 8). A reverse trend is observed in other country groups. In other developing countries, the ratio decreased from 64.3% in 2000 to 62.5% in 2012, while it decreased to 55.5% in developed countries from its level of 57.5% in 2000. As of 2012, OIC countries narrowed the gap between the developed countries to only 0.6 percentage points, which is a promising figure for the OIC countries. In line with these trends, the ratio in the world decreased from 61.1% in 2000 to 59.6% in 2012.

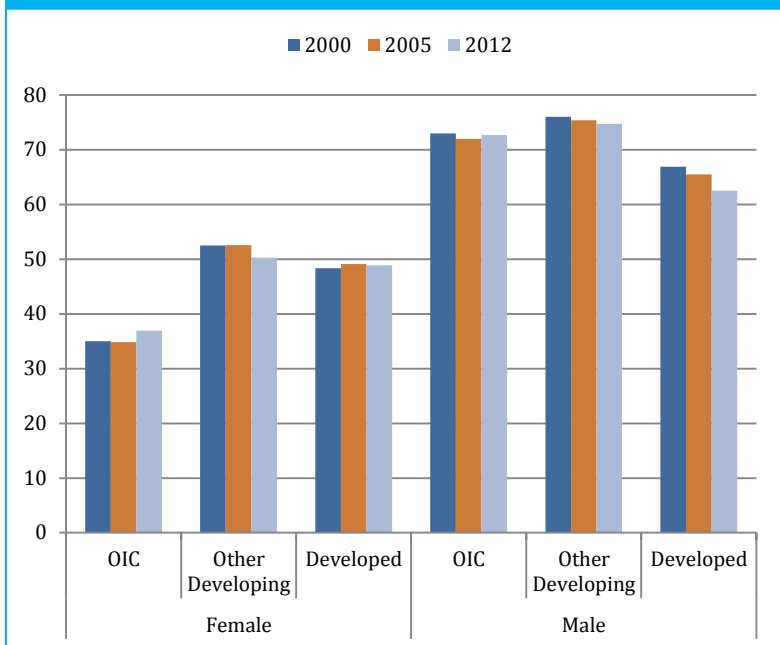
Employment-to-population ratio for female is only half of the ratio for male population in OIC countries (Figure 9). Despite slight increase in the ratio for female, it reached only 36.9% as of 2012. The ratio for male is, however, as high as 72.7% for the same year. In other country groups, such large discrepancy is not observed. The gender gap is 24.4% in other developing countries, but only 13.6% in developed countries.

The highest proportion of employment to total working age population in 2012 was recorded in Qatar with 86.2%, which is also the highest ratio in the world (Figure 10). It was followed by Burkina Faso (80.7%), Mozambique (78%), United Arab Emirates (76.3%) and Togo (74.8%). This reflects the fact that these countries have relatively high shares of labour force participation and low levels of unemployment. On the other hand, the lowest proportion of employed population to total working age population is observed in Palestine with 31.6%, which was also the lowest in the world. Other countries with low proportion are Iraq (35.8%), Jordan (36.2%), Mauritania (37.1%) and Iran (38.9%). These countries may be facing the challenges of low labour force participation and/or high unemployment.

Labour force participation of young people aged 15-24 was following a declining trend, as identified in the previous subsection. Accordingly, we observe a similar trend in employment-to-population ratio. Both in developed and other developing country groups, there is a clear downward trend in the ratio; however, in the case of OIC countries, there is a more stable picture (Figure 11). The ratios disaggregated by gender reveal that they are decreasing for both female and male. Only exception is the young female in OIC countries where the ratio is slightly increased since 2000. It seems to be rather an adjustment in line with average world ratios instead of counter-cyclical movement, as this ratio was already significantly lower than the ratio in other country groups (Figure 12).



**Figure 9: Employment to Population Ratio by Gender**



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 56 OIC, 89 other developing and 33 developed countries.

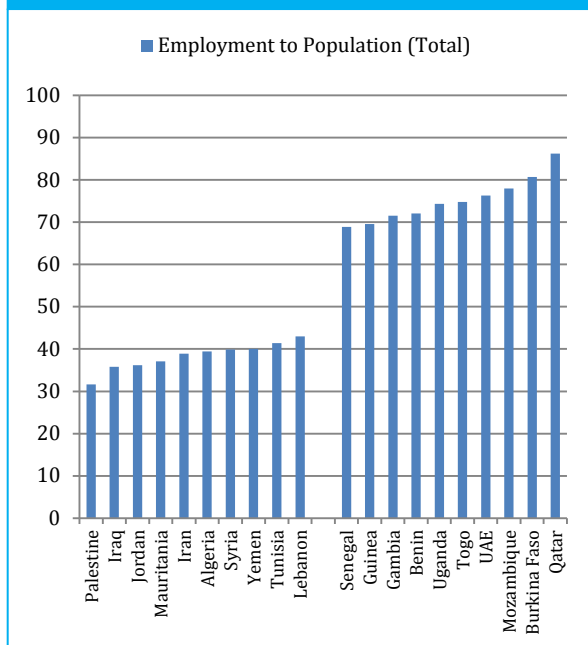
The ratio of employment to population for youth in 2012 was highest in Burkina Faso with 72.6%, which is also 4<sup>th</sup> highest in the world (Figure 13). It was followed by Qatar (67.4%), Togo (57.5%), Mozambique (57.3%) and Senegal (57%). The lowest ratio was recorded in Saudi Arabia with 12.8%, which is also 5<sup>th</sup> lowest in the world. It was followed by Gabon (16.2%), Palestine (16.8%), Jordan (16.9%) and Suriname (19.1%).

**Status in employment**

Categorization by employment status can help in understanding both the dynamics of the labour market and the level of development of countries. On status in employment, ILO distinguishes between two categories of the employed- (a) wage and salaried workers and (b) self-employed workers, with the latter further sub-divided into self-employed with employees (employers), self-employed without employees (own-account workers), members of producers' cooperatives and contributing family workers. Own-account workers and contributing family workers together represent the vulnerable employment. Due to data limitations, the focus will be only the vulnerable employment by using the latest data available.

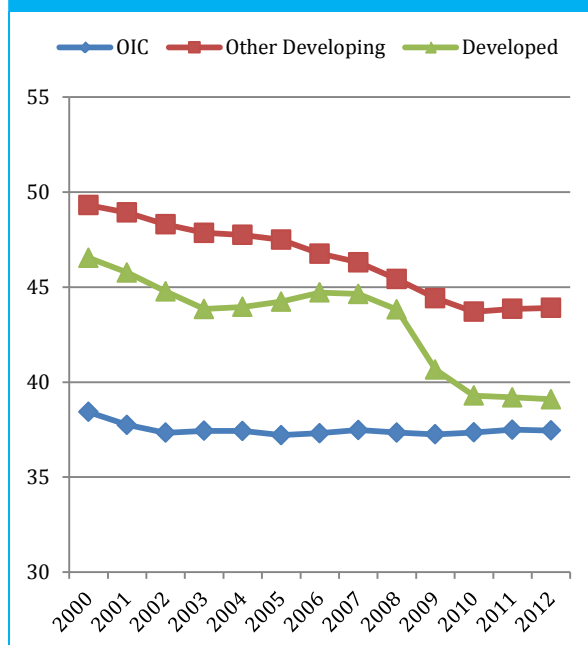
Vulnerable employment reflects working under inappropriate conditions and persons in vulnerable employment are more likely to have limited or no access to social security or secure income.

**Figure 10: Top 10 Countries with Highest and Lowest Employment to Population Ratio (2012)**



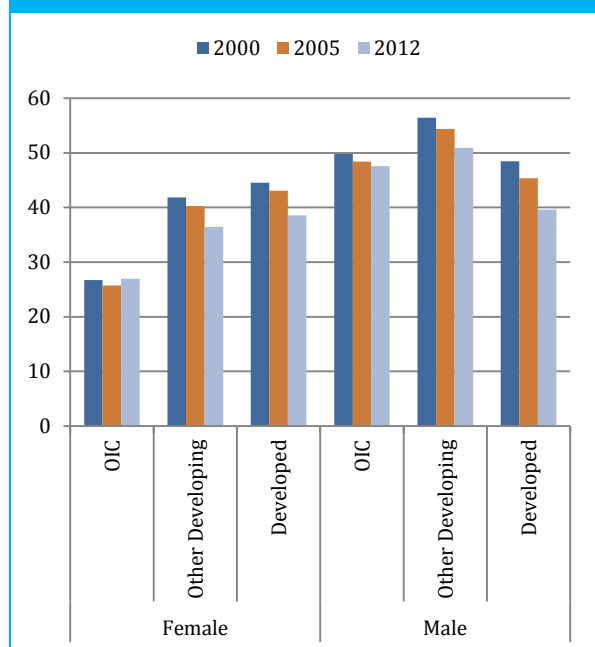
Source: ILO, KILM 8<sup>th</sup> Edition.

**Figure 11: Employment to Population Ratio (2000-2012)**



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 56 OIC, 89 other developing and 33 developed countries.

**Figure 12: Employment to Population Ratio by Gender**



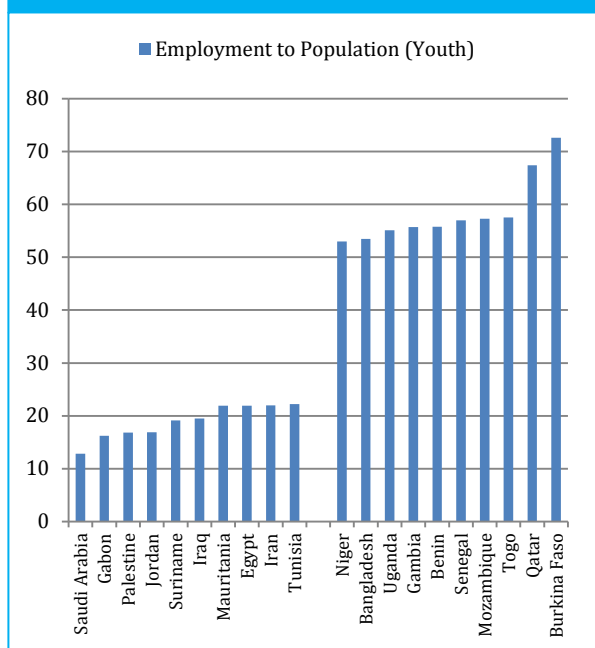
Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 56 OIC, 89 other developing and 33 developed countries.

According to the ILO’s Global Employment Trends 2014 report, vulnerable employment accounts for almost 48% of total employment and the number of people in vulnerable employment increased by around 1% in 2013, well above the 0.2% growth rates during the years prior to the financial crisis.

According to the latest data available, share of vulnerable employment is excessively high in developing countries (Figure 14). OIC and other developing countries reveal similar pictures where the share in OIC countries (54.8%) is only one percentage point lower than the share in other developing countries (55.8%). However, with 65% of female workers in vulnerable employment in OIC countries, they constitute even higher shares in total employment compared to male workers (50.3%). In other country groups, the shares of male workers in vulnerable employment are around four percentage points higher than their female counterparts.

At individual country level, sub-Saharan African countries have the largest shares of vulnerable employment, reaching up to 92.4% in Sierra Leone, 89.9% in Benin and 89.6% in Burkina Faso (Figure 15). Countries in the Gulf region have generally lower shares of vulnerable employment. With only 1% share of vulnerable employment, United Arab Emirates provides the most appropriate conditions to its workers, followed by Bahrain with 2% and Kuwait with 2.2%. These countries are also among the top 5 countries in the world.

**Figure 13: Top 10 Countries with Highest and Lowest Employment to Population Ratio (2012)**

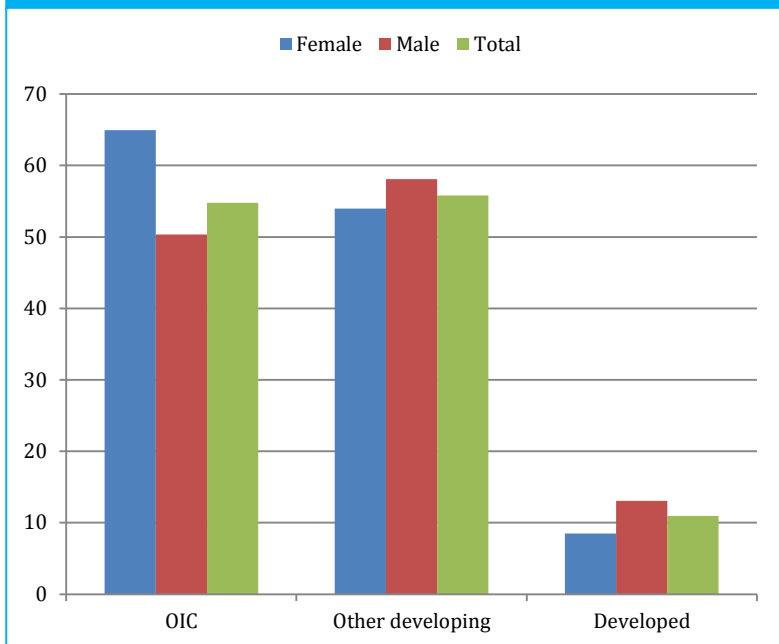


Source: ILO, KILM 8<sup>th</sup> Edition.

### Employment by sector

Alongside economic development, one would typically expect to see a shift in employment from agriculture to industry and services sectors, with a corresponding increase in wage and salaried workers and decreases in self-employed and contributing family workers, previously employed in the agricultural sector. When total employment is disaggregated into three broad sectors – agriculture, industry and services –, the share of employment in agriculture in OIC countries (36.5%) is only slightly higher than the share in other developing countries (35.3%), whereas only 2.8% of total workers are engaged in agricultural activities in developed countries (Figure 16). Industry sector accounts similar shares of employment in all country groups, 19.7% in OIC countries, 24.9% in other developing countries and 21.1% in developed countries. 75.4% of total employment in developed countries are concentrated in services sector, while this share is around 43.5% in OIC countries and 39.2% in other developing countries.

Figure 14: Share of Vulnerable Employment by Gender



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 34 OIC, 89 other developing and 25 developed countries.

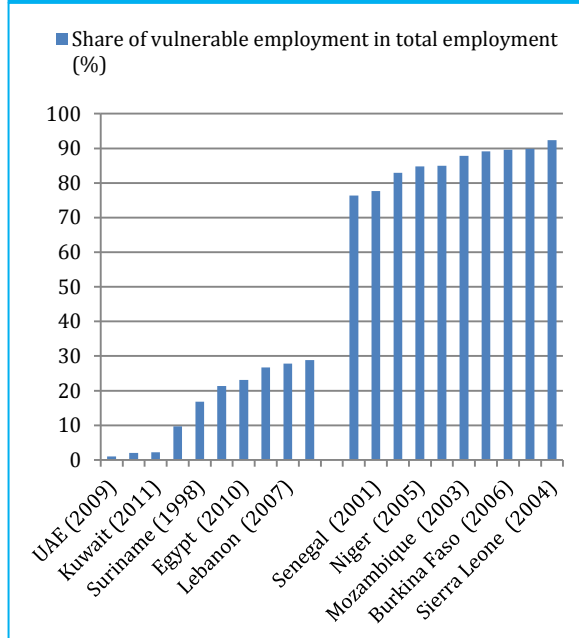
At the individual country level, share of agriculture is highest in Burkina Faso (84.8%), Mozambique (80.5%) and Sierra Leone (68.5%), as depicted in Figure 17. Burkina Faso and Mozambique have also the highest share in agricultural employment in the world. Share of industry in total employment is highest in Qatar (51.9%), Oman (36.9%) and Bahrain (35.3%). Qatar again has the highest share of industrial employment in the world. Finally share of services sector is highest in Jordan (80.5%), Brunei (77.2%) and Kuwait (76%).

### Unemployment

Unemployment remained one of the most challenging issues across the globe. According to the ILO Global Employment Trends 2014 report, almost 202 million people were unemployed in 2013 around the world, an increase of almost 5 million compared with the year before. This reflects the fact that employment is not expanding sufficiently fast to keep up with the growing labour force. Whereas, 23 million people estimated to have dropped out of the labour market due to discouragement and rising long-term unemployment.

According to the same report, the global unemployment rate remained at 6.0% of the global labour force, unchanged from 2012. The number of unemployed around the world is estimated to have reached 201.8 million in 2013, an increase of 4.9 million from a revised 196.9 million in the previous year. There were 31.8 million more unemployed persons around the world in 2013 than in 2007,

Figure 15: Top 10 Countries with Highest and Lowest Shares of Vulnerable Employment

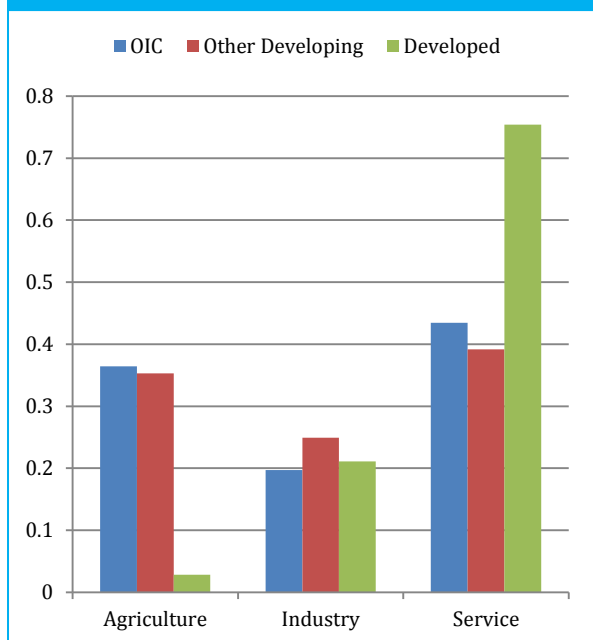


Source: ILO, KILM 8<sup>th</sup> Edition.

Despite significant improvement since 2005, **female unemployment** in OIC countries remains highest with **9.1% in 2012**. It is estimated at **5.2%** in other developing countries and **8.1%** in developed countries for the same year.

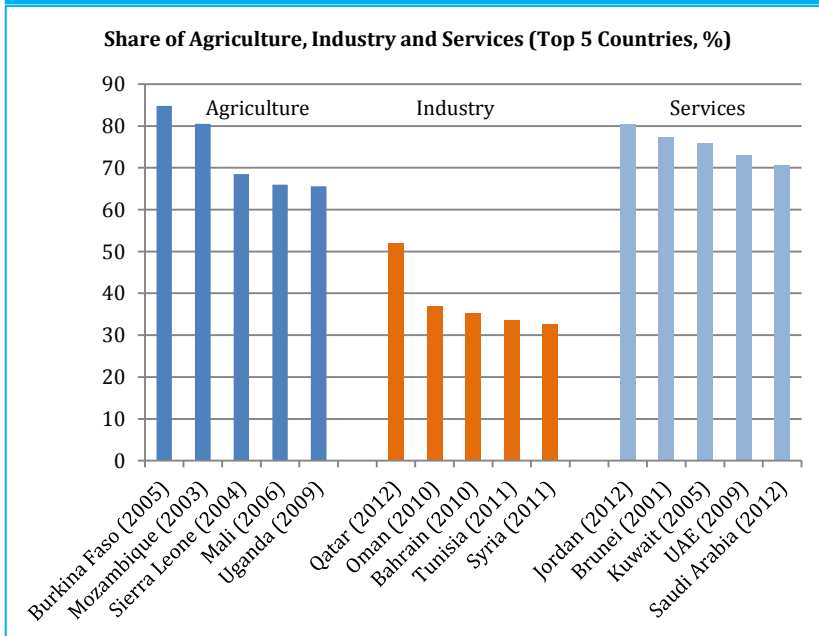
prior to the onset of the global economic crisis. In spite of some

**Figure 16: Employment by Sector**



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 42 OIC, 101 other developing and 33 developed countries.

**Figure 17: Top 5 Countries with Highest Shares of Employment in Agriculture, Industry and Services**

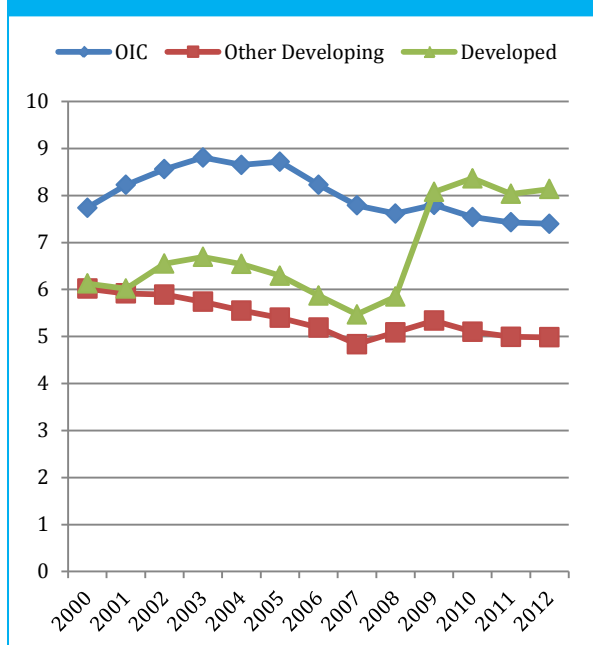


Source: ILO, KILM 8<sup>th</sup> Edition.

positive expectations about world economy for 2013-14, it is expected little improvement in the global labour market in 2014, with the global unemployment rate ticking up to 6.1% and the number of unemployed rising by a further 4.2 million.

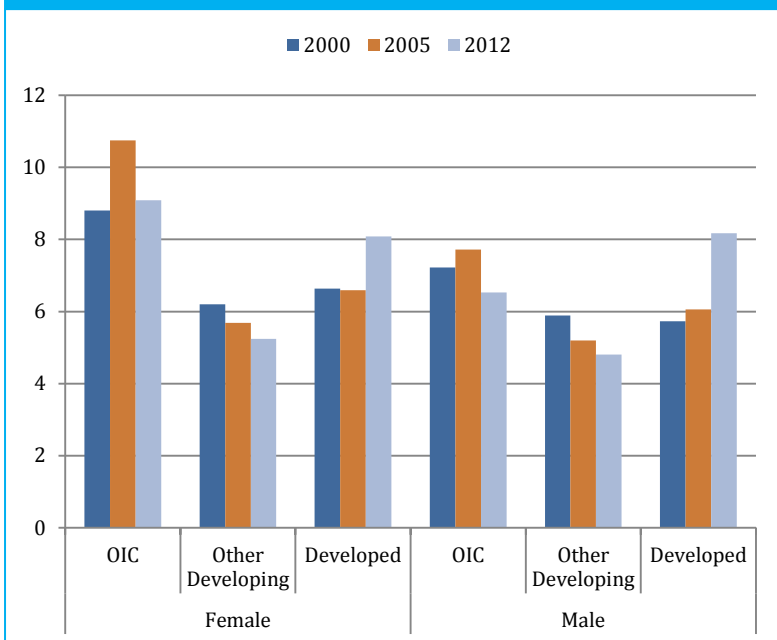
According the latest available data, OIC countries recorded significantly higher average unemployment rates compared to the world, developed and other developing countries during the period 2000-2008 (Figure 18). During this period, total unemployment rate in OIC countries changed between 7.6% and 8.8%. After the global financial crisis, unemployment rates in developed countries increased from a level below 6% to over 8%. During the post-crisis period (2009-2012), average unemployment rate in developed countries remained higher than the rate in OIC countries. Average unemployment rate in other developing countries remained significantly lower (around 2-3%) than the OIC average during the whole period under consideration.

**Figure 18: Unemployment Rates (2000-2012)**



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 56 OIC, 89 other developing and 33 developed countries.

Figure 19: Unemployment Rates by Gender



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 56 OIC, 89 other developing and 33 developed countries.

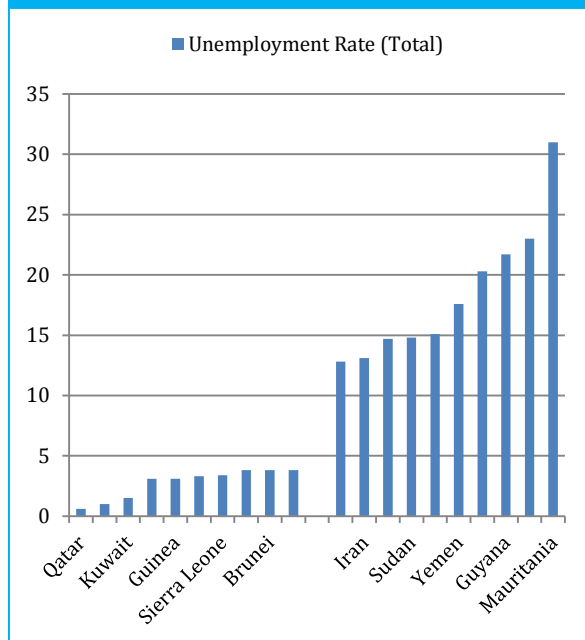
Unemployment rates for male are commonly lower than the rates for female in all country groups (Figure 19). Despite significant improvement since 2005, female unemployment in OIC countries remains highest with 9.1% in 2012. It is estimated at 5.2% in other developing countries and 8.1% in developed countries for the same year. Male unemployment in OIC countries has decreased from 7.7% in 2005 to 6.5% in 2012 and from 5.2% to 4.8% in other developing countries during the same period. On the other hand, there is an upward trend in male unemployment rates in developed countries, which increased from 6.1% in 2005 to 8.2% in 2012.

At the individual country level, unemployment rates varied among OIC countries (Figure 20). The unemployed people constituted less than one 1% of total labour force in Qatar (0.6%), which is also the lowest rate in the world. Benin (1%) and Kuwait (1.5%) are also among the ten countries in the world with lowest unemployment rates. They are followed by Malaysia (3.1%) and Guinea (3.1%). However, together with Macedonia, Mauritania (31%) is the country with highest unemployment rate in the world. Unemployment is also serious concern in Palestine (23%), Guyana (21.7%), Gabon (20.3%) and Yemen (17.6%).

**Youth unemployment**

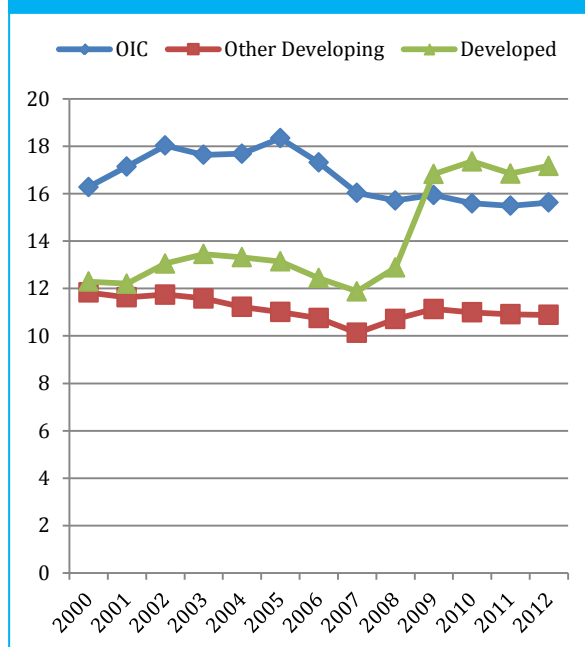
Youth (aged 15 to 24 years) continued to suffer from lack of decent job opportunities across the globe. According to the latest estimates, it is estimated that some 74.5 million young people were unemployed

Figure 20: Top 10 Countries with Highest and Lowest Rates of Unemployment



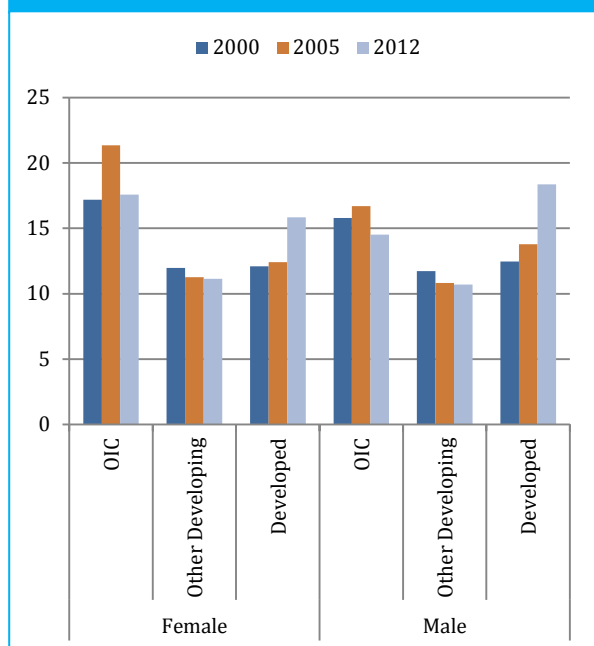
Source: ILO, KILM 8<sup>th</sup> Edition.

Figure 21: Youth Unemployment (2000-2012)



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 56 OIC, 89 other developing and 33 developed countries.

Figure 22: Youth Unemployment by Gender



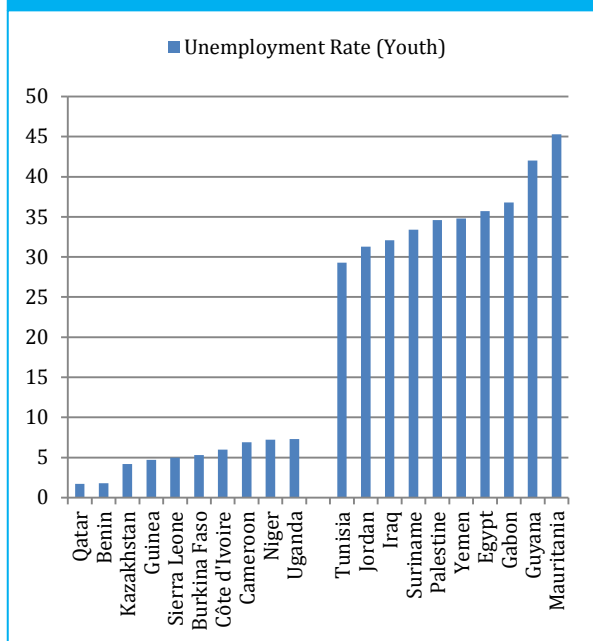
Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 56 OIC, 89 other developing and 33 developed countries.

in 2013; that is almost 1 million more than in the year before. There were 37.1 million fewer young people in employment in 2013 than in 2007, while the global youth population declined by only 8.1 million over the same period. The global youth unemployment rate has reached 13.1%, which is almost three times as high as the adult unemployment rate (ILO, 2014). It is particularly high in the Middle East (27.2%) and North Africa (29.4%).

The figures on youth unemployment in OIC countries are even less promising. It remained constantly above 16% and also well above the averages of other developing and developed countries until the global financial crisis in 2008, but then it decreased to below 16%. After the crisis, the problem of youth unemployment in developed countries became even more serious compared to that in OIC countries (Figure 21). As of 2012, youth unemployment in OIC countries estimated at 15.6%, in developed countries at 17.2% and in other developing countries at 10.9%.

As in other major labour market indicators, despite some improvement since 2005, female unemployment among young people is highest in OIC countries. It fell to 17.6% in 2012 from its level of 21.3% in 2005 (Figure 22). While female unemployment among youth has been decreasing in other developing countries during the period under consideration, it followed an upward trend in developed countries. As of 2012, it was estimated at 11.1% in other developing countries and 15.8% in developed countries. With respect to male unemployment among youth as of 2012, it decreased to 14.5% in OIC countries and 10.7% in other developing countries, but increased to 18.4% in developed countries.

Figure 23: Top 10 Countries with Highest and Lowest Rates of Youth Unemployment



Source: ILO, KILM 8<sup>th</sup> Edition.

There are again wide discrepancies in youth unemployment rates across OIC countries. Qatar (1.7%) and Benin (1.8%) are the countries with lowest unemployment rates in 2012, which are also among top three countries in the world (Figure 23). Kazakhstan (4.2%), Guinea (4.7%) and Sierra Leone (5%) were also recorded to have low youth unemployment rates. In contrast, the highest youth unemployment rate was estimated in Mauritania (45.3%), followed by Guyana (42%), Gabon (36.8%), Egypt (35.7%) and Yemen (34.8%). In 24 OIC countries, youth unemployment rate was above 20% and in 33 countries above the world average of 12.9% in 2012.

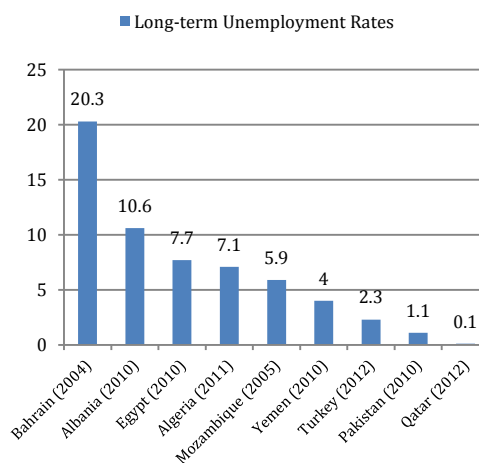
Share of youth population in total population is significantly higher in OIC countries compared to other country groups (SESRIC, SWOT Outlook 2012). Therefore, due to high youth population and high youth unemployment rates in OIC countries, the share of youth unemployed in total unemployed in OIC countries will be considerably above the share in other countries groups. This fact is depicted in Figure 24. Until 2006, unemployed youth were accounting for more than half of all unemployed people in OIC countries. This share has been decreasing since then and reached 46.1% in 2012 from its level of 54% in 2000. However, it can still be regarded as a significantly high share. There is also a declining trend in other country groups, albeit slow. It decreased to 38.4% in 2012 from 41.4%

### Box 1: Long-term Unemployment

Long-term unemployment (LTU) refers to the number of people with continuous periods of unemployment extending for a year or longer. It is the key indicator used to assess the urgency of the unemployment problem and the effects of active labour market policies. Long-term unemployed workers are usually less educated than employed workers but actually somewhat more educated than discouraged workers. Economic crisis particularly increases the share of people in LTU.

Unemployment undoubtedly has many costs and its financial impacts are more obvious. In addition, once workers who were previously unemployed find jobs, their earnings are persistently lower than before their unemployment spell. In addition to its impact on wellbeing, it can also be detrimental to other family members. They are also likely to report loss of self-respect and confidence. Therefore, specific policies should be developed to target the people who are in the labour market but not finding suitable jobs for longer periods of time.

In 9 OIC countries, for which data are available, there are wide discrepancies. In Bahrain, LTU rate is over 20%, but in Qatar it is only 0.1%. Pakistan (1.1%) and Turkey (2.3%) have also relatively lower LTU rates. However, the situation in Albania (10.6%), Egypt (7.7%) and Algeria (7.1%) is more critical.

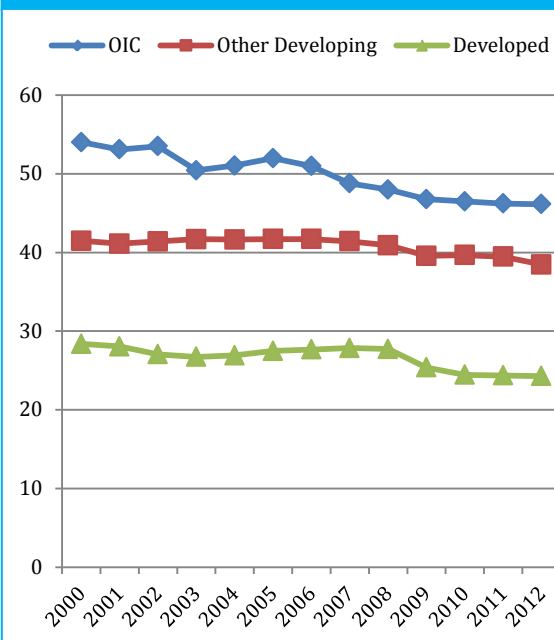


in 2000 in other developing countries and from 28.4% to 24.3% in developed countries. There is also no substantial discrepancy across gender (Figure 25). Generally, the share for male is 1-2 percentage points higher than the share for female in all country groups.

But, the critical question is why youth unemployment rates are higher than adult unemployment rates. According to ILO (2006), there are many likely explanations. Firstly, youth are more vulnerable than adults in difficult economic times. Assuming that employers seek employees with past working experience, the youth who is entering the labour force for the first time will be at a disadvantage and have a harder time finding employment. Secondly, young people often lack both labour market information and job search experience. Adults, on the other hand, might have the possibility of finding future work through references from previous employers or colleagues and are more likely to know the “right” people. Another possibility is that youth might wait longer to find work that suits their requirements.

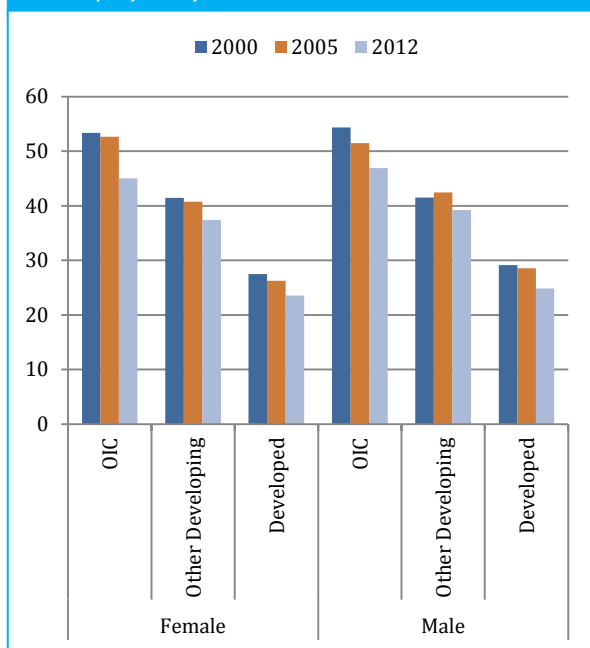
All in all, notwithstanding the extent to which the economies of the OIC countries have been affected by the crisis, it is clear that unemployment, both youth and adult, is one of the major economic and social problems that many OIC countries are still facing and requiring urgent solutions. The global estimations are not quite pleasant. According to the ILO, the global youth unemployment rate is expected to edge up to 13.2% in 2014, with increases projected in the three Asian regions and in the Middle East, partially offset by a projected decline in the Developed Economies and European Union

Figure 24: Share of Youth Unemployed in Total Unemployed (2000-2012)



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 56 OIC, 89 other developing and 33 developed countries.

**Figure 25: Share of Youth Unemployed in Total Unemployed by Gender**



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 56 OIC, 89 other developing and 33 developed countries.

region. Therefore, greater emphasis should be given to young people through promoting their participation into labour market, providing required skills and facilitating to find suitable jobs.

### Inactivity

The inactivity rate is a measure of the proportion of a country's working-age population that is not engaged actively in the labour market, either by working or looking for work. Summing up the inactivity rate and the labour force participation rate will yield 100%. Therefore, the analysis made in section 2.1 provides some insights on inactivity as well, but it is still useful to focus on the people that are out of the labour force.

There is a variety of reasons why some individuals do not participate in the labour force. Among the major factors are caring for family members, retirement, sickness, disability, education, unavailability of suitable jobs, and unwillingness to work. Increases in the number of people who are inactive, for whatever reason, can impact on the unemployment rate as it can reduce the number employed, unemployed or both. If the number of unemployed is held constant, a fall in the number of employed will increase the unemployment rate.

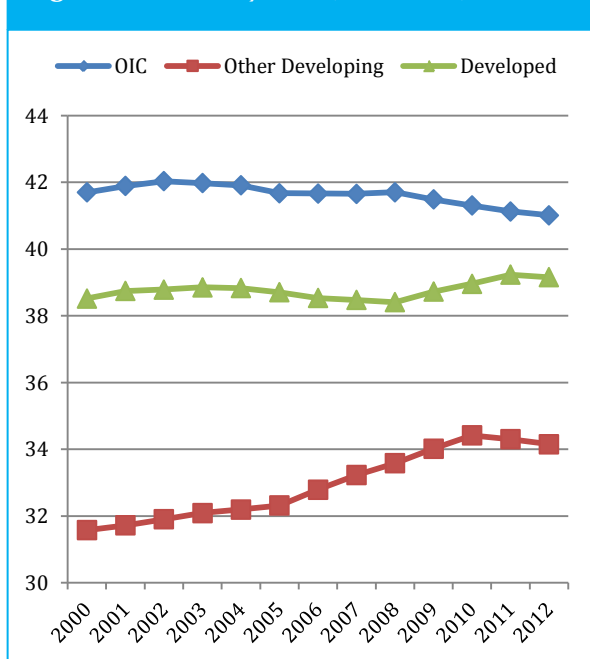
Inactivity rate in OIC countries is falling only slowly, which decreased to 41% in 2012 from 42% in 2002 (Figure 26). In other developing countries and developed countries, a slightly upward trend is observed. Share of inactive population in other developing countries increased to 34.2% in 2012 from 31.6% in 2000. Inactivity among female in OIC countries shows a declining trend, which fell to 60% in 2012 from its level of 62.3% in 2000. Inactivity among female is relatively low in other developing countries (46.9%) and developed countries (46.3%). For male, there is a slightly upward trend in all country groups (see Figure 10). At individual country level, Qatar, Burkina Faso and Togo have the lowest rate of inactivity and Palestine, Jordan and Iraq have the highest rates of inactivity (see Figure 11).

More than half of the youth in OIC countries continue to remain inactive (Figure 27). In 2012, 56% of young people remain out of labour force. In developed and other developing countries, this rate is 52% and 50.7%, respectively. These both country groups experience an increase around 6% in youth inactivity rate, which can largely be explained by participation in full-time education.

### Educational attainment

Human capital theory rests on the assumption that formal education is highly instrumental to improve the production capacity of a society. Better education improves the production process in several ways. Educated, or skilled, workers are able to perform complex tasks and thereby contribute to producing more technologically sophisticated products. Especially in developing countries, skilled

**Figure 26: Inactivity Rate (2000-2012)**



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 57 OIC, 99 other developing and 33 developed countries.



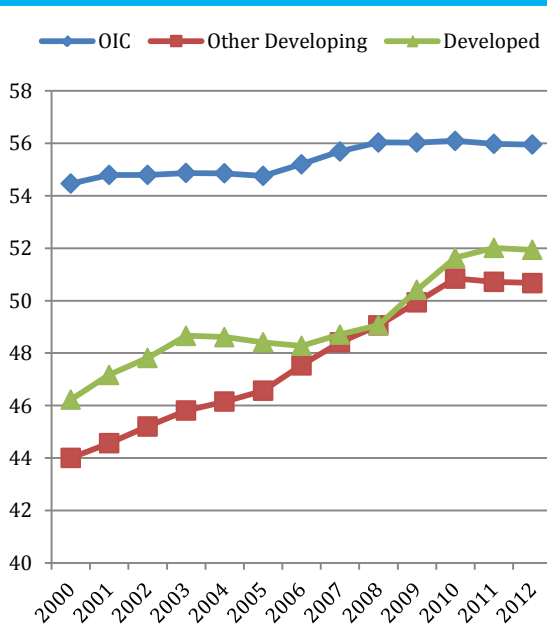
workers increase the absorptive capacity of the country by acquiring and making efficient use of rapid technological advances, which is of crucial importance in successful economic diversification and development as well as to compete successfully in world markets.

Skills level of labour force is generally classified according to specific level of education they attained. As the share of labour force with secondary and tertiary education increases, the ability to adopt new skills and absorb new knowledge increases. Information on levels of educational attainment is currently the best available indicator of labour force skill levels. They are also among the factors determining the employability of workers.

According to the latest data available, OIC countries are not portraying a charming picture. 39.4% of the labour force has only primary education (Figure 28). The shares of labour force with secondary and tertiary education are only 24.2% and 15.1%, respectively. Apparently around 20% of labour force in OIC countries does not have even primary level education. Other developing countries have a slightly better picture. The shares of labour force with primary, secondary and tertiary level education are 22.6%, 35.9% and 18.4%, respectively. Again around 22% of labour force in other developing countries did not complete even primary level education. Share of labour force with secondary education in other developing countries is around 12% higher than that in OIC countries, which makes a quite significant difference. Developed countries, on the other hand, well endowed with skilled labour force. 41.8% of all their labour force has already completed tertiary level of education and another 34.2% have completed secondary level of education. Remaining 23.9% have their primary level of education completed and there is almost no labour force without their primary level of education.

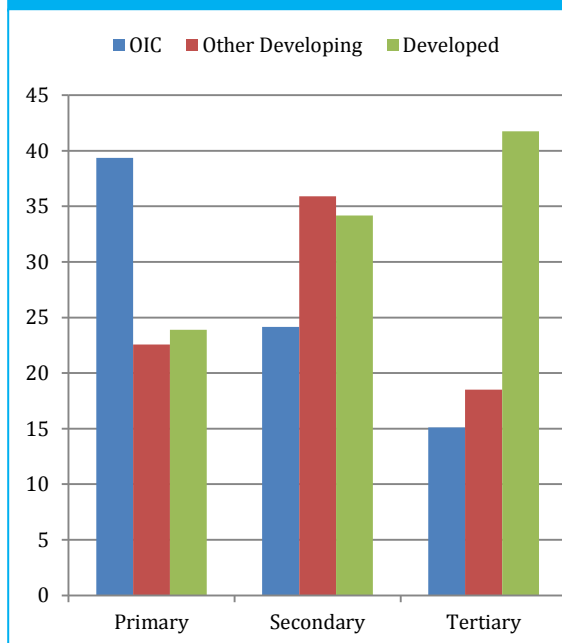
In OIC countries, female labour force with tertiary education (16.5%) is higher than the male labour force (14.7%). However, the share of female labour force without any educational attainment is also around 3-4 percentage points higher than the male labour force (Figure 29). The share of male labour force with primary education and secondary education are also 3-4 percentage points higher than the share of female labour force. In other developing countries, the share of female labour force with tertiary education (22.4%) is far above the male labour force (15.6%). There is also a similar picture in developed countries, where the share of female labour force with tertiary education (44.1%) is well above their male counterparts (39.8%).

Figure 27: Youth Inactivity Rate (2000-2012)



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 57 OIC, 99 other developing and 33 developed countries.

Figure 28: Shares of Labour Force with Primary, Secondary and Tertiary Education



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 30 OIC, 76 other developing and 33 developed countries.

### Box 2: Active Labour Market Policies

Active labour market policies (ALMP) are being implemented to increase employment opportunities for job seekers and improve balance between jobs available and qualified employees. ALMP are designed to help people cope with rapid change and encourage people to actively seek for work and keep unemployment spells low. In formulating policies, that effectively target the populations at risk, it is necessary to take account of the fact that long-term unemployment is more pronounced for some population sub-groups than others. There are three main categories: public employment services, training schemes and employment subsidies.

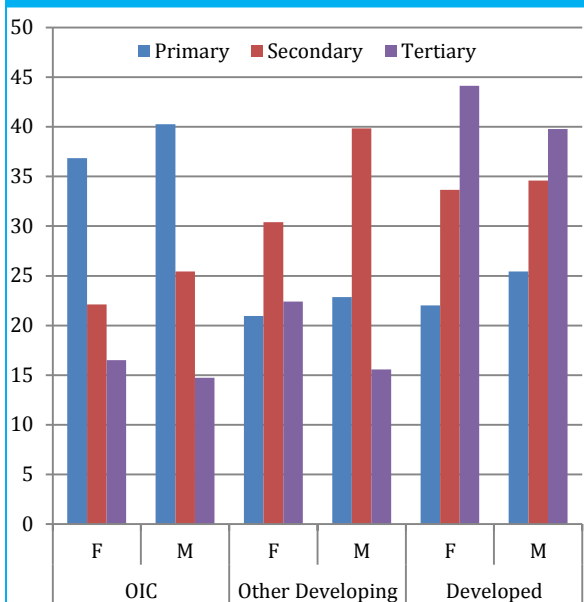
In order to ensure improvement of the effectiveness of ALMPs, the followings are recommended by the European Commission:

- Programs need to be undertaken at an early stage to prevent unemployed falling into long-term unemployment and should be focused on activation of the long-term unemployment;
- Profiling need to be taken for early identification of risky groups and the adoption of appropriate measures;
- Seeking acquisition of the right skills, training has to be well-targeted at specific groups and tailored to their needs. Vocational trainings need to be based on a more targeted and market-oriented function (workplace-based or combined with school based);
- Wage subsidies should be well targeted and run at a small-scale basis. Guidance should be offered to employers in particular in times of high unemployment as wage subsidies might be less attractive for employers;
- Job creation measures need to be well designed and need to incorporate training;
- Mechanisms need to be in place which provide incentives for employers to retain workers after the subsidy expires or combined with other ALMP measures in order to improve the employability of beneficiaries within integrated programmes;
- Programs, like subsidized employment, need to be run on a smaller scale and combined with other ALMP measures (training).

A particular focus is needed on young people, given their high rates of inactivity and joblessness.

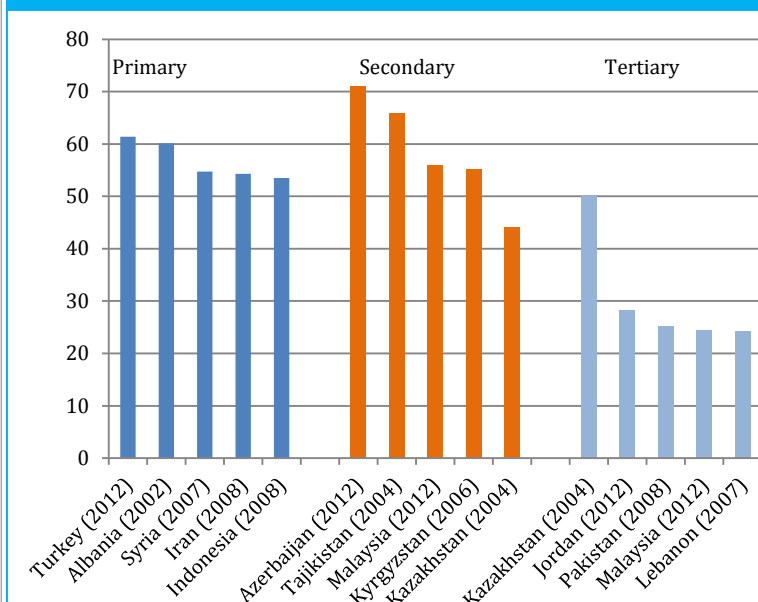
Source: European Commission. <http://goo.gl/4Rnzvr>

**Figure 29: Shares of Labour Force with Primary, Secondary and Tertiary Education by Gender**



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 30 OIC, 76 other developing and 33 developed countries.

**Figure 30: Top 5 Countries with Highest Shares of Labour Force with Primary, Secondary and Tertiary Education**



Source: ILO, KILM 8<sup>th</sup> Edition.

Countries with highest shares of labour force with primary, secondary and tertiary education in the OIC region are depicted in Figure 30. Turkey has the largest share of labour force with primary education (61.4%). In secondary education, central Asian countries appear to have highest shares. Azerbaijan (71%, which is also third highest in the world), Tajikistan (65.9%), Malaysia (55.8%), Kyrgyz Republic (55.1%) and Kazakhstan (44%) occupy the first five positions in the rank. Share of labour force with tertiary education is by far the highest in Kazakhstan (50%, which is also the fourth highest ratio in the world), followed by Jordan (28.3%) and Pakistan (25.1%).

### Labour productivity

Productivity plays a pivotal role in the development of an economy. It helps to increase real income and improve living standards by catalysing the economic growth. Labour productivity is usually defined as the output per unit of labour input or output per hour worked. It helps to identify the contribution of labour to the GDP of a country and provides a base for cross country comparison and explanation of income disparities.

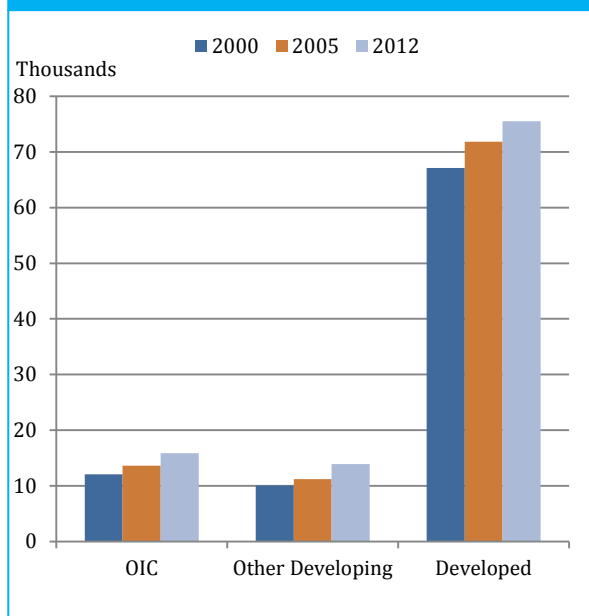
At the global level, labour productivity has witnessed an increasing trend during the period 2000-2012. As shown in Figure 31, output per worker in OIC countries has increased from US\$ 12,000 in 2000 to US\$ 15,900 in 2012. This upward trend was only affected by financial crisis in 2008 during the whole period under consideration. The labour productivity gap between the developed and developing countries remained substantial throughout this period as output per worker in the developed countries was recorded at US\$ 75,500 in 2012 compared to just US\$ 13,900 in other developing countries and US\$ 15,900 in OIC countries, expressed in constant international dollar in PPP. This means that an average worker in the group of other developing countries produces only 18% of the output produced by an average worker in the developed countries and an average worker in OIC countries produces only 21% of the output produced by an average worker in the developed countries.

At the individual country level, out of the 38 OIC member countries for which the data are available for 2012, Brunei Darussalam registered the highest output per worker (US\$ 100,100) followed by Qatar (US\$ 96,200), Saudi Arabia (US\$ 78,900), Kuwait (US\$ 72,900) and United Arab Emirates (US\$ 55,600) . Among the OIC member countries, the lowest labour productivity level was recorded by Burkina Faso (US\$ 3,000) followed by Uganda (US\$ 3,000) and Sierra Leone (US\$ 3,100). Only three member countries recorded output per worker higher than the average of developed countries (Figure 32).

### Reasons for Unemployment in OIC Countries

After a fairly detailed discussion of major labour market indicators and before proceeding to the role of capacity building through

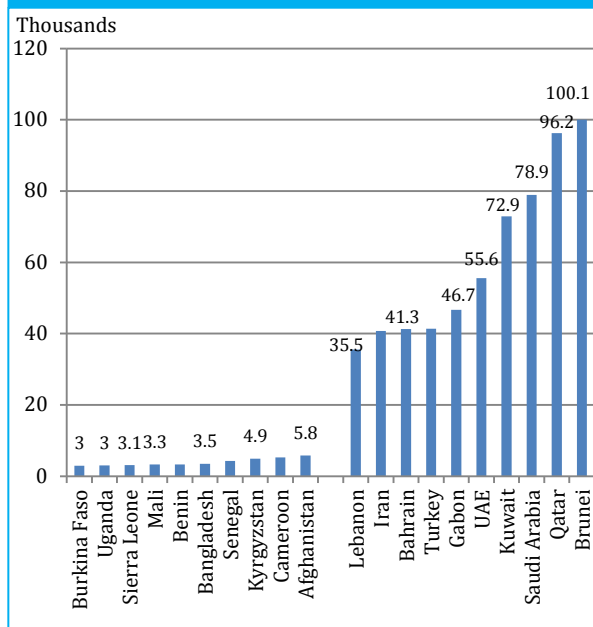
**Figure 31: Labour Productivity (GDP per worker, constant 2005 international US\$ in PPP)**



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 38 OIC, 66 other developing and 33 developed countries.

**39.4%** of the labour force in OIC countries has only **primary** education. The shares of labour force with **secondary** and **tertiary** education are only **24.2%** and **15.1%**, respectively. Apparently around **20%** of labour force in OIC countries does not have even primary level education.

**Figure 32: Top 10 Countries with Highest and Lowest Labour Productivity (2012)**



Source: ILO, KILM 8<sup>th</sup> Edition. Note: The sample includes 38 OIC countries.

The challenge facing many unemployed workers is the **lack of skills** for the jobs that are likely to be created as the economy grows. **Mismatch between the supply of skills and competencies** by the labour force and demand by employers causes **structural unemployment**.

vocational education and training for enhancing employability, a short discussion on the reasons for unemployment in OIC countries would be beneficial. The causes of unemployment are varied across countries depending on the prevailing socio-economic and political conditions of each country. In OIC countries, the major causes of unemployment could be summarized as follows:

- **Insufficient job creation (shortages of job opportunities):** The available jobs do not increase proportionately with the increase in population.
- **Skills mismatch:** The challenge facing many unemployed workers is the lack of skills for the jobs that are likely to be created as the economy grows. Mismatch between the supply of skills and competencies by the labour force and demand by employers causes structural unemployment.
- **Lower productivity:** Quite a number of firms in OIC countries are not equipped with information and technology to face fierce competition with their foreign rivals. This causes lower productivity and difficulties in surviving, especially at the times of financial instabilities. As firms close down, employees of those firms would be left unemployed.
- **Macroeconomic instability:** Uncertainty in economic policy and developments causes insecurity in investment decisions of firms.
- **Seasonality:** In certain sectors, including tourism and infrastructure, available jobs are restricted to certain seasonal periods. As the seasonal periods are over, those employed in these sectors are usually laid off and they remain unemployed until the next season.
- **Technological unemployment:** Increasing number of companies is automating their production facilities. Hence, people are replaced by machines, thus leaving a huge pool of people unemployed.
- **Conflicts and political instability:** Existence of conflicts and political instabilities naturally prevent job creation.

As a result of these structural problems in labour market, the following features of unemployment are common in many OIC countries:

1. **High rate of unemployed young educated people:** Higher expectations of youth, lack of work experience, low valuation of skills by employers, and inadequate training are all challenges facing millions of unemployed young educated people in finding suitable jobs.
2. **Inefficient allocation of educated labour in low productivity sectors:** Unproductive use of educated labour

leads to deskilling of labour force. This increases the risk of 'brain drain'.

3. **Massive female presence in education but insufficient job opportunities for them in labour market:** Insufficient vacancies for female population lead to labour market drop-outs or high unemployment.

### 3. CAPACITY BUILDING FOR ENHANCING EMPLOYABILITY

Theoretical literature has long acknowledged the importance of human capital accumulation in economic growth and development. Empirical literature also provides strong evidence on the positive impact of education on productivity and growth. A survey of the empirical results conducted by Sianesi and Van Reenen (2000) shows that an overall 1 % increase in school enrolment rates leads to an increase in GDP per capita growth of between 1% and 3%. An additional year of secondary education leads to more than a 1% increase in economic growth each year. At the microeconomic level, there is clear evidence that human capital and productivity are strongly related. The quality of human capital accumulation plays an important role in determining the ability of the society to absorb and use new knowledge and technologies, and thus to increase labour productivity, which is a key factor in promoting long-term economic growth and development.

Human capital accumulation, particularly through vocational education and on-the-job-training (OTJT) for workers with low qualifications, increases productivity and strengthens long-term competitiveness at the firm level. Besides, workers receiving OTJT have been consistently found to earn higher wages (Blundell et al., 1999). Therefore, maintaining and upgrading the skills and competences of the labour force to meet and adapt the continuously changing working environments are crucial for both the employees and employers. The importance of a person's capacity<sup>1</sup> in gaining initial employment, retaining it, or obtaining a new one is particularly substantial for enhancing the employability of the labour force in the economy.

The negative shocks to employment due, for example to global economic and financial crises, as was the case in the latest crisis, shrinks job opportunities and thus increases unemployment rates. If necessary and adequate measures are not taken, unemployed

<sup>1</sup> As defined by UNDP, capacity is the "process by which individuals, organizations, and societies develop abilities to perform functions, solve problems, and set and achieve goals premised on ownership, choice, and self-esteem." Capacity building, on the other hand, is the "sustainable creation, retention, and utilization of capacity in order to reduce poverty, enhance self-reliance, and improve people's lives."

**VET programs help unskilled workers** or people who are less endowed intellectually to **develop their skills and competence** to continue in their jobs and/or find new better job opportunities. VET also offers the needed **skills for self-employment.**

**Lack of experience and incompatible education** put labour force at a disadvantage even when higher economic growth translates into overall increased employment opportunities. In this context, the role of VET in **enhancing the capabilities and fitting the labour force to the job market** is substantial. Therefore, **compatible VET systems** should be carefully developed.

workers or those who lost their jobs may lose some of their skills during long unemployment periods. The probability of losing skills is equivalent to the probability of losing job opportunities. In order to facilitate a quick recovery of the job market in times of crisis; it is, therefore, crucial to enhance skills and capabilities of labour force through various approaches of capacity building.

In this context, although labour market conditions are varied significantly in OIC member countries, the following issues and challenges related to capacity building are considered as common in many of these countries:

- (1) a significant portion the jobs available in many OIC countries are either low-quality informal jobs or formal jobs in the public sector,
- (2) a weak linkages between education institutions, enterprises and employment offices,
- (3) the lack and low quality of vocational education and training trap the poor workers in low-skilled, low-productive and low-wage jobs,
- (4) skills and capabilities of the educated people mismatch the needs of the labour market,
- (5) difficulties for workers to move between jobs prevent them to find positions suitable to their skills, and
- (6) unemployment is persistently high for women and young people.

Considering these issues and challenges, this section highlights the importance of capacity building in enhancing employability through vocational education and training (VET) and proposes developing a compatible VET system to deal with labour market peculiarities. It also highlights the capacity building initiatives and programs of the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC).

#### **Capacity Building through Vocational Education and Training**

Vocational Education and Training (VET) is one of the practices that can effectively contribute to capacity building and skill improvement of labour force. The International Labour Organization (ILO) defines vocational training as an activity directed to identifying and developing human capabilities for a productive and satisfying working life. Vocational training activity is an educational activity with both theoretical and practical components. It gives a greater emphasis on the practical side of developing and upgrading technical skills of workers and employees in preparation for a particular job. Therefore, VET could play a vital role in meeting the demand of the current labour market and helping people to increase their chances of securing appropriate jobs. VET programs help unskilled workers or people who are less endowed intellectually to develop their skills and competence to continue in their jobs and/or find new better job opportunities. VET also offers the needed skills for self-employment. All in all, VET gives people chance to increase their capabilities to compete for actual job opportunities. Findings commonly suggest that people, particularly young, who participate in VET programs experience better employment outcomes compared to people who do

not participate in post-school education and training. VET programs have a particularly positive effect on transitions into work for early school leavers as well. The empirical studies show that vocational training significantly increases the likelihood of young people to be employed and get higher earnings compared to those without vocational education and training.

As is the case in unskilled, semi-skilled, small and marginal workers and farmers, there is also massive unemployment among educated people in many OIC countries. Lack of experience and incompatible education put labour force at a disadvantage even when higher economic growth translates into overall increased employment opportunities. The available job opportunities may fail to keep pace with the increasing number of educated and newly graduate job-seekers. In this context, the role of VET in enhancing the capabilities and fitting the labour force to the job market, through facilitating the appropriate matching of supply and demand of skills, is substantial. Therefore, compatible VET systems should be carefully developed, and those who take part in VET programs and activities should be able to understand and influence the working conditions and social environment.

#### Developing Compatible, Effective and Sustainable VET System

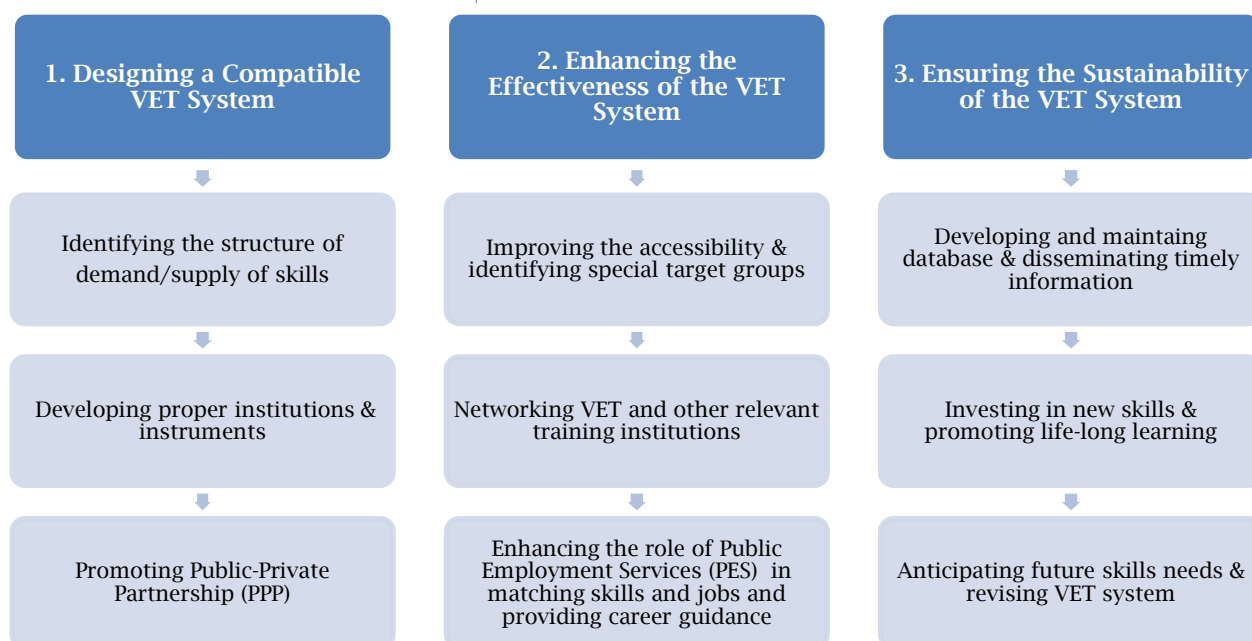
The world economy has been undergoing rapid transformation over the last few decades. Technological innovations, modernization, globalization and regionalization trends, intensified competition in the world markets and privatization are among the factors triggered this transformation. Societies have been, accordingly, experiencing various economic, social, political and cultural changes. These changes have been creating new demands for more adaptable, multi-skilled and creative labour force. In such a setting, people who don't have the ability to develop and improve their skills face difficulties to compete for job opportunities in their society. They cannot easily adapt themselves to the quick changes in labour market. Therefore, measures should be taken to meet the current and future labour market demands with a view to preparing and helping people to increase their chances of securing jobs. Vocational Education and Training (VET) is one of the practical approaches in this regard which deserves serious attention. To enhance the role of VET in alleviating unemployment, it seems necessary to develop compatible, effective and sustainable VET systems to help people, especially youth, to make a responsible and active contribution to their society. The expansion of the opportunities for people to join VET programmes shall draw them closer to the needs of the labour market and thus help them to find their place safely in the labour market.

In this connection, a set of measures to be considered in developing and implementing a compatible, effective and sustainable VET system can be proposed, as shown in Chart 2, under the following three main broad actions: (1) designing a compatible VET system, (2) boosting the effectiveness of VET system, and (3) ensuring the sustainability of VET system.

#### Designing a Compatible VET System

To ensure the **effectiveness of the VET system, all segments of labour force** should have access to training opportunities and programmes provided by the system. To this end, a **regular assessment of the accessibility and quality of the VET system** should be undertaken in order to **improve the provision of the VET services** with a view to focusing on areas where national resources can be utilized more effectively **to generate more value-added.**

Chart 2: Developing a Compatible VET System



The principal issue in designing a compatible VET system is the precise identification and evaluation of the needed and supplied skills in the labour market. The right conception on the labour market and skills utilization is an important prerequisite element for a VET system that is compatible with current and prospective economic policies and goals. The accurate assessment of the needed skills in each sector facilitates the appropriate design of the VET system with a view to enhancing the existing capacities of the labour force accordingly. In so doing, the following measures should be considered:

**Identifying the structure of demand/supply of skills:** In designing a compatible VET system, the skills needed in the market must be accurately mapped through sketching the qualifications and skills that are assumed to exist in the market under current economic policies, and examining the formation of present and prospective skills needed in public and private sectors. This could be achieved through developing a binding Skill Recognition System (SRS). An efficient SRS helps to identify and verify prior skills and experiences gained at work. Availability of transferable skills makes the shift to new jobs for workers easy and comfortable. An efficient SRS also helps to avoid mismatches of skills and jobs by facilitating the conception on how demand for skills is developing. For effective implementation, proper training institutions and instruments are required.

**Developing proper institutions and instruments:** Appropriate institutions must be established and adequate instruments must be made available. This could be done through, (1) clarifying the capacity constraints of the existing institutions and the limitations of



the training instruments and improving them to provide compatible VET for capability enhancement, (2) updating basic educational curriculum in line with skill and compatibility requirements, (3) identifying and developing the tools needed for the effective provision of training programmes, and (4) upgrading skills and knowledge among teachers and trainers, especially for people serving for a long time.

**Promoting Public-Private Partnership (PPP):** Promoting effective and efficient public-private sectors partnership increases the applicability and efficiency of the implementing the VET system and its related programmes. In this context, special attention should be given to identifying and utilizing opportunities for PPP to meet capacity building needs of the labour force. In particular, efforts should be made to provide incentives and encourage initiatives for on-the-job-training (OTJT) as the most compatible type of training.

#### **Enhancing the Effectiveness of the VET system**

To enhance the effectiveness of the VET system, efforts should be made to assess the accessibility and quality of the system and to develop appropriate ways to improve the provision of VET programmes to a wider circle of beneficiaries, including special target groups to secure higher social inclusion. To increase the efficiency and flexibility of the training programmes provided through the VET system, efforts should be made to establish efficient networks among the VET and other relevant training institutions. In this context, it is also important to strengthen the role of Public Employment Services (PES) in matching skills and jobs.

#### **Improving the accessibility and identifying special target groups:**

To ensure the effectiveness of the VET system, all segments of labour force should have the chance to access to training opportunities and programmes provided by the system. To this end, a regular assessment of the accessibility and quality of the VET system should be undertaken in order to improve the provision of the VET services with a view to focusing on areas where national resources can be utilized more effectively to generate more value-added. In so doing, special attention should be given to the issue of identifying special target groups, such as young people, people in rural areas, and disabled persons.

**Networking VET and other relevant training institutions:** To avoid duplications in the VET services provided by different public and private institutions and to enhance the effectiveness of the VET system, efforts should be made to establish efficient networks among all VET and other relevant training institutions and enhancing cooperation between educational institutions and companies for appropriate curriculum.

#### **Enhancing the role of PES in matching skills and jobs and**

**providing career guidance:** The Public Employment Services (PES) must play a leading role in matching jobs and skills by retaining up-to-date information on the skills and competencies demanded by enterprises and supplied by the labourers. Thereby, they can develop and provide distinct career guidance for youth people. Sharing this information also with the VET institutions will enhance their

In order to ensure the **sustainability of the VET system**, it is important to monitor **demographic trends and global economic changes.**

Technological improvements may increase productivity and lead to emergence of new industries. That may create **new skills and new jobs**, but also cause **job losses in declining sectors.**

### Box 3: Education for Employment (e4e) - Realizing Arab Youth Potential

The Arab countries suffer the highest youth unemployment rates in the world with an average of more than 25% compared to the world average of 12.6%. Average labour force participation rate is only 35% compared to the world average of 52%. For demographic reasons, the Arab region has to create 35 to 40 million jobs in order to only maintain current average unemployment rates. However, in order to reduce the average unemployment rate of the region to the global average and to approach the world average work force participation rate, more than 85 million jobs should be created over the next ten years. Yet employers in the region frequently complain about the skills of the young graduates and their lack of relevance. Young people, on the other hand, complain about the lack of guidance on what skills employers are looking for, and where the employment opportunities will be once they graduate.

Recognizing this fact, two of the SESRIC recent initiatives, Vocational Education and Training Program for OIC Member Countries (OIC-VET) and Skill Development for Youth Employment (SDYE), already pursue objectives for youth skill development in OIC member countries. More recently, in partnership with the Islamic Development Bank (IDB) Group, the International Finance Corporation (IFC) of the World Bank Group, the largest multilateral investor in the private education sector in emerging and developing countries, initiated a large-scale program of between \$1.5bn and \$2bn aimed at bridging the gap between existing education and employment and narrowing the skills gap among young people in the Arab world. The joint initiative of “Education for Employment (e4e)” focuses on the goal of ensuring that education leads to improved employment prospects, whether in attractive and sustainable jobs or in self-employment. In terms of its scope and priorities, the e4e initiative is focused on matching the skills taught to young people to those in demand by employers. In this context, the initiative aims at exploring the ways and means through which all stakeholders can contribute to meeting these goals and identifying the enabling environment required for these activities to flourish.

effectiveness in determining the appropriate curriculum for the required skills and competencies and providing targeted training on specific groups.

### Ensuring the Sustainability of the VET System

Overall composition of skills requirements are changing as the job contents are changing with the introduction of new technologies. In order to keep the labour force employable, the right mix of skills must be continuously acquired. That requires developing a database on declining and emerging jobs, providing vocational and career guidance, promoting life-long learning and providing incentives for private initiatives for capability enhancement, and anticipating future skills needs.

**Developing and maintaining database and disseminating timely information:** Developing and maintaining database and disseminating timely information on jobs, skills, learning and training opportunities is crucial for the sustainability of the compatible VET system. In order to improve employability effectively, it is important to know the composition of the demanded skills when organizing the training programmes. Such a database will also enable labourers to develop and update the necessary capacities and skills they consider as necessary for their productive occupation in the job market.

**Investing in new skills and promote life-long learning:** New skills are required for labour force to remain employable, but it is also needed by enterprises to remain competitive and retain their workers. New skills are also important to boost productivity in the recovery from crisis. Accordingly, the sustainability of the VET system should be ensured through: (1) allocating higher investment in VET programmes in new emerging sectors, (2) considering development of skills in informal sector and address their needs to improve productivity, and (3) encouraging firms to utilize and invest in new technologies by making appropriately skilled workers available. It is also important to encourage life-long learning to help workers to remain employable.

**Anticipating future skills needs and revising VET system:** Anticipation of future skills needs is important for adjusting the VET system and keeping it compatible. To this end, efforts should be made to: (1) ensure good quality data on the respective employment possibilities and related gains associated with different qualification levels (2) adjust the fundamentals of initial education to current and future skills needs, (3) monitor trainees’ success on the labour market and share the information with education and training institutions, and (4) provide timely information to all stakeholders about declining and emerging industries and give them chance to make early decision on shifting their sectors.

Moreover, in order to ensure the sustainability of the VET system, it is important to monitor demographic trends and global economic changes. Technological improvements may increase productivity and lead to emergence of new industries. That may create new skills and

new jobs, but also cause job losses in declining sectors. Integrating to world economy through international trade offers potential for joining in global production chain, but may also result in significant challenges for domestic industries. In both cases capability enhancement is required to remain competitive

## 4. CONCLUDING REMARKS AND POLICY IMPLICATIONS

This study presents detailed information on the structure of labour market in OIC countries, focuses particularly on issues related to unemployment and proposes developing a compatible vocational education and training (VET) system in order to enhance employability and employment opportunities in OIC member countries. It is found that labour force participation rate, employment to population ratio, share of employment in services sector, share of labour force with tertiary education are lower, but female unemployment rate, share of vulnerable employment, share of employment in agriculture, inactivity rate, and share of labour force primary education are higher in OIC countries compared to other developing and developed countries.

In order to tackle the major challenges in the labour market and improve the employability of labour force in OIC countries, a formation of a compatible VET has been also outlined in detail in the second part of the study. Although labour market conditions are varied significantly in OIC member countries, the following issues and challenges related to capacity building are considered as common in many of these countries:

- A significant portion of the jobs available in many OIC countries are either low-quality informal jobs or formal jobs in the public sector;
- Weak linkages between education institutions, enterprises and employment offices;
- The lack and low quality of vocational education and training trap the poor workers in low-skilled, low-productive and low-wage jobs;
- Skills and capabilities of the educated people mismatch the needs of the labour market;
- Difficulties for workers to move between jobs prevent them to find positions suitable to their skills;
- Unemployment is persistently high for women and young people.

Given these challenges, OIC member countries should develop compatible, effective and sustainable VET systems through considering the following measures:

- Identifying the demand and supply structure of skills through developing Skill Recognition System (SRS);

**Maintaining and upgrading the skills and competences** of the labour force to meet and adapt the **continuously changing working environments** are crucial for both the employees and employers. The importance of a person's capacity in **gaining initial employment, retaining it, or obtaining a new one** is particularly substantial for enhancing the employability of the labour force in the economy.

- Enhancing the role of Public Employment Services (PES) in matching skills and jobs and providing career guidance;
- Developing appropriate VET institutions and instruments;
- Promoting Public-Private Partnership (PPP) for enhancing the effectiveness of VET programmes;
- Improving the accessibility to VET services and identifying special target groups;
- Networking VET and other relevant training institutions;
- Developing and maintaining database and disseminating timely information on jobs, skills, learning and training opportunities;
- Investing in new skills development programmes and promoting life-long learning;
- Anticipating future skills needs and revising VET system accordingly.

In addition to these, active labour market policies (ALMP) need to be implemented more forcefully to address inactivity and skills mismatch.

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