

PAGE

policy analysis on growth and employment



Priority policy research issue for the second PAGE II (2017) call for proposals

Youth employment – supply and demand side constraints and policy options

In what follows, we introduce the priority thematic issue of **Youth employment - supply and demand side constraints and related policy options**, identified for the second round of PEP's call for research proposals for its PAGE II program.

To assist applicants in designing their research proposal, PEP resource persons have prepared a complete review of existing scientific literature on each of the priority themes. Follow this link to access the [recommended reading](#) lists online.

IMPORTANT: For all policy research issues identified for this round of funding, applicants are encouraged to explore impacts on inequality across gender, socio-demographic groups and age groups. Consideration of gender aspects should be included for all issues.

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Motivation and situation analysis

Youth in developing countries often face unique challenges to participate in labour markets. The main entry barriers to better paying occupations are their lack of access to productive assets including credit, education, and vocational training (Heyer, 2006; Quisumbing and Pandolfelli, 2010). As a result, they tend to engage in low-skilled wage labour or labour-intensive self-employment and informal sector activities that are characterised by insecurity, seasonality and low returns (Banerjee and Duflo 2007; Haggblade et al., 2007; Banerjee and Duflo 2008; Bezu and Barrett, 2010).

Over the past decade, youth unemployment rates in many developing economies have not fallen significantly despite generally positive economic growth. These regions have experienced important growth in labour supply, mainly in the youth population, which has increased pressure on the labour markets. As a result, the global youth unemployment rate has been rising since 2011. Recent estimates indicate that about 12.6 percent are unemployed and this is projected to increase to 12.8 percent by 2018. In contrast, the global adult unemployment rate, while also rising slightly, is much lower at 4.6 percent in 2013 (ILO, 2013).

In addition, many low- and middle-income countries in the developing regions are experiencing an increasing incidence of the 'educated unemployed' phenomenon. This is a consequence of rising levels of participation in higher education, where concerns with quality of training and the adequacy of curricula to labour market requirements are common. Job creation rates for positions that require this type of education cannot absorb the new entrants into the labour market (AfDB, 2011). The challenge is primarily for youth aged 15-24, but sometimes also ages 25-29, because there is growing evidence that the transition to adulthood, including school-to-work transition, is now more protracted in these higher ages.

In the analysis of youth and labour markets, the different contexts and frameworks within which young men and young women make labour market choices are often overlooked. Existing analyses tend to focus on differences in human capital and the skills that are required by employers, and on interventions that will enable young men and women to acquire these skills as if the decision framework they faced were similar. However, especially in many developing countries, cultural norms regarding gender roles could result in very different factors underlying female unemployment as opposed to male unemployment.

Research issues

Although various supply- and demand-side interventions have been proposed to enhance employment for youth and women in Africa (AfDB, 2011) and other developing regions (Karlán and Valdivia, 2011; Giné and Mansuri, 2014), there is limited context-specific evidence to inform policy choices to support job creation and productive employment for them. Several studies have analysed education and training programmes that prepare youth for the labour market. However, most have focused on upper- and middle-income countries. The applicability of these lessons and policy recommendations to poor countries is therefore questionable. More research is needed to test and rigorously evaluate context-specific interventions in these countries. The key research questions proposed in this thematic area concern policy options aiming at narrowing labour supply and demand gaps, reducing labour market mismatch, reducing vulnerability and promoting productive employment.

a. Narrowing labour supply and demand gaps

To reduce youth unemployment (and materialise the demographic dividend), new entrants need to be absorbed by the labour market.¹ Traditionally, this has been addressed from the supply side by the means of labour market training programmes intended to improve skills of the youth labour force. School-to-work transition programmes were widely implemented in LAC in the form of vocational

¹ The demographic contribution to accelerating economic growth is often referred to as the demographic dividend. This provides a time-limited window of opportunity for growth if it coincides with strategic investments to enhance human capital and create an enabling environment for businesses to demand and deploy the skills of the youth population more efficiently and equitably.

trainings with positive but modest outcomes (see Betcherman et al., 2007). Narrowing the growing gap will require better information systems on available employment opportunities, as well as the creation of new jobs to absorb the growing number of unemployed youth.

Labour market information and support systems for youth transitioning from school to work are scarce but crucial to reduce unemployment since they help young job seekers by i) improving the quantity and quality of information on available jobs and ii) better signalling their productivity and skills to potential employers.

In an integrated view that considers both labour supply- and demand-side approaches, some relevant research issues for developing and low-income economies include:

- Country-specific interventions that address the supply side constraints in terms of creating jobs and employment opportunities for unemployed young men and women (public employment and public works projects, wage subsidies, active labour market programmes, etc.)
- Employment information hubs and mentorship for young men and women that enhance the availability of labour market information
- Identification of public and private interventions that generate the greatest impact in developing labour market networks among young men and women
- Implementation of employment information systems in the presence of unreliable information due to informal labour market including unregistered workers, jobs and firms.
- Estimation of the economy-wide and regional impacts of expanded youth employment on inclusive growth and poverty reduction, taking into account differential impacts of increasing female youth employment and male youth employment.

b. Reducing labour market mismatch

In general, the concept of labour market mismatch refers to situations where new labour market entrants or the unemployed do not have the set of skills needed by employers who are hiring. In many low-income countries, curricula – including which fields of study are considered important – still derive from former colonial powers. The resulting 'educated unemployed' phenomenon raises concerns regarding the effectiveness of such supply-driven interventions² (AfDB, 2011).

In many poor countries, vocational education received little attention as there is a widespread lack of support and acceptance of this type of training, not only by employers but also by the youth population. Manual skills are often discredited, as are many practical skills that may enhance the employability of youth. Even when youth obtain vocational training, the skills taught often belong to a previous generation of craftsmanship rather than current demands. Such programmes are focused on job seekers' lack of skills (supply side) and do not consider their corresponding job providers' demand, which may be limited³.

The key research issues to reduce the mismatch and enhance youth employment in the poor economies would therefore include appropriate country-specific approaches to:

- Estimate skill mismatches in different sectors and programmes, including cognitive, socioemotional and technical skills, while accounting for different skill endowments by gender and accounting for gender segregation by occupation⁴.
- Identify the policies required to address this mismatch through reorienting curricula to meet skills needed in the local economy.

² Demand-driven interventions are often found to be more effective. For further details, see Betcherman, et al. (2007)

³ This has been partly addressed by programs such as 'Jóvenes' program. This is a demand-driven intervention where potential employers offer working experience (internship) through a bidding process. Even though it has been successful in many countries, it was also expensive due to the long duration of the program (eight years on average).

⁴ Because occupations tend to be highly segregated, for example, garment workers are mainly women, even if there were demand for garment workers, males may not be hired (the scenario is more likely for technical occupations like plumbers and electricians)

- Understand the kind of educational policies and interventions that are needed to build demand-relevant skills and prepare young people for the labour market.
- Identify (gender-specific) barriers that prevent young women (or young men) from acquiring demand-relevant skills and understand the kind of policies and interventions that will encourage them to do so (e.g. that will increase young women pursuing further education in Science, Technology, Engineering and Mathematics (STEM) streams (fields)).
- Analyse formal and informal training opportunities and job skills development options that support young men and women to develop the skills needed in labour markets.
- Explore apprenticeship and internship opportunities involving the private sector to help out-of-school young men and women develop the experience and skills needed for local employment.

c. Reducing vulnerability and promoting productive youth employment

In most rural, less-developed economies, youth must undertake whatever livelihood activities they can find or create, even if these have extremely low levels of productivity and/or do not nearly fill a work day. If they engage in any kind of economic activity for one hour or more during the reference week, they are counted as employed according to international definitions, but the quality and/or quantity of this employment is often inadequate.

One measure that casts a wider net, and abstracts away from whether a young person is ready and available for work or actively searching for it, is the “Neither in Employment nor in Education or Training” (NEET) measure (see ILO, 2015). The key policy research questions to reduce vulnerability and to promote productive youth employment in low- and middle income developing countries would include:

- What kind of employment opportunities will help the youth transition from informal and vulnerable employment to productive employment that will enhance their incomes and offer decent working conditions?
- What kind of support systems and interventions are needed to build skills and prepare young people working in the informal sectors to successfully enter formal labour markets?
- How can the expansion of educational opportunities for youth in the low and middle income developing countries be accompanied by improvements in quality that employers in productive sectors will require?
- What is the impact of current youth employment policies in developing countries? What works and what does not?

Methodological Approaches

a. Microeconomic policy approaches (PMMA)

Different microeconomic evaluation approaches can be used to address the above-mentioned research issues. Micro-level measurement techniques can be applied for gauging the importance of the skills mismatch for youth unemployment, as well as quantifying the supply- and demand-side factors that contributes to explain its magnitude in the labour market. Panel data approaches can help to understand the causes (e.g. social background, cognitive and non-cognitive skills, skills mismatch) of unemployment and vulnerable employment among youth and their consequences for future labour market outcomes (e.g. unemployment, turnover, wages). Quasi-experimental methodologies can be applied to assess the effectiveness of policy interventions, such as those dealing with the structural barriers to youth employment (e.g. educational reforms, labour market regulations) or active labour market policies (including subsidised employment, training and job search assistance).

In combination with large and diverse data sources and techniques, the use of quasi-experimental designs can help: to understand the mechanisms underlying policy effects on youth labour market behaviour; to measure their distributional and long-term impacts; to evaluate the impact of the institutional and implementation features; as well as to assess the benefits of the policy relative to its costs.

Household Surveys and Labour Force Surveys containing specific modules on respondent's cognitive skills, individual and workplace characteristics (e.g. occupation and skills use at work) are crucial for measuring the skills mismatch in labour market. Several surveys follow individuals across time or contain retrospective information on employment, wages, as well as on individual and household characteristics. Furthermore, some of those surveys provide modules on school-to-work transitions. That information is relevant to understanding the factors that play a major role in explaining long-term “scarring” effects on youth labour market outcomes. The availability of administrative datasets (programme records, labour histories, social security records, etc.), combined with modern quasi-experimental methods, can yield convincing evidence on the impacts of specific programmes or macro policies on youth employment. Moreover, combining administrative records with follow-up surveys can provide valuable information on the effects of public policies on “missing dimensions” such as informal employment. Finally, when available, matched firm-employee data provide a unique opportunity to examine in depth the match quality and employment duration of youth workers and firms, as well as to shed light on the role of policies in encouraging search behaviour.

The microeconomic evaluation tools presented above (and others), together with appropriate data, can be help to evaluate and provide policy recommendations about, for example:

- Male and female youth unemployment and labour supply/demand gaps, and the effectiveness of different public programmes (e.g. public works, wage subsidies, active labour programmes, non-wage benefits and union facilitation) in reducing them.
- Factors underlying skill mismatches in different sectors and programmes, including occupational segregation, and how education and labour market policies (e.g. vocational and training courses, internship and apprenticeship opportunities) help to reduce them.
- The situation of informal and vulnerable jobs among youth, the transition from informal (vulnerable) to formal (productive) jobs, and social protection schemes for informal employment, taking into account the interplay of gender in the market allocation of informal and vulnerable jobs.
- How specific educational interventions (e.g. investment in schooling quality and re-orientation of educational curricula towards specific programmes) and labour market/fiscal interventions (e.g. lowering taxes for formal employments, widening social protection schemes) can increase formal employment.
- Analysis of time use of unemployed: are unemployed females more likely to be engaged in housework and facing a higher reservation wage – reservation utility?

The table below shows a selection of recent PEP-supported projects using micro modelling approaches focusing on some of the research issues proposed in this section.

Research title	Authors
Youth self-employment in households receiving remittances in Macedonia	Petreski et al.
Internal mobility and youth entrepreneurship in Democratic Republic of Congo	Kikani Kiuma et al.
Mismatch unemployment: the case of Macedonia – with special reference to young adults	Atanasovska et al.

Remittances impact on youth labour supply: evidence from Kyrgyzstan	Karymshakov et al.
Wage 'scarring' when youth unemployment is extremely high: Evidence from Macedonia	Mojsoska-Blazevski et al.
Non-wage benefits, union 'facilitation effect' and labour market outcomes in Ghana	Nkechi S. Owoo et al.

b. MPIA approaches

CGE and other types of macro modelling can be used to explore different dimensions of youth employment through various disaggregations of the available data. Given specific hypotheses on sectoral labour market composition and/or the proportion of youth in the informal sector, CGE techniques can simulate various labour market shocks or policies to assess impacts and effects at the macroeconomic level. Hypotheses on the structural composition of the labour market can be based in part on available micro data and studies in comparable locations (e.g. similar countries or regions, similar labour market structure, etc.). For example, CGE modelling can be used to assess the impact of the return of migrants on the informal sector and the impact of supporting youth employment policies across various interlinking sectors. In addition, dynamic CGE models and macro-micro simulations can be used to explore the impact of education reforms on youth employment (among young men and young women), as well as the extent of the skill mismatch under alternative growth scenarios.

With a disaggregation of labour categories based by age group, CGE can also be used to inform policy on youth employment in a wide range of contexts. Given initial hypotheses on labour categories to identify youth in the labour market, national accounting is used to create the relevant social accounting matrix used in CGE modelling. From this social accounting matrix, the modeller can then infer different parameters defining youth behaviour (preferences and attitudes) in the labour market (e.g. elasticities, risk aversion, mobility). Finally, using the completed model, the modeller can simulate different scenarios representing exogenous shocks or policies promoting youth employment.

Within the PAGE II initiative, macroeconomic modelling in a CGE framework could help evaluate and provide policy recommendations on the following issues:

- Effects of migration on youth employment
- Dynamic effects of education reforms
- Public policies targeting youth
- Analysis of the informal sector from a youth employment perspective

The table below shows a recent PEP-supported project with macro-modelling application focusing on some of the research issues proposed related to youth employment.

Research title	Authors
Impact of public education spending on labour market and households' welfares in Cambodia: A CGE approach	Ear et al.

c. Field experiments

Please consult [Field experiments summary paper](#).

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