The Private Sector and Youth Skills and Employment Programs

The Private Sector and Youth Skills and Employment Programs in Low- and Middle-Income Countries

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Summary

Public interventions to improve youth labor market outcomes are motivated primarily by the presence of market failures as well as equity concerns. Market failures occur when the labor market and the market for skills provision do not, on their own, yield economically efficient employment outcomes. For example, because a firm's investment in training its workers may end up benefiting other firms if the workers leave, firms on their own tend to underinvest in training from a societal perspective. Another source of market failure is imperfect information, in which employers lack adequate information on the skills of potential employees, hindering efficient matching of workers to firms, or in which both youth and firms lack knowledge of the benefits to skills training or what kinds of training would be most useful. There may also be imperfections in capital markets, such that firms or workers cannot borrow to make profitable investments in training or to start a new business. Many of these problems are especially severe for youth; for example, youth lack work experience that could signal their skills to employers, and also lack collateral that would enable them to borrow to start an enterprise. Governments also have equity objectives that markets alone will not achieve and may even work against, requiring intervention. For example, disadvantaged youth require more training to achieve job skills than other youth, and more than firms find it profitable to provide.

Active Labor Market Programs (ALMPs) are designed to overcome these market failures, but often suffer in turn from "government failure." ALMPs on the labor supply side include programs to improve skills, including traditional vocational and technical training (TVET), "soft" skills, internships, and other kinds of training; and programs to promote entrepreneurship, that is, to help youth to start their own businesses though training or provision of finance and support. On the side of labor demand, programs include wage or employment subsidies paid to firms to hire youth workers. Mediating between labor demand and supply are employment services that provide information to employers about workers and to workers about openings in firms, as well as counseling and other services. While these interventions are each designed to overcome market failures (for example, underinvestment in training, lack of information), governments often fail to implement them well. A chief problem is lack of

accountability, whereby public agencies are not incentivized to provide high-quality services as well as, in the case of vocational training, to respond to specific skill needs of employers. These failures increase the appeal of public-private linkages, because in many cases the private sector can act to compensate for government failures.

Private sector involvement in youth skills and employment take many forms but can be characterized as variations of public-private partnerships (PPPs). Although definitions vary, PPPs may be defined as a form of cooperation between the public sector and private sector actors such as businesses working toward a common goal, while sharing risks, resources, and competencies. More generally we can speak of "intersectoral partnerships" because these arrangements frequently also include nongovernmental organizations (NGOs) and other civil society organizations. Partnering with the private sector in youth training or employment initiatives is motivated by the need to ensure that the development of skills reflects actual or future needs in the labor market. PPPs can also overcome "government failures," for example, accountability failures can be compensated by relying on incentivized private providers to make training services more effective. For policymakers, the benefits may also be financial as the private sector, in particular multinational companies, may be able to inject substantial resources into local training or other youth-related programs, often combined with resources from multinational or bilateral aid agencies.

The motivations for *firms and employers* to become involved in youth employment programs will vary depending on the nature of the firm, with important implications for policies. Many *multinational firms* are heavily involved in ALMPs in partnership with local governments, and also often with NGOs and domestic firms. Most of these interventions involve training, but others involve entrepreneurship promotion. The motivations of MNCs may be complex, reflecting both reputational or corporate social responsibility (CSR) objectives as well as more standard direct productivity or commercial benefits—that is, to have a better-skilled workforce or more reliable supply and distribution networks for their in-country operations. *Larger domestic formal sector firms,* including manufacturers and service providers, are similarly involved in training initiatives to ensure skilled labor, and also often engage with job-placement services. An important additional form of public-private partnership involving such firms has been national (and sometimes, subnational) level planning for youth skills development and employment with the primary goal of ensuring that the skills are matched to employer needs. *Small and medium enterprises,* many of them in the informal sector, are also engaged in youth employment programs but to a lesser extent than larger firms. The main focus of involvement of smaller firms is training, but an additional motivation to work with the public sector is to upgrade and formalize, and credentialize, apprenticeship systems that are an important source of vocational training in the informal sector.

A range of factors constrain firms' participation in youth employment initiatives, including costs, externalities, and lack of information. It is important to take into account the costs—both in terms of financial resources and time—that firms face when participating, even when a program is largely subsidized by the government or donors. Smaller enterprises may face larger barriers to participation because of higher costs relative to benefits, lack of information, and lack of technical resources. Externalities also loom larger for smaller firms' involvement in training programs, because higher turnover means the returns to a firm's investments in workers are more likely to be realized by other firms. Finally, the presence of myriad small firms in a given sector raises difficulties for collective engagement in organizing and financing interventions. Experience bears out the idea that participation is more of a challenge for smaller enterprises, and program design needs to account for this, particularly in view of the important role of such firms in generating employment for youth in low- and middle-income countries.

Turning to evidence of effectiveness, evaluations indicate that training interventions that closely involve employers to ensure they are demand driven yield benefits with regard to youth employment or incomes. Key modalities for this involvement are the provision of internships for on-the-job skills and employer participation in training curriculum design. Evidence further indicates that programs that combine training with employment or job-placement services—that is, comprehensive approaches—are the most effective. At the national level, public-private engagement in reforming systems for skills development to align with current and future labor market demands is another key modality for private sector engagement in demand-driven skills development, with some notable high-profile success in East Asia. These partnerships are often motivated by the desire to develop national qualifications frameworks (NQFs), which can enhance labor market functioning for youth by providing clear signals to employers of their acquired skills.

The use of private (for-profit) providers to deliver TVET and other job skills training in a managed competitive framework can improve efficiency, quality, and coverage. For entrepreneurship training and employment services as well there is some evidence that contracting out for private provision of services will lead to improved efficiency and quality. Although contracting out services to private firms may bring gains in efficiency and competition, it also requires adequate oversight, hence institutional capacity, on the part of the public sector. This also is essential to meet social objectives, because profit-making service providers tend to focus on youth who are easier to train or easier to place in jobs. A number of countries are instituting independent public (apex) authorities to manage competitive training systems with many providers. These have proved effective in many contexts, but may not work well when local capacity to manage training systems is absent. More experience with, and assessments of, apex bodies is needed.

Despite the benefits of private sector involvement, engaging employers in training and other youth employment interventions has proved to be a challenge in many cases. In the area of training, some initiatives failed to attract the participation of many firms, with the result that the programs were less demand driven than they could have been. Participation seems to be most constrained or limited among smaller employers, for whom costs may be higher, and capacities and information lower. In the area of high-level skills planning, many initiatives for national qualifications frameworks (NQFs) development have failed to attract adequate levels of employer participation.

Problems of signaling acquired skills to potential employers are particularly acute for informal training. In many developing countries, much or most training of youth is done through apprenticeships in the informal sector rather than through separate formal training institutions. Informal training typically provides no standardized certification. It would benefit both youth and employers to extend to apprenticeships the kind of skills certification systems normally applied to formal technical training. In practice, this has proved challenging because of the complexities of upgrading apprenticeship training and integrating it with formal technical systems. This remains an area for experimentation and assessment, and any new measures would need to have the strong cooperation of informal firms. Potential obstacles or unintended impacts need to be considered, including difficulties informal employers may face in meeting new and higher training standards. Employers might also be less willing to take on apprentices if apprentices, once certified, can effectively signal their skills to other employers, hence move to new jobs.

Multinational firms have been prominently involved in training through multisectoral partnerships with NGOs, governments, and—sometimes—local firms as well. These partnerships often impart vital capacity in dynamic or sophisticated sectors of the economy. To date there have been few rigorous impact evaluations of such programs. Because MNCs often invest in youth programs for reputational or CSR reasons rather than for direct productivity reasons, attention needs to be paid to whether the resources are being directed to real skill needs of the economy.

Entrepreneurship training has been shown to be able to increase rates of economic activity and business start-ups among youth, and sometimes their incomes as well. These positive outcomes result when training is combined with mentoring, support services, and financial assistance to start an enterprise. Provision of credit through microfinance to youth entrepreneurs has not yet been well evaluated. There is some evidence that providing outright grants rather than credit for starting a business will be more effective for youth, if also more expensive.

While multinational firms and foundations have provided substantial support for entrepreneurship promotion interventions, less is known regarding the levels of and effectiveness of the participation of the domestic private (business) sector for these programs. A number of international NGOs such as Youth Business International, International Youth Foundation, and Plan International have achieved wide coverage of entrepreneurship promotion programs in low- and middle-income countries, often with the support of multinational companies' CSR programs. Domestic firms' motivations to participate may be more limited because these programs are designed to generate entrepreneurs rather than a skilled workforce for their businesses. There have been mixed successes in encouraging local businesspeople to engage as mentors or trainers; finding effective ways of encouraging such engagement should be an area for future research.

Integrating youth entrepreneurs into value chains is a potentially important way to promote youth livelihoods, but it needs to be assessed. Multinational firms that require reliable local supply and distribution networks are increasingly involved in promoting businesses and quality standards in these networks. Agriculture is a natural focus for value-chain development to benefit small enterprises because agribusinesses often rely on a multitude of small farms as suppliers. As a means of encouraging youth entrepreneurship, these approaches hold promise but require careful evaluation. One question is whether MNCs would find it profitable to promote youth in these areas as compared to older individuals or established businesses. Further, it is not clear that targeting value chains of MNCs is an effective way to improve youth livelihoods at scale, relative to wage work or more general promotion of self-employment or entrepreneurship. However, youth-inclusive value-chain development in agriculture may have significant potential for scaled impact.

Employment services for youth, which match job seekers to firms while also potentially providing a range of individualized counseling services, can be especially cost-effective but are currently limited in coverage and quality. Most countries have some form of public employment services (PES) to carry out these functions, but they are often very poorly resourced, with very high caseloads per staff member. Overall, only a small percentage of young people in low- and middle-income countries find work through this means, instead relying on informal networks and connections. There is some evidence that relying on private providers of employment services through results-based contracting improves coverage, quality and outcomes, and a small but growing number of low- and middle-income countries are using this approach. Further, private providers can be a source of innovative solutions; one example is SoukTel's application of text messaging announcements to youth who may lack Internet access. However, private providers tend to serve different groups of job seekers—typically, those with more skills—than public services. Therefore authorities need either to set targets for other groups such as disadvantaged youth and monitor outcomes, or ensure that public employment services serve these groups.

Close and active engagement with employers to understand their needs will be important to ensure that firms find employment services useful. There needs to be an active partnership between firms and the employment agency rather than just a passive posting of vacancies. Further, special efforts need to be made to involve informal employers in employment services, as employment agencies currently focus largely on larger formal employers. This remains an important limitation, especially in contexts in which most new jobs are in the informal sector. However, it is more costly, all things equal, for employment services to work with many small employers. To overcome the challenges and costs of doing so, employment agencies could work with business associations for specific sectors that would compile the needs of member enterprises. Expanding the participation of employers in employment services beyond current limited levels is an important objective, and more research is needed to understand how to increase this engagement in countries where capacity to provide such services is limited.

Wage and employment subsidies appear to be successful at getting youth into first jobs, but their long-term benefits are uncertain. These interventions operate on the labor demand side through financial incentives to employers to hire young workers; the subsidy compensates firms for the lower productivity of new workers and the costs of training them on the job. Further, the subsidy provides a low-cost means by which firms can screen new workers, an important consideration for youth, who lack employment experience. While there often seem to be short-term hiring benefits, longer-term impacts for young workers hired through such programs are not as clear. For these objectives to be met, the firms must provide the youth with substantive on-the-job experience and/or training so they will be employable once the period of subsidized employment ends. Among the small number of evaluated wage subsidy programs, this occurred in only some cases. Further, several evaluations provide evidence of deadweight loss (that is, the same number of workers would have been hired even in the absence of the subsidy) or substitution effects (in which youth hired under the subsidy simply replace older workers). To ensure that youth hired through wage subsidies are given meaningful training and experience, the program could be designed to pay the subsidy conditional on keeping the youth for a minimum period, or alternatively, firms could be given the subsidy to hire youth who have completed a separate training program.

As with other youth employment interventions, there is a question over the degree of employer interest and participation in wage subsidy programs. In several evaluated programs in which youth hiring increased, this seems to have occurred through increased labor supply on the part of the youth participants, rather than because employers were incentivized by the program to hire more youth. The reasons in several cases appear to be administrative burdens on the firms, or their uncertainty regarding obtaining payment. A higher subsidy might overcome the barriers, but it would be better to simplify procedures for getting payments or tax reductions.

The evidence reviewed in this study point to a range of factors that may lead to the success of public-private partnerships for youth employment, as well as factors that constrain success. *Constraining* factors include long-standing lack of trust or confidence in the government on the part of firms, different expectations and operating styles of firms and public partners (and NGO partners), slowness in achieving results in a cooperative partnership, potential imbalances in decision-making power based on relative resource contributions or capabilities, and inadequate resources and problems of sustainability. *Success* factors or "best practices" include adequate planning with sufficient time to develop relationships with private sector partners, a clear specification of roles and expected outputs and their timing, a shared commitment to change, the presence of leadership with adequate influence to effect changes, patience (hence realistic timelines for outputs and ultimate goals to be achieved), and frequent interaction between the partners. It is important in developing such partnerships to recognize that the goals of private firms and of the public sector will not, as a rule, be perfectly aligned.

While numerous questions for research emerge from this review, an overarching conclusion is that more evaluations of a range of programs are needed. There have been many impact evaluations of youth employment interventions, though more are needed and more emphasis needs to be placed on cost-effectiveness. However, few have been designed to assess the efficacy of different forms of private sector engagement, whether in training, employment services, or entrepreneurship promotion. In addition, in light of the frequently low rate of employer participation in these initiatives, evaluations should be developed to assess different ways of incentivizing or encouraging firms' involvement. Other questions, for example involving the optimal, context-appropriate institutional arrangements for public-private partnerships, require different, less formal, approaches to assessment.

With respect to programming for youth skills and employment, a number of design implications emerge with respect to involving the private sector:

- Skills training programs should incorporate substantial engagement of employers in their design and operation (including through internships). The importance of such engagement to ensure the labor market relevance of training is the clearest of all the policy conclusions emerging from this review.
- Efforts need to be made to improve the signaling of skills in the labor market for youth (and others), and employer input and buy-in essential in these efforts. Standardizing curricula

and diplomas, and instituting skills certifications are the key ways to improve signaling. The implementation of NQFs in many countries has not been successful in part because of problems of employer engagement in the development of, and their acceptance of, these competency frameworks.

- Extending certifications of skills to informal training is particularly challenging but important in contexts like much of sub-Saharan Africa, where such training is significant. Training authorities must engage informal employers or employer associations closely for this purpose.
- Soft skills, like cognitive skills, are very important to employers. However, firms generally will not provide training in these skills, which are highly transferable across employers. Therefore they will need to be provided by the public sector or NGOs; the latter have been particularly active in providing soft skills training to unemployed or vulnerable youth.
- The design of partnerships and programs for youth employment must carefully take into account the motivations and constraints facing the firms that are expected to participate. In devising and implementing partnerships between governments, employers, NGOS, and others, best practices from experiences around the world should be drawn upon.[1]
- Employment services should be improved and expanded. Such services, which are potentially cost-effective, need both to be expanded to allow more youth and employers to be served—including informal employers—and reoriented toward being more of a partnership with employers as opposed to simply a means for passive posting of job announcements. A partnership approach would closely engage with employers or associations of employers to identify and help them to articulate their personnel needs.

Beyond the design of specific programs, broader policy measures that governments can take to enhance effective private sector participation in skills development and employment include:

- Work with employers to improve national systems for workforce development, including development of appropriate curricula for training and NFQs for skills certification, if feasible. If development of NFQs is not possible for capacity or other reasons, governments should still engage employers on a regular formal basis to provide inputs into training and education systems to ensure their relevance.
- To enhance on-the-job training by firms, consider replacing systems based on providing employers with rebates from payroll taxes or levies, which are relevant only to formal sector employers, with payments from general revenues, such as reimbursement, matching payments, or vouchers. Each of these alternatives makes it possible for informal firms, which do not pay payroll taxes or levies, to benefit from the subsidies.
- To further increase the involvement of smaller and informal firms in youth skills and employment initiatives, engage—and if necessary, help to develop—business associations representing numerous small enterprises.
- Set up advisory councils to provide advice and technical assistance to businesses in the area of training and other aspects of youth skills and employment. These councils could help

1 The recently launched initiative Solutions for Youth Employment (http://www.s4ye.org) seeks to facilitate this process by disseminating evidence about successful programs and providing guidance on forming partnerships with stakeholders and implementing interventions.

organize firms' on-the-job training activities, and facilitate their participation in employment services or internships and wage subsidy programs. They will be especially valuable to smaller businesses with fewer resources or information.

- When building partnerships with the private sector (and NGOs, and other stakeholders for youth employment), draw on the growing evidence on best practices in such partnerships based on experiences around the world.
- Encourage the use of private providers of services for training and employment placement, while taking steps to ensure that there will be adequate oversight to achieve quality and social goals such as equity. An effective model is one in which the public sector allows firms (and even government agencies) to bid competitively for contracts to provide the services, and takes a financing and oversight rather than direct provision role.

Measures that donors and lending agencies could consider include:

- Require that the youth skills and employment initiatives they support incorporate private sector participation for interventions for which the evidence suggests it is important. However, the level and intensity of any required employer involvement should depend on the capacity of the country to manage this interaction. In contexts where capacity is weak and there is little institutional tradition of public-private cooperation, imposing intensive public-private partnerships would not be appropriate; instead there could be requirements or guidelines for engaging employers in more limited ways.
- Provide technical advice and capacity-building on public-private partnerships. Given the difficulties in implementing successful PPPs, especially where this type of collaboration has not existed before, this assistance would be especially useful. Agencies do advise on PPPs, but the focus has traditionally been on financing infrastructure development, with some recent attention to education and health.

Firms engaged in youth skill development and employment through CSR or other programming, or considering doing so, can take a number of steps:

- Use the available evaluation evidence, and work with NGO and other partners on the ground, to determine what to fund or implement in a given context.
- Support rigorous impact evaluation of the projects. To date there have been few such evaluations of MNC-sponsored programs for youth, in contrast to other interventions for youth employment.
- Continue to innovate and test value-chain integration and shared value approaches to youth entrepreneurship and employment. These are potentially high-impact approaches, especially in agriculture, but it is important to be realistic about these approaches—and careful evaluation is essential.
- Share best practices and evaluation findings so that other firms that are doing, or hoping to do, similar activities, will benefit. Such sharing may not always align with standard corporate practices, but will increase the global level of knowledge and the effectiveness of corporate resources allocated to youth initiatives.

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Abbreviations

AfDB	African Development Bank
ALMPs	Active Labor Market Programs
CSR	Corporate Social Responsibility
EPAG	Economic Empowerment of Adolescent Girls
ICT	Information and Communications Technology
ILO	International Labour Organization
IYF	International Youth Foundation
MENA	Middle East and North Africa
MNC	Multinational Corporation
NQF	National Qualifications Framework
NGO	Nongovernmental Organization
NSDC	National Skills Development Corporation
OECD	Organisation for Economic Co-operation and Development
PES	Public Employment Service
PPP	Public-Private Partnership
S4YE	Solutions for Youth Employment
SMES	Small and Medium Enterprises
SMS	Short Message Service (text messaging)
TVET	Technical Vocational Education and Training
USAID	United States Agency for International Development
YBI	Youth Business International
YEI	Youth Employment Inventory

Chapter 1

Introduction

Getting youth into productive employment is an urgent policy issue for countries around the world. A successful transition to the labor force is essential for young people to be assured of success in life, but many young people encounter significant obstacles to this transition. Youth are three times more likely than adults to be unemployed; worldwide, almost 73 million youth are looking for work. In the wake of the financial crisis at the end of the last decade, the share of youth neither participating in the labor force nor enrolled in school has been increasing. In some regions, slow economic growth hampers the ability of the economy to absorb growing numbers of labor force entrants, especially in formal sector jobs. In many countries, serious shortcomings with regard to necessary skills for the labor market have been identified as a cause for high and persistent youth unemployment.

Many governments in low- and middle-income countries are actively engaged in policies to help youth attain the skills they need to do well in work and in life, as well as to find suitable employment. The range of policies is wide and includes skills training, employment intermediation services to place workers with firms, self-employment promotion, and subsidies to firms to hire youth, among others. The record of success for such efforts in low- and middle-income countries is mixed (Betcherman et al. 2007, 2004)—as it is in high-income countries—and efforts to understand this record and improve program efficacy continue.

Increasingly, it has come to be recognized that private sector firms and employers have a vital role to play in developing and implementing these programs and in planning national strategies for skills development. There are several reasons for this. Partnerships with firms can inject resources beyond what strapped governments can muster for these programs, and private providers of services like training might be more efficient and responsive to the needs of the labor market. The most important factor, however, is the realization that only with active

engagement of employers can the development of skills, both in schools and training programs, be aligned with actual requirements in the labor market. In many countries, the effectiveness of technical vocational education and training (TVET) systems has suffered by being heavily driven by the supply side, with curricula and standards developed without substantial input from employers, hence without appropriate incorporation of the needs of the labor market (Dunbar 2013).

The private sector can be—and has been—involved in multiple ways to promote youth employment and skills, including but not limited to:

- Partnering in initiatives to train youth by providing funding, developing course content, contributing to teaching, and providing on-the-job experience to trainees
- Funding entrepreneurship promotion programs, and supplying credit, grants, and technical assistance to young entrepreneurs
- Engaging in high-level planning for training and employment strategies with government and other stakeholders
- Supplying training services under competitive contracting with the public sector or with employers
- Developing inclusive value chains in agriculture and other sectors involving young entrepreneurs

The involvement of the private sector in youth skills development and employment is a complex issue, not just because the modalities of this involvement are diverse, but also because the nature of the firms and their motivations vary significantly. Multinational corporations operating in low- and middle-income countries might be motivated by direct productivity or profit objectives—to secure a skilled workforce, or reliable suppliers—but also, or even primarily, by corporate social responsibility (CSR) factors. In contrast, domestic firms may be more focused on ensuring an adequately trained workforce. Firms that supply training or employment services will be driven by profit considerations when entering these markets and deciding what services to offer and to whom.

The purpose of this paper is threefold: (1) to provide a comprehensive look at the way the private sector is involved in youth skills and employment in low- and middle-income countries, considering the broad range of program types and firm types; (2) to present and interpret the available evidence of the effectiveness of this involvement; and (3) to understand where the private sector has been most effective at promoting young people's labor market success, and what could be done to enhance the role of the private sector to achieve this objective. In attempting to understand firms' engagement and effectiveness, we draw on a basic economic framework that considers this behavior in light of factors such as costs, perceived returns, information, and externalities.

This is hardly the first study to consider the private sector's engagement in youth skills and employment or, more specifically, public-private partnerships for skills and employment. It is also far from the first paper to review the evidence of various labor market interventions for youth. However, the extant literature lacks a comprehensive overview and assessment of the private sector's role in this area. Instead there are reviews of that role in specific sectors such as skills training (Dunbar 2013); studies of specific forms of public-private partnerships such as those involving multinational corporations (Reese et al. 2002); and a number of general reviews of youth interventions that are not focused on the private sector, including both interpretive reviews (Betcherman et al. 2007; Bertrand et al. 2013) and statistical meta-analyses of impact evaluations (for example, Cho and Honotari 2014; Fares and Puerto 2009). Therefore the current paper fills a gap by providing a comprehensive picture of the private sector's role in interventions and policies to support youth employment.

Organization of the Report

The report is organized as follows. Chapter 2 provides background to the analysis of the private sector role in youth employment in low- and middle-income countries. It presents a standard typology of active labor market programs (ALMPs) and a discussion of the market failures that lead to a need for the public sector to provide such programs, as well as a discussion of "government failures" that limit the effectiveness of public programs; the presence of both sources of failure is a strong rationale for programs that link private- and public sector actors. The chapter then provides an overview of private sector involvement in youth skills development and employment, centering on ALMPs but also including broader engagement with the private sector in strategic planning for skills and youth employment. Various forms of public-private partnerships (or, more generally, intersectoral partnerships) are discussed. In considering how firms are involved in different youth skills and employment programs, we maintain a distinction between multinational corporations, large domestic firms, and small and medium domestic enterprises. We discuss how both the types of involvement and motivations for involvement differ in important ways for these different kinds of firms. We also consider the potential constraints on firms' participation in youth employment initiatives, which also will differ by the type of firm.

In Chapter 3 we characterize the private sector's role more systematically using the Youth Employment Inventory, a global database of interventions that are designed to integrate young people into the labor market. Again, we consider private sector involvement by type of firm and type of intervention.

Chapter 4 reviews the evidence of effectiveness of youth interventions involving the private sector. This review draws, where possible, from the literature on quantitative impact evaluations by intervention type. For each category of program, the review considers the general evidence for effectiveness of the intervention before reviewing the (more limited) evidence for the effectiveness of role of the private sector in these interventions, whether as employers or as providers of training and other services. We also consider process evaluation and case study evidence, which provides insights into the factors conditioning the level and effectiveness of private sector participation in different kinds of youth programs.

Chapter 5 briefly draws together strands from the previous review, as well as from the broader literature, to gain an understanding of the institutional and other factors leading to (and in other cases preventing) successful public-private partnerships for youth employment. Chapter 6 summarizes the main findings of this review, and is followed by a discussion of key gaps in knowledge on the role of the private sector in different types of youth employment intervention that future research should attempt to address, and a review of the main lessons for policy and programming emerging from the study.

Defining the Private Sector

Before continuing, we should clarify what we mean by the private sector. Our concern in this report, as noted, is on the participation and effectiveness of private *firms* (or associations of firms) in youth skills and employment promotion. Thus we are concerned with the private business sector, not with all nongovernmental entities (for example, not NGOs, other than to the extent to which they link with firms).[2] The private business sector itself is very heterogeneous, with important implications for firm behavior and policies. As noted, we distinguish between multinational corporations, large formal sector domestic firms, and small and medium enterprises (many or most of which will be in the informal sector). These types of firms will differ with respect to their motivations for participation in youth interventions, their mode of participation (for example, funding or direct involvement in implementation) and their constraints to participation. It is also important to distinguish firms that participate in their role as potential employers of youth, those that act primarily as benefactors through corporate giving, and those that are private service providers that contract with the public sector to provide training, job placement, or services related to youth skills and employment.

What the Report Is Not About

This study focuses on the role of private firms in youth skills and employment *programs*—initiatives that are conceived or operated in collaboration (to one degree or another) with government or, sometimes, with NGOs. Private firms, of course, hire and train youth employees on their own, outside of any programs to promote these outcomes. However, our starting point (elaborated on in Chapter 2) is that such private activities—as well as the behavior of young people and families themselves—are inadequate to meet the training and labor market needs of youth, so public intervention is necessary. Reflecting this, the public sector in many countries is indeed heavily involved in training, employment services, entrepreneurship promotion and employment generation for youth. Given this involvement, we focus in this paper on how the private sector interacts with the public sector in such programs.

This paper's scope does not extend to macroeconomic policies, regulatory policies or investment climate issues, all of which importantly condition firms' propensity or ability to invest, expand, and hire workers—including youth. It is certainly true that a major—and ultimately, perhaps, the most important—means by which satisfactory outcomes for youth employment can be assured is through sustained economic growth and employment creation by the private sector. However, this report focuses on more proximate policies and actions in training and the labor market, which clearly have an important role to play—though, as we will note at various points, the success of these programs will depend on larger conditioning factors.

Ultimately, the aim of training and employment programs is to get youth into productive, remunerative, and fulfilling employment. Therefore both access to work and the quality of the jobs obtained are important outcomes. Quality may be variously defined. The International Labour Organization's Decent Work concept, for example, encompasses work that is productive and provides a fair income, workplace security, and social protection for families, and prospects for personal development and social integration, and treats men and women equally.

2 NGOs, both local and international, play a major role in youth employment programs, especially in training and, more recently, intermediation (employment services and career guidance).

Unfortunately, most of the evaluations reviewed in this paper do not consider outcomes beyond employment status and (sometimes) income, so it is usually not possible to judge outcomes according to a broader definition. However, access to formal employment (typically considered superior with regard to pay, benefits, and work conditions) is sometimes considered, and many programs evaluated are involved in training for occupations that are either formal or otherwise technical and well paying. Therefore we will be able to consider, at least to some extent, the quality of work that results, or may result, from interventions.

Finally, in many low- and middle-income countries the private sector, including through prominent initiatives of multinational companies, is involved in a wide range of activities for betterment of youth, not just training or employment. For example, companies might support programs to provide services or knowledge of health and reproductive rights, prevent early marriage, and ensure other rights of young people. These activities also fall outside the scope of this report.

Chapter 2

Active Labor Market Interventions for Youth and Characteristics of Private Sector Participation

2.1 Types of Programs for Youth Employment

Active labor market programs (ALMPs) are defined as policies to improve the employment prospects of unemployed individuals, both youth and others. They are distinguished from passive policies, which involve income support to the unemployed rather than direct action on employment. A standard typology of interventions, used in the Youth Employment Inventory (YEI) (http://www.youth-employment-inventory.org/) and elsewhere, divides programs into three main categories: those that operate on the labor supply side, those that operate on the labor demand side, and those that mediate between labor supply and demand. Table 2.1 shows programs on the supply side intended to improve the skills of workers. These can include technical vocational education and training (TVET), internships in firms to gain work experience, and a range of other kinds of training. The last category includes training in soft skills, literacy or numeracy training, and "second chance" programs for those who have left school early. A different subcategory under skills development is the provision of credit or subsidies to youth to help finance this training.

Also on the supply side are programs to promote entrepreneurship, that is, to encourage youth to start their own businesses. These include training in business management and related subjects (such as financial literacy); apprenticeships; provision of technical assistance, mentoring, and supplies; and provision of grants or credit to start a business. They also include initiatives to promote the involvement of young entrepreneurs in value chains as suppliers of goods or services to larger firms or as retailers of products made by such firms.

TABLE 2.1: Active Labor Market Programs for Youth

Main Categories	Subcategories
Skills training	Vocational training On-the-job training/internships Other training (soft skills, literacy/numeracy training, 2nd chance/ equivalency programs, etc.) Financial support to trainees through training subsidies or access to credit (for example, vouchers) Access to certification/accreditation
Entrepreneurship promotion	Entrepreneurship training and apprenticeships Other training (numeracy, literacy, financial) Financial assistance/credit for entrepreneurs Technical assistance (advisory) Value-chain integration promotion
Employment services	Job search/information provision and counseling/placement assistance Financial assistance for job search
Subsidized employment	Wage or hiring subsidies to firms to hire youth Public works/employment guarantee/voluntary service program

Source: Adapted from Betcherman et al. (2007).

On the demand side, as shown in Table 2.1, programs include wage or employment subsidies paid to firms to hire youth or others, and public works programs that directly provide short-term public employment. Intermediating between labor demand and supply are employment services. These include relatively passive services to match individuals to employers, such as posting job openings and sending CVs to firms, and more active engagement through career counseling and advising on how to search for a job, providing financial assistance for job searches, and working closely with employers to understand their labor needs.

It is important to note that private sector involvement in youth skills and employment potentially goes beyond involvement in specific ALMPs. Most notably, it can include participating with the public sector and other stakeholders in national planning for education and employment policy, with the most common focus on skills development and creation of national qualifications frameworks. This report will cover these as well.

2.2 Public Sector Intervention in Youth Skills and Employment

2.2.1 Market Failures

Although the focus in this paper is on the private sector's role in various initiatives, it is not possible to consider public-private partnerships without first understanding the role of the public sector. The labor market programs of the types just listed, in which the private sector may be engaged, involve to varying degrees *public sector* intervention in the labor market (or more broadly, in the labor market and skills provision). The primary rationale for this involvement derives from the presence of market failures, which in skills development and employment take several forms:

Externalities: When skills obtained through employer-provided training are transferable to other firms, the employee can move on to a different firm, with the result that the original employer does not capture the full benefit of its investment in training. The benefits accrue in part to the firm that has "poached" the worker, which is essentially "free riding" on the investment made by the firm that paid for the training; this constitutes the externality. If the skills are highly specific to the firm (for example, operating a dedicated technology or software specific to the company) this is less of a concern, as the trainee has significant incentive not to move on. In sectors where there is high turnover, however, employers rightly fear they might not fully benefit from their training investments. Because their private returns are less than the overall social (productivity) returns to the training, they invest less than the optimal amount from a social point of view.

Several programs shown in Table 2.1 address this source of market failure and the consequent under provision of training. The government can directly train workers or provide training subsidies to workers or firms to increase the provision of training. Training is often financed through general tax revenues or levies placed directly on firms, which can serve to overcome the free rider problem because financing is done collectively. Other policies include encouraging or enforcing employment contracts that ensure that workers stay with the firm post-training for a sufficient period, or encouraging cooperative associations of firms in a sector to share training costs (because trainees are likely to stay within the industry even if they move between firms).

Coordination failures: A different kind of market failure occurs when the realization of the benefits to training (or other actions related to skills and employment) for workers and firms depends on both parties taking action simultaneously, but there is no mechanism to coordinate their actions to ensure that this happens. For example, innovation in certain sectors requires a workforce with high-level technical skills. However, individuals will seek training in these skills only if there are enough innovating firms to provide sufficient market demand for them; for their part, firms will not become innovators unless there is already a supply of such skilled labor. To compensate for these coordination failures, governments can (as above) subsidize training, with a focus on specific sectors.

Coordination failures can also explain inadequate provision by the market of other employment-related services. For example, for a private firm to set up a job-placement service to match workers and firms, it requires that there be sufficient numbers of employers willing to use such services instead of more traditional means such as informal networks; on the labor supply side, it requires sufficient numbers of workers willing to use the service, which will be the case only if the agency can show that there are many firms seeking to hire through the service. The market itself may fail to achieve the coordination necessary to make provision of job-placement services viable, hence the market will undersupply these services. In this case, the public sector can intervene to operate or subsidize employment services to coordinate the actions of job seekers and firms.

Imperfections in capital markets: Both workers and firms may lack the funds to invest in training or other activities that have positive returns; for example, youth may be unable to afford to migrate to places where jobs are offered. It would pay to borrow funds for these investments, but if capital markets are imperfect, individuals or firms may not be able to do so. This may particularly affect small firms or poorer individuals and youth, as both will have fewer assets to serve as collateral and less access to the formal banking sector. As in the case of externalities above, this credit or capital market failure leads to socially suboptimal levels of training. Governments can address this constraint by subsidizing financial institutions to lend to individuals or firms for training, or by making such loans directly. They can also provide vouchers or grants for training to overcome the resource constraints.

Credit market failures may affect other areas of youth employment, particularly entrepreneurship. Compared to adults, youth are particularly disadvantaged in access to loans to start a business. They lack experience in business as well as borrowing and repayment histories to assure lenders, and also lack assets that can serve as collateral. Making credit easier to obtain for young entrepreneurs by subsidizing microfinance loans to youth, for example, can compensate for imperfect credit markets.

Imperfect information: Information failures may affect many decisions related to employment and training. For example, firms will have, at best, incomplete information on the skills and qualities of potential employees, especially youth. Because young people typically have little or no labor market experience to show, firms' information on their qualifications is normally limited to diplomas or schooling attainment, which may poorly proxy actual skills because of variations in school quality and individual ability. Even more, employers will not know a youth's work-relevant soft skills, such as ability to work in teams or be punctual. This makes hiring youth riskier to employers than hiring older, more experienced workers, all things equal.

In addition, both individuals and firms may not have a good understanding of the benefits of training for earnings and productivity, leading to underinvestment in training. Or they might not be aware of which kinds of training would be most beneficial (soft vs. hard skills; or one sector or occupation over another). Further, both employers and workers may lack knowledge about the quality of specific training providers, and this uncertainty will also inhibit investments in training.

A range of interventions can be addressed to such information failures. For example, a national qualifications framework can be instituted that would measure technical skills in standardized ways and more accurately signal skills to employers than would information on school attainment. A more direct policy is to provide wage or employment subsidies to firms to hire youth. This promotes youth employment by reducing the cost to employers of hiring "risky" young applicants, and also in effect subsidizes the screening of new workers as it give the employer a chance to determine if a youth is suitable to continue on with the firm at regular cost once the subsidy period ends. Imperfect information about the quality of training providers can be addressed through a system of certification of such providers. Career counseling by employment agencies can address young peoples' lack of knowledge of labor market opportunities.

Indivisibilities and scale economies: Firms may be constrained from investing in youth skills development and in other measures that would enhance youth employment if that investment can be carried out only at some minimum level for the benefits to exceed the costs. This will impinge more on smaller firms than larger ones. Public intervention to overcome these constraints could involve the facilitation of associations of small firms in a given industry to coordinate activities in training as well as job placement. There may not always be a need for government to play this role, as firms might form these associations on their own.

Equity: Finally, governments frequently have equity objectives that markets alone will not achieve and may even work against. For example, disadvantaged youth require more training to achieve job skills than do other youth (and more than firms may find it profitable to provide). Females often face discrimination in hiring because of biases of employers or expectations of costs associated with hiring them such as pregnancy leave. The fact that market actions alone do not achieve social objectives related to equity does not necessarily imply market failure in the usual efficiency sense; in the case of disadvantaged youth, for example, the additional cost of the training they will require is a real cost to society, not just a private cost. However, because integration of disadvantaged youth is valued by society, the benefit from a societal perspective exceeds the private benefit to (in this case) a firm providing the training, so that reliance on the market leads to an underinvestment in the training of these youth. From this perspective, there is a strong rationale for government to ensure that the training takes place. Policies to ensure equity objectives can include greater subsidies for training of disadvantaged youth (paid to training firms, employers, or the youth themselves through vouchers), wage subsidies to encourage firms to hire such youth (or women), and provision of enhanced guidance counseling or mentoring to them.

2.2.2 Government Failures

If the market failures described above provide a strong justification for public policies to provide or subsidize services related to youth skills and employment, the public sector has its own shortcomings in this area, as experience in many countries shows. These in turn increase the appeal of public-private linkages, because in many cases the private sector can act to compensate for government failures—even if the original motivation for interventions was shortcoming in private markets, that is, market failures.

Perhaps the most oft-cited kind of government failure is *accountability failure,* which in turn reflects incentive problems (Betcherman et al. 2004; Kuddo 2009). With government provision of a service, the relation between clients (youth, unemployed) and the personnel or organizations providing services (TVET trainers, job-placement counselors, and the like) is mediated by government agencies. The providers are answerable to these agencies, which may not provide them with appropriate incentives to perform well or honestly. The officials in these managing agencies are at best only indirectly accountable to the clients or beneficiaries, in the sense that citizens can (sometimes) complain to and influence the elected representatives who are ultimately in charge. The agencies typically receive budget allocations from central governments that are not based on performance. Furthermore, government providers often face no competition from private providers, further reducing their incentives to deliver services of high quality or at low cost. This compares to an unmediated market transaction—at least, one where there is no market failure—in which providers are responsive to client demand for service quality because their continued operation depends on satisfying their customers.

While this kind of government failure in education and training is common, solutions that potentially address it exist (Robalino, Almeida, and Behrman 2012). One is to establish national bodies with oversight over the government agencies providing the services, and to establish regulatory frameworks specifying what is expected of them. A second is to give the public agencies that provide the service more autonomy to hire and fire personnel based on performance, in contrast to the situation in which hiring decisions are made centrally and are not performance-based. A third approach is for the government to pay private contractors to provide services under public oversight and allow competition for these contracts among firms, thus separating oversight from delivery while incentivizing good performance among providers. A different, more demand-driven, arrangement for public financial support with private delivery is a voucher system in which beneficiaries can choose among private (or private as well as public) providers. These options will be discussed in more detail in later chapters, but note may be taken here of how the solution to accountability failures often involves bringing in private actors for which incentives may be more directly aligned with quality or efficiency objectives.

A second kind of government failure arises from *weaknesses in the policy-making process* (Robalino, Almeida, and Behrman 2012). Effective policy change requires an effective and transparent process of discussing, approving, and implementing public policies. This in turn depends on the effectiveness of political institutions and rules. Cooperation among key actors and willingness to follow through on agreements are prerequisites for effectiveness and themselves require leadership, repeated interaction among parties, institutional mechanisms for political exchange, and strong institutions to enforce agreements and to implement policies. Needless to say, these conditions do not exist in many countries. As discussed below, one of the key ways in which the private sector can be involved in youth training and employment is through strategic policy planning at the national level—but this requires that the institutional mechanisms for such planning be in place, or be developed.

A third source of government failure, also stressed by Robalino and others, is *limited information.* Governments do not always have enough information to make the right policy decisions, and may make poor decisions as a result—for example, picking promising industries on which to focus TVET that end up being the wrong choices. Governments also often lack well-functioning monitoring and evaluation systems that would provide feedback about which programs are working well and which are not, and specifically, they may not be equipped for, or have an interest in, carrying out impact evaluations to obtain this information. Still, it should be kept in mind that government has an essential role in rectifying many *private* information failures as outlined above, such as employers' lack of information about skills of potential workers or young peoples' lack of knowledge about the quality or relevance of different training programs.

Finally, a fourth type of government failure—which may in part underlie each of the first three—is *lack of technical or administrative competence.* Government bureaucracies may lack the capability to undertake extensive monitoring of programs, develop regulatory frameworks, train highly qualified teachers, and effectively monitor their performance (even if they are otherwise adequately incentivized to perform well), or monitor private service providers when these services are outsourced. Given that one of the main concerns in youth employment in low- and middle-income countries is the problem of inadequate skills of youth, it should hardly be surprising to find in the same contexts that skills in the public sector are also in short supply.

In principle, arrangements in which the public and private sectors cooperate in the provision of services related to youth training and employment can compensate both for market failures and for government failures. Perhaps a more positive way to state this is to say that these partnerships take advantage of what each partner does best. For example, allowing private training firms to compete for public contracts can introduce efficiencies and higher quality into TVET and other forms of skills development, because these firms will have incentives to keep costs low and quality high (with adequate oversight by the public sector). Regular communication between firms and government can ensure that the latter has accurate information on labor market demands with which to develop curricula for schools and training centers. More examples will be presented below.

2.3 Patterns of Private Sector Involvement in Youth Training and Employment Programs

2.3.1 Public-Private Partnerships and Intersectoral Partnerships

Private sector involvement in youth skills and employment policies and programs take many forms but can be characterized as variations of public-private partnerships (PPPs). We focus for the most part on private business engagement in ALMPs that are run by the public sector or in which the public sector plays some supporting role. Either way, we are referring to arrangements in which governments and business combine in some way to achieve common goals for skills development or employment of young people. As noted in the Introduction, we are not considering activities undertaken by private firms on their own.

Even with this clarification, it is necessary to further refine our definition of PPPs in view of the range of definitions that have been used. Some definitions are rather general and open—"a set of institutional relationships between the government and various actors in the private sector and civil society" (Mitchell-Weaver and Manning 1991). A more focused definition, such as this one, is more helpful for our purposes: "a form of cooperation between government and business agents—sometimes also involving voluntary organizations (NGOs, trade unions) or knowledge institutes – that agree to work together to reach a common goal or carry out a specific task, while jointly assuming the risks and responsibilities and sharing resources and competences" (Netherlands Ministry of Foreign Affairs 2013). This definition recognizes the importance of private and public actors each committing complementary abilities as well as financial resources. Put more schematically, PPPs feature some or all of the following (Netherlands Ministry of Foreign Affairs 2013):

1. Cooperation between public and private parties
2. Clear agreement on goals
3. Combination of public and private funding
4. Agreement on sharing of resources and tasks
5. Distribution of risks between the public and the private sector

Not all PPPs contain all elements. In fact many authors include under the PPP label simple procurement contracts, in which a public authority pays a private entity to deliver a service (such as training) but assumes all the cost and risk. While we will discuss these arrangements because they represent an important way in which the private sector is involved in ALMPs, we prefer not to consider that type of arrangement a true partnership because it does not involve most of the elements above, specifically sharing of costs and risk. As we will discuss below, "cost" and "risk" should be broadly defined. For example, they can encompass firms accepting interns trained by publicly financed TVET institutions, because doing so involves some investment of firm resources, even if the investment is mostly supervisors' time. This in turn can be expected to play a role in firms' decisions about participation in programs.

PPP arrangements frequently also include NGOs and other civil society organizations. Indeed, the term "intersectoral partnerships" may be more apt (Reese et al. 2002), as it is more general with respect to the types of institutions involved. The term "global intersectoral partnering" captures the role of international actors (multinational corporations, donors, NGOs) in such partnerships and is defined as "joint efforts of global corporations, international institutions, government entities and civil society organizations" (Dunbar 2013). Often an international private sector partner will provide funding and work with international NGOs that handle development or implementation, working with local NGOs or other partners in a country. Depending on the case, the actual role of the public sector in these partnerships cases may be small or limited just to providing the broader legal framework that enables the partnerships to operate.

PPPs are motivated by a number of factors, but several stand out. As we have explained, private participation can overcome government failures. It can make provision of services more effective through the reliance of private providers on incentives for performance, and can make labor market operation more efficient by enhancing the flow of information about labor market needs, through job-placement services that link employers and workers, for example. A key benefit to public-private partnerships in the area of youth employment is that they can help align skills development to the needs of the labor market, through participation of employers in training interventions as well as in national planning for education and training.

For policy makers, there might be financial benefits in addition to or instead of other benefits. The public sector needs resources for programs, but is often unable to generate funding through taxes or other means. The financial motivation is likely to be at play when multinational firms are involved, as these firms are able to inject substantial resources into local training or other youth-related programs. In some of these intersectoral partnerships, the public sector may not be directly involved in a significant way but will still view the activities as a way to fill gaps in its ability to fund and operate training or other activities.

Of course, the private sector has its own reasons for working in partnership with the public sector (or NGOs). Because the motivations are complex and likely differ by the type of firms, we will discuss these in more detail below.

2.3.2 Types of PPPs and Motivations for Participation by Firm Type

We can characterize PPPs for youth skills and employment along a number of dimensions: the types of firms involved (multinational corporations, formal domestic firms, informal firms); the interventions (training, entrepreneurship promotion, and the like); and the mode of firms' participation (finance, implementation, donations of time or in-kind resources, and so on). In this section we illustrate the range of PPPs, organizing the discussion around the first dimension just mentioned; in the next chapter we will attempt to more systematically characterize these arrangements, using the Youth Employment Inventory database of interventions. Also in this section, we discuss in more detail the motivations of different kinds of firms to participate in PPPs for youth, and constraints to doing so.

Multinational firms

Many multinational corporations (MNCs) are heavily involved in ALMPs in partnership with local governments, and also often with NGOs and domestic firms. Most of these interventions involve training, but some involve entrepreneurship promotion and credit provision. Often the firm contributes only financing to an international or local NGO that has the appropriate expertise, but in other cases it directly contributes expertise and other resources.

MNC involvement, even if limited to financing, tends to center on those sectors in which the firm specializes. Examples include:

- Cisco Systems' Networking Academy Program, through which it contributes funds, curricula expertise and equipment to create national networks of IT training centers in India, Mexico, Palestine, and South Africa; the public sector and NGOs implement the training.
- Scania, a leading manufacturer of heavy trucks, buses, and engines, partnered with UNIDO, the Swedish International Development Cooperation Agency (Sida), Education First (EF) and the Kurdistan Regional Government Ministry of Labor and Social Affairs (MoLSA), to develop the Swedish Academy for Training in the Erbil, Kurdistan Region of Iraq. The academy trains unemployed youth in skills relevant to the heavy machinery sector and assists in employment placement.
- MasterCard, in partnership with the International Youth Foundation (IYF) and the Community Collective Society for Integrated Development (CCFID), in 2012 created Young Entrepreneurs, a four-year initiative to increase support for youth entrepreneurship in India. It will provide 1,100 youth ages 15 to 29 with multifaceted services (business and life-skills training, access to credit, mentorship) to help launch or expand small businesses.
- Unilever, in partnership with Solidaridad, an international NGO, is targeting small farmers in Unilever's extended value chains in Africa, Latin America, and Asia. The goals include support for young agricultural entrepreneurs (as well as women) and improving agricultural and labor practices and land management for agricultural raw materials.

Motivations of multinational firms for participating in youth skills and employment initiatives[3]

The motivations of MNCs, that is, their perceived benefits, may be complex. They can include reputational benefits that accrue to companies that are seen to be "doing good" by helping people and communities on the one hand, and direct productivity or commercial benefits on the other. Activities or funding in the first area are often carried out by a company's corporate social responsibility (CSR) arm, which is separated from the core business activities of the company. In some case, funding may be made through a separate but affiliated foundation. Benefits of this type may include:

Enhanced brand value: Brand value is of paramount importance for firms such as Nike, Coca-Cola, Gap, and many others. Making socially beneficial investments in developing countries, including youth education and livelihoods programs, can enhance a corporation's image, hence consumers' favorable perceptions of its products. These consumers are traditionally middle-class citizens of developed countries but may include as well the expanding middle classes of the middle- or low-income countries in which the programs are carried out. These individuals increasingly consume sophisticated manufactured goods, purchase mobile phones, and use financial services provided by international companies, and as with their counterparts in developed countries, their purchasing decisions may be influenced by perceptions that the company is doing good.

3 This section has benefited from discussion with Dominique Airey of Youth Business International.

Gaining community or national approval: Investing in local communities where the firm operates builds good community relations for the company, thereby easing its business operations. In some contexts this is referred to as to having a "social license to operate" (SLTO) in a community. Originally developed with respect to extractive industries, the notion of achieving a social license to operate—a metaphorical, not real, license—involves ensuring that the company's behavior is in accord with the interests of the community and has its approval.

Improving employee attachment: In both developed and developing countries, individuals are assumed to be more likely to want to work with, and work harder for, companies that engage in socially responsible activities. Such activities therefore can improve the firms' access to a talented workforce that is engaged and productive (Reese et al. 2002).

Increased demand via community development: Corporate investments in local communities (through youth-focused and other programs) are sometimes said to have a return to the firms in the form of greater demand for their products via increases in local income levels. The notion that making communities better off yields economic benefits for the corporation is appealing, but it would be rare for one firm's investments in youth to have sufficient impact on incomes in a community to raise the demand for its products. Instead, these activities are better viewed as motivated by CSR or SLTO concerns.

Direct productivity benefits to MNCs from investing in youth may include the following:

Obtaining a skilled local workforce: International firms have a motivation to invest in programs that ensure that they have access to young workers with the right skills in the countries where they operate. Because many of these firms are involved in sophisticated manufacturing or services (for example, operating high-end hotels at international standards of service), the necessary skills will often be lacking. Sponsoring training programs is the most common mechanism for achieving this objective, though in some cases MNCs also are engaged in employment or job-placement services—programs through which they can obtain skilled workers from the existing pool of workers, rather than creating them.

Improved supply chains and distribution networks: A key concern for many international firms is to secure reliable and high-quality locally-supplied inputs for their operations. Development of supply chains can lead to widespread economic benefits for the host country (Ashley 2009). The process is not inherently youth-centered but can be made so, for example by training or assisting youth entrepreneurs to supply products or services used by the company, or encouraging suppliers to hire youth. Other supply chain interventions target women entrepreneurs; together these are often called *inclusive* value-chain development. The Unilever-Solidaridad initiative described above is an example of a program that helps youth become individual suppliers in the value chain. Further, MNCs that sell their products in low- and middle middle-income counties rely on local distribution chains to reach consumers. Again in the interests of reliability, the firms often invest in such networks, including developing local franchises, or by reaching out to small distributors and retailers. They can also do this by developing youth entrepreneurs as distributors or retailers, an effort that may especially pay off especially for "youth-friendly" products.

Shared value: Investment in supply and distribution chains, at least potentially, is an example of how corporate business objectives (minimize costs, increase reliability) can coincide with social or development goals (increase employment, improve SME productivity, expand youth opportunities). Such investments are said to create *shared value,* because the company gains commercially or competitively while social value is also created; in contrast to the CSR model, there is no distinction between "doing good" and core business activities, that is, profit-making activities (Williams and Hayes 2013). Other examples of shared value target the poor as consumers by developing markets for new products and services. It may be wondered why, if such activities are indeed profitable for firms, are investments in supply chain or market development not more widespread? It may be that firms are not fully aware of the benefits of such investments because they lack information about their potential in the host countries, or that the fixed costs of developing value chains are very high and entail significant risk. In practice, investments in targeting and developing youth entrepreneurs in supply or distribution chains may diverge from a pure business model and incorporate elements of CSR.

Domestic formal firms

Larger domestic formal sector firms, including manufacturers and service providers, are also significantly involved in partnerships with government and NGOs in youth skills and employment programs. Again, training figures prominently in these schemes but such firms also engage with job-placement services, often combined with training. Shared value approaches, specifically supply chain development, may also be relevant to larger domestic companies.

Further, domestic firms are also sometimes engaged at the national level with government in planning youth skills development and employment. Partnerships at this level serve to enhance the flow of information between the demand and supply sides for skills, so that education and training systems are better aligned with the labor market. Such processes can involve businesses, governments, and providers of training services as well as public education authorities. As this planning is a means of furthering national interests, multinational firms and donors tend not to be directly involved in this process.

Often these high-level engagements are instituted with the purpose of developing a national qualifications framework (NQF) based on occupational standards and competence-based curricula. By devising formal competency criteria for students completing different programs, a qualifications framework will ensure that formal qualifications (degrees, certificates, or recognition of experiential-based learning and capabilities) convey clear information to employers about prospective workers' competencies (Allais 2010). The partnerships can also define subject areas, standards, and curricula for training programs as well as for the education system as a whole, to ensure that they meet the current and future needs of the labor market. Planning commissions can also institute regulatory frameworks to which private training firms must adhere. By thus assuring employers of the quality and integrity of the private training sector, such a framework encourages employers' use of training.

Examples of formal domestic firms' involvement in specific ALMPs include:

- *Jóvenes* programs in eight countries of Latin America and the Caribbean are demand-driven skills program to provide low-income youth with technical training and social skills for work. Firms participate both in the development of the training and by providing internships for trainees. The arrangements with the training firms are formalized via memoranda of understanding. Private trainers, hired through competitive bidding, provide most of the training, with public oversight.

- South Africa's Go for Gold program prepares disadvantaged young people for jobs in the construction and engineering industries, beginning in lower secondary school, with participating companies sponsoring those students who are most promising for their post-secondary training. The project is a partnership between Neil Muller Construction, a leading South Africa construction firm, the Western Cape Education Department, Construction Education and Training Authority, and a South African youth NGO. The program provides tutoring for disadvantaged students, with practical training, financial support for tertiary studies, and job opportunities in the industry.

Examples of higher-level partnerships in skills planning include the following:

- In India, the National Skills Development Corporation (NSDC), which is 51 percent industry-owned and 49 percent government-owned, was created to promote the involvement of employers through the establishment of sector skills councils, and provide seed money to develop occupational standards and competence-based curricula.
- In many low- and middle-income countries, including Turkey, Bangladesh, Tunisia, Malaysia, Mauritius, Sri Lanka, and others, NQFs have been introduced recently, often explicitly based on developed country models and typically involving the support of donors (Allais 2010). Private employers have been engaged in the process to varying degrees.

Motivations of domestic formal firms for participating in youth skills and employment initiatives

The benefits these large formal enterprises perceive from participating in youth employment initiatives will overlap with those of MNCs but are not identical to them. With respect to indirect benefits, CSR factors may be relevant because reputation and brand value may be important determinants of customer demand for large national firms, especially in countries like Brazil or South Africa that have large numbers of middle-income or affluent (and socially aware) consumers. Socially beneficial engagement may help attract and retain a motivated and productive workforce. Overall, CSR motivations are likely to be weaker than those of MNCs, because domestic companies, no matter how large, are not also trying to build reputation and loyalty among a mass of affluent consumers in developed countries. Still, for some firms, reputational considerations at the national or regional level may inspire commitment to various initiatives such as training. It may enhance their standing as leaders in their industries, and possibly raise their profile in a way that would help secure contracts with the government or other firms.

Direct commercial benefits from investments in youth programming will be similar to those for MNCs. Access to a skilled workforce, improved supply chains, and improved distribution may each contribute reasons for domestic firms to partner with governments or NGOs (and with MNCs) in youth training or employment programs.

Smaller domestic firms

As we will discuss below, for various reasons participation of small and medium enterprises[4] in youth employment programs appears to be less pervasive than that of larger firms. However,

4 The category "small and medium" enterprises (SMEs) overlaps substantially with the informal sector. They are not identical, however. For example, some small and especially medium-sized firms may be formal in the usual sense of registering with the government and paying taxes. In some cases in our discussion below, informality is relevant, while in others firm size is more important; the discussion will make clear which is the case.

there are many cases of partnerships involving such firms. In addition to training provision, a frequent objective of such partnerships is to upgrade and formalize or credentialize apprenticeship systems that are an important source of vocational training in the informal sector, which in Africa and many other countries is also the main source of employment for new entrants in the labor force. Because it would be difficult (and ineffective) for smaller firms to act on their own, links between small enterprises and government and training providers are often facilitated by sector-specific trade or business associations of these enterprises.

Examples include:

- The Ghana Skills Development Initiative (GSDI): With support from GIZ, the German development agency, the government of Ghana is attempting to improve the quality of the traditional apprenticeship system in selected trades of the economy marked by the significant presence of informal firms. The project links micro, small-, and medium-sized enterprises in the informal sector with formal training institutes and other training providers. Trade associations connect the training providers and the small enterprises.
- In Benin, provincial governments have agreements with local business associations to jointly organize practical, end-of-apprenticeship assessments on a semiannual basis. Assessment committees are composed of representatives from government, business associations, and parents' associations (Hofmann 2011).

Motivations of small and medium enterprises for participating in youth skills and employment initiatives

For smaller domestic firms engaged in manufacturing, services, and other activities, CSR considerations are generally not relevant. On the other hand, the direct productivity benefits of contributing to youth training schemes (in particular) may be relevant; like larger firms, smaller enterprises in principle will benefit from having skilled employees. That said, small enterprises typically have less sophisticated technology in production, so they may have less of a need for more skilled workers (and for various reasons might be unwilling or unable to move to a higher technology or skilled labor position, as we discuss below).

Informal or small firms are often linked with other firms in production or distribution value chains—as suppliers of inputs to large manufacturers, for example, or as retailers of products made by larger firms. SMEs would also benefit from more reliable or higher quality suppliers of inputs into their own production. However, the benefits to developing entrepreneurs in these upstream sectors will be small compared with large firms. Therefore, the clearest benefit of participating in youth training or employment-related interventions for smaller domestic firms is in the area of gaining access to a labor supply with better skills.

2.3.3 What Factors Limit Firms' Involvement in Programs?

Firms naturally are expected to weigh the benefits relative to the costs of participating in youth skills or employment initiatives. In addition to costs narrowly defined, a number of other factors may constrain firms' involvement. As with the benefits, costs and other constraining factors may differ for different types of enterprises. In particular, smaller firms invest substantially less in training on their own (World Bank 2013) and the same factors behind this pattern may also inhibit their interest or ability to participate in training initiatives with the public sector or NGOs.

Costs: For almost any program, there is some cost to firms of participation. In many cases the costs are obvious: for example, firms may be asked to contribute to a training activity financially or in kind (by supplying time and expertise, space, or equipment). Other programs, even those that basically exist to provide support to firms, such as a wage subsidy to employ youth, also usually entail some costs. Costs should be defined broadly to include not just direct financial expenditures but also the time costs (opportunity costs) of personnel—for example, the time it takes for staff at various levels to oversee a new employee, participate in training, sit on national or local planning boards, or mentor young entrepreneurs.

All else equal, these costs are likely to impinge more on the participation of smaller firms than larger ones. Smaller enterprises will have fewer financial resources to invest in training or other activities. As already noted in the discussion on market failures, this may be viewed as a failure of the credit market, because if the benefits of participation exceeded the costs the firm could otherwise borrow the funds to cover the costs. Larger or formal sector firms will have better access to credit, or not need it in the first place because they are likely to have more resources at hand.

Time costs may also impinge more on small firms, which will have fewer personnel resources to spare to contribute to a program. A small enterprise with a single manager will find it hard to have that person take the time to participate in training or mentoring, whereas a large firm with a sizable managerial cadre could more easily spare some of a manager's time. Experiences discussed in Chapter 3 appear to confirm the challenges to engaging the participation of SMEs in activities related to youth training or employment.

At the other end of the spectrum, MNCs encounter different kinds of costs of participation in ALMPs in developing countries. They have to engage in complex partnerships with entities located in host countries, including governments, local business partner firms, and civil society. Initiating and maintaining such relationships in a different country is a costly, ongoing process; the costs include investments in learning about the county in this context (Reese et al. 2002).

Finally, many interventions for youth employment involve different ways of doing business. It is inherently costly in time and resources to change practices. Consider, for example, a firm deciding whether to participate in a job-placement service run by a public employment agency. The firm already has some means of recruiting new workers, which likely involves the use of informal networks, word of mouth, and recommendations of new workers made by individuals known to the owner. The firm faces a fixed cost to shift to a more formal system and may feel there is substantial risk that this will not pay off. Managers have to spend time working with the recruiting agency, learning how to present their employee needs in a formal, more structured way; and accommodate a potentially significantly larger number of applications and interviews. Technology-based approaches (for example, using the Internet to register employee needs and gathering CVs) may entail further commitment of time for learning. In addition to these changes, there may even be reputational or social costs to managers of smaller informal firms, because they would likely now not be as responsive to applicants who are family members or neighbors, or recommended by the same.

Externalities: Externalities, of course, are a key aspect of market failure in the labor market and were discussed above as an explanation for low private-firm investment in training and other activities. Many policies, such as public provision or subsidization of training, are designed to overcome the externality problem. However, to the extent that firms still incur some costs, for example, by hosting TVET trainees as interns (and sometimes paying them a basic wage as in the *Jóvenes* programs discussed below), their incentives to participate are reduced by the possibility that other firms might realize the benefits.

This problem will be different for the different categories of firms. For large firms that dominate a sector, the problem will be smaller, at least for interventions that are focused on that sector: There will be relatively few competitors to potentially free ride on their investments, and it will also be easier to collectively raise revenues and allocate responsibilities to firms in the sector for joint training programs. For some large MNCs, the direct benefits to providing or subsidizing training for the industry may be very large relative to their costs even if only a fraction of those trained end up with the firm. For example, the value of having highly skilled local managers or supervisors may be substantial. Also for such firms, reputational benefits and good relations with the host country government may make up for costs of training individuals whose skills benefit other companies.

For smaller firms, as noted earlier, the externality problem may be more severe and more difficult to resolve. With many firms in the market, an individual enterprise's participation in an industry-wide training program will have at best very diluted returns to that enterprise (most youth beneficiaries will end up at other firms). The plethora of individual firms also makes collective action more difficult, as decisions involving many firms are harder to monitor and enforce. Institutionally, associations of such firms may not exist that could organize collective solutions such as setting up a method for collecting contributions for a training program that would benefit all SME enterprises in a given sector. A further constraint is that many or most SMEs, as they are informal, do not pay business taxes or generally are not monitored and regulated by the government. This rules out the use of payroll taxes or levies for collective financing, though there may be industry associations that can serve that function, perhaps on a more voluntary basis. All these factors—and others discussed below—suggest a need for a greater public role in ALMPs that affect smaller enterprises, either by directly financing and organizing activities or by fostering the development of business councils that can take over or share that role.

Limited technical capacity: Firms may lack the technological or other expertise required to participate effectively in programs. Some employers may not be able to articulate well the types of skills they need in new employees, or may lack the capability to help design curricula for training programs or to directly participate in instruction to equip potential employees with the right skills. Technology-based solutions for information sharing (including matching workers to employers) as well as for pedagogical purposes may raise problems for smaller firms with less well-educated managers.

Imperfect information and uncertainty: Inadequate information about benefits may also reduce firms' participation in programs. As already noted, firms may lack information about the benefits of training, especially if they are accustomed to a low-skilled workforce. In an evaluation of a training program for female microfinance clients, Karlan and Valdivia (2006) found that the benefits of training were often greatest among those who had expressed less interest in the training at baseline. While this example involves training for oneself rather than ones' employees, it illustrates the possibility that individuals do not have a good understanding of the benefits of training. Firms may also be constrained from investing in training by lack of knowledge about the quality of specific training providers. In the area of employment services, firms may similarly lack information about the value of formal employment services or feel they are not reliable (though if they are correct, the problem is not lack of information but low quality of the service). These factors may limit participation of firms, given that there is some cost associated with their participation in such initiatives. Therefore the design of such interventions must address the potential lack of information among enterprises through appropriate outreach and education. And as noted earlier, accreditation of training providers as well as skills certification of youth can increase the perceived value of training by providing clearer information on programs and potential employees.

Imperfect information is related to—indeed it is a source of—uncertainty and risk. Businesses attempt to assess the risk of potential investments. Given the costs involved (financial and other), firms are more likely to hesitate to participate when either the benefits or costs are uncertain. As noted, many of the interventions for youth employment mean a different way of "doing business," and often there will be considerable uncertainty as to whether a new approach will work. This uncertainty will be higher where firms have less information about the potential benefits of programs, and may lead firms to be reluctant to participate even though the actual returns are large. Here, again, SMEs are likely to be at a disadvantage, with less access to information about the benefits to training or other activities. They may also be particularly averse to risk, and may not have a great interest in expanding their businesses (Banerjee and Duflo 2011). To a significant extent, government can help by providing information to such firms about how programs work—and, as needed, subsidizing the training and other interventions.

Other perceived risks to engaging in partnerships with government may arise from a lack of trust of the government based on past experiences. For MNCs, there are inherent risks in any partnership with entities in other countries. The experiences and best practices for such partnerships are discussed later in this report.

2.4 Summary

This chapter has highlighted the range of motivations of firms for participating in youth programs for skills development and employment, and highlighted how these motivations differ for various kinds of firms. Clearly, analysis of large multinational corporations' behavior, and the design of programs involving them, has to be different from that for small domestic enterprises. For MNCs, motivations are likely to be particularly complex, because in addition to direct productivity benefits, CSR factors play a large role in their decisions to engage in these programs. We also considered factors that constrain firms' participation, including costs, externalities, and lack of information. A key expectation emerging from this conceptual discussion is that smaller enterprises may face larger barriers to participation—because of higher costs relative to benefits, lack of information, and lack of technical resources, as well as potentially more significant externalities and greater difficulties in collective engagement for interventions. The empirical literature discussed below bears out the idea that participation is more of a challenge for smaller enterprises, and that program design needs to account for this—particularly in view of the important role of such firms in generating employment for youth in low- and middle-income countries. Because many of the problems facing small firms involve collective action failures and the limited nature of the resources that individual firms possess, making use of—and, if necessary, encouraging the development of—industry associations to act collectively on behalf of such firms often needs to be a key element of their engagement in programs.

Chapter 3

Private Sector Involvement Viewed from the Youth Employment Inventory

To characterize the state of private sector involvement in youth employment initiatives, we turn to the Youth Employment Inventory (YEI). The World Bank initiated YEI in 2007 to provide a worldwide inventory of interventions designed to integrate young people into the labor market, and to help identify what works with regard to improving employment outcomes for youth.[5] The database includes program design information and targeted beneficiaries and classifications for each program, as well as evaluation findings and documentation where available. The inventory has grown to include (as of January 2015) 731 ongoing and past interventions from around the world running from training to wage subsidies; interventions are classified along the divisions used in Table 2.1 as well as by type of financing institution, implementer, and many other characteristics. Policy interventions are included in the YEI if they explicitly target youth or if youth are among the main targeted groups (See Betcherman et al. 2007 for more detailed documentation on selection criteria). Although the YEI is the most comprehensive inventory of such programs in existence, it is not a complete record of all programs; further, reported interventions may be not be fully representative in terms of the types of intervention and the degree of success in achieving goals.

We consider here the type of programs in which firms participate and the types of firms involved (multinational companies, large domestic firms, and small and medium firms). Although the YEI database has several variables that can be used to identify whether an intervention involved

5 Other institutions participating in data collection and management for YEI include the German Ministry of Economic Cooperation and Development (BMZ), the Inter-American Development Bank (IDB), the International Labour Organization (ILO), and Youth Employment Network (YEN). We are grateful to Friederike Rother (World Bank), Susana Puerto Gonzalez (ILO), and Jose Romero (World Bank) for guidance on the YEI.

the private sector in some way, and what kind of firm was involved, it was apparent from the more detailed text descriptions that many relevant private sector interventions were not being captured using these variables. Therefore we used information provided in these descriptions to identify interventions involving the private sector as a key partner as well as to ascertain the type of firms involved. To keep this task manageable, we undertook this process for a randomly selected sample of 200 programs out of the more than 700 in the YEI database. Of these 200 programs, 118 (59 percent) involved private sector (firm) actors, either as employers or potential employers, as private providers of training or employment services, or as funders. Appendix 1 provides details of the selection and characterization of interventions in the YEI.

Table 3.1 shows the breakdown by type of program. First we note that it is quite common for a program to combine activities—for example, training and job placement—so the shares add up to more than 100 percent. As shown, skills training is the most important activity—about 80 percent of the programs feature this in some way. Within this category, vocational training, on-the-job training, and life-skills training are each important, while provision of financial assistance for training is less common. Note that some of these programs involve private training providers, not (or not only) employers.

Entrepreneurship promotion and employment services are also prominent among programs involving firms, but less than for training: 40 percent involve entrepreneurship, and 53 percent

TABLE 3.1: Interventions by Type for a Random Sample of Interventions Involving the Private Sector and All Interventions

	Private sector sample (n=118)[1]		All YEI (n=731)	
	Frequency	Percent	Frequency	Percent
SKILLS TRAINING	**96**	**81**	**603**	**82**
Vocational training	64	54	399	54
On-the-job training/apprenticeships	72	61	322	44
Life-skills training/second chance education	62	53	383	52
Financial support	25	21	88	12
ENTREPRENEURSHIP PROMOTION	**47**	**40**	**361**	**49**
Training	40	34	287	39
Advising (mentoring, business development)	32	27	223	31
Providing access to microfinance	15	13	176	24
EMPLOYMENT SERVICES	**63**	**53**	**340**	**46**
Job-search assistance	30	25	208	28
Job counseling	32	27	180	25
Job placement	44	37	207	28
Financial assistance for job search	0	0	4	1
SUBSIDIZED EMPLOYMENT	**6**	**5**	**95**	**13**
Wage or hiring subsidies to firms to hire youth	2	2	42	6
Public works/employment guarantee/voluntary service program	4	3	62	8
REFORMS (LABOR MARKET)	**0**	**0**	**17**	**2**
N	118	100	731	100

[1] 118 interventions involving the private sector were identified from a review of 200 randomly selected interventions from the total YEI database. Totals sum to more than 118 and percentages sum to more than 100 percent because many interventions combine multiple activities.

Source: YEI database, authors' calculations.

feature employment services. Entrepreneurship promotion involves training most of all (34 percent of all such interventions across categories) as well as mentoring and advising (27 percent), with fewer cases of credit provision (13 percent). Employment services include job-search assistance (25 percent), counseling (27 percent) and especially placement services (37 percent); financial assistance for job searches is not part of these services, at least in this sample. Finally, there are only a few cases of programs involving wage or employment subsidies to hire youth.

As noted, programs combining activities were common. Thirty of the 118 interventions involving the private sector are broad enough to include elements of both workforce skills training and entrepreneurship promotion (mostly also training).[6] 56 of the skills programs were combined with some kind of job-placement or counseling services, as were 22 of the entrepreneurship programs. All of the six programs featuring wage or employment subsidies combined this with skills training. Regarding combinations of activities within these broad types, it is noteworthy that 17 of the 96 training interventions (18 percent) involved both classroom training and on-the-job training—a share that may be considered low in view of the apparent benefits to this combination, discussed in the next chapter.

The last column of Table 3.1 shows numbers and shares of programs by category for all 731 programs registered in the YEI. Based on our random sample of 200, we expect that about 60 percent, or about 440, of these would involve private businesses. The overall breakdowns by category are similar to those for our private sector sample. For training, the share is about the same (included in 82 percent of all interventions), for entrepreneurship it is somewhat more prominent (49 percent) and employment services slightly less so (46 percent). Wage and employment subsidies are more important (13 percent) and "labor market reforms" are featured in 2 percent of all programs.

Turning to the type of firms involved in Table 3.2, we first note that it was often difficult from the project descriptions to determine which categories of firm were involved. In particular, for domestic firms, it was frequently not stated whether these were large national firms or small and medium enterprises, or both. It was assumed that if a program were designed for small and medium enterprises, the text descriptions would explicitly say so. Otherwise, if the reference is simply to "employers" or "companies" or "businesses," we assigned the program to the category of "national firms." Therefore, the latter category likely overstates somewhat the prevalence of programs involving larger domestic firms.

Table 3.2 shows that many youth employment programs involve combinations of categories of firms. For example, in about 14 of the 118 cases, national firms worked with international companies. All told, national firms as just defined are the most predominant firm type, accounting for 44 percent of the programs by themselves and 68 percent either by themselves or in combination with MNCs or other firms. MNCs feature in 31 (26 percent) of the programs. SMEs are found in only 11 programs (9 percent); private training providers (including private universities) are found in 19 programs (16 percent). Finally, bank or private microfinance lenders

6 Note that assignment a program to a type of intervention (or multiple types) was given by coded responses in the YEI database. This was supplemented by a reading of the program descriptions in the YEI, which led to some revisions. Regarding the overlap of entrepreneurship and job skills training, in some cases there was some ambiguity from the text as to whether a program was providing both or just one of them.

TABLE 3.2: Type of Firms Involved in Interventions

Type	Frequency	Percent
National firm	52	44.1
National firm, MNC	14	11.9
MNC	14	11.9
SMEs	7	5.9
Private trainers	5	4.2
National private school/university	5	4.2
National bank/MFI	5	4.2
National firm, private trainers	5	4.2
National firm as volunteers/educators	4	3.4
National firm, SMEs	3	2.5
MNC, private trainers	1	0.9
National firm, private trainers, MNC	1	0.9
National firm, national private school/university	1	0.9
SMEs, national private university	1	0.9
Total	**118**	**100.0**

Source: YEI database, authors' calculations.

are part of five interventions (4 percent). Multinational corporations thus play a significant though not overwhelming role, and in about half the cases when they are involved, they pair with local businesses (as many examples discussed in this report illustrate). Most striking is that SMEs are featured in only a small share of the programs—less than 10 percent. While this may reflect undercounting, because in some cases the project descriptions may not have noted where there was SME involvement, it remains likely that these enterprises are underrepresented in employment programs, something that the review of the evaluation literature appears to confirm.

In sum, this look at a random sample of interventions from the YEI database indicates that:

- A majority of youth employment programs incorporate private firms in some way.
- Training is by far the most common type of programs involving firms, and wage/employment subsidies the least common, with employment services and entrepreneurship promotion occupying a middle ground.
- Many programs combine different activities, such as training and job placement.
- Small and medium firms seem significantly underrepresented in such programs.

In the next chapter, we turn to a systematic review of programs by type.

Chapter 4

Programs and Evidence

4.1 Types of Evidence

In this chapter we discuss evidence for the effectiveness of different interventions for youth skills and employment and for the effectiveness of private sector participation in these programs. We also attempt to understand the factors that make this engagement more or less effective, including the level of firms' participation itself. The evidence base consists of three main types of analyses:

1. *Impact evaluations* that rigorously compare outcomes (employment, earnings, skills, etc.) of program beneficiaries against statistical controls, using randomized trials or alternatively, quasi-experimental methods; impact evaluations provide causal estimates of the impacts of programs
2. *Process evaluations and case studies* to understand how implementation worked in practice and reasons for success or failure
3. *Performance evaluations,* which provide quantitative findings on outcomes such as number trained or employed, and assess whether targets are reached in these dimensions, but do not compare these outcomes to controls to measure the net or causal impacts of the programs

Before turning to the literature, a few additional aspects of each should be noted. With regard to *impact evaluations,* the evidence amassed to date for specific interventions is invaluable but (as our review will make clear) incomplete, so that many research gaps remain. Further, while it is straightforward to identify overall program effects in a well-designed impact evaluation, including for programs that may involve the private sector, these evaluations typically do not shed light *specifically* on the impacts of the private sector participation. Generally speaking, to do this, an

evaluation—of training in soft skills, for example—would have to be designed to compare impacts with and without private sector involvement, or perhaps, compare study arms receiving different modalities of private sector involvement.

In many cases this can be done. For example, an impact evaluation could be set up to compare outcomes of TVET training with and without on-the-job internships provided by firms, by randomly assigning individual students or classes to each case. Or, the efficacy of private training providers can be compared to that of government providers by randomly assigning youth to each; the same goes for job-placement and other employment services that can be government-run or privately run, or can involve varying levels or types of interactions with private employers (posting notices and CVs only, more intensive collaboration with firms to identify needs, having firms report on how the placed youth is doing and work on improvements, and so forth).

With a few exceptions, however, this has not been the focus of impact evaluations, which instead tend more simply to test an intervention against a control with no intervention. Still, one can look at multiple evaluations for a given type of program and determine whether interventions that involve private firms in a prominent role (or in a specific activity) are more or less successful than those that do not. This comparison can be done informally (we do so at various points below) or more systematically (and statistically) through *meta-analysis.* Meta-analysis combines many impact evaluations across different contexts, typically using some threshold of rigor or quality for inclusion; using regression analysis, it statistically tests the relative efficacy of different types of interventions as well as different characteristics of interventions (one of which can be private sector participation). Meta-analyses for youth employment programs are not common but we will report below on what has been done.

An essential but often ignored complement to impact evaluation is *cost-effectiveness analyses* (CEA). Cost-effectiveness measures the costs of achieving a unit of outcome (for example, costs of getting an additional youth employed). Comparisons of cost-effectiveness across interventions provide vital guidance for governments and donors needing to decide how best to allocate scarce resources for youth employment and other priorities. Because a major, even primary, outcome of ALMPs is monetary—improvements in beneficiaries' incomes from work—it is technically possible to calculate returns to investments in youth skills and employment programs, if earnings data are collected. We report below on cost-effectiveness of interventions where this has been estimated, though this has been done for only a fraction of the evaluations reported.

Process evaluations and case studies, which may use qualitative approaches such as beneficiary and expert interviews as well as quantitative program data, do not provide estimates of causal impacts of programs. However, they can provide insight into whether a program is working as intended and why or why not. Specifically, process evaluations are geared toward understanding the following: how well a program works and how well it is being implemented; how well aligned the design is to the stated goals; and reasons for success or failure, such as issues related to supplies, quality, oversight, attendance, organization, and logistics. Process evaluations are not just carried out in lieu of impact evaluations; they are an important complement to impact evaluations and get into the "black box" of a program to yield insights the latter cannot provide. "Case studies" is a broader category that contains elements of process evaluation and performance evaluation (discussed below). In particular, for examining institutional arrangements such as public-private partnerships, case studies can illuminate the factors that make such relationships work or that threaten their viability.

Performance evaluation, as noted, considers how well a program is meeting its goals with regard to outputs (for example, numbers of youth trained, numbers finding work). It is usually straightforward to undertake this, as it requires only information that is often readily available from program documents or simple tracer studies of participants. Many of the programs covered in this paper have been evaluated in this way. However, the limitations need to be emphasized. Without comparison to outcomes for a control group—a group of similar youth who have not had access to or participated in the program—performance evaluations are unable to ascertain the true causal impacts of the programs. For example, if a job-placement scheme placed 75 percent of the participants in jobs within one year, we do not know how many of these youth would have gotten jobs without the program; this is the role of the control group. While these types of program assessment are very common as well as useful, therefore, they have to be treated with caution and are not a substitute for more rigorous impact evaluations, which should be done when they are feasible.

We now turn to the evidence from evaluations, organized around the main categories of interventions that involve the private sector: skills training, entrepreneurship promotion, employment services, and wage subsidies. In each case we begin with an overall description of the interventions and ways the private sector has been involved, followed by a review of the evidence on effectiveness in general and on the private sector role specifically, drawing on impact evaluations and other evaluations.

4.2 Skills Training

4.2.1 Description and Modalities of Private Sector Participation

As the last chapter highlighted, the bulk of programs for youth employment center on some form of skills training. The literature on training, including impact evaluations, is large, and our own review below reflects this; this subsection is considerably more detailed than for other types of interventions.

The skills relevant for work are heterogeneous. They include cognitive (or “hard”) skills, encompassing both general academic skills and technical skills, and noncognitive or behavioral (“soft”) skills. While general academic skills are obviously important for work, these are provided by the general education system and rarely involve firms directly, so lie outside the scope of our review; our focus therefore will be on technical skills and behavioral or soft skills for work.

Training to provide these skills is itself quite heterogeneous. Training programs are usually categorized by the stage in a person’s education or career at which they are provided. First, the formal technical and vocational training (TVET) system is usually part of *pre-employment* preparation for work,[7] and may include in-class training as well as internships with enterprises. Second, for youth *already in the labor force but unemployed,* there are short-term programs of skills provision, possibly including training in soft skills (and also potentially combining classroom

7 Because it is generally directed at young people prior to entering the work force, TVET is not an active labor market program as usually defined because it is not directed at those actively seeking work.

instruction and internships). Third, for those *already employed,* firms may provide on-the-job training.[8] Other programs include "second chance," or equivalency programs, for youth who left school early.

These programs, even those of the first type, which focus on young people not yet in the workforce, generally take place outside the general education system (primary, secondary, and tertiary academic education). However, there are cases in which students in school are provided work-related skills development (a significant example that involves the private sector is INJAZ, discussed in Section 4.3). Often the focus is providing students with employability or soft skills and career guidance to ensure alignment with labor market demands, rather than providing specific technical skills. As with most previous overviews of skill training interventions for youth, the present review does not consider skills programs aimed at students in the regular school system as there are few impact evaluations of such programs; also, the extent of private firms' involvement here is likely limited relative to technical training.[9] However, such programs may be important means of providing general employability skills and basic labor market information, and should be the subject of future impact evaluations.

The targeting of beneficiaries for skills training varies: For example, many skills programs for unemployed youth focus on disadvantaged youth, some target young women, and some do not target specific groups at all. Importantly, training is frequently bundled with employment services, including career counseling and job placement, as we saw in the last chapter.

Private sector involvement in skills training programs is also quite varied, and includes the following modalities:

- Employers supporting training programs, either financially or through contributions to curricula development, teaching, or provision of equipment or space, as well as providing internships to youth in these programs
- Employers providing training to their new workers for which they receive a public subsidy or an exemption from training levies imposed by the government
- Multinational firms providing financial support (and, sometimes, teachers and curricula development) for youth training in technical areas related to the business of the firm
- Employers or their associations participating in planning for skills at the national level to ensure that TVET and general education are responsive to market needs; such high-level partnerships can set up systems for accreditation of training providers and for certification of skills of trainees
- Private firms providing training services under contract with government or firms

The last of these, as we noted in Chapter 2, is distinct from partnerships of government and firms; in this case, businesses are involved as service providers, not as employers.

8 "On-the-job training" of workers can involve instruction provided directly at work or by specialized training providers engaged by employers. Note that "on-the-job training" is also often used to refer to internships with firms for youth in TVET or other training programs, who are not employees of the firms.

9 Employers may influence skills programming in general education, if indirectly, via their participation in formulating national qualifications frameworks, discussed below, which specify competencies or necessary skills and sometimes include the general education system as well as technical education.

4.2.2 General Evidence of the Effectiveness of Skills Training Programs

In the United States and other industrialized countries, rigorous impact evaluations of vocational training programs (usually targeting disadvantaged unemployed youth) have largely failed to show substantial impacts on employment and earnings (Martin and Grubb 2001; Betcherman et al. 2004). There are a few notable exceptions, including Schochet, Burghardt, and McConnell's (2008) evaluation of the U.S. Job Corps program and evaluations of the United Kingdom's New Deal program (Van Reenan 2003; De Giorgi 2005). In low- and middle-income countries the number of rigorous impact evaluations using either randomized control trials or quasi-experimental approaches remains comparatively low. Further, the heterogeneity in the programs evaluated and in their quality makes it difficult to draw general conclusions about training.

That said, the impacts of such programs in low- or middle-income countries appear to be more positive than in industrialized country settings (Betcherman et al. 2004). The most impressive evidence of benefits comes from a series of impact evaluations of seven short-term but intensive skills training programs in Latin America (Ibarrarán and Shady 2009). This group of evaluations is noteworthy for the quality of the impact evaluations (randomized trials in two cases, natural experiments or rigorous quasi-experimental approaches in the others) and the relative homogeneity of the programs being evaluated. All but one of the programs were modeled on Chile's *Jóvenes* program (included among the evaluations) and most featured the following elements: (1) courses lasting several months that focused both on job-readiness (soft) skills and basic technical skills; (2) a demand-driven approach, based on consultation with and involvement of employers; (3) a combination of classroom instruction and significant on-the-job training provided by employers, as well as job-search assistance; (4) "buy-in" of employers in the sense of paying interns a minimum wage or conducting the training in the firm at their expense with stipends covered by the government; (5) competitive allocation of contracts to (mostly) private training providers, with governments therefore involved only in finance and oversight, not direct provision of the training.

Overall, there were modest positive impacts on youth employment probabilities ranging from 0 to 5 percentage points, though these were substantially higher for some subgroups such as women in Colombia and Panama (6 to 12 percentage points). Impacts on job quality were larger, with quality measured by getting a formal job, having a contract, and/or receiving health insurance as a benefit. There were small positive impacts on pay. Similarly, an impact evaluation of the Honduras training program EPEM (*Entrenamiento para el Empleo*), which also had strong employer involvement (employers designed and delivered the training) reported increases in post-training wages, the probability of employment, and the likelihood of a formal sector job with social security and other benefits (Rozada 2011). On the other hand, a similar combination of short-term training and internships was less successful in the Dominican Republic (Card et al. 2011).

The findings suggest that there are benefits of combining classroom instruction with on-the-job training, as this was one of the key aspects of the *Jóvenes* programs. In fact, the programs also included job-search assistance, so they can be accurately described as taking comprehensive approaches. A meta-analysis of some 345 training programs (Fares and Puerto 2009; this included youth-oriented and other programs) confirmed the benefits of a multicomponent approach, finding that programs that combine classroom training with direct workplace experience had a substantially higher likelihood of positive impacts on employment or earnings than those that did not. Further, programs that also included employment services such as job placement for the youth did still better. The Job Corps program in the United States and the United Kingdom's New Deal program, which as noted above were shown to be successful in increasing youth employment, are also comprehensive programs.

The benefits to gaining direct work experience through internships is not surprising as research on general on-the job training provided by firms (not necessarily as internships tied to a training program) shows that it yields wage returns to workers (Almeida and Cho 2012).

The *Jóvenes* results also suggest the benefit of training in soft skills or "life skills" (teamwork, time management, and motivation) that improve participants' readiness for work, though again, this is one component among several of these programs. In the United States, research shows a strong correlation of measures of noncognitive skills in young people with later labor market outcomes such as job performance and wages (Kautz et al. forthcoming). Life-skills training may especially benefit disadvantaged youth. The *Entra 21* program, implemented in 18 Latin American and Caribbean countries by the International Youth Foundation with corporate and donor funding, prepared low-income youth for careers in information and communications technology (ICT) through a combination of job-readiness training, technical training, and internships. Although not subject to a formal impact evaluation, program-monitoring data indicate high placement rates as well as strongly positive employer evaluations of participants' life skills (World Bank 2006).

On the other hand, one of the few studies to explicitly evaluate a life skills intervention, for female community college graduates in Jordan, found that the training did not lead to a greater probability of employment (Groh et al. 2012). This result might reflect the fact that Jordanian job market is particularly difficult for women, so that improved soft skills may not be sufficient to overcome discrimination or mobility barriers. However, it seems at odds with a related, nonintervention study in Jordan by the same researchers (Groh et al. 2015) showing a positive association of specific "Big Five" personality traits and employment outcomes of young women but weaker associations for young men (Groh et al. 2015).[10]

Remaining research gaps on training can be briefly noted. One is the optimal combination of program components. As noted, comprehensive approaches seem to work best but they are naturally more expensive, so it would be helpful to know the relative benefits of specific components. The mix of skills on which to focus, in particular the balance of soft skills (or job-readiness training) and technical skills, is also important to understand. Given the increasing programming focus on soft skills or job-readiness, more direct evaluations of such training, on its own and as part of a mix of skills provision, is needed. Research should also assess the efficacy of life or employment skills training that is introduced during a young person's general education, as most programs that have been evaluated to date are directed at older, out of school youth.

A very important question for future research is cost-effectiveness. It tends to be expensive to provide technical training. Relatively few interventions have been subject to both rigorous impact evaluation and a cost-effectiveness assessment; more need to include a cost-effectiveness component. For those that have, reflecting the relatively modest estimated

10 The "Big Five" traits—openness, conscientiousness, extraversion, agreeableness, and neuroticism—are a common measure of noncognitive skills.

benefits, cost-effectiveness in terms of effects on incomes may be low, and low relative to other interventions such as cash transfers or start-up grants for businesses (Blattman and Ralston 2015). The assessment is hampered by lack of data on longer-term impacts on participants' incomes, which would affect cost-effectiveness estimates, so collecting longer-term data on these outcomes would be very useful. Further, as most impact evaluations have considered programs targeting unemployed and often disadvantaged youth, there is a need for more such evaluations (including cost-effectiveness) of general pre-employment TVET programs.

Another research question concerns the appropriate length or intensity of the training. Successful programs, like *Jóvenes* for unemployed youth, are fairly long, lasting several months. On the other hand, characteristics of youth as well as the income constraints they face may work against participation in lengthy programs. Securing adequate participation of youth in training programs and preventing dropout—like securing adequate participation of firms in these programs (discussed below)—is also a concern about which relatively little is known. Lack of demand for or interest in training, and high dropout rates, have been noted (J-Pal Youth Initiative 2013); for countries in Africa for which data are available, dropout rates from TVET of 25–50 percent are common (Filmer and Fox 2104).

While low quality may be a reason, lack of participation and high dropout rates may be due to a number of other factors. One is imperfect information, discussed in Chapter 2, in which youth do not recognize the benefits of training for their future incomes, or are not aware of which sectors and occupations they should train for. Preference and behavioral traits related to youth are also likely important, but rarely accounted for in design and evaluation of training programs. With typically high discounting of the future (that is, impatience) young people may be unwilling to commit to, or continue with, training courses beyond a certain length. It is also clear that in many countries, notably including the Middle East, youth strongly prefer not to work in private sector jobs, so they may resist most forms of training that is geared to the private sector (Brown et al. 2014).

Income constraints may be important as well, especially for poorer youth, and like high discount rates, may discourage engagement in anything beyond very short training courses. Even if training is nominally free, young people would have to put off working to enter training, which may be viewed negatively by them or their families. To the extent that training is considered beneficial by youth, the solution to the income barrier would be to borrow to enable participation, but this will not be possible if there are credit constraints (also discussed in Chapter 2). Giving vouchers to youth for training in Kenya (Hicks et al. 2011) seemed to lead to substantial uptake of training, consistent with these youth having faced an income constraint, though the study (discussed below) did not have a control group that did not receive a voucher. On-the-job internships as part of training may also serve to overcome several of the obstacles to youth's participation. Participants receive a quick "reward" in the form of actual and presumably more engaging work experience; if this is a paid apprenticeship with the enterprise, the income constraint is also relieved. The Liberian Economic Empowerment of Adolescent girls (EPAG) program successfully employed a variety of means to incentivize participants to join and stay with the program, including small stipends contingent on attendance, free childcare, mentorships, and contests to engage the youth. Likely due in significant part to these measures, retention rates in the program surpassed 95 percent (Filmer et al. 2014).

4.2.3 Evidence on Effectiveness of Private Sector Participation in Skills Development

Three broad areas of private sector involvement in youth skills development that have been assessed in one way or another are:

1. Employer participation in training programs, including: TVET program design and operation (including internships) for pre-employed youth; programs for unemployed youth (also potentially including internships); and programs to expand on-the-job training for new employees;
2. Contracting for-profit providers of training services;
3. Employer engagement in high-level partnerships with government for planning skills development

We consider partnerships separately below. With regard to the first area of involvement, the evaluation evidence discussed in Section 4.2.2 and other surveys of experiences (see Dunbar 2013 and Almeida, Behrman, and Robalino 2012) supports the idea that employer involvement in training development and through on-the-job training is highly beneficial or even essential. Such an approach is demand driven, that is, it incorporates the needs of the labor market. A key source of the evidence on employer involvement comes from evaluations of programs to train unemployed youth, in particular, the *Jóvenes* programs discussed above. Conversely, the failure of earlier or conventional TVET systems is widely considered to be because they were essentially supply-driven, with curricula determined by trainers or officials who were not attuned to the needs of employers (Dunbar 2013).

The linkages of employers to the programs or training providers often entail formal contractual agreements. In the *Jóvenes* case, firms participate both in the development of the training courses and by providing internships for trainees, with arrangements with the training firms formalized via memoranda of understanding. An example featuring very substantial private sector involvement in the development stage is Jordan's USAID-supported Siyaha project to improve training programs in the hotel and tourism industry. The program included the revision and modernization of curriculum, with the production of new textbooks, the introduction of soft skills modules, and a mandatory practical experience component. Training centers signed contracts with accredited hotels and restaurants to provide practical on-the-job training and monitored the trainees at their work sites.

Private sector *delivery* of training, the second mode of private sector engagement involvement enumerated above, also appears to contribute to successful outcomes. This conclusion derives not from direct tests of the efficiency or quality of private vs. public firms but from the fact that many successful programs involve competitive contracting with private training providers, including the *Jóvenes* programs (see Betcherman et al. 2010 for discussion of Turkey's training system, which relies heavily on private provision). The relevant factor may not be the use of private firms per se but rather the use of competition and incentives to ensure high-quality (and/or lower cost) training. These factors, of course, are associated with the private sector but may also characterize systems in which there is competition among both private and public providers. Further, competition and incentives to private training providers may be used to ensure employer input into the training. In Nepal, the Employment Fund's performance-based contracting provides higher rewards to training providers that placed more female youths in adequately paying jobs (Chakravarty et al. 2015). Thus employment placement is a significant aspect of the training providers' activities; this plus the requirement that providers conduct labor market assessments as part of their proposals ensures that they engage employers—or at least, develop a strong understanding of labor market needs.

Reliable direct tests of the efficiency or quality of private vs. public training providers would be valuable but are rare. Simple comparisons of dropout rates or labor market outcomes of public and private trainees are confounded by differences in the ability, background, or motivation of the two groups. However, indirect evidence of differences comes from a recent study in Kenya that randomly awarded vouchers to youth, with half awarded a voucher that could be used only in public vocational institutions, and the other half given vouchers that could be used in both private and public schools. Uptake of training was higher in the second group (presumably because they found private schools more attractive) and dropout rates were also lower among the students who had the option of private sector schools (Hicks et al. 2011). Although it may capture in part the benefit simply of having more diverse training options, this finding points to consumer perceptions of better service delivery among private training providers.

Although there appear to be substantial benefits of demand-led approaches characterized by strong employer engagement in training design and provision of on-the-job experience, experience shows that adequate participation by firms in such programs is not always forthcoming. We discuss this below, but as a prelude to that discussion, we briefly describe how governments attempt to incentivize firms to engage in on-the-job training of their employees.

4.2.4 Incentives to Employers to Increase Training for Youth Employees

While many training initiatives focus on increasing the relevance of pre-employment TVET (including through internships with firms) or are directed at unemployed youth (such as the *Jóvenes* programs), many other policies aim to increase or improve on-the-job training of new employees. As noted in Chapter 2, market failures lead firms to underinvest in such training. Programs that increase the level of employee training (which can be carried out by employers in the workplace or by training institutes) are bound to benefit entry-level—that is, younger—employees disproportionately, who as new workers need training the most. Further, if employers come to view engaging in such training as an effective practice that yields a financial return to the firm, they may be more willing to hire youth and train them rather than search for more experienced workers.

Several possible mechanisms for overcoming a key market failure inhibiting firms from training—the risk of poaching of trained workers by other firms—do not have to involve the public sector directly. Payback clauses can be included in contracts that obligate new employees to continue working at the firm for a specified number of years post-training, thereby voiding the threat of poaching for that period. Apprenticeship contracts can set pay low enough during the initial employment period so that the new worker in effect shares in the cost of his or her own training. However, there are often practical obstacles to these options in low- and middle-income countries. Payback clauses would be hard to enforce without a well-developed legal framework to do so. Apprenticeships do not have this problem, but currently in most contexts, they have the disadvantage of being informal forms of training, making it harder to standardize and harder for the recipient to signal skills obtained to future potential employers (discussed further below).

It is more common, therefore, in low- and middle-income countries for the public sector to use subsidies or other incentives to encourage firms to train. These may be funded out of general revenues or, more commonly, payroll taxes paid by firms or by special levies tied to payroll taxes. In some cases (more typical of high-income countries) firms contribute to an industry-specific solidarity fund, or associations of firms in an industry provide funds out of members' contributions. Depending on the system used, firms that train get a rebate from the taxes or levies they have paid, get a waiver from paying the levy in the first place, or can submit for reimbursement of actual expenses on training (Almeida and Cho 2012). Whatever the form of the subsidy, the point is to overcome the tendency of private firms to underinvest in training because of poaching externalities or other market failures.[11]

These schemes require a certain level of administrative capability to administer. Further, any system that relies on payroll taxes will require a sizable formal sector to generate adequate revenue (formal sector firms being those that are registered and pay taxes) and inevitably will be focused on formal sector enterprises. However, subsidies for training do not have to be funded by payroll taxes; they can be funded from general revenues (which must be adequate, of course). The subsidy itself can be in the form of vouchers or cost reimbursement rather than waived levies or rebates, so can in principle involve informal sector firms.

4.2.5 Willingness and Ability of Employers to Participate in Training Initiatives

Despite the benefits of demand-led approaches characterized by strong employer engagement in training youth, experience points to problems of limited employer participation. Examples come both from pre-employment TVET programs and programs to expand on-the-job training of employees. For example, the Dutch-financed Learn4Work program, which attempted to improve access, quality, and relevance of TVET in Ethiopia, Ghana, Kenya, Uganda, and Rwanda, initially failed to attract significant participation of firms, so that the private sector played little direct role in the programs (Dunbar 2013). In the Swiss Development Corporation's Participatory Market Chain Approach program in Bosnia and Herzegovina, it was reportedly very difficult to get firms involved in the development of the training. In Korea, it was found that few SMEs carried out training of their workers and applied for rebates on payroll taxes that were available for firms that undertook this training.

While it is difficult to systematically assess this issue, these examples and several overviews of the evidence (Dunbar 2013, World Bank 2013) suggest that low participation on the part of employers is a fairly common problem, though by no means universal, as we discuss below.[12]

11 One possible arrangement would have mandatory solidarity contributions to business associations, which then organize the training of workers for the industry overall. This solves the collective-action problem of firms not wanting individually to pay to train workers who end up with competing firms, though it disadvantages those firms that do not want better-trained workers, because they pay the contribution anyway.

12 We might expect firms to more readily participate in programs that support training of their employees (via tax rebates or reimbursements of expenses) than to become involved in training schemes for unemployed or pre-employment youth, because they have already vetted and made investments in their current employees. Hence it seems that participation in the latter programs entails more volunteerism. It is difficult from available evidence to say if this is the case, and certainly the level of subsidies in different schemes also differs and this would affect relative willingness to participate.

Without active employer participation in the development and operation (for example, through teaching and internships) of training initiatives, these programs will lose their demand-driven character, and thus their economic relevance. Instead supply-side actors, typically training providers or government, will be the driving forces. For those youth who are already employed, limited firm participation in on-the-job training schemes means lower human capital and reduced opportunities for the future.

Low firm engagement may be driven by market failures or other factors discussed in Chapter 2: fear of poaching of employees that a firm trains or pays to train, lack of resources or time to participate, lack of information about the benefits to the firms of training or knowledge of the type of training needed, lack of expertise, economies of scale that cannot be realized by smaller firms, or simply a mistrust of the governments' motives or ability to assist them. In the Participatory Market Chain Approach program in Bosnia and Herzegovina, time constraints were cited as a reason for private employer's limited involvement (Dunbar 2013). In the Korean example above, SME's lack of administrative capacity and finance may have been the constraint (Almeida and Cho 2012).

Somewhat analogous to the poaching problem inhibiting firms' participation in on-the-job employee training, firms may be reluctant to get involved in pre-employment TVET or programs for unemployed youth—by planning for course content or taking interns, for example—because of free riding by other firms that dilute their own returns to this investment. After all, the benefits of a better-trained labor supply accrue to all firms in their industry, including those that do not contribute resources or time to the programs. This collective action problem may be addressed through coordination by industry associations, though such associations will not always have the ability to ensure that all firms contribute. In other words, the free rider problem might remain to some extent.

To overcome many of the factors just enumerated, including a lack of understanding of the benefits of training, firms may need substantial guidance and support, more than training initiatives normally provide (Ziderman 2001; USAID March 2012). Participation for SMEs seems especially problematic, as we might expect because many of the constraints just listed loom larger for them. They face higher employee turnover (hence risk of poaching) and more significant time and resource constraints; they may also have a lack of interest in more highly skilled workers given a state of "satisficing" with lower technology and lower productivity. However, there are exceptions. In the Youth Employment Solutions program in El Salvador, a partnership of Plan International, government agencies, and communities, it proved much easier to get the involvement of SMEs for internships than larger companies (Ecorys 2014).

A number of countries have used approaches that successfully increased SME participation in training schemes. In Korea, where as noted few SMEs carried out training and got their rebates, the government recognized the limited ability of smaller firms to implement training on their own, and encouraged SMEs in the same sector and region to form training consortia that would jointly hire trainers. Some of these consortia operations were publicly subsidized. These initial efforts were successful, though the scaled-up program made a number of modifications, including promoting linkages with larger corporations in the same sectors (Lee, Seol, and Kim 2009). It is noteworthy that to engage smaller firms, the program both developed a structure to overcome the inherent lack of access to economies of scale and technical limitations facing such enterprises, while also increasing incentives by providing a greater degree of subsidization for these firms than for larger firms. The Ghana Skills Development Fund of the Council for Technical and Vocational Education and Training also provides greater incentives for smaller firms to encourage their participation (Darvis and Palmer 2014). Though largely donor-financed, the initiative requires employers to provide matching funds; the contribution is smaller for informal firms—10 percent of the training costs vs. 20–25 percent for larger ones.

Other countries have similarly promoted the development of industry-level associations of SMEs to facilitate their participation in training initiatives, including programs to increase on-the-job training and interventions to provide opportunities for out-of-work youth. For example, USAID's EQUIP3 program in Somalia encouraged the creation of business councils to assist with internships for disadvantaged young people (USAID 2012). Associations to organize SMEs for training initiatives and encourage them to work with private training providers were developed in Korea, Mexico, Singapore, and Malaysia (Almeida and Cho 2012). In the Mexico case, the Training Support Program (*Programa de Apoyo a la Capacitación,* or PAC, formerly the Integrated Quality and Modernization program) was organized by the Labor Ministry in partnership with local industry associations; it used matching grants to support hiring of public- or private sector training providers for SMEs. About 1.6 million workers from more than 226,000 firms were trained between 2001 and 2006. Working with associations of firms to organize training not only deals with obstacles presented by economies of scale that face smaller firms, but it increases the possibilities for joint financing of the training, to avoid or minimize free rider problems that inhibit participation.

Provision of training vouchers to firms (which they give to the selected training institutes, which then redeem them from the government) is another approach that holds promise for increasing the participation of employers, particularly smaller ones, in on-the-job training. In Kenya, the Jua Kali voucher program successfully targeted very small firms that experienced high turnover that inhibited the demand for training, with the vouchers equally valid for public or private training institutes as well as master craftsmen (the vouchers were also provided to larger but still small enterprises). A noncontrolled evaluation (Phillips and Steel 2003) suggests that SMEs were able to significantly expand their training, and possibly their overall revenues as well, because of the program.

Other policies to address constraints facing SMEs—as well as larger firms—could include more intensive outreach to firms to emphasize the benefits of training. This voucher program in Kenya just described, for example, provided significant information to the firms, helping to identify the training that would be helpful to them. Reviews of experiences in public-private partnerships for training and skills development (Dunbar 2013; USAID March 2012) make clear the need for early and extensive engagement with private firms in the development of the programs, both to ensure that the programs are demand driven and to ensure that firms understand the benefits of participation. In many cases, incentives, including government covering a greater share of the cost, may also need to be put in place. A general conclusion is that prior to developing public-private training initiatives, appropriate diagnostics are needed to understand the constraints that the targeted firms are likely to face with respect to participation.

4.2.6 Should Training Be Subsidized for All Firms?

As Robalino (2012) et al. note, while the goal of increased employer participation in training (including of youth) is important, policies to subsidize this training need to be considered carefully. A key concern is whether and how to target this support. On the one hand, many larger firms would likely carry out training even without the subsidy, so there is little need for it—leading to a deadweight loss. On the other hand, while smaller firms are less likely to train and may face more significant market imperfections that prevent them from doing so, not all such firms are necessarily constrained in this way and not all would benefit from having better-skilled workers. As noted in Chapter 2, many SMEs do not employ the kind of technologies that require or would benefit from skilled labor, and many owners of such firms may not be interested in expanding their output. Simply targeting all SMEs for significant training subsidies therefore may be a poor—or at least costly—policy.

Efforts therefore need to be made to understand for which firms or sectors training might lead to the greatest productivity gains. As Almeida and Cho (2012) note, program designers should consider the nature of the sector, whether firms adopt new technology, and other factors. That said, small firms may be in a "low-skills, low-productivity trap" either because they lack information on how they could benefit from increasing the level of technology and the skills of workers, or because there simply are not enough skilled workers in their sector for them to be able to upgrade their production technology or organization and expect to have the right workers available for it. The first case is an information failure that appropriate outreach and education could rectify. The second case is a coordination failure, because coordinated action by firms (to demand skilled workers for the sector) and by workers (to obtain these skills to meet that demand) is needed. The public sector can help here as well by subsidizing the training in particular sectors where the trap seems to hold. However, careful analysis is required to distinguish between these causes or to see if either of them is operative.

4.2.7 Effectiveness of National and Sector-Level Public-Private Partnerships for Skills Development

We now consider experience with high-level engagement of government and the business sector in national (or regional, within a country) planning for skills development. The broad objectives of these partnerships are to ensure that market needs for skills are communicated to trainers and education officials and that curricula are oriented toward these needs and, more strategically, toward areas of future labor requirements. Often the specific impetus for governments to seek the involvement of employers at this level is to develop formal national qualifications frameworks (NQFs) (Dunbar 2013). These can be described as "an instrument for the development and classification of qualifications according to a set of criteria for levels of learning achieved" (OECD 2007). Its objective is to improve the functioning of labor markets by ensuring that relevant skills are taught and by providing accurate information on individuals' qualifications. A 2010 study (Allais) noted that some 100 countries were involved in designing or implementing national qualification frameworks.

Core activities under NQFs include developing, with employer collaboration, appropriate and standardized content for training programs as well as standardized measures of skills that are outcomes-based (that is, competency-based)—capturing learning actually attained rather than level of schooling attainment or training completion. Under such a system, training diplomas certify that an individual has acquired skills that are aligned with norms and standards in their field. Many training providers in low- and middle-income countries do not provide any credential at all, let alone a standardized one, to indicate that the individual has passed the course or obtained a particular level of knowledge or skill. In the Middle East and North Africa (MENA) region, less than 10 percent of private training providers do so, compared with about 50 percent for public providers (Angel-Urdinola, Semlali, and Brodmann 2010). This clearly limits the ability of training recipients to communicate the value of their acquired skills to potential employers.

Competency-based standards serve to reduce these information asymmetries between workers and employers, making the labor market for youth and other workers more efficient. Employers will have more accurate and comparable information on the qualifications of applicants; they will also be more willing to have their current employees undergo training when they are assured that the training is directed toward agreed standards. Alternatively, using the qualifications criteria, they will have a better basis for undertaking training on their own. Young people contemplating training options will have confidence that the training they undertake will be recognized by potential employers, so more might enroll.

A related activity under some NQFs is the development of a system for accreditation of training providers, meaning assessment by an independent body that a training institution meets a defined standard for curricula and/or student outcomes. This also addresses a problem of information asymmetries, this time between training providers on the one hand and employers and youth on the other. As already noted, both youth and employers may have very inadequate knowledge of the quality of different training programs, which often consists of many informal, small institutions with no official recognition (Adams et al. 2013). Without this knowledge, firms will be reluctant to hire youth who have been through the programs even though some may be of high quality, to send new employees to be trained in these programs, and to participate in training programs by hosting interns (because one motivation for doing so will be the possibility of hiring these youth later, and this will be greater if the quality of the training provider is known to be high). An effective national accreditation mechanism will signal to employers that training providers meet predefined standards with regard to content and quality of delivery. Indeed, such a system, combined with additional measures for monitoring and quality assurance, should be part of any plan for outsourcing training activities to the private sector.

One country where the institution of NQFs increased the use of training is Korea, where in 1997 the country's training system was reoriented to a national qualifications framework, which certified skills provided by the private and public sectors. Hawley (undated), citing Kim (2001), reports that the introduction of the framework led to substantial engagement by firms and business associations in the training of their workers, and promoted the development of new private qualifications standards by firms themselves in various new fields.

Generally, however, public-private partnerships to develop NQFs in low- and middle-income countries have encountered significant challenges. While case studies of these partnerships (see Allais 2010; Dunbar 2013 discussed several Asian experiences) show some success with regard to employer involvement in defining necessary qualifications and skills desired, a more common theme has been the difficulty of engaging employers adequately in these high-level collaborations. This is in line with the difficulties observed getting firms to participate in many specific training initiatives, noted above. To cite one example (Dunbar 2013), the India National Skills Development Corporation (NSDC), which is 51 percent industry-owned and 49 percent government-owned, actively promoted the involvement of employers through the establishment of sector skills councils, and by providing seed money to develop occupational standards and competence-based curricula. However, it reportedly proved very difficult to engage employers in this process. Similarly, in Nepal, the British Council collaborated with the Government of Nepal to involve employers in the establishment of sector skills councils as a step toward creating a national qualifications framework. Employers in the construction sector, which was selected for the pilot of the partnership, did not commit time to it and the initiative closed. Allais (2010) cites a number of other examples (including from developed economies); there were few cases in her review in which employer participation was considered substantial or adequate. There is also little evidence that creation of a national qualifications framework can lead to industry being more willing to share the cost of technical vocational education and training—another expectation of public-private partnerships in this area.

Further, in some countries where industry was involved in the development of qualifications and competency standards, the standards were not then used to develop new learning programs or to judge potential employees. In South Africa, for example, employers seemed to prefer existing, if imperfect, qualifications standards based on the formal education system over something new and untested (Allais 2010)—in other words, the certification was not able to carry out its central role of imparting information about qualifications that employers considered reliable and useful. The problems in South Africa and other countries may have reflected overly ambitious attempts to impose an entirely overhauled system when incremental change based on prioritization would have been more practical (Almeida, Robalino and Weber 2013).

In some cases the problems of private sector engagement may stem from disagreements among the stakeholders, a group that can include employers, trade unions, and education ministries. However, lack of time or faith in the process, or doubts that the outcome would be beneficial to them, probably also lie behind many cases of weak employer participation. Factors that have been identified as important in developing NQFs are full involvement of all stakeholders in a highly transparent process, and simple, nonbureaucratic procedures for firms to join the framework and for using the qualifications, to avoid creating disincentives for employers. Above all, employers must be actively engaged so that their needs are incorporated in the framework and they see value in using it (see Allais 2010 and Young 2005). Nevertheless, there will typically be an element of voluntarism in firms' participation in planning partnerships, because a given firm's contribution to the process benefits the industry as a whole.

Although experience with employer engagement in developing NQFs has not been very positive overall, a number of countries have implemented successful national strategies for skills development that intensively involved the private sector. For example, during the earlier stages of their industrialization in the 1970s to 1990s, governments of several of the "Asian Tigers" (Korea, Taiwan, and Singapore) not only ensured that TVET institutions were developed to meet industry needs, but did so strategically. In Korea, the Economic Planning Board ensured that training was aligned with the emerging chemical and heavy industry sectors that were being promoted by the government (Tan and Nam 2102). In these cases, partnerships with industry to plan for skills were central, but the government played the dominant role in this planning, at least initially. Of course, this approach requires a high level of planning capability on the part of governments, which many developing countries will lack.

Among OECD countries, Germany's well-known "dual system" of training (and similar approaches in neighboring Austria and Switzerland) is notable for how it closely engages the business sector. Under this system, which is based on a law mandating the structure of vocational education and training, curriculum development and assessment is the responsibility of a coalition of labor, business, and government representatives. Learning takes place in schools and enterprises concurrently; indeed, the system is an integral part of the formal education system, and a majority of young people in Germany—essentially, all those who will not go on to university—receive training under this program starting between the ages of 16 and 18. While much heralded, Germany's dual system has proved difficult to export, both to middle-income countries and elsewhere in Europe. In addition to requiring substantial government capacity, it is based on a corporatist tradition of close integration and cooperation among government, labor, and industry, which is not present in most countries (Hawley undated; Euler 2013).

Having stressed the difficulties encountered in many countries in developing NQFs or forming systematic skills development partnerships with the private sector, it is important to note that higher-level interactions between government and the private sector for skills development are still possible and relevant. As Dunbar (2103) notes, productive interaction can occur even if it is less comprehensive; for example, panels can be set up for regular interaction between industry groups and government or training providers on what skills should be taught, or private sector actors can be represented on governance boards of training institutions.

Finally, as with participation in training interventions, it should be noted that private engagement in skills planning will not likely be successful unless economic growth is occurring and putting pressure on labor market in various sectors, because skill shortages are less likely to be pressing otherwise.

4.2.8 Incorporating Informal Sector Firms and Training into Certification Systems

For youth receiving informal training, problems of signaling skills to potential employers are particularly acute. In many countries, particularly in Africa, much or most training of youth is done through apprenticeships in the informal sector rather than in a separate training institution. For example, up to 80 percent of skill development in Ghana is through the apprentice system (*African Economic Outlook* 2008). Unlike with more formal training centers, however, youth generally have no means such as diplomas of signaling to employers their experience in this training or the skills they have gained, leading to asymmetric information between job seekers and employers. This limits access of youth to new jobs, particularly if they seek to move to the formal sector.

This problem can be addressed by extending to apprenticeships the kind of skills certification systems normally applied to formal technical training to provide potential employers with a standardized indicator of competencies obtained through this path (*African Economic Outlook* 2012). For example, Benin instituted both a Vocational Skill Certificate, a national diploma attesting to the attainment of skilled worker level through a reformed traditional apprenticeship, and an Occupational Skill Certificate, which attests to the completion of an apprenticeship. In Ghana, the National Technical and Vocational Education and Training Policy Framework provides for the introduction of skills-based training measures and a certification system for apprentices trained in the informal economy. In addition to certification of apprentices' skills, efforts can be made to upgrade and standardize apprenticeship practice itself, to improve its quality (Peeters 2009).

In practice it has proved challenging to extend certification to informal apprenticeships, because of the complexities of upgrading apprenticeship training and integrating it with formal technical systems (Walther 2006, 2013). The upgrading itself may pose a burden on small employers, because they would have to adhere to certain requirements and (for many) higher standards. Additionally, an unexplored possible negative outcome of these measures is that informal employers might be less willing to take on apprentices than before; prior to having this certification, trainees would have been in effect locked into employment with this business by virtue of their inability to signal their acquired skills to other potential employers. With certification, they can more easily signal their qualifications and move on, so the initial employer risks not getting a return from training the apprentice. This risk will be mitigated to the extent that apprentices share in the cost of their training via lower wages.

4.2.9 Involvement of Multinational Firms in Skills Development

As noted, multinational firms have been prominently involved in training through multisectoral partnerships with NGOs, governments, and sometimes local firms as well. Impact evaluations of such initiatives are generally lacking. One reason for this may be that, as these programs are "internally funded" by the companies themselves, there they are not subject to the evaluation requirements often put in place when implementers apply for funding from an external source. Evidence for these programs thus comes primarily from performance measures such as numbers trained, rates of job placement, and so on. Many programs led or funded by MNCs seem to be quite successful in these terms. Without a proper control group, however, it cannot be assumed that these reported outcomes measure actual program impacts. It should be pointed out that even where the scale in terms of numbers of direct beneficiaries is not large, the economic impacts of MNC-led training may be significant, because the training programs often specialize in high technology and potentially dynamic sectors of the economy, because these are often the industries in which the MNC is engaged. Examples include Cisco Systems Networking Academies for IT training and the advanced auto or truck mechanics institutes started by Volvo and Scania with partners in Morocco and Iraqi Kurdistan, respectively.

Research is needed on a number of fronts, in addition to the general need for impact evaluations to understand the net effects of these programs on participants' outcomes. These include the question of whether the curricula—if imported by the MNC—is appropriate for the local setting, including the level of youth capabilities; and whether the targeted sectors and skills align with local needs. The last question arises because the investments by MNCs are not necessarily demand driven in the way they are for local firms. If the main objective is to provide trained workers for the firm's own operations in the country (or that of local partner firms, or the sector generally), the training may well fill an important skills need in the local economy. On the other hand, as MNCs also have incentives to invest in training programs for CSR reasons, the focus may be on a field or intervention that has significant cachet—perhaps the one in which the corporation specializes—but is less appropriate to the local economy.[13]

4.2.10 Managing Private Training and Promoting Competition

Although contracting out training services to private firms may bring gains in efficiency via competition, it is also requires adequate oversight on the part of the public sector. Such oversight is necessary to ensure that standards of quality as well as equity goals are met—for example, that training is appropriately targeted to disadvantaged youth or young women. Profit-making providers (as well as some public training institutes) may prefer to avoid including disadvantaged youth, either because they are harder to train or more likely to drop out, or because it is more difficult to show positive results in the form of placements with employers after graduation.

At the national (and sometimes in-country regional) level, a number of countries have established independent public, or "apex," authorities to manage training systems in which there are many providers. Such bodies may be charged with allocating public funds in a competitive framework, rationalizing these systems when needed—for example, reducing the number of providers when there is significant duplication—and overseeing the performance of providers. As Tan and Nam (2012) note, well-designed apex agencies work closely with employers to understand the skill needs of the market, have power over funding decisions for training, and carry out oversight of training delivery but not direct provision, which instead is left to dedicated training providers, both private and public. Separation of management from implementation functions frees the agency from potential conflict of interest and enables it to encourage competition among providers. To avoid "creaming" of more qualified youth by private providers getting public contracts, agreements with firms can spell out and evaluate firm performance targets on, say, the number of low-income youth trained.

A well-known example of a successful apex body is Singapore's Institute for Technical Education, under which a statutory board exercises centralized oversight functions under the Ministry of Education, while training delivery is decentralized to its three technical colleges (Law 2008). The experiences of Singapore and fellow "Asian Tigers" Korea and Taiwan show that apex agencies can effectively provide for future, not just current, skill needs of the labor market in dynamic economies—and by doing so, making such dynamism possible by providing the needed labor force. In this way, they can solve the coordination failure problem noted in Chapter 2, in which firms operating with less advanced production technologies do not generate significant demand for skilled labor, so training systems do not produce these skills. In Korea, the Economic Planning Board (EPB), as mentioned earlier, played a key role in aligning decisions about training funding and provision with the requirements of more advanced industry clusters targeted by the EPB (Lee 2009). In the 1970s the latter included heavy and chemical industries, and specialized high schools were created and funded sufficiently to provide young workers with the necessary skills for these new industries.

Apex training authorities are also found at the regional or sectoral level. Examples include the Sindh Technical and Vocational Training Authority in Pakistan, set up by the Sindh provincial government to consolidate 68 government pre-employment training institutions that previously

13 It should be noted that, through their CSR arms, many MNCs also promote youth development in areas not directly related to their businesses, for example the Caterpillar Foundation's investment in girls' empowerment.

had belonged to three different parent ministries, and the National Power Training Institute in India, a governmental apex body for training and human resource development to meet the needs of the country's power sector.

There is to date limited experience with—and evaluation of—such bodies in low- and middle-income countries (Robalino et al. 2012). For many such countries, lack of adequate administrative capacity will likely be a significant obstacle to setting up effective apex bodies to coordinate training demand and supply and manage competition in the training market. In Latin America, however, governments running the *Jóvenes* programs have successfully managed competitive bidding processes to select private providers. Nepal's Employment Fund training program successfully used performance-based contracting to ensure that job-placement targets were met; the program is one of the largest TVET programs in the country (Chakravarty et al. 2015). More policy experience and assessment in different contexts is needed.

4.3 Entrepreneurship Promotion

4.3.1 Description and Modalities of Private Sector Participation

Programs to help young entrepreneurs or would-be entrepreneurs include training in business management and related training (for example, financial literacy), apprenticeships, provision of credit or start-up grants, technical assistance and provision of supplies. These interventions address different constraints—for example, lack of business-relevant skills is a quite different problem than imperfections in credit markets that prevent would-be entrepreneurs from obtaining a loan. Clearly, an understanding of the operative constraints is needed to determine which programs are applicable. The groups targeted by the programs also vary, with some focusing on disadvantaged youth, some on women, and some including both adults and youth. In contrast to skills training and employment services, interventions to help youth start businesses are substantially more prevalent in developing countries than in developed economies, reflecting the greater importance of self-employment activities in the former.

With regard to private sector involvement, because these programs are designed to produce business owners, not employees, a major motivation for private firms' involvement—access to skilled workers—is absent, in contrast to the training interventions discussed above. Nonetheless, the private sector, acting in coordination with government and NGOs, does engage in youth entrepreneurship in multiple ways:

- Supporting training programs for youth entrepreneurs: This is a significant form of engagement for multinational firms as part of their CSR programs, typically through financing training carried out by international NGOs or others.
- Mentoring youth entrepreneurs, with local business people providing guidance to new business owners: This is often organized by NGOs; the mentorship programs of Youth Business International in many countries are a prominent example.
- Providing grants or credit to young entrepreneurs to start businesses: In the case of credit, this is typically provided through microfinance institutions, either as part of their social mission or for profit.
- Private firms providing business training services under contract.

- Including youth-run enterprises in value chains, as suppliers or distributors. This is typically promoted by multinational firms with major operations in a country but can be advanced by large national firms as well.

Many programs combine different elements, such as pairing training with grants or credit. For example, the Women's Income Generating Support (WINGS) intervention in Uganda, which focused on poor young women, combined a short training program with startup grants and follow-up mentoring visits. Several very large multicountry programs for young entrepreneurs also provide highly comprehensive services. For example, LiveWire International, supported by the Shell Oil Company and operating in 17 countries, provides information, training, promotion, mentorship, awards, and networking in its programming for young entrepreneurs or potential entrepreneurs. An initiative of Youth Business International, an international foundation and NGO, and Accenture Corporation, an international management consulting and technology company, similarly provides a combination of services including advice, continuous mentoring, networking, while also providing business financing (cash grants). The program has operated in more than 30 countries.

4.3.2 General Evidence on the Effectiveness of Programs to Promote Youth Entrepreneurship

With regard to impact evaluations evidence, two streams of studies are relevant: evaluations of entrepreneurship training, and evaluations of microcredit programs that target small or micro entrepreneurs. For entrepreneurship training interventions, the bulk of randomized or other rigorous impact evaluations for low- and middle-income countries have not been for specifically youth-focused programs, though most presumably include youth among the beneficiaries. A general finding for these programs is that they show benefits in terms of intermediate outcomes such as improved business knowledge and practices, and often, increased likelihood of starting a business. On the other hand, actual impacts on profits or incomes are for the most part not found (see the review of studies in McKenzie and Woodruff 2012). A meta-analysis of entrepreneurship programs (again not necessarily focused on youth) in developing countries (Cho and Honorati 2014) similarly concludes that such programs are successful at improving intermediate outcomes such as business knowledge or practices but have less effect on incomes or profits. The meta-analysis also finds that comprehensive programs—those that offer training plus other services such as access to finance, mentoring, or networking—tend to have better outcomes. Benefits also seem to be larger for youth participants, suggesting that entrepreneurship programs relieve constraints that affect youth particularly strongly, such as lack of skills or experience.

A small number of recent rigorous evaluations, mostly using randomized trials, do focus on youth. Among these, several programs in Africa (in Uganda and Liberia) targeted vulnerable youth in settings of recently ended civil strife, where there were few livelihood alternatives for young people other than self-employment.[14] Others, such as those in Latin America, focus

14 See Blattman, Fiala, and Martinez (2013) and Blattman et al. (2014) for Uganda, and World Bank (2012) for Liberia. Other programs in conflict areas including those in Côte d'Ivoire, Eritrea, and Sierra Leone (see World Bank 2015) do not currently have net impact evaluations associated with them, though some results will be discussed below.

mostly on disadvantaged individuals or households. The youth livelihood interventions in conflict areas seem successful at increasing self-employment among the recipients; this was found in Uganda for both the Youth Opportunities and WINGS programs, and for Liberia's Economic Empowerment of Adolescent Girls and Young Women. Positive results with regard to engagement in economic activity were also seen for a business training program for former combatants (including many youth) in Eritrea, but were not seen in a program in Côte d'Ivoire directed at former combatants and at-risk youth, though neither was evaluated using a rigorous design (World Bank 2013). Most of these programs offered training combined with other support, including small start-up grants.

Among several other youth-targeted entrepreneurship programs that were subject to impact evaluations, positive impacts on starting up an enterprise, and occasionally incomes, were seen in Peru for the programs *Formación Empresarial de la Juventud* and *Calificación de Jóvenes Creadores de Microempresas* (see Betcherman et al. 2007), in Colombia for Young Rural Entrepreneurs (Castañeda et al. 2010), and Bulgaria's Self-Employment Program (Betcherman et al. 2007). In Tunisia, an entrepreneurship training program for university students led to a positive but small increase in the likelihood of starting an enterprise (Premand et al. 2012), while in Malawi, apprenticeship training to promote self-employment among vulnerable youth improved business knowledge and psychosocial well-being but did not affect business start-up probabilities (Cho et al. 2013).

These evaluations indicate that, by and large, entrepreneurship promotion interventions can increase rates of economic activity and business start-ups among youth, and perhaps incomes as well.[15] Based on the common characteristics of successful programs, these outcomes likely result from the fact that training is combined with mentoring support services and financial assistance to start an enterprise; this apparent benefit of comprehensive services is in line with the meta-analysis findings noted above. Cost-effectiveness considerations appear less favorable but it is hard to draw conclusions, because only some of the impact evaluations consider this dimension. In the Liberian Economic Empowerment of Adolescent Girls and Young Women program, returns to the business training were high and the intervention was cost-effective, but this was not the case for Uganda's WINGS program. For the Bulgaria program mentioned above, costs per employed youth exceeded those for skills training and subsidized employment. Because costs of training plus grants can be high for these interventions relative to others, and many businesses fail, entrepreneurship promotion may not be as cost-effective as other interventions reported in the literature (Betchermen et al. 2007). On the other hand, in contexts where wage employment is very weak, as is the case for a number of the evaluations just described, other, more cost-effective, alternatives for promoting youth employment may be lacking.

Turning to evaluations of microcredit programs for small entrepreneurs, while there have been a number of rigorous evaluations in this area, they have generally not been youth-focused. Instead, the focus of the interventions has been on self-employment of adults, usually women, with the objectives of empowering women or increasing household consumption. The evidence from

15 The evaluations just discussed generally target out of school, unemployed youth. Another category of programs is entrepreneurship training in secondary schools and universities. In their review of findings from a range of such programs Tan and Nam (2012) find that, as intended, they foster an entrepreneurial "mindset" as well as business knowledge. Evidence on impacts on actual entrepreneurial activity post-graduation is less available and mixed with regard to findings, though a meta-analysis (Martin, McNally and Kay 2013) of programs, mostly in advanced economies, suggests a positive effect.

recent randomized trials of microcredit impacts has overall been disappointing given the hope vested in these programs. Several studies find modest positive effects on business development but impacts on household income or consumption are small (Banerjee, Karlan, and Zinman 2015). Given the relative lack of evidence specifically for youth-oriented microcredit programs, more assessment of youth-related credit assistance is an important area for future research. Youth, who lack collateral of their own as well as experience, are particularly disadvantaged with respect to access to credit to start a business. To be useful for youth, loans would need to be available to start up a small business, not just expand an existing one. Because youth are perceived as more risky by microfinance lenders, microfinance institutions would likely need to be subsidized, or subsidized more relative to adults, to make loans to them. Also, young peoples' greater difficulty in planning for the future may affect their ability or willingness to take a loan (as well as lender's willingness to provide one to them).

In one of the few evaluations to date of a microfinance program geared toward youth (Akhmisse et al. 2008) found that the Moroccan youth in their program, which also included business training and other services, did not take up the microcredit services in large numbers. This outcome could reflect difficulties that youth have in planning for the future, but could also reflect lack of understanding of the benefits of a loan, or factors that make it harder for them to secure a loan, such as not having an existing business activity. Further, borrowing for young people can be a sensitive issue in particular contexts, so cultural environment and parental perceptions need to be taken into account (Nagarajan 2005); these factors might also explain low participation.

It is possible that providing assets or means to savings for youth would be more beneficial (if also more expensive) than giving loans. Several impact evaluations show that transfer of assets in cash or in kind to small business owners yields benefits in terms of profits (Martínez, Ruiz-Tagle, and Puentes 2013; De Mel, McKenzie, and Woodruff 2008; Fafchamps et al. 2011; McKenzie and Woodruff 2013). This literature does not generally focus on youth, who typically would need to use the transfer to start a new business rather than expand an established one. However, the findings from impact evaluations above for business training seem to support the benefits of grants, as programs that were successful at increasing youth business activities often featured them as a program component.

Of particular note is the recent impact evaluation of the Youth Opportunities Program (YOP) mentioned earlier, a government program in northern Uganda designed to help poor and unemployed young adults become self-employed artisans. The centerpiece of the program was an unconditional cash transfer. To obtain these funds, youth from the same town or village had to organize into groups and submit a proposal for a cash transfer to pay either for fees at a local technical or vocational training institute or tools and materials for practicing a craft. For the most part, grant recipients chose to invest in the tools and materials, and there were significant gains in self-employment, business assets, and income; earnings were 38 percent higher among youth in the groups getting the transfers (which were randomly assigned) than in groups not getting them (Blattman, Fiala, and Martinez 2014). This striking finding suggests that asset transfers can help youth enter into businesses, by overcoming inherent lack of resources and/or access to credit. In this case, the grant had the desired effect even without any accompanying training, but in other cases youth may also require training. The YOP results also point to the potential for interventions that encourage groups of young people to work together to start a business.

Among the important outstanding research issues in this area are determining the right mix of promotion of self-employment vs. wage employment for youth, and how narrowly or broadly to target entrepreneurship programs. While "entrepreneurship" is a popular term, it would be misleading to suggest that any but some small fraction youth (or for that matter, adults) have the ability or desire to be entrepreneurs in the sense of risk-taking, dynamic business owners. There is some debate over whether entrepreneurship promotion should focus on those youth who have this talent (and who hopefully would eventually be able to generate significant wage employment for many others) or to provide it more widely so that any youth can enter self-employment as an alternative to wage employment (see Grimm, Knorringa and Lay 2012). In Argentina, the *Microemprendimientos Productivos* program, which provided grants and technical assistance for self-employment to any interested beneficiary of that country's large-scale welfare program, attracted only a very small share of these beneficiaries; the small self-selected group of people who took advantage of the program did benefit but were intrinsically well suited to self-employment activities because of their unobserved skills and their human capital endowments (Almeida and Galasso 2007). In line with this experience, McKenzie and Woodruff (2013) estimate that only about 65 percent of those offered entrepreneurship-training programs, even if they are free, will take advantage of them.

It is possible to increase participation and retention in entrepreneurship training by offering incentives, such as those granted by Liberia's Economic Empowerment of Adolescent Girls and Young Women (noted earlier). This does not get around the issue of possible low social returns to such training (or low likelihood of opening a business and greater likelihood of business failure) for those without the propensity to succeed in self-employment. One factor that needs to be considered is whether the returns to the training can only be realized through starting and running a successful business. To the extent that youth entrepreneurship programs provide general noncognitive skills, such as critical thinking, decision making, and flexibility, as well as financial literacy, they may serve all kinds of youth in the long term, even those who enter wage employment. This could significantly increase the value of such training, and reduce the negative impact of youth making a choice to prepare for self-employment that in the end proves not to be the right choice for them. In the United States, one study suggests that individuals with university-level entrepreneurship training increase firm productivity and dynamism as employees in smaller firms (Charney and Libecap 2000). Studies of the potential productivity impacts of entrepreneurship training in wage employment should be undertaken in low- and middle-income countries as well.

4.3.3 Evidence on Effectiveness of Private Sector Participation in Entrepreneurship Development

As was the case for job skills, a significant way the private sector is involved in youth entrepreneurship is through the provision of training by private profit-making firms. There is little evidence on the effectiveness of private compared with publicly provided (or NGO-provided) training. However, results of the meta-analysis of Cho and Honorati (2014), which is not limited to youth-based interventions, suggests that private sector delivery of entrepreneurship training leads to better outcomes, pointing to quality gains from using private providers (or having more competition in provision). This is consistent with the case of employment skills training above.

Unfortunately, there is relatively little research on the effectiveness of the other forms of private sector participation in activities to promote youth entrepreneurship—for example through provision of mentorship and business advice, or inclusion of youth-owned enterprises in value chains (discussed below). This should be an area for future research, along with the more general open research questions regarding entrepreneurship promotion noted above.

Knowledge is also limited regarding possible constraints to involvement of the private sector in activities related to youth entrepreneurship. Participation of established entrepreneurs as mentors to youth entrepreneurs or would-be entrepreneurs generally must rely on the voluntarism of mentors, not an appeal to their bottom lines (as they are not cultivating a labor force for their firms). Difficulty in attracting mentor volunteers for young entrepreneurs has been reported for Youth Business International's programs, despite YBI's overall success at reaching very large numbers of youth (Kenyon 2009). A rather different program that has been highly successful in attracting volunteers from the business sector is INJAZ, an NGO promoting entrepreneurship education in schools in the Arab world. Starting in Jordan in 1999 but since expanded to 15 countries, INJAZ also teaches business skills and financial literacy as well as soft skills for students who may enter wage employment. These short courses and other programs are largely taught by volunteer business professionals, in cooperation with school staff, with about 130,000 students benefiting each year.

It is likely that problem of time constraints affect the ability to recruit experienced mentors just at it appears to affect some private firms' participation in vocational skills training noted earlier. Another (apparently unexplored) factor in private sector willingness to participate may be that some established entrepreneurs—that is, potential advisers or mentors—would perceive an entrepreneurship promotion program as producing direct competitors for their own businesses (in contrast, job skills training would generally help firms by producing a better-trained supply of wage labor). This would be more likely if the program was narrowly focused on a particular sector, and less so if general business training was offered. Overall, more research is needed on private firms' (and entrepreneurs') participation in entrepreneurship development programs, where it is not adequate and why, and what sort of incentives or other means can be used to increase it. It should be kept in mind, however, that the private sector's engagement in entrepreneurship development will tend to be more limited than that of employers in skills training, since the latter are motivated by the need for skilled employees.

4.3.4 Promotion of Youth Entrepreneurship in Value Chains

Increasing attention has been given to the potential benefits of integrating youth entrepreneurs into value chains, as input suppliers or distributors and retailers. Value-chain development is of interest to large companies, including multinationals, as a way of ensuring reliable and high-quality supply or distribution networks. For small enterprises, being in value-chain networks means participating in potentially dynamic, and often internationally linked, production cycles with attendant potential for growth. As discussed in Chapter 2, investment in supply (and distribution) chains by MNCs or large domestic firms is considered an example of "shared value" investments because in principle both commercial and social goals are attained. Value-chain development is not youth-related per se; particular efforts would need to be made to target youth entrepreneurs, including the provision of necessary sector-specific training and other services. Firms that make these efforts toward youth-inclusive value-chain development thus will likely be diverging to some extent from a purely profit-making motive.

Value chains in agricultural production for international markets has been a major focus of this attention, with multinational companies leading or involved in several large-scale, high-profile initiatives. Agriculture makes for a natural focus for value-chain development to benefit small enterprises, as agribusinesses often rely on a multitude of small farms as suppliers. Further, MNCs producing food for consumers in developed countries are under increasing pressure to show that this food is sourced from environmentally sound producers and is of high quality, for which tighter links with, and investments in the quality of, farmers is necessary. For youth, participation in agriculture value chains offers a potentially dynamic livelihood, as producers of high-quality crops and potentially also as participants in high-value-added post-harvest processing and distribution activities.

Among programs of this type, in Vietnam, the ILO has initiated a program to improve the returns to young rattan producers by improving technical skills and productivity as well as quality and branding, and enhancing linkages to national and global markets, including firms that supply IKEA (ILO 2012). Unilever, in partnership with Solidaridad, an international NGO, recently launched a program to target 1 million small farmers in Unilever´s extended value chains in Africa, Latin America and Asia. The goals include support to target young agricultural entrepreneurs (as well as women) and improving agricultural and labor practices and land management for agricultural raw materials (tea, cocoa, sugar, palm oil, fruit and vegetables, soy, and dairy). Another high-profile inclusive value-chain initiative, though targeting women rather than youth (but a potential model for youth-focused initiatives) is Coca-Cola's 5by20 Initiative, which targets the economic empowerment of 5 million women entrepreneurs within the company's global value chain, including women producers, suppliers, distributors, retailers, recyclers, and artisans.

There is not much evidence regarding the impact of inclusive value-chain development on youth beyond reporting of numbers reached as part of programs. Several important questions should be considered in analyses of these programs. First is whether targeting value chains of MNCs is an effective way to improve youth livelihoods at scale, relative to wage work or even to more general promotion of self-employment or entrepreneurship. As noted, potential impacts will be larger when the value chain includes many small suppliers (or distributors), but will be small if there are relatively few; in the latter case, development of youth workforces for these firms rather than entrepreneurs may be more effective.

Second, given the narrow focus on one industry or sector, the question arises whether targeting young entrepreneurs leads to displacement of, or lower incomes for, existing entrepreneurs in the sector. This is more of a possibility than for more broad-based entrepreneurship or skills training. On the other hand, in many countries in Africa and elsewhere there are emerging shortages of farmers because few youth are willing to remain in rural areas and enter this form of livelihood (Brooks, Zorya, and Gautam 2012). In such contexts, youth-focused value-chain promotion that raises the attractiveness of agriculture as a career may actually solve a labor shortage rather than contribute to excess supply. Finally, as with training initiatives involving MNC actors, careful consideration is needed to ensure that company needs, which naturally are narrowly focused, align with national workforce and skills goals.

4.4 Employment Services

4.4.1 Description and Modalities of Private Sector Participation

Employment services include activities related to intermediation in the labor market, that is, matching of workers to employers, as well as more broadly providing assistance to individuals in their efforts to find appropriate work. As discussed in Chapter 2, these functions can compensate for information failures in the labor market. The most basic service is providing information to job seekers about openings, and information to employers about workers; this can include posting CVs online, arranging interviews, and setting up job fairs. Employment services also include more intensive, individualized assistance to job seekers, such as providing information on career options, advice on skills acquisition, and coaching on how to search for a job and handle an interview. For youth just entering the labor market and lacking experience in finding work, these services will be particularly important. For employers, services range from simply posting vacancies and referring candidates to intensive interaction with firms to learn about their needs (potentially including advising employers on the kinds of skills that would help them) as well as vetting candidates carefully before referral.

Most countries have some form of public employment service (PES) to carry out these functions. PESs in advanced economies tend to offer significantly more services, such as individualized guidance, than in low- and middle-income countries, where activities tend to be limited to those of the traditional employment office model, that is, providing basic referral services. In a number of advanced economies, PESs have been evolving into full-service "one-stop shops" that combine the full range of employment services just described with skills training, as well as handling the determination of and distribution of unemployment insurance benefits. Public employment services in advanced economies have also become increasingly reliant on contracting out to private providers for many of the services provided, including both employment services themselves and skills training. For example, the United Kingdom's JobCentre Plus and Job Services Australia both refer individuals to private job-placement agencies (which are evaluated and rewarded based on placement results) as well as to training providers as warranted.

Comprehensive employment services that include personalized counseling are much less common in low- and middle-income countries, in part because they require a higher level of skill among staff as well as more resources. This has negative implications especially for youth in these countries, who have the greatest need for this guidance. Contracting out of employment services to private providers is also less common than in advanced economies. However, even in low- and middle-income countries there are trends toward both private contracting and provision of more comprehensive services. In the Middle East and North Africa region, for example, while in some countries such as Tunisia employment services are carried out almost exclusively by the state, in others such as Lebanon, Egypt, and Jordan contracted private agencies have come to play an important role. There are 45 licensed private employments agencies in Jordan and 54 in Egypt (Angel-Urdinola and Leon-Solano 2013).

Further, comprehensive-service provision, along the lines of the one-stop shop model, has made inroads in several countries, such as Korea, the Philippines, Bulgaria, and Azerbaijan. The Bulgaria example is strongly client-centered, with higher-end services provided as needed for job seekers and employers. "Clients" (job seekers) are profiled for skills, education, qualifications, and needs through an interview with a trained interviewer, and the office and job seeker jointly fill out a tailored "mutual obligations" plan to signal co-responsibility for finding a job. The clients then can access a range of activation services, including, as required, training, counseling and job-readiness advice, and intermediation and job brokerage services (Kuddo 2009).

In some countries, as noted, employment services are coordinated with training services and either direct individuals to the appropriate training or provide it. Conversely, individual training programs often include placement services for their graduates. As seen in the last chapter, more than half of the Youth Employment Inventory sample of interventions featuring skills training also had some form of job-placement or counseling services. Often this takes the form of agreements with selected employers; for example, Plan International's *Saksham* vocational training program in India has arrangements with multiple employers in the fields in which it trains to place its graduates (Ecorys 2014). Wage subsidy programs for youth are also sometimes linked with placement services (as well as training), as discussed below.

Information and communications technology plays a vital role in employment services, in two main ways. First, efficient operations require a management information system to keep track of registrations and handle real-time data on job seekers and openings. Second, in higher-income as well as many middle-income countries, the actual delivery of employment services has been revolutionized by the use of the Internet to post CVs and job announcements; counseling and other individualized services are also increasingly carried out online. In principle, the use of the Internet can broaden the reach of employment services to more remote areas, as well as reducing costs of staff and offices. An example is the *Ta3mal* network developed by a partnership of Microsoft and Silatech, a leading NGO for youth employment in the Middle East and North Africa. Introduced in Egypt and then expanded to Iraq and Tunisia, *Ta3mal* is a web-based network that provides youth with free access to resources such as advice on how to write a CV, and career guidance tools and virtual advising to help young people determine the appropriate career path, including entrepreneurship.

However, as with provision of higher-level services, many developing countries lack the sophistication or infrastructure to implement Internet-based services as well as computerized management information systems. That said, technology itself offers other alternatives, such as the SMS-based matching application developed by SoukTel, an NGO and mobile service provider, and now being used in the Palestinian territories, Morocco, and East Africa. The system provides a platform for firms and potential employees to connect via text messages. Despite the reliance on new technology, this is actually a low-cost, potentially equity-enhancing option available to the large majority of youth because only a cell phone is needed (the share having cell phones is much larger than that with Internet access). It also provides access to rural youth lacking physical access to job centers.

The private sector can be involved in employment services in two distinct ways, much as with skills training: as providers of the services (just discussed), and as employers that make use of these services to recruit workers. We turn to the available evidence on these roles, starting first with a more general overview of the evidence of effectiveness of employment services.

4.4.2 General Evidence on the Effectiveness of Employment Services for Youth

There are few rigorous impact evaluations of employment services for youth in low- and middle-income countries. However, studies of developed economies (not necessarily youth-focused) generally show that these services have positive impacts on employment probabilities as well as being cost-effective; the latter may not be surprising as they are significantly less expensive to provide than intensive vocational or entrepreneurship skills training, for example. A meta-analysis by Card et al. (2010) found that job-search assistance programs are likely to yield positive impacts on employment levels and wages, while other ALMPs are less effective or ineffective (earlier analysis comes to the same conclusions; see Kluve 2006, Betcherman et al. 2007, Lehmann and Kluve 2010).

While there are few such impact evaluations of employment services in low- and middle-income countries for youth (or in general), employment services were found to be cost-effective in Romania (Rodríguez-Planas and Jacob 2010). Peru's Proempleo program, which was designed to place vulnerable low-income youth, low-skilled workers, and the disabled, also appears to be effective at low cost (Robalino et al. 2013). Both programs provide a wide range of employment services.

The literature just mentioned mostly considers the benefits and costs of distinct or stand-alone job-search and counseling services (which may, however, be the gateway to training and other services). As noted, many training programs also provide placement services for beneficiaries. As indicated in Section 4.2, meta-analysis suggests that the addition of such employment services enhances the employment outcomes of such programs (Fares and Puerto 2009).

Even if employment services are effective for those youth who use them, levels of utilization of these services in most developing countries—and the numbers of individuals actually placed through them—remain very low. Jobs obtained through such services account for just a small share of all placements (Kuddo 2012). Instead, the primary means to a job remains the use of informal networks—connections to family, friends, or current employees (Cunningham et al. 2008; Peeters 2009). Reliance solely on who one knows is likely to be inefficient because it limits the pool of potential workers who are available to employers, and limits the number of potential positions available to the worker. Such informal networks tend to be localized as well, reducing the pool of firms and workers to those within a limited area as opposed to encompassing other districts or cities, thus constraining the development of integrated regional and national labor markets.

In a survey of Punjab, Pakistan, the overwhelming majority of the employed found their jobs through informal networks, and these networks were more extensive for higher-income households (Cheema et al. undated). The latter finding suggests that informal networks may also be inequitable, because with smaller networks, the poor have less information about opportunities, and fewer people who might recommend them to employers. Further, informal networks serve youth less well than older workers, because young people have not formed as extensive social ties with individuals who can help them find work. Therefore potential efficiency as well as equity gains—and youth inclusion benefits—can come from expanding networks, or replacing or supplementing informal networks with formalized (and wider) means of matching workers to employers.

Several factors appear to explain the low utilization of employment services in most low- and middle-income countries. One is that labor market intermediation services will be of only limited help in the absence of economic growth, that is, the creation of new jobs, or if the PES is not oriented toward areas where jobs are being created, including the informal sector (discussed below). The programs themselves typically suffer from a significant lack of resources, being poorly funded and inadequately staffed. For example, in Syria, Morocco, and Lebanon, the ratio of registered job seekers to PES staff was found to be extraordinarily high—14,000:1, 1,500:1 and 1,200:1, respectively (Kuddo 2012; note the extremely high figure for Syria reflects the fact that PES registration was also the conduit to public sector employment). This clearly limits the agencies' ability to provide anything but the most basic core services, but as noted above lack of skills also limits this ability, as providing individualized counseling for example requires more highly skilled personnel. Resource constraints also lead to geographical limits to coverage, with a concentration of offices in urban centers. Similarly, the need for sophisticated IT systems, which are essential to operating effective employment services, also poses a challenge in lower-income countries.

4.4.3 Evidence on Effectiveness of Private Sector Participation in Employment Services

With regard to provision of employment services by private providers, evidence in the form of impact evaluations directly comparing private and public services is lacking.[16] However, it appears that effective systems to provide employment services are characterized by significant reliance on private providers. Under results-based contracting in which providers must show success at placing job seekers, private providers may deliver employment services more efficiently, though in principle this could apply to public agencies if a system of incentives is put in place. However, private providers tend to serve different groups of job seekers than public services, as least in OECD contexts (Kuddo 2012). Private agencies tend to serve more highly skilled workers and also often specialize in specific fields, which is efficient in complex labor markets. They also usually serve an urban clientele. In contrast, public agencies serve a disproportionate share of youth, disadvantaged workers, and long-term unemployed—that is, those who are more difficult to place. With appropriate incentives and monitoring to ensure equity in private provision, however, this distinction need not be inherently the case, but clearly the capacity must exist to monitor private providers to ensure they serve the desired population. Successful approaches in developed economies toward contracting involve setting requirements for placements or incentives for better performance, with clearly defined targets (including for specific types of job seekers) and transparent procedures for evaluation of performance toward targets (Kluve 2006).

Private employment services can also be expected to inject more sophisticated information and communication technology and technological innovation into matching and other services. A good example is the SMS-based job-matching application developed by SoukTel noted above.

16 Setting up such an assessment would pose challenges but could be done. For example, in an area where there are fee-charging private as well as free public agencies, youth could be randomly assigned to get a voucher that can be used with private agencies. Outcomes would be compared for these youth and those able to use only the public agency.

With regard to participation by employers as *users* of employment services, obviously these services will benefit youth only if actors on both the supply (youth) and demand (firms) side find them credible and are willing to use them. Inadequate interest on the part of businesses is sometimes noted as a cause of limited impact, as in the case of India's employment exchanges (Visaria 1998), while in other cases strong business participation is observed, as in the case of the local initiative *Primer Oficio* (first job) program developed by the municipal government of Curitiba, Brazil (Hopenhayn 2002). Close and active engagement with employers to understand their needs (plus careful and timely screening and referral of candidates, and follow-up to monitor how the new hires work out) seems to be important for employers to find the services useful—that is, there needs to be an active partnership between firms and the employment agency rather than a passive posting of vacancies (Kuddo 2009).

Unfortunately, the existing literature does not have much to say about employers' level of engagement, their motivations or barriers to engage with employment services, and perceptions of effectiveness of these services for meeting their needs. Presumably the low utilization of formal employment services in most countries reflects in part a perception by employers that they are not very useful or necessary. Firms may feel that the services are not effective because the agencies do not interact with them adequately to discern their needs (possibly reflecting the resource constraints these offices face). Or they may be generally satisfied with the more informal means they are currently using to fill vacancies, and wary of the costs of changing over to a new system with uncertain benefits and costs that include at the very least staff time. In some cases, participation in PES systems may entail requirements that firms view as restrictive. For example, they may be obligated to post all openings through the agency in exchange for the service, which technically would prevent them from also using informal networks. Making a complete switch in the process by which employees are recruited may be viewed as too risky.

Because employment agencies have focused largely on formal employers, the lack of participation of smaller or informal firms remains an important limitation, especially in contexts in which most new jobs are in the informal sector. Given the resource constraints facing most PESs, their focus on larger firms is understandable: it takes fewer resources to work with a limited number of large firms than to interact on a continual basis with a multitude of small and medium enterprises. However, this not only may miss the majority of new jobs for youth; it also likely focuses services on better-educated individuals who have the skills more likely to be needed by formal sector firms, as well as tending to ignore rural areas where there are few such firms. In some cases there may be legal barriers to involving smaller firms, for example, companies may not be able to register with the employment agency unless they are also officially registered with the government and paying taxes (which, essentially by definition, informal enterprises are not).

There are some cases where job-placement services do attempt to serve informal firms as well as formal ones, usually in the context of programs that combine training and placement. For example, the Life Skills Education for Employment and Entrepreneurship program in Indonesia uses private providers to train, certify, and match unemployed youth with domestic and overseas jobs in either the formal or informal sectors. To overcome the logistical and cost challenges of working with myriad small and medium firms, employment agencies could work with business associations for specific sectors that would compile the needs among its member enterprises and deal directly with the agency. However, more research is needed in different contexts to understand potential uptake by private employers of these services before designing programs in specific contexts. For example, even with more outreach from employment agencies, smaller firms may still prefer to use informal means of finding workers, given the time or others costs of changing approaches. Cost-effectiveness of approaches that engage large numbers of smaller firms also needs to be assessed.

4.5 Wage and Employment Subsidies

4.5.1 Description and Modalities of Private Sector Participation

Together with public works employment, wage and employment subsidies operate to increase the demand for labor, in contrast to skills development, which works to improve the quality of labor supply, and employment services, which improve the matching of labor demand and supply. Given our focus on the private sector role in youth employment, public works programs are not directly relevant, so we discuss only wage and employment subsidies here. These financial incentives to employers can be provided directly, through wage subsidies per employee hired (or retained), or indirectly, through reductions in payroll taxes or income tax credits. Alternatively, vouchers can be given to job seekers; these would then be redeemed by the firms that hire them.

Wage subsidies have been used to stimulate employment during economic downturn but also to improve the employment prospects of specific groups, including youth. The main objective of subsidies that incentivize firms to hire youth is to make it easier for young people to get into their first jobs, where they can obtain training and skills that increase their employability, thereby providing benefits after the period of the subsidy is over. On the side of employers, the subsidy compensates firms for the lower productivity of young workers and the costs of training them on the job. Further, it provides a low-cost means by which firms can screen new workers, an important consideration for youth who lack employment experience that could signal their value to employers.

Wage subsidies targeted to youth employment have been used in a number of high- as well as middle-income countries. Among the latter, Lebanon's New Entrants to Work program offers vouchers to first-time job seekers that cover the cost of employers' social security contributions during the on-the-job training period. In Morocco, the *Idmaj* program followed a similar approach, permitting entry-level job contracts that exempt the employer from taxes and social security payments. In Chile, the nationwide *Subsidio al Empleo Joven* (SEJ) provides a subsidy to the (low-income) youth and an additional subsidy to the firm that hires him or her. South Africa's recently instituted Employment Tax Incentive provides a wage subsidy through reduced taxes to firms that hire young people ages 18–29. A number of countries also have had general wage subsidy programs, typically oriented toward the poor, which have included sizable numbers of youth as beneficiaries.

The behavior of employers is obviously critical: They have to feel that the subsidy compensates for the effort and risk of hiring youth whose productivity is low in general and whose individual characteristics as workers are not easily signaled to them (though evidence discussed below also suggests that youths' own job-search behavior changes in response to vouchers—as opposed to responses of firms—has impacts on employment outcomes). Further, beyond any impacts on hiring in the short term, for the schemes to achieve their ultimate objectives, the firms must provide the youth with substantive on-the-job experience and/or training so they will be employable once the period of subsidized employment ends.

4.5.2 Evidence on the Effectiveness of Wage Subsidies for Youth Employment

Evidence on programs in developed economies indicates that wage subsidies can be effective at getting youth into employment in the short term (Rother and Puerto 2007, Kluve 2006). Among middle-income countries, impacts on employment appear to be generally, though not universally, positive. An evaluation of an employment voucher experiment in Argentina (Gallasso et al. 2004) combining training and wage subsidies for the poor (not just youth) found that the voucher—rather than the training—had significant impacts on employment probabilities, and these were higher for youth (and for women). However, because few firms actually redeemed the vouchers, the effect seems to have operated through changes in the job-search behavior of the unemployed participants. Betcherman et al.'s examination (2010) of employment subsidy schemes in Turkey (also not specifically youth-targeted) found significant net increases of between 5 and 15 percent in the number of registered jobs. Some of this appears to have occurred through informal firms officially registering (formalizing) to get the subsidy, rather than through an actual increase in employment.

In Chile, an impact evaluation of the *Subsidio al Empleo Joven* program found significant employment effects for vulnerable youth of 5 percentage points (a 13 percent proportional increase) in the first six months of implementation, but declining to 1.3 percentage points (3 percent) after eighteen months (Bravo and Rau 2013). A randomized trial of a pilot voucher program in South Africa found a 7 percentage point increase in employment probabilities for youth in the short term that was maintained even after two years, after the vouchers lapsed (Levinsohn et al. 2014). In contrast, in Jordan, a six-month voucher to firms covering minimum wages for female community graduates led to sizable increases in employment rates, but these subsided once the voucher period ended (Groh et al. 2012); comparison to controls indicated this was because the young workers had simply replaced older ones for the duration of the subsidy.

The evidence therefore indicates that wage subsidies can work to get youth into jobs. However, the longer-term impacts—which are less frequently measured—are not as clear. In some cases, the youth seem to have been provided with sufficient training and experience to remain employable, but in other cases this did not happen. Also, in several cases in which vouchers were given to youth to be redeemed by the firms hiring them, the firms mostly did not do so, so the effect on employment was operating primarily by increasing youths' own efforts to find work, or their willingness to accept what work was offered, not by incentivizing firms to hire them.

As the Jordan study suggests, wage subsidies might also have negative macroeconomic or general equilibrium effects, which are infrequently considered in evaluations. These include deadweight loss (in which some of the hiring from the target group would have occurred even without the subsidy), displacement effects (in which the subsidized workers simply replace unsubsidized ones) and substitution effects (in which, in the case of youth, younger low-skilled workers replace older more skilled ones). Evidence from developed countries indicates that for general (or not highly targeted) wage subsidies these effects may be substantial, which clearly would reduce the net impact and cost-effectiveness of the wage subsidies (Crépon et al. 2012; Calmfors 1994; Martin and Grubb 2001). Losses from substitution effects occurred in the Jordan program, as noted above, and deadweight loss appears to have occurred in the programs evaluated in Turkey (Betcherman et al. 2010). In contrast, in Chile, Bravo and Rau (2013) are able to establish that there were no substitution effects in the sense of younger, subsidized workers replacing older ones in the same firms. However, because this program worked in effect through the subsidies provided to the youth (who altered their labor-supply behavior) rather than the subsidies to the firms, the implications for programs that would directly pay employers is not clear. In general, losses in net impact through general equilibrium effects can be minimized by tightly targeting the subsidy program to specific groups, as well as limiting the duration of the subsidy, though both of these come at the cost of limiting the extent of coverage.

4.5.3 Evidence on Effectiveness of Private Sector Participation in Wage Subsidy Programs

Although wage subsidy schemes for youth do appear to be able to increase youths' access to employment at least in the short term, participation of employers—in the sense of taking steps to actually get the subsidies—was often very limited, a perhaps surprising outcome. In the South Africa and Argentina experiments, only a small share of employers actually redeemed the vouchers despite being eligible to do so; in the Chile program, very few employers applied for the direct payments for which they were eligible by hiring youth. In these cases, impacts on employment came largely through changes in the youth's own behavior as a result of getting a voucher: the recipients were either more active in looking for work or more willing to accept offers that they received. This labor supply response in itself can be considered a positive outcome, but the lack of firms' direct participation is of concern because it may constrain the effectiveness of such programs. The reasons appear to be administrative burdens on the firms or uncertainty about how to obtain payment. In the case of pilot programs, some of the apparent uncertainty might be eliminated when a program is scaled up, there is adequate outreach, and the program has been in place for enough time. Still, the lack of employer participation echoes similar problems seen with respect to training subsidies. A higher subsidy might overcome the barriers, but it would be better to ensure that procedures for getting payments or tax reductions are simple and unburdensome for employers.

The question of whether firms that hire youth under wage subsidy programs are providing training and experience that enhances future employability can be assessed by seeing how the youth fare with regard to employment in the medium or long term, after the subsidy period is over. The evidence on this, as just discussed, is limited and mixed. More research is needed, through impact evaluations that measure employment and earnings of youth beneficiaries and controls over time as well as through qualitative interviews with the youth and their employers. If employers are not providing training on their own to youth hired under subsidy programs, finding ways to rectify this will be challenging. Paying the subsidy only if the youth is still working after a substantial minimum period, say a year, would ensure that they gain some level of experience, even if it does not guarantee that they are being provided with substantial training during that time.

Another approach would be for the wage subsidies to be combined with training programs for the youth, provided or financed by the government. There are several examples in middle-income or transition countries of this approach, in which the subsidy is in effect a recruitment bonus paid to firms to hire recent trainees (Kuddo 2009). For example, in Tunisia, companies hiring trainees receive a recruitment premium, paid after one year of actual work from the date of recruitment. Further, the firms receive support from the National Employment Fund for a period of seven years to pay the employer contribution to statutory social security for trainees who are recruited as job seekers and given employment contracts—from 100 percent of the contribution during the first and second years to 25 percent during the seventh year. In Lebanon, the New Entrants to Work Program combines life-skills training, provided by competitively selected private or NGO providers, with on-the-job training and a wage subsidy to firms.

A further issue with regard to employer engagement in wage subsidy programs is the difficulty of achieving significant participation among informal sector employers. Because such firms generally do not pay payroll or income taxes, and are not officially registered, payment schemes involving tax reductions or rebates are not practical. Interestingly, however, as noted above, in Turkey it appears that some informal firms were registering with the government—that is, formalizing—in order to claim the wage subsidies for their new hires. This formalization itself is a desirable outcome, above all because registered firms pay taxes. On the other hand, presumably many other informal firms would find this condition for benefiting from the subsidy ultimately too costly, so would prefer to remain informal and not hire youth under the subsidy program, limiting the impact of the program. However, all informal firms could in principle participate in a voucher system, if this requires only that the firm hiring the youth applies to redeem the voucher. Currently there is little direct evidence on whether smaller informal firms would participate in wage subsidy schemes and how best to design them.

Chapter 5

Additional Aspects of Public-Private Partnerships for Youth Skills and Employment

Throughout this report we have discussed a number of aspects of private sector involvement with the public sector in initiatives for skills development and youth employment. This chapter briefly highlights process-related and institutional factors in such public-private partnerships. Some of these have emerged in the foregoing review of programs, at least implicitly, while others emerge from the broader literature on such partnerships. The discussion also draws on discussions with a number of expert practitioners with extensive experience in this area. The chapter first considers a number of factors that pose challenges to successful PPPs, such as differential expectations among the partners or goal incompatibility. It then notes a number of factors that increase the chances of successful outcomes.

It should be noted that in contrast to the large technical literature on program impact evaluation, there is less available information, and few comprehensive reviews, on PPP experiences in youth employment in low- and middle-income countries.[17]

17 Two highly useful partial overviews are Dunbar (2013), which focuses on training programs, and Reese et al. (2002), which considers PPPs and other intersectoral partnerships featuring multinational companies. This chapter reflects in part insights from discussions with Delores McLaughlin, Plan International, and the Plan teams in El Salvador and Indonesia; Peter Shiras of International Youth Foundation; and Susana Puerto Gonzalez and Maria Prieto of ILO.

5.1 Factors Constraining the Success of PPPs

The literature and interviews carried out for this report highlight a number of potential limiting factors:

Differing expectations and styles: Business firms typically move faster than governments, and expect results sooner. This difference in style and speed sets up the potential for disappointment or disagreement. Further, the PPP itself is based on a principle of consensus among parties, which while usually essential to ensure acceptance of new initiatives, also slows down the process of reaching agreement, making decisions, and taking action (Euler 2013). Firms in particular may be frustrated by this and prefer therefore to do their own training, for example.

Incompatibility of objectives: Expectations concern not just the speed of results but—probably more important—what each party expects to get out of the partnership. Profit motives dominate most firm behavior, of course. The need to ensure an adequate private return to participating firms in PPPs is frequently highlighted (United Nations Foundation 2002), though at the same time it is often stated that a shared vision must be the basis for successful partnerships. This generally would be understood to mean a public or social vision, not a purely private one. The extent of tension in these visions—or put another way, the divergence between the private rationale of firms and the public one of governments and NGOs—depends on the intervention and the nature of the firms involved. In some cases, interests may be very closely aligned. For example, interventions addressed at rectifying information failures (firms lacking knowledge of youth qualifications, or not having information on the quality of training programs) are likely of high benefit to firms while also serving well public objectives for youth and the goal of labor market efficiency. In other cases, there may be a substantial divergence. For example, if the government wants to direct training or job assistance to particularly disadvantaged youth who are more costly for firms with regard to the extent of training and supervision needed or the risk of failure, the public subsidy element may need to be large.

Private and public goals may be well aligned when the firms are motived by corporate social responsibility (CSR), because then they are already presumably focused on more social considerations. For example, often the expressed purpose of such programs is to help disadvantaged or vulnerable youth, or young women. Even when CSR motivations are significant for the firm, however, the potential exists for a (different kind of) goal incompatibility. As discussed in Chapter 2, MNC investments may focus on interventions or sectors that have appeal to the company's affluent, far-flung customers (or its own workforce) while not necessarily addressing key skill or employment needs facing the country. To date there has been little analysis of this issue. However, a general point is that PPPs must be based on a clear understanding of the motivations and expectations of private and public (as well as NGO) partners.

Imbalance in decision making: For several reasons, the power in a public-private or intersectoral partnership may be unequal, so that decisions tend to more strongly influenced by one of the partners than the other(s). The most common reason cited is a disparity in the resources each party contributes. In many partnerships the main contributor of resources is a corporate partner (which is often a key reason to involve them), and this may tip the relationship with the recipients (public sector or NGOs) into a more traditional "aid donor/aid recipient" mode, in which the giver dominates (Reese et al. 2002). This in turn may steer the specification of goals toward the interests or preferences of the corporate partner. However, corporations may also end up playing a dominant role by default, simply because they are able to make decisions and take action more quickly than governments. Assumption by one party of decision-making power by default also has characterized a number of training initiatives in which anticipated employer participation did not materialize. As noted in Chapter 3, this results in decisions (on curricula, for example) being made by government or private trainers, with the consequence that the programs were less demand driven.

Lack of trust: Trust is an essential agreement in any partnership, but trust between private firms and government may be in short supply. For example, in countries with little previous experience in PPPs, firms may hold to a traditional view of the public sector as an antagonist rather than collaborator. Or, at the least, based on a history of poor public sector performance in the areas of education, training, and employment in the past, firms may be skeptical that a government partner will be competent and effective. In addition, certain parties in a potential partnership—generally, those with fewer resources or less perceived power—may not trust the intentions of the other partners and worry about being "co-opted" by them; this was the experience of many NGOs in the early period of intersectoral partnerships (Reese et al. 2002).

Low level of private sector participation: This challenge has been discussed in detail in the previous chapter in the course of covering different kinds of programs for youth. Many initiatives have suffered from low participation by domestic firms. It was stressed that first, most programs do impose costs (not just provide benefits) to firms, and some firms may perceive the costs as too high relative to benefits. These costs can involve commitments of resources of time of staff or owners, in addition to financial resources. Inadequate information on the potential benefits, or concern over risk, may also be at play. As noted, for smaller employers these factors may loom larger. The fact that firms' participation to some extent often provides a public good that is enjoyed by other firms (or by society) and not captured by the firm itself—a divergence of private and public benefits—may limit their willingness to participate to a less than socially optimal level. Participation in planning for skills development and national qualifications frameworks (NQFs), in which participation seems to have been particularly problematic, may be a situation in which a firm's expected private benefits are often seen to be low, though other factors may be at play as well.

Inadequate or unsustained resources: Many initiatives are not adequately resourced to expand beyond an initial stage in order to have a real impact on youth. Lack of ability to go to scale, or to be self-sustaining, was cited as a constraint in a number of local level PPPs that were otherwise considered successful (reviewed in Kenyon 2009). This is not a problem that is unique to public-private partnerships, of course. However, it may emerge as particularly significant in PPPs because many initiatives rely heavily on financing from private contributors (in particular, multinational companies) whose level of commitment may not be sustained. More domestically resourced programs too may rely heavily on firm contributions that may be discontinued beyond some point, in contrast with institutionalized purely public sector programs.

5.2 Factors Contributing to the Success of PPPs

A number of factors appear to be important for PPPs to achieve their goals and be sustainable:[18]

Adequate planning: The need for adequate planning to build public-private partnerships is emphasized in the literature and in expert interviews. In addition to requiring appropriate diagnostics of programmatic needs in the country or context and a well-considered design of the intervention itself, the institutional arrangements of the parties need to be worked out. Planning for this includes not just making agreements, but before that, building familiarity and trust among partners that often are not used to collaborating with one another. A comprehensive strategy for building and maintaining the partnership is vital, including specifying the roles and expected performance of each party as well as the governance structure of the partnership (United Nations Foundation 2002). In the case of Plan International's Youth Employment Solutions program in El Salvador, which supports training of disadvantaged young people in self- and wage employment, more than a year of planning went into both assessing needs and building relationships with firms and the public sector before the program was launched. Well-defined roles and a clearly outlined, shared structure for governance and decision making will help avoid a slide toward domination by one partner.

The initial preparation phase must also be used to ascertain whether the legal framework of the country will support the partnership. For example, if the program will involve the introduction of private providers of training or employment services, there must not be excessive barriers to the operation or expansion of such businesses. If the intervention involves wage subsidies or programs to place youth in formal firms for a probationary period, labor market laws must be flexible enough to allow firms to release employees it deems not suitable.

This level of preparation represents a significant investment, and it must be recognized that the eventual benefits to the partnership must be high to make it worthwhile; in some cases it will not be (Reese et al. 2002). For multinational companies in particular, preparation and building relationships can be very challenging, because they work within the institutional framework of a foreign country.

Clear delineation of outputs expected of each party and of program outcomes: It is important to avoid the tendency, observed for many PPPs, to specify goals vaguely or at a high level of aggregation rather than outlining specific outputs for which partners can be held accountable (Netherlands Ministry of Foreign Affairs 2013). Effective partnerships specify expectations for the program in a measurable way. Rigorously measuring impacts—the net effect of the program on outcomes of interest such as employment, earnings, job placements, and so on—should be encouraged to the extent the design of the initiative lends itself to such an

18 Discussions of best practices in PPPs in developing countries (though not focused on training or employment) can be found in a number of sources, including Farquharson et al. (2011), Asian Development Bank (2008), and Patrinos et al. (2009).

evaluation (that is, it is possible to specify a credible control group). These imperatives, of course, exist for any intervention. For PPPs, a special consideration is the need to specify a realistic time frame for both outputs and outcomes to be realized, given that the consultative nature of the partnership itself may lead to a long period before which outcomes are measurable. Delineation of outputs—for example, number of trainees served by a program—is also of particular importance in PPPs because it is a means of ensuring that each partner is fulfilling its role, something that is not an issue when a single entity undertakes an activity.

A high level of engagement and patience: Effective programs involving the private sector—such as the *Jóvenes* training programs in Latin America and the Caribbean and the *Saksham* project in India—are marked by a high level of interaction among the parties (in these examples, government, NGOs, and employers). This aligns with the very common refrain in discussions of PPPs that partners must work closely together and communicate. Formally setting out plans for interaction can institutionalize this communication. Patience is required given that, as noted, outputs will take longer to generate in a collaborative partnership—likely longer than firms, in particular, are used to. These factors may be viewed as a significant cost to firms, heightening the need to make a compelling business case to such firms that the benefits to them will be high.

Having a champion: "Catalytic leadership" (United Nations Foundation 2002) plays a potentially crucial role in getting a partnership off the ground, particularly if this arrangement represents a significant departure from standard practice. This leadership will usually necessarily come from an influential official in the public sector, given the necessary approval process for public sector funding and activities.

Commitment to change: While this is a somewhat clichéd term, it describes a real phenomenon that is repeatedly identified as a key to successful outcomes. Both the private and public partners must be committed to the process and feel that different ways of doing things are necessary in spite of the costs of adopting new approaches or participating in initiatives, and the need to work cooperatively as partners; the range of such costs were discussed in detail in an earlier section of this report. A common commitment to change is related to the notion of a shared vision or goals. As noted above, it is important to recognize that goals may not be completely aligned, and to ensure that each party nonetheless has expectations that can be met.

Chapter 6

Summary and Conclusions

6.1 Summary and Key Lessons Learned

The main concern motivating this review was to understand the role of the private sector in programs and planning for youth skills development and employment promotion in low- and middle-income countries. The review of the evidence has made clear that there are potentially large benefits to the involvement of private firms, indeed in many cases this involvement should be regarded as essential to success. The strongest evidence involves training. Some conclusions are as follows:

- Training interventions that closely involve employers to ensure they are demand driven, for example through involvement in curriculum design and provision of internships for on-the-job skills, yield benefits in terms of youth employment or incomes.
- National public-private partnerships to direct skills formation (including through the education system) toward current and future labor market demands has been a core part of successful strategies of industrialization and growth in a number of countries, such as Korea and other Asian economies in decades past. These require significant government capacity to carry out, however.
- In many countries, multinational corporations' partnerships with governments have provided a means to develop skills in dynamic or high-tech sectors such as automobile manufacturing and IT, though impact evaluations of these programs are rare.
- Engagement of private providers to deliver skills training to youth in a managed competitive framework has the potential to improve efficiency, quality, and coverage. More limited evidence suggests the same for privately provided employment services and entrepreneurship training. Effective oversight of private providers is an essential part of this

approach. Because profit-making providers tend to focus on youth who are easier to train or place, oversight is required to ensure that the needs of disadvantaged youth are met.

- Employment services, which almost by definition involve the participation of employers, are generally a cost-effective means of improving youth labor market outcomes, though they still account for only a small share of the jobs obtained by youth, and are generally limited to formal sector firms.
- The private sector can be a source of innovative technological solutions for youth employment, such as the use of text messaging to provide information on job openings.
- Wage subsidies can be an effective means of encouraging firms to hire youth at least in the short run, though longer run impacts on skills and hence employability are unclear.

To realize the benefits from private sector involvement, there must be a sufficient level of engagement (and effective engagement) by firms. Hence a second important objective of this paper was to understand the motivations of firms to participate in skills and employment initiatives, and the factors that may encourage or constrain effective participation. We distinguished three basic categories of firms: international corporations, large (and formal) domestic firms, and small and medium (and often informal) domestic firms. We interpreted the available evidence through a simple framework of benefits and costs as perceived by firms. The framework also considered the importance of the information available to firms and their attitudes toward risk.

On the benefits side, multinational companies may be motivated by corporate social responsibility objectives as much or more than by profitability, and this will affect the types of initiatives they fund or participate in. Other (domestic) firms are likely to be motivated primarily, though not exclusively, by productivity and profitability concerns, which need to be clearly recognized when planning programs that involve them.

While firms may perceive benefits to participating in youth training or employment initiatives, whether to their reputations or bottom lines or both, they usually also face financial or time costs; this is true even for activities that are highly subsidized by the public sector or donors. Firms may also be constrained by the possibility that other firms will free ride on their efforts, by lack of technical capacity or lack of information on how they might benefit, and by aversion to risk. For smaller domestic firms, these constraints loom larger: they have fewer resources and capabilities, for example, and free riding is more of a threat when there are many competing enterprises.

As described in this report, there have been many cases in which low levels of employers' involvement in initiatives appeared to have been a constraint to success or scale-up. In the area of training, some initiatives failed to attract the participation of many firms, with the result that the programs were driven less by demand than they could have been. Participation by smaller employers seems to be the most constrained or limited, as one would expect from the conceptual framework. On the other hand, for smaller firms operating with traditional technology, there might be few actual benefits to having highly trained workers, hence to participating in training initiatives.

National-level skills planning partnerships, which can play a vital role in developing demand-driven training and setting up national qualifications frameworks, often also have suffered from lack of sufficient participation by employers. Employer participation in other programs, such as employment services and wage subsidies, has also been lacking in some cases.

This problem is far from universal, as the successes noted throughout this report attest. Still, an important and overarching area for research and policy is to gain a better understanding of the motivations of, and constraints facing, firms that may limit their effective participation (and which may differ by country and type of firm), and to explore and test ways that could improve participation. It is of course to be expected that the public goal of the programs discussed—to improve labor market outcomes for youth—might often diverge from private profitability objectives, leading to less-than-optimal investments by firms in these programs. In such cases public financial support and incentives to firms might need to be more substantial. However, solutions need not always entail financial incentives to firms. As detailed in this report, depending on the causes, the appropriate policies may involve, among other things, providing outreach to employers to deal with imperfect information, or improving service quality (for example, of employment services). In the case of free rider problems or problems of scale affecting small firms (which inhibit their ability to support training, for example), working though business associations to facilitate collective action by a multitude of small enterprises has proven to be successful in a number of contexts.

The report has also highlighted other factors that may lead to the success of partnerships for youth employment, as well as factors that constrain success. The latter include a traditional lack of trust or confidence in the government on the part of firms, different expectations and operating styles of firms and public partners, slowness in achieving results in a cooperative partnership, potential imbalances in decision-making power, and inadequate resources and problems of sustainability. Success factors or "best practices" include adequate planning with sufficient time to develop relationships with private sector partners, clearly specified roles and expected outputs and their timing, a shared commitment to change, the presence of leadership with adequate influence to effect change, patience (hence realistic timeliness for outputs and ultimate goals to be achieved) and frequent interaction between the partners. PPPs must be based on a clear understanding of the motivations and expectations of private and public (as well as NGO) partners, with a recognition that the goals of different parties may not always align.

6.2 Agenda for Future Research

Numerous questions for research emerge from this review. A general point is that more evaluations of a range of programs are needed, in particular impact evaluations that measure the causal impacts of programs. Impact evaluation studies should also routinely be extended to consider the cost-effectiveness of the interventions—something that has not been done often enough. Further, while there have been many impact evaluations of youth employment interventions (though more are needed), few have been designed to test different dimensions of the private sector's role. This would include the efficacy of private sector involvement in the programs, whether as participating employers or providers of training and employment services; the relative benefits of different modes of firms' involvement; and of different ways to encourage firms' participation. Impact evaluations generally instead have tended more simply to test an intervention against a control with no intervention. Other questions—for example, those involving the optimal, context-appropriate institutional arrangements for public-private partnerships—require different, less formal, approaches to assessment.

Key research questions can be summarized as follows, by topic. Note that we focus here largely on questions specific to the private sector role, not on the broader range of general questions about these interventions (of which there are many, and which were also noted in the report):

Training and skills development

- What prevents greater participation of employers in training programs (through internships, contributions to curricula development and the like)? Will vouchers or subsidies—or information outreach—be effective at incentivizing participation? What measures will increase participation, specifically of small and medium enterprises?
- Do firms as well as youth perceive benefits to training? Do employers, especially smaller ones, need guidance on what kinds of training will increase their productivity? Do youth know what kinds of training (soft vs. hard skills; hard skills in specific occupations) will yield the most benefit for them in the labor market?
- How widely—or, conversely, how targeted—should subsidies to firms be for on-the-job training, especially when many smaller firms may not require better-trained workers given their production technology or business objectives? What mechanisms could be used for determining which firms should be targeted?
- Will extending skills certification systems to informal training overcome problems of signaling to potential employers the skills acquired through such training? How can this extension be accomplished? Can certification systems for informal training be integrated with those for the formal technical training system? What will be the burden on informal employers of meeting the new standards? If certification increases the employability and mobility of apprentices, will informal employers be less willing to train (hence possibly lose) them?
- For national-level partnerships for skills strategies, how can employer engagement be improved to ensure a fully demand-side orientation, including in the development of national qualifications frameworks? If a full scale NQF development is too ambitious for a given country's capacities or institutional context, what are reasonable alternatives?
- How can effective systems for management and oversight of training systems including private providers be managed in contexts of low overall administrative capacity of governments? How can the public sector best ensure that specific groups, such as low-income youth, are covered in such systems?

Entrepreneurship promotion

- How can the involvement of private entrepreneurs as trainers and mentors to youth entrepreneurs be enhanced? If such involvement relies on an appeal to a social rather than private benefit, how can this appeal be made more effective?
- Under what contexts should youth entrepreneurship in value chains be promoted (as opposed to wage employment in such chains), and what are the best means for doing so? Is the notion of shared value (alignment of commercial and social objectives) viable for "inclusive" value-chain development that targets youth entrepreneurship as opposed to general entrepreneurship? Will MNCs be willing to contribute the necessary resources if targeting youth requires more resources?
- Does entrepreneurship training lead to generalized skills that can benefit youth in wage employment?

- Is the current mix of entrepreneurship training and skill training (for wage employment) provided by private firms, donors, and governments appropriate? Do entrepreneurship programs, including those sponsored by MNC initiatives, lead to "too many" would-be entrepreneurs?

Employment services

- Why don't more employers and youth make use of public or private employment services for matching and other services? Is it poor quality? Lack of understanding of the benefits? For employers, do time or resource burdens affect their use of employment services? How can more firms be encouraged to work with employment services?
- To what extent can poorer countries emulate the model of comprehensive employment services (including adding individualized assistance to job seekers), which has proven effective in advanced economies but is skill- and resource-intensive?
- What are the benefits of expanding employment services to cover the informal sector, and can this be achieved in a cost-effective way (for example, by working through employer associations)? Will smaller informal firms find it beneficial to replace informal hiring approaches with more formal ones though such services?
- Should private employment agencies be required to serve less advantaged youth and those with fewer skills, and what mechanisms would best accomplish this?
- What is the scope for technological solutions (for example, text messaging) to overcome cost or access barriers to using employment services?

Wage subsidies

- Although wage subsidies appear to lead to hiring of youth in the short run, what are the longer-term effects on skills and employability, and potential displacement or other general equilibrium effects?
- Do firms provide substantive training to youth who are hired through wage or employment subsidies? What mechanisms could ensure that this occurs? Would it be more effective for employment or wage subsidy to be combined with publicly supported training programs?
- How important are substitution and displacement effects of wage subsidies for young workers?
- What prevents firms from participating in these programs (that is, claiming the subsidy)? What can be done to make hiring youth under such programs more attractive to employers?

Multinational corporations

Whether they participate through CSR or foundation funding or though more direct means, MNCs occupy a special place in youth employment programming, and can contribute significant resources. While currently there is monitoring of performance outcomes, there are few rigorous impact evaluations of these programs. In addition to the general need for such evaluations, several specific questions emerge with respect to MNCs and youth skills and employment:

- Do the initiatives of MNCs (especially when the latter are motivated by CSR objectives rather than their own needs as employers) align with host country labor market needs for youth?
- How can sustainability be ensured for programs that are initiated with CSR or other funding by MNCs, if that funding is not continued?

- Are efforts of MNCs to promote youth entrepreneurship in their supply or distribution chains effective? What is the potential scale of the impacts for youth employment?
- More generally, are shared value approaches of MNCs (as well as larger domestic companies) viable and sustainable? That is to say, are core business objectives and local or national youth employment fully compatible goals? If they are not, how can approach be modified to ensure the latter goals are addressed?

6.3 Implications for Program Design and Policy

This review has generated a wide range of questions that future policy experimentation and research need to explore, but the evidence amassed so far also leads to a number of general recommendations both for program design and for general policies toward youth skills and employment. Although the separation of "programs" and "policy" is far from clear-cut, it is used here to distinguish more programmatic and design aspects of specific types of interventions from broader policy actions that governments (and others) can take to involve the private sector and improve work outcomes for young people. We begin with recommendations for program design.

6.3.1 Implications for Program Design

- *Employers should be substantially engaged in the design and operation of skills training programs.* The importance of such engagement to ensure that training is relevant to the needs of the labor market is the clearest of all the programmatic conclusions emerging from this review. The most important means of employer participation in specific training programs are participation in the development of appropriate curricula and provision of on-the-job experience (internships) as a complement to classroom instruction. Practitioners have many examples of this engagement across the world from which to draw.
- *Efforts need to be made to improve the signaling of skills in the labor market of youth (and others), and employer input and buy-in is essential in these efforts.* Many countries have set up or are developing National Qualifications Frameworks for this purpose; these include high-level collaborations with employers' groups to define appropriate skills in different industries. Success with NQFs has been at best mixed, however, in significant part because of lower than expected employer engagement in the process or (in a least a few cases) their lack of willingness to use the new framework for assessing skills when hiring. Efforts must be made to ensure that the design process is fully transparent and open to employer groups and other stakeholders, and that the framework of competency measures is simple for employers to use. Policy makers should consider incremental approaches (for example, starting in one industry or field) to build credibility among employers.
- *Extending certifications of skills to informal training is particularly challenging but important in contexts like much of sub-Saharan Africa, where such training is significant.* Training authorities must engage informal employers or employer associations closely for this purpose. Understanding their needs and constraints is particularly important because here the employers are also doing the training, and bringing their practices to a uniform—likely higher—standard might be difficult for many smaller enterprises.
- *Soft skills, like cognitive skills, are very important to employers. However, firms generally will not provide training in these skills, which are highly transferable across employers.* Therefore they will need to be provided by the public sector or NGOs; the latter have been particularly active in providing soft skills training to unemployed or vulnerable youth. More research is needed to

determine how best to provide soft skills and when. For example, is it more effective to teach these skills to children or young people in school, and at what age? However, those designing curricula for soft skills development should solicit employer perspectives on the needs and gaps in these behavioral (as well as other) skills. Depending on the focus, the necessary information can be obtained systematically via representative firm surveys or through more targeted efforts directed at a particular sector. An example of the former are the Skills Towards Employability and Productivity (STEP) surveys, which collect detailed information from employers on the actual and desired skills (behavioral and technical) of their workers (STEPS also gathers information on actual skills of the workforce in a household survey; see World Bank 2014).

- *Employment services should be improved and expanded.* In their basic form, these services match workers to employers, but they can also encompass functions such as counseling and training placement. These programs have the potential to be cost-effective, yet they remain poorly developed in most low- and middle-income countries. They need to be expanded to allow more youth and employers to be served, and reoriented toward true partnerships with employers rather than simply a means for the passive posting of job announcements. A partnership approach would closely engage with employers or their associations to identify personnel needs. To date, experience of employer participation in employment services has been variable. Because there are costs and effort associated with their involvement, employers must be convinced that the service will be valuable to them. Particular efforts need to be made to engage smaller and informal employers, who are typically not served by formal employment services. However, cost-effectiveness becomes a concern when services engage many smaller employers as opposed to larger firms, as there will be a certain level of fixed costs per firm. Working through associations of small firms in specific sectors may therefore be more efficient than engaging many small firms individually.

  Expansion of employment services can occur in two ways: expanding the coverage of core matching services, or expanding the range of services provided along the lines of the comprehensive models found in many industrialized countries. The latter have many advantages but may be beyond the skill capabilities of many countries. Core functions can more easily be expanded with sufficient financial resources, and can take advantage of web-based platforms or text-messaging to reach many more youth (and firms). Contracting out employment services provision to private providers can also expand reach.

- *The design of partnerships and programs for youth employment must carefully take into account the motivations and constraints facing the firms that are expected to participate.* Experience shows that it would be a mistake for governments, NGOs, or donors to assume that such participation will be forthcoming because benefits are obvious. Interviews or surveys of employers in the relevant sectors should be used to establish the willingness to participate (by hosting interns, helping develop curricula, and so on, depending on the program) and the constraints to doing so, much as information would be gathered to understand the needs and constraints facing the youth who would be targeted. This study has highlighted how different kinds of firms face different constraints, and program design needs to accommodate them, including through appropriate outreach or provision of financial incentives to firms, if needed. Attention should also be paid to minimizing complexity or administrative burdens that may inhibit firms' participation, as may have occurred in some wage subsidy schemes, for example. However, it will also be appropriate at times to impose conditions on firm's participation to ensure desired outcomes for youth; for example, wage subsidy programs would benefit new workers more if firms were obligated to hire them for some minimum period to receive the subsidy, or to document that training was provided.

- *In devising and implementing partnerships between governments, employers, NGOs and others, best practices from experiences around the world should be drawn upon.*[19] As outlined earlier, these include adequate planning with sufficient time to develop relationships with private sector partners, a clear specification of roles and expected outputs and their timing, ensuring a shared commitment to change, the presence of leadership with adequate influence to effect changes, patience (hence realistic timeliness for outputs and ultimate goals to be achieved) and frequent interaction between the partners. Partners must also recognize that their ultimate goals—in particular, the objectives of private firms and the public sector or donors—may not be perfectly aligned.

6.3.2 Implications for Actions by Governments, International Donors and Lending Agencies, and Businesses

The previous section presented recommendations for developing or reconfiguring programs for youth skills and employment. Here we take a broader view of policy approaches to enhance private sector engagement that key actors should take. Most of the recommendations are for governments, reflecting the fact that they are ultimately the main decision makers regarding programs for youth in a given country. With regard to businesses, we focus below on multinational and larger domestic firms that are motivated at least in part by social or CSR objectives, not just by business concerns.

Governments

A number of broad policy measures can be taken by governments in low- and middle-income countries to productively engage the private sector in youth skills development and employment. Governments can:

- *Work with employers to improve national systems for workforce development,* including the development of curricula for training providers and national qualifications frameworks (NFQs) for skills certification (where feasible). The experience of national qualifications frameworks has not been very favorable, in part reflecting limited employer participation or acceptance. As noted, the process should proceed incrementally to develop confidence in the outcomes. Where development of NFQs is not possible for capacity or other reasons, governments should still engage employers on a regular formal basis to provide inputs into training and education systems to ensure relevance (Dunbar 2013). And at the program level, as noted earlier, authorities should routinely engage employers to get their input into program design and participation as needed in implementation (for example, through internships).
- *To enhance on-the-job training by firms, consider replacing systems based on providing employers with rebates from payroll taxes or levies, which are relevant only to formal sector employers, with payments from general revenues, such as reimbursement, matching payments, or vouchers.* Each of these alternatives makes it possible for informal firms, which do not pay payroll taxes or levies, to benefit from the subsidies.

19 The recently launched initiative, Solutions for Youth Employment (http://www.s4ye.org), seeks to facilitate this process by disseminating evidence on successful programs and providing guidance to forming partnerships among stakeholders and implementing interventions.

- *To further to increase the involvement of smaller and informal firms in youth skills and employment initiatives, engage—and, if necessary, help to develop—business associations representing small enterprises.* These associations, which are generally organized around firms in specific sectors, can engage with the government on behalf of large numbers of small enterprises while organizing these firms' participation in training schemes, employment services, and certification initiatives.
- *Set up advisory councils to provide advice and technical assistance to businesses in the area of training and other aspects of youth employment.* These councils could help organize firms' on-the-job training activities, and facilitate their participation in employment services or internships and wage subsidization initiatives. They would likely focus primarily on smaller firms that have less capacity or knowledge regarding these activities.
- *Encourage the use of private providers of services for training and employment placement, while taking steps to ensure there is adequate oversight.* An effective model is one in which the public sector allows private firms (and even government agencies) to bid competitively for contracts to provide the services, and takes a financing and oversight rather than direct provision role. However, two considerations are important. First, the public sector must have the capacity to manage and oversee this system. Second, private providers will tend to serve specific groups that are easier to reach or show success with regard to graduation or placement rates. Therefore contracts have to specify targets for more vulnerable groups (low-income youth, rural youth, young women) to meet social objectives, or else ensure that public services complement private ones by reaching these groups.

International donors and lending agencies

To encourage effective engagement of the private sector in youth employment, these stakeholders can:

- *Require that the youth skills and employment initiatives they support incorporate private sector participation where this is warranted by the evidence.* While this participation is already occurring in many countries based on accumulating evidence of benefits, formalizing this as a part of financial support will ensure that it occurs. However, the level and intensity of any required employer involvement should depend on the capacity of the country to manage this interaction. In contexts in which capacity is weak and there is little institutional tradition of public-private cooperation, imposing intensive public-private partnerships would not be appropriate; instead there could be requirements or guidelines for engaging employers in more modest but still formal ways that can be monitored. Participation on boards of TVET institutions or other means of obtaining employer input would be examples of this type of engagement.
- *Provide technical advice and capacity-building on public-private partnerships.* Given the difficulties in implementing successful PPPs, especially where this type of collaboration has not existed before, this assistance would be especially useful. Most of the focus of technical assistance and of published "how-to" guides to setting up PPPs has been on infrastructure development partnerships (Farquharson et al. 2011; Asian Development Bank 2008), with some attention to education and health (for example, Patrinos et al. 2009). However, the Learning and Knowledge Development Facility (LKDF) of the United Nations Industrial Development Organization (UNIDO) provides detailed documentation

on how to develop PPPs for vocational training (see http://lkdfacility.org/resources/ppdp-development-toolkit.html).

Businesses

Firms engaged in youth skill development and employment through CSR or other programming, or those that are considering doing so, can do the following:

- *Use the available evaluation evidence, and work with NGO and other partners on the ground, to determine what to fund or implement in a given context.* The most potentially impactful programs for a given country might not align with the actual domain or industry of the company (for example the company might be an IT firm but key youth employment needs may be in other areas). If so, a CSR approach is more appropriate than a shared value model that assumes alignment with business interests.
- *Support rigorous impact evaluation of the projects.* As noted in this report, while there is usually monitoring of achievements toward goals, there seem to be few real impact evaluations of MNC-led initiatives. This is in contrast to the growing number of interventions carried out by governments or NGOs in youth skills and employment using randomized controlled trials or other methods.
- *Continue to innovate and test value-chain integration and shared value approaches to youth entrepreneurship and employment.* These are potentially high-impact approaches, especially in agriculture. It is important to be realistic about these approaches, however, especially regarding the potential for shared value. The subsidy (or CSR) element might have to be significant to ensure youth can successfully participate as entrepreneurs.
- *Share best practices and evaluation findings so that other firms that are doing, or hoping to do, similar activities, will benefit.* Such sharing may not always align with standard corporate practices, but will increase the global level of knowledge and the effectiveness of corporate resources allocated to youth initiatives. An excellent example of this (prepared by a large NGO, not a firm, but reporting on multiple partnerships with corporations) is the report by the International Youth Foundation (Reese et al. 2002).

Appendix A

Categorizing Programs and Firms in the Youth Employment Index

As noted in Chapter 3, the YEI database has several searchable fields (variables) that can be used to identify whether an intervention involved the private sector in some way, and what kind of firm was involved. Using these variables, an intervention would be said to involve private firms if a firm is listed as one of the implementing agencies, as one of the financing agencies, or as one of the employers, as part of the company's policy of training its employees. However, examination of the detailed text descriptions indicated that many relevant private sector-related interventions were not being captured using these variables. For that reason, we used information provided in these descriptions to identify interventions involving the private sector as a key partner as well as the type of firm. This was done for a randomly selected sample of 200 programs of the more than 700 in the YEI database.

To classify the types of firms involved in interventions, the YEI has searchable fields for type of financing agency and type of implementing agency. The response categories are broad (NGOs, governments, donor agencies, individual donors, private sector, and so on). Further, in a number of cases the text detail indicated that they were not capturing all participating agencies, including in many cases firms or employers (especially if these were not the main agency under implementation or financing). For that reason, here too we used the program descriptions to determine the type of private sector actors involved, assigning them to the following categories:

1. Multinational corporation
2. National firm
3. Small and medium enterprises
4. Private training institutes or employment agencies
5. Private schools/universities

As discussed in Chapter 3, for domestic firms it was often difficult to determine from the project descriptions which category of firm was involved. In some cases it was clear that large national firms were involved and, in others, smaller or medium enterprises were the focus. Often, however, the text simply referred to “employers” or “companies,” or “businesses,” in which case we assumed these were national firms. This latter category, therefore, is likely to somewhat overstate the prevalence of programs involving larger domestic firms.

Finally, with regard to types of interventions, the fields in the YEI clearly categorized programs into the broad categories and subcategories we use throughout the report—indeed the report hews to standard categorizations used by the YEI and others. The exact correspondence of our terminology and the coded categories and subcategories in the YEI are available upon request.

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