

## Private Sector Development Synthesis Note

### Youth Employment

March 2018 (links last updated July 2021)

#### Key take-aways:

- Global unemployment, or employment in precarious jobs, is much higher for youth than for adults. Entrepreneurship promotion and skills training are considered more effective in alleviating youth unemployment than other interventions, and have led to significant benefits in some countries.
- The current evidence suggests that wage subsidy and employment services interventions are, on average, ineffective.
- Digital technologies have great potential in delivering training and financial services to youth, as well as offering new employment opportunities; they are however less likely to be accessible by rural youth.

#### 1. Why is promoting youth employment central to sustainable development?

In many developing countries, the population is relatively young. Some have argued that this “demographic transition has the potential to offer a significant dividend” for many economies ([ODI/Save the Children, 2017](#)). But this generation of youth is also disproportionately affected by unemployment. The number of unemployed young people globally is currently just over 70 million ([ILO, 2016](#)). Young people are also more likely to work in the informal labour market, in jobs with limited economic security, few training opportunities, and poor working conditions ([Campbell Collection, 2013](#)).

The barriers to youth employment are targeted with specific interventions: predominantly job skills training (covered in Section 2), which aims to help young people compete better in the labour market, or entrepreneurship support (covered in Section 3), which aims to help young people create and grow their own businesses. More recently, developments in information communication technologies to promote youth employment have been explored (which is covered in Section 4).

Solving these problems is also a key part of meeting the challenge of the Sustainable Development Goals. In particular, Goal 8: “[Promote inclusive and sustainable economic growth, employment and decent work for all](#).” Within this goal, the following targets are most relevant:

- By 2020, substantially reduce the proportion of youth not in employment, education or training
- By 2020, develop and operationalize a global strategy for youth employment and implement the Global Jobs Pact of the International Labour Organization

#### 2. What causes youth unemployment?

Young people typically face significant barriers to entering the labour market. There are often mismatches between the skills and experience demanded by employers and those held by young people. Young people are often underprepared for work. Young people also have less access to credit. Many people in the

developing world have difficulties in accessing financial services, but young people face additional barriers, such as age limitations on opening an account, and low financial literacy. Moreover, certain segments of the youth population see their prospects limited by additional constraints. Young women, young people who live in fragile or conflict-affected environments, young people moving to urban areas and living in slums, and the rural poor all face greater difficulties in finding employment ([World Bank, 2012](#)).

Due to the high levels of youth unemployment discussed above, young people have less choice about the jobs that they accept. This can lead to difficult working conditions. Recent evidence shows that informal labour markets are growing and accounting for an increasingly large share of gross domestic product in many countries. This is especially true of young people. The quality of jobs is notoriously difficult to measure ([DCED, 2014](#)). However, the evidence indicates that young people have significantly lower job quality than older people: “informality, and associated insecure, unpaid, or low-wage jobs and potentially dangerous or exploitive work are a common dynamic across varying contexts, typically faced by youth” ([S4YE, 2015](#)). If young people are employed, they are more likely to work in low-quality, low-paid and precarious jobs ([OECD, 2015](#)). Better skills and training are closely related to better labour market outcomes, including a higher quality of employment.

### 3. What helps young people to gain employment?

For a stocktake of evidence on what works in youth employment programmes, see [World Bank, 2019](#). It concludes that although Active Labour Market Policies feature prominently in low- and middle-income countries alike, their record in terms of increasing employment and earnings is mixed. Similarly, the evidence base for what works in fostering more and better job creation by firms is still weak. Selected additional evidence is outlined below.

One concern in helping young people to gain employment is that they may lack appropriate skills. The term ‘skills’ is used to encompass the combination of technical (below university degree level), cognitive and behavioural competences, which enable a worker to acquire and retain decent work ([Dunbar, 2015](#)). The quality of evidence for the positive impact of skills training is generally good. Technical Vocational Education and Training (TVET) is a term generally used to describe post-secondary acquisition of practical, labour market relevant skills and knowledge ([UNESCO, 2013](#)).

A comprehensive systematic review on jobs and skills training intervention identified that in general they held a great deal of promise in helping young people to gain employment ([Campbell Collection, 2013](#)). However, it also noted two caveats to this point. Firstly, the size of the statistical effects of these interventions was generally small. However, given the large number of unemployed young people, even a small effect size can still result in a significant number of young people finding employment. Secondly, there was a wide range of effectiveness of the various interventions assessed. Some of these different interventions are examined below.

Formal training has the benefit of signalling to a potential employer more reliably than informally-acquired skills. Informal training can present a problem of credibility to potential employers; formal training carries more credence because it is (usually) certified by a recognised authority ([S4YE, 2015](#)). Skills training can benefit from private sector involvement as private training providers improve the efficiency, quality and coverage of job skills trainings ([MasterCard Foundation, 2015](#)). However, private firms can be reluctant to fully participate in these programmes, perhaps because they fear that the trainee will subsequently move on to work somewhere else ([Include, 2016](#)).

An alternative or complement to skills training is the use of employment services, which support the better matching of young people with training and jobs. It has been argued that these services, such as job search assistance, can help to match supply to current demand for skills; help to adjust to change; and help to build competencies for future labour market needs ([ILO, 2015](#)). However, a recent systematic review identified that such the average effects of employment services interventions were negligible or statistically insignificant ([Campbell Collaboration, 2017](#)).

Other research has identified that the most effective employment services rely on private providers ([IZA, 2015](#)). However, given that marginalised groups are often low skilled and work in rural areas (and are therefore less attractive for company recruitment), the extent to which these groups will profit from private sector engagement is small.

One form of job support that has shown to be ineffective is wage subsidies. These can be effective in providing employment in the short term, but do not function in the long-run; wage and employment subsidies appear to be successful at getting youth into first jobs, but their long-term benefits are uncertain. Moreover, wage subsidies also have negative effects because some hiring would have occurred even without the subsidy (deadweight loss), subsidized workers replace unsubsidized ones (displacement effects), and because youth replace older and more skilled workers (substitution effects) ([Campbell Collaboration, 2013](#)).

Another approach to skills training that is growing in popularity is teaching soft skills to young people. Indeed, evidence shows associations between non-cognitive or soft skills, and employment and other life outcomes ([Groh et al., 2015](#)), but it is less clear whether such skills can be effectively taught, especially in the types of 2- or 3-week courses used in the typical employment program. A recent randomised control trial of soft-skill provision in Jordan found no significant positive impact of this form of training on employment outcomes ([Groh et al., 2016](#)).

#### 4. How can youth entrepreneurship help?

According to the [S4YE \(2015\)](#), young people display the highest entrepreneurial activity of any age group. Yet they often struggle with the handicaps discussed above; such as a lack of access to finance, or limited skills and knowledge. The aim of entrepreneurship programmes is to lower these barriers to market-entry and ease the process of establishing businesses. Evidence from a recent systematic review shows that youth entrepreneurship programmes have on average had a positive effect on increasing young people's earnings ([Campbell Collaboration, 2017](#)). The review notes that entrepreneurship promotion programmes appears to be a particularly promising intervention for improving employment, earnings and business performance, although the evidence base is still relatively small.

Various mechanisms have been used to financially support young people into business (as distinct from employment). Typically, these are: 'soft' loans (e.g. loans at interest rates close to zero); grants (one-off payments to fund the set up and capital costs of the business); and/or payments to replace or augment unemployment benefits ([OECD, 2013](#)). Often, grants are preferred because 'soft' loans can lead to high debts, and a significant proportion of businesses will fail. One advantage of loans, however, is that risk is shared (e.g. between the programme provider and the entrepreneur). This could provide stronger incentives for the young person to assess the worth of their business proposal. One problem, however, is that businesses often need significant start-up capital to become mature and sustainable ([OECD, 2013](#)). Another danger is that these mechanisms will not be used effectively by young entrepreneurs: some evidence suggests that family pressure on young people (especially young women) in developing countries can mean that grants or credit are used for non-business purposes ([Fiala, 2014](#)).

Entrepreneurship promotion can benefit from private sector delivery, which generally leads to better outcomes than delivery by public programmes ([OECD, 2013](#)). However, there is little direct benefit to private firms. Furthermore, support for entrepreneurs could be construed as educating potential competitors by rival companies. As such, private sector support for this form of intervention is likely to be low ([Include, 2016](#)).

## 5. What does the future of youth employment look like?

The number of young people seeking employment is likely to stay high for the foreseeable future. However, there are other significant changes that look likely to occur. Evidence suggests that young people are becoming less engaged with the agricultural sector in Africa ([Maïga, Christiaensen, Palacios-Lopez, 2015](#)). Agriculture is currently the largest employer of young people in the region. Urbanisation and emerging new sectors are the two principle drivers of this shift. The digital sector – businesses that use Information Communications Technologies (ICT) to deliver a product or service – is becoming increasingly important to developing economies. Africa's ICT sector is estimated to be worth \$150 billion.

Young people, who often grow up immersed in these technologies, are often referred to as being “digital natives.” They have the skills and experience to take advantage of these new technological developments. There are an increasing number of tech hubs and start-up incubators throughout Africa ([World Bank, 2012](#)). Young people are also making ever greater use of mobile technologies. Development programmes are responding to this by incorporating these technologies into their work. For instance, using text messages to provide training updates to beneficiaries or connecting young people to job opportunities ([Education Alliance, 2013](#)). The benefits of digital technology have effects outside of the digital sector. They could allow young people to increase their skills, access financial services and find jobs. In this way, digital technologies also have the potential to make labour markets “more inclusive, innovative, flexible, and transparent” ([World Bank, 2013](#)).

However, even as digital technologies have grown, there remains a significant divide in capabilities. In many low-income countries, a lack of digital skills is compounded by a lack of access to technology. If schools are unable to afford the tools to educate young people in the digital sector, these young people are at a disadvantage in the job market and these countries' digital sectors are at a disadvantage in competing internationally ([Peace Child, 2015](#)). Cost is an especially acute barrier for marginalized populations, such as young people in rural areas and young women. These groups are even less likely to be able to afford digital technology or have access to training ([Education Alliance, 2013](#)). In addition, several studies have cautioned that the quality of education or training techniques matters more than the technology used ([Higgins et al, 2012](#)). Technology may provide some benefits in reaching young people for training, but there remain significant barriers for overcoming high cost barriers and including marginalised groups in the digital sector.

Skills matching and anticipation is an integral part of planning for future economic developments. However, correctly predicting the skills that will be needed in the medium-term is immensely difficult in developed countries, with well-functioning labour markets and educational systems. This is even more difficult in developing countries, where weak institutions, capacities and governance systems can make planning impractical ([ILO, 2016](#)).

**Find out more on the DCED's Youth Employment Knowledge Page: <http://www.enterprise-development.org/implementing-psd/youth-employment/>**