



## Social Protection Discussion Paper Series

### **Youth Employment Policy in Developing and Transition Countries - Prevention as well as Cure**

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## **Youth Employment Policy in Developing and Transition Countries – Prevention as well as Cure**

*Martin Godfrey*<sup>1</sup>

There are two kinds of policy intervention – preventative and curative. A preventative intervention tries to counteract the processes that generate a problem; a curative intervention tries to deal with their consequences. In the case of poverty, for instance, a curative intervention will find out where the poor are and try to alleviate their situation; a preventative intervention will analyze the causes of poverty and devise strategies to prevent it. In the case of youth employment policy, there is a similar distinction: this paper tries to shift the emphasis from curative towards preventative interventions – from treating the symptoms to dealing with the underlying causes<sup>2</sup>.

The structure of the paper is as follows. Section A proposes that the starting point for policy discussion should be the employment problems of those young people in developing and transition countries who are at the greatest disadvantage, rather than merely those who are unemployed. In section B, as a framework for policy formulation, it is suggested that the position and potential in the labor market of the disadvantaged young depends partly on the strength and dynamism of the demand for labor in general and partly on the extent to which they are able to integrate into economic processes so that, when the demand for labor increases, they can take advantage of the greater scope for improving the quality and quantity of their employment.

Section C (the longest section) reviews the youth employment policies and programs that have been implemented in developing and transition countries, with headings derived from the analytical framework of section B:

1. increasing the demand for labor in general in relation to supply;
2. increasing the integrability of the disadvantaged young by:

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- (a) remedying or counteracting market failure, including
  - i) labor market failure;
  - ii) credit market failure;
  - iii) location-related market failure; and
  - iv) training systems failure;
- (b) optimizing labor market regulations;
- (c) improving the skills of disadvantaged youth, including
  - i) literacy and numeracy;
  - ii) vocational skills.

Section D briefly outlines the policy measures needed to deal with the problem of educated unemployment – not the fundamental youth employment problem but one which is of understandable concern to governments. Section E sets out the key data needs for diagnosis and monitoring of the employment problems of disadvantaged youth, including a minimum format of data that should be routinely available. Finally, in Section F, the threads of the policy discussion are pulled together into a set of policies that can help to prevent the emergence of employment problems among the disadvantaged young in developing and transition countries.

#### **A. Changing the Focus – from Youth Unemployment to the Disadvantaged Young**

The traditional focus for discussion of youth employment problems has been on unemployment. For example, the preface to an ILO report on employing youth began with the statement that 'the large, and perhaps growing, number of unemployed youth is one of the most daunting problems faced by developed and developing countries alike' (ILO 2000:v). The starting point for the background report for the 2002 Youth Employment Summit is that 'the youth population is more vulnerable to being rendered unemployed compared to adult population' (Youth Employment Summit 2002:19). The UN Secretary General launched his Youth Employment Network in 2001 with the statement that 'youth make up more than 40 per cent of the world's total unemployed. There are an estimated 66 million unemployed

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<sup>2</sup> In terms of the Bank's social protection strategy, this is equivalent to a shift in emphasis from risk mitigation and coping to risk reduction (World Bank 2000).

young people in the world today – an increase of nearly 10 million since 1965<sup>3</sup>. And one of only two employment targets in the Millennium Development Goals is the unemployment rate of 15-24 year olds<sup>4</sup>.

This paper proposes a different starting point – the employment problems of those **young people in developing and transition countries who are at the greatest disadvantage**. Those who are least favorably placed in any national labor market, because of their gender, ethnic origin, family background, location, physical or mental disability etc., may be unemployed. On the other hand, they may be working long hours for extremely low pay, doing unpaid work in a family farm or business, or struggling to survive on a city street. It all depends on the local situation.

In countries without effective unemployment benefit systems, concentrating on youth unemployment<sup>5</sup> runs the risk of diverting attention to the problems of the more rather than the less privileged. In several developing countries the highest unemployment rates have been observed over the years among the more educated young (Table 1). For example, in Indonesia in 1986 unemployment rates among 15-24 year olds with primary schooling or less were negligible, while among those with secondary or tertiary education they were in double figures and more than 30 per cent for some categories. In Cambodia, also, the highest rates of youth unemployment in 1997 were found among the more educated.

As Clark (1988) comments on the Indonesian case, unemployment of this kind is transitional in nature. Each year a cohort leaves the educational system and embarks on the search for a job. How many are recorded as unemployed at any moment by a survey or census depends partly on the number of school-leavers, partly on the average length of time taken to find a job. In Indonesia during the 1980s, as a result of the rapid increase in output from the educational system, particularly at secondary and higher levels, the average educational level of the country's job-seekers rose. The number of vacancies of the type that the past experience of their educated elders had led them to expect also rose, but more slowly. Their response was to increase the length of their job search, which was then

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<sup>3</sup> Estimate for 2003 is 71 million (ILO 2003).

<sup>4</sup> The other is the share of women in non-agricultural wage and salary employment.

<sup>5</sup> 'Unemployment' in this section means open unemployment, the only unambiguous measure of labor underutilization and the most comparable internationally.

reflected in disproportionately high unemployment rates for these more educated categories. Expectations do adjust over time. The primary school leavers who made up the bulk of Indonesia's unemployed in the early 1970s, were no longer bothering to prolong their search for wage-earning jobs by the late 1980s, but were settling for what they could get as self-employed workers or casual wage-earners<sup>6</sup>.

In Sri Lanka, where unemployment is also concentrated among young, educated first-time job seekers (Table 1), Rama (1999) estimates a series of Probit regressions linking unemployment to individual characteristics from individual records from the 1995 labor force survey. The probability of being out of a job is highest for the young and for those with O and A levels (equivalent to 10 and 12 years of education respectively). He also tests various hypotheses about the causes of youth unemployment: the hypothesis that most of the unemployed are waiting for 'good' job openings, but not interested in readily available 'bad' jobs is found to be consistent with survey and time series data. It is also consistent with anecdotal evidence: agricultural estates and export processing zones have thousands of unfilled vacancies, while 10,000 candidates applied for 300 positions advertised in the government Posts and Telecommunications Agency. His conclusion is that unemployment in Sri Lanka is 'to a large extent voluntary. The bulk of the unemployed are young, relatively educated individuals who live with their parents and benefit from family support to perform an extended job search'.

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<sup>6</sup> There are some interesting differences between the countries in Table 1 in the ratio of the youth unemployment rate to the rate for older people. In Indonesia in the late eighties and Cambodia in the late nineties, the highest ratio (as can be seen) was for those with higher levels of education, whereas in Sri Lanka in the early nineties it was for those with lower levels of schooling. This contrast probably reflects differences in the recent rates of expansion of different levels of education and consequent differences in expectation lags.

**Table 1: Unemployment Rates by Age Group, Sex and Education, Indonesia (1986), Sri Lanka (1993) and Cambodia (1997) (%)**

<b>Indonesia</b> urban & rural (1986)	None	Some primary	Complete primary	Lower 2 <sup>nd</sup> gen	Lower 2 <sup>nd</sup> voc	Upper 2 <sup>nd</sup> gen	Upper 2 <sup>nd</sup> voc	Diploma	Higher dip	Univ	Total
15-19	1	3	4	10	16	50	32	-	-	-	6
20-24	1	2	3	13	13	33	26	13	44	61	10
All ages	0	1	2	6	4	18	10	5	8	9	3
<b>Sri Lanka</b> urban & rural (1993)	No schooling		Grades 0-4	Grades 5-9	GCE O level/ NCGE		GCE A level+		Total		
15-19	14		35	30	48		-		33		
20-24	0		26	22	50		59		34		
All ages	4		5	12	22		24		14		
<b>Cambodia</b> urban (1997)	Primary or less		Some secondary		Some tertiary		Total				
15-19	12		18		-		14				
20-24	10		11		19		9				
All ages	7		5		4		6				

Sources: Indonesia – Godfrey 1993:Table A1; Sri Lanka – Godfrey 1995:Table 6; Cambodia – Godfrey et al. 2001:Table 8.

In Egypt a similar process was set off by an employment guarantee for graduates and public sector compensation policies (Assaad 1997). The guarantee has been formally suspended since 1990, but expectations are still driven by the hope of getting a government job. Since secondary or higher levels of education are needed for such jobs, the supply of graduates with these qualifications is inflated and they are substantially over-represented among the unemployed. In Pakistan, also, the highest urban unemployment rates for 20-24 year olds are to be found among degree holders and postgraduates of both sexes (ILO 2001).

In countries where there is no unemployment benefit system the main source of support for young full-time job seekers must be their families. Of the unemployed covered by the 1995 Sri Lankan labor force survey 94 per cent declared that their main source of income during their job search was family support, compared with only one per cent who received some government assistance. This is consistent with the results of studies of poverty in Sri Lanka, with low labor earnings a more important factor than unemployment in explaining poverty (Rama 1999:10) and households in above-average income brackets suffering the highest unemployment rates (Alailima 1991). In Cambodia, also, data from the 1999 socio-economic survey show that households in the top quintile (measured by

consumption per head) have a higher percentage of unemployed members than do those in the bottom quintile (Godfrey et al. 2001:Table 2.28).

In Latin America the situation is not quite so clear. In all the countries in Table 2 except Brazil and Honduras more than half (and in Bolivia, Chile, Ecuador and Panama more than three quarters) of the young urban unemployed have more than seven years of schooling. In Chile, Ecuador and Panama around half of the young urban unemployed have completed more than eleven years of schooling. But in some of the higher-income countries (Argentina, Brazil, Chile) those with eight or more, and in twelve out of the sixteen countries those with twelve or more years of schooling are under-represented<sup>7</sup> among the urban unemployed.

**Table 2: Latin America (16 Countries): Educational Level of the Urban Labor Force, 1997**

	Employed persons with 8+ years of schooling as % of total employed	Unemployed persons with 8+ years of schooling as % of total unemployed	Unemployed young with 8+ years of schooling as % of total youth unemp	Employed persons with 12+ years of schooling as % of total employed	Unemployed persons with 12+ years of schooling as % of total unemployed	Unemployed young with 12+ years of schooling as % of total youth unemp	Average years of schooling completed by young lab force
Argentina	63	55	59	46	35	34	10
Bolivia	57	71	79	35	48	43	9
Brazil	45	40	45	12	5	3	7
Chile	81	79	89	54	47	53	11
Colombia	60	64	72	20	14	11	9
Costa Rica	60	59	61	27	15	11	9
Ecuador	62	72	76	45	53	53	9
El Salvador	53	60	68	33	37	40	9
Honduras	38	38	31	24	24	18	7
Mexico	61	69	75	17	15	10	9
Nicaragua	47	54	56	14	12	6	7
Panama	71	77	79	49	46	46	10
Paraguay	52	52	60	33	27	27	9
Dominican Rep	58	59	62	31	27	24	9
Uruguay	62	62	68	28	22	24	9
Venezuela	54	54	60	18	13	12	8

Note: data for Brazil, Chile, Mexico and Paraguay are for 1996.

Source: UN ECLAC 1998:Table III.6.

<sup>7</sup> In the sense that the proportion of those with 8+ years of schooling is lower among the unemployed than among the employed in urban areas.



And in all twelve Latin American countries for which data are available youth unemployment rates in urban areas are considerably higher in the poorest<sup>8</sup> than in the richest quartile of households.

**Table 3: Latin America (12 Countries): Urban Open Unemployment Rate for People between the Ages of 15 and 24, by Household Income Level, 1997**

	Total	Quartile 1	Quartile 2	Quartile 3	Quartile 4
Argentina	24	46	28	16	5
Bolivia	9	17	9	7	2
Brazil	15	23	15	11	10
Chile	14	26	13	8	6
Colombia	26	44	24	18	15
Costa Rica	13	27	11	10	6
Ecuador	20	32	20	16	9
Honduras	9	20	11	7	2
Mexico	13	19	12	7	6
Panama	32	45	32	27	17
Uruguay	26	36	25	18	15
Venezuela	20	34	21	15	12

Note: live-in domestic employees are not included.

Source: UN ECLAC 1998:Table III.8.

In transition countries, youth unemployment rates are higher for the less than for the more educated: in all eight such countries in the Eastern Europe and Central Asia region for which data are available, 15-24 year olds with less than upper secondary education were more likely to be unemployed in 1998 than those with upper secondary or higher education (Table 4).

**Table 4: Unemployment Rates among Youth, 15-24, by Education Level, 1998 (%)**

	Tertiary			Upper secondary			Below upper 2ndary
	All	University	Non-univ	All	General	Vocational	
Czech Republic	-	11	-	-	14	11	17
Poland	20	14	24	21	20	23	25
Hungary	4	6	4	10	12	9	18
Latvia	4	-	-	23	-	-	32
Russia	15	13	16	29	37	26	50
Azerbaijan	31	32	23	48	51	43	50
Kyrgystan	21	-	-	38	40	33	40
Tajikistan	20	-	-	32	32	28	40

Note: Data for Azerbaijan and Kyrgystan are for 1995, Latvia 1996 and Tajikistan 1999.

Source: UNICEF 2000:Table 4.7.

<sup>8</sup> Measured by household income per head.

As elsewhere, the young unemployed are supported by their families – in Estonia 78 per cent of them reported parental support in 1998 – but many households have difficulty in doing this: on average, 20 per cent of the unemployed youth in six transition countries in the late 1990s were living in households where no one had a job (UNICEF 2000:76).

Thus, while in many developing countries unemployment rates tend to be higher among the more educated young, this tendency is weaker in Latin America, and in transition countries there is an opposite tendency towards higher youth unemployment rates among the less educated. The differences between these groups of countries may be partly explained by differences in availability of resources to support full-time job search: even 'poor' families in Latin America and most transition countries may be better placed to provide such support than are their counterparts in other developing countries.

The case for focussing on the employment problems of those young people who are at the greatest disadvantage rather than merely on those who are unemployed still stands. The proportion of the disadvantaged young who are unemployed will vary from country to country and in many will be quite small; the proportion of the young unemployed who are disadvantaged will also vary<sup>9</sup>. A comprehensive analysis will reveal not only how many of the disadvantaged young are openly unemployed, but also how many are inactively-unemployed 'discouraged workers' outside the labor force, unpaid family workers, distressed self-employed, badly paid wage earners, etc. – and thus will have a better chance of identifying effective policies to deal with their varied problems.

## **B. Framework for Policy Formulation – Boost Labor Demand and Increase Integrability of Disadvantaged Youth**

The position and potential in the labor market of the disadvantaged young depends on (a) the strength and dynamism of the demand for labor in general, and (b) the extent to which they are able to integrate into economic processes so that, when the demand for labor increases, they can take advantage of the greater scope for improving the quality and quantity of their employment<sup>10</sup>.

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<sup>9</sup> Unless all the unemployed, including the well-educated whose full-time job search is being subsidized by their families, were regarded as disadvantaged.

<sup>10</sup> Adapted from Osmani (2002).

Traditionally the rate of growth in the demand for labor has been assumed to depend on the rate of growth of output and employment elasticity<sup>11</sup>. This is not a useful way of looking at it. In countries without unemployment benefit systems total employment is largely supply-determined and employment elasticities tend to vary inversely with output growth (rising in a slump and falling in a boom). An increase in the demand for labor is reflected in an increase in the average quality rather than in the quantity of employment: workers move from unpaid family labor to paid jobs, from self-employment to wage employment, from worse jobs to better jobs, etc.. For example, Table 5 shows how, in Pakistan in the 1980s, when the rate of growth of the economy rose to more than 6 per cent, employment elasticity fell to less than half its level of the previous decade. In the 1990s, when the economy grew at a slower rate, employment elasticity more than doubled. The employment elasticities of individual sectors are similarly affected: for instance, the trade sector generates far more employment in times of slow growth than during a boom – a sign that it is the predominant 'sponge' sector, mopping up workers in distress when times are bad. Thus a sector's employment elasticity alone is not useful as an indicator of its possible role in a youth employment strategy.

**Table 5: Output Growth and Employment Elasticities, by Sector, Pakistan, 1970s, 1980s and 1990s**

	1970s		1980s		1990s	
	Output Growth % p.a.	Employment Elasticity	Output Growth % p.a.	Employment Elasticity	Output Growth % p.a.	Employment Elasticity
GDP – Whole Economy	4.8	0.65	6.1	0.31	4.7	0.64
Agriculture	2.4	0.80	4.1	0.35	4.1	0.31
Mining	5.0	}	9.5	}	1.9	}
Manufacturing	5.5	} 0.76	8.2	} 0.12	5.2	} 0.19
large	4.8	}	8.2	}	3.8	}
small	7.6	}	8.4	}	8.4	}
Utilities	9.5	1.75	10.1	0.52	8.2	0.83
Construction	7.4	0.81	6.7	1.06	3.3	1.56
Trade	5.3	0.79	7.2	0.30	4.1	1.29
Transport	5.7	0.43	6.2	0.44	5.2	0.74

Source: ILO 2001: Table 2.

<sup>11</sup> Most simply defined as the rate of growth of employment associated with a one per cent increase in output.

Moreover, analysis in these traditional terms (with output determining employment rather than the other way round) sets up a false conflict between increasing productivity and increasing employment. It leads employment planners to talk about the threat posed to jobs by 'too fast' growth in productivity, whereas the process is entirely opposite. Increasing productivity is at the center of a strategy to improve the quality of employment. Elementary economic theory tells us that outward shifts in marginal and average productivity curves are associated with increases in demand for labor. More practically, the scope for improving the earnings and conditions of the disadvantaged young increases with the size of the 'cake' available to labor as a whole, which depends on productivity. And in global market places the capacity to compete depends on keeping unit labor cost (remuneration per worker divided by productivity) under control: the most successful expansion of employment in exports of manufactured goods (in which young people are disproportionately represented) occurs not in countries where wages are falling but in those where productivity is rising faster than wages.

Detailed specification of the policies that would be needed to increase demand for labor in general is beyond the scope of this paper: they would in any case differ from country to country. But promotion of wage employment would be an important part of such a program. Growth in productive-sector wage employment is a source of dynamism in the labor market as a whole – when wage employment increases, the self-employed also face less competition for assets and customers and enjoy an increase in demand for their products. And stagnation in such wage employment is usually a sign of stagnation in the overall demand for labor. The regions that have been most successful recently in increasing demand for labor and reducing the incidence of poverty (ILO 2001:Table 1.8), such as East Asia and the Pacific, are also those where the share of productive-sector wage earners in total employment has been rising. The region with the highest incidence of poverty and the least success in reducing it during the 1990s – Sub-Saharan Africa – has a tiny and declining proportion (below 10 per cent in many countries) of its labor force in private-sector wage employment (ILO 2001:Table 1.19). And Latin America, which is struggling to reduce the proportion of its population in extreme poverty below 16 per cent, has also seen the share of

private-sector wage earners (other than domestic servants) in non-agricultural employment stagnate at around 55 per cent during the 1990s (ILO 2001:Table 1.14).

Unless demand for labor as a whole is expanding, it is very difficult to design and implement successful programs to increase the 'integrability' of the disadvantaged young. Osmani (2002:16) reviews the reasons why the poor in general may not be able to integrate fully into economic processes, which can be adapted to fit the special case of the young.

Lack of integrability may result from **market failure**.

- Labor market failure may impede the absorption of new entrants. They may have inaccurate information about the types of work that are available and the returns to labor that can realistically be expected in each. Employers may be unwilling to incur the transaction costs and risks (as they perceive them) involved in hiring the less advantaged. Young job applicants are likely to be disproportionately affected by labor market failure, having less access than older people to accurate information and being regarded by employers as a greater risk than those with a longer employment record.
- The formal credit market often excludes the poor, and even more so the young poor: this may be partly because of the high cost of reducing the uncertainty associated with lending to 'beginners in business', but may also reflect informational asymmetries.
- Market failure may be related to location. For young people who live in remote areas, for instance, poor infrastructure, lack of information, market thinness and other problems associated with their location makes it difficult for them to borrow to start a business or to search for and travel to work, or for the enterprises or households in which they work to expand their output and sales. As for the young urban poor, residential segregation and their consequent exposure to the influence of peer groups contribute to their progressive isolation from the labor market.
- Market failure has a particularly negative effect on the young in the field of training. Young workers and job-seekers do not know which are the most profitable skills to acquire, and, even if they did, could not find anyone to lend them money to finance their acquisition. Employers who spend money on training their workforce see all except a small category of specific, non-transferable, skilled workers poached by other employers who do no training. So young individuals (and particularly those at a disadvantage)

refuse to sacrifice now in order to gain later, and employers take the 'free-rider' route, hoping that other employers will develop a pool of skills that they can tap. As a result, the level of training is socially suboptimal.

**Labor market regulations** may also reduce the integrability of the disadvantaged young by creating an insider-outsider problem. Certain types of labor laws and practices, particularly those affecting wages and layoffs, may enable insiders to prevent outsiders from gaining entry. In this case, young outsiders will find it difficult to integrate into higher-productivity sectors.

The standard hypothesis of the 'distortionist' school<sup>12</sup> about minimum wage regulations, if (as is usual in a developing country) confined to the protected sector, is that they institutionalize dualism or segmentation of the labor market and reduce employment in the protected sector. They also (most important for young labor-force entrants) have two effects on the market for skills: they compress differentials between the more and the less skilled, thus reducing the incentive to *acquire* skills, and they prevent employers from recouping the cost of training by paying lower 'trainee' wages, thus reducing the incentive to *impart* skills.

The comparable hypothesis about employment security regulations is that they increase the cost of dismissing workers by laying down the period of notice required, the formula for compensation for dismissal, the requirements and procedures for obtaining official permission etc.. This is likely to reduce the incentive to recruit new workers – because it is more difficult and more costly to dismiss unsatisfactory employees, and more difficult to maintain or increase labor productivity and to restrain or reduce labor cost per unit of output. Firms are also likely to become less flexible in their adjustment to changes in market conditions. When business falls off, it is difficult and costly for them to dismiss workers. When business picks up, they will be cautious about hiring and training new workers. Thus the whole burden of adjustment is thrown on the shoulders of the most vulnerable groups, including the disadvantaged young.

Another obstacle to integrability is the **poor quality of the skills possessed by disadvantaged youth** in relation to those demanded by expanding sectors. The minimal

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<sup>12</sup> As opposed to the 'institutionalist' school – see Freeman (1993) and Betcherman et al. (2001).

demand from employers in developing countries is for basic literacy and numeracy. They also look for young people who are trainable (able to acquire subsequently and without difficulty the technical skills required for their work), flexible and open to new ideas, able to think logically and solve problems, and conscious of the importance of quality control and disciplined work habits. Beyond that, particularly as non-agricultural employment expands within a global economy, science, technology, mathematics, and foreign language and communication skills become increasingly important (Lewin 1996). In all these areas disadvantaged youth lag behind their more privileged peers.

Integrability will vary with age and by sex, as well as with other dimensions of disadvantage. Other things being equal, teenagers (15-19) will tend to face greater difficulties than young adults (20-24) – less well informed about the labor market and regarded as a greater risk by employers, less able to obtain credit to start a business or acquire skills, less mobile, less productive in relation to their wage rate, and maybe less educated. Young women have tended to be less integrable than young men, owing to employers' and lenders' prejudices and perceptions of risks, and are still over-represented among unpaid family workers, part-timers, low-wage-earners, the unemployed and the inactive. However, young women in developing as well as developed countries are increasingly moving into wage employment and their pay is rising relative to men's. The biggest differential obstacle to their integrability in many developing countries (though not in most developed and many transition countries) is their lower average level of education and literacy. Also, young women from the poorest groups in all types of country are over-represented among those who suffer the labor-market consequences of premature household formation and reproduction, in the absence of effective childcare arrangements (UN ECLAC 2000).

### **C. A Review of Youth Employment Policies and Programs in Developing and Transition Countries**

The framework for policy formulation described in section B above suggests the following headings for the discussion of policies and programs:

1. increasing the demand for labor in general in relation to supply;

2. increasing the integrability of the disadvantaged young by:
  - i) remedying or counteracting market failure;
  - ii) optimizing labor market regulations;
  - iii) improving the skills of disadvantaged youth.

Each of these will be discussed in turn.

### ***1. Increasing the Demand for Labor in Relation to Supply***

A healthy rate of increase in the demand for labor in general can be seen as a necessary condition for a successful youth employment policy. The greater the difference in the rate of change in overall labor demand and the rate of change in the number of 15-24 year-olds, the more favorably placed is an economy in this respect. For example, Table 6 shows the rates of change in wage employment, youth population, and youth labor force in ten developing and transition countries during the 1990s<sup>13</sup>.

**Table 6: Rates of Change in Total Wage Employment, 15-24 Population and 15-24 Labor Force during the 1990s, Selected Developing and Transition Countries**

	Annual Average Rate of Change in:			Difference between Rates of Change in:	
	Wage Employment	15-24 Population	15-24 labor Force	Wage Employment & 15-24 Population	Wage Employment & 15-24 labor Force
Thailand 1990-1998	+10.2%	-0.6%	-4.4%	+10.8%	+14.6%
Pakistan 1990-1997	+2.7%	-1.2%	-4.1%	+3.9%	+6.8%
Singapore 1992-1998	+2.9%	-0.4%	-4.6%	+3.3%	+7.4%
Korea 1990-1998	+1.5%	-1.2%	-2.4%	+2.7%	+3.9%
Honduras 1991-1998	+5.8%	+3.7%	+5.5%	+2.0%	+0.3%
Costa Rica 1990-1998	+3.3%	+1.4%	+1.3%	+1.8%	+2.0%
Hungary 1995-1999 <sup>b</sup>	+0.4%	-0.7%	+0.8%	+1.1%	-0.3%
Slovenia 1995-1999 <sup>b</sup>	-0.2%	-0.7%	+1.9%	+0.6%	-2.1%
Mauritius 1990-1995	+0.4%	+0.7%	-0.5%	-0.2%	+1.0%
Russia 1995-1998 <sup>b</sup>	-2.6%	+1.2% <sup>a</sup>	-3.7% <sup>a</sup>	-3.9%	+1.1%

<sup>a</sup> 16-24 year olds.

<sup>b</sup> 1995 is chosen as the first year in the period for transition countries to allow for some recovery from initial disruption.

Source: ILO KILM 2001-2002 database.

<sup>13</sup> A change in wage employment is used as a proxy for a change in the demand for labor on the grounds already argued above.



There must be doubts about the accuracy of some of the figures in the table: for example, the rate of growth of wage employment in Thailand looks high, given the 1997 crisis, and the extent of the fall in the youth population in Pakistan is surprising. But, taken at face value, they illustrate some varying contexts for youth employment policy. Countries with a fast rate of growth in demand for labor are likely to be able to accommodate increases in the 15-24 population (Honduras, Costa Rica) better than those where labor demand is growing slowly or falling (Russia). A combination of fast demand growth with a fall in the numbers in this age group (Thailand) is the best context of all. Reductions in the youth population may be due mainly to falling birth rates (Hungary, Slovenia) or partly to export of young labor (Pakistan, Thailand). In most countries, the youth labor force has grown more slowly (or fallen faster) than the youth population, probably reflecting an increase in the proportion of this age group in education and training institutions: in those countries where the reverse is true (Honduras, Hungary, Slovenia), this may reflect increased dropout from school or a fall in enrolment in training and higher education.

Programs to **boost the overall demand for labor** are likely to include: an attempt to identify and encourage the growth of potential leading sectors in line with dynamic comparative advantage; the fiscal strategy and range of policies on interest rates, exchange rates, customs tariffs, wage rates, etc. that would best support such sectors and labor demand in other sectors; and reforms of institutions and regulations. As already indicated, it would be beyond the scope of this paper to discuss the details of such programs, which would differ from country to country, but two brief examples, from Pakistan (ILO 2001) and Cambodia (ILO 2002), may be useful.

In Pakistan, in a situation where subsidies and additional government expenditure were not possible, the suggested program was based on creating the conditions for expansion of external and internal leading sectors, complemented by changes in the composition of government development expenditure. Measures to help the external leading sectors (exports of textiles, garments, agricultural commodities, processed food, medical equipment and supplies, etc.) included: elimination of remaining subsidies to capital; reduction in the weight of the public sector in the labor market; a bonfire of as many regulations as possible,

consistent with the protection of the most vulnerable; and continuation of the drive against corruption. To help the housebuilding sector (identified as the potential internal leading sector, with a low import component, a high unskilled labor component and strong linkages to other sectors), it was recommended that institutional obstacles to the development of a substantial commercial system, providing long-term mortgages to people who already have adequate income to repay them, should be removed. To increase the labor-demand impact of a given amount of public development expenditure, also, it was recommended that decisions on choice of technique, particularly in construction of infrastructure, should be handed over to economists rather than engineers, to the benefit of labor intensity.

In Cambodia, the two main sources of dynamism in the labor market – the garment and tourism industries – are under threat. Cambodia (which is a dollarized and relatively low-labor/land-ratio economy) does not have an underlying comparative advantage in a cheap-labor industry such as garments, and the threat in this case comes from the erosion of the special concessions in world markets that have attracted garment investors. In the case of tourism, the problem relates not to comparative advantage and competitiveness but to global tensions. The emphasis of the recommendations, therefore, was on two emergency programs to boost labor demand. The first was to re-integrate the fragmented economy (in which only about a third of the total length of primary roads is passable all the year round, and secondary and tertiary roads are in an even worse state) by a massive road-building, reconstruction and maintenance program: this would at last give farmers an incentive to move out of low-productivity subsistence farming into cash crops. The second program would invest in and rehabilitate irrigation systems in the region's least irrigated economy. Investment in roads and irrigation go together. If roads are bad, investment in rehabilitation of irrigation systems does not make much sense. But if roads are improved, the social and private profitability of irrigation rehabilitation and development is transformed. Even minor repair of existing facilities could, in these circumstances, give an immediate boost to output and labor demand in agriculture and, through the multiplier, in the rest of the economy.

In both countries it was recommended that these programs be supplemented by a drive against illiteracy, particularly among females, which would have a positive effect on labor demand by improving productivity and shifting comparative advantage, and by the safety net of a national guaranteed employment scheme that adds to the demand for labor directly, and indirectly by creating and sustaining productive assets.

The place of labor market deregulation in expanding the demand for labor is still being debated. A general trend towards declining real minimum wages is presumed to have led to a decline in their aggregate impact on employment and earnings: an international review by the OECD (1998) found modest or insignificant negative employment effects. In many transition countries, 'the minimum wage has fallen well below the subsistence minimum, thus losing its social and economic function' (Nesporova 2002:34). In developing countries, weaker enforcement of regulations reduce their impact, although Latin America may be an exception in this respect (Maloney and Nuñez 2000).

The severity of employment protection regulations in industrialized countries has been found to vary inversely with rates of labor turnover, aggregate employment levels, and labor force participation rates: they seem to have no clear impact on unemployment levels, but are associated with longer average unemployment durations. In general, a recent review found that 'the actual importance of employment protection arrangements might be less than many economists would assume' (Betcherman et al. 2001). In transition countries their impact has been described as 'somewhat limited but not insignificant' (Nesporova 2002:31). Among, developing countries, those of South Asia may have the most stringent and complex employment protection legislation, but covering no more than 10 per cent of the workforce. Anant et al. (1999:73) report that employers have responded to it by increasing their reliance on contract labor, sub-contracting production to the unorganized sector, and introducing non-wage incentive payments: nevertheless this legislation is judged to have increased the cost of formal-sector employment, to the detriment of its demand for labor.

In Latin America, researchers (using an ingenious job security index which attempts to measure the expected future cost, at the time of hiring, of dismissing the worker for economic reasons) have found clearer evidence of negative employment effects: 'an increase in expected dismissal costs equivalent to one month of pay is associated with a 1.8

percentage points decline in employment rates' (Heckman and Pagé 2000:20). Meanwhile, the emphasis of World Bank advice in Latin America has shifted from reducing the high firing costs that labor legislation imposes on employers (severance pay and other forms of compensation) to reducing transaction costs associated with firing (associated with appeals and lengthy court procedures), and from a worker protection system based on severance pay to one based on portable benefits and effective safety nets (Gill et al:2002).

Table 6 suggests the possibility, alongside that of boosting the demand for labor, of **reducing the supply of young labor**. A **reduction in birth rates** is desirable on several grounds and is already occurring in all transition and several developing countries, but it affects the 15-24 population only with an obvious lag. Policies and programs to affect the labor force participation rate of this age group (**'keeping young job-seekers off the streets'**) are a more immediate possibility. The main ways of doing this are to increase the repetition rate<sup>14</sup> in or to reduce dropout from the earlier years of schooling, increase the transition rate from earlier to later levels of the education system and, particularly popular with governments, to mount special training programs of various kinds for those who are no longer in school. However, to regard such measures merely as a way of reducing the supply of young labor runs the risk of perpetrating major inefficiencies (Godfrey 1991). The relative cost and outcomes of the various ways of reducing the supply of young labor have to be taken into account. For instance, reducing dropout rates has a similar effect on labor supply to increasing repetition rates at a similar cost, but is likely to have a much greater impact on productivity. And rescuing dropouts from illiteracy and innumeracy is likely to be less costly and to yield higher returns than imparting technical skills which will be quickly forgotten and never used. At worst a large amount of money is being spent just to postpone the onset of youth employment problems rather than to abolish them. Decisions about education and training have, rather, to be taken within a cost/ benefit framework of analysis, as will be discussed further in section D(2)(c) below.

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<sup>14</sup> The repetition rate in a given grade in a given year is the number in that grade and year who end up having to repeat the grade divided by enrolment in that grade and year.

Another supply-reducing possibility suggested by Table 6 is that of **exporting young labor**. For some countries this is an involuntary process – the export of young women from Moldova, for instance, or of young (in many cases highly educated) men from Tajikistan to Russia's building sites. In others it is a central part of their employment strategy. In Pakistan, for instance, where workers' remittances in 1999-2000 were estimated at \$954 million, equivalent to 11 per cent of export earnings, the Three Year Development Program, 2001-2004, includes a scheme for promotion of the export of Pakistani manpower, through training, skill certification, simplification of recruitment rules, a centralized information system, strengthening the role of Pakistan's missions in receiving countries, negotiation of bilateral agreements, and assistance to firms to secure projects in labor-importing countries. However, in so far as young people are part of such flows (and a recent survey in Kuwait<sup>15</sup> found that only 10 per cent of those interviewed in the private business sector and 20 per cent in domestic service were below the age of 25), they are among the most vulnerable of migrant workers. In general, overseas employment on a large scale is usually a reflection of policy failure. The aim of employment policy should be to create enough demand for labor at home to make migrating for work abroad an unattractive alternative. This is what a number of former labor-exporting countries (Italy, Ireland, Korea etc.) have successfully achieved.

## ***2. Increasing the Integrability of the Disadvantaged Young***

If youth employment policy in developing and transition economies focuses, with a preventative emphasis, on the problems of those young people who are at the greatest disadvantaged, such policy has a much wider scope. *It directs attention to the causes rather than the symptoms of the problems.* As the latest OECD Employment Outlook points out (OECD 2002:31), 'the biggest pay-off for disadvantaged youths comes from *early and sustained* interventions', beginning even before children enter the compulsory schooling system. In urban areas, for instance, attention thus has to be paid not only to labor market institutions, regulations and training, but also to changes taking place in the family (with disadvantaged youth disproportionately affected by the problems of single-parent and

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<sup>15</sup> ILO (forthcoming).

unstable families), to a 'demographic effect' (with young people who drop out of school and leave home early showing higher fertility rates than their more educated peers) and to the progressive isolation of working-class urban youth from the mainstream of society resulting from residential segregation, separation of public spaces for casual socializing, and segmentation of basic services, most importantly education (UN ECLAC 2000:6).

*(a) Counteracting Market Failure*

Lack of integrability of the disadvantaged young, it has been argued above, may result partly from market failure. Markets fail because of lack of required information, abundance of false information or prejudice, risk and uncertainty, circular causation, and differences between social and private returns arising from externalities. There are numerous policy options associated with four aspects of such failure – (i) in the labor market, (ii) in the credit system, (iii) resulting from location, and (iv) in training systems. In general, policy in the face of market failure can either try to make markets work better or accept the failure and try to compensate for it.

*(i) Labor Market Failure*

The main approach to *remedying* labor market failure is through the provision of **information and counseling**. The Public Employment Services (PES) are responsible for matching registered job seekers with vacancies notified by employers. They should also aim to affect the expectations of the young, by providing them with the latest, realistic information about the types of job obtained by people with each level of education. In practice, such services are not of much help to the young in general and the disadvantaged young in particular (even though they are in principle intended to benefit poorer families which private employment agencies do not reach).

In India, for instance, the number of job-seekers registered with employment exchanges in 1995 was 5.9 million, compared with 386,000 vacancies and only 215,000 eventual placements (Visaria 1998:35). Most of those on the register are young (Visaria estimates almost 70 per cent are in the 15-24 age group), but the exchanges are concentrated in relatively large towns and cities. Moreover, in late 1996 vocational guidance and counseling were available in only 314 of the 895 exchanges and in 84 University

Employment Information and Guidance Bureaus. In general, the exchanges play a passive role and cater (inadequately) only for the urban young and for the more educated in rural areas.

In East Asia, also, although PES are numerous, their geographical coverage is incomplete (Betcherman et al. 2000:24). Since they do not offer unemployment insurance benefits (except in Korea) the incentive to register is low, and the labor market information that is available is limited (and inadequately utilized). There are some promising developments. Korea and the Philippines are moving towards transforming traditional employment offices into 'one-stop' centers where job seekers can get access to unemployment benefits (in the case of Korea), job search assistance and/ or placement in vocational training. In these two countries and in Malaysia the offices are making use of information technology. In Thailand and the Philippines employment departments have been holding job fairs to bring prospective employers face to face with job seekers and to provide counseling. The usual measure of effectiveness of such services in the region is placement rates. These are not encouraging. Even in Korea a recent survey found that only 5.8 per cent of the unemployed succeeded in finding jobs through the PES: the *impact* of the services must be even lower than this suggests, since some of those who were successful may have found jobs even in the absence of help from the PES. A survey in Thailand found that the impact of the PES was reduced by mismatch between the qualifications of job-seekers and the requirements of employers, mismatch between their expectations (which the PES should be able to influence) and available jobs, and the use by employers of other channels to find workers.

In Latin America, an interesting example of a more proactive approach to making labor markets work better for the young is the 'First Job' program mounted since 1989 by the municipal youth secretariat in Curitiba, Brazil (Hopenhayn 2002:9). Financed entirely by local government funds, it has the aim of linking adolescents with some 115 firms in the municipality that participate in the scheme. The young participants in the program are required to stay in school, and their performance in school, on the job and in their family situation is monitored by secretariat staff. No evaluations of the program are available, and it

is not known whether special efforts are made to include less advantaged youngsters, but in principle a program of this kind could have such an orientation.

In transition countries young people make relatively little use of State Labor Offices, as Table 7 shows. The most common route to a job in all four countries in the table is through friends and relatives.

**Table 7: Ways of Seeking a Job among 15-24 Year-olds in Selected Transition Countries, Late 1990s**

(% of job-seekers ticking the answer)	Poland 1998	Bulgaria 1999	Estonia 1998	Russia 1998
State Labor Office	-	41	33	38
Friends or Relatives	40	58	50	78
Directly to Employers	39	19	45	51
Advertisements	18	16	90	48

Note: more than one answer was possible, so the data do not sum.

Source: UNICEF (2000:Table 4.11).

As in developing countries, lack of confidence among the young about the usefulness of labor offices to their job search reflects a similar lack of confidence among employers. The number of job vacancies reported to the offices is estimated at only around 30 per cent of openings in the labor market. Moreover, young unemployed people are less likely than the older unemployed to register with the PES, especially in the former Soviet Union. This is partly because many of them do not qualify for unemployment benefits, partly because such benefits are too small to be worth pursuing – ranging from 8 per cent of the average wage in Estonia to 35 per cent in Bulgaria and Poland: in 1998 the proportion of the young unemployed receiving benefits was 28 per cent in Hungary and only 2 per cent in Russia. Social assistance for those who do not qualify for unemployment benefit is also negligible and difficult to obtain (UNICEF 2000:79).

While Public Employment Services in developing and transition countries can help individuals to find jobs, there is no evidence that they improve markets sufficiently to have a substantial impact on the success rate of young job seekers<sup>16</sup> and even less that they are of

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<sup>16</sup> One careful evaluation of the impact of labor market programs in transition countries (the Czech Republic, Poland and Hungary) met with data and methodological difficulties in the case of employment services and its results look inconclusive (Fretwell et al. 1999). Its results for active labor market programs are discussed further below.



much benefit to the most disadvantaged youth, of whom many (even if they can afford to be unemployed) do not possess the qualities that employers are looking for. While PES should of course be improved, special programs such as the Curitiba First Job program may be more useful for this purpose.

Another type of program, designed to deal with presumed labor market failure by counteracting it, is that of **wage subsidies** to employers who recruit new workers<sup>17</sup>. This has not been used much in developing countries. Some Asian countries subsidized private employment in the wake of the Asian crisis but this was to avoid retrenchment of existing workers rather than to encourage recruitment of new ones (Betcherman et al. 2000:29). The most interesting example, which also has the advantage of built-in rigorous evaluation, is the *Proempleo* Experiment in Argentina in 1998-2000 (see Box 1). While participants in the experiment who received wage subsidy vouchers had a significantly higher probability of wage employment after eighteen months than the control group (14 per cent as against 9 per cent, but with no higher earnings), training had no significant impact. The impact of the voucher was particularly high for women (+ 7.6 per cent) and people aged 30 or below (+9.2 per cent), and did not come through access to the wage subsidy by firms. Take up of the voucher by hiring firms was low (because of high perceived transaction costs) but the voucher seems to have made younger and female workers more confident, serving as a 'letter of introduction' to prospective employers.

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<sup>17</sup> Wage subsidies can be seen as a response to market failure, but they may also partly be counteracting slow growth in labor demand and other obstacles to the integrability of the disadvantaged young, including labor market regulations and their low skill levels: the same is true of public works programs and anti-discrimination legislation, also discussed in this section.

### **Box 1: The *Proempleo* Experiment in Argentina, 1998-2000**

The *Proempleo* Experiment was an attempt to get people off the public works program rolls into regular jobs. It was designed as an experiment to assess the relative efficacy of (a) providing a wage subsidy and (b) specialized training in assisting the transition from workfare to regular work. The two types of assistance were given to a random sample of participants in public works programs, mainly the *Trabajar* program. The wage rate on the program is deliberately set at a low level: 80 per cent of participants come from the poorest quintile nationally on the basis of estimated pre-intervention income per person, and it is estimated that 95 per cent of workers in full-time jobs earn more than the prevailing wage rate in the *Trabajar* program. The experiment thus covered a self-selected group of low-wage workers from poor families. Three roughly equal random samples were drawn from 953 households with public works program participants – one getting a voucher entitling an employer to a wage subsidy of \$150 per month for workers over 45 years old and \$100 for younger workers, one getting the voucher plus training, and one reserved as the control group. The subsidy was receivable for 18 months, conditional on the employer registering the worker formally and incurring the government's social security charges. The training included a three-day labor-market-orientation workshop, followed by 200-300 hours of training in a specialization of their choice, including management of small-scale enterprises, industrial welding, home-building, professional cooking, raising pigs, greenhouse cultivation, and electricians' skills.

Source: Galasso et al. 2001.

Wage subsidy programs have been more common in transition countries. For instance, in Poland in 1999, under the 'intervention works' program, wage and social insurance costs for participants were paid for up to six months up to the level of the unemployment benefit, and at 150 per cent of the average monthly wage for the subsequent six months. In Hungary a wage subsidy of 50 per cent of wages for up to one year was targeted at long-term unemployed or young first-time wage earners: it was only available to employers which had not laid off related workers in the preceding six months and which guaranteed to retain the participants for a period equal to the duration of the wage subsidy. In the Czech Republic, the 'socially purposeful jobs' program provided a lump sum payment to employers who hired an unemployed person for at least two years. While these were not (in contrast to the *Proempleo* experiment) self-selecting samples of the disadvantaged, the majority of the participants in the wage subsidy programs in all three countries had no more than primary education: they were also younger than the average registered unemployed (except in Hungary where the program included the long-term unemployed).

Fretwell et al. (1999) have evaluated the impact of these programs, using a quasi-experimental 'matched pairs' approach. Their results are mixed. The programs had more

impact on employment than wages, and the impact varied considerably with program design. The Polish program had a positive and lasting impact on employment, while no lasting impact was found in longer Czech programs, and in Hungary the impact was negative. Programs tended to benefit all age groups, with the greatest benefit going to females and those with lower educational qualifications. The authors warn against the dangers of dead weight and displacement<sup>18</sup> and recommend several measures to minimize them: checking for prior related layoffs at enterprises involved in the program, following up to see that employers retain participants, and requiring paybacks of benefits if the participant is not retained.

The wage subsidy programs reviewed, though not youth-specific, yield interesting lessons for a new kind of youth employment policy. One is that they can be of particular benefit to the less advantaged – the public works program participants in Argentina and the less educated in Central Europe. In principle, they can be more narrowly targeted – subsidies for employers who employ young disabled workers or members of a particular ethnic group, for instance. Another possibility is that of focussing on public works program participants as a self-selecting sample, i.e. using such programs not only for the safety-net purpose discussed in the next section, but also as a way of identifying the young workers who are in most need of programs such as wage subsidies.

**Public works programs** have been used extensively in developing countries as a social safety net, essentially compensating for labor market failure and/ or falls in demand for labor that leave a large number of people in poorer households without adequate remuneration. Again they do not tend to be youth-specific, but they can be designed to pay particular attention to young people. One of the most ambitious of such programs is India's National Employment Assurance Scheme, building on the experience of the Maharashtra Employment Guarantee Scheme (Visaria 1998:32). This seeks to give employment to a maximum of two adults per family, assuring unskilled manual work for 100 days during the agricultural off-season, and concentrating on drought-prone, desert, tribal and flood-prone areas. Another large-scale public works program is operated by the Social Fund for

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<sup>18</sup> Concern with displacement may be excessive. It seems to be based on the same 'lump-of-output' fallacy on which misplaced enthusiasm for shorter working hours and early retirement as remedies for unemployment is based (Layard et al.1991:502). Employment problems are general equilibrium problems.

Development in Egypt, with projects covering productive infrastructure (irrigation, drainage, protection of agricultural land), economic infrastructure (roads, channels), social infrastructure (public building restoration, potable water provision) and health and education. NGOs are involved in managing and the private sector in implementing the program's construction and maintenance activities. A minimum of 25 per cent of a project's budget has to be spent on labor, and at least half of the laborers should be locally recruited. Salaries are no higher than in local labor markets (van Eekelen et al. 2001).

In principle, a safety net system of this kind is ideally suited to a developing economy, in that it also creates and sustains assets. Such a program creates employment directly during the construction process (this is its safety-net aspect), indirectly through linkages to supplying industries, through the multiplier when workers spend their earnings, and dynamically when the assets that have been built help to raise productivity in the area and when the increase in demand raises the incentive to invest. A well designed public works program has a counter-cyclical safety-net role. This means that decisions on wage rates in the scheme should be decentralized and (as in the Egyptian case) should be low in relation to local market rates for the type of labor concerned. If program wage rates exceed market wage rates, the numbers wanting to work on public works programs exceed the numbers that can be hired (Sen 1975). This means that employment may have to be 'rationed' by local managers, increasing the temptation of corruption and making it more likely that those who work on the project will not consist only of those in the most desperate circumstances. If wage rates are realistically low in relation to market rates, a public works program is self-targeting (employing only the poorest) and even becomes a means of monitoring the labor market situation. The number enrolled will rise or fall as that situation deteriorates or improves.

In practice, problems can arise. In India it is not clear how many young people are involved in the National Employment Assurance Scheme nor how wage rates relate to local norms (Visaria 1998:43). In Egypt project evaluations are prescribed but do not often take place, so it is difficult to assess the achievements of the program. The low wages paid probably ensure self-targeting but operational costs are high: between 1991 and 1997 just over 42,000 jobs created, of which 90 per cent were temporary – at a cost per job of around

\$5,000. Most of the participants in the program are young, but almost all of them are men. This is in spite of the fact that 'experience has shown that employment-intensive works can have a powerful impact on breaking down stereotypes by employing women on what is generally considered to be men's work' (ILO 1998 Governing Body agenda item, quoted by van Eekelen et al. 2001:45). And the longer-term impact of the assets created by the program is weakened by the lack of resources made available for maintenance of those assets.

For rigorous evaluation of the impact of public works programs, we again have to look to the transition countries of Central Europe. Poland, Hungary and the Czech Republic have all invested considerable resources in such programs. The Polish public works program sets wages for participants at 75 per cent of the average national wage, double the average unemployment benefit rate. In Hungary a similar program is funded 70 per cent by the national Employment Fund, 30 per cent by local governments. In the Czech Republic the 'Publicly Useful Jobs' program limits initial participation to six months, but participation, in projects that generally require only low-level skills, can be extended. Participants in the programs in all three countries are predominantly male, of a relatively high average age (except in Poland) and most with no more than primary education.

Fretwell et al. (1999) find a significant positive impact on transition to regular non-subsidized employment only in Poland and only if private contractors were used, and a negative impact on post-program earnings. Where young people were involved in the programs (mainly in Poland) their participation had a negative impact on their re-employment. In general, the authors feel that public works programs 'should not be considered as an active labor program which assists in labor redeployment', but should be seen 'primarily as a targeted income support program'.

This seems a reasonable verdict on public works programs in developing as well as transition countries, but the great strength of such programs if properly designed – that they involve a self-selecting group of the underprivileged – should not be forgotten. Greater efforts should be made to include younger people, and further experiments along the lines of *Proempleo* in Argentina could then be launched, in order to find ways of speeding the transition of such participants into regular employment. More narrowly targeted and innovative programs could also be designed, along the lines of the Youth Parcel Services in

Azerbaijan and Albania (see Box 2) or of a successful public works project recently implemented in Bulgaria which demonstrated to non-Roma contractors that Roma could be reliable and effective employees (Ringold 2000:43).

**Box 2: The Youth Azeri (and Albania) Parcel Service**

The Foundation for Disadvantaged Azeri Children and Youth was established in 1995 to help disabled and orphaned young people in Azerbaijan to become independent and socially active community members. In 1997 it launched the Youth Azeri Parcel Service, in which disabled young people run the office and young orphans make the deliveries. By 2000 it had more than 50 employees and was making an estimated 170,000 deliveries a year, with annual revenue around \$100,000. Business leaders were persuaded by feasibility studies to fund and use the Service, and the government provided it with premises and tax-exempt status. As well as being economically successful, the Service has contributed to breaking down prejudices concerning orphans and youth with disabilities.

The Azeri model was transferred to Albania, when the Youth Albania Parcel Service began operating in June 2001. Managed by the Don Bosco Foundation, it employs about 40 young people, from children's homes, with disabilities and from ethnic minorities. As in Azerbaijan, the private sector is heavily involved in funding and advising the service. Profits made by the service are invested in training, developing and expanding the business and other projects aimed at tackling poverty and social exclusion.

Sources: UNICEF 2000:75; UNICEF Albania web-site.

Finally, the role of **anti-discrimination legislation** in making labor markets work better for disadvantaged young people should not be neglected. In many industrialized countries people with disabilities, women and ethnic minorities have long benefited from such legislation and associated affirmative action programs, and the ILO Discrimination (Employment and Occupation) Convention No.111 has been in place since 1958 (Hodges Aeberhard 2001). One of many cases in which there is scope for more action is that of the Roma in Central and Eastern Europe. As already mentioned above (page ), only about half of the difference in unemployment rates between Roma and non-Roma in Hungary is explained by their gender, age, location and education level: the large residuals are a sign of discrimination on the part of employers (Kertesi 1994). In Slovakia, also, there is evidence of discrimination in hiring (World Bank et al. 2002:60). Ringold (2000:43) concludes for the whole region that 'it is critical ... that anti-discrimination legislation be in place and that effective and accessible mechanisms are available for appeals'.

*(ii) Credit Market Failure*

There are many attempts to counteract credit market failure in developing and transition countries, often by providing subsidized credit to young entrepreneurs. Almost by definition, the disadvantaged young tend to be excluded from such schemes because they lack or are thought to lack the educational or other prerequisites for success in business.

For example, the young people<sup>19</sup> included as smallholders in Egypt's large scale Desert Development Program, in addition to landless farmers, ex-military personnel, pensioners and ex-government employees, are almost all unemployed university graduates, chosen because 'they not only have the flexibility to move to a new kind of habitat, but also have the educational level needed to utilize the new techniques of land development and use' (van Eekelen et al. 2001: 38). In addition to subsidized credit, smallholders are given a plot of land, training, cattle, housing and equipment. Unsurprisingly, the participants are nearly all men, even though Egyptian women have higher rates of illiteracy and unemployment, longer average duration of unemployment and lower average earnings. The huge expense of the program, including its basic infrastructure services, and the extent to which reclaimed land has reverted to desert have prompted a shift towards large scale farms, in which private investors rather than government will bear the bulk of investment costs. The number of jobs created by the new program will be much smaller, but they will probably be filled by less advantaged (though still predominantly male) migrant workers. And it is to be hoped that government resources will be freed for more efficient youth employment programs.

Similarly, the Solidarity Program in Jamaica, started in 1985, was supposed to set up young unemployed people in business, mainly in agriculture and sales. The program included a loan to purchase capital items and meet operating costs, extended after an initial training period and development of a business plan. At the end of the 1980s an independent evaluation found that, although gender equity was almost achieved, a large proportion of the 2,702 loans approved in the first three years of the program went to young people with secondary education and to people who were employed at the time of their application. The

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<sup>19</sup> Not so young, either. "Bureaucracy causes delays in the settlement of the young graduates. Many graduates, for example, have to wait several years to obtain their land. By the time they receive it, many 'fresh graduates' are above 30 years of age" (van Eekelen et al. 2001:37).

failure rate was also high: only 30 per cent of the recipients were still in business by the end of the decade. This probably reflected weaknesses in management of the program, including: failure to check applicants' credit-worthiness; unsuitable training; lack of business experience among advisors; failure to impress on recipients that the loans were to be repaid and not a gift; and failure to monitor loan repayments and to contact sponsors/ guarantors (O'Higgins 2001:131).

Where credit programs do reach out to the less privileged, they are usually aimed mainly at mature workers and businesspersons rather than at the young. The participants in unsubsidized programs which use group responsibility to increase repayment rates are predominantly in this category. The obvious example is the Grameen Bank in Bangladesh. One of the many projects that has built on the Grameen experience is Citi Savings and Loans Ltd. in Ghana, which has been licensed since 1992 to operate as a non-bank financial institution, with the aim of mobilizing deposits, granting loans and providing financial services to informal-sector micro and small businesses run by women, who hitherto had had no access to the services of traditional banking institutions (UN Economic Commission for Africa 2002:7). By 1997 Citi had about 10,000 participants (including 2,000 men). The unit for identifying those who need credit, mobilizing it and making repayments is the group. As a result some vulnerable young participants have benefited: for instance, teenage girls working as porters in local markets have been enabled to move off the street into occupations such as hairdressing. But, given the need for a resource base, the proportion of clients who are in this category must be limited, as most such groups are well aware.

One program that does target disadvantaged youth is Youth Business International (see Box 3). This is admirable in its intentions and impressive in the range of institutions and resources it has been able to mobilize, but does not make available the results of any rigorous evaluation. Over 55,000 youth businesses have been started up throughout the world since 1986, of which 60 per cent were still trading in their third year. As Chambers and Lake point out (page 20), even those who eventually fail have increased their skills and employability, and those who succeed also require employees. However, these are outcomes of the program and do not measure its impact. Given the nature of the clientele, it is likely that the impact has been positive, but what about the enormous cost?



### **Box 3: Youth Business International**

The objective of YBI is to mobilize the global business community to help those young people who are unable to find help elsewhere to become entrepreneurs and set up their own businesses. Its help includes financial support to disadvantaged young people with a viable business proposition, and provision of a volunteer business mentor and full access to its business support network. YBI (funded by corporations, foundations, governments, banks and multilateral donors) has mature programs in twelve countries (Argentina, Barbados, Canada, Guyana, Hungary, India, Mauritius, Nigeria, Sri Lanka, Trinidad and Tobago, and the UK), pilot schemes in nine (Brazil, Gambia, Ghana, Jamaica, Mexico, Oman, the Philippines, Saudi Arabia and Swaziland) and potential programs in another nine.

All those chosen for the program are unemployed, underemployed, or economically disadvantaged. They include people in rural areas, isolated from the business community. Women, even those already targeted by micro-credit initiatives, need business support services in the face of prejudice in some societies. Many programs are particularly receptive to applications from disabled people, who can often run a business from home. Special programs are also developed for marginalized and minority groups who are often outside conventional support structures.

The first stage in the program is directing a young person towards the range of training opportunities and resources that are available in the local community. A volunteer business mentor, who may have received training from YBI, is then allocated to each participant, providing technical advice, emotional support and encouragement and identifying what additional support is needed. The local business community also provides a support network, in the form of subsidized or free exhibition space, advice on law, marketing, exporting, ICT etc, office space and equipment, or useful contacts. Training in use of the internet is provided in some countries.

Opening up access to finance is a crucial part of the program. This can be in the form of commercial micro-credit, government funds for business start-up, a bank loan, or a loan or grant from the local YBI program, depending on circumstances. The terms on which YBI finance is made available depend on the decision of the Board of the local program. In some countries interest rates and terms are similar to those offered by commercial institutions. In others subsidized finance, payment holidays, relaxation of collateral conditions and of penalties for default may be allowed: support from the mentor is seen as a way of facilitating loan recovery.

Source: Chambers and Lake (2002).

A rigorous evaluation of the impact (though not the cost) of self-employment programs is again available for the transition countries of Central Europe. In Poland micro-credit loans (no more than twenty times the average monthly wage) are provided at prevailing interest rates: if the self-employment continues for 24 months, half of the original loan amount is forgiven. In Hungary the program includes subsidized technical assistance and training, as well as income support equivalent to up to six months' unemployment benefit and up to half the premium on loan insurance for business start-up. In the Czech Republic

participants are given credits, averaging around \$900, to start a small business. Representation of women in the programs is better than might be expected (ranging from 38 to 56 per cent) and the proportion of those with no more than primary education is also quite high (ranging from 46 to 54 per cent), but most participants are middle aged.

The impact of the programs on employment was positive and lasting in Poland and the Czech Republic. The impact on earnings was positive in Poland, neutral in the Czech Republic and negative in Hungary (possibly due to tax avoidance concerns). Both genders benefited and those with only primary education did better than those with higher levels, but older participants did better than the young (Fretwell et al. 1999:23). One of the authors comments in another paper that 'there was significant dead weight in the operations of the programs [in Hungary and Poland]. Many of those receiving self-employment assistance probable would have gained re-employment without government assistance' (O'Leary 1999:16).

In general, the programs reviewed in this section, though admirable in many respects, fail to convince that the provision of credit and other support to the disadvantaged young to set up businesses is an efficient way of alleviating their employment problems, compared with many of the others available.

*(iii) Location-related Market Failure*

The obvious way of remedying market failure due to geographical isolation is to reduce that isolation. **Transport development** in general and road building/ repair in particular, though obviously not youth-specific, make both direct and indirect contributions to improving the situation of the disadvantaged young, most of whom in the rural areas of developing countries will be unpaid family labor (both sexes) or outside the labor force (mainly female) rather than unemployed. Local access roads in poor areas have a direct impact, while trunk roads can have a large but indirect impact. Investment in roads gives an immediate boost to the demand for young, unskilled labor during the construction/ repair/ maintenance process. It also improves access by reducing transport costs. Reduction in the prices of freight and passenger services are reflected in lower market prices for rural products and inputs and for consumer goods, a widening of the market, an increase in personal mobility and a stimulus to socio-economic activity (Gannon and Liu 1997).

The island of Java at the height of the Suharto boom is a prime example of the role of a transport revolution in improving the working of a labor market. Good roads, an entirely private taxi/ minibus system and high population density combined to make the island virtually a single urban area with over a hundred million inhabitants. One of the most important aspects of this phenomenon was the temporary migration of (often younger) household members from villages to work in towns and cities, on a daily, seasonal or yearly basis. One survey in east and central Java found that 'the major employment characteristics of all but two of the thirteen villages is the large number of persons leaving them for employment in the nearby towns on a daily migration basis (to factory work) and in the more distant cities of Jakarta and Surabaya (as servants and *becak* drivers) on a seasonal or yearly basis', and that the number of out-migrants had greatly increased in the previous few years (Collier et al. 1988:33)

High transport costs are not the only barriers to mobility of young workers and job-seekers. In the transition countries of Eastern Europe, for instance, a huge imbalance has developed between places where declining industries are concentrated and places where new employment is being generated. As the transition has progressed, these disparities seem, if anything, to be increasing. 'Meanwhile, the social infrastructure (kindergartens, schools, hospitals) for improving the employability of the labor force is deteriorating or non-existent in the economically stressed areas, creating a vicious circle of disadvantage' (UNICEF 2000:73). This situation is attributable not only to transport problems which inhibit commuting but also to the 'uncertainty of moving without the guarantee of a suitable job' and 'inadequate rental housing markets in places where there are jobs'. Thus a strategy to counteract market failure due to lack of mobility has to include dissemination of **information** (discussed in section 2(1)(a) above) and development of a **housing market**, to ease the movement of families (including their younger members).

None of these measures will work, however, if there are restrictions on movement of the kind that are still effective in many transition countries. For example, although China's amazing boom has been built largely on labor that has moved from the countryside to towns, it still operates a system of urban residence permits, to which access to housing, education etc. is connected. Those who work in towns without such permits do so at a disadvantage.

In Eastern Europe, also, the influence of the *propiska* (internal passport) system is still strong. In Russia, for instance, 'medical treatment, employment, education, social assistance and voting are all tied to [such internal] passports.... For the country's most marginalized groups .... the passport system can keep them trapped – unable, for example, to get jobs or travel to another part of the country' (Karush 2002). Moscow, a potential magnet for young workers from all over the federation, is a particularly difficult destination for migrants: the verdict of Human Rights Watch, that there were as many barriers to securing registration for a permanent residence permit in the city in 1997 as in the Soviet era (Human Rights Watch 1997:10), still stands today. According to a recent labor market study, 'large barriers to internal geographical mobility' in Russia 'include continued use of the permit (*propiska*) system by Moscow and some other cities, where large bribes have to be paid to register as a resident (necessary to find an official job)' (World Bank 2002:23). Clearly, a labor market cannot work, to the benefit of its most vulnerable young participants, unless there is **freedom of movement** from labor-surplus to labor-shortage areas.

Even full freedom of movement does not guarantee the absence of location-related market failure, however. Residential segregation of young people in urban areas can reinforce another vicious circle of disadvantage that is difficult to break. This is evident in parts of Africa (Chigunta 2002), increasingly in Eastern Europe (UNICEF 2000), and particularly in Latin America, where the social composition of neighborhoods is seen as an important factor in the growing isolation of working class youth, already mentioned. 'If the cities are essentially generating processes of segmentation and segregation among wide categories – involving their confinement to neighborhoods which share characteristics of uncertainty, low skill levels and little hope for successful integration into modern society – then the contextual effect of this homogeneity will be manifested in the behavior of each one of these young people, independent of their individual characteristics' (UN ECLAC 2000:Box 7).

Policies to break this vicious circle have to be far reaching. The primary instrument is improvement in equity of access to and quality of **education**, discussed in general in section C(2)(c) below. Dismantling the mechanisms of educational segmentation, in particular, will involve special measures, including (if budgets allow) the bussing of students

from poor neighborhoods to schools in wealthier neighborhoods and vice versa. Interventions to **detect and confront risk-taking behavior** (substance abuse, violence, accidental injury etc.) and to **promote healthy life-styles** are needed<sup>20</sup>. The latter includes ensuring that all young people have access to information and methods for **effectively managing their sexual behavior**. This is necessary not only to reduce their risk of sexually transmitted infections, particularly HIV, but also to reduce the incidence of teenage pregnancy, differentially high among the poorest groups, whose future is too often defined by their reproductive behavior.

(iv) *Training Systems Failure*

Training systems fail, as already outlined, because young workers and job-seekers do not know which skills to acquire and are in any case unable to borrow money to finance their acquisition, and because employers are unable to ensure that they enjoy the benefits of any training they provide.

As with other kinds of market failure, the provision of more, and more accurate, **information** (in this case about the market for qualified workers and about the content of and returns to different types of training) can help the market in training work better although, in these times of rapid changes in technology and trade, risk and uncertainty have never been higher. The development of institutions to **finance** individual skill acquisition, without insistence on immediate collateral, and to make loans to enterprises to develop training programs would also help, although the risk of default by both individual borrowers and small enterprises is high. The possible role of **labor market deregulation** in improving incentives to acquire and impart skills is discussed in section C(2)(b) below. Even if all these measures were implemented, however, some government intervention to internalize the residual externalities would probably still be needed.

Edwards (1997) explores various models that have been used for this purpose: the state training model, under which the government both pays for and runs training centers for industry; what he calls the voluntarist model, whereby employers train, but the finance is provided by government; and a levy-grant system, where employers pay for training through a

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<sup>20</sup> See Ziss et al. (2003) for a useful discussion of approaches to social integration of the disadvantaged young, mainly in Latin America and Africa.

payroll levy or tax, and are then reimbursed through grants to cover its cost. Other dimensions of various training models, besides who pays and who provides, include: timing [pre-career, in-service, or during unemployment]; location [school, training center or place of work]; and, if in place of work, mode [on or off the job].

Edwards describes the systems actually used in various countries, and shows how they are variably successful in providing incentives to individuals and employers. Germany's 'corporatist' or **dual system**, combining on-the-job training in the place of work with attendance at vocational school, gives young employees the assurance that their qualifications will pay off, and employers the chance to obtain the skilled workers they need for high-value-added production, and to pay them very low wages during their apprenticeship. It is highly regulated, with uniform standards and full involvement of social partners. It has solved the financing problem, while providing young people with a sheltered entry point to employment. On the other hand, as experience in the current recession demonstrates, it is inflexible and has difficulty in adjusting to changes in demand (O'Higgins 2001:100). Japan's '**company model**' provides on-the-job, state-certificated training in both transferable and specific skills in the context of lifetime employment.

#### **Box 4: An Attempt to Transfer the German Dual System to Egypt**

The ambitious original purpose of the so-called Mubarak-Kohl initiative from 1991 onwards was to transform Egyptian secondary technical education as a whole along the lines of the German dual system. As in Germany, the idea was that graduates of such three-year courses would be absorbed into the regular workforce of the enterprises where they had received on-the-job training as interns, . In practice, a number of pilot projects have been set up, which have run into some problems:

- Some factories use their interns as cheap labor – low-wage replacements for established employees.
- Many enterprises are concerned about their trainees moving to competitors after graduation.
- The Ministry of Education, formally in overall charge, has difficulty with the concept of joint responsibility with the private sector.
- Companies tend to favor male applicants, to the detriment of gender balance in the pilot secondary technical schools.
- Graduates are still fixated on the idea of going to university, to the displeasure of enterprises that have invested in them.
- The pilot projects cover a large proportion of the country's large and medium enterprises that are likely to be interested in the project, most of which were probably investing in training any way.
- It is difficult to see how the model could be adapted to rural areas, where the majority of disadvantaged youth is located, or to less competitive industries that are producing for the home rather than the international market.
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Source: van Eekelen et al. 2001.

Both these systems successfully deal with the incentives problem and are tempting to imitators, but both, Edwards argues, rely on institutional structures that are difficult to copy. In Germany, these include strong collective pressures in favor of training and a general willingness on the part of companies to take a long-term view (Box 4). In Japan the success of its training system depends on a major market imperfection - lifetime employment and low inter-firm mobility of labor - which few countries would be able to imitate even if they wanted to (and which is any case disintegrating). Probably the most widely adopted model, **state direction**, is the weakest, as far as impact on incentives is concerned. Exemplified by Sri Lanka and pre-1993 Malaysia, such a system tends to be essentially supply-driven. Poorly motivated students, usually pre-career or unemployed, are trained in out-of-date specializations, usually in workshops which are far from industrial reality, and subsequently fail to attract job offers from employers<sup>21</sup>.

The way out of the incentives dilemma, Edwards argues, given the difficulty of copying the institutionally-specific systems of Germany and Japan, and the inherent problems of the fully-state-financed models, is the **levy-grant system**. The most successful example of this is probably Singapore, where the Skills Development Fund plays an important role (Box 5). Humphrey (1997) also describes the positive role of the levy-financed training agency, SENAI, in Brazil. In other places it has worked less well and tends to be widely written off as a model for developing countries. However, Edwards argues convincingly, on the particular basis of British experience, that the system has not been given a chance. Its weaknesses in many cases reflect the particular form that it has taken. In Britain it seems to have been abandoned just as the quality of training was improving and a training culture was being created. In order to create this culture, stability is needed: a levy-grant system, once set up, must be given a chance to work.

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<sup>21</sup> Active labor market training programs, which are a special case within this model, are discussed in section D(2)(c) below.

**Box 5: The Levy-grant System in Action – Singapore's Skills Development Fund**

Singapore's employers are required to contribute 1 per cent of the gross salary of all employees earning less than S\$1,500 per month to the Skills Development Fund. They can recoup 80 per cent of their contribution by claiming training grants. Enterprises that provide training in skills that can be shown to be in demand, or have training plans that cover more than half of their workforce are provided higher sums, while companies that continue to use low-skilled workers in low-cost operations are penalized. By 1990, around 30 per cent of the country's workforce had undergone some kind of training under this system, and the average expenditure by enterprises on training was about 2.4 per cent of total payroll costs. By 1996 about a third of the workforce was receiving training, expenditure on which was equivalent to 3.6 per cent of payroll costs.

Source: Kuruvilla et al. 2002.

A system that internalizes externalities and gives employers an incentive to take on new employees for training will be of benefit to young people in general but will not necessarily be of much direct help to the disadvantaged young on whom this paper is focussing. For this purpose, a 'pro-disadvantaged' bias must, additionally, be built into the system. Bennell (1999) reviews the organizational options in this respect. One (the option of choice in most developing countries) is to leave existing structures unchanged and hope that external political pressures will ensure that greater attention is paid to the training needs of the disadvantaged: there is no evidence that this has been successful. The second option is to try to increase the representation of disadvantaged groups in the overall governance of the training system: this threatens traditional tripartite arrangements and risks confusing formal-sector training objectives. The third is to establish an entirely separate training system for the disadvantaged: this runs the risk of marginalizing rather than mainstreaming skill development for the vulnerable, but may be the most practicable option. Young people with disabilities will need special attention within such a system.

One device that can be used both to counteract market failure and to re-orient a training system towards the disadvantaged young is the training voucher. Anyone who is judged to be eligible for training can be given a voucher which can be cashed in by his/ her chosen training provider: this is intended to empower recipients with the capacity to buy training on the open market and thereby promote competition between private and public suppliers of training. One of the most interesting of several schemes of this kind is the Jua Kali (small enterprise) Voucher Program in Kenya (Adams 1997; Bennell 1999; Steel 2002;



Johanson and Adams 2003:Appendix G). Under this program, 37,606 vouchers have been issued to entrepreneurs and employees in enterprises with fifty workers or less over the 1997-2001 period. Skilled craftsmen have emerged as the leading training providers, most in demand from clients. Jua Kali associations have been responsible for distributing vouchers to their members. The scheme is judged to have had a positive impact on those who were trained and to have boosted employment, assets and business for enterprises which participated (in comparison with a control group), but several drawbacks have been identified: it is costly and complex to set up, and it is difficult to phase out the large subsidies involved once people get used to them. The lessons of the experience so far are that: such schemes should be administered through the private sector rather than (as in Kenya) through a government ministry; they have to include provision for upgrading of training providers, especially those from small enterprises; the willingness of clients to pay for training has to be actively promoted; and an exit strategy is needed unless subsidies are to last for ever. While the Jua Kali program was not oriented towards the most disadvantaged youth, many of those who were trained were young and from less privileged backgrounds, and 60 per cent of clients were women. Its experience suggests that there is scope for the use of vouchers in a system more precisely targeted at the most vulnerable.

An example of the kind of program that could be included in a pro-disadvantaged system is the *Chile Joven* scheme (Box 6). This has some of the features of the dual system, but with greater flexibility, and is specifically aimed at the disadvantaged. Evaluations have suggested a considerable impact on employment of participants: in its first three years almost 60 per cent of the young people enrolled found a job at the end of the program, compared to less than 40 per cent of a control group of young unemployed not in the program (ILO 1998:181). Unlike the dual system, it is entirely financed by government. The *Chile Joven* scheme is being duplicated in several Latin American countries including, since 1996, Uruguay, where the *Projoven* program (Box 6) also claims a positive impact: a 36 per cent reduction in the number without work, a near-100 per cent increase in the number who are working, and access to higher-quality jobs in terms of both remuneration and fringe

benefits (Hopenhayn 2002:9)<sup>22</sup>. In some respects, the design of the Uruguayan scheme is an improvement on the Chilean – in particular, in the specification of the clientele and in the use of funding from a tripartite levy-grant scheme.

**Box 6: The *Joven* and *Projoven* Schemes – Latin American Training Systems Aimed at the Vulnerable Young**

The *Chile Joven* scheme, financed by the government with assistance from the Inter-American Development Bank, aims to increase the employability of low-income workers in the 16-24 age group who are neither employed nor studying. The program, in operation since 1990, is tailored to the skills demanded by employers, mainly in industry (44 per cent), office work (30 per cent) and agriculture (10 per cent). Contact with employers ensures that the content of programs is geared to local labor market demand, and helps to overcome their negative perceptions of the abilities and work habits of such young people. Training (250 to 420 hours depending on the subject) is combined with work experience (of usually three months) in companies, and there are sub-programs for self-employment and alternative apprenticeships inside firms. The program is highly decentralized and involves around 1,000 training providers (including private training centers and not-for-profit organizations) which bid competitively for contracts. Thus a market of training agencies specializing in the training of young people with low incomes has been created.

The *Projoven* vocational training program in Uruguay, financed by workers' and employers' contributions to an Occupational Training Fund as well as from the general budget, is aimed at 'groups that are not only vulnerable themselves, but also tend to reproduce vulnerability' (Hopenhayn 2002:9). It focuses on young men and women who have not finished secondary school, do not have formal jobs and lack the skills and work experience needed to get them. Within this group, preference is given to heads of household (fathers or mothers). The tripartite funding and management of the program ensures that the content of the training is linked to the labor market. Training providers bid for contracts that stipulate that courses should be adapted to the demands of employers. A variety of training options is available at different levels of difficulty. Specific or technical training (250 hours) and a vocational orientation workshop (50 hours), combined with three months' work experience, are followed by job placement (including on-the-job support and further training). Young people who need them also get courses in basic literacy and numeracy and interpersonal relations.

Source: ILO 1998: 181; Hopenhayn 2002:8-9.

Vocational education and training systems in the **transition economies** of Eastern Europe and Central Asia are in particular crisis (Gill et al. 2000). Government funds for VET have dwindled, teachers are poorly qualified and their salaries are low, and nothing is spent on materials and equipment. The crisis in enterprises means that employers cannot afford to train or to pay for training and are not expanding recruitment. And most parents

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<sup>22</sup> The sources do not give details of the methodology of evaluation of either the *Chile Joven* or the *Projoven* programs.

cannot afford to pay much for training. As part of the transition to markets, the structure of demand is changing (e.g. from industry to services and tourism), as is that of occupations (from specific to broad, flexible over time, and requiring higher levels of general education). Changing but still relatively narrow wage differentials at this level affect the incentives to acquire skills, and unstructured enterprises are not interested in becoming involved in VET. Social partner organizations are weak and/ or discredited. Institutions and procedures for managing a vocational education and training system in a market economy are missing or very new – for instance, decentralization, monitoring, subcontracting, competitive tendering, accreditation and quality control, and dissemination of pilot innovations. Quality controls have traditionally been over inputs (curricula) rather than outputs (final examinations/ standards). And there are relatively few private training institutions. The internal and external efficiency of government VET institutions in the whole region is in doubt because of this funding and demand crisis, their previous narrow and early-specialism approach and the stigma of taking ‘failures’, and their lack of a link with the new type of labor market. In some countries there is a spontaneous, chaotic response to market forces, as government institutions starved of funds compete, with each other and with the few private institutions, for students who can pay. In all this, young people from poorer families, who disproportionately attend the region's lower secondary vocational schools, are in a particularly weak situation.

*(b) Optimizing Labor Market Regulations*

Labor market regulations are, in principle, supposed to protect the vulnerable but in practice, it is hypothesized by the 'distortionist' school, they can harm them by protecting 'insiders' at the expense of 'outsiders'. The rather inconclusive results of research on the impact of such regulations on the overall demand for labor has been summarized in section C(1) above. This section briefly reviews the likely impact on the disadvantaged young in developing and transition countries of minimum wage and employment security regulations.

As far as the impact of **minimum wage regulations** on youth employment as a whole is concerned, the OECD (1998) nine-country survey, already mentioned above, provided some support for a negative employment effect in the case of teenagers but not for young adults: and minimum wages were not found to be a significant determinant of the widely

observed decline in the employment/ population ratio among young people. O'Higgins (2001:82) summarizes the results of other research on this in twelve countries, as follows.

- There is no consensus on this impact in the US and the Netherlands: studies from the 1970s to the 1990s have reported both positive and negative effects.
- In France and Canada a negative relationship has generally been established between the minimum wage and youth employment, although in France this conclusion is tentative.
- In other industrialized countries, such as Greece, New Zealand and Portugal, negative effects on youth employment have been found but studies are few and the effects are weak.
- In the only developing country for which relevant results are available, Indonesia, the effect on youth employment was negligible.

The general impression from the limited data so far available is that, as a way of increasing the demand for young labor, a campaign against minimum wage regulations, or in favor of lower minimum wages for younger workers, may be a misplaced effort in most developing and transition countries. A campaign for lower wages for trainees is another matter, however. This would be an important way of counteracting the market failure discussed in the previous section. But it must be part of a national system within which employers' claims to be providing training are verified. As for disadvantaged youth, they would not gain directly from lower wages for trainees, since most of them do not work in regulated sectors and many of them already acquire skills through traditional unpaid apprenticeships (Box 7), but they would benefit indirectly from any improvement in the culture of training.

### **Box 7: Informal (unpaid) Skill Acquisition in Pakistan**

As in other parts of the sub-continent, a centuries old system exists in Gujranwala, Pakistan, whereby self-employed master craftsmen transfer their skills to apprentices. An apprentice (e.g. to a hairdresser, butcher, cobbler) undertakes minor jobs and looks after the workshop or business when the master is away. Most of them work without pay: of 208 workers interviewed in 1989, 42 per cent had remained (or expected to remain) unpaid for one year, 52 per cent for two years, and 2 per cent for three years or more. When apprentices were asked why they did not prefer paid unskilled jobs, 90 per cent replied that they intended to start their own businesses after acquiring skills. The returns to this type of training are certainly high: the 138 self-employed interviewed (in repair services, manufacturing/ crafts, construction and personal services) earned incomes which compared favorably with what they could have obtained as wage-earners in the formal sector, and which were more than four times higher than the average for unskilled informal-sector employees. Upward mobility is illustrated by the fact that 78 per cent of those in the 16-25 age group were workers, while 70 per cent of the 26-35 and 94 per cent of the 36-45 age groups were self-employed.

Source: Godfrey (1997:17).

Research on the impact of **employment security regulations** in industrialized economies finds that they have an adverse effect on youth employment, especially in the context of wage compression (Esping-Andersen 2000<sup>23</sup>, Scarpetta 1996<sup>24</sup>). The results of the OECD study (1999), covering 27 member countries, vary with the techniques of analysis. Simple bivariate associations suggest that stricter employment protection legislation raises employment for prime-age men but lowers employment for women and young people, and that youths bear a larger share of unemployment. However, these associations tend to be weaker or entirely absent when multivariate techniques are used to control for other factors that influence employment and unemployment.

In Latin America, Pagés and Montenegro (2000) find that, in Chile over the 1960-98 period, stricter job security regulations were associated with lower wage employment rates for young workers and higher wage employment rates for older ones, but that there was no significant effect on unemployment rates for young, middle aged or older workers. The effect on wage employment rates seems to be driven by the high costs of dismissing older workers relative to younger ones created by job security provisions related to tenure. Consistent with these results are those obtained by Heckman and Pagés (2000), for a sample of 15 Latin American and Caribbean countries and 28 OECD countries in the 1980s and

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<sup>23</sup> Covering 18 countries in 1993.

1990s. They find that the impact of such regulations on young workers' employment rates is more than double that on prime-age male workers, and that, on this basis, they reduce youth employment rates in Latin America by almost 10 percentage points. The pattern is similar for the Latin American sub-sample alone. The impact on youth unemployment is negligible and insignificant but, as the authors comment, 'in the absence of unemployment insurance or other income support programs, workers quickly find other (less attractive) jobs or drop out of the labor force' (p.22). Such regulations are found to widen earnings inequality across age groups, given that job security provisions reduce 'the earnings prospects (and possibly wages) of younger and less experienced workers, who bear the brunt of regulation' (p.23).

The evidence for a negative effect of employment security regulations on youth employment, particularly in Latin America, is more convincing than in the case of minimum wage regulations. If reform-minded policy makers in developing and transition countries follow the advice of Heckman and Pagés and 'pursue broad coalitions including outsider workers – such as young, female, unemployed or discouraged workers – to obtain support' for reforms of such regulations (and, much more difficult, are successful in pushing the reforms through), this would probably be to the benefit of young workers in general. Again the benefit to the disadvantaged young would probably be indirect, through greater buoyancy in the market for young labor.

(c) *Improving the Skills of Disadvantaged Youth*

The importance of designing and implementing training *systems* that overcome their inherent tendency towards market failure and that are oriented towards disadvantaged youth has already been discussed in section D(2)(a)(1v) above. This section reviews the kinds of skills (both literacy/ numeracy and other vocational skills) that such young people may need to improve their integrability, and the modes of skill development that are likely to be most useful for this purpose.

(i) Literacy and numeracy

The minimal demand from employers in developing countries is for basic literacy and numeracy. A literate, numerate and trainable workforce is needed for international

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<sup>24</sup> Covering 17 countries in 1983-93.

competitiveness based on productive rather than merely cheap labor. In rural areas, research has also established a strong connection between the acquisition of literacy/numeracy and productivity gains in agriculture (Jamison and Lau 1982; Phillips 1994; Lewin 1996), and illiteracy has been identified as an important barrier to access to information by women farmers and recruitment of female extension workers (World Bank 1997:Annex 6).

A recent study of Ghana (Blunch and Verner 2000) goes further and suggests that literacy may be a key determinant of labor market experience in such an economy. In Ghana literacy rates vary inversely with age, but only just over half of 15-24 year olds were recorded as functionally literate in 1997, and rates are lower for females than for males. Few illiterates work in the private formal or public sectors – most are confined to the private informal sector, including agriculture. Regression results show monetary returns to education that are generally not significantly different from zero, but functional literacy seems to be a prerequisite for entering the labor market at all.

Moreover, the literacy situation in the developing world is likely to be much worse than surveys which rely on self-assessment suggest. For example, as Table 8 shows, Cambodia's official literacy rate for 15-24 year olds in 2000, based on such a survey, was 84 per cent for males and 74 per cent for females. But a survey carried out with UNESCO assistance a year earlier, in which specially designed tests were administered, found that the functional literacy rate for males in this age group was only 54 and for females only 41 per cent.

**Table 8: Contrasting Estimates of Literacy Rates among 15-24 Year Olds in Cambodia, 1999 and 2000**

(%)	2000 Literacy Rate (Self-assessed)	1999 (based on tests)		
		Functional Literacy Rate	Semi-literacy Rate	Illiteracy Rate
Male	84	54	27	20
Female	74	41	28	31
Total	79	47	27	27

Source: UNESCO website, and Royal Government of Cambodia 2000:Table 6.4.

This suggests that *any country with a self-assessed 15-24 literacy rate lower than 80 per cent is probably facing a functional literacy crisis in this age group.* Table 9 shows the countries that may be in this situation, to judge from UNESCO estimates of their self-

assessed 15-24 literacy rates in 2000. The majority of the countries in the table are in Sub-Saharan Africa, but the largest number of young illiterates is in South Asia. The 35 countries in the table contain 112 million young illiterates, 82 per cent of the 135 million in the 138 countries for which UNESCO estimates are available, and 80 million of them (59 per cent of the total) are in India, Pakistan, Bangladesh and Nepal. The contrast between male and female literacy rates is striking: in ten countries (Liberia, Yemen, Mozambique, Pakistan, Guinea-Bissau, Benin, Iraq, Mali, Burkina Faso and Niger) the female literacy rate is less than two thirds of the male.

**Table 9: Countries with a Youth Literacy Crisis, i.e. with Self-assessed Literacy Rates among 15-24 Year Olds Below 80 Per Cent, 2000**

(%)	Literacy Rate				Literacy Rate		
	Total	Male	Female		Total	Male	Female
Cambodia	79	84	74	Burundi	64	66	62
Guatemala	79	85	73	Cote d'Ivoire	62	71	52
Uganda	79	85	72	Mozambique	61	75	46
Laos	78	85	71	Nepal	60	77	43
Sudan	77	83	72	Comoros	59	65	52
Papua New Guinea	76	80	71	Guinea-Bissau	58	73	44
Togo	76	87	64	Gambia	57	65	49
India	73	80	65	Pakistan	57	71	42
Nicaragua	72	71	72	Ethiopia	55	61	49
Malawi	71	81	61	Benin	53	71	36
Eritrea	70	80	60	Senegal	51	60	42
Egypt	70	76	63	Mauritania	49	57	41
Liberia	69	85	53	Bangladesh	48	57	40
Central African Republic	67	76	59	Iraq	45	59	29
Morocco	67	76	58	Mali	36	47	25
Chad	67	73	60	Burkina Faso	35	46	23
Yemen	65	83	46	Niger	23	32	14
Haiti	64	64	65				

Source: UNESCO website.

In most transition countries, functional illiteracy in the traditional sense (inability to 'both read and write a short, simple statement about everyday life', in the Cambodian study) is not a big problem among the disadvantaged young. But this group is disproportionately affected by lack of broader literacy skills – the ability to use their knowledge to meet real-life challenges. These are the skills tested by the 2000 OECD Program for International Student Assessment (PISA) in three domains – reading, mathematical and scientific literacy (OECD 2001) – and they broadly correspond to the 'employability' skills that employers are looking for in a modern market economy.



Reading literacy is particularly important in the labor market: the 1994-98 International Adult Literacy Survey (OECD and Statistics Canada 2000) found that people in 22 participating countries with higher levels of reading literacy are more likely to be employed and to have higher average salaries than those with lower levels: 'reading literacy levels can help to predict how well people will do in the labor market *over and above* what can be predicted from their educational qualifications alone' (OECD 2001:20).

Fifteen-year-olds in the five transition countries in the PISA sample (Czech Republic, Poland, Hungary, Latvia and Russia) recorded lower scores than the OECD average in all three domains – and in all four countries for which data are available children from more advantaged socio-economic backgrounds and, even more so, those attending more advantaged schools (in terms of average socio-economic background) performed better than others (Table 10).

**Table 10: Mean Scores for Student Performance on the Combined PISA Reading, Scientific and Mathematical Literacy Scales, and Effect on Mean Score in Reading Literacy of Students' & Schools' Socio-economic Background, Transition Countries Compared with OECD Average, 2000**

	Mean scores for student performance			Effect on mean score in reading literacy of:	
	Reading Literacy	Scientific Literacy	Mathematical Literacy	Students' Economic, Social & Cultural Status	Schools' Mean Economic, Social & Cultural Status
Czech Republic	492	511	498	10	52
Hungary	480	496	488	4	47
Poland	479	483	470	2	49
Russian Federation	462	460	478	8	27
Latvia	458	460	463	...	...
OECD average	500	500	500	10	32

Source: OECD (2001:Tables 3.6 and 8.4).

And these are the differences between fifteen-year-olds who are still in school. At an even greater disadvantage are those who, increasingly in transition countries, are dropping out of school at an earlier age: basic school graduation rates<sup>25</sup> in the Commonwealth of Independent States (CIS) fell from 96 per cent in 1989 to 83 per cent in 1997 (Table 11). Dropout from basic education and lack of progression to post-compulsory schooling have contributed to a huge rise in the number and proportion of 15-18 year olds who are not in

<sup>25</sup> Number of graduates from grade nine as a percentage of the 15-year-old population.

school. Leaving school early is associated with social exclusion, early pregnancy and behavior risky to health. Ethnic minority children and other socially vulnerable groups are over-represented among early school-leavers, reflecting the growing inequality in access to education (UNICEF 2001:73).

**Table 11: Graduation Rates from Basic Schooling in the CIS, 1989 and 1997 (%)**

	1989	1997		1989	1997
Belarus	98	88	Kazakhstan	100	89
Moldova	96	77	Kyrgystan	98	85
Russia	94	88	Tajikistan	99	73
Ukraine	96	89	Turkmenistan	96	80
Armenia	86	73	Uzbekistan	98	92
Azerbaijan	94	84	CIS average	96	83
Georgia	96	73			

Source: UNICEF 2000:Table 3.1.

What kind of policy measures are needed to deal with these situations? In the words of the latest OECD *Employment Outlook*, already mentioned above, 'the biggest pay-off for disadvantaged youths comes from *early* and *sustained* interventions. Such interventions should begin even before children enter the compulsory schooling system, and they should be followed by intensive efforts to boost their performance in primary and secondary schooling and reduce drop-out rates' (OECD 2002:31).

In many developing countries (particularly, as Table 9 shows, in South Asia and Sub-Saharan Africa) 'the extreme neglect of literacy' constitutes 'a massive failure of public policy'<sup>26</sup>. In such countries the main anti-illiteracy aim must be to reduce drop-out from schools, particularly by girls. As average schooling levels around the world have increased since 1990, average returns to schooling have declined slightly, but they are still high: and, as Table 12 shows, social returns are highest on primary education, higher in developing and transition economies than in OECD countries and higher in low-income than in high- or middle-income countries. Private returns are even higher. *The greatest contribution to improving the future employment prospects of disadvantaged children is to keep them in school until they are at least functionally literate and numerate.* Attention also needs to be

<sup>26</sup> Sen (1999:141), talking about India.

paid to the quality of the schooling to which disadvantaged children are exposed, the determinants of which include the quality of examinations and teacher training, the quality and availability of textbooks, and the level of teachers' salaries. Huge differences in the quality of schools have emerged in many countries as educational systems have expanded. In Latin America, in particular, segmentation of the school system, discussed in section C(2)(a)(iii) above, has become a major problem.

**Table 12: Returns to Education by Level, Latest Year, Regional Averages and Averages by Country Income Group (per head)**

(% )	Social			Private		
	Primary	Secondary	Higher	Primary	Secondary	Higher
<u>Region:</u>						
Asia*	16.2	11.1	11.0	20.0	15.8	18.2
Europe/ Middle East/ N.	15.6	9.7	9.9	13.8	13.6	18.8
Africa*	17.4	12.9	12.3	26.6	17.0	19.5
Latin America/ Caribbean	8.5	9.4	8.5	13.4	11.3	11.6
OECD	25.4	18.4	11.3	37.6	24.6	27.8
Sub-Saharan Africa						
<u>Country income group (per head):</u>						
High income (\$9,266 or more)	13.4	10.3	9.5	25.6	12.2	12.4
Low income (\$755 or less)	21.3	15.7	11.2	25.8	19.9	26.0
Middle income(\$756-\$9,265)	18.8	12.9	11.3	27.4	18.0	19.3
<u>World</u>	18.9	13.1	10.8	26.6	17.0	19.0

\* Non-OECD.

Source: Psacharopoulos and Patrinos (2002:Tables 1 and 2).

In transition countries, as Table 11 above suggests, attention must also be paid to reducing drop-out, particularly among children from low-income families, in rural areas, and from ethnic minorities. In cases where poverty, combined with other problems at home and cost recovery at school, is the cause of early drop-out, a need for targeted subsidies is implied. Rationalization of school provision in rural areas, combined with improvements in transport arrangements and, in some cases, distance education, is also needed (UNICEF 2001:chapter 4).

Improving the quality of schooling, particularly in the less advantaged schools, is also a priority – given the relatively poor performance of transition countries in international reading, mathematical and scientific literacy tests reported in Table 10 above. The

conditions for better teaching and learning need to be created, including national examination systems that reinforce them. Creating the conditions for better teaching, however, also requires more resources. The collapse of teachers' salaries in many countries and delays in their payment have had a devastating effect on teachers' morale. Shortages and poor quality of equipment, materials and buildings are also acute. Increases in efficiency, as recommended recently by the World Bank (Berryman 2000), can generate some of the resources necessary to improve quality, and the demographic opportunity of falling numbers of basic-education-age children (at last being seized) will make it easier to do this. However, further reform of educational financing systems will be needed for this purpose. And there is no getting away from the need in many countries, particularly in the Caucasus, Central Asia and the Western CIS, to increase the proportion of Gross Domestic Product that is spent on education. Resources for education will get an additional boost from renewed economic growth, even in some of the region's poorer countries. One of the main focuses of this extra spending should be on maintaining and improving quality, with *the emphasis, from the point of view of avoiding youth employment problems, on the quality of the education received by the least privileged students* (UNICEF 2001:chapter 3).

The schooling of some groups that have special problems in the labor market need special attention. In general, the educational, developmental and future-employability needs of children with disabilities or children from ethnic minorities are more likely to be fulfilled by their *inclusion in mainstream schooling systems than by isolating them in separate institutions*. For disabled children, the struggle for such reforms in transition countries is long and difficult, while among developing countries some interesting models are being tested, for instance in India and Uganda (Box 8), but policy development is at an early stage.

**Box 8: Towards Inclusive Education for Disabled Children in Transition and Developing Countries?**

In the past the approach of most planned economies in Europe and Central Asia towards education for children with disabilities was dominated by the Soviet science of 'defectology', associated with an early medical diagnosis of disability and with the education of disabled children in special schools separated from other children. The **transition** so far has had mixed implications. Attitudes have become more open and flexible, which favors the integration of disabled children into normal schools, but education systems have become more competitive, which works in the opposite direction. Recession and reduced government budgets have hindered investment in the special facilities needed for integrated teaching, squeezed the resources available for the diagnosis and treatment of disability and threatened the quality of teaching and care received by those children who remain in separate schools. In general, the institutional approach to provision of special education still seems to dominate: in the region's largest countries (Russia, Poland, Romania) the trend in enrolment in separate schools for special needs has been upward over the decade as a whole, and only one country of the twelve for which data are available, Bulgaria, has not shown an increase in the second half of the 1990s. In some countries there is evidence of moves to provide for such children within the mainstream, whilst in others there appears to have been little or no change, or even a worsening of previous arrangements.

In most **developing countries** the inclusive approach to education for children with disabilities is a relatively new concept. In the Indian state of Andhra Pradesh the integrated education of such children in mainstream primary schools has been implemented as a pilot project. Children identified as having difficulties in the areas of gross motor, fine motor, communication and social development are assessed both medically and socially, and an individual education program is prepared by the team for each child. Teachers are then prepared and sensitized to the needs of the children in question, and free aids (hearing, mobility etc.) are provided where required. Through this pilot project, disabled children share their classes with children who have no disabilities and are therefore included in mainstream school life. Children without disabilities become increasingly aware of the capabilities and potential of their fellow students.

Uganda provides free primary education to four children per family, including in each case any child with a disability and at least two girls (where there are girls). The law states that these two categories take priority, on the assumption that parents are less likely to pay for disabled children or for girls than for boys who do not have a disability.

Sources: UNICEF (2001:79); DfID (2000:12).

Education is the most effective preventative intervention to improve employment prospects for young members of ethnic minorities. In the case of the Roma in Eastern Europe, for instance, the starting point is to reduce the barriers that prevent children from starting school. This involves school feeding programs, the linking of child allowances to school attendance, and scholarships. Pre-school programs, such as the Step-by-Step program, modeled on the US Head-Start initiative, are also used for this purpose, as is the involvement of parents in school activities. Initiatives to reduce dropout and facilitate continuation to secondary and tertiary education include the establishment of separate (high-

quality) schools for Roma in some countries and integration into mainstream schools in others (Box 9). Improvement in the quality of education for Roma depends on reducing discrimination within schools and diminishing the role of special (low-quality) schools for them, by bussing students to schools in other neighborhoods. Special training for teachers and the use of Roma teachers' assistants and mentors are also helpful (Ringold 2000:40).

**Box 9: Segregated versus desegregated schools for an ethnic minority in transition countries**

In several transition countries many schools, because of their location, are effectively 'Roma schools'. In Bulgaria, for instance, 80 per cent of pupils in schools in some neighborhoods are Roma. The quality of teaching and school infrastructure in such schools is significantly worse than in mainstream schools. In response to this, in Vidin, Bulgaria, an innovative program to integrate Roma students into the mainstream school system is being implemented. This involves bussing students from their settlements to school and back, Roma monitors who encourage attendance and protect children against mistreatment, and shoes and school lunches (on the bus) for low-income students. By 2000/2001 half the school-age Roma students in the town had been integrated. At the end of the first semester of the project, attendance was 100 per cent, average grades for Roma students were no different from those of non-Roma, parents and teachers were satisfied with the scheme, no anti-Roma racism had been observed in the schools, and replication of the model in other cities was in prospect.

An alternative model has been tried in Hungary – private secondary schools, with funding from a variety of sources including the state – in which the majority of students are Roma. Such schools vary in their curriculum and in the extent to which they emphasize the Roma background of their students: most teach the Roma language, history and art as a means of strengthening their cultural identity, but some focus more on building self-confidence and employable skills. Some explicitly target disadvantaged students, providing accommodation and other support, and most involve parents in the educational process. Preliminary evidence on the effectiveness of these schools is mixed. Dropout still occurs, but at a lower rate than for Roma in other schools. Teachers, school directors, parents and students are enthusiastic about the schools, particularly the encouragement they give to Roma children to succeed, and the support that they give to students in the community and at home as well as in school.

Sources: World Bank et al. (2002:57); Ringold (2000:42).

The roots of the illiteracy-related employment problems of disadvantaged young people are in the schools. But in some developing countries (particularly the 35 countries in Table 9 above) illiteracy among young adults, especially women, is so widespread that an emergency approach to the problem is also warranted. Mass campaigns, involving the majority of illiterate adults, rather than small selective programs, have been an essential part of every successful effort to eliminate illiteracy (Chunkath 1996). A mass campaign should not be marginalized but should use a national network of educational facilities, with community

participation. The poverty of those involved (which makes a literacy campaign *the most effective, self-defining, anti-poverty program*) should be recognized: food will need to be provided to participants who may be missing a day's work. Literacy teaching should be linked to actual or potential income generation activities, both to maximize productivity impact and to ensure that reading ability is subsequently maintained. For the same reason, community libraries (or in UNESCO terms development resource centers) should be established. Brazil's alternative primary education program, ESPG, (Box 10) is a good example of the kind of program for young people that could be generalized.

**Box 10: Brazil's Alternative Primary Education Program – Educação Suplementario de Primeiro Grau (ESPG)**

ESPG has, since 1990, given landless youth in Rio Grande do Sul, Brazil, a chance to complete their primary education and to work in their community as trained rural development workers. Each 18-month program works with 50 15-23 year olds, using a combination of classroom and community-based learning, and courses in Portuguese, mathematics and science, as well as modern community development and rural administration: learning by doing includes practice in specialized areas, such as soil conservation. Students are also encouraged to assume management of the school as owners and farm workers. Almost 75 per cent of those enrolled in ESPG graduate, compared with a national rate of 22 per cent, and virtually all its students remain in the region where they have studied.

Source: ILO 2001a.

Functional literacy and numeracy (increasingly broadly defined to include the capacity to use such skills to meet real-life challenges) are the minimum skills needed by disadvantaged young people for integrability into labor markets and economic processes. Early and sustained interventions are needed to ensure that they acquire these skills. Reduction in dropout from schools and improvement in the quality of education received by such students are probably the most important measures available to combat the emergence of youth employment problems. In some developing countries, an emergency approach to the problem of functional illiteracy among young adults is also needed.

(ii) Vocational skills

In spite of the evidence and arguments presented in the previous section, the usual tendency in skill development programs for young people is curative – to take prior

educational backgrounds as given and to concentrate on imparting vocational skills. Such training programs account for the major part of budgets for Active Labor Market Programs (ALMPs) around the world.

The criteria to be used in evaluating such programs (and ALMPs as a whole), in deciding whether existing programs should continue, and in deciding whether a particular program is one towards which the disadvantaged young should be channeled, are simple in principle. Ideally, government funds should not be allocated to any program that does not pass a *social* benefit/ cost test. And vulnerable young people should not be enrolled in programs that do not offer them a high *private* rate of return. A 'Good Training Guide' (constantly revised in the light of new information) could, in principle, rank programs in order of private pay-off. The political task would be to maximize the number of disadvantaged young participants in the high-private-pay-off types of training, and to cut off government support for any programs for such groups that have negligible or negative private pay-off. *Privileged access to ineffective training is no favor to anyone.* The starting point for labor market training for disadvantaged youth should be to get as many of them as possible into the (socially efficient) programs that promise the highest personal pay-off.

Unfortunately, it does not seem to work this way. In North America and Scandinavia, where the most rigorous evaluations have been conducted, results are discouraging. Dar and Tzannatos (1999:25) review seven evaluations of such programs, five experimental and two quasi-experimental. Participants in the programs are school dropouts, or young people from severely disadvantaged families, and are typically below the age of twenty. Evaluations show that youth training is the least successful type of training (compared with training for the long-term unemployed and those laid off *en masse*). In almost all cases participants in such training did no better than a control group in improving their employment probability or earnings. The only successful type of training was a Canadian program for high-school dropouts during the 1980s which included enterprise training: it yielded significant increases in employment and earnings for young men, but not for young women. Cost-benefit analysis of several programs shows social rates of return that are typically negative in both the short and long run. Dar and Tzannatos comment that 'it is very difficult to correct what appears to



be a failure of the education system during the previous 5-10 years of the youth's life with some kind of training which is usually short in duration and takes place relatively late in life'.

Training programs for the unemployed are widespread in the transition countries of Central Europe. Poland has courses of up to 12 months, with stipends for participants equivalent to up to 115 per cent of the unemployment benefit. Hungary's courses are general for less than 12 months, with a stipend up to 110 per cent of benefit plus reimbursement of direct costs. The Czech republic has a special program for youth, focusing on on-the-job training: employers receive a lump sum for the training and for retaining the participant for at least one year beyond the end of the program. Participants in all types of training in all three countries are relatively young (with an average age of 30 or less). In Hungary and Poland the genders are relatively evenly split and between a quarter and a third have no more than primary education: in the Czech Republic two thirds are female and 90 per cent have more than primary schooling.

Fretwell et al. (1999:15) find that in general the programs had a small but positive impact on employment. Interestingly, the only one with a significant impact on earnings was the Czech program, with its on-the-job training component. In general, the impact on employment was greater for young and middle-aged than for older participants and greater for those with only primary education than for those with higher levels of education.

These results are not as encouraging as they may look. Micklewright and Nagy noted in Hungary in 1994, on the basis of an analysis of flows into and out of unemployment insurance, that those with low levels of education had far lower chances of leaving unemployment insurance for training. As they commented:

*Among men, someone with a general or vocational secondary education is over four times more likely to leave unemployment insurance for a training scheme than is a person who has only completed primary education. Among women, the probability is over five times higher.... This may reflect a variety of factors. The more educated may be more willing to retrain or may react more to the incentives offered (a 10 per cent addition to unemployment benefit). They may be able to find private training courses that the employment office will approve. The employment offices may offer training courses only to the more educated. The part played by selection policy of*

*employment offices (or by national policy in the design of training schemes) seems misplaced given that the more educated have a notably higher probability of finding a job in any case.*

This selection bias still seems to be present in all three countries, but especially in the Czech Republic.

Moreover, the impacts on employment do not look large enough to outweigh the considerable costs of such programs. In Hungary, for instance, the programs were judged to yield an increase in employment probability of around 7 per cent for young participants. An earlier survey carried out by O'Leary (1994) in November 1993 came up with a similar figure. Gill and Dar (1995) creatively combined O'Leary's impact results with estimates of cost to simulate a cost-benefit analysis of training compared with unemployment benefits. The results depend on the techniques used and the assumptions made about the duration of unemployment benefits but, on realistic assumptions, it takes thirty years or more for training to pay off. The authors conclude (p.12) that 'it seems difficult to justify large scale retraining programs on economic considerations alone'.

There are very few rigorous evaluations of youth training programs in developing countries. One of the few, already discussed above (page 18 and Box1), is the *Proempleo* Experiment in Argentina, which found that training had no significant impact on the young participants' probability of wage employment.

Another is the evaluation of the impact and effectiveness of the Mexican retraining program for unemployed and displaced workers, PROBECAT, by Revenga, Riboud and Tan (1994). Detailed data on the post-training experience of the 1990 cohort were compared with panel data on a random sample of unemployed from the 1990-91 urban labor force survey, and differences in age, level of education, years of work experience and household attributes were controlled for.

The average duration of unemployment among men was 30 per cent shorter for trainees than for members of the comparison group. For women, it depended on the length of their spell of unemployment - those who entered training after a relatively short spell of unemployment exited more quickly than those who did not undergo training; those who entered training after a long spell out of the labor force exited more slowly. As for

employment probability, there were also differences between men and women. For men, training increased their probability of being employed up to six months after the program but did not have an effect thereafter. For women, training appeared to raise their employment probability for a whole year after training, but only in the case of those with prior work experience. Data on earnings were also analyzed. Participation in the program increased the monthly earnings of male trainees but only because they worked longer hours. The effects of training on men's monthly earnings varied with level of education: it was largest for those with secondary education (seven to nine years of schooling). Women's monthly earnings were scarcely affected by training. Private cost-effectiveness was not calculated, but from data presented it can be inferred that, for men on average, the net private pay-off from the course was positive, but not for women.

However, there were wide variations between different groups. The groups most likely to benefit from the training were those with prior work experience, over the age of 25, and with secondary schooling. For the young, new entrants to the labor force and those with low levels of education, the authors suggested that *'it may be more appropriate for the government to provide adult basic education, facilitate return to school for the young, or introduce firm-based apprenticeship programs to give work experience to new entrants into the labor market'* (our emphasis) (p.276).

A program for which great claims were made at the recent Youth Employment Summit is the Success Case Replication project implemented by UN ESCAP in eight Asian countries in 1994-98 (Box 11). Of 3,332 families trained, 71 per cent were judged to have been successful. The average net income gain in the first year of the project was \$449. Total net income gains of all families were \$1,058,067, compared with total in-country agency costs, including staff time and farmer training, of \$87,271, and 'external' agency costs of \$322,257. Thus the cost/ benefit ratio was 1:12 if only in-country agency costs are included, 1:2.6 if external costs are also taken into account. These are impressive figures, but UN ESCAP recognizes the difficulty of collecting reliable cost data in the field and, even more so, reliable benefit data in situations where many families are illiterate and none of them keep records of their production costs and gross returns. There is no doubt, however, about the

advantage of low-cost training provided to people who are already working over expensive formal courses for those who have never worked.

**Box 11: The UN ESCAP Success Case Replication (SCR) training project**

The principle of the SCR methodology is to: locate farmers and village groups who have been successful; and mobilize them to train their less well-off fellow villagers. It differs from conventional training programs in utilizing successful practitioners to train the rural poor, rather than relying on professional or government-agency trainers. The methodology entails nine steps:

1. Locate successful cases.
2. Evaluate the replicability of the success (in terms of profitability and marketability).
3. Assess successful farmer's willingness to become a trainer.
4. Establish a practical, 'hands-on' training program.
5. Select trainees carefully.
6. Supervise the training.
7. Arrange follow-up assistance for trainees.
8. Achieve secondary 'multiplications' following first-round successes.
9. Keep cost/ benefit records.

Intensive field trials of the methodology were conducted from 1994 to 1998 in eight countries: Bhutan, Laos, Mongolia, Nepal, the Philippines, Sri Lanka, Thailand and Viet Nam. Various agencies were involved, including in most countries a government extension or rural development agency, an NGO and a rural bank. The program was not specifically aimed at young people, but they are regarded as particularly suitable targets because of their greater orientation towards risk-taking and entrepreneurship.

Source: Lim (2002:3).

The award of the 'success story' accolade to training programs in other background papers for the Youth Employment Summit (Box 12) was not backed up by any evaluations. For example, the judgement that the INJAZ program in Jordan (not specifically targeted at the underprivileged) was successful was based on teachers' reports of a change in students' behavior, grades and attitudes. 'Before the program, most students wanted to become doctors or engineers, otherwise they were looked at as failures; now students are looking at more options, in line with the labor market requirements of Jordan in the context of globalization' (UN ESCWA 2002:8). The Cisco Internet Networking Technology Training Course for African women (costly, tiny in scale, with relatively few young students, female but not otherwise disadvantaged) was judged successful because 'the majority of the participants of the first course are currently employed in ICT-related jobs, such as computer teacher, internet service provision, development networks and so on' (UN ECA 2002:6). And the AXÉ

program in Bahia, Brazil, which (though curative rather than preventative) does attempt to target the underprivileged, is judged on the quality of its processes rather than its results.

**Box 12: Some training programs cited as 'success stories' at the 2002 Youth Employment Summit**

The INJAZ program in Jordan, which started in 1999, brings private-sector volunteers (bankers, businessmen, etc.) to schools on Saturdays to give courses on personal and business economics, entrepreneurship, leadership and community service. The curriculum, designed by other volunteers from the education sector, encourages brainstorming, problem-solving and communication skills, through class discussions rather than lectures. It is hoped that 10,000 students will have graduated from the program by 2004.

The Cisco Internet Networking Technology Training Course for African Women, launched by the UN Economic Commission for Africa in Addis Ababa in 1999, has so far trained 25 women over a two year period, including six months in residence, in internet networking design, maintenance and use, as well as gender issues and business management. Of the 25 in the first course, 28 per cent were under 25, and they included high school, college and university graduates and 'those whose education had been cut short'.

The AXÉ program, run by an NGO, the Association of Parish Communities of Salvador de Bahia, in Brazil, targets street children and adolescents at risk. With funding from the federal government (20 per cent), the local government (10 per cent), international donors (35 per cent), private contributions (3 per cent) and self-financing (32 per cent), the program combines liberal arts education with technical and occupational training, oriented towards the fashion industry. The program encourages the autonomous management of training and production workshops and focuses on establishing links with private firms. Its objective is 'to provide street children with an educational process in which work is regarded as an essential tool for building good citizenship'.

Sources: UN ESCWA (2002:8); UN ECA (2002:6); Hopenhagen (2002:10).

More common than 'success stories', even unevaluated ones, are the 'failure stories' of government-provided pre-employment vocational training. Typical of these are the Indonesian Manpower Ministry's training centers, which in the mid-1990s numbered 153, with a capacity for 120,000 trainees but enrolment of only 59,000, offering courses in the usual range of (largely outdated) craft skills. Originally, the centers were intended to cater for those from disadvantaged groups - unemployed primary school leavers or dropouts from secondary schools - but by 1996 90 per cent of trainees were senior secondary school graduates. Unemployment rates for graduates after three months were about the same as for comparable groups (around 50 per cent) and they did not have an earnings advantage over non-

graduates. Such training appeared to have zero personal pay-off even for fully subsidized, government-sponsored trainees, let alone for self-financing trainees (in such low-cost subjects as computers, tailoring, dressmaking, tourism and driving) who were asked to pay as much as \$0.56 per hour. Reforms of the BLKs are in the offing, but their extent and outcome are as yet unclear (World Bank 1996; Tzannatos and Sayed 2000)

Another type of program that may show up badly on the private pay-off criterion is the "special" training program for women, often mounted in response to pressure. Too often these are special, low-quality, low-return programs. For instance, in Pakistan surveys of women's training institutions in the early 1990s concluded that teaching of traditional skills with very low wage employment potential still dominated the scene (Lim and Coenjarts 1993:36). In Sri Lanka social mobilization programs have been successful in creating self-confidence, group solidarity and savings and in promoting social empowerment. But such

*special women's programs have in general suffered from several disadvantages. Their training component has been weak, superficial, brief and ad hoc, and their isolation from mainstream development has denied them access to infrastructural support and has limited their outreach. The low technology - low productivity - low income syndrome in women's programs and poverty programs has limited the activities of women in low income families to the 'poverty market' and has reinforced their poverty status and the existing gender division in the labor market (Jayaweera 1997).*

In general, in the absence of rigorous evaluations, it has yet to be demonstrated that disadvantaged young people in developing and transition countries could find many training courses that would give them a high private rate of return. Even if they found them, they would have difficulty in being admitted to them. And returns to such training depend crucially on the state of the economy – most training courses can only succeed against the background of a high rate of growth in demand for labor.

#### **D. A Note on Educated Unemployment**

In general, this paper has argued that youth employment policy should focus on the problems of the most disadvantaged young people, rather than merely on the unemployed,

among whom in many developing countries the more educated are over-represented. However, many governments are understandably concerned for political reasons about high rates of educated unemployment and interested in policies to reduce them, and they should not be ignored.

In practice, many of the policies that have been implemented aggravate rather than alleviate the problem – for instance, guaranteed or favored access for the more educated to government employment, special programs to employ unemployed graduates or set them up in business, and large subsidies to higher education.

In Egypt, for example, university graduates, from 1962, and graduates of secondary vocational schools and technical institutes, from 1964, were guaranteed employment in the public sector until 1990. The employment guarantee significantly increased the private benefits of higher education, while the abolition of fees at around the same time significantly reduced its private costs. In research already referred to (above, page 3), Assaad (1997) showed how this combination of policies inflated the supply of secondary and higher-level graduates, with the result that they were still substantially over-represented among the unemployed (queuing for public-sector jobs) many years after the guarantee had been formally suspended. Schemes such as the Desert Development Program, also discussed above (page 21), involving large subsidies to university graduates, further distort private benefits and rates of return.

The fact that private rates of return to higher education in low-income countries are so high (Table 12 above) is a sign that such educated unemployment is a transitory problem. As time goes by and expectations adjust, the more educated find relatively well-paid jobs and their unemployment rates fall. This type of transitional unemployment is mainly a symptom of lags in information about the state of the labor market: adjustment of expectations would be considerably speeded if *up-to-date information about the types of jobs and earnings that are actually available to this generation of graduates, as opposed to their older relatives and friends, could be collected and quickly disseminated.*

Table 12 also showed that the gap between private and social rates of return in low-income countries is largest in the case of higher education and that the social rate of return is much lower for higher than for primary education. This raises questions about the logic of large non-means-tested subsidies to higher education. If *students who could afford it paid a higher proportion of the costs of their education* at this level, the gap between private and social rates of return (and the consequent pressures behind excess supply) would be reduced.

For the same reasons, *programs that offer special favors to graduates*, in the form of guaranteed public-sector employment (whether formally or *de facto*) or places on subsidized labor market programs, *should be avoided*. They also increase the private rate of return on higher education, to the detriment of labor-market balance.

### **E. Key Data Needs**

If the focus is on the employment problems of disadvantaged youth, data for diagnosis and monitoring need to be as disaggregated as possible. Some dimensions of disadvantage are more regularly measured than others. Three dimensions that may need special attention are ethnicity, disability and social background.

The collection of data on **ethnicity** is, in some countries, in conflict with human rights legislation. For example, it was discontinued in 1998 in Slovakia, after protests from the Hungarian and Roma minorities (World Bank et al. 2002:27). Such information is, however, crucial for the development of youth employment policy, and ways of collecting it which will meet such concerns need to be constantly explored.

The value of such data is illustrated by Kertesi's analysis of the 1993 Labor Force Survey in Hungary, which included a supplementary questionnaire on ethnic origin (Kertesi 1994). The unemployment rate (broadly defined to include discouraged workers) of Roma is more than 43 per cent, compared with 13 per cent for non-Roma, and non-Roma wage rates are 24 per cent higher. Roma labor-force-members are heavily overrepresented in categories which are at a disadvantage in the labor market: males, the young, the old, the unschooled and less educated, and those living in communities with high local unemployment rates. All these categories, regardless of ethnic origin, have a tendency towards higher than average unemployment rates. Kertesi isolates the contribution of ethnic origin to the probability of being unemployed by means of a logit model. He finds that only about a half, at the most, of



the difference in predicted unemployment rates between Roma and non-Roma can be explained by their characteristics (including those listed above). He finds it hard to avoid the conclusion that the large residuals are a sign of some kind of discrimination on the part of employers. Analysis of this kind (only possible if data on ethnicity are available) directs attention towards two types of policy relevant to the young: breaking the vicious circle of early dropout from school by Roma children, consequent confinement in adulthood to unskilled activities, unemployment and low incomes, further reinforcing the tendency to early dropout in the next generation; and combating discrimination on the demand side.

Collection of data on **disability** raises even more difficulties. In many countries it is still seen primarily as a medical problem, the domain of doctors and rehabilitation service providers. People are defined, individually and statistically, by their specific disability. This is not helpful for labor market analysis and the development of youth employment policy. Much more appropriate is the International Classification of Functioning, Disability and Health (ICF), developed by the World Health Organization over the past eight years (WHO 2001). This includes measures of 'activity limitations' and 'participation restriction' (ranging from 0 = 'no difficulty' to 4 = 'complete difficulty') in nine domains: learning and applying knowledge, general tasks, communication, mobility, self care, domestic life, interpersonal interactions and relationships, major life areas, and community, social and civic life. It also classifies the environmental factors (physical, social and attitudinal) that may hinder or facilitate a person's life. The ICF has been accepted by 191 countries as the international standard to describe and measure health and disability and is being tested in world-wide health surveys. It obviously has potential for use in labor-force surveys and in the development of employment policies and programs for disabled youth but, for this purpose, is still at an experimental stage.

**Social background** is, in principle, easier to measure. Household surveys include information both about the household and about its individual members, which enable the two sets of data to be related to each other. For instance, the living standards and longitudinal monitoring surveys in Eastern Europe and Central Asia enable educational enrolment rates to be calculated by age group and household income per head (UNICEF

2001:Figure 4.10). Individual outcomes among young people can also be related to other domestic factors in specially designed surveys: for instance, student performance in the PISA tests (OECD 2001), discussed in section D(2)(c) below, is analyzed in relation to parental occupational status<sup>27</sup>, possessions related to classical culture, frequency of communication and interaction with parents<sup>28</sup>, mothers' educational level, and family structure (whether or not single-parent), as well as to family wealth.

For regular diagnosis and monitoring of the employment problems of disadvantaged young people it will be necessary to rely on data that are routinely available. As an example of a **minimum format**, Table 13 shows pattern of population, unemployment, non-employment and wage-employment rates, and average earnings by age group, sex and highest level of education, derived from the Tajikistan 1999 Living Standards Measurement Survey database. Further disaggregation by location (urban/ rural) would also be useful. **Education** is used here as a proxy for several kinds of disadvantage: it is not a perfect proxy (since segmentation has other dimensions than those shown in the table) but can serve the purpose.

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<sup>27</sup> Using an internationally comparable socio-economic index of occupational status based on father's or mother's occupation whichever is the higher.

<sup>28</sup> In six areas: discussing political or social issues, discussing books, films or television Programs, listening to music together, discussing how well the student was doing at school, eating the main meal together, and spending time just talking.

**Table 13: A Minimum Format for Diagnosis and Monitoring of Youth Employment Problems: Pattern of Population, Unemployment, Non-employment and Wage-employment Rates, and Average Earnings, by Age Group, Sex and Highest Level of Education (Tajikistan 1999)**

Highest level of Education:	Male					Female				
	None	Primary	2ndary	Higher	Total	None	Primary	2ndary	Higher	Total
Pattern of Population (%)										
15-24	2	6	24	2	35	3	6	25	3	36
25+	4	12	44	5	65	4	13	43	5	64
Total	6	19	68	8	100	6	18	68	8	100
Unemployment Rate (%)										
15-24	6	15	11	17	12	13	7	9	9	9
25+	17	21	18	17	18	19	13	17	15	16
Total	13	18	15	17	15	16	11	13	12	13
Non-employment Rate (%)										
15-24	19	31	31	35	31	33	30	31	32	31
25+	50	58	50	54	52	50	52	49	52	50
Total	40	48	43	47	44	42	45	42	44	43
Wage-employment Rate (%)										
15-24	31	29	26	11	26	25	27	28	27	28
25+	66	53	53	53	54	40	52	53	63	53
Total	52	41	41	35	41	32	42	42	47	42
Average earnings (Rbl '000)										
15-24	3321	7862	7453	26490	8200	11356	7729	16747	7347	13999
25+	5674	10714	6066	6878	6819	10195	12376	7973	11356	9164
Total	4783	9533	6532	11780	7297	10697	10788	10964	9965	10840

Note: Unemployment and wage-employment rates are % of labor force, non-employment rate is % of out-of-school population, average earnings per month are from main job for those who are working. Unemployment rates are based on a narrower definition of unemployment than in Table 4 above.

Source: Tajikistan LSMS 1999.

The combination of data shown in the table enables a picture of the nature of the youth employment problem in a particular country to be built up and monitored over time. Regular, high-quality labor force surveys are needed for this purpose.

The relevant unemployment rate is that for **active or open unemployment** – the only unambiguous measure of labor underutilization. It is important that surveys should follow best practice in their questions about such unemployment. The actively unemployed are those who answer both 'no' to the question 'did you work (for a specified minimum amount of time) in the reference period?' and 'yes' to the question 'are you actively seeking work?': too often they are identified merely as those who answer 'yes' to the question 'are you unemployed?'. An accurate measure of active unemployment will reveal whether or not it disproportionately affects the more educated/ advantaged young.

The active rate is preferred as a measure to the **inactive unemployment** rate, which covers those who are not working, not seeking work but available for work, sometimes called

'discouraged workers'. The practical difficulty here is in defining availability for work in a precise, unambiguous and surveyable way. After all, anyone's availability for work will tend to depend on the kind of work in question, its location and level of remuneration. Many labor force surveys merely ask those not working who deny seeking work whether they would be willing to accept a job if it was offered to them. Those not working and not seeking work who answered 'yes' to this question might approximate to the inactively unemployed but there is a danger of inconsistency in definition over time and in cross-country comparisons.

Active unemployment is also preferred as a measure of underutilization of labor to the various concepts of **underemployment**. The most commonly used of these is visible underemployment, covering those who are working fewer than the 'normal' number of hours in the reference period. If the norm is set at 35 hours per week, this yields staggeringly high estimates of the underemployment rate among youth in developing countries. However, if the second part of the definition, looking for more work, is added, this tends to reduce the scale considerably. In general, counting the number of hours worked misses the point. In rural areas agriculture usually involves relatively few hours of work per week, except in peak seasons. In urban areas many of the young self-employed work very long hours, often waiting or looking for customers. *In both cases the point is not so much the hours of work as the very low returns to labor.*

**Wage employment** is the category of employment status with fewest definitional problems<sup>29</sup> and, as already argued above, an important indicator of the strength of demand for labor as a whole. In some countries further disaggregation is common: in Latin America, for instance, wage earners in domestic service, small business, large private enterprises and the public sector are distinguished from each other. The most important distinction for our

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<sup>29</sup> Though it should be borne in mind that a high proportion of workers in many countries have more than one job. Those counted as wage employees should be those for whom this is the primary employment status.

purpose is between public and private sector. It would be useful, if possible, to measure numbers in other categories of employment status – **self-employment/ own-account employment** and **unpaid family work**. A high proportion of the labor force in unpaid family work is a sign that the labor market is at an early stage of development. For instance, in Cambodia in 2000, 27 per cent of men and 59 per cent of women were still unpaid family workers – the worst labor-force category for many young people, as is indicated by the numbers available for recruitment into (and indeed willing to pay for access to) low-wage jobs in garment factories.

Unfortunately, the most important measure of labor market conditions – **earnings** – is also the one on which least information is collected. For various reasons many labor force surveys do not include a question about earnings and those that do often confine it to wage-earners. Obstacles to regular surveys of the earnings of the self-employed include the difficulty of isolating the returns to labor and the problem (in urban areas) of ensuring a comparable and representative sample over time. However, although there are differences between economies in the extent to which **wage** rates reflect the underlying labor market situation they are still an essential element in analysis of structures and changes over time. For comparisons between locations within a country and for analysis of changes nominal wages need to be deflated by the consumer price index.

Even the relatively simple format of Table 13 raises obvious problems of the quality and availability of the data required. Inter-censal estimates of population by single year of age are often not easily available. Definitions of 'youth' and of 'unemployment' and 'employment' vary from country to country. Up-to-date information about status in employment is relatively scarce, and data on wages and earnings are even scarcer. What can be done to improve the situation? Existing censuses already provide the basis for creative work by demographers on projections of population by age group. In addition, a review of all household surveys with an individual-record-based labor-force component is needed, to ensure that they at least include the questions relevant to Table 13. Standardization of definitions used across countries may only be an aspiration, but a start could be made, in cooperation with other funding agencies, by ensuring that *all surveys financed by such agencies use comparable definitions*.

## F. Conclusions

An emphasis on prevention rather than cure directs attention towards two sets of policies in particular: those to boost the overall demand for labor, and those to ensure that disadvantaged young people acquire functional literacy and numeracy. In practice, a combination of preventative and curative policies is needed – to try to prevent the emergence of youth employment problems and to deal with those that, nevertheless, do emerge. In this final section the whole range of both types of policy options available is reviewed, and the data needs related to them are summarized.

### (a) *Preventative policies*

- Demand for labor. A healthy rate of increase in the overall demand for labor (and in wage employment in particular) is a necessary condition for a successful youth employment policy. There is no universal detailed blueprint, but a program for this purpose would be likely to include: an attempt to identify and encourage the growth of potential leading sectors in line with dynamic comparative advantage; the fiscal strategy and range of policies on interest rates, exchange rates, customs tariffs, wage rates, etc. that would best support such sectors and labor demand in other sectors; and reforms of institutions and regulations. Whether it would include extensive labor-market deregulation would depend on local circumstances: the evidence, particularly from Latin America, is that employment protection regulations may have a greater negative effect on labor demand than minimum wages. Attempts to reduce the gap between demand and supply by keeping young job-seekers off the streets, in one way or another, do not make economic sense, and similarly motivated programs to export young labor are a confession of policy failure.
- Information and counseling. The provision of information and counseling is, in principle, a sound way of remedying labor market failure, but in practice such services are not of much help to the young in general and the disadvantaged young in particular. A more active service, linking youngsters still in school with local employers, along the lines of the 'First Job' program in Curitiba, Brazil (see above, p. 16) but targeted to the less advantaged, would have a greater chance of success. In some countries labor market

failure takes the form of discrimination against people with disabilities, women and ethnic minorities, in which case anti-discrimination legislation and affirmative action are needed.

- Integration of national labor market. To work properly for young people, a national labor market needs to be integrated, by road building and repair if necessary and by development of transport systems. Information about jobs available in other parts of the country needs to be made available and (particularly in transition countries) a housing market needs to be developed to make movement easier. Needless to say, the effective restrictions on movement that still persist in many transition countries need to be abolished. And the vicious circle of residential segregation of young people in urban areas needs to be broken, by dismantling the mechanisms of educational segmentation, and through interventions to detect and confront risk-taking behavior (substance abuse, violence, accidental injury etc.) and to promote healthy life-styles.
- A national training system. A national training system that internalizes externalities and thus gives employers an incentive to take on new employees for training will be of benefit to young people in general. Institutionally- and culturally-specific systems such as Germany's dual system and Japan's company model are difficult to copy, and the widely adopted state-direction model is essentially inefficient and supply-driven. Some form of levy-grant system may have a better chance of success, but it would need to be adapted to local circumstances. A national training system also needs to have a 'pro-disadvantaged' bias, which could be imparted by training vouchers (financed by a training levy) for the most vulnerable categories of young people, with courses modeled along the lines of the Chilean and Uruguayan schemes (Box 1). Vocational training systems in the transition countries of Eastern Europe and Central Asia are in particular need of reforms of this kind.
- Labor regulations. There is little evidence that abolition of minimum wages or setting them at a lower level for young workers would have a big impact on the demand for young labor. However, lower wages for trainees, within the kind of national training system just discussed in which claims to be providing training were verified, would give employers an additional incentive to train. The evidence for a negative effect of

employment security regulations on youth employment, particularly in Latin America, is more convincing, and reform of such regulations would probably be to the benefit of young workers in general. The benefit to the disadvantaged young of such reforms would probably be indirect, through an improvement in the culture of training and greater buoyancy in the market for young labor

- Functional literacy. Early and sustained interventions are needed to deal with a functional literacy crisis among 15-24 year olds (especially women) in many developing countries and a lack of more broadly defined literacy skills among the disadvantaged young in transition countries. The greatest contribution to improving the future employment prospects of disadvantaged children is to make sure that they stay in school until they are at least functionally literate and numerate: this will involve targeted subsidies and, if possible, special pre-school programs. Attention also needs to be paid to the quality of the schooling to which such children are exposed, and therefore to examinations, teacher training, textbooks and the level of teachers' salaries, and to narrowing the differences in the quality of schools that have emerged as educational systems have expanded. The schooling of some groups that have special problems in the labor market needs special attention. In general, the educational, developmental and future-employability needs of children with disabilities or children from ethnic minorities are more likely to be fulfilled by their inclusion in mainstream schooling systems than by isolating them in separate institutions.
- Educated unemployment. Policies to prevent the emergence of large-scale educated unemployment include: the collection and speedy dissemination of up-to-date information about the types of jobs and earnings that are actually available to the current generation of graduates, as opposed to their older relatives and friends; a reduction in the non-means-tested subsidies available to students in higher education; and the cancellation of any labor-market programs that offer special favors to the more educated.

(b) *Curative policies*

- A mass literacy campaign. The most urgently needed curative program, particularly in the 35 developing countries (in Table 9 above) with self-assessed literacy rates among 15-24 year olds of less than 80 per cent (and therefore with even lower functional literacy



rates, especially among women) is a mass campaign to eliminate functional illiteracy among young adults. Such a campaign should use a national network of educational facilities, include free meals and possibly reimbursement of other expense for participants, and be linked to actual or potential income generation activities.

- Public works programs. Public works programs are better seen as counter-cyclical safety-net systems than as active labor market programs that assist in redeployment. They are substitutes for unemployment benefit or income support systems in countries that cannot afford such systems. If properly designed, with low wages in relation to market rates, they can not only perform this role of a guaranteed employment scheme for the disadvantaged of all ages (and build and maintain assets for poor communities), they can also be used to identify a self-selecting sample of young workers who are most in need of other labor market programs. Innovative programs, involving public/ private partnerships, can also be designed for specific groups (orphans, the disabled, ethnic minorities), along the lines of the mail delivery services set up in Azerbaijan and Albania (Box 2).
- Wage subsidies. Wage subsidy programs have shown that they can work for young people. They can, like the *Proempleo* Experiment in Argentina (Box 1 above), select their beneficiaries from participants in public works programs. They can also target particular groups, offering wage subsidies to employers who employ young disabled workers or members of a particular ethnic group.
- Subsidized credit provision. Other types of curative active labor market program are less convincing. Credit programs do not often reach out to the less privileged, and when they do they are usually aimed mainly (and probably wisely) at mature workers and businesspersons rather than at the young. Admirable programs with vast resources can achieve reasonable outcomes, but no comparisons of the cost of such programs with their impact in developing and transition countries have been found. In general, the provision of credit and other support to the disadvantaged young does not seem to be an efficient way of alleviating their employment problems.
- Skills training. The message about pre-employment skills training programs for young people is similar. Youth training is the least successful type of training in North America

and Scandinavia. In transition countries a small positive impact is likely to be outweighed by the considerable costs of such programs. The only rigorous evaluations of youth training programs in developing countries (in Latin America) are negative. Programs which involve enterprises and low-cost rural training provided to people who are already working may be exceptions. But in general disadvantaged young people in developing and transition countries would not find many training courses that would give them a high private rate of return (the criterion on which such courses should be judged). Even if they found them, they would have difficulty in being admitted to them. And returns on such training depend crucially on the state of the economy – most training courses can only succeed against the background of a high rate of growth in demand for labor. The verdict of Revenga et al. (1994) on youth training in Mexico may be more widely applicable, and is worth repeating: 'it may be more appropriate for the government to provide adult basic education, facilitate return to school for the young, or to introduce firm-based apprenticeship programs to give work experience to new entrants into the labor market'.

- The double criterion for evaluations. The double criterion for evaluating curative interventions, usually called Active Labor Market Programs, needs to be reiterated. (i) Every program that involves the spending of public money should pass a *social* benefit/cost test. (ii) Every program that is supposed to help disadvantaged young people should offer them a high *private* rate of return. Programs that do not meet the first criterion are cheating taxpayers; those that do not meet the second criterion are cheating clients – in effect, perpetrating a confidence trick on some of the most vulnerable people in any country. Rigorous evaluations are needed: in most developing countries there are none. Equally important, if rigorous evaluations are carried out, they need to be acted on: too many governments of OECD countries, for instance, have ignored the accumulation of negative evidence about rates of return on pre-employment youth training.

(c) *Overview of policy priorities*

The mix of preventative and curative policies that will be needed will depend on local circumstances. In all cases, top priority should be given to achieving a healthy rate of increase in the overall demand for labor, especially wage employees. Improvement in the

provision of information and counseling, as a remedy for labor market failure in general and as a way of preventing the emergence of large-scale educated unemployment in particular, is also likely to be a universal priority. The extent to which integration of the national labor market is needed will vary, but many countries will share the need to address the residential, educational and life-style segmentation of the urban young. Almost as important as the need for fast growth in labor demand is the need to deal with the functional literacy crisis among the young (especially women) in developing countries and the lack of more broadly defined literacy skills in transition countries.

The sequencing of policy is also an issue. In the short term, the emphasis could be on safety net systems such as guaranteed employment schemes and the more effective active labor market programs such as wage subsidies. In the medium term, the benefits of measures to increase the overall demand for labor and, in countries that need it, of a mass youth literacy campaign, would begin to be felt. As growth picks up, skills training programs may begin to meet the double evaluation criteria, and may be justifiable at least until a national training system with a 'pro-disadvantaged' bias is developed. In the longer term, the benefits of an improvement in access of disadvantaged children to high-quality schooling would begin to be felt.

Constraints on the implementation of policy have to be recognized, however. These include finance (given low taxable capacity and in many cases debt burdens), the impenetrability of social structure (for instance, the entrenched urban gang culture in many countries), and lack of political support for interventions in aid of disadvantaged youth (as opposed to advantaged youth such as university students) other than visible but largely ineffective youth labor market programs. Any interventions in this area by outside agencies will have to pay particular attention to their political feasibility.

(d) *Key data needs*

Three dimensions of disadvantage will need special attention in studies of youth employment problems – ethnicity, disability and social background. The collection of data on ethnicity is in conflict with human rights legislation in some countries, but it is crucial for the development of policy, and ways of collecting it which will meet such concerns need to be constantly explored. Collection of data on disability raises even more problems. The

International Classification of Functioning, Disability and Health (ICF), developed by the WHO over the past eight years, has potential for use in labor-force surveys and in the development of employment policies and programs for disabled youth, but is still at an experimental stage. Social background is in principle easier to measure, and household surveys could usefully include more sophisticated questions, which would enable the two sets of data about the household and its individual members to be related to each other in a more interesting way.

In addition, a minimum format for regular diagnosis and monitoring of the employment problems of disadvantaged young people (using education level as a proxy for several kinds of disadvantage) is set out in Table 13 above. This involves collection of data on pattern of population, open unemployment, non-employment and wage-employment rates, and average earnings, by age group, sex, highest level of education and location (urban/rural). Hard work is needed to improve the availability and quality of even these relatively simple indicators. A review of all household surveys with an individual-record-based labor-force component is needed, to ensure that they ask the questions relevant to these indicators and that the definitions used are standardized across countries. A start could be made with the surveys that are financed by the Bank and other funding agencies.

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