

Barriers to search and hiring in urban labour markets

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Policy Landscape



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Every year, hundreds of millions of people around the world search for a job, while millions of firms look for new recruits.

- Large share are young and first-time entrants to the labour market
- Many of these jobseekers live in cities in low and lower-middle income countries
- Recent emergence of a rich body of evidence documenting the labour market barriers faced by jobseekers and firms in such contexts

Outline

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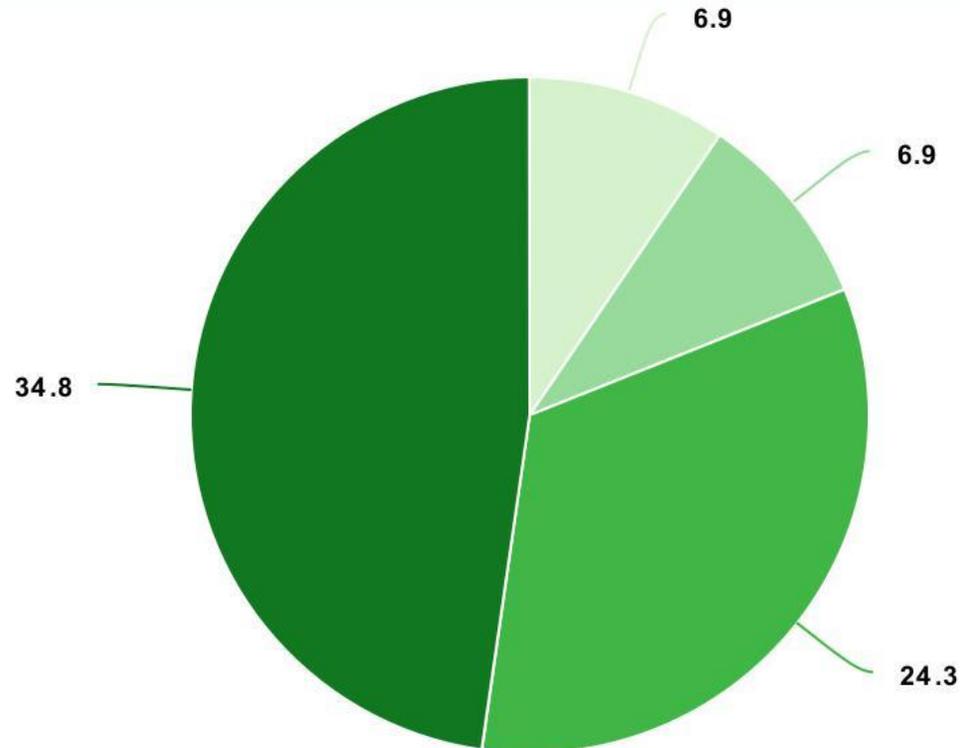
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- Introduction
- Barriers to jobseeker search
 - Limited information about skills and search strategies
 - Limited information about the labour market
 - Search costs
- Barriers to firm search
 - Limited information
 - Cost of vacancies and attracting applicants
- Gender and search frictions
- Conclusion: Welfare and returns to search interventions

1. Introduction

Who is searching?



Low income High income Upper-middle income Lower-middle income

World youth unemployment (in millions).

Source: ILOSTAT, ILO modelled estimates, November 2021.

- The bulk of young unemployed people globally live in poor countries. The ILO estimates that there are about 73 million jobseekers worldwide between the age of 15 and 24. Among these, 41.7 million (57%) live in a low or lower-middle-income country.
- Donovan et al. (2023)'s study of 49 countries suggests that among the poorer half of countries, many workers are in highly temporary, insecure jobs of short duration and are thus also searching.



**Five Stylised
Facts consistent
with the existence
of meaningful
barriers to
search in LMICs**

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1. High levels of search, high rates of exit from employment, long job search spells.

- In other words, it takes a long time for workers to find a job that is a good match between their preferences and those of the employer.
- Consistent with this, in low-income countries wages tend to increase more slowly as people age compared to richer economies, but they increase faster once people find a good match (Lagakos et al. 2018, Donovan et al. 2023).



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2. Cost of job search is substantial for the typical jobseeker.

- In studies from Ethiopia, Jordan, South Africa and Uganda, job search expenses among active jobseekers amount to at least 16% of total jobseeker expenditure or at least 18% of earnings.



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3. Employers often report that a lack of skilled workers or the difficulty of identifying a good hire are key constraints to firm growth.

- The World Bank reports that about 23% of firms cite workforce skills as a significant constraint to their operations. In some African and Latin American countries, this share rises to 40–60% (World Bank 2023).



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4. Employers regularly hire through social networks.

- In a recent cross-country survey, 50% of workers in developing countries report having relied on social networks to find their current job (Sapin et al. 2020). The studies we reviewed report similar descriptive findings.



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5. Online platforms to facilitate search are becoming increasingly popular, but their use is far from universal.

- These platforms can give rise to new search barriers specific to online marketplaces (Fernando et al. 2023, Wheeler et al. 2022).

The evidence base

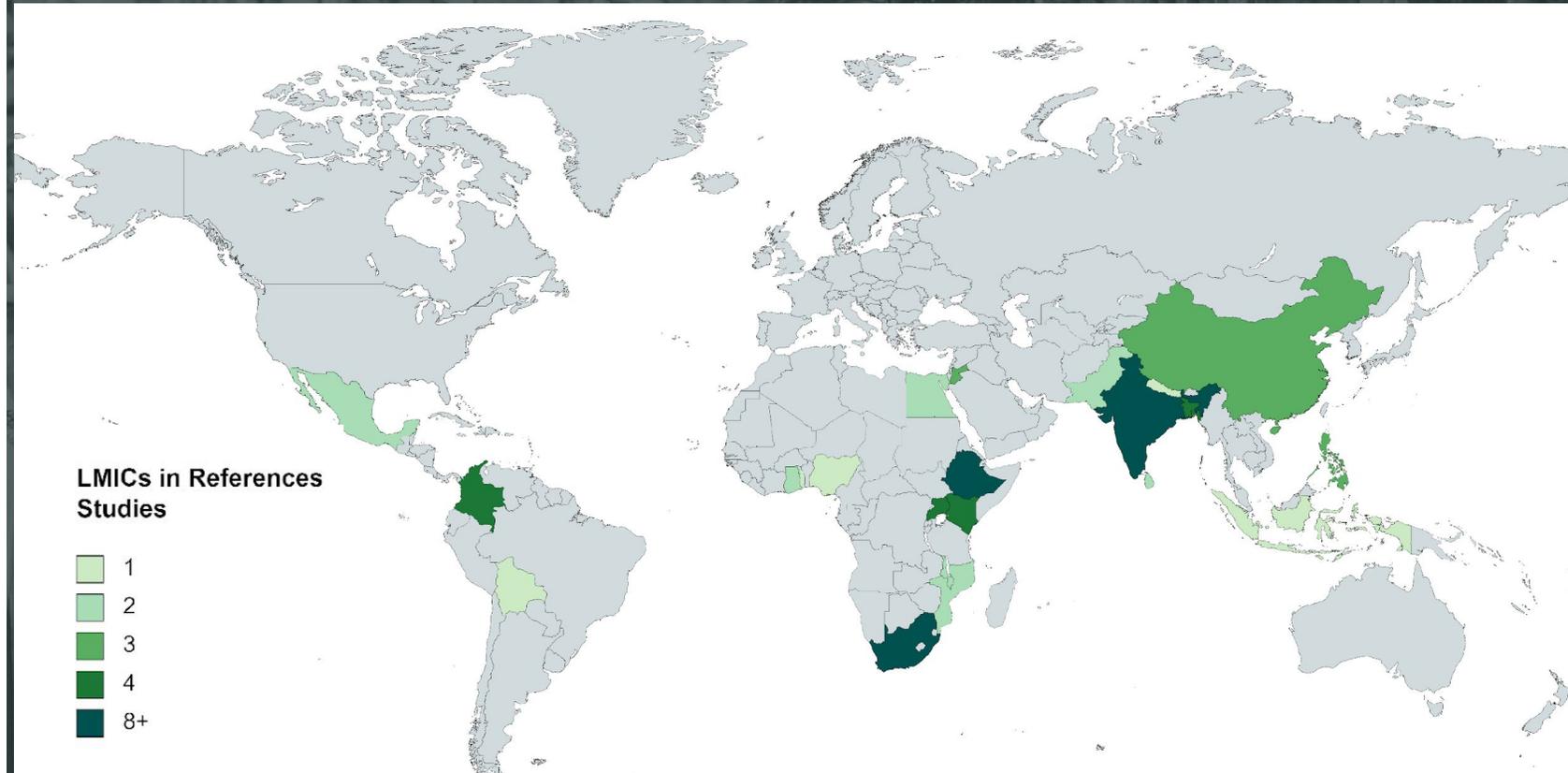
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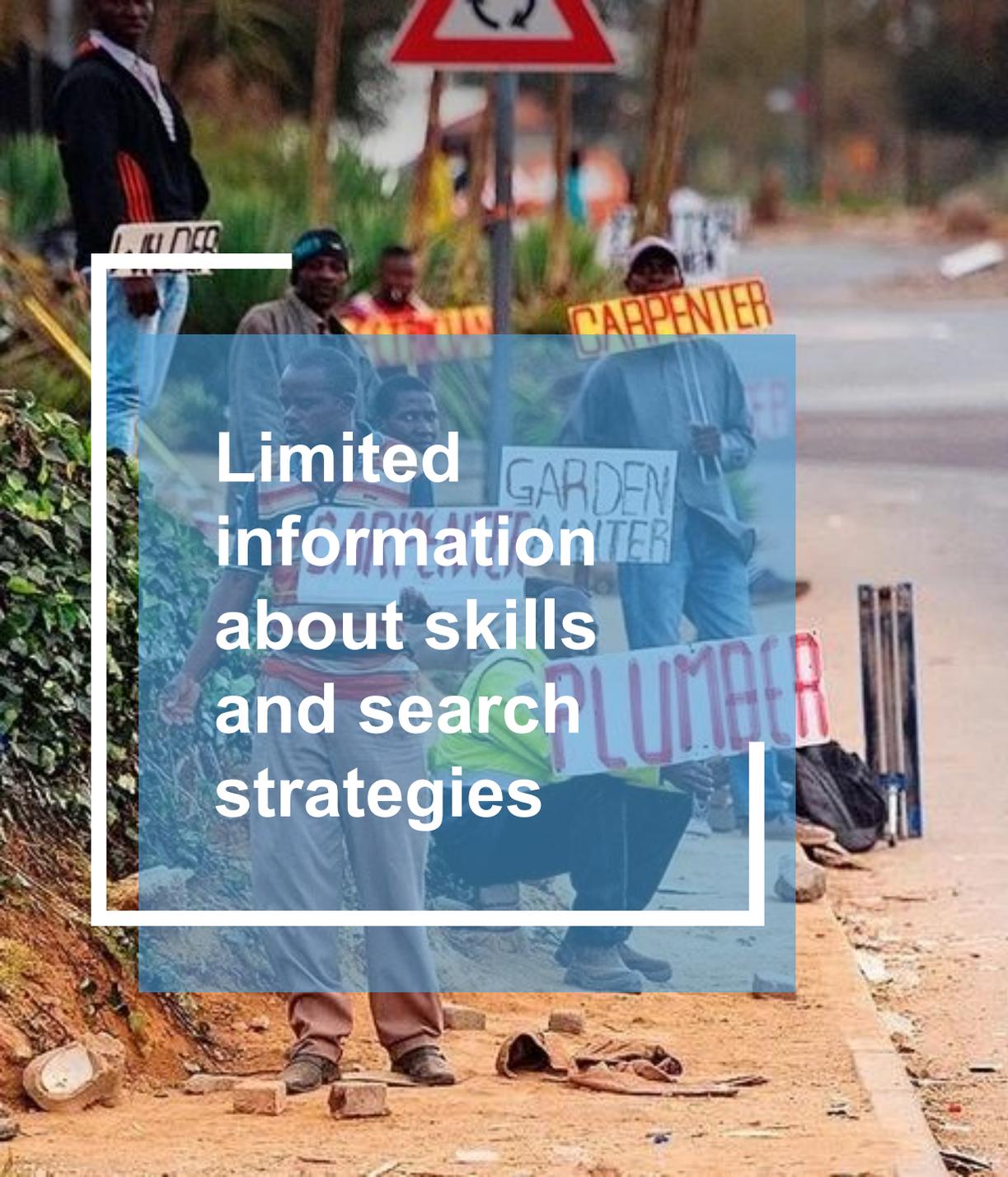
In this current version of the review:

- 80 studies
- 23 low- and middle-income countries
- Mostly published in the last 10 years.



Barriers to jobseeker search:

Limited information about skills and search strategies



Limited information about skills and search strategies

After finding a suitable vacancy, jobseekers need to convince recruiters of their employability. Being able to convey credible information about one's talents and skills is thus essential to secure a job. Unfortunately, however,

- **Credential and certification systems** are often under-developed in low and lower-middle-income countries.
- For groups that have limited labour market experience, **references from former employers** — a key tool to signal ability in many labour markets — are unavailable.

Providing information on jobseekers' skills

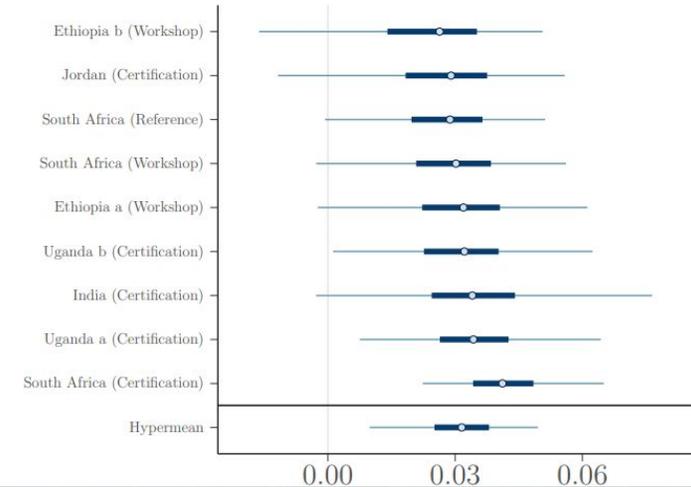
Interventions

- Certification, job application workshops (Abebe et al. 2021a, Carranza et al. 2022, Bassi and Nansamba 2022)
- References (Busso et al. 2023, Abel et al. 2020)
- Preferences (Banerjee and Chiplunkar 2023)

Policy Takeaways

- Likely to be a valuable policy intervention in different contexts, and a cheap addition to existing job search assistance programmes.
- More evidence is needed to understand how to best collect this information, how to best complement information, and how it changes labour market trajectories in the longer run.

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Estimated distributions of treatment effects on employment (above) and unconditional income (below) for studies from a Bayesian meta-analysis (Kreft 2023).

Bayesian meta-analysis: many studies see small positive effects; aggregated we see a positive 3pp increase in employment, and likely positive, but uncertain effects on income (Kreft 2023).

Contact Brynde Kreft
(brynde.kreft@bsg.ox.ac.uk) for the paper.

Encouraging use of job search and matching platforms

Interventions

- Encouraging registration (Kelley et al. forthcoming, Jones and Sen 2022, Chakravorty et al. 2023, Afridi et al 2023)
- Encouraging more use (Field et al. 2023)
- Encouraging better use (Wheeler et al 2022)

Policy Takeaways

- Evidence base is more mixed – may reflect differences in underlying labour market conditions, and that registration alone is insufficient.
- Other barriers like social norms may mean only a specific group of workers benefit.
- More evidence needed on general equilibrium effects, how variations in design of platforms may affect outcomes, and how online search may be part of a wider portfolio of job search strategies.

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Learning through networks

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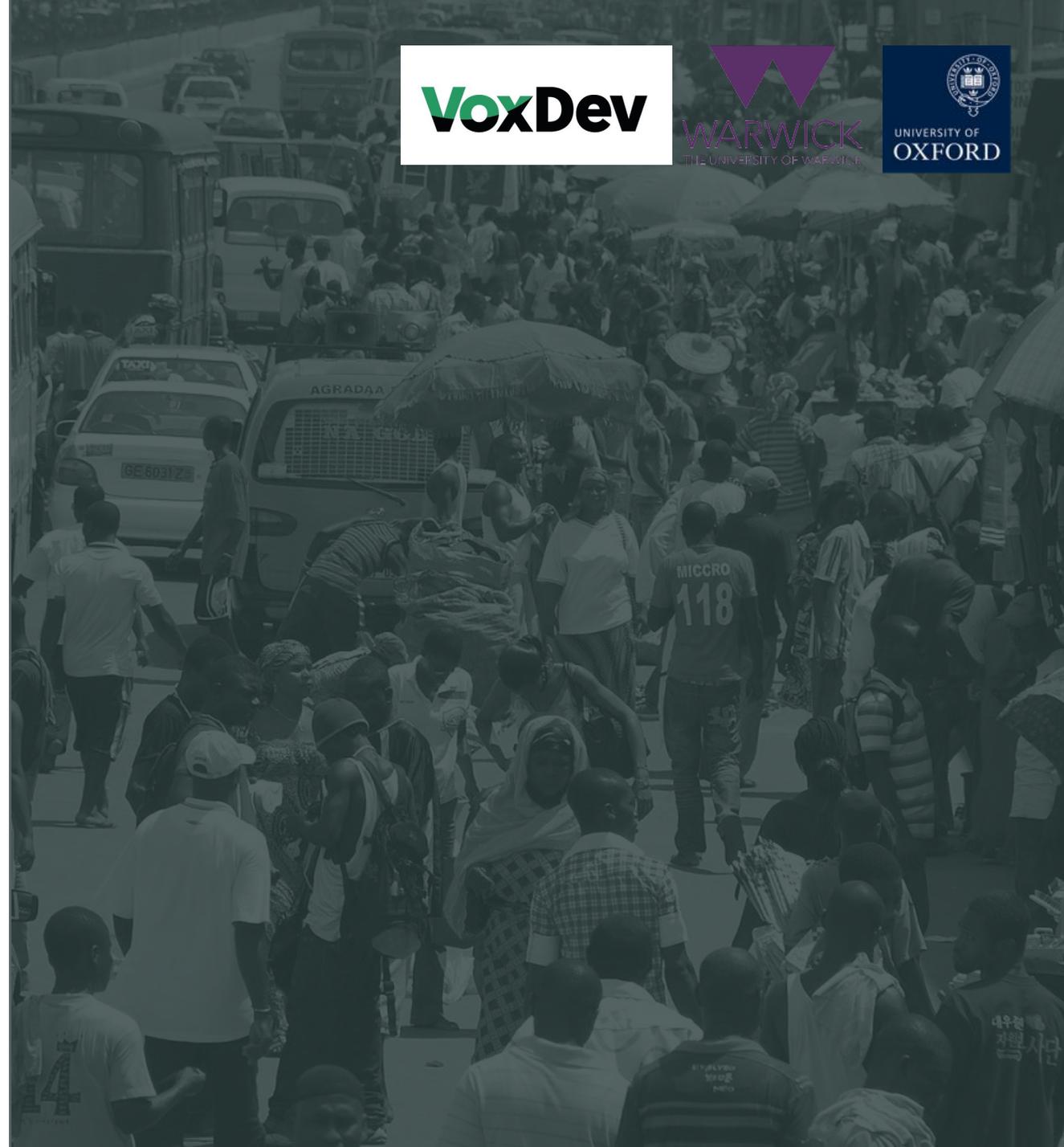
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Interventions

- Learning from mentors (Alfonsi et al. 2022)
- Learning from peers (Beaman et al. 2016)
- Potential competition effects (Caria et al. forthcoming)

Policy Takeaways

- Studies highlight that jobseekers' networks do play an important role, and impact of other interventions on these networks should be considered.
- More evidence needed on how encouraging building networks vs withdrawing from networks affects labour market outcomes.



Barriers to jobseeker search:

Limited information about the labour market



Limited information about the labour market

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Jobseekers' beliefs about their probability of being employed and wages they would earn if employed are often very different, and generally higher than the average outcomes for jobseekers similar to them on observable characteristics, or than their own subsequent outcomes.

Ambiguous predictions of the effect of this mismatch on search behaviour (Kiss et al. 2023): people may search more as they expect higher returns to search effort, or they may search less because less effort is required to reach the same expected outcome.

Providing information on the labour market

- **Directly providing information on the labour market**
 - Wages and wage distributions (Chakravorty et al. 2023, Jones and Santos 2022, Banfi and Villena-Roldan 2019, Shrestha 2020, Beam 2016)
 - Gender composition of workplace and supervisors (Subramanian 2023)
 - Promotion prospects and wage growth on-the-job (Wu and Wang 2023, Abel et al. 2023)
- **Providing information through job fairs, matching, or exposure to new labour markets**
 - Job fairs (Abebe et al. 2022, Bandiera et al. forthcoming, Beam 2016)
 - Transport subsidies (Banerjee and Sequeira 2023, Dean et al. forthcoming)

Policy Takeaways

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Though jobseekers are often incorrect about average labour market outcomes, **we caution against recommending interventions targeting jobseekers' beliefs as part of labour market policy**, given gaps in existing evidence:

1. Limited follow up period and inadequate measurement of labour market outcomes.
2. Difficult to identify areas where incorrect beliefs are **causing** suboptimal behaviour or “good” search because of a lack of data in poorer countries.
3. Studies show little about jobseekers' learning.

But this literature does show:

- Most labour market interventions change jobseekers' beliefs, even if this isn't the primary intention. Interventions can have unintended effects on jobseekers.
 - Evaluations should capture such changes.
 - The design of labour market interventions should consider how the framing used changes beliefs.

Labour market intermediaries

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Interventions

- Migration agencies (Bazzi et al. 2023)
- Online gig work (Agrawal et al. 2015)

Policy Takeaways

- Promising target for interventions, given the prominent role in enabling jobseekers to navigate the labour market.
- Much more research needed in this area.





Barriers to jobseeker search:

Search costs



Search Costs

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Finding a job is often a long process that entails **monetary, time-related and psychological costs.**

Theoretically, high search costs lead to individuals exerting lower search effort – problematic when there are external benefits to firms or society from search.

Heterogeneity of search costs can generate inequality of labour market outcomes.

Paper	Country	Proportion searching	Search costs among active jobseekers	Search hours
Abebe et al. (2021b)	Ethiopia	75% (past 6 months) 50% (past week)	16% of overall expenditure	-
Alfonsi et al. (2022)	Uganda	93%	40% of earnings ¹⁰	-
Caria et al. (2023)	Jordan	43% of Syrian refugees 57% of Jordanians	38.4% of expenditure for Syrian refugees - 39.2% of expenditure for Jordanians	4.16 hours (past week) for Syrian refugees 5.79 hours (past week) for Jordanians
Carranza et al. (2022)	South Africa	97% (past week)	18.6% of earnings (past week) at endline	17 hours (past week)

Job search behaviour and costs.

¹⁰ The figure assumes jobseekers search for work for 10 days per month.

Search cost subsidies

- **Conditional subsidies**

Franklin (2018), Abebe et al. (2021a), Banerjee and Sequeira (2023)

- **Unconditional subsidies**

- Caria et al. (2023), Banerjee and Sequeira (2023)

- **Psychological interventions**

- Reducing psychological costs of job search (Field et al. 2023)
- Treating mental health disorders (Lund et al. 2023, Angelucci and Bennett forthcoming, Bhat et al. 2022, Fuhr et al. 2019, Weobong et al. 2017)
- Psychological interventions to boost future orientation (Bernard et al. 2023, Orkin et al. 2023, Campos et al. 2017, Cecchi et al. 2022, Rojas Valdes et al. 2022, Ashraf et al. 2022, John and Orkin 2022).

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Policy Takeaways

- Well-targeted subsidies have the potential to improve labour market outcomes in the short run. However, it is unclear that gains persist, and not effective in all contexts.
- Positive effects of unconditional cash on search suggests jobseekers would like to search more intensely than they are.
- Limited evidence on the effects of interventions to reduce psychological costs, but promising initial results on encouraging job search directly.
- Interventions to boost aspirations, self-efficacy, and ability to visualise the future have led to large and sustained effects on labour supply, suggesting they may also encourage job search.

Barriers to firm search:

Limited information



Firm-side limited information

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It is often hard for employer to observe all productivity-relevant traits of job applications.

Limited information can lead to costly hiring mistakes.

In anticipation of this, firms may reduce hiring.

Firm-side limited information

- **Interventions to signal jobseekers' work experience to firms**

Apprenticeships (Hardy and McCasland 2023, Loiacano and Silva-Vargas 2023)
References from previous employers (Abel et al. 2023)
Subsidised employment (Beam and Quimbo 2023)

- **Certification**

- Certification, job application workshops (Abebe et al. 2021a, Carranza et al. 2022, Bassi and Nansamba 2022)) – as before

- **Addressing firm misperceptions**

- Underestimation of trustworthiness (Caria and Falco 2022, Fernando et al. 2023)
- Demand for different categories of jobs (Hensel et al. 2022)

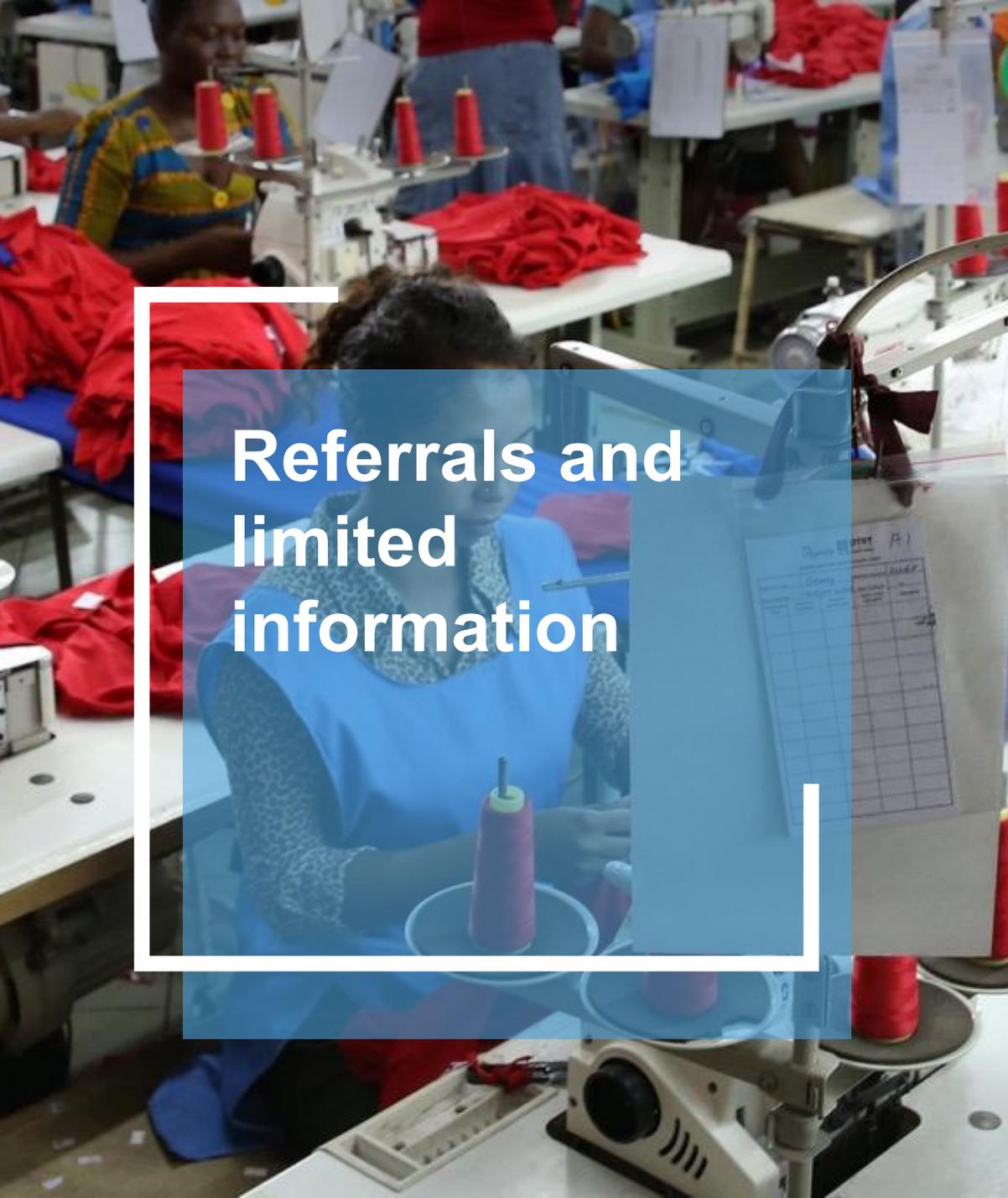
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Policy Takeaways

- Limited information on worker experience, skills and trustworthiness can indeed limit hiring and are promising targets for intervention, with a now-substantial evidence base.
- The impacts of information and other interventions may be muted if they are not combined with complementary treatments that address other constraints (as in Fernando et al. 2023 and De Mel et al. 2019).



Referrals and limited information

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Use of referrals/hiring via networks

- May mitigate information asymmetries (Heath 2018)
- Strategic responses from jobseekers may undermine benefits of network hiring for firms (Beaman and Magruder 2012, Chiplunkar et al. 2023)
- Also, this practice may hurt minorities like women (Beaman and Magruder 2012)
- And may be globally inefficient (Chandrasekhar et al. 2020, Caria and Labonne 2023)

Barriers to firm search:

Cost of vacancies and attracting applicants



Cost of vacancies and attracting applicants

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Interventions

- **Directly subsidising vacancy posting costs**
Hensel et al. (2022), Fernando et al. (2023)
- **Optimising firm-side search effort**
Abebe et al. (2021b)
Abebe et al. (2022)

Policy Takeaways

- Some evidence that firms do not optimise recruitment strategies and efforts, likely due to limited experimentation with different recruitment methods. Evidence does not currently establish that this limits the quantity or likelihood of hiring.
- Lack of experimentation with recruitment may influence quality of hired workers.



Gender and search frictions



Gender and search frictions

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Growing evidence women face different job-search barriers but little evidence showing how job-search policies could be adapted to best meet these constraints. We flag this as an important area.

In 2022, a quarter of women in low-income countries wanted to work but did not have a job, a rate nearly 50% larger than the comparable figure for men (ILO 2023).

- What jobs do these women want?
- Do they face discrimination when they apply?
- Do women search for opportunities differently from men?

Gender and search frictions

Searching for different jobs

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- May be disparities in education and labour market experiences.
- Increasing evidence on men and women valuing different things in jobs, due to norms and high share of domestic responsibilities. Little work on preferences in LMICs but
 - Evidence of valuing jobs that allow fewer hours of work (Mahmud et al. 2021) and higher flexibility (Ho et al. 2023).
 - Mismatch in women's' preferences vs reality of their existing jobs (Fletcher et al. 2018).
- If there are fewer jobs women are willing to accept – women may search longer and end up with worse matches.
- Other labour market interventions to help women (e.g. child-care vouchers) may not work if jobs available do not match desired attributes (Caria et al. 2021).

Gender and search frictions

Discrimination and employers' gender preferences

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- Employers may discriminate by gender or have otherwise gendered preferences over matches. This can lead to search being differentially effective for women as compared to men.
- Employers
 - Prefer CVs with female name less (Gentile et al. 2023)
 - Have gendered preferences which, when conveyed either explicitly or implicitly to jobseekers, attract an applicant pool skewed towards those preferences (Chaturvedi et al. 2022, Chowdhury et al. 2018, Kuhn and Shen 2013).
- Feminine-coded jobs with same occupation and location are lower paid (Chaturvedi et al. 2022, Chowdhury et al. 2018).

Gender and search frictions

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Searching Differently

- Many of the same factors that affect labour force participation may also affect how women search.
- Women often have smaller networks, more focused on family ties than career.
- Norms may influence how they use information in networks – Afridi et al. (2023) find that providing a digital job search platform to both women and their social network had no impact on women's work but benefitted her husband's work.
- Differences in risk aversion, confidence, and impatience may cause differences in search strategies (eg Archibong et al. 2022).

Gender and search frictions

Are women giving up? Latent labour supply and the jobs gap

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- Many women might decide that the high costs they face to search are not worth the reward of the type of job that search may realistically bring – they become “latent” workers (Fletcher et al. 2018, Gentile et al. 2023).
- While there are, on average, very small gender differences in unemployment rates, there are very large gender differences in the proportion of people who want a job but don’t have one, with many more women than men in this state (ILO 2023).
- Underutilisation of the talents and labour that women want to supply may be far greater than a naïve look at the unemployment statistics would suggest.



The returns to search interventions

Welfare and the returns to search interventions

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1. Search interventions tend to be very cheap and hence the marginal return to public funds spent on successful search interventions is very high.

Prima facie, the marginal return to spending public funds in a certification intervention appears vastly greater than the return to training.

2. There is very limited evidence to quantify the potential negative employment impacts of interventions on untreated individuals – the so-called displacement effects.

It is plausible that, in the short run, displacement effects can be large, since anecdotally firms in LMICs do not appear to have a large number of unfilled vacancies.

Similarly, it would be important to collect **more systematic evidence on whether these interventions generate productivity gains for firms.**

3. We also have close to no evidence to assess the general equilibrium (GE) impacts of these interventions when they are offered at scale.

Plausible positive GE impact could be an increase in labour demand, but negative GE impacts such as congestion, raising of average search costs, and harming of low-skilled workers could emerge.

Key area for research.

4. There exists an equity rationale for offering search interventions, since they are designed to support individuals who would otherwise face search barriers (e.g. liquidity constraints or lack of credentials) and have weaker labour market outcomes as a result of this.

Initial evidence of equitable patterns in outcomes of search interventions raise the question of whether there would be gains from targeting more effectively.