What works to engage the private sector in promoting youth employment?

Although the private sector plays an important role in enhancing productive employment in Africa, including youth employment, INCLUDE recently concluded that this role is not being optimally used. The Solutions for Youth Employment (S4YE) coalition conducted a systematic review of 200 youth employment programmes worldwide that involve the private sector in youth employment promotion. This one pager presents the main findings of the review in terms of the role of the private sector in promoting youth employment, the factors driving successful engagement of the private sector in interventions for youth employment, and the factors in successful partnerships with the private sector. It concludes with some recommendations for the different actors involved.

Role of the private sector in interventions for promoting youth employment

S4YE reviewed four types of interventions for promoting youth employment (on both the supply and demand sides, and in the formal and informal sectors): skills training, entrepreneurship promotion, employment services, and wage and employment subsidies. The review found the following regarding the role of the private sector in these interventions:

- **Skills training** can benefit from private sector involvement as private training providers improve the efficiency, quality and coverage of job skills trainings. However, private firms can be reluctant to fully participate in these programmes due to fear that they will not receive a return on investment (because the trainee may end up working somewhere else) or lack of resources, expertise, time to participate or information about the benefits to the firm.
- **Entrepreneurship promotion** (through entrepreneurship training or microcredit programmes for entrepreneurs) can benefit from private sector delivery, which generally leads to better outcomes than delivery by public programmes. However, there is little direct benefit to private firms. For example, in Uganda's Youth Opportunities Program, unconditional cash transfers were found to increase employment, but decrease the expected return on investment for firms. Furthermore, mentorship of entrepreneurs is not very appealing to private firms, as it can be perceived as educating potential competitors.
- **Employment services**, such as job search assistance, are considered more cost-effective than other interventions. However, the agencies providing these services generally lack resources. The most effective employment services rely on private providers. Therefore, the private sector could play a larger role, especially given that the private sector serves more highly-skilled workers, operates in urban areas and often specializes in specific fields, increasing their potential outreach. However, given that marginalized groups are often low skilled and work in rural areas, the extent to which these groups will profit from private sector engagement is small.
- **Wage subsidies** (e.g. in the form of employment vouchers to firms) can be effective in providing employment in the short term, but are not necessarily beneficial in the long run. Moreover, wage subsidies also have negative effects because some hiring would have occurred even without the subsidy (*deadweight loss*), subsidized workers replace unsubsidized ones (*displacement effects*), and because youth replace older and more skilled workers (*substitution effects*). In South Africa, providing a tax reduction to firms instead of subsidies was found to be more promising.

Table 1. The role of private sector in interventions to promote youth employment				
	Skills trainings	**Entrepreneurship promotion**	**Employment services**	**Wage subsidies**
Amount of programmes evaluated in S4YE review	Large	Small	Small	Small
Current involvement of private sector	Large	Moderate	Small	Small
Effectiveness of private sector engagement	High	High	High	Small
Cost-effectiveness	Moderate	High	High	Low
Dependency on government support	Low	Moderate	Moderate	High
Firm's perceived likelihood of return on investment	Moderate	Low	-- (unclear)	-- (unclear)
Potential for scaling up the role of the private sector	High	Moderate (limited interest by private sector)	High	Small
Potential benefit for marginalized youth	High (when informal sector is included)	Low	Moderate	Moderate

Factors in successful interventions

Drivers of success

- Interventions are most successful when they are **demand-driven.** Therefore, the participation of firms in the design of interventions, and in all subsequent stages, is essential to ensure effectiveness.
- Providing **training vouchers** to firms (for selected training institutes) increases the participation, particularly in small- and medium-sized enterprises (SMEs).
- Firms, particularly SMEs, need more **guidance and support** in the design and implementation of interventions. In addition, more outreach to firms is needed to create awareness of the benefits of training, including giving employers information to help them select the training that is most useful to their firm.
- **Training consortia** can provide guidance, particularly to smaller firms, which generally lack the ability and resources to successfully coordinate training. Training consortia can also overcome the collective action-problem: individual firms often abstain from action as they fear receiving no return on investment, but collective action can increase the trust and willingness of individual firms to take a risk on training.
- **Agricultural value chains** present many opportunities for youth employment, due to the increased demand for environmentally-sound and high-quality production. Youth entrepreneurs can be involved in high value-added post-harvest processing and distribution activities. In agriculture, new youth entrepreneurs are also less likely to displace existing entrepreneurs, as there is a shortage of labour in this sector.

Constraints

- Programmes that require the formalization of firms (e.g. registration in order to receive vouchers) to participate can be out of reach to firms in the informal sector, creating a barrier to participation. Payment schemes that involve a tax reduction or rebate are also not beneficial to such firms. As a large share of youth are likely to remain in the informal sector, specific attention needs to be paid to **inclusion of the informal sector** in interventions promoting youth employment.
- **Training programmes or wage subsidies are usually temporary**. When the programme expires, youth can end up unemployed again. Adequate planning, safety nets and extending the duration of programmes may overcome this problem.
- Although entrepreneurship promotion is promising, the **limits of interventions** need to be acknowledged, as there is little incentive for firms to invest in someone outside their workforce. Moreover, although focusing on one industry or sector in promoting youth entrepreneurship is effective and can attract more mentors, such a focus can displace existing entrepreneurs.
- Engaging youth entrepreneurs in **value chains** (other than agricultural ones) is usually not in the direct interest of firms. Firms that do so usually have more than a purely profit-making motive. The impact on employment is likely to be larger when the value chain includes many small suppliers or distributors.

Factors in successful partnerships with the private sector

Some of the constraints on private sector involvement in youth employment promotion can be dealt with by forging partnerships between the private sector and other actors (such as national governments). Here we outline the drivers of success and constraints on **public-private partnerships** (PPPs).

Drivers of success

- **Adequate planning** is essential for a successful PPP. A comprehensive strategy for building and maintaining the partnership (including building trust) is key. It must first be assessed if the benefits to the partners are adequate, as significant investments may have to be made by each partner even before the launch of the programme. In this initial phase, the **specific outputs** desired by each party should be defined.
- **High levels of interaction** among the parties, **patience**, **leadership** (preferably by an influential official to find approval for funding and activities) and **commitment to change** are essential for successful cooperation.

Constraints

- The **government's role can be hindered** by lack of accountability, weak policy-making processes, limited information and lack of technical or administrative competences at different political levels, which can constrain PPPs aiming to promote youth employment.
- **Other limiting factors** are differences in expectations, styles and objectives between the government and the private firm, imbalances in power because of different levels of contribution, lack of trust, low level of participation by the private firm due to different interests, and inadequate or inconsistent supply of resources.

Recommendations

The following recommendations are made for governments and NGOs seeking to engage the private sector in the promotion of youth employment and businesses looking to become involved in such interventions:

For governments or NGOs:

- **Develop standardized content for training programmes** and standardized measures of outcomes that certify the skills obtained in the course (so that trainees can demonstrate the skills obtained to potential employers). However, these standardized systems can place a burden on small employers in the informal sector and result in less willingness on the part of firms in the informal sector to take on apprentices due to the additional costs of adhering to these standards.
- **Invite private sector partners in the early stages of the design of the intervention** so as to better align interests.
- **Consider providing financial assistance to employers** in the form of general revenue, such as vouchers, matching payments or vouchers, to allow firms in the informal sector to participate in programmes and benefit from subsidies.
- **Support private partners based on the nature and need of the sector**. Generally, SMEs are constrained by market imperfections more than large enterprises and, therefore, need government support. However, in the case of sectors that rely on technologies (and, hence, skilled labour), subsidizing large firms may create more jobs than subsidizing SMEs.
- **Establish partnerships with domestic firms in specific sectors**. Most of the multi-sectoral partnerships involve multinational firms, which provide substantial support for entrepreneurship promotion interventions. Yet, the domestic private sector is highly dependent on partnerships to overcome thresholds to participate. The experience of NGOs can be drawn on to establish such partnerships.
- **Provide wage subsidies after private sector programmes expire to avoid capital loss**, or target public procurement to provide employment opportunities or safety nets for youth.
- **Provide soft skills, like cognitive skills, through the public sector or NGOs.** These are very important for employees, but firms are not likely to provide training in these. NGOs have been particularly active in providing soft skills to unemployed or vulnerable youth.
- **Continue gathering knowledge on best practices** all over the world and cooperate with NGOs, trade unions and other partners to provide the right funding in the right contexts. When initiating PPPs, governments should acknowledge that the interests of all partners within these partnerships cannot be perfectly aligned.

For businesses:

- **Make use of existing knowledge**, particularly by collaborating with NGOs, to tailor their programmes to the local context (needs, opportunities and constraints). This includes sharing best practices and evaluation findings with other partners and supporting impact evaluations. As this does not always align with standard corporate practices, partnerships need to be established for this.
- **Continue with value chain integration and shared value approaches** (to align business interests) to youth employment promotion. These have high potential, even though their shared value might be limited.

Source:

S4YE (2015). ***The private sector and youth skills and employment programs in low- and middle-income countries*.** Solutions for Youth Employment coalition: World Bank, Plan International, International Youth Foundation, Youth Businesses International, Rand, Accenture and International Labour Organization.

Author: Frank van Kesteren
Weblink: http://includeplatform.net/downloads/works-engage-private-sector-youth-employment/