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## AFRICA'S YOUTH EMPLOYMENT CHALLENGE: NEW PERSPECTIVES

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# Youth Employment in Developing Economies: Evidence on Policies and Interventions

Nicholas Kilimani

**Abstract** Based on a synthesis of the existing academic and policy literature, this article undertakes a situational analysis of youth employment in developing countries. The article analyses existing interventions across sectors and provides insights into how they can be harnessed to generate employment opportunities, citing examples of specific projects. This has been undertaken with a view to bringing to light interventions that have been proven to work, as well as demonstrating the sources of failure. Finally, the article distils key emerging issues related to human capital and the business environment. These have been shown to be binding constraints to higher productivity, and can be used as inputs to shape policy discourse around youth employment.

**Keywords:** Africa, developing economies, underemployment, youth, employment policies, job creation skills.

## 1 Introduction

Full and productive employment and decent work were targets in Millennium Development Goal 1 to eradicate extreme hunger and poverty: employment is considered the main route out of poverty. Employment also features prominently among the Sustainable Development Goals (SDGs) which were rolled out in 2015. The issue of employment for youth and women is of particular interest as these groups tend to be in the weakest positions in the labour market (Koehler 2013). In the analysis of youth employment outcomes, it is important to focus on job prospects over the longer term. This is based on the understanding that young people with diminished prospects of finding decent work at their entry into the labour market will likely face undesirable labour market outcomes over longer periods (see ILO 2012a). Studies on youth labour market dynamics show that unemployment during youth and early adulthood results in lower earnings, higher probability of unemployment, and lower health and job satisfaction in the future (see Kletzer and Fairlie 2003; Burgess *et al.* 2003; Bell and Blanchflower 2011).

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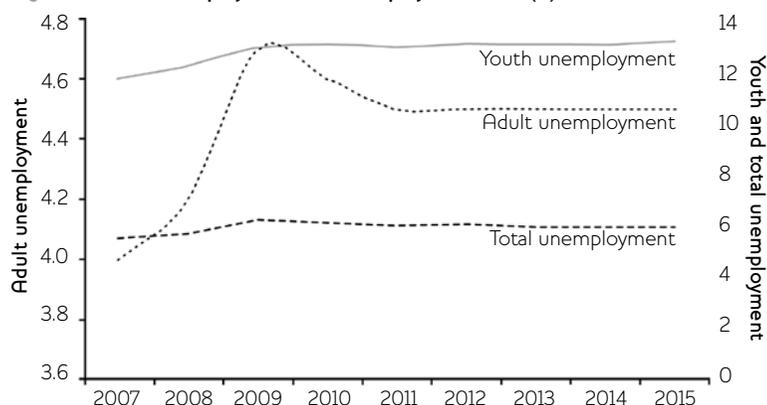
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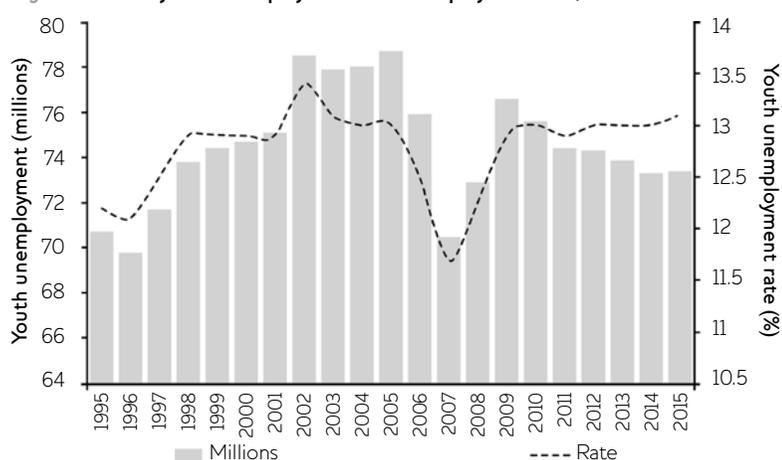
Youth comprise roughly a quarter of the world's population, and in many countries, especially in Africa and South Asia, young people make up nearly a third of the population (S4YE 2015). Because of this, not only do nations in the developing world share high age-dependency ratios – the ratio of dependents (people younger than 15, or older than 64) to the working age population (those aged 15–64) – they also have large populations under the age of 15. Projections suggest that a billion more young people will enter the job market over the next decade. Cleland and Machiyama (2016) present key demographic projections between 2015 and 2050 for sub-Saharan Africa. A critical result to note is continued population growth, albeit at uneven rates across age groups and urban–rural strata. Total population is expected to more than double. Given such trends, it is critical that sound policies and interventions are put into place to tap into this potential population dividend:<sup>1</sup> the cost of failure will be lost human potential and possible sociopolitical instability. In East Asia and the Pacific, the economic transformation witnessed between 1965 and 1990 was partly attributed to a rapidly expanding working-age population (see Bloom and Williamson 1998; Bloom, Canning and Malaney 2000). More importantly, the region had just over one working-age adult for each dependant in 1965, rising to almost two by 1990 (Filmer and Fox 2014). During that time, gross domestic product (GDP) per capita in the region rose from US\$1,300 to US\$3,300. East Asia's demographic is understood to have resulted in economic transformation through, first, the rise in output per capita; and second, the increase in working age population relative to total population, the result of which was a rapid decline in fertility.

For many programmes, identification of linkages between the dynamics in the labour market, entrepreneurship interventions and actual employment has largely been based first on faith, second on theory, and only lastly on evidence (see Blattman and Ralston 2015). Consequently, in many contexts such programmes have failed to deliver jobs, poverty reduction or stability. Most notable are standard interventions such as skills training and microfinance. Osmani (2002) provides insights into why, despite numerous interventions aimed at creating employment, many developing economies are not able to absorb new entrants into the labour market, especially the young. Among these is labour market failures and specifically the inaccuracy of information about the types of work that are available and the returns to labour that can realistically be expected from each. Even with microfinance programmes that provide start-up capital, access is often difficult for young people. This may be partly because of the high cost of reducing the uncertainty associated with lending to 'beginners in business', but may also reflect informational asymmetries. With respect to skills training, there is a gap in knowledge as to which skills are most profitable to acquire, and how and by whom they can be acquired. This article synthesises this literature and provides insights for policy direction. Specifically, it reviews the evidence on some of the most common policies: labour market interventions, entrepreneurship, and other social protection programmes. The focus of the article is on labour market and entrepreneurship interventions that primarily target youth in developing countries.

**Figure 1 Global unemployment and unemployment rates (%), 2007–15**


Notes Youth (15–24), adult (25+) and total (15+), 2007–15.

Source ILO (2015).

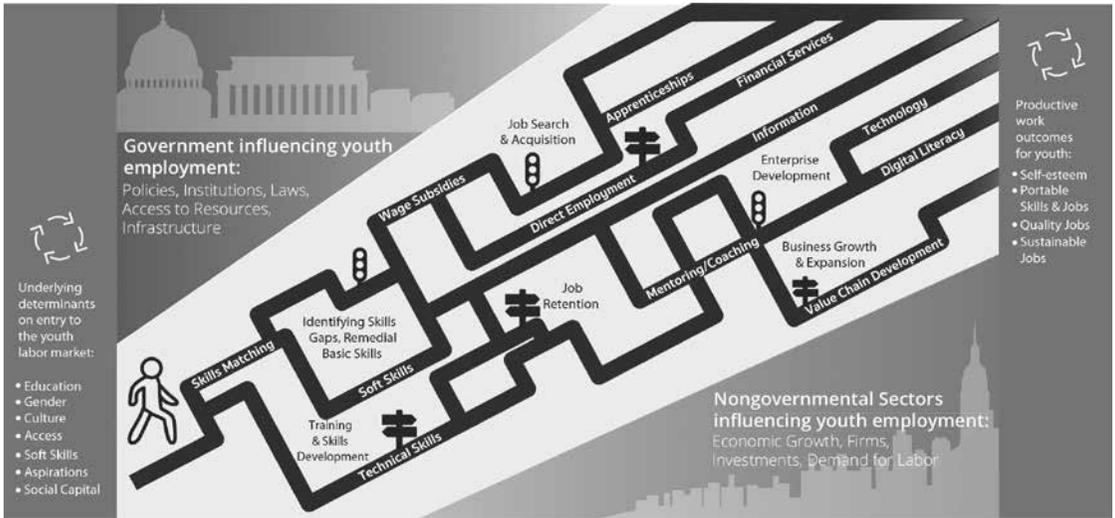
**Figure 2 Global youth unemployment and unemployment rate, 1995–2015**


Source ILO (2015).

## 2 Situational review of trends in youth employment

Data on various youth employment indicators show that low unemployment and inactivity rates are not necessarily signs of better youth labour market outcomes, as they mask high rates of underemployment, vulnerable employment, informal work, and working poverty (Pieters 2012). South Asia and especially sub-Saharan Africa face the largest youth employment challenge in terms of size and share of the youth population. These are equally the regions where vulnerable employment shares (self-employment and unpaid work) are highest. Middle-income countries in the Southern Mediterranean and sub-Saharan Africa have the world's highest youth unemployment rates. Youth unemployment rates tend to rise with education and are higher in urban areas. Women fare much worse than men, both in terms of unemployment and vulnerable employment.

Figure 3 Analytical framework for Pathways to Youth Employment



Source S4YE (2015). Reproduced with kind permission of S4YE.

### 2.1 Global youth unemployment starts to recover

After a period of rapid increase between 2007 and 2010, the global youth unemployment rate settled at 13 per cent for the period 2012–14 and is expected to have remained stable in 2015 (Figure 1). While this rate is now on par with rates observed in the early 2000s, the number of unemployed youth has shown a significant decline over the same period: 78.7 million youth were unemployed in 2005, 76.6 million unemployed at the peak of the crisis in 2009, descending to an estimated 73.4 million unemployed in 2015. In the ten-year span between 2005 and 2015, the youth labour force declined by as much as 46 million while the number of unemployed youth dropped by 5.3 million. Figure 2 reflects the cyclical nature of youth unemployment and reminds us of the often repeated tenet that youth are among the most severely impacted by economic crises: they are the ‘first out’ as economies contract and the ‘last in’ during periods of recovery (ILO 2015).

Evidence from previous crises suggests that it takes an average of four to five years from the resumption of economic growth before overall employment returns to its pre-crisis levels (ILO 2009). Recovery of youth employment can take even longer. In fact, at this point in time, nearly ten years after the onset of the global economic crisis, the global youth unemployment rate remains well above the pre-crisis rate of 11.7 per cent. While the number of unemployed youth has declined in recent years, the global youth unemployment rate is proving more difficult to reduce.

Projections for 2015 through 2019 show no change at 13.1 per cent until 2019. Regional disparities are, however, likely to increase, as some improvement in youth unemployment rates in developed economies in the medium term will be offset by the increase in unemployment rates in other regions.

### 3 The link between employment programmes and actual employment

This article's framework for analysis is adopted from Solutions for Youth Employment's (S4YE) theory of change, which is presented in Figure 3. The S4YE Pathways to Youth Employment framework represents the current conceptual thinking on how to provide young people with pathways to economic opportunities and employment – and how stakeholders can work to achieve youth employment at scale. The framework depicts a youth's journey towards productive work, highlighting how underlying conditions combine with government and non-government efforts and interventions to shape her/his trajectory towards a dignified adult life. In doing so, it provides a road map for how interventions aimed at creating youth employment should be crafted. In fact, the framework is not meant to be static – it may change over time with shifting dynamics and new knowledge. Overall, the challenges constraining productivity and earnings for youth have to be articulated in order to provide an orientation for policies. Most importantly, the focus should be on activities with the ability to generate adequate employment for the growing number of youth.

The Pathways to Youth Employment framework needs to be interrogated in relation to three critical sectors. The first sector is agriculture. In many parts of the developing world and especially in sub-Saharan Africa, agriculture employs over 70 per cent of the labour force. In principle, it can therefore be a source of employment for many youth. However, prospects for growth as well as issues of value chain development are critical for the sector to generate the much desired capacity to absorb the increasing numbers of unemployed youth. The second sector is household enterprises. These are most often unincorporated, non-farm businesses owned by households, which include self-employed people running smallholder businesses using unpaid family labour. Third is the modern wage sector, which includes small, medium and large firms employing five or more workers. In many developing economies, approximately half of wage employment is in the public sector. However, given the inelasticity of employment in the public sector, the focus should be on the private sector where the prospects for growth, and hence job creation, are greatest.

The framework highlights two dimensions that are critical to engendering a pathway to productive work. The first of these is human capital, i.e. the supply side of the labour market, which includes individual abilities, education and training, skills, family connections, networks and other characteristics unique to an individual. Human capital is fundamental in enabling a person to find opportunities to be productive, increase earnings and achieve income security (Filmer and Fox 2014). Evidence used to identify externalities in education is derived mostly from agriculture. Externalities take the form of farmers learning from their neighbours, especially the more educated who are likely to adopt new technologies (Conley and Udry 2010; Rosenzweig 2010). The second dimension is the business environment. This is outside an individual or firm's control, but affects productivity. It includes access to

productive resources such as land, credit, infrastructure, technology and markets. In Africa in particular, insecure and ambiguous land rights, as well as constraints on rental markets are considered major impediments, especially for young people. Tenure security can be improved through systematic land registration. This can improve farmers' confidence to the degree that they undertake costly and long-term investments on the land. Furthermore, they can even use the land registration certificate as collateral. Evidence from Rwanda shows that the more secure the land tenure, the greater the investments in soil improvement, up by 9 per cent and 18 per cent among male and female farmers respectively (Ayalew, Deininger and Goldstein 2011). Registered and titled land provide a basis for the development of land markets which are shown to engender commercial farming and also increase productivity (see Morris, Binswanger-Mkhize and Byerlee 2009). Registration can also facilitate transfer to small-scale farmers (e.g. in Sudan, see Filmer and Fox 2014). Other aspects of a business environment include government policies, regulations and programmes which can directly or indirectly affect the choice of economic activity, and even how it is conducted.

This framework integrates a range of issues including skills acquisition, the employment options available to youths depending on the skills acquired, and the supportive interventions that ensure that youth can be absorbed into the workplace, right through to actual employment. In the framework, government as a stakeholder can develop the necessary policies, institutions, infrastructure and legal frameworks to engender youth employment, while non-governmental actors can influence youth employment through private investment which in turn has an influence on the demand for labour. Essentially, each stakeholder has their own contribution towards realising youth employment. These issues and the linkages between them are presented in Figure 3 and are discussed in the subsequent sections of the article.

#### **4 Dynamics of determinants of youth labour market outcomes**

To understand the major challenges bedevilling youth employment in developing countries, it is useful to first discuss the determinants of labour market outcomes as these form a basis for designing interventions. Labour market outcomes are reflected by a number of critical factors which are elucidated below.

##### **4.1 Labour demand**

Labour demand is largely driven by economic growth and structural change. Essentially, job creation depends on the growth and labour-intensity of production in the different sectors of the economy. In middle-income countries in sub-Saharan Africa, the services sector accounts for a high and growing share of employment, while the share of agriculture and sometimes even manufacturing has been on the decline (IMF 2012). The majority of developing country workers in the services sector are self-employed, for example in retail and transportation services. This trend of structural change, with an increasing share of the workforce in low-productivity activities,

can result from a lack of labour demand in high-productivity formal enterprises. Increasing the productivity of smallholder farmers in the agricultural sector would be one opportunity for generating youth employment. The growing demand for food locally and globally is a potential opportunity, and with its land and water resources Africa is well positioned to respond. If youth could be provided with access to agricultural resources in tandem with interventions to make agriculture more productive, some suggest that it would go a long way towards transforming livelihoods (Filmer and Fox 2014).

In Latin America, for example, productivity growth since the 1990s has been accompanied by a declining share of manufacturing in total employment, with workers moving into lower-productivity employment in services (McMillan and Rodrik 2012). In the Middle East and North Africa, jobs have been created in low-value-added sectors, such as construction and the public sector, while few have been created in manufacturing. Furthermore, job growth has not kept pace with growth of the working age population. The public sector accounts for a large share of the total wage bill in countries in the region, due to a high public employment share and relatively high public sector wages (World Economic Forum 2012). Public sector employment, including public administration and publicly owned enterprises, has especially dominated the market for educated labour. In Egypt for example, this was a result of public employment guarantees for secondary and post-secondary graduates. These guarantees proved untenable and were suspended in the early 1990s (Assaad 1997).

With increasing global integration of economies, the structure of (employment) growth is also affected by external factors. The impact of the 2008 financial crisis on GDP and consumption in the developed world indirectly affected developing countries through reductions in demand for their exports of goods and services. The global economic and financial crisis has particularly affected youth, and the decline in work opportunities has created immense friction in the school-to-work transition. As a matter of fact, young job seekers have worse prospects for decent formal sector employment than their parents.

The World Bank (2012b) highlights how employment challenges are interconnected through the proliferation of production fragmentation. For instance, jobs in both manufacturing and services are increasingly mobile. As such, the growing labour costs in Asia (in particular, China) could open up opportunities for other developing countries to jump-start industrialisation. What is critical to note is that when labour demand slows down, self-employment may be the only alternative opportunity. Thus, intervention to support self-employment may be needed.

#### **4.2 Labour supply**

The supply-side drivers of youth employment outcomes are the quantity, quality and relevance of education and skills. Skills are built through formal general education, formal vocational education and

training (VET) and apprenticeships, and through non-formal education and training. Access to primary education is a first requirement for basic literacy and numeracy skills, which are a precondition for ensuring access to decent work. Survey evidence shows existence of major failures in delivery of education. For instance, cases have been recorded of teacher absenteeism of 16–20 per cent on a given day in Kenya, Senegal and Tanzania. In these countries, learners are known to experience only two to three hours of learning a day (Filmer and Fox 2014). Improvements in basic education would lay a better foundation for improvements in productivity, by maximising young people's possibilities of successfully transitioning to remunerative employment.

Besides general education, youth can acquire work-relevant skills through VET, which can be integrated into compulsory schooling as an alternative to an academically oriented track, or can be part of several post-compulsory schooling options. Eichhorst *et al.* (2012) show that in Middle East and North Africa (MENA) countries, VET is of limited importance. This is due to weak links between skills provided by the VET system and those that are demanded by the private sector. Other challenges include insufficient funding, poor monitoring and evaluation, stigmatisation, and lower returns to VET compared to secondary education.<sup>2</sup> In sub-Saharan Africa, the expected benefits from VET relative to general secondary schooling are not evident, and many view VET as an inferior alternative. Because the majority of firms and jobs are informal, traditional apprenticeships after primary education can be sufficient to gain employment (Pieters 2012).

The benefits of VET in terms of earning and social promotion vary across countries and influence its attractiveness. Returns to VET are higher than general secondary education in, for example, Cambodia, Indonesia (for older cohorts), Thailand and Turkey (World Bank 2010a). In other countries, such as Egypt, Indonesia (younger cohorts), Iran, Rwanda and Tanzania, returns to VET are lower than to secondary general education. Cross-country differences may be due to variations in implementation, labour market institutions and employers' willingness to invest in skills on-the-job (Eichhorst *et al.* 2012). Evidence from Organisation for Economic Co-operation and Development (OECD) countries shows that the returns to vocational education decline with age. This is largely attributed to the idea that VET limits students' ability to adapt to technological change as their potential to regularly acquire new knowledge naturally diminishes with exposure, and age (Hanushek, Woessmann and Zhang 2011). In this case, good quality VET needs inbuilt capacity to prepare students for adapting to ever-changing technologies.

#### 4.3 Migration

Across the developing world, labour supply in different places is also affected by rural–urban, rural–rural and international migration. Due to rural–urban migration patterns, urban labour supply tends to grow faster than the working age population, further increasing the pressure

on urban labour markets. Globally, about 25 per cent of urban growth is driven by rural–urban migration, although migration accounts for a larger share in countries that are still largely rural. This is particularly the case in East and Southern Asia and sub-Saharan Africa, but also the MENA region (Grant 2012). At the same time, economic crises induce high rates of return-migration when migrants lack social safety nets in the cities, shifting some of the labour supply back to rural areas.

Most rural–urban migrants are young people, who also make up a significant share of international migrants.<sup>3</sup> Youth migration can serve to build human capital if the migrants attend school or gain work experience and income in the host region or country. There is evidence that international migration can help reduce poverty and contribute to economic growth in the migrants' countries of origin. According to the World Bank, an average increase of 10 per cent of emigrants in the total population of a developing country is associated with a 1.6 percentage point reduction in poverty. Furthermore, economic analyses show that an increase in temporary migration in developed countries, including low-qualified migrants, could produce gains amounting to US\$150bn each year, equally shared between developed and developing countries (Dayton-Johnson *et al.* 2009). However if migration leads to a significant loss of skilled labour to more developed economies (i.e. brain drain), international migration might have negative impacts on sending countries.

In this regard, policies toward international migration and employment in developing countries must be more coherent, given the many interactions between the two phenomena. Coherent policies require a much better understanding of the links and impacts between mobility, jobs and development. Given the current socioeconomic challenges, these policies should be pursued by means of stronger partnerships between origin and destination countries, with special attention to brain drain and circular migration issues. Of particular importance are remittances and their contribution to job creation in recipient countries: can policy help create stronger incentives to save and invest in migrants' home countries?

#### 4.4 Labour market functioning

Youth employment outcomes are shaped by the institutions governing the matching of job seekers to vacancies, notably those institutions that are charged with the provision of labour market information, intermediation and regulation. Availability and quality of information plays a key role in the labour market, for job seekers to identify relevant opportunities and for employers to find adequate workers. Evidence from school-to-work transition surveys in Azerbaijan, Egypt, Iran, Kosovo, Mongolia, Nepal and Syria (Matsumoto and Elder 2010) show that the most important channel for job searching by youth is social networks, and specifically family and friends. Reliance on informal networks and connections may be efficient when employers find it costly to assess competencies of potential employees, or when there are

no formal institutions mediating short notice hiring. However, it does mean that young job seekers are unlikely to find work outside their own networks, which limits social and intergenerational mobility.

Lack of information about job opportunities can contribute to skill shortages and mismatches, because parents and children are not well informed to assess the returns to education. Experimental evidence for India and the Dominican Republic has shown that giving information about job opportunities or returns to education increases the time children spend in school (Jensen 2010, 2012). The role of information also includes transparency in hiring practices. Labour market functioning further depends on regulation, such as a minimum wage, which exists in all developing countries for which institutional data are available. Unemployment benefit legislation is present in most countries in Commonwealth of Independent States (CIS), Europe, North Africa, and the Latin American and Caribbean middle-income countries (Aleksynska and Schindler 2011).

## **5 Challenges by region**

### **5.1 Latin America**

Over half of the working youth in Latin America are in informal employment (against 30 per cent of adults), and this proportion is rising. Informality is highest among youth with primary education, but has recently increased rapidly among more highly educated youth, signalling a lack of formal private sector labour demand and/or a mismatch of skills obtained in secondary and tertiary education (Busso *et al.* 2012). Furthermore, figures for young people not in education, employment, or training (NEET) are particularly high in Latin America compared to other regions. Besides a slow-down in growth and formal private sector labour demand, youth employment in Latin America faces major supply side challenges, in particular the quality and relevance of skills attained in secondary education. Large skill mismatches and poor quality of education and training mean that joblessness coexists with unmet demand for skilled labour. Where experience in informal employment serves as a training ground for formal wage employment, some have pointed to deficiencies in the education system (CEDLAS 2013).

A particular challenge related to informality in Latin America is the design of social insurance and social assistance systems. Formal sector workers pay mandatory contributions to social insurance schemes, which increase the cost of formal labour, while informal workers are covered by social assistance programmes, which effectively subsidise informal labour. Redesigning these financing mechanisms could have important impacts on the labour market (Ferreira and Robalino 2010).

### **5.2 Middle East and North Africa**

This region has the world's lowest private sector investment contribution to growth, and most investment is directed to low-skilled, labour-intensive sectors (Gatti *et al.* 2013, based on foreign direct investment (FDI) data from the United Nations Conference on Trade and

**Table 1** Employment composition: sub-Saharan Africa vs high growth counterparts

Income level and region	Wage job			Home enterprise	Agriculture	Total
	Industry	Services	All			
<b>Low income</b>						
Sub-Saharan Africa	2.3	10.0	12.3	18.3	69.4	100
Bangladesh	10.8	14.9	25.7	27.7	46.6	100
Cambodia	11.1	12.2	23.3	21.0	55.7	100
<b>Low-middle income</b>						
Sub-Saharan Africa	2.0	11.9	13.9	31.1	55.1	100
Bolivia	12.6	30.4	43.0	28.1	28.9	100
Lao People's Democratic Republic	54.0	8.1	13.5	19.0	67.5	100
Mongolia	5.9	33.4	39.3	16.0	44.7	100
Nicaragua	13.3	30.6	43.9	22.9	33.2	100
Philippines	12.6	36.1	48.7	19.5	31.8	100
Vietnam	14.3	17.5	31.8	19.1	49.1	100

Source Filmer and Fox (2014).

Development (UNCTAD) and World Bank World Development Indicators). Private sector dynamism is harmed by inconsistent and unpredictable policy implementation and poor access to credit. Distorted prices of primary factor inputs, such as energy due to the presence of fuel subsidies, increase the relative cost of labour (*ibid.*).

On the supply side, the major challenge is the mismatch between skills and expectations of young job seekers on the one hand, and skills demanded by the labour market on the other. Queuing for public sector jobs is often a rational strategy for highly educated youth, as public jobs are more secure and provide higher pay, with higher returns to education than in the private sector. Students choose academic programmes that are increasingly irrelevant to the private sector. The World Bank Enterprise Survey shows that about a third of firms in the region identify a lack of appropriate skills in the labour force as a major obstacle for their business (Filmer and Fox 2014).

A great challenge in terms of labour market functioning in the Middle East and North Africa is the lack of merit-based hiring processes. Meritocracy in hiring practices would secure greater equality of opportunity across socioeconomic backgrounds and, importantly, would improve signals from the market to education and training institutions.

Finally, the region stands out because of the large gender gap in youth labour market outcomes. Women do much worse on all quality and quantity indicators than men, and make up the majority of young NEETs. In many of the region's countries, social norms restrict women's mobility and access to work, with very few employment opportunities for young women. This results in high unemployment rates for the minority of young women who complete higher education (ETF 2012).

### 5.3 Sub-Saharan Africa

Sub-Saharan Africa has the world's highest youth population growth rate and the highest share of youth in the working age population. Still, the region's youth employment problem should be seen in qualitative rather than quantitative terms. This is especially true in low-income countries and for the most vulnerable groups: young women, youth in rural areas, youth from poor families, and those with no or little education. Despite high unemployment among well-educated youth, firms in many of these economies report difficulty in finding qualified personnel, an indicator perhaps that the skills being inculcated by the education system are not aligned with efforts to promote new economic activities (World Bank 2012a, 2013).

Employment creation by the private sector has been weak due to a low growth elasticity of employment, especially in resource-rich countries. The share of the labour force in private industry in sub-Saharan Africa is markedly different from the rapidly growing economies of Asia and Latin America (Table 1). Solid growth over the past decade has not led to a significant improvement in labour market outcomes and poverty reduction. A review of youth employment programmes in Cameroon established that although they addressed a wide range of specific challenges, they lacked coherence and were clearly not integrated within the country's broader policies to alleviate binding constraints to growth and employment (World Bank 2012b).

The informal economy employs up to 90 per cent of the working age population in low-income countries (AfDB 2012), and is a structural feature of economies in sub-Saharan Africa. Because of its pervasiveness, the informal sector has to be part of any policy addressing youth employment. Low labour productivity and earnings in self-employment and the informal economy are a limitation to sustained poverty reduction. In countries where the majority of youth are in rural areas, increasing agricultural productivity and non-farm rural activities is crucial. Low productivity is related to lack of learning opportunities for youth in the informal economy. However, in basic formal education, gender gaps in enrolment and the poor quality of education also remain an urgent challenge.

### 5.4 Asia

Most countries in South Asia are characterised by high vulnerable employment shares, informality and working poverty. Despite high growth rates compared to other regions, a large share of workers remain in agriculture, in the urban informal sector or in informal

jobs in formal enterprises. Employment growth in the formal sector is too low to absorb large numbers of young labour market entrants. Manufacturing still accounts for a small share of total output and employment, compared to other developing regions. This mostly affects low- and medium-skilled workers, who are still predominantly confined to working in agriculture and informal services (ILO 2013). Besides structural change towards more low-skilled intensive manufacturing production, increasing productivity in agricultural and informal activities is key to improving youth employment outcomes.

On the supply side, although primary school enrolment has increased, the transition rate from primary to secondary schooling is declining. Due to the poor quality of basic formal education and persistent gender gaps in educational attainment, the most vulnerable youth groups do not get much of a chance to obtain decent work. Another striking feature of youth employment in the region is persistently low female labour force participation. Southeast Asia has the world's highest youth-to-adult unemployment rate ratio; adult unemployment is very low (2.5 per cent in 2011 according to International Labour Organization (ILO) statistics) while youth unemployment is close to the world average (13 per cent in 2011). The main challenge for Southeast Asian countries is the poor quality of employment for the majority of workers; more than 60 per cent of the region's employed are estimated to be in vulnerable employment (Pieters 2012).

## **6 Policy direction and lessons for intervention design**

Based on the foregoing analysis, the critical issues to engender youth employment revolve around empowering youth by enabling them to build human capital and providing them with opportunities for quality jobs. In this section we review a number of measures to guide the development, consolidation, and reshaping of existing policies.

### **6.1 Youth employment strategies**

In order to address the youth employment challenge there is a need for integrated approaches involving different levels of government and multiple stakeholders, including relevant ministries, education and training providers and social partners. Because of the complex nature of developing country labour markets, and the diversity of income-generating activities that people undertake, the youth employment challenge requires policy action beyond basic education and labour markets, in areas such as credit markets, infrastructure, business regulation, and rural development. In addition to basic education, high productivity skills that can accelerate youth employment include those relating to processing, marketing, machinery operation and repair, commercial transportation (passenger and haulage), logistics and quality control. Responsibility therefore lies with governments to ensure coherence and coordination (ILO 2012b).

### **6.2 Growth**

Promoting job-rich, inclusive growth is key to youth employment promotion in the long term. Although achieving job-rich growth is a

major challenge in general, strategies to expand labour demand are needed to complement interventions targeting more short-term and youth-specific goals, such as wage subsidies and skills training (IEG 2013). Thus, macro and growth policies need to stimulate private investment, especially in labour-intensive sectors or sectors with large employment multipliers (ILO 2012b). Examples of such policies for the MENA region are reducing relative labour costs and promoting more labour-intensive agricultural crops, rather than the traditional subsidies on fuel, energy and wheat (Gatti *et al.* 2013). Lin and Chang (2009) call for policies that enable firms and sectors to make use of a country's relatively abundant production factors. This means focusing on labour- and resource-intensive production activities, rather than prioritising capital-intensive industries. Harrison and Rodríguez-Clare (2010) call for so-called 'soft' industrial policy, aiming to facilitate collaboration between government, industry, and cluster-level private organisations, to reduce coordination failures in order to increase productivity.

### 6.3 Promotion of entrepreneurship

Promotion of youth entrepreneurship and self-employment requires increased access to credit by strengthening financial infrastructure, bank competition and non-bank financing. Youth micro-entrepreneurship also requires reform and more consistent enforcement of business regulation, in order to reduce red tape and increase transparency (ILO 2012b). The most effective entrepreneurship training combines 'core' business administration skills, such as accounting, with 'softer' entrepreneurial skills, such as problem solving. It is important to systematically screen youth for latent or active entrepreneurial characteristics, such as innovative thinking, leadership attributes, passion and results orientation. Programmes should clearly separate training and financing functions by forming partnerships with financial institutions to provide and manage credit for youth (MIF 2012). To improve entrepreneurs' ability to benefit from trade liberalisation and foreign investment, they also need skills for developing their networks and linking with higher levels of the value chain.

Various institutional arrangements and incentive schemes can be used to widen access to credit. In Uganda, the Development Finance Company of Uganda Bank Limited's (DFCU) credit facility is largely provided under a leasing arrangement. Evidence shows that having credit and financial services that are accessible to women is crucial for increasing their ability to save and start a business (Dupas and Robinson 2013). In Kenya and Uganda, M-Pesa and Mobile Money respectively have been central to providing financial access to a wide section of the unbanked population.

Some suggest that engendering entrepreneurship starts with a mindset change towards a culture which rewards competition and innovation. This entails addressing the beliefs, values and attitudes underlying behaviour and choices. Effective mindset change begins with identifying prevailing mindsets. As such, honest discussions can provide hypotheses to

be tested through surveys. While most economic development efforts shy away from explicitly addressing mindset change, this is an issue that some suggest is key to any real progress (The Brenthurst Foundation 2011).

#### **6.4 Public works programmes**

The most direct way to increase labour demand in the short term is through public works programmes (PWPs). PWPs create temporary jobs for the poorest and most vulnerable, with the primary goals of income smoothing, poverty reduction and asset building. Many PWPs are organised around infrastructure development, but there is significant scope for PWPs to provide social services. This is a highly labour-intensive sector and could be better targeted to increase young women's participation (ILO 2012b). Beyond providing a safety net, PWPs can also be used to improve participants' employability in paid jobs or self-employment in order to graduate from the programme. Examples are the Sierra Leone Cash for Work project, the Temporary Income Assistance Program in El Salvador, the Expanded Public Works Programme in South Africa, and the Kazi Kwa Vijana programme in Kenya (Andrews and Kryeziu 2012; Subbarao *et al.* 2013). To increase employability, youth or other participants with high re-employment opportunities should receive skills training and education that may result in some type of accredited certification.

#### **6.5 Skills**

Addressing skills shortages and mismatches requires action on several fronts, including formal and non-formal general education, VET and apprenticeship training. Improving literacy skills through better primary education requires urgent attention in many low-income countries. Education policies should also aim to improve access to secondary education for disadvantaged youth. Disadvantaged youth are especially constrained by the cost of schooling and, in the case of young women, by social and cultural barriers. New technologies in education and access to open educational resources could enhance flexible course delivery and customised training for specific groups of youth. Policies that increase the permeability of education systems are also needed, to allow youth to move more easily between different levels and types of education. Mobility would also include allowing students to move between VET and other higher education tracks, which could increase the attractiveness of VET. Since the benefits of formal VET depend largely on the relevance of skills to actual demand in the private sector, a widely heard policy recommendation is to build public-private partnerships in the design and provision of VET. Almost by definition, however, formal VET policies cannot address challenges for the majority of youth in low-income countries working in the informal sector. It is crucial that skills development policies include youth in agricultural and non-agricultural informal employment, where poverty reduction is most urgent (Walther 2012). This could be achieved by improving and expanding traditional apprenticeship schemes, for example through local training committees and training schemes for agricultural (or agriculture-related) occupations.

### 6.6 Labour market information

When jobs exist, youth can be helped by providing information and employment exchange services through educational institutions, or by offering these in youth centres. Better access to information further requires the availability of transportation. For poorer youth and those living further from urban centres, offering transport subsidies may be necessary to allow them to benefit from employment exchange services. In predominantly informal labour markets, however, formal information channels may be of little relevance. We know little about the functioning of informal labour markets, but it is clear that informal networks are key in the job searching process. The use of new technologies, particularly mobile phone-based, could help in expanding job search networks for youth, linking formal and informal networks, and increasing the effectiveness of these networks. Where growth is weak and there is a lack of productive jobs, overseas employment programmes may be part of a solution.

### 6.7 Regulation

In countries with high unemployment among educated youth, particularly in the MENA region, there is a need to restructure public administration hiring and promotion processes, and to reduce public-private dualism in the labour market. This requires labour regulation and social insurance reforms and more social dialogue, including with youth organisations and representatives (Gatti *et al.* 2013). Wage subsidies and reduced social contributions for young workers can be used to increase demand for young workers, if targeted and provided for a limited period of time and with strong monitoring to avoid abuses (ILO 2012b). A minimum wage could be important for young workers to sustain a decent earnings level, while a lower youth minimum wage could be used to stimulate youth labour demand. In terms of employment protection, special first job contracts or reducing restrictions on temporary contracts have also been used in some situations to stimulate demand for youth labour.

### 6.8 Knowledge gaps

In low-income countries, youth will continue to be absorbed in agriculture, non-farm informal jobs and/or self-employment. Much of the existing analytical evidence tends to focus on formal employment in urban areas, where political interest and data can be found. Little is therefore known about the functioning of the informal and agricultural labour markets, and even less about the youth specifics of these labour markets. As such, investing in youth labour market data and analysis is an important first step in aiding policy and programme design. Improving data infrastructure in developing countries is furthermore likely to increase attention to the labour market situation of vulnerable youth. Even where policies can be and have been evaluated, impacts of interventions on non-targeted groups, spillover effects and other general equilibrium effects have been extremely hard to assess. Finally, a number of youth employment determinants and relatively new policy areas and programmes remain particularly understudied. Examples are the role of urbanisation and the location of jobs, new technologies in production and in job searching, micro-franchising for stimulating entrepreneurship, and green growth strategies.

## Notes

- 1 A population or demographic dividend occurs when the proportion of working people in the total population is high as this indicates that more people have the potential to be productive and contribute to growth of the economy.
- 2 Returns here refer to the overall benefits that accrue to those that choose to undertake a given form of education and training.
- 3 Youth make up about one third of international migrant flows, especially flows towards developing countries (McKenzie 2008 – based on census data for 12 countries, including six developing countries).

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