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## Youth Employment in Developing Countries

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# Youth Employment in Developing Countries

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## **SUMMARY**

### Youth employment and development

- A youth focus within the employment and development debate, including the post-2015 agenda, is warranted for a number of key reasons:
  - Early work experience affects work and wellbeing throughout a person's life.
  - Youth employment outcomes have spillovers across society, affecting social and political stability, and to future generations.
  - Today's youth population is the largest the world has ever seen. The size of the challenge and economic burden is therefore unprecedented.
  - Vulnerable groups of youth stand to lose out in today's environment of fierce competition for scarce jobs, exacerbating inequality within current youth cohorts.
  - The school-to-work transition of young people has to be analysed taking into account of parallel key early life transitions, including cohabitation, marriage and childbearing.
- The 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 vulnerable employment, informal work, and working poverty.
  - 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 also the regions where vulnerable employment shares (self-employment and unpaid work) are highest, particularly in the low-income countries. Vulnerable employment and working poverty are highest among youth with no or little education and in rural areas.
  - 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 in these regions, both in terms of unemployment and vulnerable employment.
- Even in wage employment, jobs can be informal, low-productivity, and low-pay. It is thus important not to focus exclusively on unemployment and self-employment rates as youth employment indicators. If the aim of youth employment policies is to secure decent work for young people, then productivity, earnings, social protection, and aspects such as occupational safety and health and job security all need to be considered.

## Youth in unemployment and vulnerable employment (% of youth labour force)



Note: Numbers are for 2011. Source: ILO 2010 and 2012a

### Main challenges

- Youth employment outcomes are affected by three groups of determinants:

Labour demand	Growth of productive yet labour-intensive activities, especially in the formal private sector  Entrepreneurship
Labour supply	Equal access to education  Quality of education  Relevance of skills acquired in general education and VET  Skill development for self-employment and employment in the informal economy  Migration
Labour market functioning	Availability and quality of information  Transparency in hiring practices  Labour market regulation

- Labour demand ultimately depends on the growth and labour-intensity of production in different sectors, which is subject to domestic as well as global influences. Through the channel of international trade, the financial crisis has indirectly affected developing countries. Due to the increasing global interconnection of jobs, as well as labour-saving technological change, urbanization, and the transition to more energy efficient production

and consumption, countries will keep experiencing mismatches between labour demand and supply at the sectoral and regional level.

- Most developing countries are making progress towards universal primary education, but many are less successful in improving the transition from primary to secondary education and the quality of schooling. Vocational education and training often play a limited role due to weak links with skills demanded by private sector, insufficient funding, poor monitoring and evaluation, stigmatization, and low (perceived) returns.
- Young people make up a significant share of international migrants and the majority of rural-urban migrants. Migration can serve to build human capital of youth, but also exposes them to several risks, due to weak social networks and limited access to information on their rights and entitlements.
- Low-income countries, characterized by high vulnerable and informal employment and limited formal sector jobs, share the challenge of realizing labour-inclusive structural change to increase demand for low- and medium-skilled workers in private enterprises. Given the importance of small and medium enterprises, the challenge includes fostering growth and productivity particularly for SMEs with the potential to develop, and link them with markets and supply chains. In the short term, however, their main challenge is to improve productivity, earnings, and wellbeing of young agricultural and informal workers. Another challenge for low-income countries is the low rate of primary and especially secondary enrolment. Low enrolment as well as poor quality of education is at the base of young people being trapped in subsistence work.
- Middle-income countries, particularly those in the Middle East and North and Southern Africa, face high youth unemployment. In some middle-income countries, this is closely linked to the slowdown of public sector employment growth. The main challenges for youth employment in these countries are lack of employment-intensive private sector growth, public-private dualism, and lack of transparency hiring practices.
- A number of developing countries in different regions are characterized by low female labour force participation and high gender segregation in the labour market. Women are overrepresented in vulnerable employment, agriculture, and the public sector. Segregation limits women's choices and opportunities, but also harms growth through inefficient allocation of labour and high degrees of inactivity.

#### Lessons and recommendations

- To address youth employment challenges, countries will need an integrated approach involving different levels of government and linking with overall development and employment policy that reaches beyond the labour market and education sectors. Strong labour market information and analysis systems, which cover the informal sector and qualitative job aspects, will be necessary to inform policy, set targets, and evaluate impacts.
- Governments need to complement any short-term and youth-specific measures with longer term policies to stimulate labour-intensive growth. In a low-growth or capital-intensive growth environment, programs aimed at improving youth employability risk having no or only limited impact.
- Youth entrepreneurship promotion requires increased access to credit, business regulation reform, and entrepreneurship programs that combine different types of skills training – including “hard” and “soft” skills – with support services such as coaching and mentoring. Livelihood self-employment should be targeted separately from entrepreneurship, and address the specific needs of vulnerable groups of self-employed workers.
- Youth employability could be improved through skills building or other extensions (e.g. access to finance, employment exchange services, or business development services) within Public Works Programs (PWPs). These extensions may address the concerns about the short-term nature of PWPs and their inability to link beneficiaries to future, long-term employment opportunities. However, the impacts of graduation strategies in these

programs have not yet been sufficiently evaluated and there is limited guidance on effective design of these broader programs in order to enhance youth's labour market outcomes.

- To address skill shortages and mismatches, current youth cohorts need permeable VET systems and second chance education. Reaching vulnerable groups of youth may require flexible course delivery and customized training. For the majority of developing countries, a key message is that skills development policies need to include youth in agriculture and in the informal economy, building on existing informal training providers where possible, and including recognition of skills acquired in non-formal learning.
- For training programs to be effective, hard skills training needs to be combined with life and employability skills training, and on-the-job experience. Adjusting program components to the capacities and interests of different target groups improves outcomes and can reduce drop-outs.
- Governments can encourage the use of new technologies to expand job search networks for youth in the informal economy, partly by enabling private provision of employment exchange services. In formal labour markets, youth would benefit from increased transparency and fairness in hiring through regulation and better enforcement of laws.
- A key lesson from policies aimed at stimulating youth labour demand is that short-term measures, such as lowering restrictions on temporary jobs, may come at the cost of lower job quality in the long term. Furthermore, regulation can enhance formal-informal dualism in countries with a large informal economy.
- Important knowledge gaps exist regarding the functioning and youth-specifics of informal and agricultural labour markets. In addition, a number of policy areas such as urbanization and green growth strategies are relatively new on the international research agenda. Even where policies and programs have been evaluated, however, there is usually no assessment of spillovers on non-targeted groups.

## Conclusions

- Although youth unemployment is probably the most visible aspect of the current youth employment crisis, the challenge for the majority of youth in developing countries is to improve the quality of employment rather than the quantity. With poverty reduction as the principal objective, policies need to have a specific focus on the most vulnerable groups of youth in low-income countries.
- However, keeping in mind the broader role of decent work in promoting social cohesion, development cooperation also needs to target the large group of the openly unemployed youth in middle-income countries. Young women are another key subgroup in employment-related strategies and interventions.
- It has to be acknowledged that programs aimed at improving youth employability risk having no or only limited impact in a low-growth environment. Improving youth employment outcomes requires a combination of targeted policies and programs for current youth cohorts with a longer-term strategy for stimulating employment-intensive growth. In most countries this will include reforms ranging from business and labour regulation to economic diversification and industrial and trade policies.
- Another clear message in a context where most of the labour force is operating in the informal economy, is that reaching vulnerable groups of youth can only be achieved by targeting productivity, skills, social safety nets, and labour market functioning in the informal economy, as well as by reinforcing their position in the value chain.
- Effective policy design and evaluation require stronger labour market information and analysis systems, particularly in low-income countries, Youth and private sector representatives will need to be included throughout the process of policy design, implementation, and evaluation.

## **1. INTRODUCTION**

The aim of this paper is to identify the key challenges in relation to youth employment in developing countries and provide recommendations on how EU development cooperation could support the youth employment agenda. It starts with a general discussion of the main reasons why youth employment challenges matter for development and a comprehensive description of common trends and key differences in youth employment outcomes across developing regions (Section 2). The determinants of youth employment outcomes and main challenges by region are discussed in Section 3. Section 4 discusses relevant policy measures and lessons from existing policies and programs. After a brief mapping of the international policy framework on youth employment in Section 5, the paper ends with conclusions and recommendations in Section 6.

## **2. YOUTH EMPLOYMENT IN THE DEVELOPMENT PERSPECTIVE**

### **2.1. Youth employment and development**

Full and productive employment and decent work for all is one of the targets in the first Millennium Development Goal to eradicate extreme poverty and hunger: employment is people's main route out of poverty. Under target 1B the MDGs particularly mention full employment for youth and women, groups that tend to have the weakest labour market positions. As decent work for all is considered a key driver of inclusive growth, employment with a focus on youth is a prominent topic within the post-2015 development agenda (Koehler 2013).

Youth employment outcomes need to be analysed in the perspective of a life-long career. A lack of decent work, if experienced at an early age, threatens a person's future employment prospects and frequently leads to undesirable labour market outcomes over longer periods (ILO 2012a). The evidence from the UK and US shows that unemployment during youth and early adulthood results in lower earnings, higher probability of unemployment, and lower health and job satisfaction in the future (Kletzer and Fairlie 2003; Burgess et al. 2003; Bell and Blanchflower 2011). Even graduating from college during a recession, when joblessness affects many youth at the same time, has a significant scarring effect on future earnings (Kahn 2010).

Furthermore, the impact of a job on individual wellbeing reaches far beyond current and future earnings and employment prospects, through giving a young person self-esteem and social identity, including a sense of belonging in society (World Bank 2012). The World Bank's 2013 World Development Report analyses the connection between jobs and social cohesion, measured as levels of trust and civic engagement. Although the direction of causality between having a job and a person's level of trust and civic engagement is hard to establish, joblessness clearly means more than a lack of income. People also lose social status and access to social networks, and may feel disempowered. Widespread job losses have been found to weaken social ties and even create mistrust within communities.

Through such impacts on trust and engagement, as well as other spillovers through the shaping of young people's values and behaviour associated with productive work participation, youth labour market outcomes matter a great deal for the society at large. Meaningful employment opportunities for young people are crucial for social and political stability. A perceived lack of job opportunities, for example in a context of rapid educational growth or rural-urban migration combined with rising unemployment, can be a source of frustration. A lack of job opportunities may also result from unequal distribution of jobs. The Arab spring was partly associated with frustration among youth about the lack or absence of merit-based hiring in the public and formal private sector. Unemployment or poor quality employment may have a particularly strong political and social impact as youth are relatively easily mobilized, while they tend to have little voice in policy making. In the extreme case, youth may develop violent behaviour and radicalism in search for social ties and self-esteem.

Youth employment analysis also needs to acknowledge parallel life transitions. The school-to-work transition of young people coincides with several other important early life transitions,

including cohabitation, marriage and childbearing. Limited job opportunities for young people thus also determine involuntary increases in the age of household formation, marriage, and starting their own family (e.g. Egel and Salehi-Isfahani 2010 on Iran).

At the same time, if new families form despite poor access to stable and productive employment, this can have intergenerational spillovers through the investment in their children's schooling and health. Youth from poor households are likely to become working poor, while unemployed youth in several countries are increasingly found in households without any employed members (ILO 2012b). Young women's work has an additional intergenerational impact, as mothers' labour force participation is a strong predictor of the labour force participation of their daughters.

The youth-focus in the employment debate is further warranted by the sheer size of youth cohorts in developing regions, particularly in Africa and Asia. Today's youth population is the largest that the world has ever seen and the majority live in developing countries. These large youth cohorts enter every year in the labour market with higher expectations than former generations. Especially the low-income countries in Africa and Asia are still in earlier phases of the demographic transition, with relatively high fertility rates. In Sub-Saharan Africa, HIV/AIDS is also having significant demographic impacts by reducing life expectancy (ILO 2013b). The ILO has argued for the need to turn "the demographic challenge into a youth dividend" as productive employment of youth is key to sustaining economic development, inter-generational solidarity and – in some countries – pension systems.

A direct consequence of the historically large number of youth is that youth unemployment and non-productive employment bears high economic cost. Instead of contributing to society, unemployed or unproductively employed youth create direct costs, for example through public support programs. For the Arab region, these have been estimated at \$40–45 billion annually, or 2-3 per cent of the region's economy (IFC 2011). Examples of indirect economic costs are the loss of investment in education, forgone earnings, lower savings, and lower aggregated demand (ILO 2010).

Finally, youth employment challenges are related to growing inequality *within* the current youth cohorts (ILO 2012b). Fierce competition for scarce jobs makes it harder to keep fighting labour market discrimination. This warrants a specific focus on the vulnerable groups of youth, for whom the labour market situation is most likely to deteriorate further if no targeted action is taken. Rural-urban migrants, for example, are likely to be the first ones losing out in urban labour markets. And young women may be easily discouraged in countries where female labour force participation has been historically low. Other vulnerable groups are low-educated youth, ethnic minorities, and young people with disabilities.

## **2.2. Youth in the labour market: common trends and key differences**

Labour markets in developing countries present a complex combination of realities, including paid employment and self-employment, often characterized by persistent informality, low productivity, and limited access to social security. Since regular wage employment is often the exception rather than the rule, understanding the position of youth in the labour market requires a discussion of various measures of labour market outcomes.

### **2.2.1. Measuring youth employment outcomes**

There are different typologies of young people, defined as the population age 15 to 24, in the labour market. Figure 1 below summarizes how the youth population can be classified into different groups according to their employment or activity status. Based on this classification, the labour market situation of youth can only be described by a combination of several indicators capturing both quantitative and qualitative aspects.

The main quantity-of-work indicators are the youth employment-to-population rate, unemployment rate and the share of youth neither in employment nor in education or training (NEET). The employment-to-population rate measures the share of employed youth in the total youth population. The unemployment rate measures the share of unemployed youth, which are those not working but searching for a job, as a percentage of the youth labour force (those employed or unemployed). The NEET rate captures a broader group of inactive youth, also including those that are discouraged from searching for work and those inactive for other reasons (many women, for example, do housework that is not considered to be work in employment statistics). It considers youth with employment but also youth still in education as being active. It is calculated as the share of NEET youth in the total youth population.

Regarding the quality of work, an indicator that is often used is the so-called vulnerable employment share. This is calculated as the share of self-employment and unpaid family work in total employment. Another indicator that captures the quality of work, not included in Figure 1, is working poverty. This measures the share of workers living below the poverty line.

**Figure 1: Typology of labour market outcomes**

Labour Force Status	Employment Status		
In the labour force	Wage employment	Employed	Wage employment
	Self-employed		Vulnerable employment
	Contributing family worker / unpaid worker		
Out of the labour force	Unemployed	Not employed	NEET
	Discouraged		
	Inactive or housework		
	In education		Student

Source: adapted from AfDB 2012, figure 6.2.

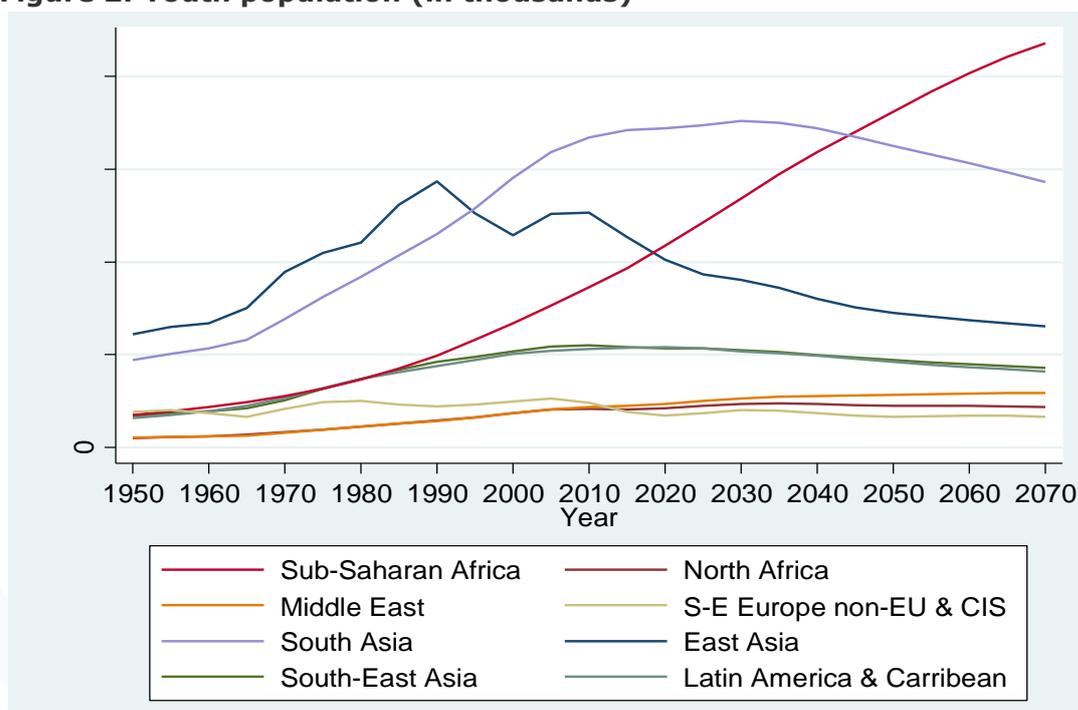
Across developing countries, there is wide variation in these indicators. Some countries and regions face high youth unemployment, while in other countries unemployment is low but a large share of youth is in vulnerable employment. In yet other countries, the main challenge is a high share of discouraged or inactive youth.

### 2.2.2. Youth employment trends

Before discussing the trends in youth labour market outcomes, Figure 2 shows the size of the youth population in the developing world by region. Youth populations in all developing regions except East Asia and South East Europe & CIS are growing in absolute numbers. The growth rate of the number of youth has been particularly high in South Asia, where it is now tapering off, and in Sub-Saharan Africa, where it is projected to remain high throughout the coming decades.

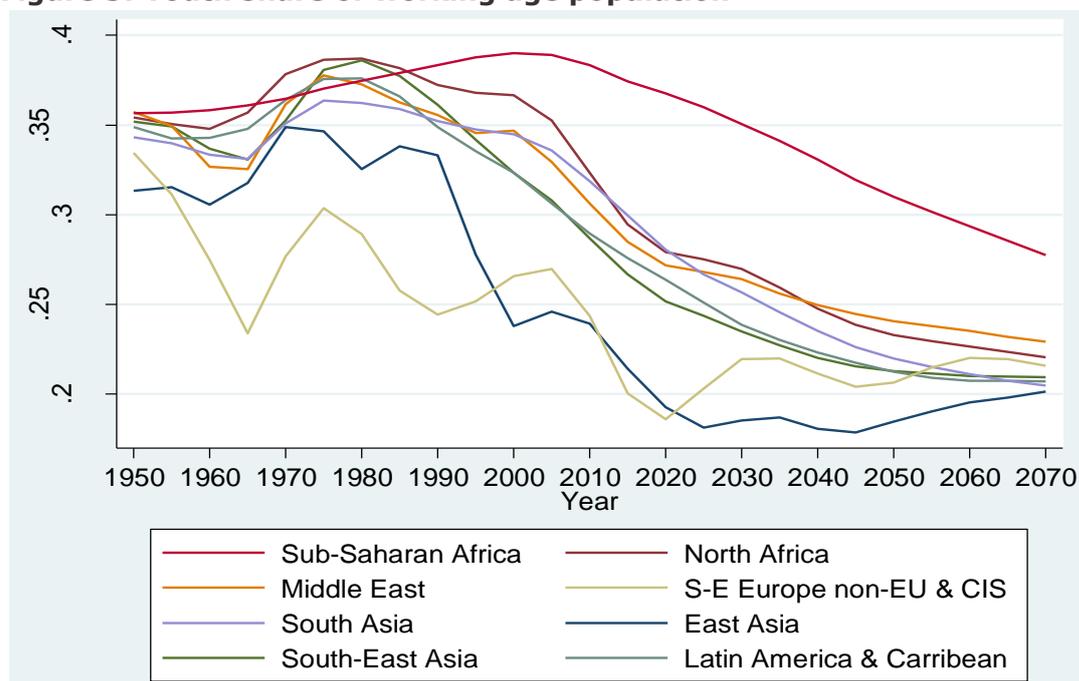
However, the share of youth in total working age population in most developing regions peaked already in the 1970s (Figure 3). A significant outlier here is Sub-Saharan Africa, where the peak was experienced much more recently, in the early 2000s. Youth now accounts for nearly 40 per cent of the working age population in Sub-Saharan Africa, compared to 23 to 33 per cent in other developing regions.

**Figure 2: Youth population (in thousands)**



Note: Number of youth age 15-24. Source: UN World Population Prospects, 2010 revision, medium-fertility projections.

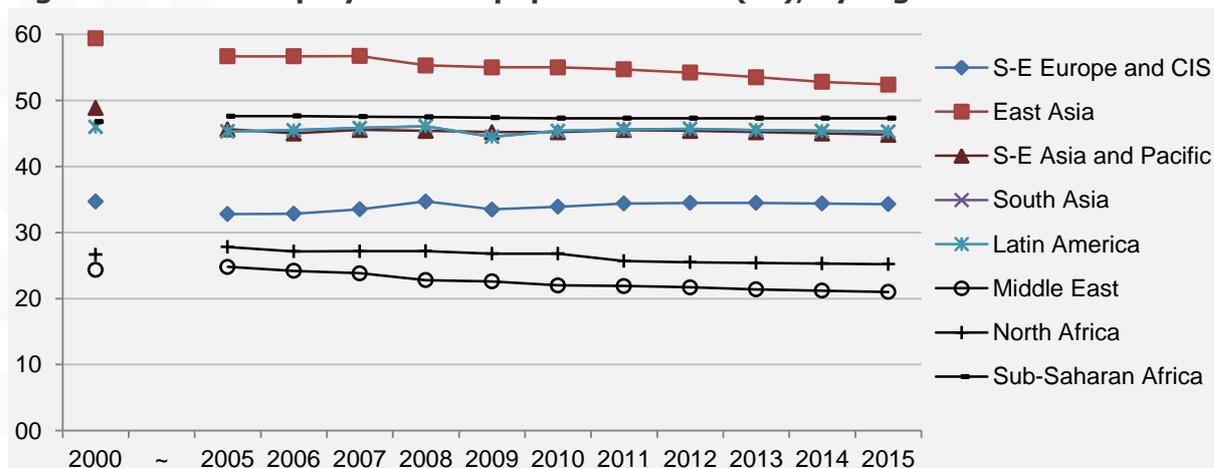
**Figure 3: Youth share of working age population**



Note: Share of youth in the total population age 15-59. *Source:* UN World Population Prospects, 2010 revision, medium-fertility projections.

While it is true that a growing number of youth requires faster job creation in order to absorb new cohorts in the labour market, research has shown that absolute and even relative cohort size are not the main determinants of young people's labour market outcomes (Lam 2006, Fares et al. 2006). In other words, demographic pressure alone cannot explain the youth labour market crisis. Still, the youth share in the population does indicate the scale of the challenge. In this respect the challenges are most pressing in Sub-Saharan Africa, followed by the North Africa, the Middle East, and South Asia.

**Figure 4: Youth employment-to-population rate (%), by region**



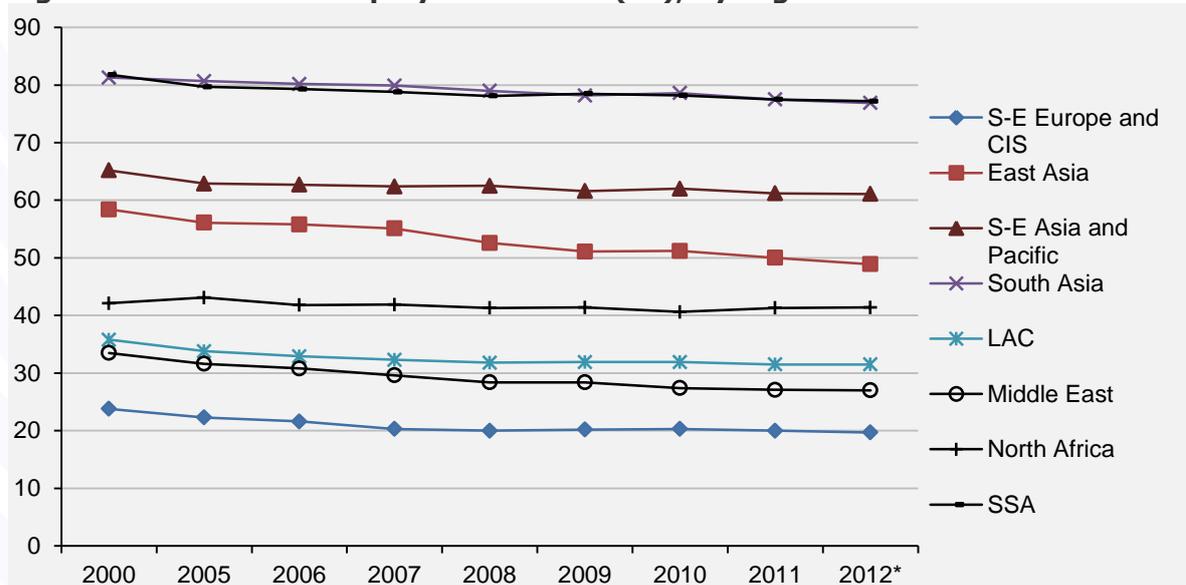
Note: Workers as a percentage of the total population, age group 15-24. The 2012 figures are estimates; figures for 2013-2015 are projections. *Sources:* ILO 2013a (Table A3 and A9) and ILO 2013 (Table A5).

Of the total world youth population, 42.5% are employed (2012 ILO estimate), which is almost four percentage points less than the 2000 youth employment-to-population rate of 46.2%. Figure 4 shows the recent trend in developing regions, where currently the rate varies from almost 22% in the Middle East to 54% in East Asia.

Workers can be divided into wage employment on the one hand, and self-employment and unpaid family work on the other, to get an indication of the quality of work. The self-employed and unpaid family workers are used as a proxy for vulnerable employment. Figure 5 shows vulnerable employment shares by region, for workers of all ages (statistics by age group are not available). Self-employed and unpaid family workers are considered vulnerable because they are less likely to have formal work arrangements, and therefore often lack employment protection, access to adequate social security, and voice through effective representation. Low productivity and earnings, and lack of decent working conditions further characterize vulnerable employment. The vulnerable employment share of total employment is highest in Sub-Saharan Africa and South Asia, at more than 75%. It is lowest in South Eastern Europe and CIS, the Middle East, and Latin America. In all regions, vulnerable employment shares are lower today than they were in 2005, indicating that wage employment has grown somewhat faster than vulnerable employment. But in several regions the decline seems to have stagnated since the late 2000s.

ILO KILM data for the early 2000s for 24 developing countries show that youth and adult vulnerable employment shares are quite similar within countries. However, the majority of youth vulnerable workers are active as unpaid family workers, while adults are more likely to be own account workers (Appendix Figure A1).

**Figure 5: Vulnerable employment share (%), by region**



Note: Vulnerable employment as a percentage of total employment, all ages. The 2012 figures are estimates. Source: ILO 2013a

It is important to note that in many developing countries a large share of wage-employment is informal and not necessarily any less vulnerable than self-employment or unpaid family work. Vulnerable employment is therefore a limited quality indicator and it does not cover poor quality wage-employment. A more complete measure would need additional information on the rate of informal wage employment or working poverty. Informal wage employment is less clearly defined than self-employment, but can contain agricultural wage labour, wage employment in

informal establishments, and informal jobs in formal establishments.<sup>1</sup> In early labour market research for developing countries, self-employment and informal wage employment were not distinguished: they were both labelled urban informal sector and considered unproductive and undesirable from the worker's perspective. But more recent labour market models (Fields 1990, Maloney 2004) account for the fact that the two types of work are different, and that there is a group of workers who voluntarily choose to be self-employed.<sup>2</sup> Self-employment can be attractive because it offers independence and flexibility, but it also depends on many other factors, including a person's abilities, access to capital, education, previous labour market experience, and wealth (Van der Sluis et al. 2005). However, very often self-employment is the only income-generating option for those that are further from the formal labour market with decent jobs. Those who become self-employed "by necessity" are more similar to low-earning informal employees.

For Latin America, there is evidence that a large part of the self-employed have chosen their desired labour market outcome, whereas informal wage employment is more often considered a temporary means of earning income while searching for a formal job, especially for youth (Bosch and Maloney 2010). Informal wage employment is increasing and affects more than 50% of youth in Latin America, especially workers with low education (IDB 2012). Informal employment increased during the 1908s-2000s even in rapidly growing countries like China, India, South Korea, and the Philippines (Freeman 2009).

Informal economy indicators from the ILO and WIEGO show that in Asia and Latin America, the share of workers in non-agricultural informal wage employment is as large as the share of non-agricultural self-employed and unpaid workers. In Sub-Saharan Africa informal non-agricultural wage employment is somewhat less prevalent than self-employment and unpaid work, while in Eastern Europe and Central Asia the former accounts for a larger share of workers than the latter.<sup>3</sup>

Changes in vulnerable employment rates are also less relevant in rural contexts, where agricultural self-employment is the most common type of work. Development in rural areas tends to be reflected in a shift from agricultural to non-agricultural self-employment. Even if this is an improvement in terms of productivity or vulnerability (due to income diversification), it will not reduce vulnerable employment shares (Van der Geest, 2010).

All in all, what we label vulnerable employment includes a segment of voluntary self-employed, whereas wage employment includes a large and growing number of informal wage employees who are likely to be very vulnerable. Quality deficits of work would best be measured by low productivity and informality of jobs, but data are not always available and hardly ever comparable across countries.

Another quality of work indicator often used is working poverty. This is defined as the share of workers whose households live on less than US\$1.25 or US\$2 per person per day (at purchasing power parity, see Figure A2). Working poverty is clearly higher in low-income countries, where, first of all, many jobs are low-productivity and low-pay. Second, high poverty also pushes many people into the workforce, because people in poor households cannot afford to be inactive.

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<sup>1</sup> Informal employment is defined by the ILO to include self-employment in an informal enterprise, contributing family workers, and informal employees. Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits.

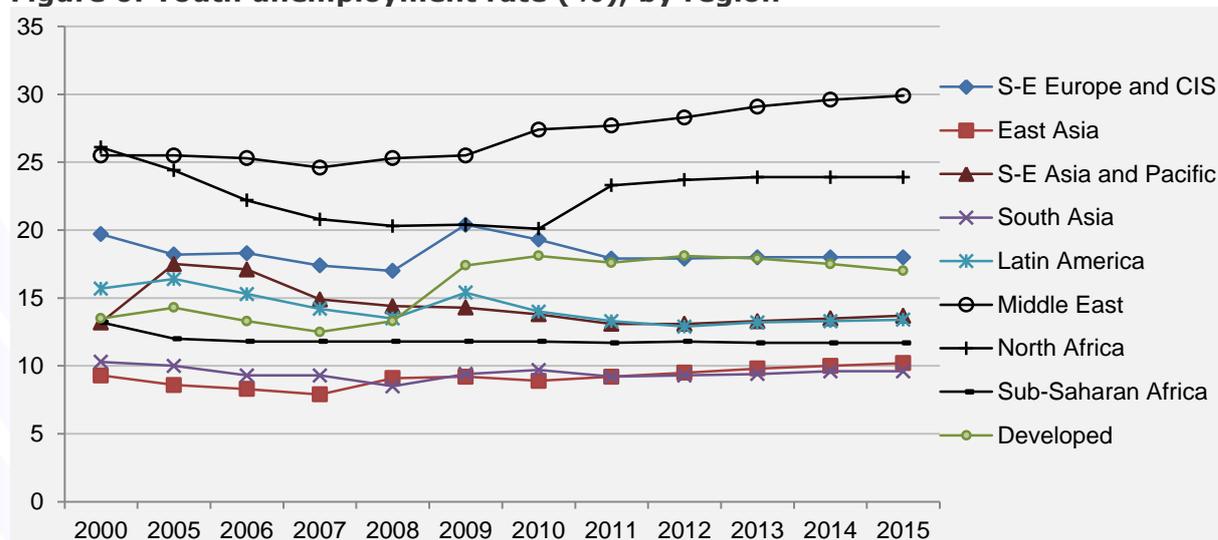
<sup>2</sup> This voluntary self-employment segment of the labour market is probably best described by the term 'entrepreneurs', although entrepreneurship is currently often used to refer to all kinds of self-employment.

<sup>3</sup> [http://laboursta.ilo.org/informal\\_economy\\_E.html](http://laboursta.ilo.org/informal_economy_E.html)

Vulnerable employment, informal employment, and working poverty are most prevalent among rural youth and youth with no or little education, especially in low-income countries. In Africa, for example, 87 per cent of working youth without education is in vulnerable employment, compared to 50 per cent of working youth with tertiary education (AfDB 2012). According to the ILO (2012) most of the poor working youth are in agriculture and often lacking a primary level education.

A third group in the labour force, besides those in wage employment and vulnerable employment, are the unemployed. The world youth unemployment rate in 2012 was 12.4 per cent (ILO 2013c), varying from 9.3 in South and South East Asia to 28.3 per cent in the Middle East. Globally, youth unemployment is twice the overall unemployment rate and almost three times as high as the adult unemployment rate. A higher unemployment rate among youth reflects at least partly that young people are making the school-to-work transition, but in many regions youth have been hit harder by the financial crisis than adults, and long unemployment spells of more than one year are increasingly common. The youth unemployment rate is currently more than 5 times higher than adult unemployment in the South-East Asia and Pacific region, while the ratio is around 4 in the Middle East and South Asia, and 3.5 in North Africa (Appendix Figure A3).

**Figure 6: Youth unemployment rate (%), by region**

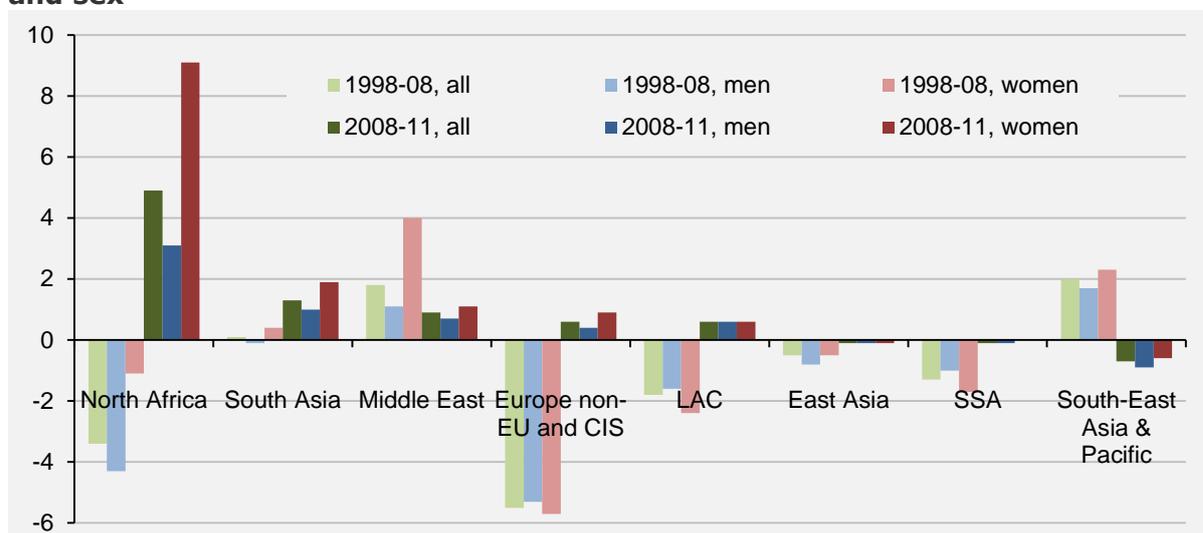


Note: Number of unemployed as a percentage of the labour force, age 15-24. The 2012 figures are estimates. *Source:* ILO 2013a (Table A3) and ILO 2013c (Table A2).

Looking at young men and women separately, Figure 7 shows the percentage point change in the youth unemployment rate before and after the start of the financial crisis by region. In all regions with rising youth unemployment rates, female unemployment increased faster than male unemployment. The male-female difference in North Africa is particularly striking, with the unemployment rate increasing three times as much for young women as for young men.

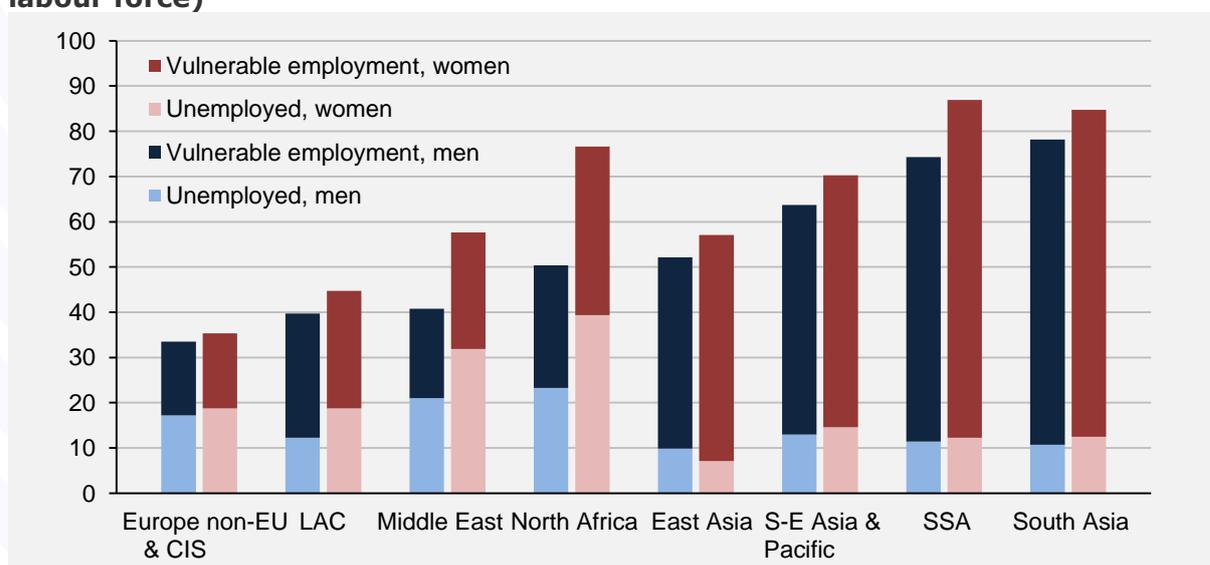
Thus, while Southern Mediterranean countries have very high youth unemployment, the vulnerable share of employment is much higher in South Asia and Sub-Saharan Africa. The two quantity and quality indicators can be combined to show the share of the youth labour force (i.e. all those willing to work) who are not in wage employment: this combined measure can be seen as an indication of the share of youth who have not reached their desired labour market outcome. Figure 8 shows these shares by region, separately for men and women.

**Figure 7: Change in youth unemployment rate (percentage points), by region and sex**



Source: ILO 2012a

**Figure 8: Youth in unemployment and vulnerable employment (% of youth labour force)**



Note: Numbers are for 2011. Source: ILO 2010 and 2012a

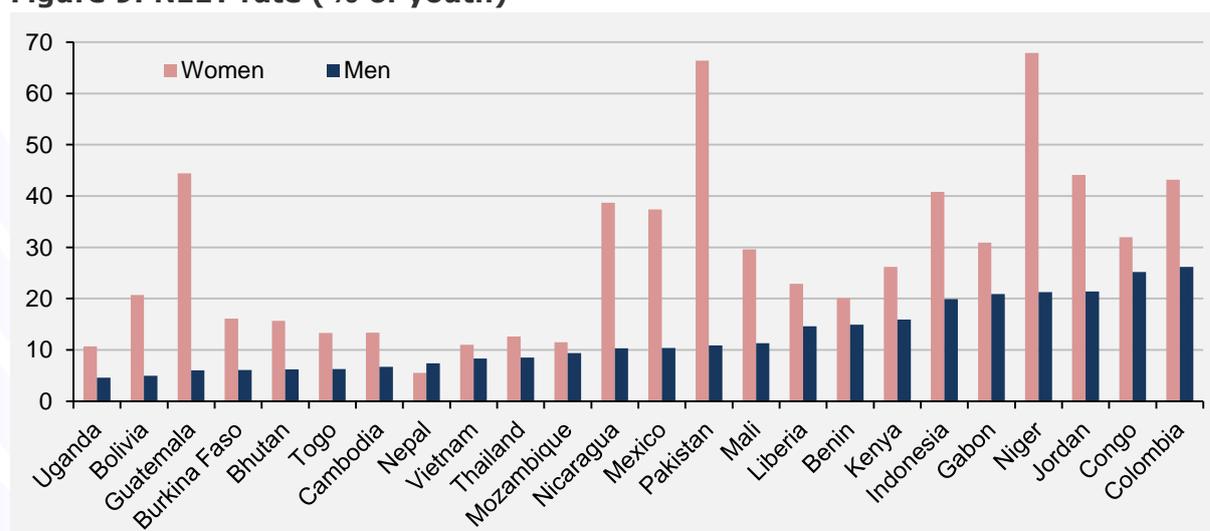
Figure 8 clearly shows that because the vulnerable employment shares in Sub-Saharan Africa and South Asia are much higher than the unemployment rates in the other developing regions, Sub-Saharan Africa and South Asia have the lowest share of the youth labour force in wage employment: only about 25 percent of young men and 15 percent of young women who are willing to work, actually have a wage job. In the MENA region, where unemployment rates are very high, the gender gap is striking. The largest part of the female-male gap in MENA is due to higher unemployment rates among young women, but the share of women in vulnerable employment is also higher than the share of men.

Unemployment and vulnerable employment are measured with respect to the labour force or to total employment. However, youth can be discouraged from looking for work and therefore drop out of the labour force, not being counted as unemployed. To get a broader picture of the activities of young people, therefore, it is useful to look at the share of youth neither in employment (whether or not actively searching for work) nor in education or training. Data on youth NEET rates are available from household surveys for 24 developing countries, for the early or mid-2000s. In these countries, on average, 12.4% of young men and 28.1% of young women are not in employment, education or training.

NEET rates are generally higher for women than for men, especially in countries with low female labour force participation. In those countries, institutional and cultural factors may be more important in explaining gender differences in NEET rates than structural economic conditions and or transitional problems.

NEET rates also tend to be higher in high-unemployment countries, which are typically middle-income countries where youth can afford to be unemployed or inactive. Unfortunately, there is little evidence on changes in NEET rates over time. In Latin America NEET rates have been rather stable since the early 1990s, reflecting a combination of expanding education and increasing unemployment. But within the region, large differences across countries exist (IDB 2012).

**Figure 9: NEET rate (% of youth)**



Note: Youth not in employment, education, or training, as a percentage of the total youth population (age 15-24). Data are for 2002 (Bolivia, Indonesia, Jordan, Thailand), 2003 (Benin, Bhutan, Burkina Faso, Colombia, Nepal, Mozambique), 2004 (Cambodia, Mexico), 2005 (Congo, Gabon, Kenya, Nicaragua, Niger, Pakistan, Uganda), 2006 (Mali, Togo, Vietnam), 2007 (Liberia). Source: ILO 2012a.

### **3. YOUTH EMPLOYMENT CHALLENGES**

#### **3.1. Determinants of youth employment outcomes**

In order to understand the main youth employment challenges in developing countries, it is useful to first discuss the determinants of labour market outcomes. While these determinants are interrelated, they can be grouped into three types: labour demand, labour supply, and the functioning of labour markets. The main determinants can be summarized as follows:

Labour demand	Growth of productive yet labour-intensive activities, especially in the formal private sector  Entrepreneurship
Labour supply	Equal access to education  Quality of education  Relevance of skills acquired in general education and VET  Skill development for self-employment and employment in the informal economy  Migration
Labour market functioning	Availability and quality of information  Transparency in hiring practices  Labour market regulation

### 3.1.1. Labour demand

Demand for workers is ultimately driven by growth and structural change: job creation depends on the growth and labour-intensity of production in different sectors. Data on the main productive sectors where young people work are not widely available, but agriculture and the public sector each are particularly relevant. Furthermore, youth employment challenges are closely related to the informal non-agricultural economy, including manufacturing and services.

The majority of young workers in South Asia and Sub-Saharan Africa, especially in low-income countries, work in agriculture in rural areas. Typically, the most vulnerable people in agriculture are the landless, who work for a wage on the land of others. Agricultural labour demand depends on factors such as the labour-intensity of production technology and land distribution, and varies seasonally. The rural poor increasingly diversify into non-agricultural activities as part of their livelihood strategies, mainly in the form of informal, unpaid or self-employment. In many countries, the urban poor are also concentrated in the informal non-agricultural economy, and are not any better off than the rural population.

In Sub-Saharan African middle-income countries, the services sector accounts for a high and growing share of employment, while the share of agriculture and sometimes even manufacturing declines (IMF 2012). The majority of developing country workers in the services sector are self-employed, for example in retail or transportation services. This kind 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. 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).

Most jobs that have been created in North Africa and the Middle East are in low value added sectors, such as construction and the public sector, and little 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 especially high wages in the public sector (Ahmed et al., in World Economic Form 2012). Public sector employment, including public administration and publicly owned enterprises, has especially dominated the market for educated labour. In the case of Egypt, this was the outcome of public employment guarantees for secondary and postsecondary

graduates. The guarantees proved untenable and have been suspended in the early 1990s (see Assaad 1997). An important development closely related to rising youth unemployment in the region, therefore, is the slowing down of public sector employment growth.

With increasing global integration of economies, the structure of (employment) growth is also affected by external factors. The financial crisis impact on GDP and consumption in the developed world, for example, indirectly affected developing countries through reductions in demand for their exports. The global economic and financial crisis has particularly affected youth as they are making the school-to-work transition. Young jobseekers have worse prospects for decent formal sector employment than older generations and have little choice but to settle for part-time work, fixed term contracts, or self-employment (ILO 2013c), if they find any work at all. This way the crisis has also contributed to a slowdown in the reduction of working poverty among those who have jobs (UNDG, 2013)

As discussed in the 2013 World Development Report, countries' employment challenges are further interconnected through the proliferation of production fragmentation. Jobs in manufacturing – and more recently in services as well – have become increasingly mobile. It is mentioned that growing labour costs in Asia, particularly in China, could open up opportunities for other developing countries to jump-start their industrialization (World Bank 2012). Nonetheless, mismatches between labour demand and supply at the sectoral and regional level will keep arising due to the increasing global interconnection of jobs, as well as labour-saving technological change, urbanization, and the transition to more energy efficient production and consumption (UNDG, 2013).

Finally, it is important to note that when labour demand slows down, self-employment may be the only alternative opportunity. The self-employed thus consist of necessity-driven on the one hand, and voluntary entrepreneurs on the other, as discussed in section 2.2.2 above. Section 3.1.2 below further discusses the determinants of self-employment.

### *3.1.2. Labour supply*

The main supply side determinants of youth employment outcomes are education and skills, in terms of quantity, quality and relevance. Migration is another important supply side factor, discussed in a separate subsection below. Skills are built through formal general education, formal vocational education and training (VET) and apprenticeships, and through non-formal education and training. Better cognitive skills are associated with reduced "idleness" and increased school enrolment, with lower incidence of vulnerable employment, and with reduced agricultural employment in low-income countries (Lee and Newhouse 2012). At the same time, lack of non-cognitive skills is often mentioned by employers in the private formal sector as an obstacle to hiring young workers.

Access to primary education is a first requirement for obtaining basic literacy and numeracy skills, which are a precondition for ensuring access to decent work. Poverty is a major barrier to education, because the costs of schooling can be substantial even in absence of tuition fees (due to costs of materials, transportation, the opportunity cost of foregone earnings, etc.). The poor have a high risk of being trapped without basic numeracy and literacy skills and therefore perpetuating limited chances to find decent work.

Most developing countries are making progress towards universal primary education, but the transition from primary to secondary education is an important next step. In Sub-Saharan Africa, this transition rate is increasing along with primary enrolment. In South and West Asia, on the other hand, the transition rate to secondary education has declined somewhat with the expansion of primary enrolment. Enrolment rates in secondary education have increased in all developing regions, but remain relatively low in the Arab States (61 per cent), South and West Asia (51 per cent), and especially in Sub-Saharan Africa (29 per cent). These regions also have the largest enrolment gender gaps.

Among the poorest, gender gaps in schooling tend to be low because schooling is not affordable for most boys or girls. At the other end of the distribution, gender gaps are also small among

the richest household, where boys and girls are equally able to attain primary education. At intermediate income levels, however, girls lag behind boys because in most countries parents tend to prioritize investment in boys' education. Gender gaps in education are therefore largest among the relatively rich households in LICs, and among the relatively poor households in MICs (UNESCO 2012).

While it is commonly assumed that it takes four or five years of schooling to become literate, completing primary school is no guarantee for literacy in many low-income countries. Furthermore, evidence shows that education quality gaps are not necessarily decreasing. Evidence from Demographic and Health Surveys for different Sub-Saharan Africa countries shows that literacy skills of youth with six years of education did not improve between the early and late 2000s. Besides equal and universal access to education, therefore, the quality of primary and secondary education remains an urgent challenge in many developing countries.

Net enrolment in higher education is rising across the developing world, but there is very high regional variation. LAC saw enrolment rates increase from 23 to 41 per cent between 2000 and 2010, while in Central Asia and Arab States, the increase was much slower, from around 21 to 24 per cent. Sub-Saharan Africa has the world's lowest tertiary education enrolment at 6.8 per cent in 2010, followed by South and West Asia with 16.7 per cent. In most developing regions, the gender gap in higher education enrolment is now slightly in favour of females, but in Sub-Saharan Africa and South and West Asia, the relatively low enrolment rates are still coupled with a substantial disadvantage for females (UNESCO Institute for Statistics Database).

Besides general education, youth can acquire work-relevant skills through VET. VET can be integrated in compulsory schooling as an alternative to an academically oriented track, or it can be part of several post-compulsory schooling options. Eichhorst et al. (2012) show that in MENA countries, VET has a limited role quantitatively. This is due to weak links between skills provided by the VET system and demanded by private sector, insufficient funding, poor monitoring and evaluation, stigmatization, and lower returns compared to secondary education. 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 seem sufficient to gain access to employment.

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 e.g. Cambodia, Indonesia (for older cohorts), Thailand and Turkey. In other countries, such as Egypt, Indonesia (younger cohorts), Iran, Rwanda and Tanzania, returns to vocational secondary are lower than to secondary general education. Cross-country differences may be due to variation in implementation, labour market institutions and employers' willingness to invest in skills on-the-job (Eichhorst et al. 2012). Evidence for OECD countries shows that the returns to vocational education decline with age, in line with the idea that VET limits students' ability to adapt to technological change (Hanushek et al. 2011). VET may thus have limited or negative impacts in countries with fast structural and technological change, even if it improves the school-to-work transition, because the acquired skills become obsolete in later phases of the working life. In these contexts, good quality VET needs to prepare students for adapting to changing technologies.

While most young workers in developing countries do not have access to formal sector jobs, available data show that existing technical and vocational training policies in sub-Saharan Africa take no account of the majority of informal workers. Except in a few cases, there are no skill-development and certification schemes for youth seeking work in the informal economy (Walther 2013). Exceptions are several professional crafts organizations in West Africa, namely the National Federation of Malian Craftsmen, the Benin National Confederation of Craftworkers, and the Cameroon Interprofessional Association of Craftsmen (Walther 2012).

The importance of the relevance of education is illustrated by the fact that higher education is no guarantee for a successful school-to-work transition. Although highly educated youth is less likely to be in vulnerable employment, unemployment tends to increase with education. This may be due to large numbers of youth completing higher education degrees fit for public sector

jobs, while public sector employment is declining. Unemployment can then be accompanied by unmet demand for highly skilled workers in the formal private sector. Such mismatches between young people's skills and the structure of (employment) growth may hamper future economic growth, because new generations of the working age population do not possess the skills demanded by employers. Lack of adequate skills is all the more worrying as the number of years of education attained by youth has been increasing rapidly.

Preparing youth for successful entrepreneurship has become increasingly important, as self-employment is often the only opportunity when the private formal sector does not create enough jobs. There is little youth-specific research on self-employment, but evidence from Latin American and Caribbean countries shows that almost 13 per cent of working youth is self-employed. Most of the young self-employed come from the poorest households and have at most incomplete secondary education. They tend not to hire any employees, thus only creating employment for themselves as owner of a micro-firm (Llisterri et al, 2006). Important determinants of self-employment entry and success are a person's basic and entrepreneurial skills, and access to credit. The perceived status of self-employment is also particularly relevant among highly educated youth in middle-income countries: where a majority of self-employed youth has little education and unemployment rises with education, this can be a signal that highly educated youth do not aspire to running their own business.

#### 3.1.2.1. Migration

Across the developing world, labour supply in different places is also affected by rural-urban 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% of urban growth is driven by rural-urban migration, though migration accounts for a larger share in countries that are still largely rural (especially 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 of the world's international migrants are labour migrants, related to the lack of opportunities for full employment and decent work in many developing countries (IOM 2010). Labour migration is determined by many factors such as existing job opportunities, wage levels, and working conditions. The facilitation of foreign employment is a strategy used by some developing countries for alleviating labour market pressures and increasing remittance receipts and thus household income for families left behind. Evidence suggests that this strategy can be effective if a number of conditions are met in terms of working conditions, access to social protection, portability of benefits, social costs of family disruption or gender-related risks. On the other hand there may be negative effects of brain drain, as normally those having the capacity to leave are the more productive in the labour market (IOM 2010).

Most rural-urban migrants are young people, while young people make up a significant share of international migrants as well.<sup>4</sup> Youth migration can serve to build human capital if young migrants attend school or gain work experience in the host region or country. In contrast, for some young people migration exposes them to several risks, including lack of access to basic rights and exploitation. This can also be due to weak social networks and limited access of young migrants to information on their rights and entitlements.

Little is known about the livelihood opportunities and the risks associated with migration of young people, the policies and measures that help them reap the benefits and contribute to development of both countries of origin and of destination, and the mechanisms that exist for migrant workers to avoid falling into risky situations. Young international migrant workers tend to be concentrated in a few occupations. For young men, these are mainly in construction and

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<sup>4</sup> 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 6 developing countries).

agriculture, while young women often work in domestic services, sales, or restaurants (McKenzie 2008).

Female domestic workers are vulnerable and isolated, often working in their employer's home. Furthermore, according to the 2012 United Nations Report on Trafficking in Persons, human trafficking for forced labour has doubled over the past few years and now comprises 36% of all trafficking (mainly in the Middle East, Southeast Asia, the Pacific, and Africa), while almost 60% of all human trafficking is for sexual exploitation (most common in Europe, Central Asia and the Americas). Women and girls account for 75% of all trafficking victims.

### *3.1.3. Labour market functioning*

Youth employment outcomes are shaped by the institutions governing the matching of job seekers to vacancies, notably information, intermediation, and labour market regulation.

Availability and quality of information play 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) shows that the most important channel of job search for youth is the social network: via family and friends.<sup>5</sup> 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 network, 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 able 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 children's time spent in school (Jensen 2010 and 2012).

Formal sources of information are public employment services and private recruitment agencies. Their services, however, are typically confined to jobs in the public sector and large formal private firms. And even there, their relevance is limited if hiring happens through family and political connections, which is a major problem according to young job seekers in the MENA region. The role of information thus also includes providing transparency in hiring practices.

Labour market functioning further depends on regulation, such as minimum wages, which exist in all developing countries for which institutional data are available. Unemployment benefit legislation is present in most countries in CIS-Europe, North Africa, and the Latin American and Caribbean middle-income countries (Aleksynska and Schindler 2011). However, with the majority of workers in informal employment, labour market regulation may have little direct effect on youth employment outcomes. Indirectly, however, regulation could affect aggregate outcomes if there are large spillovers to the informal economy. Regulation is further discussed in section 4.7.

## **3.2. Main challenges by region**

### *3.2.1. Latin America*

Over half of the working youth in Latin America are in informal employment (against 30% of adults), and informality in wage employment is rising. Informality is highest among youth with

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<sup>5</sup> The ILO is currently collecting data with the School-to-Work Transition Survey in 28 countries across all developing regions ([http://www.ilo.org/employment/areas/youth-employment/work-for-youth/WCMS\\_191853/lang--en/index.htm](http://www.ilo.org/employment/areas/youth-employment/work-for-youth/WCMS_191853/lang--en/index.htm)).

primary education, but has recently increased fastest for highly educated youth, signalling a lack of formal private sector labour demand and a lack or mismatch of skills obtained in secondary and tertiary education (IDB 2012). Furthermore, NEET figures are particularly high in LA as compared with other regions. About one fifth of youth in Latin American countries is NEET, with NEET rates much higher for women than for men.

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. In cases where experience in informal employment serves as a training ground to prepare for a steady job, this has been seen as a signal of deficiencies in the education system. Ideally, youth would learn the skills that employers demand during their education and would not require informal sector work experience to fill gaps left by the education system (Bosch and Maloney 2010; Cunningham and Bustos 2011).

A particular challenge related to informality in Latin America is the design of social insurance and social assistance systems in the region. 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 programs, which effectively subsidize informal labour. Redesigning these financing mechanisms can have important impacts on the labour market (Ferreira and Robalino 2010). Another challenge that Ferreira and Robalino (2010) discuss is for policies to move from protection through safety nets towards an integrated strategy for employment promotion, especially for vulnerable groups.

### 3.2.2. North Africa and Middle East

With limits to public sector employment growth, the lack of jobs in productive private sector activities is a big demand side challenge for youth in North African and the Middle East. The region has the world's lowest private sector investment contribution to growth, and most investment is directed to capital- and low-skilled-labour-intensive sectors (Gatti et al. 2013, based on FDI data from the United Nations Conference on Trade and Development and World Bank World Development Indicators). Private sector dynamism is harmed by inconsistent and unpredictable policy implementation and poor access to credit. Distorted input prices, due to energy and fuel subsidies, increase the relative cost of labour (Gatti et al. 2013).

On the supply side, the major challenge is the mismatch between skills and expectations of young job seekers on the one hand, and skills in demand in 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 better paying, with higher returns to education than in the private sector. Since the public sector has long been the main client of the education system, it is the main shaper of students' choices and expectations. Assaad (2013) discusses how people's education investments in MENA countries are closely related to public-private dualism in the labour market, where Egypt's public employment guarantee for secondary and postsecondary graduates illustrates the extreme case (Assaad 1997). Students choose degrees that are increasingly irrelevant for the private sector. World Bank Enterprise Survey results thus show that about a third of the firms in the region identify the lack of appropriate skills in the labour force as a major obstacle for their business. Moreover, the low quality of VET reinforces its low perceived status. This exacerbates the effects of relatively early tracking in the education system, which limits learning opportunities in formal education and through second chances especially for youth from poorer families.

A great challenge in terms of labour market functioning in North Africa and the Middle East is the lack of merit-based hiring processes. There is currently a very limited role for private and public job market intermediation services. Corruption and preferential family and political connections pose a disadvantage to most youth, as only those people who are well placed in society appear to have access to decent jobs (UN World Youth Report). Meritocracy in hiring practices would secure greater equality of opportunity across socio-economic 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. Girls are often not allowed to continue education after compulsory lower secondary schooling, resulting in high NEET rates. And the few work opportunities that exist tend to be concentrated in low skilled and low-paid opportunities, resulting in very high unemployment rates for the minority of young women who did complete higher education (ETF 2012).

### 3.2.3. 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.

Private sector employment creation has been weak, due to a low growth-elasticity of employment, especially in resource-rich countries. Solid growth of the past decade has not led to a significant improvement in labour market outcomes and poverty reduction, although there are positive developments in terms of fast productivity improvement. According to business owners, electricity and finance are the biggest obstacles to growth. There is an urgent need for pro-employment economic and social policies stimulating and building on structural change (ILO 2013a).

The informal economy is a structural feature of Sub-Saharan countries' economies, employing up to 90% of the working age population in low-income countries (AfDB 2012). 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 is in rural areas, increasing agricultural productivity and non-farm rural activities are crucial. As rural-urban migrants are often worse off than urban youth, investing in rural areas is also needed to prepare youth for more successful migration. Low productivity is related to lack of learning opportunities for youth in the informal economy. But also in basic formal education, gender gaps in enrolment and the poor quality of education remain an urgent challenge.

### 3.2.4. Asia

Most countries in South Asia have high vulnerable employment shares, informality, and working poverty. Despite high growth rates compared to other regions, a large share of workers remains 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 low 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 2013a). 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 groups of youth fail to get a good chance at decent work. Another striking feature of youth employment in the region is the persistently low female labour force participation.

South-East Asia has the world's highest youth-to-adult ratio of the unemployment rate, because adult unemployment is very low (2.5% in 2011 according to ILO statistics) while youth unemployment is close to the world average (13% in 2011). There have been some positive

developments in the Philippines and Indonesia, the two countries in the region with the largest labour force, with decreasing youth unemployment rates. The main challenge for South-East Asian countries is the poor quality of employment for the majority of workers, as in 2012 still more than 60 per cent of the region's employed were estimated to be in vulnerable employment. Furthermore, in the countries where data is available, vulnerable employment rates for women remain significantly higher than for men (ILO 2013a).

In Indonesia, the services sector and export-oriented employers will remain a significant driver of demand for skills, and with import growth it is likely that imported technology will become more important in overall production. A large share of firms reports difficulties in finding skilled workers for professional (white collar) jobs. There is some evidence that inadequate skill certification is an important constraint in job matching (World Bank 2010).

## **4. POLICY RECOMMENDATIONS AND LESSONS FOR PROGRAM DESIGN**

### **4.1. Comprehensive youth employment strategies**

To address youth employment strategies, countries need an integrated youth employment approach involving different levels of government and several stakeholders, ranging from relevant ministries to education and training providers and social partners. And although youth needs to be targeted with specific policies, it is important to link youth employment strategies with overall development and employment policy. Because of the complex nature of developing country labour markets, and the diversity of income-generating activities that people undertake, youth employment challenges require policy action beyond education and labour markets, in areas such as credit markets, infrastructure, business regulation, and rural development. Responsibilities therefore need to lie with a government agency that has appropriate capacity and political support to ensure coherence and coordination (ILO 2012b). Social dialogue needs to include youth and the private sector, and effective programs require the target groups of youth to be involved in the design, implementation, and evaluation processes.

Evidence-based policies addressing youth employment challenges require strong labour market information and analysis systems. Information is crucial for setting realistic targets and measuring outcomes. The ILO School-to-Work Transition Survey and the ETF school-leaver survey are examples of targeted data collection, and it may be possible to integrate certain components into regular labour force surveys. To understand youth's pathways to decent work and inform policy making, employment measures need to be available for different subgroups of youth (male and female, rural and urban, youth at different income levels, and youth at different education levels). The same holds for evaluations of specific policies and programs.

Finally, most countries face their largest challenges in term of the quality of jobs. In setting targets and measuring outcomes, therefore, nominal targets such as numbers of jobs or training opportunities are not sufficient. Employment statistics and analysis should be able to measure qualitative aspects of employment outcomes and capture the dynamics of young people working in the informal economy.

### **4.2. Growth**

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

The call for targeted trade and industrial policy in developing countries has increased in recent years, in the context of globalization in which many developing countries have failed to reap sustained benefits from international trade and investment. Justin Lin (in Lin and Chang 2009) calls for policies that facilitate firms and sectors making use of a country's relatively abundant production factors. In low-income countries, this indeed means focusing on labour- and resource-intensive production activities, rather than prioritizing capital-intensive industries. Harrison and Rodriguez-Clare (2010) call for so-called "soft" industrial policy, aiming to facilitate collaboration between government, industry, and cluster-level private organizations, to reduce coordination failures in order to increase productivity.

#### **4.3. Entrepreneurship promotion**

Youth entrepreneurship and self-employment promotion require increased access to credit by strengthening financial infrastructure, bank competition and nonbank financing. The financial sector typically has insufficient banking skills for dealing with micro-enterprises and the cost of small-scale lending are high. Youth micro-entrepreneurship promotion 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. Training also needs to include support services, such as coaching, mentoring, and financing. Programs 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 liberalization and foreign investment, they also need skills for developing their networks and linking with higher levels of the value chain.

In all countries, but particularly low-income countries and least developed regions, livelihood self-employed should be targeted as a different group than entrepreneurs. Measures to improve the situation of the most vulnerable groups of self-employed, such as the poor, women, and migrants, may take many forms from capacity building and training, to social protection measures, through improved access to social services or to finance. Well-designed interventions should be specifically targeted to their needs, integrating several of these components. Programs also need to address people's empowerment as a way to provide informal workers with tools for defending their interests and rights in the long term. Empowerment can have an individual and/or collective dimension (e.g. small workers or employers' associations, cooperatives, etc.). An example of this holistic approach is India's Self Employment Women's Association (SEWA), which offers various support services, coordinates many local organizations, and manages to give poor, self-employed women a voice.<sup>6</sup>

#### **4.4. Public Work Programs**

The most direct way to increase labour demand in the short term is through Public Works Programs (PWP). PWPs create temporary jobs for the poorest and most vulnerable, with the primary goals of income smoothing, poverty reduction, and asset building.<sup>7</sup> Many PWPs are organized 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 at young women's participation (ILO 2012b).

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<sup>6</sup> <http://www.sewa.org/>

<sup>7</sup> See McCord (2012) for a critical review of PWPs in eastern and southern Africa.

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 program. The record of existing PWPs in supporting employability is mixed, as they generally involve low-skilled low-status jobs. Yet, an increasing number of programs are investing in skills and human capital building. Examples are the Sierra Leone Cash for Work Project, the Temporary Income Assistance Program in El Salvador, the Expanded Public Works Program in South Africa, and the Kazi KwaVijana Programme in Kenya (Andrews and Kryezin 2012; Subbarao et al. 2013). To increase employability, youth or participants with high re-employment opportunities receive skills training and education that may result in some type of accredited certification. Training can be related to the area of activity of the PWP or they can link beneficiaries to growing sectors where the scope for hiring new entrants is high. In some cases they get access to employment services, finance, or business development support services for starts-up. These components partially address the concerns raised by beneficiaries about the short-term nature of PWPs and their inability to link beneficiaries to future, long-term employment opportunities (Subbarao et al. 2013).

PWPs have thus far mainly been evaluated on their effects on targeted outcomes such as poverty and food safety, and in some cases on health and education of children. Even though broader PWPs – such as Public Works Plus programmes<sup>8</sup> – have been implemented in several countries to also target beneficiaries' employability, the impact of the graduation strategies in these programs have not yet been sufficiently evaluated (Subbarao et al. 2013). There is thus limited guidance on effective design of these broader programs in order to enhance youth's labour market outcomes.

#### 4.5. Skills

Addressing skill 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 is urgent in many low-income countries. Education policies should also aim at improving access to secondary education for disadvantaged youth. They are constrained by the cost of schooling and, in the case of young women, by social and cultural barriers. Mentoring and remedial teaching in primary education can be a means to improving not just literacy and numeracy skills, but also social skills, self-esteem, and information about further education. Unfortunately, there is little evidence on mentoring programs in developing countries, and on their longer term impacts on employment and earnings (Rodriguez-Planas 2012).

For the current youth cohort, who has already passed basic secondary schooling age, second-chance education is the only option to address basic literacy and numeracy deficiencies. Existing programs reach very few of these young people. The use of ICT, especially radio and mobile phones, in education is a promising way of reaching disadvantaged youth (UNESCO 2012). New technologies in education and access to open educational resources (OER) could enhance flexible course delivery and customized 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. In low-income countries, more mobility in education and training systems is necessary to facilitate social mobility, such that youth can re-enter education in later stages of life. Permeability is not only about institutional and bureaucratic barriers. Family background and choices and early tracking systems are major factors influencing education and training choices and careers. Mobility would also include allowing students to move between VET and other higher education tracks, which could increase the attractiveness of VET.

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<sup>8</sup> Referring to PWPs that go beyond temporary income-generation activities by offering links to employment (e.g., through skills training) or access to community and health services (e.g., through existing social assistance programs, such as health care or nutrition programs) (Subbarao et al. 2013).

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 LICs 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 2011). 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. Importantly, education and training organized by informal actors themselves should first be identified and strengthened before developing new learning schemes from the outside. Governments in addition need to organize the recognition and certification of skills acquired in non-formal learning, and integrate non-formal schemes in their national skills development strategies. And finally, regulations should be introduced for traditional apprenticeships in order to set limits to the number of years of training and daily and weekly working hours (UNESCO 2012, Walther 2011 and 2013).

What clearly appears from evaluations of existing training programs and other types of ALMPs, is that programs need to combine complementary interventions. Training programs are effective only if they target and include work experience, rather than focusing on skills first and job later (ILO 2012). In countries with a sizeable formal private sector, the most effective programs combine private sector involvement in training, classroom instruction combined with internships or apprenticeship, and employment services like job search assistance. Personal monitoring and follow up of individual participants also increase the probability of success (WB/IFC 2012, UNESCO 2012). In countries with a large informal economy, however, the applicability of employment services may be limited. Alternative channels, such as local media and advertising, could be also considered as beneficial for spreading information on labour market and job opportunities.

Program evaluations in Latin America have shown that pace, components, content and teaching approaches need to be adjusted to the capacities and interests of different types of youth. Some key groups are male versus female youth, younger versus older youth, and married versus unmarried women. Youth themselves should be actively engaged in the design, implementation, and evaluation of programs. Graduation rates can be maximized by addressing common reasons for dropping out, such as transportation costs and lack of family support (MIF 2012).

Past experiences with youth programs in LAC further show that soft skills (such as communication, team work, responsibility, motivation) matter a great deal for improving youth employability. In order to maximize the extent of soft skills training in ALMPs, besides spending time on direct soft skills training, they also need to be applied throughout other program components. The quality of trainers appears to be of crucial important, as they often serve as role models (MIF 2012). Nevertheless, there is still uncertainty regarding how these skills can be imparted, what they include, and if and how they can be assessed.

#### **4.6. 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. There is no evidence yet, however, whether transport subsidies or information provision is more cost-effective.

Besides improving labour market information, policies also need to aim at increasing transparency and fairness in hiring practices. Countries may already have laws requiring firms to publicly announce their job openings, but where this is the case there might be important scope for improvement in enforcement of these laws.

In predominantly informal labour markets, however, information laws bear little relevance. We know little about the functioning of informal labour markets, but it is clear that informal networks are key in the job search 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. This is clearly an area where progress can be made if governments enable private services provision.

Where growth is weak and there is lack of productive jobs, overseas employment programs may be part of a solution for youth employment deficits. It can stimulate local labour markets through remittances and through youth's incentives to invest in education, but at the same time it is not clear whether the local economy is harmed by the out-migration of educated youth. However, overseas employment services already exist in many developing countries, and should therefore be part of national youth employment strategies.

#### **4.7. Regulation**

In countries with high unemployment among educated youth, particularly in MENA, there is a need for restructuring 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 organizations 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). Minimum wages could be important for young workers to sustain a decent earnings level, while a lower youth minimum wage can 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 to stimulate youth labour demand (ILO 2012b).

In designing labour market policies for youth employment, it is important to realize the trade-off between short-term increases in temporary or part-time jobs on the one hand, and the risk of decreasing the quality of employment in the long term. While youth wage subsidies or extended periods of fixed term and other flexible contracts may induce firms to hire more young workers, they also lengthen the time it takes for youth to reach job security (ILO 2012b, UN 2011)

Similarly, in countries with a large informal economy, strong regulation creates dualism between formal and informal labour markets. Reforms of labour regulation can be used to facilitate entrance of workers into the formal sector and to encourage hiring of youth, but unfortunately, evidence on the impact of minimum wages and employment protection legislation in developing countries is mixed (Freeman 2009).<sup>9</sup> There is hardly any information available about the presence and impact of regulation specifically targeted at youth in developing countries.

Since the existing formal sector may not be able to absorb most of the current youth cohort in the short term, policies need to consider social protection and social security to the self-employed, to workers in informal enterprises and to those working informally in formal enterprises. Experiences in LAC indicate that offering subsidized social safety nets to informal workers increases the relative cost of formal labour and thereby discourages firms to hire

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<sup>9</sup> Setting or raising a minimum wage would lead to a shift of workers from the formal to the informal sector (which is not covered by legislation), depressing the wages of informal workers. Evidence for several Latin American countries, however, has shown that rising minimum wages can lead to a (short-term) increase informal sector earnings, by inducing informal workers to bargain for higher wages. This effect is called the lighthouse effect, but its impact depends on the institutional context and linkages between formal and informal sectors (see for example Boeri et al. 2011 and Ham 2013).

workers formally. While this results in increasing exclusion of workers from the formal economy, firms and workers alike may even voluntarily exit the formal sector if the perceived benefits are lower than the costs of adhering to regulation. The debate on social protection and social security in LAC has just started, but future developments can prove to offer valuable lessons for designing social protection systems in other developing regions.

#### **4.8. Knowledge gaps**

In low-income countries, youth will continue to be absorbed in agriculture, non-farm informal jobs, or self-employment. But analytic work tends to focus on formal employment in the urban areas, where political interest and the data can be found. We therefore know very little about the functioning of informal and agricultural labour markets, and even less about the youth-specifics of these labour markets. As discussed at the start of this section, investing in youth labour market data is an important first step in aiding policy and program design. Improving data infrastructure in LICs, in cooperation with their local statistical offices, 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 are extremely hard to assess. One example comes from a job placement assistance program for young graduates in France. Evidence from a randomized implementation showed that the increased employment of program participants was transitory, and partly came at the expense of eligible youth who did not participate (Crepon et al. 2012). This illustrates how the direct impact of an intervention on its beneficiaries can be very different from the overall net impact.

Finally, a number of youth employment determinants and relatively new policy areas and programmes remain particularly understudied. Examples are the role of urbanization and the location of jobs, new technologies in production and in job search, microfranchising for stimulating entrepreneurship, and green growth strategies.

## **5. MAPPING OF INTERNATIONAL POLICY FRAMEWORK**

Youth employment has come to take a central place on the international development agenda, including the post-2015 agenda, which aims to actively involve youth in developing the framework. Given the large number of global and regional networks, government policies, and programs targeting youth employment, this section only covers some of the main initiatives.

### **Partnerships and networks**

ILO, UN and World Bank are partnered in the Youth Employment Network (<http://www.ilo.org/public/english/employment/yen/index.htm>), a global platform to prioritize youth employment on the development agendas and to facilitate exchange on youth employment policies and programs.

Global Partnership for Youth Employment (<http://www.gpye.org/about-us>): Joint project of the World Bank, the International Youth Foundation, the Youth Employment Network, the Arab Urban Development Institute, and the Understanding Children's Work Project, aimed at building and disseminating evidence on youth employment outcomes and effective programs. The partnership focuses on Africa and the Middle East.

Other initiatives:

- Work4Youth, an ILO partnership with the MasterCard Foundation
- (<http://www.ilo.org/employment/areas/youth-employment/work-for-youth/lang-en/index.htm>)

- Global Agenda Council on Youth Employment at the World Economic Forum
- (<http://www.weforum.org/content/global-agenda-council-youth-unemployment-2012-2013>).
- Asia-Pacific Knowledge Network on Youth Employment, launched in 2008 by the ILO (<http://apyouthnet.ilo.org>).
- Middle East Youth Initiative, launched in 2006 by the Brookings Institution and the Dubai School of Government (<http://www.shababinclusion.org>).
- Joint Initiative for Youth Employment in Africa, launched by the African Development Bank, ILO, African Union, and Economic Commission for United Nations Africa (<http://www.youthemploymentinafrica.org>).

## **Inventories**

Youth Employment Inventory (<http://www.youth-employment-inventory.org>): The World Bank initiated a global inventory of interventions designed to integrate youth into the labour market, which is now a joint project by the World Bank, the German Ministry of Economic Cooperation and Development, the Inter-American Development Bank, the International Labour Organization (ILO), and Youth Employment Network (YEN). The inventory includes evidence from more than 400 studies of interventions in 90 countries, and is largely limited to post-formal schooling interventions (described in Betcherman et al. 2007).

Other inventories:

- The ILO's 2012 report on Global Employment Trends for Youth includes an inventory of current country measures addressing youth employment (ILO 2012a, Annex 3).
- The World Bank and International Finance Corporation portfolios for youth employment are described in the recent evaluation report by the Independent Evaluation Group (IEG 2013, Appendices D and E).

## **Programs and policy initiatives**

- British Council initiatives on skills for employability:  
([www.britishcouncil.org/learning-skills-for-employability-our-work-case-studies.htm](http://www.britishcouncil.org/learning-skills-for-employability-our-work-case-studies.htm))
- JICA programs on youth unemployment in Africa  
([www.jica.go.jp/ghana/english/office/topics/press\\_121115.html](http://www.jica.go.jp/ghana/english/office/topics/press_121115.html))
- Jóvenes and Entra21 programs for ICT skills training in LAC
- NEO New Employment Opportunities for Youth: a partnership of the Inter-American Development Bank Group, the International Youth Foundation, and five leading employers in the LAC region.
- UNDP Regional Program for Youth Employment and Social Cohesion in Dakar, Senegal (YERP)
- World Bank Adolescent Girls Initiatives in eight low-income countries  
([go.worldbank.org/I5PX4JETM0](http://go.worldbank.org/I5PX4JETM0))
- Youth Business International ([www.youthbusiness.org](http://www.youthbusiness.org))

## **6. CONCLUSIONS AND RECOMMENDATIONS FOR EU DEVELOPMENT COOPERATION**

Although youth unemployment is probably the most visible aspect of the current youth employment crisis, the challenge for the majority of youth in developing countries is to improve the quality of employment rather than the quantity. Unemployment mainly affects relatively highly educated urban youth in middle-income countries, but most of the young people in developing countries, particularly the most vulnerable groups, are trapped in some form of low quality employment. Nonetheless, unemployed youth are arguably the group with most visibility and voice, and the ones who spurred current global interest in youth employment.

When addressing youth employment challenges from the development perspective, with poverty reduction as the principal objective, policies need to have a specific focus on youth in low-income countries and the most vulnerable groups of youth, i.e. youth in rural areas and those with lower levels of education. However, keeping in mind the broader role of decent work in promoting social cohesion, development cooperation also needs to target the large group of the openly unemployed youth, particularly in middle-income countries. Furthermore, in order to promote and safeguard progress towards gender equality, which can erode rapidly with growing competition for scarce jobs, young women are another key subgroup in employment-related strategies and interventions.

It has to be acknowledged that programs aimed at improving youth employability risk having no or only limited impact in a low-growth environment. Policies aimed at stimulating employment-intensive private sector growth are a necessary component of any long-term youth employment strategy. In most countries this will include reforms ranging from business and labour regulation to economic diversification and industrial and trade policies.

In the short term and for the current youth cohorts, more targeted policies and programs are needed. One clear message in a context where most of the labour force is operating in the informal economy, is that reaching vulnerable groups of youth can only be achieved by targeting productivity, skills, social safety nets, and labour market functioning in the informal economy. Supporting the organization of informal workers can be an effective means towards reinforcing their position in the value chain and identifying available opportunities for training, finance and insurance structures, as well as information networks.

Public works programs also appear as a promising tool for addressing employment challenges for the vulnerable youth, through the inclusion of additional components such as training and labour market counselling. Unfortunately, the design of basic PWPs is difficult as such, and there is only limited evidence on the impact of broader PWPs on employment outcomes. There is clearly scope for investing in impact evaluations in this area.

Reaching young women remains a particular challenge, especially in countries with historically low female labour force participation rates. Programs targeting adolescent girls are among the most effective and are believed to have wider long-term impacts on health and wellbeing. Because many important early life transitions may coincide during adolescence, it is important to generally analyse youth employment within the broader framework of the multidimensional nature of social inclusion of young people and to differentiate between different age groups and family situations when designing programs for young women.

Finally, the effective design, implementation, and evaluation of any type of policy or program require two ingredients regardless of the specific context. First of all, the inclusion of youth, particularly vulnerable youth, and the formal and informal private sector in the process is key. And second, we need better data, particularly on the pathways to work and the quality of jobs, as well as on the impact of youth labour market policies and programmes. Investing in information systems, particularly in low-income countries, in cooperation with local statistical offices, as well as strengthening evaluation of labour market policies and interventions targeting young people will be an important step towards strengthening the employment perspective, enhancing analysis and research on labour markets and improving effectiveness of employment interventions.

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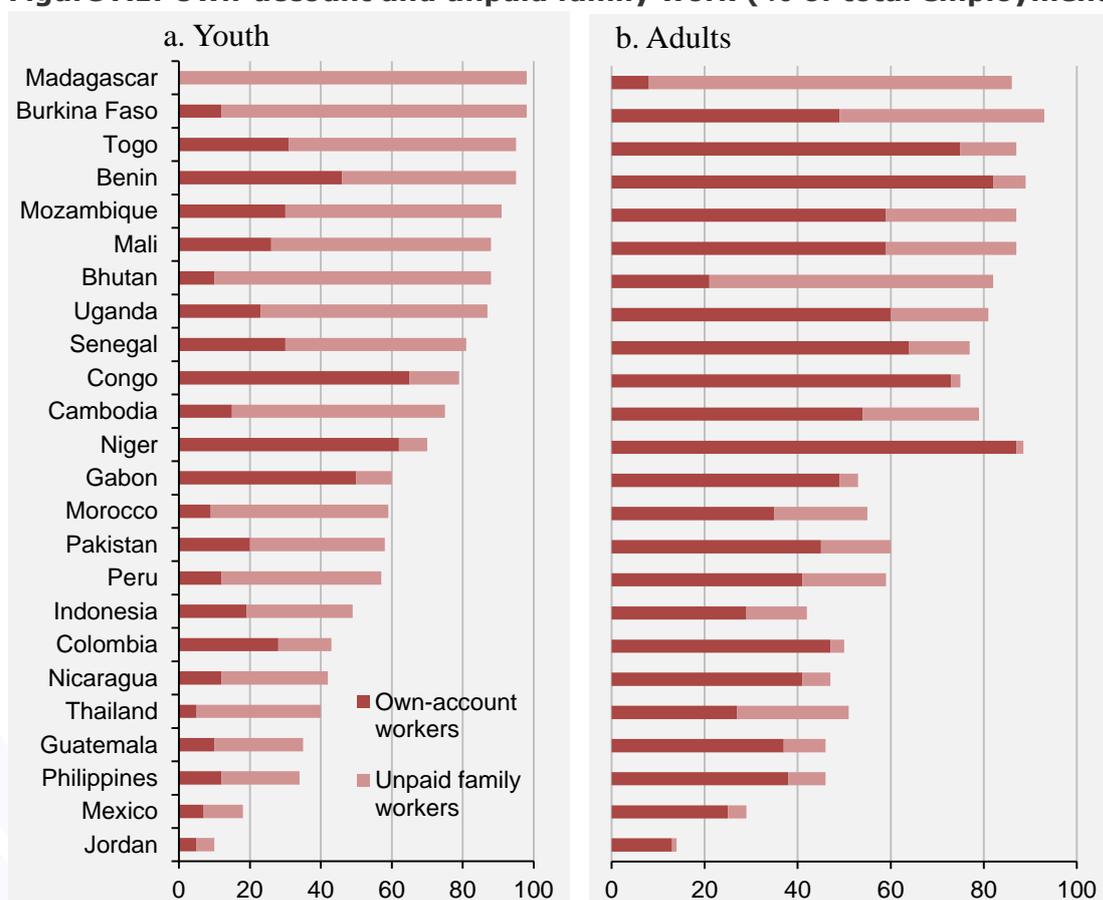
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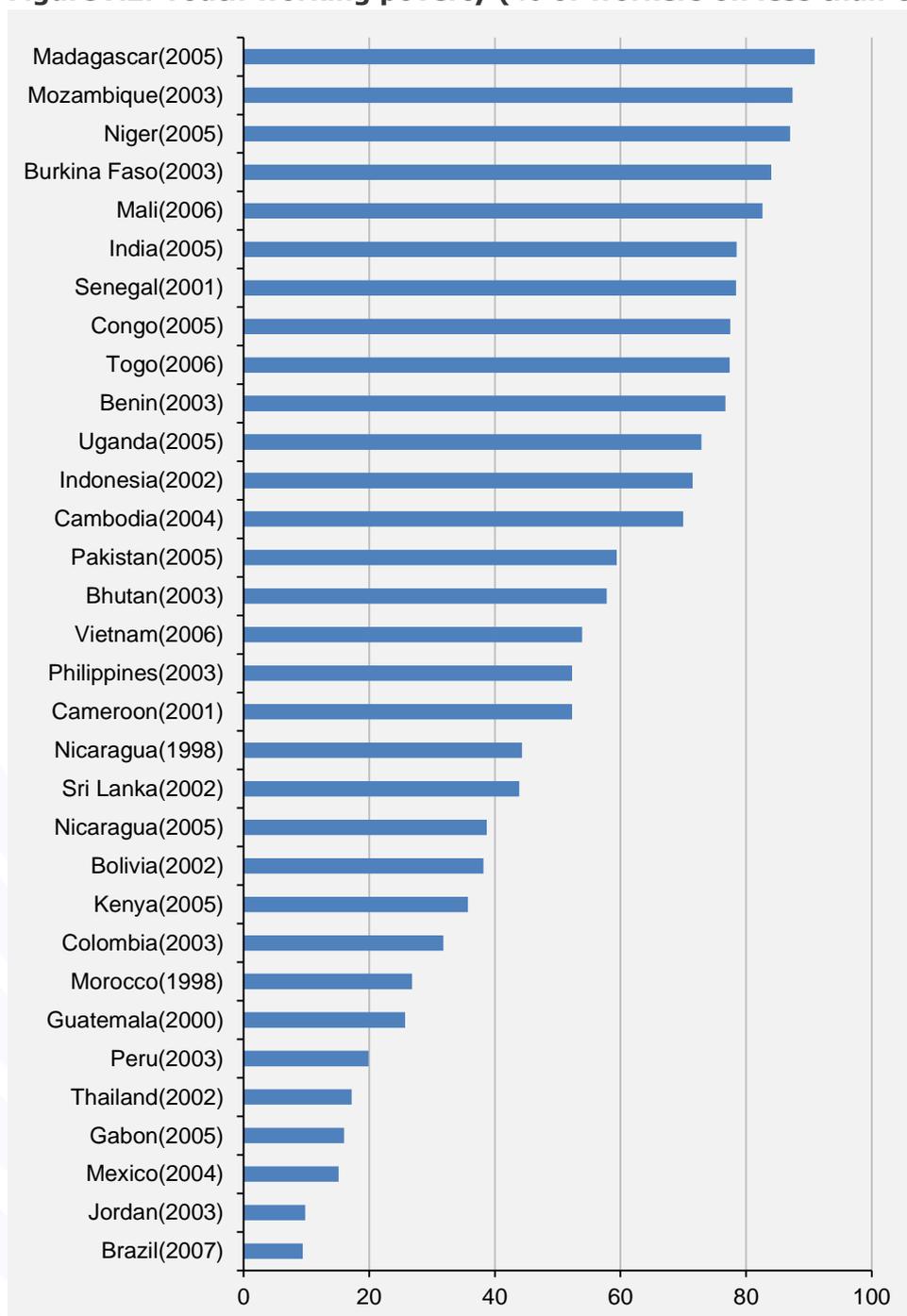
## APPENDIX

**Figure A1: Own-account and unpaid family work (% of total employment)**



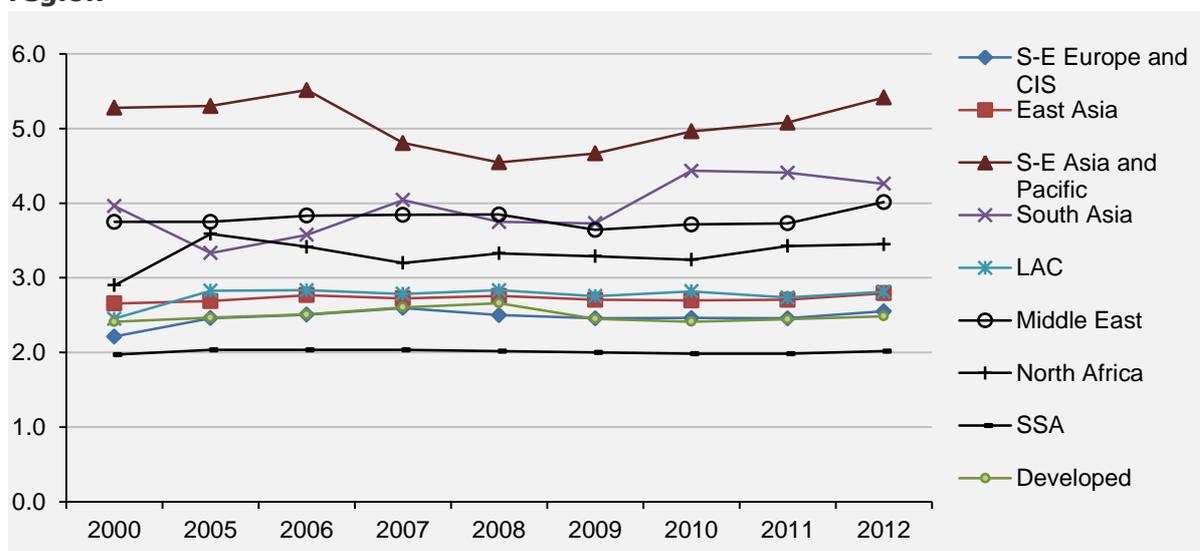
Note: Data for 1998 (Morocco), 2001 (Senegal), 2002 (Indonesia, Jordan, Thailand), 2003 (Benin, Bhutan, Burkina Faso, Colombia, Mozambique, Philippines), 2004 (Cambodia, Mexico), 2005 (Congo, Gabon, Madagascar, Nicaragua, Niger, Pakistan, Uganda), 2006 (Guatemala, Mali, Peru, Togo). Source: ILO 2012a.

**Figure A2: Youth working poverty (% of workers on less than US\$2)**



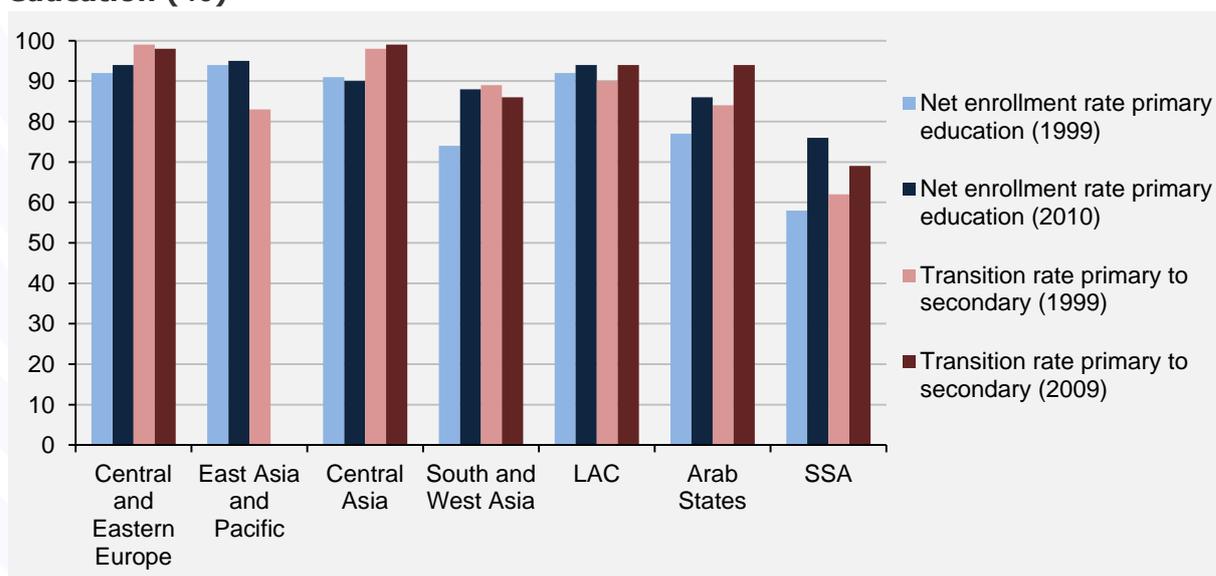
Source: ILO KILM Table 18b.

**Figure A3: Youth unemployment rate relative to adult unemployment rate, by region**



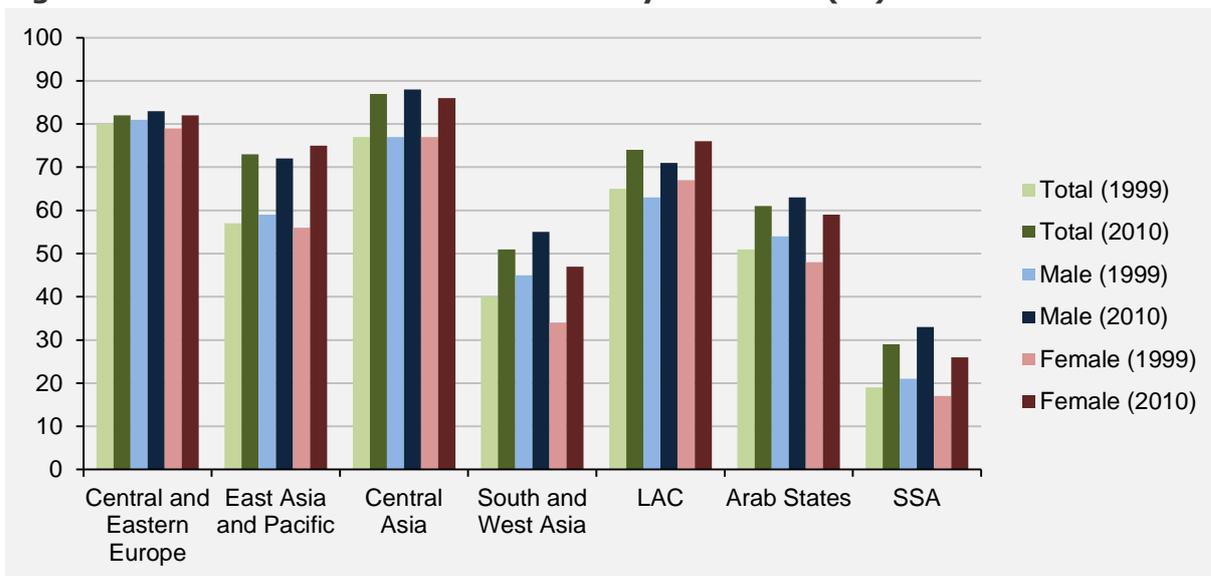
Note: 2012 figures are estimates. Source: ILO 2013a, Table A3.

**Figure A4: Primary education enrolment and transition to secondary education (%)**



Source: UNESCO Institute for Statistics database, 2012.

**Figure A5: Net enrolment rate in secondary education (%)**



Source: UNESCO Institute for Statistics database, 2012.