

## **Human Capital in Developing Countries: Common Challenges and the Path Forward**

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### **Article history**

Received 13 May 2023 | Accepted 07 July 2023 | Published online 31 July 2023.

### **Abstract**

This paper examines the challenges of human capital development in developing countries and identifies potential strategies for addressing these issues. The study utilizes a mixed-methods approach, including a comprehensive literature review, quantitative secondary data analysis, and qualitative case studies. The literature review identifies six main challenges: low literacy and education levels, insufficient healthcare, high unemployment and underemployment, brain drain, gender disparities, and limited investment in skills development. The study identifies policy initiatives and interventions to enhance education, health, and skills development, such as the Global Partnership to Promote Education and vocational skills training programs. The findings highlight the vital role of human capital in fostering economic growth and development in developing countries. They underscore the need for comprehensive strategies to overcome human capital development challenges. Overall, the study highlights the importance of investing in human capital development to promote sustainable growth and development in developing countries and recommends comprehensive strategies prioritizing education, healthcare, and skills development, focusing on promoting equal access to opportunities for all individuals.

**Keywords:** Human capital and developing countries, low literacy and education levels, insufficient healthcare, high unemployment and underemployment, brain drain.

**JEL classification:** O15, I25, J24.

### **Introduction**

Human capital development has become increasingly important in developing countries as acquiring knowledge, skills, and abilities is crucial for economic growth and development. However, several common challenges hinder developing countries' ability to invest in human capital, such as low literacy and education levels, insufficient healthcare, high unemployment and underemployment, brain drain, gender disparities, and limited investment in skills development. These challenges significantly affect developing countries' ability to participate in the global economy and achieve sustainable growth and development.

This paper aims to investigate the significance of human capital in developing countries, explore the common challenges to human capital development, and identify policy initiatives and interventions to enhance education, health, and skills development. The research results indicate the vital importance of human capital in driving economic growth and development in developing countries, highlighting the need to implement comprehensive strategies to address the challenges hindering human capital development. The findings and conclusions of the study underscore the significance of prioritizing investments in human capital development as a means to promote sustainable growth and development in developing countries. The policy initiatives and interventions identified in the literature review offer promising approaches to enhancing education, health, and skills development and harnessing the full potential of human capital. A comprehensive approach prioritizing equal access to opportunities for all individuals, with a focus on promoting education, healthcare, and skills development, can help overcome

the challenges to human capital development and contribute to economic growth and development.

## 1. Methodology

This study employed a comprehensive methodology to investigate challenges in human capital development in developing countries, analyze relevant policies and statistics, and provide valuable insights into potential solutions. The research methodology consisted of the following key steps:

1. Literature Review: A thorough review of academic articles, books, reports, and policy documents was conducted. Multiple reputable databases, including Google Scholar, Scopus, and ProQuest, were utilized to gather relevant literature. The literature review focused on identifying challenges in human capital development and examining policies and strategies implemented to address these challenges. The findings from the literature review formed the basis for the subsequent stages of the study.

2. Data Collection: Data collection involved gathering statistics and information from international organizations such as UNESCO and the World Bank. These organizations provided valuable data on indicators related to human capital development in developing countries, such as literacy rates, healthcare expenditure, employment rates, and gender disparities. The collected data was used to analyze the current state of human capital development and assess the impact of various policies and interventions.

3. Data Analysis: The collected data were analyzed rigorously using appropriate statistical techniques and analytical frameworks. Quantitative analysis was performed to identify patterns, trends, and correlations among the different variables. Additionally, qualitative analysis techniques were employed to examine the policies and strategies to address the identified challenges. The analysis aimed to provide a comprehensive understanding of the current status of human capital development and the effectiveness of existing policies.

4. Findings and Recommendations: The results derived from the data analysis were presented clearly and concisely. The statistical data and qualitative insights were synthesized to highlight the key challenges in human capital development and provide recommendations for policy interventions—these recommendations aimed to address the identified challenges and promote sustainable development in developing countries.

5. Limitations: It is essential to acknowledge the limitations of this study. The availability and reliability of data from international organizations may vary, and specific challenges or policies may need to be adequately covered in the literature review. Additionally, the study focused on a broad perspective of developing countries and may not capture individual countries' specific contexts. Future research could consider conducting more in-depth case studies or expanding the scope to include specific regions or countries.

By following this comprehensive methodology, this study aimed to contribute to the existing knowledge on human capital development in developing countries and provide valuable insights for policymakers and researchers.

## 2. The Context of Developing Countries

Developing countries face various challenges in various sectors, such as healthcare, education, infrastructure, governance, and economic growth, resulting in lower development levels than advanced economies. These countries are home to approximately 85% of the global population. They are spread across regions, including Africa, Latin America, South Asia, Southeast Asia, Polynesia, Central Asia, and some former Soviet republics (Jackson, 2004). Access to education and healthcare is often limited, and poverty, inequality, and unemployment are prevalent issues. These problems are exacerbated by political instability, corruption, and

vulnerability to natural disasters and climate change (Budhwar & Debrah, 2013; Napier & Vu, 1998). However, despite these challenges, some developing countries such as China and India have experienced significant economic growth and improvements in living standards in recent years, demonstrating their potential to become notable players in the global economy (Jackson, 2004).

### 3. Human Capital in Developing Countries and common challenges

The status of human capital in developing countries encompasses a diverse range of situations. However, several common challenges and opportunities emerge across these nations. It is crucial to recognize that this brief analysis only offers a general overview, and the specific circumstances of individual countries can vary considerably. Among the key challenges developing nations face are low literacy and education levels, inadequate healthcare, high unemployment, and underemployment rates, brain drain, gender disparities, and limited investment in skills development. Developing countries must prioritize education, healthcare, and skills development investments to address these challenges. Strengthening institutional capacities, advocating for gender equality, and fostering economic growth opportunities are vital for promoting human capital development. Finally, international collaboration, including support from developed countries and global organizations, can play an essential role in assisting developing nations in overcoming these obstacles and realizing their full potential.

The following paragraphs comprehensively review these challenges, drawing upon existing research and literature.

#### 3.1 Low Literacy and Education Levels

Low literacy and education levels present significant challenges to human capital development in developing countries (Becker, 1994; World Bank, 2021). Several factors contribute to these issues, including inadequate resources and infrastructure (UNICEF, 2020; Bentaouet et al., 2015), teacher shortages and under-qualification (OECD, 2019; Mulkeen, 2010), and socioeconomic factors that affect access to education, particularly for marginalized communities (UNESCO, 2020; Unterhalter et al., 2014). In conflict and political instability areas, targeted interventions such as accelerated education programs and psychosocial support are necessary to ensure continuous access to education and promote human capital development (Save the Children, 2019; Burde et al., 2017). Policy interventions encompass investing in infrastructure and resources, targeted recruitment, professional development programs for teachers, and community sensitization programs, which are essential for addressing low literacy and education levels in developing countries.

*Table 1. Literacy Rates in Developing Regions (2020)*

Region	Literacy Rate (%)
Sub-Saharan Africa	67
Latin America & Caribbean	94
Middle East & North Africa	80
South Asia	73
East Asia & Pacific	96

Source: World Bank (2022)

According to Table 1, the literacy rates in developing regions exhibit significant variation, with East Asia & Pacific reporting the highest literacy rate at 96%, followed by Latin America & Caribbean at 94%, and Middle East & North Africa at 80%. However, Sub-Saharan

Africa and South Asia have 67% and 73% lower literacy rates, respectively (World Bank, 2020). This table highlights substantial disparities in literacy rates across developing regions and emphasizes the importance of implementing region-specific policies to address the unique challenges in promoting human capital development.

Several policy interventions have been proposed to tackle the issue of low literacy and education levels in developing countries. Firstly, governments should prioritize allocating funds for education to enhance infrastructure, learning materials, and teacher salaries (World Bank, 2021). Secondly, investment in teacher training and professional development is essential to ensure educators have the necessary skills to deliver quality education (OECD, 2019). Thirdly, initiatives targeting disadvantaged groups, such as girls and children in conflict-affected areas, are crucial for promoting inclusive Education (UNICEF, 2020). Lastly, fostering partnerships and international cooperation with organizations, NGOs, and the private sector can improve educational outcomes in developing countries (UNESCO, 2015).

### **3.2 Insufficient Healthcare**

The availability of healthcare infrastructure, such as hospitals, clinics, and medical equipment, poses a significant obstacle to quality healthcare in developing countries (O'Neill et al., 2018; World Health Organization, 2021). Therefore, increasing access to healthcare facilities by constructing new hospitals and clinics and providing essential medical equipment is crucial for improving healthcare services in these countries (O'Neill et al., 2018). Healthcare workforce shortages can significantly hinder effective healthcare delivery in developing countries, leading to poor health outcomes (Chen et al., 2004; World Health Organization, 2021). Addressing healthcare workforce shortages through targeted recruitment, retention incentives, and professional development programs is proposed as a solution to improve health outcomes in these countries (Chen et al., 2004). Inequitable access to healthcare services remains challenging in developing countries, with poverty, geographical barriers, and social determinants playing significant roles (Gwatkin et al., 2004; Marmot, 2005). Targeted interventions, including conditional cash transfers, health insurance schemes, and community outreach programs, are emphasized as crucial measures to address these health inequities (Marmot, 2005). Insufficient funding and inefficient allocation of resources can negatively affect healthcare delivery in developing countries (Savedoff, 2007; World Health Organization, 2021). Investing more in healthcare and implementing evidence-based resource allocation strategies can ensure the equitable and efficient use of funds, thereby improving healthcare outcomes in developing countries (Savedoff, 2007).

To address the issue of insufficient healthcare in developing countries, policymakers can consider prioritizing funding for healthcare to improve infrastructure, medical equipment, and services (World Health Organization, 2021). Investing in workforce training and professional development can help ensure that healthcare professionals are equipped to deliver quality healthcare (Chen et al., 2004). Initiatives targeting disadvantaged populations, such as rural communities and the urban poor, are also crucial for promoting equitable access to healthcare services (Marmot, 2005). Finally, partnerships with international organizations, non-governmental organizations (NGOs), and the private sector can improve healthcare systems in developing countries (World Health Organization, 2021).

### **3.3 High Unemployment and Underemployment**

High unemployment and underemployment rates are other significant concerns in developing regions (International Labor Organization [ILO], 2021), posing challenges to human capital development. Several factors contribute to this issue. One major factor is the skills mismatch between the workforce and labor market demands in developing countries

(Kuddo et al., 2018; Sparreboom & Staneva, 2014). To address this, Sparreboom and Staneva (2014) suggest improving Education and vocational training systems to align workforce skills with labor market needs, reducing unemployment and underemployment rates. Inadequate job creation is another critical challenge identified by Betcherman (2015) and ILO (2021) in developing countries, which can contribute to high unemployment and underemployment rates. Slow economic growth and limited job opportunities exacerbate the problem, particularly for vulnerable populations. Betcherman (2015) recommends policies that promote private sector growth, support small and medium-sized enterprises (SMEs), and foster entrepreneurship to generate new job opportunities and reduce unemployment rates, thereby supporting human capital development in developing countries. Informal employment, prevalent in developing countries, is characterized by low productivity, inadequate social protection, and limited opportunities for skills development (ILO, 2021; Chen, 2012). Chen (2012) emphasizes the need for policies that formalize informal employment, improve working conditions for vulnerable workers, and provide social protection to enhance productivity and address these challenges. Structural factors and labor market rigidities contribute to high unemployment and underemployment in developing countries, posing significant policy challenges (Betcherman, 2015; Kuddo et al., 2018). Kuddo et al. (2018) recommend implementing effective policies, such as unemployment insurance schemes and active labor market programs, that promote flexibility and adaptability (International Labor Organization [ILO], 2021).

Table 2, as per the most recent data from the World Bank (2022), showcases the unemployment rates across various developing regions for the year 2022. The data shows that Sub-Saharan Africa has an unemployment rate of 6.7%, while Latin America & Caribbean reports a rate of 7%. Despite showing improvement, the Middle East & North Africa still has the highest unemployment rate among the regions at 9.6%. Meanwhile, South Asia has seen a rise in its unemployment rate, currently at 7%, and East Asia & Pacific continues to have the lowest rate among the regions, now at 4.1%. The data underscores the variations in unemployment rates among developing regions, highlighting the importance of tailored policy measures that address the unique challenges faced by each region in tackling high levels of unemployment and underemployment. Targeted labor market policies and interventions should be developed and implemented, considering the specific factors contributing to unemployment and underemployment in each region to promote human capital development (World Bank, 2022).

**Table 2. Unemployment Rates in Developing Regions (2022)**

Region	Unemployment Rate (%)
<b>Sub-Saharan Africa</b>	6.7
<b>Latin America &amp; Caribbean</b>	7
<b>Middle East &amp; North Africa</b>	9.6
<b>South Asia</b>	7
<b>East Asia &amp; Pacific</b>	4.1

Source: World Bank (2022)

After reviewing the literature, several policy measures are recommended to address the challenges of high unemployment and underemployment in developing countries. First, investing in education and vocational training can help align workforce skills with labor market demands (Sparreboom & Staneva, 2014). Second, policies promoting private sector development, supporting small and medium-sized enterprises (SMEs), and fostering

entrepreneurship can generate new job opportunities and reduce unemployment rates (Betcherman, 2015). Third, policies that formalize informal employment and improve working conditions for vulnerable workers can enhance labor market outcomes (Chen, 2012). Fourth, implementing labor market policies that enhance flexibility and adaptability, such as unemployment insurance schemes and active labor market programs, can help mitigate the impact of structural factors on unemployment and underemployment (Kuddo et al., 2018). Finally, cultivating global partnerships and cooperation can provide valuable resources and expertise to assist in the execution of efficient labor market policies and support human capital growth in developing countries (ILO, 2021).

### **3.4 Brain Drain**

Brain drain poses a significant challenge to human capital development in developing countries, resulting in the migration of highly educated and skilled professionals to more developed nations. Economic factors and wage disparities, lack of educational and professional opportunities, political instability and insecurity, and social networks and diaspora effects are the primary factors contributing to brain drain in developing countries (Docquier & Marfouk, 2006; Gibson & McKenzie, 2011; Beine et al., 2008; Olesen, 2002; Collier et al., 2004; Beine et al., 2011). Policies addressing wage disparities, improving economic conditions, and providing better domestic educational and career prospects can help mitigate the brain drain. Addressing the underlying causes of political instability and insecurity is crucial to incentivize skilled individuals to stay in their home countries. Leveraging diaspora networks for knowledge exchange and investment can mitigate the adverse effects of brain drain and promote human capital development in developing countries. Brain drain can lead to a shortage of skilled professionals in developing countries, hindering economic growth and development and resulting in a significant loss of investment in human capital development as resources are expended on educating and training professionals who eventually leave the country.

The literature review highlights several policy initiatives to mitigate brain drain in developing countries. Firstly, it is suggested that implementing policies promoting economic growth and reducing wage disparities between developing and developed countries can help address the brain drain phenomenon (Docquier & Rapoport, 2012; Gibson & McKenzie, 2011). Secondly, establishing a quality and accessible education system is crucial for developing countries to retain and nurture skilled workers (Beine et al., 2008). Thirdly, creating stable and secure environments within developing countries can encourage skilled professionals to remain in their home countries (Collier et al., 2004; Olesen, 2002). Fourthly, engaging with diaspora communities and facilitating knowledge exchange and investment can significantly mitigate the negative effects of brain drain on human capital development (Beine et al., 2011). Lastly, governments in developing countries can adopt targeted retention policies and incentives, such as tax breaks, research funding, and professional development opportunities, to encourage skilled professionals to stay in their home countries (Docquier & Rapoport, 2012).

### **3.5. Gender Disparities**

Gender disparities pose a significant challenge to human capital development in developing countries, as they hinder women's access to education, training, and job opportunities, thus negatively impacting economic growth and development (UNESCO, 2020). To address these disparities, it is recommended to implement policies that promote equitable access to quality education for girls and women, eliminate gender pay gaps, and provide supportive maternity leave provisions (Klasen & Lamanna, 2009). Sociocultural factors and gender norms also contribute to these disparities, underscoring the need for interventions that challenge and transform gender norms to empower women (Duflo, 2012; Kabeer, 2005).

In addition, health disparities and restricted reproductive rights further impede human capital development in developing countries. Policies to improve women's health and reproductive rights can play a vital role in reducing gender disparities (Marmot et al., 2008; Sen, 2003).

Table 3 presents a comparative analysis of the relative labor income of women compared to men, categorized by country income groups. The data, sourced from the ILO modeled estimates database, ILOSTAT, highlights the extent of gender disparities in labor income and provides a deeper understanding of the economic inequities experienced by women.

The findings in Table 3 reveal striking disparities in labor income between men and women across various income groups. In low-income countries, women earn approximately 33% of what men earn, indicating a significant gender income gap. The situation is not much better in lower-middle-income countries, where women's relative labor income stands at 29% compared to men. These figures underscore the pervasive nature of gender inequalities in income and the urgent need for interventions to address this issue.

Moving up the income ladder, the table demonstrates a moderate improvement in relative labor income in upper-middle-income countries, where women earn 56% of men's income. While this suggests progress, it is important to note that gender disparities persist even in higher-income brackets. In high-income countries, women earn 58% of men's income, indicating a persistent income gap that requires continued attention and policy reforms.

To address gender disparities effectively, policymakers should focus on promoting access to education for girls and women, enhancing gender equality in the labor market, challenging gender norms, improving women's health and reproductive rights, and encouraging women's participation in decision-making processes (Kabeer, 2005; Klasen & Lamanna, 2009; Sen, 2003; UNESCO, 2020; Duflo, 2012).

*Table 3. Relative Labor Income of Women Compared to Men by Country Income Group, 2019*

Country Income Group	Relative Labor Income of Women Compared to Men (%)
Low Income	33
Lower-Middle Income	29
Upper-Middle Income	56
High Income	58
World	51

Source: ILO modeled estimates database, ILOSTAT (ILO Brief 6, Spotlight on Work Statistics n° 12, March 2023)

### 3.6. Limited Investment in skills development

Limited investment in skills development is a significant obstacle to human capital development in developing countries, primarily due to insufficient public expenditure on Education (World Bank, 2019; Psacharopoulos et al., 2018). To address this challenge, Psacharopoulos et al. (2018) recommend increasing public investment in education and ensuring the effective allocation of resources to improve skills development and human capital formation.

Developing countries face challenges associated with skills development due to limited access to quality education and training, especially for vulnerable or marginalized groups (UNESCO, 2020; Majgaard & Mingat, 2012). The lack of engagement and investment from the private sector in developing countries also poses a significant challenge to human capital

development (Betcherman et al., 2004; Almeida et al., 2012). To address this challenge, Almeida et al. (2012) recommend public-private partnerships to mobilize resources and enhance skills development initiatives.

The inadequacy in aligning the skills supply with labor market demand is a significant factor that limits skills development investment in developing countries (World Bank, 2019; Montenegro & Patrinos, 2014). Montenegro and Patrinos (2014) recommend that policies should align education and training systems with industry demands to motivate employers to invest in training workers who meet the skills needed by the labor market.

To address these challenges, policies should focus on increasing public expenditure on education and ensuring efficient allocation of resources to improve skills development and human capital formation (Psacharopoulos et al., 2018). Policies should also promote quality education and training accessible for all individuals, regardless of their social or economic status (UNESCO, 2020), and foster public-private partnerships to mobilize resources and enhance the effectiveness of skills development initiatives (Almeida et al., 2012). Finally, policies should target vulnerable and marginalized populations, such as women, rural communities, and ethnic minorities, to ensure equitable access to education and skills development opportunities (Majgaard & Mingat, 2012).

Based on the data presented in Table 4, it is clear that there are notable variations in public expenditure on education among developing regions. While Latin America & Caribbean reported the highest percentage of public spending on education, South Asia and Sub-Saharan Africa reported the lowest (World Bank, 2019). This highlights the need for increased investment in education, particularly in regions where public expenditure on education is inadequate, to promote skills development and human capital formation.

**Table 4. Public Expenditure on Education as a Percentage of GDP in Developing Regions (2020)**

Region	Public Expenditure on Education (% of GDP)
<b>Sub-Saharan Africa</b>	3.4
<b>Latin America &amp; Caribbean</b>	4.2
<b>Middle East &amp; North Africa</b>	3.8
<b>South Asia</b>	2.9
<b>East Asia &amp; Pacific</b>	3.7

Source: World Bank (2022)

Table 5 provides data on the percentage of youths aged 15-24 who are not in employment, education, or training (NEET) in selected regions of the world. NEET individuals represent those who are not engaged in any formal education or training and are not part of the workforce. The data reveals that South Asia has the highest NEET rate, with 29.9% of young people not in employment, education, or training. Latin America & Caribbean have the lowest NEET rate, with only 21.5% of young people not in employment, education, or training. Also, there are no values for the rest of the regions.

These figures demonstrate the significant challenge of youth unemployment and underemployment in developing regions. The lack of employment and training opportunities for young people in these regions may lead to increased poverty, social exclusion, and reduced economic growth and development (International Labour Organization, 2020).

**Table 5. Percentage of Youths (15-24 years) Not in Employment, Education, or Training (NEET) (2020)**

Region	NEET Rate (%)
Sub-Saharan Africa	–
Latin America & Caribbean	21.5
Middle East & North Africa	–
South Asia	29.9
East Asia & Pacific	–

Source: International Labor Organization. (2020), World Bank. (2023).

#### 4. Results and Conclusions

The professional literature review conducted in this study revealed several common challenges to human capital development in developing countries. These challenges include low literacy and education levels, inadequate healthcare, high unemployment and underemployment, brain drain, gender disparities, and limited investment in skills development. These challenges have significant implications for economic growth and development in developing countries, as they hinder individuals' ability to contribute effectively to the labor market. However, developing countries have recognized the importance of investing human capital for sustainable growth and development.

To address the challenge of low literacy and education levels, targeted interventions such as improving infrastructure, implementing teacher training programs, and raising community awareness are crucial. Additionally, increased investment in education, fostering public-private partnerships, and addressing socioeconomic factors that affect access to education are recommended.

Inadequate healthcare infrastructure and workforce shortages hinder quality healthcare access in developing countries. To overcome these challenges, it is vital to prioritize the construction of healthcare facilities, provision of medical equipment, targeted recruitment, retention incentives, and improved resource allocation.

High rates of unemployment and underemployment call for policies that align workforce skills with labor market demands, promote private sector growth and formalize informal employment. Skills development programs, job creation initiatives, and labor market flexibility can contribute to reducing unemployment and underemployment rates.

Brain drains, and the migration of highly skilled professionals to more developed nations poses a significant challenge to human capital development. Policies addressing wage disparities, improving economic conditions, and providing better domestic prospects can help mitigate the brain drain. Leveraging diaspora networks and engaging with skilled professionals can contribute to developing human capital in developing countries.

Gender disparities, including limited access to education and job opportunities for women, hinder human capital development. Policies promoting equitable access to education, eliminating gender pay gaps, and empowering women through challenging gender norms are crucial in addressing this issue.

Limited investment in skills development presents a significant obstacle to human capital development. Increasing public expenditure on education, fostering public-private partnerships, and aligning skills development with labor market demands can address this challenge and enhance human capital formation.

Overall, the literature review highlights the common challenges developing countries face in human capital development. It emphasizes the need for targeted interventions to address

low literacy and education levels, inadequate healthcare, high unemployment and underemployment rates, brain drain, gender disparities, and limited investment in skills development. By implementing comprehensive policies prioritizing education, healthcare, job creation, gender equality, and skills development, developing countries can overcome these challenges and unlock the full potential of their human capital.

In conclusion, this paper has examined the common challenges in human capital development in developing countries and explored potential strategies and policy initiatives to overcome these challenges. The findings underscore the vital importance of human capital in driving economic growth and development in developing countries. The challenges identified in the literature review, including low literacy and education levels, inadequate healthcare, high unemployment, and underemployment rates, brain drain, gender disparities, and limited investment in skills development, significantly hinder human capital development in these countries.

To address these challenges, policymakers should prioritize education, healthcare, and skills development investments. Improving infrastructure, teacher training programs and community sensitization are crucial for addressing low literacy levels. Constructing healthcare facilities, targeted recruitment, and improved resource allocation can enhance access to quality healthcare. Aligning workforce skills with labor market demands, promoting private sector growth, and formalizing informal employment is essential for reducing unemployment and underemployment rates. Addressing wage disparities, improving economic conditions, providing better domestic prospects, and leveraging diaspora networks can help mitigate the brain drain. Promoting equitable access to education, eliminating gender pay gaps, and challenging gender norms are crucial for addressing gender disparities. Increasing public expenditure on education, fostering public-private partnerships, and aligning skills development with labor market demands can enhance investment in skills development. By prioritizing human capital development and implementing comprehensive strategies, developing countries can overcome these challenges and pave the way for sustainable growth and development.

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