



International
Labour
Organization

An Introductory Guide for Employers' Organizations



Tackling youth employment challenges An overview of possible actions and policy considerations



An Introductory Guide for Employers' Organizations

TACKLING YOUTH EMPLOYMENT CHALLENGES

An overview of possible actions and policy considerations

Bureau for Employers' Activities & Programme for Employers' Activities,
International Training Centre of the ILO, Turin

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An Introductory Guide for Employers' Organizations:
Tackling Youth Employment Challenges

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FOREWORD

In many economies, young people are two to three times more likely than adults to find themselves unemployed and the problem is rapidly growing in almost every region of the world. Although young people today are the most educated generation ever, both industrialized and developing countries are failing to increase employment opportunities for them. The lack of opportunities is of course linked to the general state of the economy and employment situation but it is also a result of the mismatches between the skills young people possess and the skills required by the labour market. All of these factors can lead to long periods of unemployment, job seeking or low skilled and precarious work, which are not only detrimental to young people but impact heavily on economies and society in general.

This guide is part of an ongoing effort by the ILO and specifically by the Bureau for Employers' Activities (ACT/EMP) to strengthen the capacity of employers' organizations to deal with youth employment, especially in developing and transition countries. It is aimed at industry experts worldwide who wish to take action on youth unemployment in their own regions or countries.

It provides specific employers' perspectives on youth employment, which can be brought into the debate on policy and action. Ultimately, good policy is a mixture of approaches, in both the short term and the long term, whereby policymakers try to strike a balance between economic reality and feasibility, together with social desirability. Social dialogue and tripartism, in which employers should be fully engaged, offer the perfect forum in which to search for such a balanced policy mix.

This guide seeks to meet to a demand by employers' organizations for reference material in an area where they are often called upon to take action, and where they hesitate to do so, for lack of the specific skills needed to analyse the whole issue, or for lack of insight into success stories and good practice in other countries. The guide should be useful for:

- becoming aware of the dimensions of youth unemployment globally and in specific regions;
- understanding the impact youth unemployment has on business;
- making the business case for boosting youth employment, by using economic analysis and labour market data;
- becoming knowledgeable about good practice and experience in many countries concerning youth employment policy;
- assessing existing policies and formulating new policies to increase youth employment;
- putting employers' perspective in policy debate.

The information in this guide is by no means exhaustive. By selectively pulling together and systematically organizing examples of employer and business initiatives on youth employment, the manual aims to serve as an "ideas bank" for employers and other business people interested in dealing with youth employment pro-actively.

We hope it will be a source of inspiration and encouragement for many and will lead to new programmes to help young people integrate successfully into the world of work. We also hope it will strengthen the capacity of employers' organizations to act as the voice of business in this field, and provide useful input into the debate that will lead to action.

The guide is realized in the framework of the ACT/EMP interregional Programme on Social Dialogue and Youth Employment. The programme, coordinated by Ms. Anne-Brit Nippierd, was launched in 2007 and is funded by the Norwegian Government. The overall aim of the project is to strengthen the influence of employers' organizations on national policies relevant to

youth employment and to promote job creation and poverty alleviation through the implementation of practical measures and initiatives aimed at bringing young men and women into productive and decent work.

Particular appreciation is extended to the main author of the guide Ms. Mariska van der Linden who carried out a comprehensive desk research involving a review of relevant international literature relating to youth employment including relevant texts, journal and academic articles and publications.

Acknowledgments are given to Mr. Riccardo Boero who conducted research and analysis of employment data and gave useful comments to reorganize the draft.

The guide is the output of the effective collaboration between the Bureau for Employers' Activities and the Programme for Employers' Activities of the International Training Centre of the ILO. Special thanks to Mr. Paolo Salvai for the coordination of the entire work and his efforts in guiding this publication to its completion.

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ABBREVIATIONS AND ACRONYMS

ACT/EMP	Employers' Activities
ALMP	Active Labour Market Policy
CBI	Confederation of British Industry
CEOE	Confederación Española de Organizaciones Empresariales
CIETT	International Confederation of Private Employment Agencies
CII	Confederation of Indian Industry
CIS	Commonwealth of Independent States
CSR	Corporate Social Responsibility
ECOP	Employers Confederation of the Philippines
ECTS	European Credit Transfer and Accumulation System
EIRO	European Industrial Relations Observatory
EITC	Earned Income Tax Credit
EO	Employers' Organization
EU	European Union
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FUE	Federation of Uganda Employers
GDP	Gross Domestic Product
ICFTU	International Confederation of Free Trade Unions
ICT	Information and Communications Technology
ILO	International Labour Organization
ILS	International Labour Standards
IOE	International Organisation of Employers
JEF	Jamaica Employers' Federation
KAB	Know About Business
LMI	Labour market Information
MEDEF	Mouvement des Entreprises de France
NACE	National Association of Colleges and Employers
NAP	National Action Plan
NZBCSD	New Zealand Business Council for Sustainable Development
OECD	Organization for Economic Co-operation and Development
SDF	Skills Development Fund
SEIFSA	Steel and Engineering Industry Federation of South Africa
SFA	Small Firms Association

SIYB Start and Improve Your Business

SME Small and Medium Enterprises

SNEF Singapore National Employers Federation

UK United Kingdom

USD United States Dollar

VCCI Vietnam Chamber of Commerce and Industry

WB World Bank

YEN Youth Employment Network

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INTRODUCTION

1. The youth employment challenge

Nowadays, youth are almost three times as likely as adults to be unemployed. The latest ILO data show that the number of young unemployed, between the ages of 15 and 24, reached 74.2 million in 2008, accounting for 40 per cent of total unemployment. Because of the current economic crisis, the number of unemployed youth is projected to reach 78-90 million by the end of 2009.

The difficulties faced by young people in the labour market include not only unemployment, but also underemployment, working long hours under informal, intermittent and insecure work arrangements; working below their potential in low-paid, low-skilled jobs without prospects for career advancement; being trapped in involuntary part-time, temporary, casual or seasonal employment; and frequently working under poor and precarious conditions in the informal economy. Youth employment challenges differ from one country to another, and some countries face greater challenges than others.

Youth unemployment and underemployment impose heavy social and economic costs, which result not only in lost economic growth, but also in erosion of the tax base, increased welfare costs, and unused investment in education and training. It is very damaging for young people and for societies – sometimes being associated with social instability, conflict and greater poverty, crime and substance abuse – but it is also profoundly damaging for employers and economies.

There are economic, operational and social imperatives for employers to do all they can to stimulate job creation for young people. Employers have a significant role to play in creating jobs for youth. Strengthening the influence of employers' organizations on national policies relevant to job creation is therefore an effective way to address youth employment challenges.

2. Why should employers and their organizations tackle youth employment challenges?

Taking action on youth employment will not only benefit young people, but will also benefit businesses and their organizations. The impact may not be felt in the short term; the fruits of action on youth unemployment take time to ripen. Yet there are a number of win-win outcomes of action on youth employment, which provide added incentives for the business community to become involved.

Economic perspective

From a macroeconomic perspective, a first observation is that long-term youth unemployment constitutes labour market inefficiency: youth labour supply is not being made the most of and resources are being wasted. Secondly, there is a clear business case to take action focused on the young rather than on other groups: young people learn faster and the payback on investment is longer.



Facts and figures:

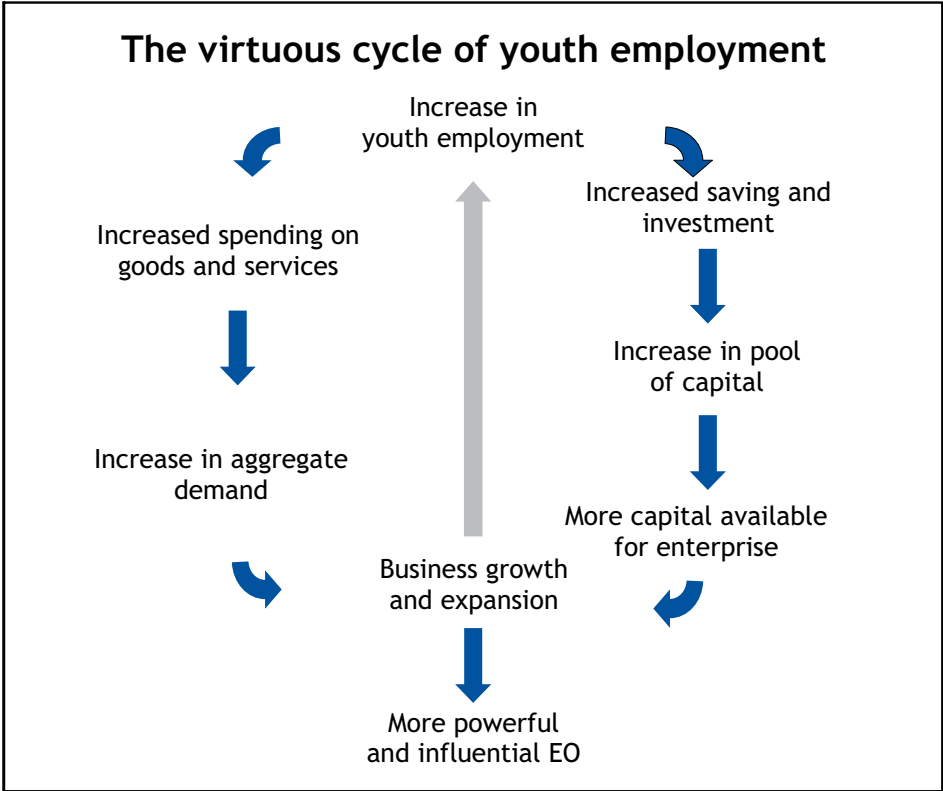
The ILO estimates that halving the rate of youth unemployment could have added an estimated USD 2.2 to 3.5 trillion to the world economy in 2003. This represented 4.4 to 7% of the 2003 value of global GDP.

Source: Global Employment Trends for Youth, 2006

From a general economic perspective, the aim of all employers' organizations is to help to create and sustain the conditions for economic growth in order for business to prosper and for young people to find jobs.

For employers, hiring young people with the right skills, knowledge and experience will contribute to boost revenues and growth. In turn, young people will spend their earnings on goods and services provided by business, hence boosting aggregate demand. A young person receiving a regular wage not only consumes but also saves and invests earnings, boosting the pool of capital. Some of the capital resulting from lower youth unemployment rates can be made available to business start-ups, thereby again boosting economic growth and youth employment levels.

For an employers' organization, an increasing number of businesses means a potential increase of the number of members, hence the opportunity to become more powerful and influential and have a greater beneficial influence on a country's macro-economic policies. Profitable businesses are also more likely to pay higher fees to their employers' organization, which is then able to grow more powerful (as illustrated by the flowchart below).



Corporate social responsibility (CSR)

Providing jobs for young people is regarded as positive by society, and can play an important role in a company's Corporate Social Responsibility (CSR) campaign¹.

Indeed, publicizing a commitment to tackling youth unemployment and raising awareness among the general public of the action taken will raise a company's profile in a positive way, contributing to profits.



Facts and figures:

CSR strategies do not only benefit the community, but also the firm. Research has found that social and environmental performances are positively linked to a firm's financial performance, with corporate social and environmental performance explaining 13% of the variance in corporate financial performance. This means, in a nutshell, that CSR pays. The financial gains are mainly due to the positive reputation resulting from CSR strategies. Moreover, social and environmental and financial performances are linked together in a virtuous cycle: social and environmental performance predicts financial performance, and vice versa.

Source: Orlitzky, M., Schmidt, F.L. and Rynes, S.L. (2003) 'Corporate social and financial performance: A Meta-analysis', Organization Studies, vol. 24, no. 3, pp. 403-441.

For employers' organizations, taking action on youth unemployment can also lead to reputational gains. This is particularly important as employers' organizations are seen as capitalist, selfish and anti-progressive in many countries. A more positive image will increase influence with government officials, who sometimes may be wary of being associated with business, hence facilitating lobbying.

Human capital

Human capital is a key factor determining whether economic growth is continued or not. Therefore, having access to appropriate labour supply, i.e. employable young people, is a key for businesses to succeed. Lack of skilled, suitably large recruitment pool to business, may have a significant cost for the economy as a whole.



Facts and figures:

It costs US taxpayers and students USD 1.4 billion per year to provide remedial courses to secondary school graduates. The cost includes the public resources supporting remedial coursework at two-year institutions, tuition costs and the opportunity cost of lost time and wages. Remedial education and training can be useful to enhance employability of young people who have low skills and competences, but they should be properly organized because they represent a cost for the society.

Source: The National Association of Manufacturers www.nam.org

¹ There is no standard definition of CSR. In general, according to the CSR concept, organizations have a duty of care to all of the stakeholders in their operations. It is often seen as a commitment to going beyond the minimum required by legislation. CSR is also often linked to sustainable development, i.e. socially responsible enterprises make decisions based not only on financial and economic factors but also on both the immediate and the long-term social, environmental and other impacts of their activities.



Facts and figures:

Basic skills (literacy and numeracy) problems cost British industry more than £4.8 billion (around USD 9.5 billion) a year. This results from poor quality control, lost orders, bad communication and the need to recruit employees externally when poor skills amongst existing staff limit internal promotions. Employees with poor literacy and numeracy cost a company employing over 50 employees £165,000 (around USD 325,000) every year.

Source: The Adult Literacy and Basic Skills Unit (1993) The Cost to industry: Basic skills and UK workforce www.basic-skills.co.uk

Informal economy



Facts and figures:

The ILO estimates that 70% of the global workforce works in the informal economy, which represents an estimated USD 10 trillion of the global economy.

Source: www.ilo.org

A significant number of youth are working under poor and precarious conditions in the informal economy, both in rural and urban areas.



SECTION I

THE TOOLS FOR UNDERSTANDING YOUTH UNEMPLOYMENT

Chapter 1

LABOUR MARKET MEASURES AND DEFINITIONS

Understanding labour market-related definitions and the statistics behind them is crucial to lobby for government policies that are effective and well targeted, and to be prepared for successful negotiations with trade unions.

1.1 Youth

Youth

The operational definition of youth varies widely from country to country but the UN defines youth as the age group between 15 and 24 years old.

Youth population

The number of people between 15 and 24 years old in a country, region or area.

1.2 Employment

Employed persons

According to the ILO definition, those people who have worked *more* than one hour during a short reference period (generally the previous week or day).

Labour force

Consists of people who are either working or actively looking for work, and therefore does not include the economically inactive.

Economically inactive

Economically inactive people are not in work and are not looking for work. They are composed of a variety of groups, including people looking after the family and home, students, and those who have long-term illnesses or are disabled.

Youth labour force

Consists of people between 15 and 24 years old who are either working or actively looking for work, excluding youth who are economically inactive.

Employment rate

The fraction of the labour force that is employed, i.e. the number of employed divided by the total labour force.

Underemployment

Underemployed are persons who, independently of the number of hours already worked during the reference week in all their jobs, express a desire or preference to work more hours

1.3 Unemployment

Unemployed persons

According to the ILO definition, those people who have *not* worked more than one hour during a short reference period (generally the previous week or day) but who are available for and actively seeking work.

Unemployment pool

The group of individuals in transition between jobs.

Unemployment rate

The fraction of the labour force that is unemployed, i.e. the number of unemployed divided by the total labour force.

Labour market turnover

The frequency with which workers change jobs in an economy.

1.4 Types of unemployment

Cyclical unemployment

Recurrent unemployment occurring at particular phases of the business cycle, starting with the downturn from a boom. This unemployment is caused by a deficiency of aggregate demand and is associated with a fall in the number of job vacancies.

Structural unemployment

Unemployment caused by a difference between the structure of employment vacancies and the structure of unemployment, usually brought about by technological change. Unemployed persons have different skills from those being demanded by employers or are located in a different place from a potential employer.

Frictional unemployment

Short-period unemployment brought about by workers changing jobs. This minimum level of unemployment, which coexists with job vacancies, occurs even when an economy is at full employment and is a feature of all types of national economy. Labour market policies can reduce this type of unemployment by making job information more available and accurate and by subsidizing search costs.



Full employment

Full employment occurs when unemployment has fallen to an irreducible minimum, approximately the level of frictional unemployment.



Facts and figures:

The frictional unemployment rate of the US has been estimated to be at 6.7% in 1982, 5.4% in 2000, 5.5% in 2003 and between 6.5% and 7% in 2009.

Sources: "U. S. Regional Business Cycles and the Natural Rate of Unemployment"

H. J. Wall & G. Zoega, the Federal reserve bank of Saint Louis, wp. 30 (2003);

Dornbusch, R., Fischer, S. and Startz, R. (2004);

Macroeconomics, McGraw-Hill Companies Inc, US;

Edmund Phelps at Bloomberg.com, 4th May 2009.



Facts and figures:

A famous economist called Arthur Okun devised the following rule of thumb using empirical data: for every 1 percentage point by which the actual unemployment rate exceeds the natural unemployment rate, real GDP drops by 2-3%.



Chapter 2

YOUTH UNEMPLOYMENT: GLOBAL AND REGIONAL LABOUR MARKET STATISTICS

Youth unemployment has been recognised not only as a global problem, but also as a major issue at a national level. With youth unemployment on the increase, it is likely to rise even further on the agenda for key players, including not only policy makers and legislators, but also employers' organizations.

The following labour market statistics are accurate and from official ILO sources.

2.1 Global statistics

The youth labour force worldwide is growing...

- More than 1 billion people today are between 15 and 24 years of age.
- Around 40% of the world's population is below the age of 20.
- The youth labour force grew from 577 million to 602 million over the last decade, an increase of 4.3%.

...but both youth unemployment and inactivity are increasing over time

- Youth labour force participation decreased globally from 54.4 to 51 % between 1999 and 2009, i.e. the youth labour force shrank relative to the youth population.
- The youth unemployment rate stood at 13.4% in 2009, with a total of 82.7 million young people unemployed. This represents a 12.5% increase compared to 1999, when 73.5 million young people were unemployed.
- The youth inactivity rate rose from 45.6% to 49% over the same period.

Labour market participation among young people is low, but even among those with jobs many are classified as 'working poor'

- There are an estimated 125 million young working poor, meaning more than 20% of employed youth live in a household where there is less than USD 1 a day available per head.
- Among those employed, many young people are working long hours for low pay and/or struggling to get by in the informal economy.

The most obvious general labour market characteristic of youth unemployment is that it is significantly higher than adult unemployment, making young people a particularly vulnerable group in the labour market.

- The young unemployed make up almost half (40%) of the world's total unemployed.
- In 2009 the global youth unemployment rate was 13.4%, compared to 5% per cent for the adult unemployment rate.
- Compared to adults, young people are about three times as likely to be unemployed.

Future trends: the youth labour force will continue to grow

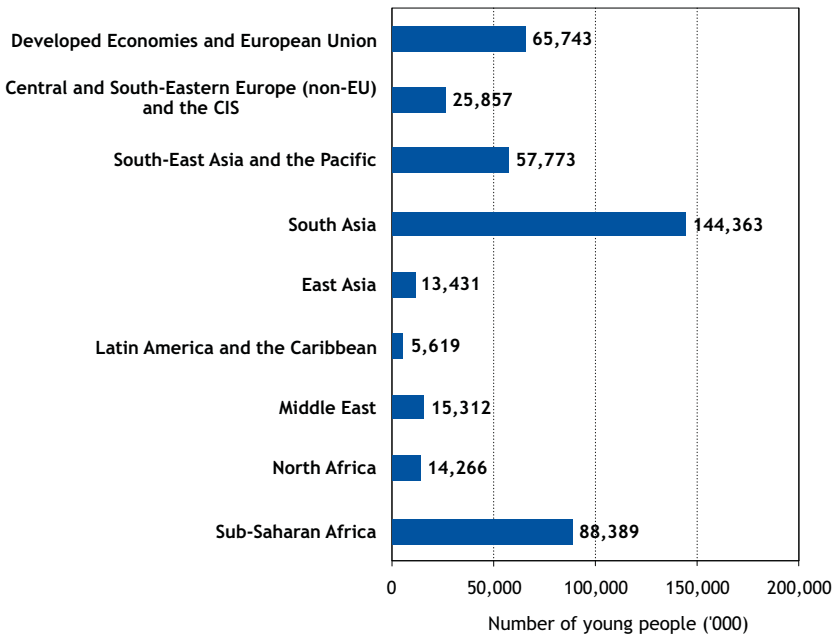
- The global youth labour force is projected to grow by another 55 million to 657 million in 2015.
- If youth unemployment continues to grow at the current rate, the global youth unemployment rate will be 15.5% in 2015, with 102 million young people unemployed.

2.2 Regional statistics

Most members of the world's youth labour force live in developing economies

The majority (89%) of the youth labour force lives in developing economies, with Asia taking the lead (as illustrated by the chart below). In fact, East Asia, South-East Asia and the Pacific and South Asia together account for more than half (55%) of the world youth population⁴.

Size of the youth labour force per region (2007)



Source: ILO, Global Employment Trends (GET) Model, 2008

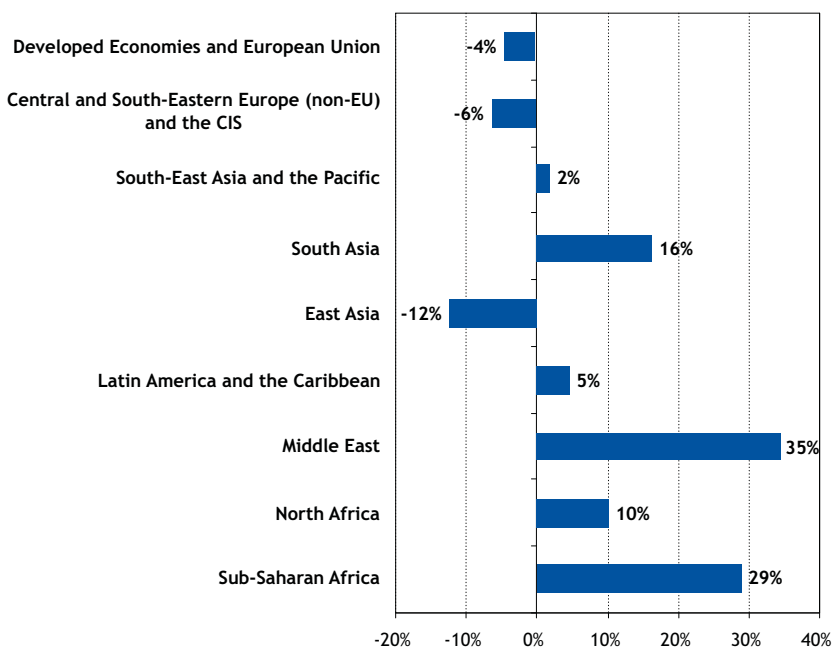
⁴ The regional groupings are those used in the analysis of the *Key Indicators of the Labour Market (KILM)*. Following this criteria the whole Asia and the Pacific is been divided in three sub-regions. **Eastern Asia:** China, Hong Kong (China) Korea (Democratic People's Republic of) Korea (Republic of), Macau (China), Mongolia, Taiwan (China). **South Asia:** Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka. **South-East Asia and the Pacific:** Brunei Darussalam, Cambodia, East Timor, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam, American Samoa, Cook Islands, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, Nauru, New Caledonia, Niue, Northern Mariana Islands, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu, Wallis and Futuna Islands.



Over the past ten years, the size of the youth labour force increased in all regions except Central and Eastern Europe, the Commonwealth of Independent States (CIS), East Asia, and in Developed economies and the European Union

- As illustrated by the chart below, youth labour force growth was highest in the Middle East (35%) and sub-Saharan Africa (29%), followed by South Asia (16%), North Africa (10%), Latin America and the Caribbean (5%) and South-East Asia and the Pacific (2%).
- The youth labour force decreased in Central and Eastern Europe (non-EU) and CIS (-6%), developed economies and European Union (-4%) and East Asia (-12%).

Growth of youth labour force per region 1997-2007

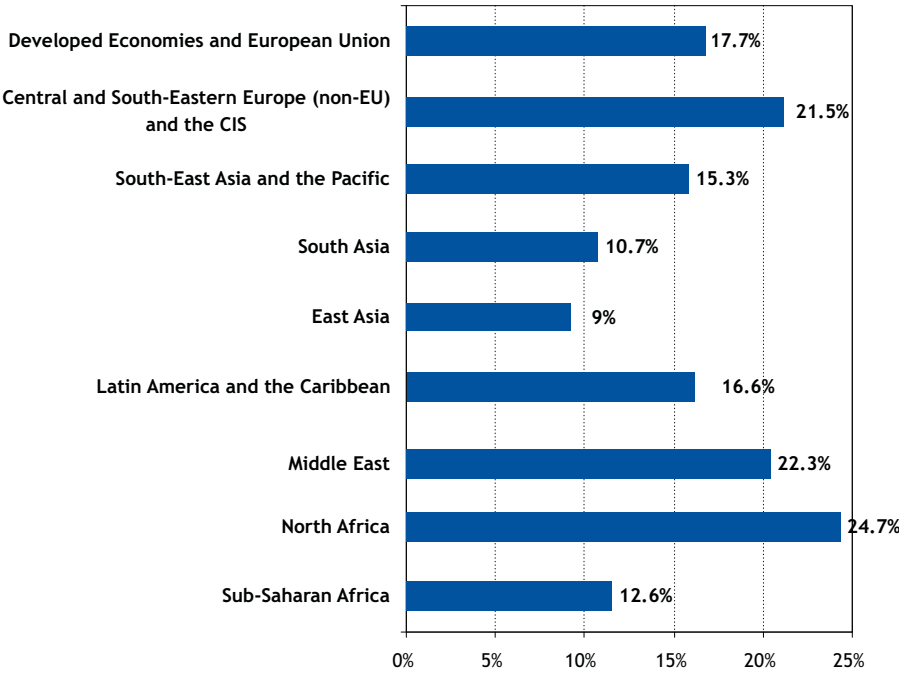


Source: ILO, *Global Employment Trends (GET) Model*, 2008

Youth unemployment is a key feature of the labour market in every region

As illustrated by the chart below, the highest regional youth unemployment rate in 2009 was observed in North Africa at 24.7%. Middle East had the second highest rate in the world with 22.3%. Central and South-Eastern Europe (non-EU) and CIS rate was 21.5%, followed by the developed economies and European Union (EU) (17.7%), Latin America and the Caribbean (16.6%), South East Asia and the Pacific (15.3%), Sub-Saharan Africa (12.6%), South Asia (10.7%) and East Asia (9%).

Youth unemployment rates per region 2009*



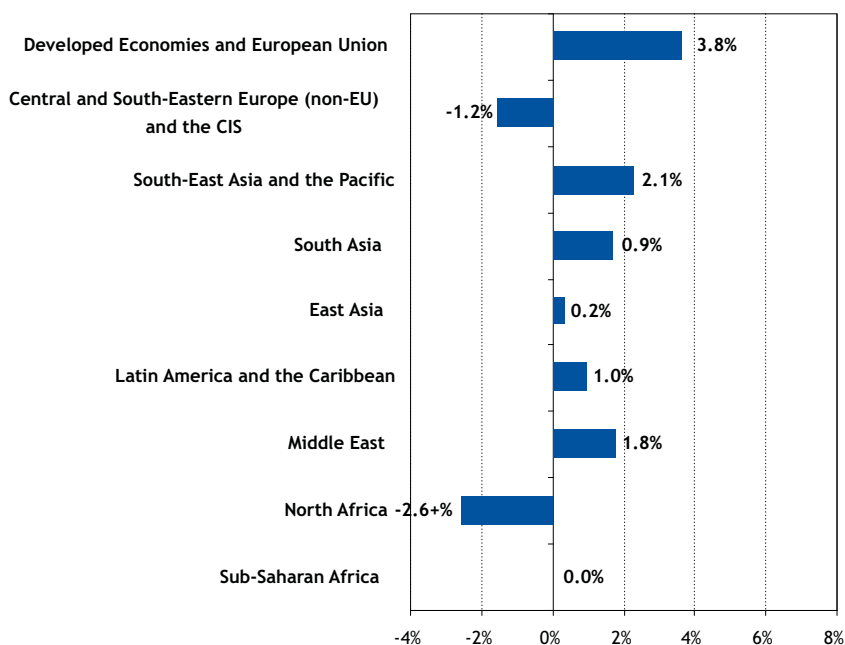
Source: ILO, *Global Employment Trends, January 2010*
*2009 preliminary estimates



In many regions youth unemployment rates have increased over the past 10 years, with Developed Economies and European Union taking the lead

- As mentioned earlier, worldwide the number of young unemployed people increased by 12.5% from 1999 to 2009 but a closer look at the different regions shows significant variation (see chart below).
- The most dramatic increases in youth unemployment rates over the last ten years occurred in the developed economies and European Union, growing from 13.9% up to 17.7%, and in South East Asia and the Pacific where the rate increased from 13.2% to 15.3%. This phenomenon was in part due to serious economic downturns that led to a heavy increase in unemployment in general, but in youth unemployment in particular.
- Youth unemployment rates also increased in Middle East (1.8 percentage points), in Latin America and the Caribbean (1 percentage point) and in South Asia (0.9 percentage points).
- There was a slight decrease in youth employment in Central and South-Eastern Europe (non-EU) and CIS (-1.2 percentage points). Considerable decreases happened in North Africa (-2.6 percentage points).
- In sub-Saharan Africa the youth employment rate remained the same all over the period (12.6%).

Changes in youth unemployment rates per region 1999-2009*

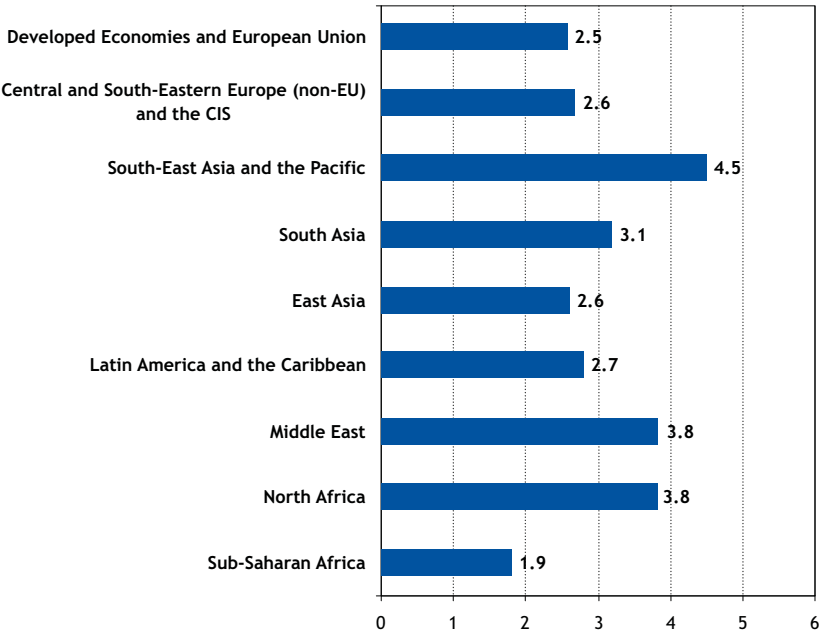


Source: ILO, *Global employment trends, January 2010*
*2009 are preliminary estimates

In almost every region the youth unemployment rate is more than double that of the adult unemployment rate, making young people a particularly vulnerable group in the labour market on every continent

- The discrepancy between the youth and adult employment rates is largest in South East Asia and the Pacific (see figure below), where youth unemployment rates are almost five times that of the adult unemployment rate.
- The difference between the youth and adult unemployment rates is smallest in sub-Saharan Africa and in Developed Economies and the EU (but again, it is thought this could be linked to the decreasing youth population in these latter areas rather than to the effects of employment policies).

Ratios of youth-to-adult unemployment rate 2009*



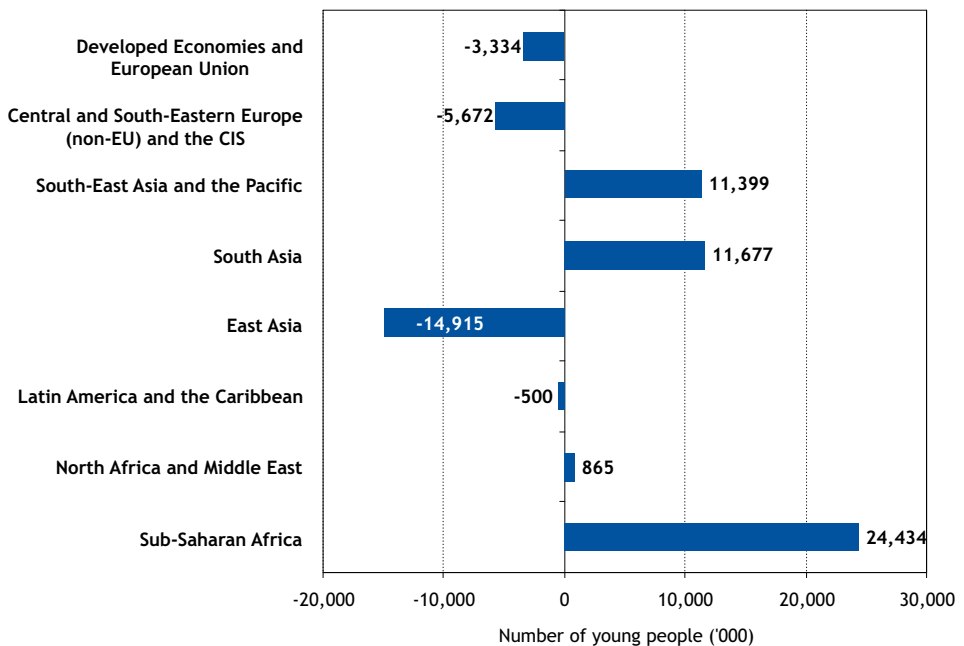
Source: ILO, *Global employment trends, January 2010*
*2009 are preliminary estimates



Future trends: South Asia and the Pacific, sub-Saharan Africa, the Middle East and North Africa will start to see large increases in the youth labour force over the next years

- Between 2010 and 2015 the youth labour force will continue to grow. The growth will be concentrated in sub-Saharan Africa, South East Asia and the Pacific, and in the Middle East and North Africa.
- The youth cohort will still make up approximately one-fifth of the total population by 2015 in these regions.
- The size of the youth labour force will decrease in all other regions, and most considerably in East Asia.

**Estimated youth labour force net growth
per region 2005-2015**



Source: ILO, *Global Employment Trends (GET) Model*, 2006

The statistics in this section show that youth unemployment rates are too high in every region. Under the right conditions, businesses should be able to take advantage of the immense resource this age group represents. In the following chapter we will take a brief look at some basic economic theory, in order to better understand the causes of youth unemployment and how to tackle them.

Resources to know more

ILO (2010), Global Employment Trends, January 2010. www.ilo.org/empelm ILO (2009), Global Employment Trends, January 2009. www.ilo.org/empelm ILO (2008), Global employment trends for youth, October 2008. www.ilo.org/empelm

Quintini, G. and Martin, S. (2006) Starting well or losing their way? The position of youth in the labour market in OECD countries, OECD Social, employment and migration papers No. 39 www.oecd.org/els

Youth Employment Network (YEN), www.ilo.org/yen



Chapter 3

UNEMPLOYMENT DETERMINANTS: AN OVERVIEW OF BASIC ECONOMIC THEORY

This section gives a brief overview of economic theory, both from a microeconomic and macroeconomic perspective, focusing on the labour market and unemployment. A good comprehension of market forces interactions will help to better understand the causes of unemployment in general and of youth unemployment in particular, reasons for tackling it, and what to do to reduce youth unemployment levels.

3.1 Supply and demand in the labour market

Microeconomics looks at how people, households and businesses decide to allocate limited resources and how these decisions affect the supply and demand of goods and services (and their prices) in markets. The supply and demand model describes the interactions between buyers and sellers in a given market in relation to the price of a good or service. In goods and services markets, if the price is high, more goods and services will be produced, until the demand is satisfied. If the price drops, fewer goods and services will be produced.

According to the supply and demand model, in a free market (i.e. where the price is determined by agreement between buyers and sellers rather than by government regulations) the forces of supply and demand will reach an economic equilibrium, where demand equals supply.

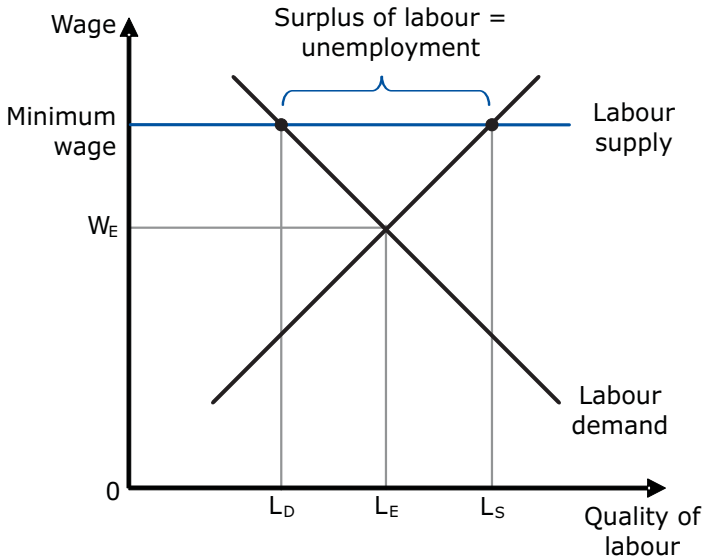
According to the neoclassical theory⁵, the model can be easily transposed onto the labour market. A high demand for labour, in the absence of labour supply, generates an increase in wages. If the demand for labour drops and supply outstrips demand, wages will fall. In theory, market forces should reach equilibrium when supply and demand for labour are the same, leading to full employment in the economy. Unemployment results when wages are, for some reason, above the level that brings supply and demand into equilibrium. A number of actors can contribute to setting wages above the equilibrium level. We will now examine the role of the most important ones.

Governments' role: minimum wage laws

Although minimum wages are not the predominant reason for unemployment in many economies, they have an important effect on certain groups (for example, the least skilled workers).

The supply and demand model applies not just to the size of the labour force, but also to worker characteristics, such as educational achievement and skills levels. If a certain skill is scarce (supply is low) but much needed by employers (high demand), a worker with those skills has ample bargaining power as regards his/her wage. If there is a surplus of a certain skill (high supply), which is not much in demand by employers, workers with those skills will have less bargaining power and may experience unemployment.

⁵ The neoclassical school is the mainstream school of thought in economics, who defined value in relation to scarcity and regarded the balance of supply and demand as determining equilibrium prices.



Source: Mankiw (1998) *Principles of Economics*

The figure shows the basic economics of a minimum wage. When a minimum-wage law forces the wage to remain above the level that balances supply and demand, it raises the quantity of labour supplied and reduces the quantity of labour demanded, compared to the equilibrium level. It results in a surplus of labour.

Because there are more workers willing to work than there are jobs, a number of workers are unemployed. However, minimum wage laws are not the only reason for explaining unemployment: most workers in the economy have wages well above the legal minimum. Most often, minimum-wage laws are binding for the least skilled and least experienced members of the labour force, such as teenagers. It is mostly among these workers that minimum-wage laws influence unemployment.

Although the figure is drawn to show the effects of too high a minimum wage, it also illustrates a more general lesson: *If the wage is kept above the equilibrium level for any reason, the result is unemployment.*



Facts and figures:

Research from Turkey shows that the impact of wages on employment rates can differ according to groups. For those with higher skills and higher educational achievement, the link between wages and unemployment is less clear. However, for lower-skilled workers with lower educational achievement (and therefore less bargaining power), such as agricultural workers, there is a clear link between local unemployment and wages. In this case, the wage curve is more relevant to lower-skilled workers than higher-skilled workers.

Source: Ikcaracan, I. and Selim, R. (2002) *The role of unemployment in wage determination: Further evidence on the wage curve from Turkey*,
Center for Economic Policy Analysis,

www.newschool.edu/cepa/publications/workingpapers/index.htm



Unions' role: claiming higher wages

Unions are important in helping firms to respond efficiently to workers' concerns. Whenever a worker takes a job, the worker and the firm must agree on many attributes of the job: not only wages, but also hours of work, overtime, vacations, sick leave, health benefits, promotion schedules, job security, etc. By representing workers' views on these issues, unions allow firms to provide workers with the right job attributes. At the same time, by claiming higher wages, unions can push them above the equilibrium level: the quantity of labour supplied may rise and the quantity of labour demanded may fall, resulting in unemployment. Workers who remain employed are better off, but those who were previously employed and are now unemployed at the higher wage are worse off.

This is why unions are sometimes thought to cause conflict between different groups of workers: the *outsiders* (especially young people) may face more difficulties in entering the labour market because the *insiders* benefit from too high wages.

Employers' role: the efficiency wage theory

Employers can also play a role in raising wages above the equilibrium level.

The efficiency wage theory points to the incentive for managers to pay their employees more than the market-clearing wage.

Why should firms want to keep wages high? In some ways, this decision seems to be odd, because wages are a large part of firms' costs. Normally, we would expect profit-maximizing firms to want to keep costs – and therefore wages – as low as possible.

The novel insight of efficiency wage theory is that paying high wages might be profitable because it might raise the productivity (efficiency) of the workers. This increased labour productivity then pays for the higher wages.

In efficiency wage models, labour productivity is positively related to wages. Why should higher wages increase labour productivity? There are several explanations:

- *Worker quality.* When a firm hires new workers, it cannot gauge the quality of the applicants perfectly. By paying a high wage, the firms attract a better pool of workers to apply for their jobs. More skilled workers are normally more productive workers.
- *Worker effort.* If it is difficult to measure the quantity or quality of a worker's effort, there may be an incentive to prevent him or her from shirking (doing less work than agreed). The manager thus may pay an efficiency wage in order to increase the cost of job loss, which gives a sting to the threat of firing.
- *Minimizing turnover.* By paying efficiency wages, the employees' incentive to quit and seek jobs elsewhere is minimized. This strategy makes sense because it is often costly for the firms to hire and train new workers. Firms with higher turn-over tend to have higher production costs. For this reason, firms may find it profitable to pay wages above the equilibrium level and so reduce workers' turnover.
- *Nutritional theories.* In developing countries, efficiency wages may allow workers to eat well enough to avoid illness and to be able to work harder and more productively.

Productivity and wages

We stated that labour productivity in efficiency wage models is positively related to wages. But how does this happen, and why do employers want to link productivity and wages?

Economic theory says that each additional unit of labour employed produces a progressively smaller increment in output. Given a real wage, the firm should employ labour to the point at which the marginal product of labour just equals the real wage. Competitive firms always take into account this principle of keeping wages and productivity in line. If the wage were below the productivity level, firms would find it profitable to hire more workers. This would put upward pressure on wages and, because of diminishing returns, downward pressure on productivity. Conversely, if the wage were above the productivity level, firms would find it profitable to shed labour, putting downward pressure on wages and upward pressure on productivity.

Nowadays, in wage determination, employers give much importance to the unit labour costs. Unit per labour cost measures the labour cost per unit of output. It will rise when total labour costs rise faster than output. For example, if wages rise by 5% and labour productivity (output per worker) grows by 2%, unit labour costs will rise by 3%. Employers try to keep constant (or ideally to cut) unit per labour costs. If labour productivity rises 5%, wages cannot increase by more than 5% to maintain the same level of unit labour costs.

Nonetheless, real wages and productivity do not always line up with the data. There are a several reasons for this, including:

1. The relevant measure of wages is total compensation, which includes cash wages and fringe benefits. Some data include only cash wages. In an era when fringe benefits such as pensions and health care are significant parts of the compensation package, one should not expect cash wages to line up with productivity.
2. There is heterogeneity among workers. Productivity is most easily calculated for the average worker in the economy: total output divided by total hours worked. Not every type of worker, however, will experience the same productivity change as the average. *Average* productivity is best compared with *average* real wages.
3. Finally, it is very important to notice that we are always considering labour productivity; but labour is, of course, not the only input into production. Capital is the other major input and influence on productivity levels which needs to be remunerated. For this reason, according to theory, the right measure of productivity is the amount of output an incremental worker would produce, holding the amount of capital constant.



Going beyond neoclassical theory

The main assumption of New Keynesian⁶ economics, that distinguishes it from neoclassical economics, is that wages and prices do not adjust instantly to allow the economy to attain full employment. The labour market cannot be considered equal to markets for goods and services; only particular segments (those involving unskilled workers) are subject to more normal rules of supply and demand, as workers are likely to change job types in response to differing wage rates.

In most segments, the labour market differs in several ways:

- *The labour market acting as a non-clearing market.* Whereas most markets have a point of equilibrium without excess surplus or demand, the labour market is expected to have a persistent level of unemployment.
- *The function of supply and demand in setting prices and quantity.* In markets for goods, if the price is high there is a tendency, in the long run, for more goods to be produced until the demand is satisfied. With labour, overall supply cannot effectively be manufactured because people have a limited amount of time in the day, and people are not manufactured. The income effect suggests that a rise in overall wages will, in many situations, not result in more supply of labour. It may even result in less supply of labour as workers take more time off to spend their increased wages. On the other hand, the substitution effect of a higher wage might cause people to work more, as the opportunity cost of working less is greater than it was prior to the increase. Although the empirical evidence is mixed, some analysts suggest the income and substitution effects cancel each other out, resulting in no supply increase.

More generally, sociologists and political economists claim that labour economics tends to lose sight of the complexity of individual employment decisions. These decisions, particularly on the supply side, are often loaded with considerable emotional baggage and a purely numerical analysis can miss important dimensions.

3.2 From the labour market to the economy: the wage setting and price setting curves

We will now examine one simple model explaining the determinants of the structural unemployment rate (consider that a certain level of structural unemployment rate is healthy for the economy). This model will introduce the wage setting (WS) and price setting (PS) curves in order to better understand how the labour market influences the economy and vice versa.

The supply and demand model applies not only to the size of the labour force, but also to worker characteristics, such as educational achievement and skills levels. If a certain skill is scarce (supply is low) but much needed by employers (high demand), a worker with those skills has ample bargaining power as regards his/her wage. If there is a surplus of a certain skill (high supply), which is not much in demand by employers, workers with those skills will have less bargaining power and may experience unemployment.

These characteristics of the labour market help to explain why wages are 'sticky'. This means that the price of labour supplied by workers does not adjust quickly enough to 'clear' the labour market, i.e. to bring the supply and demand of labour into equilibrium, thereby causing unemployment.

In order to better understand how the labour market influences the economy and vice versa, it is worth introducing the wage setting (WS) and price setting (PS) curves.

⁶ New Keynesian economics is a school of contemporary macroeconomics that strives to provide microeconomic foundations for Keynesian economics. It has developed partly as a response to criticisms of Keynesian macroeconomics by adherents of Neoclassical macroeconomics.

The wage setting relation (WS)

The value of wages is influenced by many factors. Such influences can be summarized in a function as follows, either if the bargaining is conducted on an individual basis or collectively:

$$W = PF(u, z) \\ (-, +)$$

It states that the wage, W , depends on three factors, the price level (P), the unemployment rate (u) and a variable (z) that groups all other variables that affect the outcome of the wage setting process.

The influence of the price level that will be reached in the near future is due to the fact that during the bargaining process workers do not care about, for instance, how many euro they receive but about how many goods and services they can buy with those euro. The same applies for firms: they do not care about the absolute amount they pay to workers but about the size of the paid sum compared to the price of the goods firms sell. In both cases the price level of goods and services is quite relevant, and the relationship between P and W is positive: if an increase in the price level is expected for the future, wages raises today.

Also the general unemployment rate u affects the wage level: higher unemployment rates weaken workers bargaining power, forcing them to accept lower wages and allowing firms to pay lower wages and still keep workers motivated at work. Thus, u affects the level of wages negatively: if the unemployment rate increases, wages decrease and vice versa.

The last variable, z , is a variable that represents all the factors that affect wages given the other two variables (i.e., P and u). Such factors are unemployment insurance (i.e., unemployment benefits given to workers who lose their jobs), a minimum level for salaries, laws for job protection (i.e., laws making firing more expensive for firms), taxes, etc.. All factors (and thus z as well) affect wages positively: this happens because of the definition of the variable but it can also be understood by some examples. If the government decreases the unemployment insurance, workers are willing to accept lower wages in order to avoid unemployment. If the minimum level of salary increases, all workers ask for an increase of their own salary.

The 'wage curve', has been proven to exist by different empirical research⁷.

The price setting relation (PS)

The level of prices is influenced by many factors, but here for sake of simplicity we consider that prices are determined by firms by adding a markup to their costs of production. Again, in order to keep the relation as simple as possible, we consider as a cost only W , that is to say the cost of the labour force.

The resulting relation is as follows, where the term μ is the markup of the price over the cost of production:

$$P = (1+\mu)W$$

The markup (μ) is decided by the firms, and it can be used (as it will be shown below) in order to understand the impact of external increases in the price of raw materials and oil on unemployment.

⁷ See, for example, Blanchflower, D.G., and Oswald, A.J. (1994) *The wage curve*, MIT Press, Cambridge and London.

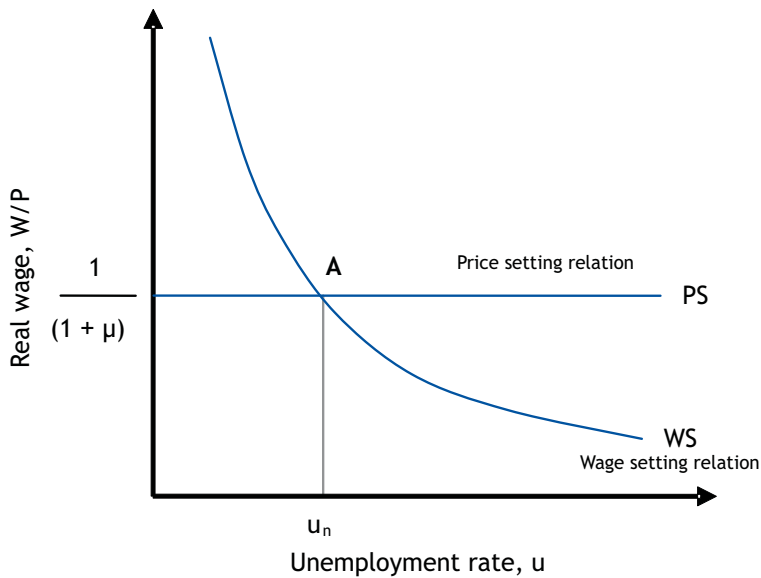


WS and PS curves

Dividing by P the WS and PS relations as defined above, we obtain two new expressions identical to the previous ones but pointing out the level of real wage (i.e., the wage measured in terms of the goods and services that can be bought, obtained by dividing the wage W by the price P):

$$\frac{W}{P} = F(u, z) \quad \frac{W}{P} = \frac{1}{(1 + \mu)}$$

The two relations can be now plotted on a graph as follows.



The **structural rate of unemployment** is the unemployment rate such that the real wage chosen in wage setting is equal to the real wage implied by price setting. In order to understand the relevance of this level of unemployment it is worth introducing different time scales in the analysis of the economy in order to differentiate between short lasting phenomena of unemployment and long lasting ones. Such a point will be made clearer on the following page.

Macroeconomics: aggregate supply and demand

Aggregate (or overall) supply and demand play a major role in macroeconomic theory, which considers the behaviour of the economy as a whole. These concepts are defined as follows:

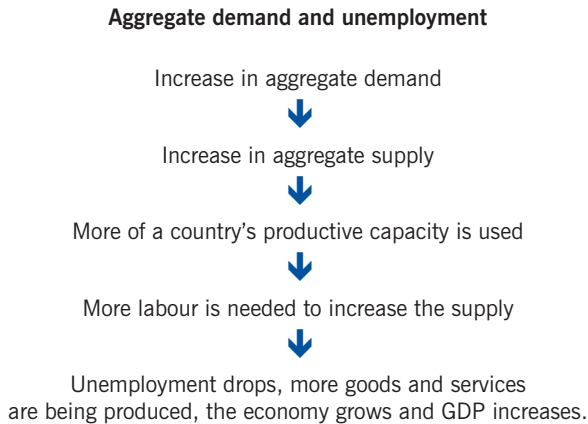
Aggregate demand

The sum of the values of all the goods and services purchased in a given economy. Aggregate is not just a measure of what people want to buy, but what they are able and willing to buy. The *level* of aggregate demand is determined by the total demand for goods to consume, for services, for new investment, for goods purchased by the government, and for net goods to export.

Aggregate supply

The sum of the values of all the goods and services supplied in a given economy. The *level* of aggregate supply is the amount of output an economy can produce, determined by the resources (labour and capital — more on this in the next chapter) and technology available, as well as imports.

How an increase in aggregate demand affects unemployment and economic growth:



3.3 Time scales and kinds of unemployment

Depending on the time frame, aggregate output is determined either by aggregate supply or by aggregate demand. The resulting unemployment is due to different reasons and takes different names.

Short run

When macroeconomists look at things 'in the short run', they are speaking in terms of the regular contractions and expansions of the economy, called the 'business cycle'. Inflation, growth and unemployment all follow cyclical movements. In the short run, output is determined by aggregate demand, which determines how much of a country's available capacity to supply goods and services is used. Employers will vary the amount of goods and services they produce according to aggregate demand. If output increases, inputs must as well, more labour will be needed, and unemployment rates will drop.

The unemployment due to short run variations in demand is often referred as cyclical unemployment. The level of unemployment on the short run can be lower or higher than the structural one: in the case in which it is lower, a quick increase should be expected in order to



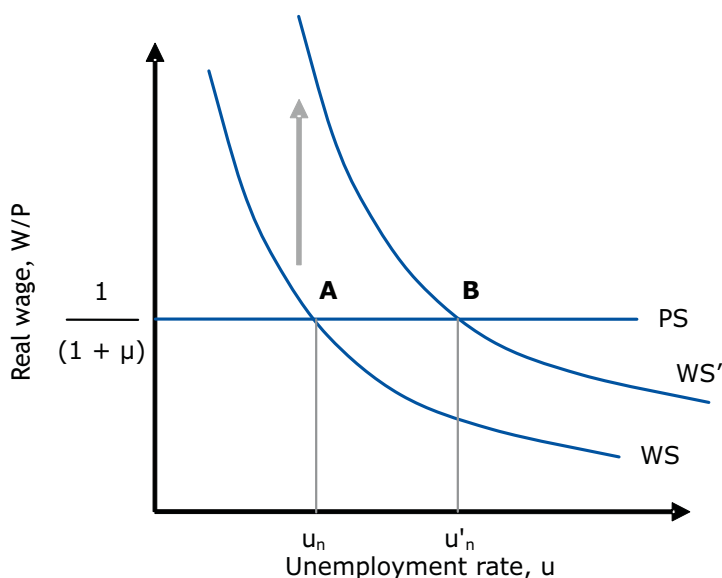
reduce the distance from the structural level, when it is higher a decrease should be expected in the near future according to the evolution of the business cycle and the labour market.

Medium run

In the medium run, the positions of the wage-setting and price-setting curves, and thus the equilibrium unemployment rate, depend on both z (i.e., many factors that influence wage setting, as for instance unemployment benefits) and μ (i.e., the markup applied by firms).

At a given unemployment rate, higher unemployment benefits lead to a higher real wage. A higher unemployment rate is needed to bring the real wage back to what firms are willing to pay. By letting firms increase their prices given the wage, less stringent enforcement of antitrust legislation leads to a decrease in the real wage.

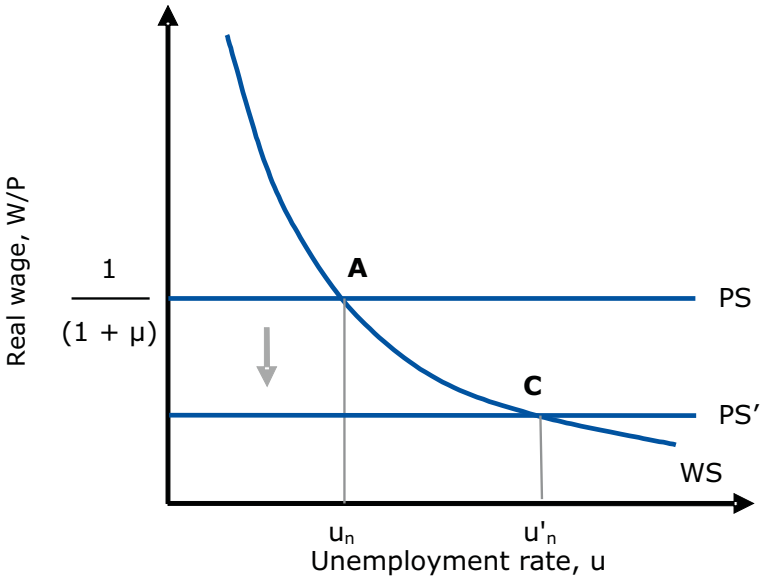
In conclusion, on the medium run, an increase in unemployment benefits leads to an increase in the structural rate of unemployment, as shown in the graph below:



The increase in unemployment benefits determines an upward shift of the WS curve, and a higher level of structural unemployment.

The same result is obtained when an increase in markup happens. That event (i.e., the increase of the markup applied by firms) could seem to be a rare and irrelevant event, but the effect obtained on the price setting relation and on the labour market is the same as when other more common events happen. It is the case of an increase of the price of oil (a good that is often imported for a relevant quota) or of other raw materials: it is like an increase, *ceteris paribus*, of the costs of production of firms, that is to say, in our framework, like an increase of markup.

In conclusion, an increase in markups (or the equivalent increase in the price of oil and raw materials used in goods production) decreases the real wage, and leads to an increase in the structural rate of unemployment. The new equilibrium is the one determined at the point C in the following graph.



Long run

In the long run (there is much debate over whether ‘in the long run’ means a few financial quarters or a decade) output is determined by aggregate supply alone, as the amount of input ultimately determines the amount of output, or the productive capacity of an economy. Therefore long-run economic growth depends on aggregate supply, i.e. the supply of capital and labour, and technological progress.

The rate of unemployment that is determined in the long run is due to the population growth, to the level of education of the labour force, to their productivity and to the technological progress. The level of physical capital is irrelevant on the long run, as it is determined by the other variables taken into consideration and it does not foster growth.

Resources to know more

Blanchard, O.J. (2005) *Macroeconomics*, Prentice Hall, US.

Dornbusch, R., Fischer, S. and Startz, R. (2004) *Macroeconomics*, McGraw-Hill Companies Inc, US.

Mankiw, N.G. (2001) *Principles of economics - Second Edition*, Harcourt College Publishers, US.

Pindyck, R.S. and Rubinfeld, D.L. (2004) *Microeconomics* Prentice Hall, US.



Chapter 4

THE CAUSES OF HIGH YOUTH UNEMPLOYMENT RATES

4.1 A necessary premise: the lump-of-labour fallacy

In the previous chapter, we looked briefly at the main determinants of unemployment and the variables which play a role, according to modern economic theory.

Before addressing some of the factors which provoke high **youth** unemployment rates, it is important to introduce the lump-of-labour fallacy, a decisive economic misunderstanding that often motivates labour market policies.

Whenever unemployment is high, people often think that the solution lies in spreading existing work more evenly among the labour force. For example, Europe in the 1990s suffered extremely high unemployment, and many labour leaders and politicians suggested that the solution was to reduce the working week so that the same number of hours would be worked by all workers. This view, which considers that the amount of work to be done is fixed, is called the lump-of-labour fallacy.

To begin with, we note the grain of truth in this viewpoint. For a particular group of workers, with special skills and stuck in one region, a reduction in the demand for labour may indeed pose a threat to their incomes. If wages adjust slowly, these workers may face prolonged spells of unemployment. The lump-of-labour fallacy may look quite real to these workers.

But from the point of view of the economy as a whole, the lump-of-labour argument implies that there is only a fixed quantity of remunerative work to be done, and this is a fallacy. A careful examination of economic history in different countries shows that an increase in labour supply can be accommodated by higher employment, although that increase may require lower real wages. Similarly, a decrease in the demand for a particular kind of labour because of technological shifts in an industry can be adapted to lower relative wages and migration of labour and capital will eventually provide new jobs for the displaced workers.

Work is not a lump that must be shared among the potential workers. Labour market adjustments can adapt to shifts in the supply and demand for labour through changes in the real wage and through migrations of labour and capital. Obviously, in the short run, when wages and prices are sticky, the adjustment process can be lubricated by appropriate macroeconomic policies.



Facts and figures:

OECD data do not support the lump-of-labour theory. A number of countries, including the United States, have combined low unemployment rates with a high number of working hours per worker. On the other hand, some European countries that have restricted working hours the furthest have suffered persistently high unemployment/inactivity rates. A comparison among countries with similar levels of economic development also shows no evidence for a systematic relationship between short hours and lower unemployment. For instance, the United States and the Netherlands have a comparable level of economic development. Among the eight OECD countries with the highest level of labour productivity, Dutch workers have the shortest working hours, and American workers have the longest. Yet their employment rates are approximately equal.

Source: OECD Policy Brief: Clocking in and clocking out: Recent trends in working hours, www.oecd.org/dataoecd/42/49/33821328.pdf

This short introduction leads us to the main focus of this chapter: because there is no fixed amount of labour in the economy (the lump-of-labour fallacy), we should reflect on the main causes of youth unemployment and the policies that can contribute to job creation.

We would start with a simple quantitative consideration:

In many economies there exist an imbalance between young labour supply and young labour demand

supply of young workers > demand for young workers

Why is this?

Supply side	Demand side
<ul style="list-style-type: none">● Low school-leaving age● Education, skills gap and skills mismatch	<ul style="list-style-type: none">● Poor macroeconomic and business environment● Excessive labour market regulation and ineffective social security systems● High wages for inexperienced workers

If the set of skills of the young labour force does not meet employers' needs, we also face a qualitative problem: it becomes hard for employers to find people with the right skills in the youth labour force.

supply of skilled youth < demand for skilled youth

Obviously, there are myriad other factors (even more important factors, like demographic trends) that can contribute to and explain high levels of youth unemployment, and why these levels are higher than for adults. This chapter does not seek to be exhaustive, but we will at least analyse the above-mentioned problematic factors and how employers can try to tackle them. In fact at least on these factors employers can have a voice.



4.2 Low school-leaving age

The school-leaving age is the minimum age at which a person is legally allowed to leave compulsory education. The majority of countries have set their school-leaving age at their minimum full-time employment age, thus allowing a smooth transition from education into employment, whereas a few have it set just below the age at which a person is allowed to be employed.

In other countries, there is a difference of several years between the school-leaving age and the legal minimum employment age, thus preventing any such transition. On the one hand, countries which have their employment age set below the school-leaving age (mostly developing countries) risk giving children the opportunity to leave their education early to earn money for their families. On the other hand, a low school-leaving age can increase the number of young people looking for jobs (an increase in the supply).

We assume that a longer-educated population is more skilled: in general more-educated young people should be able to find a first job faster⁸ (see *below the sub-chapter on school-to-work transition*).

4.3. Macroeconomic and business environment

The macroeconomic environment refers to how the economy of a country is faring as whole. In a nutshell low economic growth, which is manifested in low economic activity and low investment entail low overall job creation both for young people and for adults. On the contrary, when countries' economies perform better, unemployment levels tend to be low because output is high and employers need more workers to keep up increased production. Therefore, employment growth for all age groups is a result of socio-economic development and is only possible in the right macro-economic conditions.

A fertile macro-economic environment leads to economic growth, which refers to an increase in the production of goods and services, and therefore an expansion of national income. The following sub section will focus on business environment and constraints to business entrepreneurship, taking into account that business regulation is an area where employers can exercise their influence.

Business environment and constraints to youth entrepreneurship

A business environment where entrepreneurs can easily start-up their business can make a substantial contribution to employment creation.

Self-employment creates jobs directly, but successful businesses, if they are able to expand, also create jobs for others as the demand for labour increases.

In many ways entrepreneurship drives economic development. It breeds competitiveness and innovation. Innovation, through the use of new technologies, increases productivity and further expands existing market opportunities, which in turn strengthens incentives to innovate. Small businesses therefore contribute to one of the key pillars of sustained economic growth: technological progress. In fact, the strength of the small business sector is often a decisive factor in determining an economy's ability to achieve GDP growth and a fair distribution of wealth.

⁸ This holds true in many regions but, it is not always the case; educated unemployed is rather acute in a good number of countries - e.g. North Africa.

Nonetheless there exist a range of key constraints and barriers to entrepreneurship in general and to enterprise start-ups by young people in particular.

The most prominent (at least most talked about) impediment to young people seeking to create their own business is the lack of adequate start-up finance. Young people are often seen as particularly risky investments because of the absence of a substantive credit history, sufficient collateral or guarantees to secure loans or lines of credit. Another key concern when lending money to young entrepreneurs is the lack of experience and business skills. Because of their age, young people are unlikely to have the type of business experience, track record or business skills that banks or other financial institutions would look for in assessing creditworthiness. Even more difficult having access to credit for young entrepreneurs working in the informal sector. As informal sector enterprises are not registered with the relevant jurisprudence as limited liability companies, there is no difference between enterprise assets and personal assets. A young entrepreneur is therefore directly and jointly held responsible for his/her liabilities. This lack of separation between ownership and control makes it quite difficult for investors to deal with entrepreneurs in the informal sector.

Another important factor, related to business environment, is the impact of administrative and regulatory burdens on youth entrepreneurship and business in general. These burdens are among the most important barriers to start-ups of young people in high-income and developing countries: government regulations and bureaucratic formalities also are seen as one reason for large informal sectors in many developing countries, since the costs of formalizing are higher than the gain in productivity from entering the formal sector.

Today, entrepreneurs face numerous administrative burdens including businesses registration, tax administration, obtaining investment approvals and business licenses, coping with copyright and patent regulations, competition law, access to work space and long-term leases, construction and building permits, customs clearances and utility hook-ups.

These issues are particularly time and cost consuming for young entrepreneurs, as young people often do not have prior or less experience with such matters. In view of their lack of capital, administrative costs and high tax levels can become an insuperable barrier to set up a business or can push many promising young entrepreneurs into the grey or black market where there are limitations to the opportunities for them to grow and prosper.

Finally ineffective competition law can also close markets to new start-up businesses particularly young people who are outside local business networks. Competition-related restrictions on market access or government subsidies could prevent many young people from entering markets. On the other hand, trade liberalization policies introduced in many developing countries have increased competition. Many new businesses in the poorest countries do not have the professional management and resources to adapt to a more competitive environment.



Facts and figures:

Research shows that growth rates of smaller firms generally exceed those of their larger and older counterparts. The higher the growth rates of small firms, the more beneficial the impact on unemployment.

Source: Audretsch, D.B. and Thurik, R. (2001)

Linking entrepreneurship to growth, OECD,

[www.oilis.oecd.org/olis/2001doc.nsf/43bb6130e5e86e5fc12569fa005d004c/c1256985004c66e3c1256a4700380e39/\\$FILE/JT00107253.PDF](http://www.oilis.oecd.org/olis/2001doc.nsf/43bb6130e5e86e5fc12569fa005d004c/c1256985004c66e3c1256a4700380e39/$FILE/JT00107253.PDF)



In OECD countries SMEs (Small and Medium sized Enterprises) account for 60 to 70% of jobs. However, data vary according to sector. For instance, in construction, SMEs account for 80 to 90% of all employment. Overall, SMEs account for between 30 and 70% of value added (a measure of a company's output, which can be summarized as revenue minus non-labour costs of inputs) in the economies of OECD countries.

Source: OECD Small businesses, job creation and growth: Facts, obstacles and best practices, www.oecd.org/dataoecd/10/59/2090740.pdf

4.4 High wage level for inexperienced workers

As we have seen in previous chapter too high wages can contribute to unemployment. This is even truer in case of youth labour market.

In manual occupations, workers with fully qualifying work experience often receive entry wages not significantly different from entry wages received by workers with no previous work experience (and performing different tasks).

This places the inexperienced, less productive workers at a disadvantage: the employer will normally prefer to hire experienced workers than hire young workers without experience.

In clerical occupations, where there is more wage differentiation on the grounds of previous experience, there is no systematic relationship between the proportion of workers at various skill levels and the number of new hirings or the supply of experienced workers.

Wage differentiation (lower wages for new entrants to the labour market) can be an effective way to tackle youth unemployment and reduce the disadvantage of less experienced workers. Wages should be based on the value of the work performed, irrespective of the worker's age⁹, but wage differentiation can be justified for people performing different jobs or work of different value inside a company (normally experienced people have different tasks).

4.5 Excessive labour market regulation and ineffective social security systems

The efficiency and flexibility of the labour market are critical for ensuring that workers are allocated to their most efficient use in the economy and provided with incentives to give their best effort in their jobs. Excessive labour market regulations and hyper protective employment legislation can contribute to high youth unemployment level. The net impact of Employment Protection Legislation (EPL) on aggregate unemployment is ambiguous. Researchers do not agree on the direct effects of EPL on the level of unemployment, but they do agree that more stringent EPL increase the duration of (youth) unemployment and the job flows. Moreover quite a number of studies detect a link between EPL and employment rates for specific groups highlighting negative links between strict EPL and the employment rates of youth and prime-age women¹⁰.

In a flexible labour market it is easy and economical for firms to vary the amount of labour used, for instance by varying hours worked per employee or changing the number of workers. Some of the regulations typically affecting flexibility are minimum wage laws, firing laws (notice time, compensation), and social security and unemployment benefits. Generally, a flexible labour

⁹ The Preamble to the ILO Constitution enshrines the principle of "equal remuneration for work of equal value".

¹⁰ See Heckman and Pagès (2000), OECD Employment Outlook (1999 and 2002), Scarpetta (1996).

market allows businesses to adapt to fluctuations and changes in society as well as in the economy or production. This flexibility helps to maximise profits during market upturns, resulting in business expansion and employment growth. During market downturns, flexibility helps to minimise losses.

Flexible labour markets are often associated with low levels of regulation, while inflexible, rigid labour markets are often called over-regulated. An overly regulated labour market restrains businesses' flexibility to respond to market fluctuations. This means employers are less willing to take on new recruits as it is difficult to let them go, especially where this entails excessive labour costs.



Facts and figures:

New employment laws cost UK firms £37 billion (around USD 72 billion) between 1999 and 2006. The costs are the result of the cumulative impact of 35 new employment rights and the administrative burdens they have created. Employers said that the time spent administering and complying with new rights was damaging their business. Half said that labour costs have increased, two-fifths believed workplace regulations have harmed the UK's reputation as a place to do business and a third said that they had an adverse impact on their ability to compete.

*Source: Confederation of British Industry (CBI) (2005)
Lightening the load: The need for employment law simplification www.cbi.org.uk*

Opponents of labour market flexibility claim that it puts all the power in the camp of the employer, allowing firms to hire and fire at will and leaving workers unprotected. Another argument in favour of more labour laws and regulation is that these make workers feel more secure and therefore encourage them to invest in acquiring job -and company- specific skills that enable them to do their current job better but that would not be useful in a job in another company.

Social security systems and unemployment benefits

In countries with a social welfare system, the unemployed are financially supported by the state (with workers and employers usually contributing a percentage of wages and the wage bill, respectively) through unemployment benefits, also called unemployment insurance.

Unemployment benefits can increase unemployment in three ways:

1. Unemployment benefits allow for longer job searches

While longer job searches can increase labour market efficiency by leading to a better worker-employer match, they also reduce work incentives. The weakest work incentives are created by high tax rates and overly generous welfare benefits, both of which affect the 'replacement ratio', which measures difference between net income when employed and net income when on benefits. The higher the replacement ratio, the less pressure there is on an unemployed person to look for work. The replacement ratio affects the reservation wage, which is the wage at which an unemployed person is willing to accept a job. Disincentives are particularly strong for those with low potential earnings, who risk getting caught in the 'unemployment trap': a situation where benefits paid to the unemployed are high compared to net income from work.



2. Employment stability

Unemployment benefits decrease the severity of the effect of being without a job. As a result, firms may be more inclined to fire workers when necessary, since their 'social responsibility' to their workers has, in a way, been outsourced.

3. Measured employment

In order to qualify for unemployment benefits, the unemployed must register as such. As a result even those not really looking for a job may register as unemployed in order to receive financial support. This means that not only do unemployment benefits increase the real rate of unemployment, but also the measured rate of unemployment through so-called 'reporting effects'.

In short, overly generous social security benefits can seriously damage work incentives. If work does not pay, then many will prefer to continue receiving money from the state rather than making any. The result for employers is an undesirable reduction in the recruitment pool while, somewhat paradoxically, unemployment increases. For both business and society at large an overly generous welfare system hits the financial bottom line hard as it is tax money, including that from corporate tax, which is used to pay benefits.



Facts and figures:

The estimated cost of 10,000 young people not in employment, education or training over their lifetime in the UK was nearly £1 billion (around USD 2 billion) in 2002.

Source: Department for Education and Skills (2002)
Estimating the Cost of Being "Not in Education, Employment or Training (NEET)" at Age 16-18, www.dfes.gov.uk



Facts and figures:

In France the unemployment rate in 2009 was 10% (almost 3 millions persons). People who worked for at least 4 months in last 28 months do have right to unemployment benefits. Unemployment benefits can be given for a maximum of 24 months and correspond to 57 % of the gross salary (but it can not be lower than 27 Euro per day).

Source: www.elpais.es

While unemployment benefits can have negative effects on unemployment rates, this is often part of a trade-off to help alleviate the results of unemployment, including poverty, social exclusion and inequality—unemployment hits the poor harder than it hits the rich.



Facts and figures:

A study of young unemployed people in Nordic countries shows that unemployment benefits reduce the probability of re-employment in all countries. In Denmark, where benefits are high compared to other countries, young unemployed people were found to have lower job chances, i.e. they less often find a job, than in countries with lower compensation levels. Danish unemployed young people were also less committed to work and did less job searching.

Source: Hammer, T. (1999) 'The influence of different compensation levels of unemployment benefits on job chances among unemployed youth: A comparative study of the Nordic countries', *Acta Sociologica*,
<http://asj.sagepub.com/cgi/content/abstract/42/2/123>

4.6 Education, skills levels and labour market demands

Human capital is a key determinant of economic growth. It affects the income of the economy as a whole, and of the individual. Continued economic growth is not possible without human capital. Businesses need skilled and educated workers: they are the key factor to make profit and expand.



Facts and figures:

A cross-country analysis based on international test scores showed that level of income, quantity of schooling, and population growth rates explain a significant portion of the variation in national economic growth rates. But the effect of the quality of the labour force (measured by mathematics and science scores) on economic growth also proved extremely important: one standard deviation (a statistical measure of data dispersion) difference on test performance was related to a 1% difference in annual per capita GDP growth rates. To illustrate the importance of the quality of the workforce, the analysis said that 1 percentage point higher growth yields incomes that are 64% higher over a 50-year period.

Source: Hanushek, E.A. (2005) 'Why quality matters in education',
Finance and development, Vol. 42, No. 2, www.imf.org

Low educational attainment has been linked to higher unemployment rates. In addition, education appears to pay off. Higher education levels lead to higher wages, which in turn lead to increased spending and saving, leading to growth. The relationship between educational attainment, unemployment and earnings is clearly illustrated by the example below using data from the US.



Unemployment and earnings for full-time wage and salary workers age 25 and over, by educational attainment

Unemployment rate in 2005 (%)	Education attained	Median weekly earnings in 2005 (Dollars)
1.6	Doctoral degree	\$1,421
1.1	Professional degree	1,370
2.1	Master's degree	1,129
2.6	Bachelor's degree	937
3.3	Associate degree	699
4.2	Some college, no degree	653
4.7	High-school graduate	583
7.6	Some high-school, no diploma	409

Source: www.bls.gov

In an increasingly globalized, competitive and rapidly changing economy the skills and knowledge of young people are becoming more and more important to existing businesses, and are necessary to those wishing to set up their own successful business. It is crucial that young people get a decent basic education and have the skills and qualities needed for work. Numeracy and literacy skills are key to a well-functioning business environment, with information and communication technology (ICT) and enterprise skills (such as business administration, sales and marketing, and so on) not to be underestimated. In particular the teaching of entrepreneurial skills and attributes and behaviours is often not properly integrated into school curricula or not adequately taught on different educational levels. Most education systems still teach only traditional values rather than independent thinking and acting, risk-taking and self-reliance. Moreover, an academic approach to education nurtures skills that are appropriate to working in the public sector or large organizations and companies, are not the key skills needed to start an entrepreneurial career.

Low education and skills levels will lead to a skills mismatch, rendering school-to-work transitions for young people more difficult.

Mismatch between skills sets and labour market demands

A mismatch between the skill sets of the unemployed (labour supply) and the needs of employers (labour market demand) is the key reason behind structural unemployment. The mismatch comes about because the unemployed are unwilling or unable to change skills or to move to a location where their skills are in demand. As a result, it becomes very costly to match workers with jobs and unemployment is often prolonged.

For example, businesses in a certain area may require young people with advanced ICT skills. A young person living in this area but without these skills will have difficulty finding a job – his/her skills are not matched to the demand. Down a similar line of reasoning, a young person with the required skills set but living in an area where these are not in demand because employers are looking for agricultural workers, will have an equally difficult time finding work or may become underemployed.

An important trend in labour markets in more developed economies, influenced to a large extent by globalization, has been a steady shift in demand away from the less skilled toward the more

skilled. This is the case however skills are defined, whether in terms of education, experience, or job classification.

The result of the changing composition of labour demand has led, and is leading, to a reduction in the number entry-level, unskilled jobs, resulting in a mismatch for young people with low education and skills levels. Cyclical unemployment can also influence skills mismatches. If workers are unemployed for a long time, their skills may become 'rusty' and even obsolete in a rapidly changing labour market.



Facts and figures:

Research shows that the increase in number of skilled jobs in Europe has also led to skills shortages. Two studies on ICT skills shortages at European level by the International Data Corporation, by considering supply and demand, estimated a skills shortage of 1.7 million ICT professionals in Western Europe by 2003. The studies also estimated a demand for 6.3 million workers with 'e-business' skills (a combination of technical and business management skills). The reports concluded that the problem was not just an insufficient supply of qualified IT workers, but a mismatch due to the growing demand for e-business employees.

Source: www.idc.com

School-work transitions

It can be difficult for young people to make the transition between work and school, leading to increased unemployment among new entrants to the labour market but not necessarily because there are no jobs available. In many countries lack of business and education linkages, relationships between educational institutions and the business community (school-industry partnerships, combination of classroom learning and structured on-the-job experience) do not exist or are poorly developed.

a. Skills mismatch

Skills mismatches are generally caused by two factors. Firstly, at a general level, the school curriculum may not provide the skills employers are looking for. In most education systems, there is still a clear lack of practical and experiential learning as well as of teamwork learning. Experiential learning is very rarely used, as an effective way of gaining knowledge and experience, yet it is probably the most powerful way of learning entrepreneurship. Moreover teachers and university professors often have only limited experience in, and understanding of, small businesses and self-employment. So they are not adequately trained or educated to teach entrepreneurial skills young people

Secondly, the absence, or inaccuracy, of Labour Market Information (LMI), i.e. information on what skills are in demand and where jobs are, will lead to many young people making a choice of career that is not based on the realities of the labour market.

b. Lack of work experience

Employers often look for more than educational qualifications to ascertain that a young person will perform well.



c. Lack of formal recruitment channels

In many developing countries, it is only through informal networks – typically through family and friends – that a young person finds work or information about what jobs are available. In countries without formal recruitment channels young people may simply not know how and where to look for work beyond word of mouth. While adults are also at a disadvantage, the lack of job search experience and networks puts youth at an even greater disadvantage.

d. Lack of job search skills

Where more formal systems of job applications exist, recruitment channels can be difficult to navigate and a young person may not know how to write a Curriculum Vitae (CV) or how to present oneself in a positive light in recruitment interviews. Adults, on the other hand, might have the possibility of finding work through references from previous employers or colleagues and are more likely to know the ‘right’ people.

e. Lack of mobility

Young people starting out in the labour force are unlikely to have the financial resources to re-locate in pursuit of work. Because many will continue to depend on their families, their job search threshold will be limited to the nearby vicinity. A lack of adequate transport links will have the same effect.

f. Lack of career information and business possibilities

Schools should send out the message that being an employee is not the only option after the completion of studies. The advantages of being an entrepreneur should be promoted and the hopes of those young entrepreneurs who face the risks of starting their own business should be nurtured.

Nonetheless tools, resources and information material to support youth entrepreneurship are not readily available.



Example:
Difficult school-to-work transitions in Sri-Lanka

Sri Lanka's National Youth Survey 2000 showed that almost 50% of 15-24 year-olds was either unemployed or unsatisfied with their present employment and seeking another job. To investigate the causes behind these figures, the ILO commissioned the Sri Lankan School-to-Work-Transition survey, which surveyed 1800 respondents.

The survey showed that over 50% of all young people spent more than a year searching for employment. During this period most young people described themselves as 'merely' staying at home and looking for work. Relatively low numbers of men and women engaged in family businesses or training while looking for work. Long transitions from school-to-work created frustrations and uncertainties for youth, and were also thought to hinder other life transitions such as acquiring a suitable status for marriage.

Less than a third (29.3%) of young people had received any employment and career guidance. Mainly parents and teachers had provided the guidance, revealing a lack of formal careers advice services, or at least a lack of recognition that such services are useful, where they do exist.

Most young people believed that the main obstacle to finding a job was unsuitable general education, with other issues such as lack of English language and lack of influential contacts also playing a significant role. Young people tended to search for employment through informal means of friends and family members (30-42%, depending on different subgroups analysed in the survey) and few took advantage of formal means of finding employment. Their faith in informal networks was not unfounded: the vast majority of employed young people in the survey had found their current job through friends or family members (up to 85%, depending on the subgroup).

Source: Mayer, M. and Salib, M. (2004) School-to-work transition of youth in Sri Lanka www.ilo.org

Resources to know more

OECD (2004) Policy brief: Employment protection: The costs and benefits of greater job security, www.oecd.org

Blanchard, O.J. (2005) *Macroeconomics*, Prentice Hall, US

Dornbusch, R., Fischer, S. and Startz, R. (2004) *Macroeconomics*, McGraw-Hill Companies Inc, US.

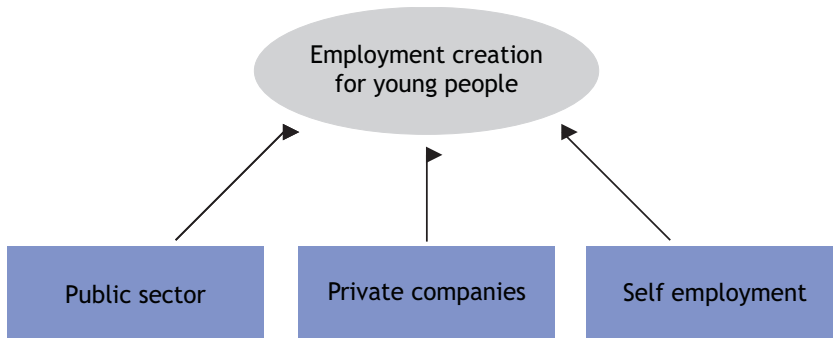
IOE (2005) *Youth employment: Secretariat note*, www.ioe-emp.org



CONCLUDING REMARKS, SECTION I FROM CAUSES TO POSSIBLE SOLUTIONS

We have seen the main causes of unemployment and youth unemployment. We will now briefly indicate possible solutions to the problems.

First of all, it is important to take into account the main actors involved in employment creation.



In many countries, employers are normally quite concerned by the excessive growth and costs of the public sector. For this reason, our focus will be on policies and programmes that can contribute to job creation in the private sector (in private companies or through self-employment).

Self-employment is a concrete path to career development, and policies that help create young entrepreneurs are an effective way to tackle youth unemployment.

The graph on page 54 shows the inter-connections among the causes of youth unemployment, possible solutions and what employers' organizations can do.

A good macroeconomic environment and a business environment conducive to enterprise development are the underpinning conditions for employment creation. They are fundamental for job creation not only among young people, but for all age groups. Employers can play an important role in influencing the design of the right macroeconomic policies and in pushing the reform process further in a direction that will make doing business easier in their own countries.

Employers are normally strenuous defenders of wage moderation: as we have seen in chapter 3, too high a wage level can lead to high unemployment. Employers can push for wage moderation and specific policies to reduce labour costs for employers who hire young people.

Another "battlefield" for employers is labour market regulation and effective labour market policy. Employers' organizations are staunch supporters of labour market flexibility that improves economic efficiency and adapts the labour needed to the production cycle. Specific measures which ease hiring and firing young people are normally supported by employers and considered an effective way to increase first employment opportunities.

The right mix of passive and active labour market policies - they should not become an excessive burden on the economy - is another must for employers. Lobbying on these issues should be part of the daily work of employers' organizations.

A reason why economies always experience some unemployment, one which we did not examine, is job search. Job search is the process of matching workers with appropriate jobs. In fact, workers differ in their tastes and skills, jobs differ in their attributes, and information about job candidates and job vacancies is disseminated slowly among the many firms and households in the economy. Improving labour market information can be an effective way to reduce unemployment, especially frictional unemployment. Employers' organizations can lobby for a more efficient public employment service, but also be directly involved in matching workers with jobs, in collecting labour market information and in giving career advice.

Policies promoting self-employment can be a viable alternative in job creation. Too often, self-employment for the young is not encouraged enough. Employers should lobby for lower entry barriers to young people, easier access to credit for them, and policies that promote youth entrepreneurship. Moreover, they can get directly involved in programmes that offer mentoring, counselling and business coaching to young entrepreneurs.

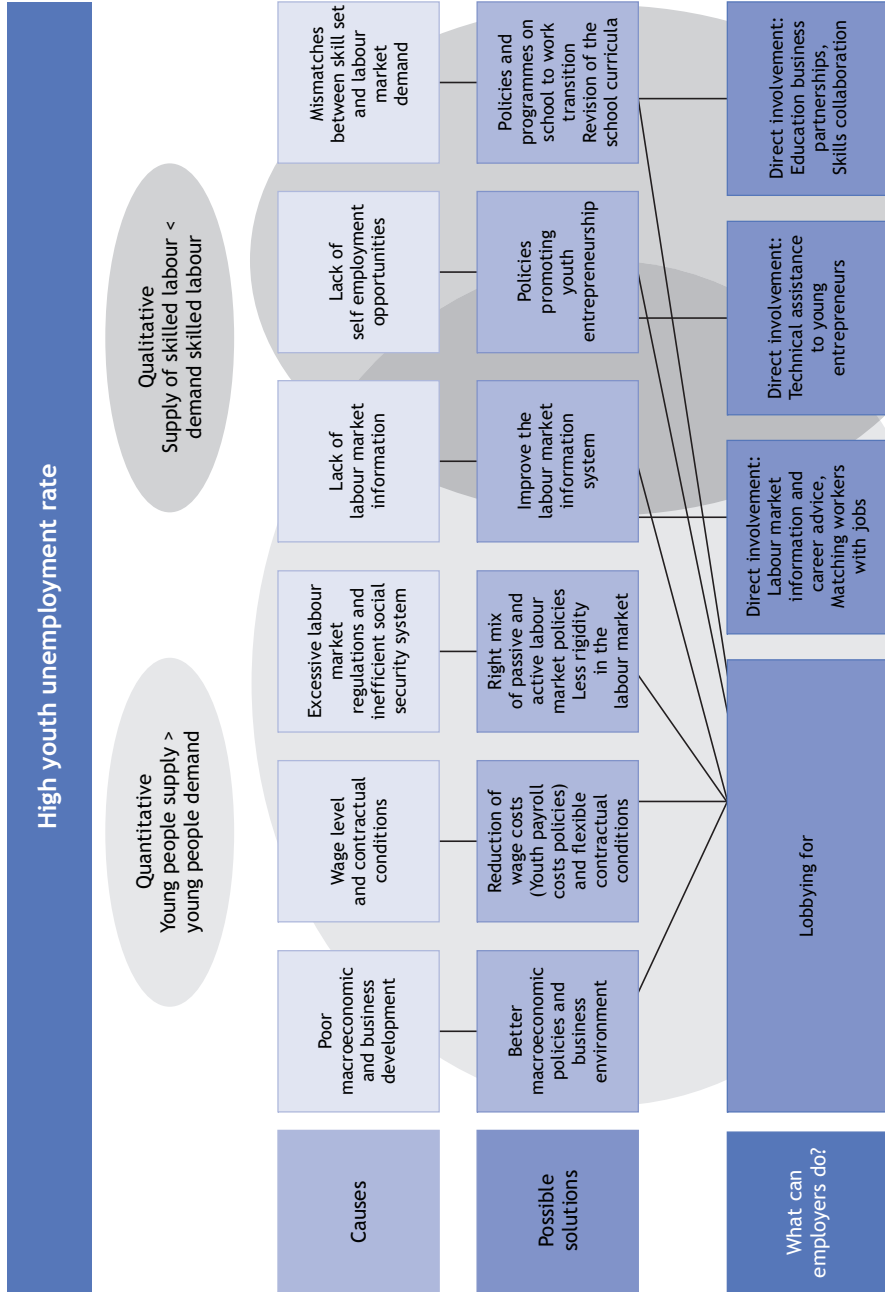
Finally, the mismatch between skill sets and labour market demand is a frequent problem. Employers generally support all policies and programmes to facilitate the school-to-work transition by emphasizing skills that boost employability. These usually imply a revision of school curricula. In some cases, employers also take direct action through education-business partnerships (work experience, internships, etc.) and training to improve workers' skills.

In section II, we will analyse the tools with which employers and employers' organizations can act on youth employment.

For the sake of simplicity, in chapter 5 we will focus on the policies (highlighted in the graph) that employers' organizations should try to influence in order to promote youth employment in the private sector.

In chapter 6, we will focus on action and initiatives that employers' organizations can take directly to improve the employability of young people and inexperienced workers, and thereby contribute actively to cutting youth unemployment.

Keep the graph in mind. Refer to it to understand the aims of each measure to boost youth employment and how it can help in tackling the main causes of youth unemployment.





SECTION II

THE TOOLS FOR ACTING ON YOUTH UNEMPLOYMENT

Chapter 5

INFLUENCING THE DEBATE ON POLICY AREAS AFFECTING YOUTH UNEMPLOYMENT

Employers' organizations have a full role in participating in the design, monitoring and evaluation of youth employment policies and programmes¹¹.

In some cases employers' representatives participate in formal committees designing programme and deciding on policy areas affecting youth employment. In other cases employers' organizations play an indirect role trying to influence the debate through their **lobbying action**. Lobbying is the practice of influencing decisions, laws, regulations and the general attitude and approach of decision makers in socio-economic policy. It includes all attempts to influence legislators and officials, whether by other legislators, constituents, or organized groups. Effective employers' organizations have well-designed lobbying strategy aiming at creating a conducive environment for enterprises and entrepreneurship as means to create wealth and employment.

This chapter discusses the main issues affecting the level of youth unemployment in order to outline which policies should employers' organizations lobbying strategy better target. After presenting such policy areas, some institutional arrangements for influencing public policies are discussed.

5.1 Macroeconomic policies

A poor macroeconomic environment increases unemployment, both for young people and for adults. Thus, employment growth for all age groups is only possible in the right macroeconomic policy and conditions.

The main instruments of macro-economic policy are changes in the rates of interest and money supply (monetary policy) and changes in taxation and public spending (fiscal policy). These policies basically influence the amount of money available for spending in a given economy. If less money is available due to increased interest rates on loans and high tax rates, less money will be spent, affecting aggregate demand and therefore unemployment. Holding back on public spending and restrictive monetary policies adopted in response to rising inflation (the percentage rate increase in the general price level) can lead to falling growth rates and higher unemployment. High unemployment implies low real GDP. In fact in this situation, human resources are not being used as completely as possible, leading to an inefficient labour market.

¹¹ Please see the Resolution concerning youth employment adopted by the International Labour Conference at its 93rd Session (Geneva, June 2005), www.ilo.org/standards

Governments are ultimately the ones responsible for developing a macro-economic policy that will maximize economic growth, control inflation and reduce unemployment. However, employers' views must be taken into account if governments are to formulate and implement macroeconomic policies leading to growth and job creation.

Governments can promote macroeconomic development through several means including:

Increasing physical capital

Physical capital can be thought of as assets such as land, physical structures and equipment that are available for use in the production of other assets to generate income. Physical capital can be increased through stimulating investment and saving.

Increasing human capital

Human capital consists of the skills and knowledge that make workers productive. Support of appropriate education and training will lead to the development of a more educated work force. Unlike physical capital, human capital has increasing rates of return.

Promoting technological progress and innovation

This not only increases worker productivity, but also leads to new products (although it can also replace workers, if, for instance, labour costs are too high because of a lack of labour market flexibility, as will be discussed shortly).



Facts and figures:

The importance of technological progress cannot be underestimated. Robert Solow, the winner of the 1987 Nobel Prize in Economics, investigated economic growth in the US from 1909 to 1949. He found that over 80% of economic growth was due to technological progress. Over the forty-year period, average GDP growth was 2.9% per year. Of that, Solow found, 1.49% was because of technological progress, 1.09% was attributed to capital accumulation, and 0.32% was due to an increase in the input of labour.

5.2 Business environment

Entrepreneurial activity has a direct impact on employment rates, including those of young people, by increasing job opportunities both directly and indirectly through suppliers. But while the initial support for start-ups is important, there must also be support for the growth of these new businesses. The employment contribution of start-ups will be limited if survival rates of new businesses are low and growth of those firms that do survive is restricted.



Facts and figures:

In most countries around 70% of jobs are in small businesses.

Source: www.ilo.org



Employers' organizations can boost enterprise by advocating for a business environment that provides fertile soil for entrepreneurs and facilitates business start-up and expansion. This leads to employment growth, both directly through self-employment, and indirectly through job creation. A business environment conducive to sustainable enterprise¹² generally requires the following:

1. **Political, economic and institutional stability** – an entrepreneur must have confidence that the risk he/she is taking has a high chance of paying off. This is not the case in a context where, for example, there are multiple regime changes over a short period of time – each potentially affecting the business environment considerably. This is one area where employers' organizations may, unfortunately, have limited influence.
2. **Good governance** – including a commitment to fight corruption and promote honesty and transparency in government decisions, and a system of laws and courts that functions in a transparent manner. Consistently applied laws regulating and protecting property rights are particularly important.
3. **Social dialogue** – social dialogue based on freedom of association and the right to collective bargaining, including within institutional and regulatory frameworks, is essential for achieving effective, equitable and mutually beneficial outcomes for governments, employers, workers and the wider society.
4. **Investment in infrastructure** – enterprise sustainability and human development depend on the quality and quantity of the physical infrastructure available, such as physical facilities for enterprises, transport systems, schools and hospitals. Reliable and affordable access to water and energy is also a major challenge, especially in developing countries. Enterprises are also particularly assisted by local access to supporting industries such as service providers, and suppliers and producers of machinery. An employers' organization is well placed to advise the government on where investment in infrastructure would have the most significant and immediate impact.
5. **Investment in health care** – both entrepreneurs and workers must be healthy to, respectively, manage and work for a business. In some countries, for example, a high percentage of young people is infected with HIV-AIDS, with negative effects on the workforce. But if the right healthcare is available, these young people are able to work and contribute to business and society. Of course, the importance of prevention in tackling health issues must not be under-estimated.
6. **Investment in education and skills development** – being actively engaged in defining skills and education policies, including enterprise education, is crucial to ensure the future workforce has the right education and skills, as will be discussed in detail later on. However, it is necessary to highlight the importance of basic science education and technical and scientific education, as these are an important vehicle for innovation.
7. **Promotion of export growth strategies** – these contribute to increasing market opportunities and openings for new businesses.
8. **Access to financial services** – a well-functioning financial system provides the lubricant for a growing and dynamic private sector. Making it easier for SMEs, including cooperatives and start-ups, to access financing, for example, credit, leasing, venture capital funds or similar or new types of instruments, creates appropriate conditions for a more inclusive process of enterprise development.

Access to credit is perhaps the single most intimidating barrier for would-be entrepreneurs. Self-funding or finance from informal sources (friends, family, and, worryingly, loan sharks) is the most common way entrepreneurs find seed-capital as they are often unable to put up

¹² Some of the measures listed below are taken from "Conclusions on sustainable enterprises", International Labour Conference 2007, www.ilo.org

the collateral themselves to obtain formal loans. Therefore, increasing the availability of more formal financing, from micro-credit institutions and formal lending bodies to venture capitalists and so on, helps to create a better environment for enterprises.

It is especially difficult for women entrepreneurs to access seed capital as they tend to have lower access to technology than men, and because of social and cultural influences.

9. Information and communication technology - expanding access to information and communication technology (ICT) is another crucial challenge in the era of the knowledge economy. The use of ICT is, therefore, fundamental to the development of sustainable enterprises and must be fully used in this regard. Affordable broadband technology is also of extreme importance to countries and enterprises, and should be facilitated.

10. Support for Small and Medium Enterprise (SME) development – this includes the availability of services such as those giving on how to comply with laws and regulations, industrial relations, management, communication, finance, accountancy, business plans, etc.

They can be provided by the state or by employers' organizations (again, this will be discussed in more depth later).

11. Policies promoting productivity and competitiveness – these will not only help to create jobs, but also to upgrade them and create surpluses for business expansion.

12. Flexible labour market policies and the absence of red tape – businesses need to be able to manoeuvre freely in the labour market to maximise profits during market upturns and cut losses when demand is slack.

13. Safety net for failed start-ups – in some countries there is fear of failure associated with entrepreneurship due to the risk incurred. Mechanisms that help entrepreneurs get back on their feet can make a real difference. Sound and effective bankruptcy laws, which aim to protect rather than to punish if a business fails, can also make a real difference.

Data comparing business environments around the world

There are some very useful websites providing ranked data on where countries stand in terms of regulation and competitiveness. Countries are ranked on indicators such as:

- How much paperwork must be completed before a business can be set up
- How costly is it to set up a business
- The degree to which collateral and bankruptcy laws facilitate lending
- Rules affecting the scope, access, and quality of credit information
- The difficulty of hiring a new worker
- The difficulty of firing a worker
- Wage costs
- Non-wage costs
- The rigidity of rules on increasing or decreasing working hours.

Rankings are easily understood by politicians, journalists, and others and help to put pressure on government to reform.

Some useful websites are:

- International Labour Organization, ILO/Economic and Labour Market Analysis Department web page features indicators and statistics on labour market www.ilo.org/empelm



- International Labour Organization, ILO/Industrial and Employment Relations Department web page dispose of an on-line database with information on legislation governing termination of employment in more than 50 countries www.ilo.org/dyn/terminate
- The World Bank's 'doing business' website www.doingbusiness.org features indicators of how easy it is to do business in a given country. This website can even predict how a country's ranking would change if it were to implement certain reforms, e.g. making the labour market more flexible.
- Reports and indicators on competitiveness can be found on the World Economic Forum's website www.weforum.org
- The International Institute for Management Development (IMD) publishes a yearbook that ranks and analyses how a country's business environment creates and sustains the competitiveness of enterprise. For more information, see www.imd.ch
- The Global Entrepreneurship Monitor (GEM) provides useful information on the entrepreneurial activity in different countries www.gemconsortium.org

Good practice case study:

Singapore National Employers' Federation (SNEF)

SNEF sits on a number of committees through which it can ensure that the Singapore Government understands the needs of SMEs. If the need arises, SNEF also sets up committees itself to look into particular issues facing SMEs. The SNEF Small Business Panel meets regularly to discuss the obstacles SMEs face. Its purpose is to allow SME representatives and SNEF staff to discuss legislative developments affecting SMEs, from laws on roadside parking to licensing procedures.

Source: Adapted from ILO (2005) Employers' organizations and the promotion of small and medium-sized enterprises: Practical experiences from seven countries www.ilo.org

Good practice case study:

Small Firms Association (SFA) (Ireland)

The SFA has a high profile in the media and lobbies government bodies on the needs of small enterprises. One of its useful tools is *Backbencher*, a frequently distributed information sheet for members of the Irish National Assembly. It summarises current SME issues in one clearly laid-out page and aims to inform legislators about the implications of legislation and policy on SMEs.

Source: Adapted from ILO (2005) Employers' organizations and the promotion of small and medium-sized enterprises: Practical experiences from seven countries www.ilo.org

Red tape

Red tape can make business administration very difficult. The expression derives from the pinkish-red tape that surrounded most English and French legal documents in the past. To read the documents a person had to 'get through the red tape' by breaking the wax seal and sliding off the tape.

Today, the expression still refers to obstacles that must be overcome to understand and deal with laws and regulations, such as official paperwork and bureaucracy. Businesses can spend worrying amounts of resources on understanding too many overly complex laws and regulations, and on the administration required to comply with them (also called the 'compliance cost'). Of course there are very good reasons behind the existence of many laws, but increasing the administrative process required to observe them does not equate to increasing compliance. Instead, governments must ensure that businesses are able to comply with rules and regulations in an easy, transparent and cost-effective manner—compliance should require the minimum amount of hassle.

Red tape is not solely associated with employment laws and regulations. All laws and regulations can burden employers, who would rather put their energy into profit making than administrative tasks. As such, all red tape reduces productivity, competitiveness and growth, indirectly influencing the number of new employees the company can take on. Excessive red tape also creates barriers to entrepreneurship and reduces the number of business start-ups.

Red tape associated with employment laws and regulations affects hiring rates more directly. If taking on a new recruit equates to hours of paperwork to ensure compliance with overly complex laws on working time, health and safety, working conditions (which can include very detailed clauses on, for example, workplace temperature and ergonomics), pensions, and so on and so forth, it may be easier and financially wiser, at least in the short term, not to hire at all.

In a situation where the fixed labour costs (i.e. non-wage costs) for an experienced worker and an inexperienced worker are the same, the skills of inexperienced workers are relatively more expensive and employers are more likely to hire older workers. Of course, this negatively impacts the youth unemployment rate. This is particularly the case if laws also block labour market flexibility and make it difficult to let go of workers in slack times or if they under-perform.

When it comes to lobbying on red tape, employers' organization may wish to:

- Investigate whether there are any counter-productive laws that can be eliminated
- Investigate whether there are too many interactions between laws, further complicating interpretation
- Look into the amount of paperwork necessary to comply with laws, and whether this is really necessary for the principle of the law or regulation to be observed
- Lobby hard for and propose a simplification of all laws and regulations, especially those affecting youth unemployment and business startups

Some examples of possible concrete measures:

- The creation of *one-stop-shops* (physical and electronic). This is a modern customer focused tool to streamline business registration, and lower registration costs. Under a "One-Stop Shop" system, entrepreneurs are able to complete all registration procedures at one location for a fixed fee. All the necessary forms, documentation and assistance – and in many cases Internet access and online information – is provided by the shop
- The introduction of electronic tax statements (electronic preparation and submission of tax requirements) is one way to simplify access and delivery. The Internet offers the chance for more customer focused services in new formats, with no waiting in line, shorter transaction times and 24 hours a day availability.



Good practice example:

Rwanda: Top reformer in 2010 Doing Business Report

For the first time since *Doing Business* started tracking reforms, a Sub-Saharan African economy, Rwanda, led the world in reforms in 2008/09. Rwanda has steadily reformed its commercial laws and institutions since 2001. In 2008/09 it introduced a new company law that simplified business start-up and strengthened minority shareholder protections. Entrepreneurs can now start a business in two procedures and three days. Rwanda has also enacted new laws in order to improve regulations to ease access to credit. Other reforms removed bottlenecks at the property registry and the revenue authority, reducing the time required to register property by 255 days. Overall, Rwanda introduced reforms in 7 out of the 10 *doing business categories*, rising from 143rd to 67th place on the ease of doing business rankings.

Starting a Business in Rwanda

The challenges of launching a business are shown below. Included are: the number of steps entrepreneurs can expect to go through to launch, the time it takes on average, and the cost and minimum capital required as a percentage of gross national income (GNI) per capita.

Indicator	Rwanda	Sub-Saharan Af.	OECD
Procedures (number)	2	9.4	5.7
Time (days)	3	45.6	13.0
Cost	10.1	99.7	4.7
Min. capital	0.0	144.7	15.5

Comparison:

Starting a Business in Cameroon

The challenges of launching a business are shown below. Included are: the number of steps entrepreneurs can expect to go through to launch, the time it takes on average, and the cost and minimum capital required as a percentage of gross national income (GNI) per capita.

Indicator	Cameroon	Sub-Saharan Af.	OECD
Procedures (number)	12	9.4	5.7
Time (days)	34	45.6	13.0
Cost	121.1	99.7	4.7
Min. capital	182.9	144.7	15.5

Source: www.doingbusiness.org

Another frequent problem is excessive changes in laws and regulations: in fact they add red tape and compliance costs for employers. Businesses require a period of adaptation to familiarize themselves with new laws or any major changes in existing laws. Importantly, business must be aware of any changes in the first place if they are not to be (wrongly) penalized for unintentional lack of compliance.

As a start, an employers' organization can:

- Assert whether there are too many changes in laws and regulations for businesses to cope with. If so, they should lobby for a slow-down, or the cessation of, the development and implementation of new legal instruments
- Investigate whether the adaptation period given to business is sufficient. If this is not the case, they should push for an appropriate adaptation period (to be determined by business rather than government)
- Determine whether the government has effectively raised awareness of the changes. If this is not the case, the employers' organization should push for a public information campaign

to ensure all businesses are aware of any changes in, or the introduction of, new laws and regulations.

5.3 Labour market flexibility

Labour market flexibility is a must for job creation and it is arguably better for a worker to lose his/her job and find another quickly, than to lose their job and not find alternative employment because a lack of flexibility in the labour market has damaged growth and businesses are not hiring.

Employers' organizations are staunch supporters of labour market flexibility as it improves economic efficiency (i.e. it enables businesses to get the most out of resources used) by allowing market forces (i.e. pressure from labour buyers and sellers in this case, rather than pressure for government or regulations) to determine terms of employment.

Generally, evidence¹³ has shown that greater labour market flexibility is linked to lower unemployment and higher GDP per capita. This does not necessarily mean that there should be no employment regulation, but rather that different social objectives, such as social protection on the one hand and job creation on the other, need to be balanced. If the balance swings too far towards regulation, unemployment will result.



Facts and figures:

Well-known research by Stephen Nickell shows that some labour market rigidities affect unemployment more than others. According to Nickell's research, 'high unemployment is associated with the following labour market features:

- a) Generous unemployment benefits that are allowed to run on indefinitely, combined with little or no pressure on the unemployed to obtain work and low levels of active intervention to increase the ability and willingness of the unemployed to work
- b) High unionization with wages bargained collectively and no coordination between either unions or employers in wage bargaining. (In the absence of coordination, each union tends to take an earlier pay settlement in a related sector as a baseline to be exceeded in its own negotiations. As a result, wages 'leapfrog' upwards.)
- c) High overall taxes impinging on labour or a combination of high minimum wages for young people associated with high payroll taxes
- d) Poor educational standards at the bottom end of the labour market.'

Source: Nickell, S. (1997) 'Unemployment and Labor Market Rigidities: Europe versus North America', *The Journal of Economic Perspectives*, Vol. 11, No. 33

There are three key types of labour market flexibility that are particularly important for business growth, and which are often singled out by labour market regulators and trade unionists alike because they are considered as damaging to workers' social protection.

¹³ See for instance Siebert, W.S. (2005) *Labour market regulation: Some comparative lessons*, Institute of Economic Affairs, Blackwell Publishing, Oxford, UK.



1. External numerical flexibility

External numerical flexibility allows employers to vary the numbers in their workforce in line with demand. It can be achieved by employing workers on temporary or fixed-term contracts (so called 'atypical forms of work') or through relaxed hiring and firing regulations, where employers can hire and fire permanent workers according to the firms' needs. If external numerical flexibility is hampered by regulations, businesses will be unable to hire workers when demand is high and will be forced to continue employing workers for whom there is no work during slack periods. As a result business growth will be impeded, hampering job creation within the company.

2. Internal numerical flexibility

This type of flexibility is also known as working-time flexibility and is achieved by adjusting working hours or schedules of workers already employed within the firm. Working time flexibility can be achieved by practices including flexible working hours/shifts (including night shifts and weekend shifts), changing the amount of leave, over-time, time accounts (where a worker can take time off to compensate for extra time worked), annualised hours (where an annual total of working hours is worked in variable quantities over the year), etc. As with external numerical flexibility, a lack of internal numerical flexibility means employers are not able to take maximum advantage of market upturns and are less able to cut their losses during downturns.

3. Financial flexibility

Financial flexibility, also called wage flexibility, allows an employer to vary pay and other employment costs in accordance with the supply and demand of labour (i.e. the 'stickiness' of wages is kept to a minimum). This can be achieved by, for instance, individual performance wages (e.g. the piece rate system, greater use of bonuses), job-based rather than time-based remuneration, wage reductions and rises, etc. Low financial flexibility again means that a business is less able to respond to market fluctuations, putting at risk both the employers and the workers during a market downturn.

Good practice example: The Slovak Republic

A range of reforms, implemented by the Slovak government in recent years have enhanced the flexibility of the Slovak labour market and improved incentives for the unemployed to seek work. Working conditions have become more flexible and the conditions under which workers can be laid off have been relaxed. Tax and welfare reforms have also significantly increased work incentives for the unemployed.

As a result, net employment creation picked up between 2001 and 2005, with the unemployment rate dropping from 18.8% to 16.4% over four years. Net employment creation in the private sector accelerated during 2004 and 2005 and dominated employment losses in declining and adjusting sectors.

Although the reforms to social security have increased the incentives for people to seek jobs, more needs to be done to increase the availability of jobs for those seeking them. The OECD has recommended that Slovakia reduce the costs of low skilled labour by reducing either the minimum wage or employers' social security contributions for low paid labour. These reforms would help to boost job creation for low skilled workers, who are over-represented among the unemployed.

Sources: www.oecd.org . www.imf.org

Temporary agency work and working-time flexibility

Two areas of flexibility that trade unions single out for their lobbying are worth more deeply investigating: atypical work, particularly agency work, and working-time.



Facts and figures:

“Flexible” countries have high employment rates for youth as well as a high rate of transformation of temporary jobs into permanent jobs. Over a period of three years, around 65% of temporary jobs in Denmark and 55% in the Netherlands were transformed into permanent jobs.’

Source: ILO Facts on labour market flexibility, www.ilo.org

Temporary agency work and other forms of atypical work

‘Atypical work’ is on the rise. The term generally refers to those types of work that are different from full-time, open-ended employment. It includes fixed-term and temporary agency work, both of which increase external numerical flexibility for employers. Originally Public Employment Services mediated between workers and employers for this type of work in many countries. Private employment agencies play a growing role in this field, with competition between providers generally having led to improved services for both worker and employer. In fact, in some countries Public Employment Services now subcontract to private employment agencies.

Unions lobby fiercely against all forms of atypical work, believing these to be inferior to the traditional employment relationship in terms of social protection, remuneration, benefits, training opportunities, etc. But these arguments are often unfounded. While measures differ greatly according to national context, there are often adequate safety nets for workers on atypical contracts.

Some agency workers, such as consultants, earn far more than those on traditional employment contracts. Some agency workers choose this type of work because it provides them with more flexibility than full-time, open-ended employment.

The value of atypical forms of work, and temporary agency work in particular, cannot be underestimated: they create jobs and economic growth, facilitate access to jobs and help young people gain a foothold in the labour market. Agency workers also help employers to fill temporary vacancies or meet temporary upturns in demand. The agency will usually deal with recruitment, pay, and official paperwork, taking a load of the employers’ back. Agency workers provide much-needed flexibility. Once an agency workers is no longer needed, he/she can often be ‘fired’ without having to respect a notice period. The agency worker will have a similar right and can leave temporary employment at any moment he/she wishes, as there is no mutuality of obligation between the parties. As a result, employers will take on temporary agency workers in situations where they are reluctant to take on employees, thereby increasing employment.

Atypical forms of work can help workers who are going through labour market transitions, such as school-to-work transitions, transitions from unemployment to employment, transitions from one career to another, transitions from childcare to employment, etc. It is a route into employment for many labour market ‘outsiders’, including, importantly, young workers. Agency work can provide a stepping-stone to full-time, open-ended employment, as it helps young people gain work experience and enhance their employability. Agency work (as well as fixed term work) can also be a way for both the young person and the employer to ‘try each other out’ before committing to a more standard employment relationship.



Facts and figures:

German research found that entering into temporary jobs increases future probability of employment. Hagen (2003) investigated the effect of moving into a fixed-term contract after unemployment on employment prospects, compared to being unemployed and not taking up a fixed-term contract. The probability of finding more temporary work, once already working on a temporary basis increases by 4-17%, while the probability of leaving temporary work for a permanent contract is between 3-16%. The results show that fixed-term contracts can be stepping-stones to permanent jobs.

Source: Hagen T. (2003) Do fixed-term contracts increase the long-term employment opportunities of the unemployed?, ZEW Discussion Paper n. 03-49, <http://europa.eu>



Facts and figures:

Results from an Italian research show that the probability of moving from temporary work to a permanent job increases with the length of the contract. However, repeated temporary jobs, especially if a person is unemployed in between different temporary jobs, reduce the probability of finding permanent work. This suggests that it is not temporary work that damages permanent employment prospects, as is often thought, but job interruptions.

Source: Gagliarducci S. (2004) What is really bad in temporary employment?, <http://europa.eu>

Finally, agency work benefits the state. Agency work creates jobs, and all those in jobs are not on unemployment benefits. Some agencies provide training for their workers, again enhancing employability. State financial support can therefore be directed elsewhere, for example, towards budding entrepreneurs.

Employers' organizations may wish to advocate for:

- Atypical forms of work to be recognised as valuable in their own right rather than inferior to traditional full-time, open-ended employment
- Recognition of private employment agencies as genuine businesses
- Encouragement for agency start-up and growth in countries where the Public Employment Services institution dominates or where there is no tradition of agency work.

Good practice example:

International Confederation of Private Employment Agencies (CIETT)

The following is adapted from a short CIETT publication on the benefits of agency work.

Private employment agencies provide work - Private employment agencies are one of the largest employers in Europe and employ over 7 million workers in the EU on an annual basis. That is equivalent to a daily average of 3 million workers employed through agencies, or 1.9% of the EU working population. Indeed, the main objective of agencies is to find work for their agency workers, aiming to ensure that assignments are available whenever workers wish to work. Agency workers benefit from the fact that agencies are constantly trying to find them a new assignment.

Agency work improves labour market flexibility - Agencies can match labour force with companies' production needs virtually immediately. Agencies also meet a genuine demand for flexible work from workers: 33% of agency workers have a real preference for agency work and only 26% of them work through an agency because they cannot find a permanent job.

Agency work helps the creation of jobs that would not exist otherwise - 17% of work done through agencies would not have been carried out if this option had not been available to companies and 38% of work would have been carried out using other flexibility solutions, such as overtime, which do not contribute to employment creation. Only 14% of companies using agency work would have hired longer-term.

Agency work acts as a stepping-stone to permanent employment - 41% of agency workers are in longer-term employment within one year from their agency work assignment. Indeed, first-time entrants to the labour market gain experience through their assignments and can demonstrate their skills to prospective employers and be tested and hired on that basis.

Agency work enhances workers' employability - It keeps workers in touch with the job market and provides training. Agencies help them remain as attractive as possible to the labour market. Agency workers also improve their skills by multiplying experience in a very specific working environment, moving from one assignment to another one in different industries or companies.

*Source: CIETT (2006) Temporary agency work and the Services Directive:
Reality versus misconceptions www.ciett.org*

Working-time flexibility

Working-time flexibility in some cases can benefit workers. Many workers add substantially to their wages by working over-time. Others take advantage of flexible working-time strategies such as the compressed working week (where, for example, the working hours of two weeks are divided over 9 days rather than 10) to achieve a better work-life balance. In fact, removing flexibility and over-time can damage employer-employee relations.

An employers' organization may wish to:

- Raise awareness of the benefits of working-time flexibility for both employers and workers
- Lobby against regulations that would damage working-time flexibility



Good practice example:

Mouvement des Entreprises de France (MEDEF)

On January 1st 2000 the Aubry Law came into force in France to the dismay of employers. The law limits working weeks to 35 hours. MEDEF, the French employers' organization lobbied hard against the law. Its key lobbying messages in 2002 are outlined below.

The devastating results of the 35 hour working week. With disturbing authoritarianism, the Aubry Law reduced working time without any benefits for job creation. It multiplied the organizational and financial constraints on business and reduced social dialogue.

The 35 hour working week did not create any jobs. The one-and-half million jobs that have been created are linked to growth rather than to the Aubry Law. From 1997-2001 the number of jobs increased in line with the EU average, underlining the lack of impact of the 35 hour working week on job creation.

Labour costs created by the law are totally unreasonable. The yearly cost to the public sector of the 35 hour working week is over 15 billion Euros (USD 45 billion). Every job created costs an additional 35,000 Euros (USD 45,000) per year.

The 35 hour working week limits business production capacity. The drop in productivity and the costs of any over-time, together with the lack of labour, limit the country's growth. Businesses are unable to develop their activities, and some are unable to maintain them. The drop in growth linked to the 35 hour working week has been estimated at -3%, representing almost 50 billion Euros (USD 65 billion).

The 35 hour working week isolates France on the international and European business scene. No other country, through regulation or other constraints, has taken measures equivalent to the Aubry Law. With the introduction of the Euro and the slowing of the economy, this puts companies under untenable competitive pressure.

Without calling into question the principle of the 35-hour working week, as it has already been implemented, MEDEF proposes:

- To give back the power to negotiate to the social partners, particularly on quotas and over-time
- To give back to workers the right to earn more by working more.'

In 2005, with the country struggling with high unemployment, France's 35 hour working week was effectively abolished by allowing employers to increase both working hours and pay. A bill was approved, permitting employers to negotiate deals with staff to increase working time by 220 hours a year in return for better pay. The bill effectively clears the way for the gradual erosion of the 35 hour working week.

Source: www.medef.fr

5.4 From passive to active labour market policies

Employers' organizations should carefully monitor government policies for unemployed people. In many countries, the government focuses on passive labour market policies (such as unemployment benefits) rather than on active labour market policies, which include training, retraining, job rotation, job sharing, employment incentives and start-up incentives.

The right mix of passive and active labour market policies (ALMPs) is essential to facilitating job searches. In this section, we will first analyse the goal and risks of unemployment benefits and then briefly look at how ALMPs can help in finding jobs.

The primary goal of unemployment benefits is to provide protection, a kind of insurance, against the loss of wages caused by short-term, involuntary unemployment. A second goal is efficiency, as benefits provide a minimal livelihood to unemployed workers allowing them to search for new employment. Unemployment benefits can prevent underemployment as financial necessity is less likely to push workers to take jobs below their skills level.

From a macro-economic perspective, unemployment benefits stabilise purchasing power, but determine higher levels of unemployment. From a meso-economic perspective, it has the advantage of redistributing purchasing power across regions, thereby preventing vicious cycles of depressed areas and decreasing purchasing powers. A well-functioning unemployment system also helps to maintain good industrial relations as trade unions know that their members are protected and may therefore be more cooperative. At a micro-economic level, benefits help to increase equality and support those who have left their job through no fault of their own. Benefits will provide workers with more security, giving them the confidence to be mobile and flexible in the labour market, including retraining in a different field.

Unemployment benefits fall under two general categories, although no country's system is likely to correspond perfectly to either.

1. **Unemployment insurance** – benefits are financed by wage-linked insurance contributions paid by employers and/or workers. These benefits are available only to those who have paid insurance contribution, i.e. to those who were in work. The entitlement to benefits is limited in time and depends on the duration of previous employment. The amount of benefits received can also be linked to previous earnings, with unemployment insurance constituting a certain percentage of previous wages. Because of qualification criteria related to the duration of employment, the young tend to be less well protected under this type of benefit scheme.
2. **Unemployment assistance** – this type of benefits follows the welfare rather than the insurance principle. The unemployed are guaranteed a minimum level of income, independent of previous contributions, the duration of employment and earnings. These benefits are usually means-tested, financed from general taxes, and the amount received is lower than would be the case with unemployment insurance. The duration for which benefits are paid is usually not limited.

The cost of unemployment benefits are determined by many factors, but key determinants are:

1. **The beneficiary rate** – how many of the unemployed are actually receiving benefits
2. **Size of the benefits** – the amount of financial support the unemployed receive. This is called the wage replacement rate in the case of unemployment insurance.

When funds for unemployment benefits run low, government can reduce the beneficiary rate by restricting benefits to a certain group by imposing stricter qualification criteria. For instance, if workers have to be employed for 6 months before receiving benefits, this can be increased to two years. This type of measure would of course affect young people, who are unlikely to qualify. Governments can also reduce the wage replacement rate, so that those on benefits receive less financial support than they did beforehand.

In practice, many unemployment benefits programmes have undesired side effects, in part because of complex interactions with other social welfare programmes (such as housing support and child benefits) and tax. Adverse side effects, which can be viewed as labour market failures, occur for two main reasons (we are mainly concerned with the second one):

1. **Adverse selection** – this occurs, for example, when employment insurance is a private arrangement. Those most at risk of unemployment are also those most unlikely to be able to afford insurance premiums. In order to tackle this side effect, many countries have made employment insurance compulsory or provide unemployment assistance instead.
2. **Moral hazard** – this arises when those who are insured alter their behaviour or 'play the system' to ensure that they keep receiving benefits. For example, people who are voluntarily economically inactive may register as 'unemployed' in order to receive benefits even though they have no intention of finding work in the near future. Under an unemployment insurance regime, workers may, similarly, be more likely to quit their jobs voluntarily.



Employers operating in such a regime are also thought to be affected by moral hazard. In theory, they can hire and fire more easily because their 'social obligation' has been externalised and workers are likely to demand less compensation. However, the debate on minimising moral hazard has mainly focussed on getting the unemployed back into work, rather than on hiring and firing practices.

Debate on how to increase work incentives and get the unemployed off benefits and back into work is lively, and there is no panacea for this problem. Many countries, particularly developed ones, are trying to deal with the cost of high numbers of unemployed on benefits.



Facts and figures:

According to the New Zealand Business Council for Sustainable Development (NZBCSD), a conservative estimate of the net effect of getting New Zealand youth off unemployment benefits and into work is a benefit to the country of \$400 million (around USD 275 million).

Source: www.nzbcscd.org.nz

Some of the weakest work incentives are created by high tax rates and excessive welfare benefits. Disincentives are particularly strong for those with low potential earnings. This group includes many young people, for whom benefits may pay more highly than work in net terms (this is known as the 'unemployment trap'). High levels of benefits, at least in the short term, seriously damage work incentives, which is sometimes forgotten by politicians thinking only in terms of short voting cycles. In fact, badly tailored unemployment benefits programmes do not only discourage job searching, but also put upward pressure on wage levels, negatively influencing employers' ability to hire new recruits.

A research¹⁴ shows that the easiest way to increase work incentives is by scrapping benefits altogether. But removing an existing safety net increases poverty, and has other associated societal and economic effects. People consume less, invest less, save less, are increasingly dissatisfied, etc. In those places where social welfare exists, it is therefore unwise to lobby for it to be removed in most circumstances. In any event, this would also seriously risk tarnishing the employers' organization's public image and possibly diminish its influence.

Reducing income taxation also influences work incentives positively, as workers take home more of their wages (and lobbying on this is bound to be seen more favourably). On the other hand, some argue that, as disposable income increases, people may be more content with their situation and less inclined to progress in work. This creates a bottleneck at the bottom of the career ladder, with fewer positions open for new recruits, including those young people just entering the labour market.

In-work benefits, which increase the financial returns of working, can make the return to work more attractive for the unemployed without eliminating benefits altogether. In-work benefits generally supplement a worker's wage up to a certain level, and are then gradually phased out as the worker climbs up the ladder. But in-work incentives must not create a 'low-wage trap'—a situation where an increase in gross earnings fails to translate into an increase in net income, making the effort required to obtain the increase in wages through progression or working more hours not seem worthwhile. If this happens and workers are not moving up the career ladder, there will be fewer positions available to newcomers in the labour market.

¹⁴ Schmid, G. et al. (Eds.) (1997) *International Handbook of labour market policy evaluation*, Edward Elgar Publishing Limited, UK.

Good practice example:

The Earned Income Tax Credit (EITC) in the United States

The EITC is provided through the tax system rather than the welfare system. Eligibility is available to all low-income families with children, irrespective of marital status. Receipt of the credit requires positive family earnings. Therefore, the EITC creates positive incentives to work for single parents.

Despite certain negative side effects, the EITC has been heralded as major policy success in getting people back into work. The features of EITC that are thought to have contributed to this success include the following:

- In-work benefits in the US tend to generate larger financial incentives to work than similar, sometimes more generous, programmes because the EITC is not counted as income for the calculation of any other benefits, so the household sees the full gain of the in-work benefits. This suggests that the interaction between in-work benefits and other, means-tested, benefits is of central importance.
- In-work benefits were expanded at a time when out-of-work benefits were being reduced. Hence, the effect of the increase in work incentives was strengthened by the decline in the generosity of out-of-work benefits.

Source: OECD (2005) OECD Employment outlook - Boosting Jobs and Incomes, Chapter 3: Increasing financial incentives to work: The role of in-work benefits, www.oecd.org

While there is much debate ongoing on how to provide a safety net to the unemployed without damaging work incentives, there is a consensus, backed up by research, that just providing financial support (i.e. passive measures) is not enough to help people back into work. For example, if the manufacturing sector is forced to continually lay off workers in order to survive, it is unlikely that an unemployed worker will find a job in his/her field of expertise.

To find a new job, many unemployed people require job search assistance, labour market information (LMI), possible retraining and further work experience. Such activities should be part of a country's active labour market programmes (ALMPs), which focus on active measures such as skills promotion and job creation. Most of these activities tend to be led by Public Employment Services.

Effective ALMPs can have several beneficial effects on long-term unemployment through:

- The redistribution of job opportunities
- Maintaining labour force attachment (i.e. they maintain the desire of the unemployed to find a job)
- Bridging labour market transitions.

ALMPs can also have a positive effect on total employment in the long-term through reintegration of workers. Employers can be reluctant to recruit certain groups of unemployed workers such as the long-term unemployed. If ALMPs succeed in reintegrating these groups in the labour market, labour supply will increase. This may have a positive effect on employment rates through wage setting effects and by making recruitment easier.

Public spending on ALMPs, if they are effective, is offset by re-employed people paying taxes and no longer being supported by benefits. It therefore seems strange that countries often prioritise public spending on living allowances rather than on ALMPs. As unemployment increases, public spending on passive measures unfortunately tends to crowd out spending on active measures. The higher the rate of unemployment, the less active measures are likely to have an impact on unemployment and the more relevant macroeconomic policy becomes.

To help avoid moral hazard, job seekers must be made to participate in welfare-to-work programmes rather than simply receive benefits. This can be assured by so-called 'activation' measures that link the financial support to participation in the programme. Activation measures



can include requirements for the unemployed to attend interviews with employment counsellors, apply for job vacancies, independently search for job vacancies and apply for jobs, accept offers of suitable work, participate in drawing up an individual action plan and to participate in training or job-creation programmes, etc.

Good practice case study:

Danish youth unemployment programme

The Danish youth unemployment programme (YUP), implemented in 1996, is aimed at unemployed and low-educated youth. The EU Commission has referred to the YUP as a good practice example. The YUP aims to both increase employment possibilities and motivation for work. Young persons under the age of 25 with no formal education beyond secondary school, and who have been unemployed for 6 months during the last 9 months, are offered 18 months of specially designed vocational education. Unemployment benefits are halved while young people participate in the special education programme, providing an incentive to undertake ordinary education on public study grants or to find a job. Refusal to participate in the special education programmes or to enter ordinary education leads to the loss of all unemployment benefits.

Research shows that the YUP increases the transition rate from unemployment to schooling. Effects on the transition rate from unemployment to employment are also positive, but less strong than those for unemployment-to-education transitions, showing that YUP has been at least partially successful in tackling youth unemployment in Denmark.

Source: Jensen, P., Rosholm, M. and Svarer, M. (2003) 'The response of youth unemployment to benefits, incentives, and sanctions', European Journal of Political Economy

Vol. 19, pp. 301 – 316 www.sam.sdu.dk/undervis/92172.E03/jensenetal.pdf

In conclusion, taking a position on unemployment benefits can be very complicated. Employers' organization will wish to research thoroughly before commencing any lobbying. However, in general terms, the employers' organization can advocate for:

- Unemployment benefits and programmes to be cost-effective and targeted at young people
- Taxes, unemployment benefits and other social welfare measures to be balanced, i.e. to provide a safety net without creating an unemployment trap
- Adequate levels of in-work benefits that do not create low-wage traps
- For all unemployment programmes, including those focussing on youth, to include not just financial support, but also job search assistance, LMI, training, etc. (with labour market requirements in mind)
- Activation strategies that require job seekers to participate in welfare-to-work programmes rather than simply receive financial support from the state.

5.5 Policies on school-to-work transitions

Policies on school-to-work transitions generally focus on educational and skills issues, and the links between schools and the workplace. The effect of education and skills levels on the school-to-work transition is significant as the right education and skills make a person more employable.

There are three great benefits of taking active part in defining education and skills policies:

1. Education and skills policies generally do not involve regulating businesses, only voluntary action, and are a good way to deflect suggestions calling for an increase in the regulatory burden on business
2. Education and skills policies generally intervene at an early age and prevent youth unemployment by tackling it at the roots. From an efficiency perspective, every government

has budget restraints and is likely to agree that investing in young people not yet in the labour market ensures a longer payback period. It is better to prevent than to cure

3. Trade unions and governments alike tend to agree that education and skills issues are an important way of tackling youth unemployment, thereby providing opportunities for ways to work together.

This section will take a closer look at the following policy areas:

- The national curriculum
- Employability skills
- Skills shortages
- Qualifications and benchmarking of skills levels
- Enterprise education
- Labour market information and careers advice
- Remedial training.

The national curriculum

One of the goals of policies aiming to increase general educational attainment is to ease the school-to-work transition. This policy area is not a particularly contentious one as governments, unions and employers agree that compulsory education for all children and young people is an investment in the future. Both young people and the economy benefit.

That said, compulsory education only alleviates youth unemployment if it meets the needs of business. In this type of public debate there are always those who proclaim that the purpose of education is self-development. While self-development is important, young people must be taught skills for which there is a labour market demand and that will help them find jobs later in life. Teaching children and young people skills that are not required in the economy is generally a waste of public expenditure, seriously damages children's prospects, and, in the absence of talented young people with the right skills, puts businesses at risk.

In all cases, employers' organizations can lobby for basic education to be:

- Available to all
- Accessible
- Relevant
- Flexible to the needs of the market.

The national curriculum must effectively teach:

- Literacy
- Numeracy
- Basic ICT skills (if possible)
- Employability skills (see below).

The key role for employers' organizations lies in giving feedback to government on how employers feel the curriculum is equipping young people for the future, and pushing for the curriculum to provide required skills.



Employability skills

Employers often say that young people lack employability skills. ‘Employability skills’ play a major role in labour market outcomes. National education systems should always endeavour to equip their students with employability skills. Employers’ organizations can relay to the government, and young people themselves, what employers seek from new recruits in terms of employability skills.

The term ‘employability skills’ is hard to define. Generally, employability skills refer to a set of ‘generic’ or ‘soft’ skills, such as self-management, team working and communication. This expression also often refers to more than just skills. Personal traits and characteristics also play an important role in employability as these determine the way in which someone uses his/her employability skills. The most important personal attribute is a positive attitude, including a willingness to take part and openness to new activities and ideas.

Knowledge is an equally vital component of what makes a young person employable. From an employer’s perspective, this is not just knowledge in the sense of specific information, but knowledge in a more practical sense. For instance, how to apply mathematical concepts to practical situations, how to read input-output graphs and the ability to write a letter with correct use of basic grammar, spelling and format. Knowledge also includes more tacit awareness of matters such as the importance of customer care.

In conclusion, there is much debate as to how ‘employability skills’ are to be defined, and they may vary according to context, but there is consensus that they make an important difference at work, and therefore affect on school-to-work transitions.

Employers’ organizations wishing to explore this area may:

- Consult their members to determine what employability skills are essential to business
- Investigate how the national curriculum can (better) provide these skills and lobby government accordingly
- Encourage their members to become directly involved in improving young people’s employability skills, for example, by providing work experience.



Facts and figures:

Each year, the National Association of Colleges and Employers (NACE), a partnership organization based in Pennsylvania, USA, surveys its employer members about their hiring plans for the upcoming class of new college graduates and other employment-related issues. NACE aims to help graduate supply meet demand and facilitate university-to-work transitions by providing students with information on what employers are looking for.

NACE survey results show that employers rate the importance of various employability skills as follows (in decreasing order):

Employability skill	Importance
Communication skills	4.7
Honesty/integrity	4.7
Teamwork skills	4.6
Strong work ethic	4.5
Analytical skills	4.4
Flexibility/adaptability	4.4
Interpersonal skills	4.4
Motivation/initiative	4.4
Computer skills	4.3
Detail-oriented	4.1
Organizational skills	4.1
Leadership skills	4.0
Self-confidence	4.0

(5-point scale where 1=Not at all important and 5=Extremely important)

Source: Job Outlook 2006, National Association of Colleges and Employers www.naceweb.org

Many employers' organizations will either outsource their research on skills shortages, or use government research to back up their lobbying, because predicting skills shortages can become very technical. However, a short survey by an employers' organization can give a good indication of existing skills shortages. If such a survey is conducted on a regular basis, say once a year, trends can be established on skills shortages.

Citing Becker's theory of education can help in a debate over who is responsible for providing young people with employability skills. It is not in employers' interest to provide education and training for 'general' skills (as opposed to firm-specific skills) that will increase a worker's employability and hence help them to find a better paid job elsewhere.

Becker, writing in the sixties, said that if an employer pays for education and training that increase a worker's productivity, then another employer, who did not have to pay for the training, will be able to offer the trained employee a higher wage. As a result, the employer providing the general training will have a higher turnover rate.

In elaborating his theory, Becker assumed that:

- Labour markets are perfectly competitive
- Wages constitute the only factor that determine the choice of employer by a worker



- Employers can ‘buy’ the skills they need by hiring workers with those skills
- When the ‘price’ of skills increases (i.e. wages go up), there are more incentives for employers to train their workers, as long as the benefits are larger than the costs.

There is much research¹⁵ showing that employers do indeed provide a lot of general training for their workers, and that labour markets are generally not as perfect as Becker assumed. Nevertheless, Becker’s theory sheds light on disincentives to train for employers and why governments, unions and others should not take it for granted that businesses will provide young people with general training.

Skills shortages

A skills shortage, also called a labour shortage, is an economic condition in which there are not enough qualified candidates (employees) to fill market demands for employment at any price, thereby hindering business growth and expansion.

There are three key causes of a skills shortage:

1. **Quantitative** – supply does not meet demand in terms of numbers, i.e. there are too few workers
2. **Qualitative** – supply does not meet demand in terms of skills, i.e. even if the right amount of labour is available, workers do not possess the right skills to fill vacancies
3. **Working conditions** – workers may prefer to work in other jobs than those for which vacancies exist because of factors such as pay, working time, career opportunities, strenuous activities, etc.

Employers’ organizations have a crucial role in preventing skills shortages by helping to shape educational policy. They can do this by providing insight into the actual and future skills requirements of the economy. Employers’ organizations can identify growth sectors and push government to tailor education, both academic and vocational, to the requirements of these sectors. This will ensure that businesses have the young people they need, and that young people choose professional fields that provide jobs.

An example of a skills shortage is the current lack of young people with vocational qualifications in many developed countries. Vocational education, also called technical education, prepares young people for careers that are based in manual or practical activities, traditionally non-academic and directly related to a specific trade, occupation or vocation. Employers require technicians, but too many young people are choosing an academic education.

To avoid skills shortages, the content of vocational and academic qualifications must correspond to market needs, as must the number of young people obtaining qualifications in different fields. Trade associations, along with national employers’ organizations, can push government to provide young people with the skills that will ensure the survival of the sector suffering from shortages as well as successful labour market outcomes for young people. This can be done, for example, by pushing the government to:

- Promote certain subjects to young people via the media;
- Provide financial support to young people who study ‘unpopular’ but important subjects in the form of grants, scholarships, or low interest loans
- Provide financial incentives to young apprentices and employers providing apprenticeship training places (see later on in this section)
- Modernise relevant courses to improve their reputation

¹⁵ Ahlstrand, A.L., Bassi, L.J. and McMurrer, D.P. (2003) *Workplace education for low-wage workers*, W.E. Upjohn Institute for Employment Research Kalamazoo, US, Michigan.

- Update infrastructure (for example, modernising science laboratories).

The list of possible actions is endless, and will differ according to context, but what must be remembered is that action on skills shortages by governments will take a significant amount of time to affect the labour market.

First young people must be convinced to study a certain field and then they must finish their studies before they join the labour force. Therefore it is crucial that employers' organizations, through research and members consultation, predict skills shortages in advance in order to avoid them.

Example:

Skills shortages, gaps and mismatches in the UK

Two types of mismatches occur in the United Kingdom. Skill shortages may exist where employers find it difficult to fill vacancies with appropriately skilled applicants. Such shortages are believed to be low in the UK (around 170,000). Skill gaps arise where members of the existing work force lack the skills necessary to meet business needs. They are more significant amounting to some 1.8 million people. Another problem may exist where growth in skills and qualifications outpaces the growth of jobs that require them. In the UK in 2006, the number of degree holders exceeded the number of degree-required jobs (4.8 million) by more than one million. At the other end of the spectrum there were some 7.0 million jobs for which no formal qualifications were required while there were only 2.2 million people without qualifications. Altogether 39.0% of people at work were considered 'over-qualified' and 13.8% 'under-qualified'. The UK Commission for Employment and Skills argues that the problem lies largely at the demand side. The UK is said to have too few employers producing high quality goods and services, too few businesses in high value added sectors. In order to escape from a low-skills equilibrium, the plea is therefore, together with enhancing skills supply, for measures to stimulate demand and for raising employer ambition.

Source: UK Commission for Employment and Skills – Ambition 2020

Good practice example:

Confederation of Indian Industry (CII)

In the absence of any research into skills shortages by the Indian Government, the CII took on the task of conducting research-based skills gap studies across the country. A research company conducted the relevant research. The resulting skills gap survey reports were circulated to different departments of the Government of India.

Using the survey data to back up its campaign for the creation of a skills movement in the country, CII successfully influenced the Government on education and skills issues. Recently, the Prime Minister announced a skills mission to address the problem in a holistic manner. The Government has also set up a task force to make recommendations to address skills and education issues.

The task force is chaired by the CII.

As a result of CII pressure, skills development issues have been addressed in recent budgets. In 2007-08, significant public funds were earmarked for skills development. In the budget speech, the Finance Minister allocated Rs 750 crores (around USD 170 million) for the upgrading of industrial training institutes (ITIs) through a public private partnership model. A total of Rs 2.5 crores (around USD 5.7 million) will be provided in interest free loans for those ITIs who enter a tripartite memorandum of understanding. The goal is for 300 ITIs to be upgraded in 2007.

Following CII recommendations, India has joined WorldSkills International as its 48th member country. This global organization, among other activities, facilitates knowledge sharing and networking between skills and education experts from around the world, and organizes international skills competitions every two years in one of the member countries. CII will represent India in all WorldSkills activities and plans to enter the 2013 competition.

Source: www.cii.in



Example:

European Commission: strategies for skills forecasting

A number of methods are applied to forecast future skills needs. These include forecasting occupational and skills profiles at various levels of disaggregation, but also social dialogue, labour market information systems and employment services. Analysis of the performance of training institutions and tracer studies is another method.

An important element of the EC's "New Skills for New Jobs" initiative is its focus on forecasting future skill needs. The work includes forecasting skill demand and supply through 2020 at the EU level, improving member States' own forecasting systems, and producing skill needs assessments in 18 sectors. Better cooperation with social partners and a common skills language (education attainment and job content) aim to improve job matching in current labour markets and prepare for future jobs. Providing adequate skills for all citizens is estimated to increase GDP by as much as 10 per cent in the long run.

Source: ec.europa.eu/social

Qualifications and benchmarking of skills levels

In order for employers to recruit the right person for the job, they must know who they have in front of them in terms of skills. In other words, businesses must have an accurate summary of a young person's education and skills levels.

This means that qualifications obtained must indicate skills levels in a simple, accurate and transparent way. Both qualifications and the accompanying grades must be clear benchmarking tools, trusted by employers, to facilitate the recruitment process. Grades must differentiate between candidates. It is more difficult to spot the right candidate for a position if too many young people have the same grade, whether this is a high or a low one. If employers can hire according to grades this will add impetus for young people to study hard and ease the school-to-work transition, because recruitment becomes more straightforward.

If qualifications do not clearly benchmark skills levels, employers will not trust them. As a result, employers may have to resort to costly skills testing during recruitment, but this will only be possible when the resources are available, and in a small minority of cases. Because recruitment now becomes a complex process, exhausting time and money, employers may be more reluctant to recruit via formal channels and may prefer to use informal ones. In a situation where businesses recruit using word of mouth, many talented young people without professional networks, including large numbers of young people belonging to already socially excluded groups, are likely to remain unemployed—a loss for both employers and the young people.

Educational qualifications that allow for clear benchmarking are also more easily transferable. It is in the employers' interest for young people to have qualifications that are transferable within a country and/or region. For example, in the case of a skills shortage, it will be easier for an employer to recruit migrant workers (many of which tend to be young people) to plug the shortage if there is certainty that they possess the required skills. The best way of achieving this certainty is by providing young people with educational qualifications that clearly indicate their skills, not only in their own country, but also in others, thereby facilitating access for business to a large labour pool.

Employers' organizations may wish to:

- Push for relevant qualifications that employers can use for benchmarking skills levels of new recruits
- Push for qualifications and grades that are relatively simple and easy to understand

- Ensure that grading is done fairly and that every student is attributed a grade according to his/her performance rather than, for example, social connections
- Push for qualifications to be transferable between educational institutions in different regions within the country, and between different countries
- Encourage employers to link educational performance to recruitment.

Good practice example:

The European and ASEAN Credit Transfer System (ECTS and ACTS)

The European Credit Transfer and Accumulation System (ECTS) works under the following principles:

- A total of 60 credits measure the workload of a full-time student during one academic year, equivalent to around 1500-1800 hours of work.
- Credits in ECTS can only be obtained after successful completion of the work required and appropriate assessment of the learning outcomes achieved. Learning outcomes express what the student will know, understand or be able to do.
- Credits are allocated to all educational components of a study programme (such as modules, courses, work placements, dissertation work, etc.) and reflect the quantity of work required on each component to achieve its specific objectives.
- The performance of the student is documented by a local/national grade. It is good practice to add an ECTS grade, in particular in case of credit transfer. The ECTS grading scale ranks the students on a statistical basis. Grades are assigned as follows:
 - A - best 10%
 - B - next 25%
 - C - next 30%
 - D - next 25%
 - E - next 10%
 - FX - fail: some more work required to pass
 - F - fail: considerable further work required

Work is ongoing to develop a similar credit transfer system in ASEAN countries. The ASEAN Credit Transfer System (ACTS) will be similar to the ECTS, enhancing student as well as worker mobility between the regions by having easily recognisable and comparable qualifications for young people.

Source: <http://ec.europa.eu>

Enterprise education

"A country's competitiveness starts not on the factory floor or in the engineering lab. It starts in the classroom." (Henry Ford).

Entrepreneurship education is not only a means to foster youth entrepreneurship and self-employment but at the same time to equip young people with the attitudes (e.g. more personal responsibility) and skills (e.g. flexibility and creativity), necessary to cope with the uncertain employment paths of today's societies. To create or develop an enterprise culture, it is crucial that young people have an 'entrepreneurial mindset'. They must have the skills and knowledge to start a new business. They must possess personal qualities such as creativity, responsibility, initiative, taking risks, rising to challenges. They must be aware that there are ways to make a living that go beyond traditional employment.

Nonetheless promoting an entrepreneurial culture is one of the most underdeveloped strategic areas of entrepreneurship development worldwide, poorly articulated in policy terms and the most subject to rhetoric. To change the pattern of cultural determinates is a medium or



long-term process. It requires a combination of specific programmes and initiatives to create positive attitudes towards entrepreneurship and entrepreneurs. It's particularly important to:

- Assess young people's level of awareness, attraction and involvement with business and enterprise, in order to establish a benchmark of their current attitudes and behaviours with the subject
- Identify and test initiatives that would increase young people's interest with business and entrepreneurship.

There exist some initiatives and programmes on enterprise awareness at primary and secondary schools; but impact assessment is still difficult because they will probably have long-term effects. Most initiatives target college and university programmes, having medium- and even short-term effects on business creation and entrepreneurial activity.

Example:

Know about your business

The ILO recently developed a training package for trainers and teachers in vocational and secondary education entitled, "Know about business" (KAB). The package is designed for a 120-hour course for young students between 15 to 18 years.

The specific objectives of the KAB package are to:

- Develop positive attitudes towards enterprises and self-employment;
- Create awareness of enterprises and self-employment as a career option for young people in secondary and vocational education;
- Provide knowledge and practice of the desirable attributes for and challenges in starting and operating a successful enterprise;
- Facilitate the school-work transition as a result of a better understanding of functions and operations of enterprises.

The KAB package comprises a trainer handbook and eight modules.

1. What is Enterprise?
2. Why Entrepreneurship?
3. Who are entrepreneurs?
4. How do I become an entrepreneur?
5. How do I find a good business idea?
6. How do I organize an enterprise?
7. How do I operate an enterprise?
8. What are the next steps to become an entrepreneur?
9. How to develop one's own business plan?

KAB methodology has been successfully used in transition, developing and emerging countries around the world.

Another important ILO tool to promote youth entrepreneurship and enterprise creation is "Start and Improve Your Business (SIYB)". SIYB programme is a management-training programme with a focus on starting and improving small businesses as a strategy for creating more and better employment in developing economies and economies in transition.

Source: <http://www.ilo.org/public/english/region/eurpro/moscow/areas/kab.htm>

Good practice example:

The 'Creating a business that suits you' programme (Belgium)

The aim of this national programme is to promote entrepreneurship among students by giving them an 'early start'. The programme is aimed at pupils between the ages of 16 and 19 years old. Private sponsors provide half of the funding for the project, with the remainder provided by Dutch, Walloon and Belgian public grants. This allows schools to participate for free.

Objectives of the programme

- To bring pupils together with real entrepreneurs in order to provide not only information about theoretical issues and situations, but also to offer the children useful practical tips, e.g. how to stay motivated
- To close the gap between school and entrepreneurs, and to inform young people about the positive aspects of entrepreneurship, as opposed to the negative reports they may hear elsewhere
- Make pupils aware that entrepreneurship is not only important when setting up a business, but is also useful general skill for life
- To demonstrate that young people can construct their own methods of professional activity in every sector and in every profession.

Programme stages

1. From September to November each year, schools and professionals are allowed to register with the project.
2. At the end of November, the enrolled pupils and teachers receive an educational toolkit that will help them learn about entrepreneurial skills. They then begin to prepare for a meeting with a professional. Once the pupils have analysed their own personal qualities, skills and talents, they choose a professional in particular field who they would like to meet.
3. The most important moment of the project is the 'dream' day, where pupils from all over the country meet entrepreneurs to learn from their experience.

Source: www.innovating-regions.org
www.dreamday.be

Good practice example:

Business dynamics: bringing business to life in school (United Kingdom)

Business dynamics is a business education and enterprise charity in the UK that aims to bring business to life for young people. Volunteers from companies introduce students, aged 14-19 years, to the opportunities and challenges of business as well as improving their key skills in preparation for the world of work. This is done through a variety of programmes.

Blue Skies is a particular programme designed to encourage young people to consider setting up their own business.

"Using multimedia, live music, wide-screen video, VJ & DJ, Britain's young entrepreneurs showcase their businesses, with live film footage and music incorporated into each presentation. An interactive TV-style Game Show focuses on entrepreneurs, their businesses and the key business skills required for success.

Source: www.businessdynamics.org.uk



Good practice case study:

The Times 100 Business Case Studies

The *Times 100 Business Case Studies* is a useful online resource for business studies teachers and students and is an excellent example of good practice in enterprise education. Use of real business scenarios helps students to translate theory into practice.

The teacher resource centre on the website provides teaching materials including lesson plans, worksheets and exam packs. The material, which is centred on well-known businesses such as Nestle, Cadbury Schweppes and Ford, has been designed by teachers and written by respected published authors, in cooperation with employers, to cover all the key topic areas. The site includes a section on the importance of entrepreneurship in small businesses.

Source: www.thetimes100.co.uk

Labour market information and careers advice

Labour market information (LMI) includes information on what occupations and skills employers are looking for and what and where potential employers are. It can also include careers advice, i.e. information on the routes into certain professions. For example, a careers adviser should be able to tell a young person who wants to become a hairdresser what his/her employment and financial prospects are, what subject choices to make at school, which institutions offer the relevant courses, and which employers are the big recruiters in the hairdressing industry.

The lack of LMI and careers advice, or erroneous and low quality LMI and careers advice, can result in poor completion rates in further education as young people find out that their studies are not what they thought they would be, or may in fact not lead to their job of choice. In the worst-case scenario, the lack of or bad LMI and careers advice results in skills shortages and unemployment, with young people possessing skills that are not in demand in the labour market. For example, a young person may be advised by well intending friends, family and careers advisers that computer engineering is an excellent career choice, reflecting the general public perception. Instead, accurate LMI might show that employers are really looking for experts in nanotechnology.

Young people must be given information on the world of work and the current and future skills needs of the labour market. This is essential if young people are to assess the implications of their decisions later in life and businesses are to have access to a decent sized recruitment pool. High quality, accurate and clear LMI will ensure that labour market demand and supply are matched.

Employers' organizations can play a crucial role by:

- Pushing for LMI and careers advice to be accurate and to reflect the skills and qualifications employers require in the short, medium and long term
- Lobbying for LMI to be accessible to young people, whether it is in the form of advisers, through the media, on the web, incorporated in the national curriculum, or through other communication channels
- Ensuring that the availability of advice is widely publicised (if it is not integrated in schooling): young people must know where to look for LMI
- Encouraging education-business links, which are crucial in making young people aware of the world of work and its needs (more on this later in the section on *Spreading good practice*).

Good practice case study:

Confederation of Netherlands Industry and Employers (VNO-NCW) and MKB Netherlands

The VNO-NCW, representing Dutch employers, and MKB Netherlands, representing Dutch entrepreneurship are both part of the Dutch youth unemployment task force, in cooperation with the Dutch National Lottery and the Ministry of Defence. The task force has undertaken many activities to ensure that young people are informed about careers and available jobs.

One of the activities was a television broadcast: a seven part series on schooling and professions for employers, intermediaries and trainers on the Dutch channel RTL5. In the series, called *Get them to work*, six young people were tracked as they sought a job, a work placement or a learn-while-you-work programme. The young people in the series spoke with the Centre for Work and Income (CWI), regional training centres, employers, and reintegration companies and the like. Job seeking techniques and job interview skills were examined, as were competences and the importance of basic qualifications, traineeships and a proper choice of profession.

A TV series about young people and school/work was also developed in cooperation with the Dutch National Lottery. This series was entitled *Yorin the job* and six young people were tracked as they sought a job or educational programme.

Source: Youth Unemployment Task Force Action Plan (2006) Working on the future, getting the future to work! www.jeugdwerkloosheid.nl

Good practice example:

Monster job portal

www.monster.com is global job search website spanning countries from China to Saudi Arabia, Jordan, Sweden and the US. Besides matching supply and demand in terms of the labour market, the website also has a career centre which provides in-depth careers advice and information how to deal with issues such as:

- How to negotiate salaries
- Whether or not to accept a temporary contract
- How to write a good CV
- The importance of non-verbal communication in job interviews
- How to obtain a promotion at work.

Remedial training

If the skills of young people are not up to the mark, employers may be forced to pick up the bill for any remedial training or education if they want their employees to have the right skills. Of course, on the job training should be provided by businesses, but they should not have to pick up the tab for the failure of the state's education system. If remedial education is necessary for large groups of young people, the government should pay, or at least contribute to paying, for it.

Employers' organizations may want to:

- Lobby for remedial education which is funded (at least partially) by the state
- As the expert on employers' skills needs, lobby on the content of the education
- Become involved with, or lobby on, the organization of the actual provision of remedial education to ensure that it is accessible to young people in terms of location and scheduling (some young people may already be employed and will most likely follow a remedial course outside normal working hours)
- Alert government to the fact that the most effective strategies are those that involve cooperation with employers, rather than forcing employers to provide remedial training.



Cooperation could mean, for example, the government providing free training for young people up to a certain level and employers providing time off work to allow young people to train, or for companies to provide lectures on business related subjects or for company employees to become mentors to young people.

Good practice example:

Train to Gain (UK)

The Train to Gain programme was launched nationwide in 2006 following the positive results of earlier pilots. Employers welcomed the programme, which provides free, flexible training to employees up to a certain level. In return, the employer agrees to give the employee time off work for training. A Train to Gain Skills Broker will help an employer to:

- Identify the skills the business needs
- Pinpoint the right training
- Agree a tailored training package
- Find available funding
- Review the progress the business is making

Source: www.traintogain.gov.uk

Good practice example:

Confederation of Indian Industry (CII)

In India, over 90% of the workforce is in the informal economy. School drop out rates are high. There is a severe lack of structural training, and high levels of poverty. For school drop outs with low educational achievement, there are few chances to gain access to education in the future as most government training programmes require candidates to have a minimum of ten years of schooling. Around 60% of young people only attend school until year 6 and are therefore not qualified to enter government training programmes.

The supply of unskilled labour is very high, as is the demand for specific skills, which is often unmet. For instance, in spite of the boom in the construction sector, simple skills like waterproofing, fencing, or scaffolding are in short supply. The CII set out to correct this skills mismatch by developing training courses for workers in the informal economy.

The employment market requires 12 -13 million workers per year. However, only 7.5 million young people would exit government education institutions and enter the labour market each year if these institutions were working at full capacity.

Partnering with City & Guilds, a vocational training and awarding body, the CII designed accredited short, intense 3 month courses that focus on basic vocational skills, which are in demand in the labour market. In the construction sector, for instance, the training courses focus on scaffolding, masonry, fencing, tiling, painting and finishing, plumbing, carpentry, building, sanitation, water, cement mixing, facilities management and back up support.

The favourable results of the pilot project, and persistent advocacy by the CII, encouraged the Government of India to roll out similar training courses at a national level under the government's modular employable skills programme (MES). The CII and other employers' organizations will be project partners, acting as independent assessors to ensure that the training courses are effective and continue to provide in demand skills.

Source: www.cii.in/

5.6 Payroll cost policies

Youth payroll costs constitute a major issue in debates on youth unemployment. Such policies are intended to reduce labour costs for young people in order to encourage employers to take on young people for both work and training.

Payroll cost policies generally cover two areas:

- Direct alteration of wage structures through lower wage-for-age scales in collective agreements and minimum wages
- Reducing labour and training costs (through financial government incentives and training levies).

Wage-for-age scales and minimum wages¹⁶

The aim of altering wage scales is to increase the demand for young workers from employers so that they employ and train more young people. Another goal is to alleviate unemployment by reducing the number of young people in the labour force in favour of full-time schooling or leisure. Wage-for-age scales in collective agreements and minimum wages determined by law have the same aims and reflect institutional characteristics rather than a policy variable.

Depending on the rate, a minimum wage, whether at national, regional or sectoral level, aims to raise the income of low-paid workers, a group which includes young people. By increasing work incentives, in theory, it has a beneficial impact on employment rates. The higher the minimum wage, i.e. the closer it is to average earnings, the stronger the work incentives for the low-paid. But if the minimum wage is too high, it can significantly increase labour costs for employers. It puts pressure on wage levels, discouraging employers from recruiting as they are forced to increase the pay of other workers in order to maintain wage differentials.

While research generally shows that minimum wages increase unemployment, the impact of minimum wages on employment rates will depend on the 'elasticity' of labour demand, i.e. how much labour demand changes if the price of labour (wages) is changed. Generally, when an employer's labour costs are a high proportion of total costs, labour demand is likely to be more elastic than a business or industry where fixed costs of capital are the dominant business expense. Therefore, when labour costs are high, the so-called 'disemployment' effects of minimum wages are likely to be worse.

Defenders of the minimum wage generally do not dispute the disemployment effects, but argue that, on the whole, the working poor are better off. In other words, the higher wages for those with low-paid jobs offset the lower incomes of those without jobs. The basic arguments on minimum wages therefore tend to centre on whether it is better to have higher employment rates or better working conditions for those with jobs.

What must not be forgotten is that minimum wages do not only affect employment rates, but also other aspects of employment, such as training. Research shows that the negative side effects of minimum wages can include:

- Reduction of training by employers¹⁷

¹⁶ For more information on minimum wage please consult F. Eyraud (2005), "The fundamental of minimum wage fixing", International Labour Organization

¹⁷ See Acemoglu, D. and Pischke, J.S. (2003) 'Minimum wages and on-the-job training' in Polachek, S.W. (ed.) (2003) "Worker well-being and public policy", Elsevier.



- Reduction in employment rates particularly in low-wage industries, such as retailing¹⁸
- Small business are hit particularly hard¹⁹
- Substitution of labour for capital.²⁰

Minimum wages can create unemployment especially among young people. If it costs the same for an employer to take on an older person with the same skills levels but with more experience than a young person, than that employer will prefer to recruit the older person.

However, minimum wages can be adjusted for different groups. Some countries have a 'youth rate', which is a minimum wage for young people below the general minimum wage. The decrease in labour costs provides added incentives for employers to both hire and train young people and can increase the youth employment rate. Moreover, a youth rate can encourage young people to stay in school as it raises their prospects of getting part-time work and reduces the incentive to take full-time work (where high fixed labour costs exist, it is less costly to take on one full-time employee instead of two part-timers).



Facts and figures:

A study of the employment effects of changes in national minimum wages in 17 OECD countries for the period 1975-2000 shows that minimum wages increase youth unemployment. However, these negative effects of minimum wages are smaller in countries that have subminimum wage rates for young people.

Source: Neumark, D. and Wascher, W. (2003) *Minimum wages, labor market institutions, and youth employment: A cross-national analysis*
www.federalreserve.gov/Pubs/feds/2003/200323/200323pap.pdf

A development rate, used in some countries, is again a type of exemption to the minimum wage. It is aimed at those in training, the majority of which are young people.

Development rates allow employers to pay their trainees and apprentices' wages less than the minimum wage. Development rates therefore play an important role in encouraging employers to create training places for young people, especially those on vocational courses. It can also encourage employers to train people to a higher level. More training leads to young people better equipped for the labour market—a win-win situation as both employers and young people benefit.

Whether youth and development rates alleviate youth unemployment depends on how much of an incentive they provide to employers. The bigger the difference between these rates and the general minimum wage, the larger the incentive is likely to be. At the same time, however, the lower the rates, the less incentives there are for young people to work and train. Tackling youth unemployment through minimum wages, including youth and development rates, therefore requires a delicate balance of incentives, which will vary according to national, regional, and sectoral context.

Lobbying on the minimum wage can require a lot of work by an employers' organization, as trade unions will always lobby fiercely for the maximum increase in wages of workers, even if

¹⁸ Lang, K. and Kahn, S. (1998) 'The effect of minimum-wage laws on the distribution of employment: theory and evidence', *Journal of Public Economics*, Volume 69, Issue 1, pp. 67-82.

¹⁹ Arrowsmith, J. Gilman, M.W. Edwards, P.K. and Ram, M. (2003) 'The Impact of the National Minimum Wage in Small Firms', *British Journal of Industrial Relations*, Vol. 41, September 2003, pp. 435-456.

²⁰ Rowthorn, R. (1999) 'Unemployment, wage bargaining and capital-labour substitution', *Cambridge Journal of Economics*, 23, pp. 413-425.

this means risking employment creation. Employers' organizations can make a decent prediction of the impact on any increases by asking its members:

- Has the minimum wage (including youth and development rates) pushed up wages and increased labour costs for business?
- How has it affected hiring practices?
- How do employers feel about possible increases?
- What is the maximum increase they could cope with?
- Has the minimum wage increased productivity?
- What has the impact been on the minimum wage in the context of the burden of employment regulation in general?
- Is the age threshold for the youth rate too high?
- Are development rates low enough in comparison to the general minimum wage to encourage training?
- Are there any good business case studies illustrating how past increases have impacted on the company, including on recruitment, training, and the financial bottom-line?

Employers' organizations may wish to advocate for:

- A minimum wage that does not impede job creation by driving up labour costs
- Youth rates which encourage employers to take on young people
- Development rates that ensure the availability of training places for young people
- Some kind of trade-off in terms of labour costs. An example is a policy that maintains the minimum wage but reduces labour costs by decreasing social security contributions. One of the advantages of this type of approach is that it doesn't necessarily oppose employers' organizations against trade unions.

Bad practice example :

Imposing a quota of young people on Belgian industry

In April 2000, the Belgian federal government launched a special labour market programme, whose main feature was an obligation on companies to employ a quota of young people. Based on a sample of more 100,000 young Walloon job seekers (Wallonia is the French-speaking region of Belgium), the University of Liege examined whether or not the programme had really got more young people into the labour market. The empirical results showed that it had had a modest positive effect on medium-skilled job seekers, but very little effect on unskilled job seekers. Moreover, as could be expected, it had a strong deadweight effect on skilled young job seekers.

Source <http://orbi.ulg.ac.be/>



Some examples:

“First employment laws” in Latin America

Brazil - National Programme to stimulate first-time employment

- *Characteristics*

Target

16-24 years old in non-voluntary unemployment, without any experience of formal work and coming from families with monthly family income lower than half the minimum wage.

- *What does it entail?*

Enterprises that give contracts to young people receive economic subventions proportional to the number of young people they have hired (approximately USD800 per youth employed each year).

- *Results*

The goal was to provide employment to 452,000 young people in one year. The programme has actually managed to provide first-time employment to 352,000 young people over a 3-year period from 2003 to -2006. This 30% of all young people inserted into the labour market by public sectors.

- *Challenge*

The incentive was good for enterprises which normally offer formal contract; but it didn't work to try to convert informal work into formal one (the incentive was not big enough..).

Mexico - First employment law

- *Characteristics*

Ten months after a young person has been hired, the State returns social security contributions to the company. The amount of the subsidy depends on the wage of the new workers. Upon completion of the tenth month of work the contribution for the social security made by the employers in the first month is reimbursed. Upon the completion of the eleventh month of work the contribution for the social security made by the employers in the second month is reimbursed and so on.

The subsidy is given only if the young person continues working.

The workers and their families receive benefits of social security such as access to health services, pension, subsidies in case of maternity, disease, risks of work, death or marriage and so on.

Paraguay - First employment law

- *Characteristics*

The target group is 15-28 year old youth looking for their first job.

- *What does it entail?*

Employers don't have to pay to young people that they hire some of the social benefits such as pension contribution, social security, familiar allocations, advance warning to fire. This implies a reduction of labour costs for the employer.

- *Results*

The programme was launched in 2007 but has had practical application problem due to the administrative requirements on enterprises.

Government incentive schemes

The aim of reducing labour and training costs is again to increase the demand for young workers among employers and encourage them to take on more young people for work and training. This type of policy encourages employers to take on young people by offering tax exemptions and subsidies instead of forcing them to take action by increasing regulatory burdens.

Advocates of free markets and labour market flexibility believe that employment should never be subsidised. Paying employers to hire young people, they feel, is the wrong approach. Instead employers should be allowed to hire and fire workers more easily via increased labour market flexibility. Arguments against employment subsidies include the following:

- They create 'deadloss weight', i.e. they pay for a person that would have been recruited anyway
- They lead to 'substitution', i.e. subsidised workers replace non-subsidised ones and unemployment shifts from one group to another
- They lead to 'displacement', i.e. they cause unemployment somewhere else in the economy as those firms benefiting from the subsidies can produce goods and services more cheaply.



Facts and figures:

Research in various countries has shown that wage subsidies lead to combined deadweight and substitution effects of the order of 70-90% of the number of jobs created.

Source: Bellman, L. and Jackman, R. (1997) 'Aggregate impact analysis' in (Eds.) Schmid, G. et al. International handbook of labour market policy and evaluation, Edward Elgar Publishing Limited, UK.

Of course these advocates are not wrong and the importance of flexibility cannot be underestimated. However, government incentives can have a positive affect on youth unemployment and help to increase employability.



Facts and figures:

Australian research found that young people participating in a wage subsidy programme were 20% more likely to have a job 26 months after they started a subsidised job, compared to those who were not eligible for the programme. This is because of an increase in employability, making it easier to find a non-subsidised job, and because subsidies extend the life of very short duration jobs that would otherwise been ended before the subsidy expired. These findings suggest that wage subsidies can lead to a lasting improvement in employment prospects.

Source: Richardson, J. (1998) Do Wage Subsidies Enhance Employability? Evidence from Australian Youth, Centre for Economic Performance, London School of Economics and Political Science,

<http://cep.lse.ac.uk/pubs/download/DP0387.pdf>

In practice, explicit employment subsidies are rarely offered to youth. They are more commonly used to encourage employers to train young people. For example, they can be used to encourage employers to provide training places to apprentices where this has become too costly. Providing a subsidy, or stipend, to a young apprentice with a very low income will, in turn, encourage them to take up apprenticeships in the first place. Subsidies can be used to encourage young people to do internships, which would otherwise not have been possible due to the lack of income, hence facilitating the school-to-work transition.

Governments can also affect youth employment more indirectly by providing incentives to start-ups. Tax exemptions can be given to start-ups to reduce barriers for entrepreneurs and help new business grow. For instance, certain taxes may only apply if a business employs more than a certain number of people. Another example is the availability of loans at advantageous rates for young entrepreneurs.



Government incentives, whether in the form of subsidies or tax exemptions, can be used in many different ways to boost employment and training. But there exists a danger: well-intended incentives can have unintended negative effects. Besides the ones outlined above, other negative effects include the following:

- In work benefits can create bottlenecks in the career ladder as financial returns on career progressions diminish. This type of bottleneck blocks new opportunities for young people
- Subsidies to apprentices that are too generous can contribute to young people making a career choice for the wrong reasons and negatively affect drop out levels
- Tax exemptions can reduce employment if they prevent companies from growing. For example, if a certain tax rate for companies with 50 or more employees is significantly higher than for companies with less than 50 employees, businesses are likely to avoid employing 50 or more employees (see the good practice example on CITI in the section on *Red tape* for an illustration of this).

When it comes to lobbying on government subsidies and tax exemptions, employers' organizations may wish to:

- As a general lobbying line, push for incentives rather than burdens on employers
- Back-up any lobbying on specific subsidies or exemptions with solid research that will uncover any unintended, negative effects
- If negative side effects are likely to occur, determine whether the benefits of the proposed incentives will offset any negative impact
- Determine where subsidies and tax cuts could be targeted to ensure that they are cost-effective and have the most significant impact on youth unemployment.

Good practice example:

The Hong Kong youth work experience and training scheme

The Hong Kong Government's youth work experience and training scheme (YWETS) provides young people aged between 15 and 24, whose education attainment is below degree level, with on-the-job and job-related training for a period of 6 to 12 months. An induction course on job search and interpersonal skills is available to the trainees if they have not undergone such, or similar, training. Case managers, who are registered social workers, also provide them with career counselling and support services.

Participating employers are entitled to a monthly training subsidy of HKD 2,000 (around USD 260) for each trainee engaged during the employment and training period and support services, inclusive of a free training kit and train-the-trainer workshops. They have to appoint a mentor, who is an employee, to guide the trainee and provide on-the-job training. Also, they have to release, if necessary, the trainee to attend relevant vocational course(s) on a part-time or part-time-day-release basis.

The scheme reimburses the trainee a maximum of HKD 4,000 (around USD 320) for the course, as well as examination fees if a pass in the examination is achieved or 90% attendance is reached. Upon the completion of training, the employer will give the trainee a certificate specifying the employment period and the skill(s) attained. Continued employment is subject to the availability of vacancies and the trainee's performance.

Example of a success story

Wing On department store at the Hong Kong Airport took on YWETS trainees to work in sales. Their outstanding performance earned commendations from customers and travellers. Two trainees who were working in *Wing On*'s ladies' fashion section, also earned customers' praise in writing. *Wing On* took on four trainees as permanent staff to fuel the company with a new impetus.

Source: www.labour.gov.hk

Training levies

Training levies, where employers contribute to a fund that pays for training, are another type of incentive scheme to encourage training. But unlike with the incentive schemes discussed earlier, employers' organizations often play a major role in training levies, through training boards, collective agreements, or by setting up the levy within specific sectors. There are two basic types of training levies:

- **Disbursement schemes** - tax is collected from all enterprises, then disbursed back to some firms that meet training criteria
- **Exemption schemes** - firms are able to reduce or eliminate some of their taxes by providing a good standard of in-house training.

The employers' contribution to the levy fund often represents a certain percentage of wage costs. This means that larger businesses will contribute more to the fund than smaller ones. However, all businesses can apply for grants from the fund to provide financial support with training. Training levies can therefore act as a financial incentive and encourage employers to train young people.

Although used in many countries, levy systems have often failed to increase training, which is usually their primary objective. Bureaucracy and complicated application procedures mean that few companies seek grants for training, and funds often build up a cash surplus. Moreover, levies that are too high will increase labour costs to the extent that employers are unwilling to take on more apprentices.

Good practice example:

Singapore's skills development fund (SDF)

Singapore's SDF runs a disbursement scheme that has been highly successful in raising training investments by enterprises. It also gives financial incentives to workers who are preparing to join the workforce and those who are re-entering the workforce. It encourages the development of higher-level skills to support economic restructuring and knowledge intensive industries. The fund collects a levy and provides employers with grants for approved training programmes upon consideration of their individual merits. As an incentive for enterprises to upgrade their workers' skills, the levy is imposed on the wages of low-skilled workers.

The levy has changed frequently as international economic conditions have changed. It was set originally at 2% of eligible wages, was raised to 4% in the boom years in the early 1980s, and is at present 1%. In 1998, some 565,000 training places were supported through grants by the Fund. In that year S\$ 88 million (around USD 57 million) were committed, raising the total amount committed since the start of the Fund in 1979 to S\$ 1.5 billion (almost USD 1 billion). The SDF is successful because its practices change as conditions change. It is now only applied to low-skilled workers.

Source: ILO skills development department www.ilo.org/public/english/employment/skills



Example: Proposal for a training levy in Germany

The following extract is adapted from an article entitled *Two-thirds of firms 'reject training levy'* by the European Industrial Relations Observatory On-line (EIRO). In April 2004, the Cologne Institute for Business Research (*Institut der Deutschen Wirtschaft Köln*) published the findings of a survey examining companies' views on a new training levy planned by the government. This levy, if were to become effective, would require all private and public employers with at least 10 'non-casual' employees (including part-time workers and 'minor jobs' proportionately) whose number of in-house vocational trainees is less than 7% of the total number of employees to pay a levy, if the overall number of training places available in the country is regarded by the federal government as insufficient to meet demand. The available number of training places is considered to be sufficient when the number of vacant training places each year on 30 September exceeds the number of unplaced applicants by at least 15%. In April 2004 a representative survey conducted of 1,018 private and public employers with at least 10 non-casual employees in all branches showed that German business doubts that the planned levy will have the effects that the government desires. According to the findings, 68% of all companies surveyed view the government's plans negatively, and only 14% support the levy.

Even two-thirds of companies with apprentices dislike the government's proposals. In the public sector, the proportion of employers opposed to the planned regulations falls to 57%, though this is still a majority.

The survey also sought to establish the reasons behind the low approval rating of the levy plans amongst companies. More than 80% of the companies surveyed do not like the proposed training levy because they believe that labour costs will increase as a result. About the same proportion of companies anticipate that additional bureaucracy will cause problems. Moreover, firms expect few benefits from implementing the planned training levy. Four out of five companies in the survey did not want to change their employment policy as a result of the proposed legislation on the training levy. More than 9% of the firms surveyed would reduce the number of training positions that they provide after the implementation of the plan. Fewer than 5% would increase their provision of apprenticeships after the implementation of the levy.

IW also asked companies in the survey for their opinion on alternative proposals to improve the supply of apprenticeships. It found that nine out of 10 employers see lower supplementary labour costs and an economic policy that is conducive to economic growth as better options. Additionally, the employers surveyed argue that the poor skills of many of the applicants for apprenticeships need to be addressed. More than 80% of the firms regard an improved school education as a precondition for a greater provision of apprenticeships in companies.

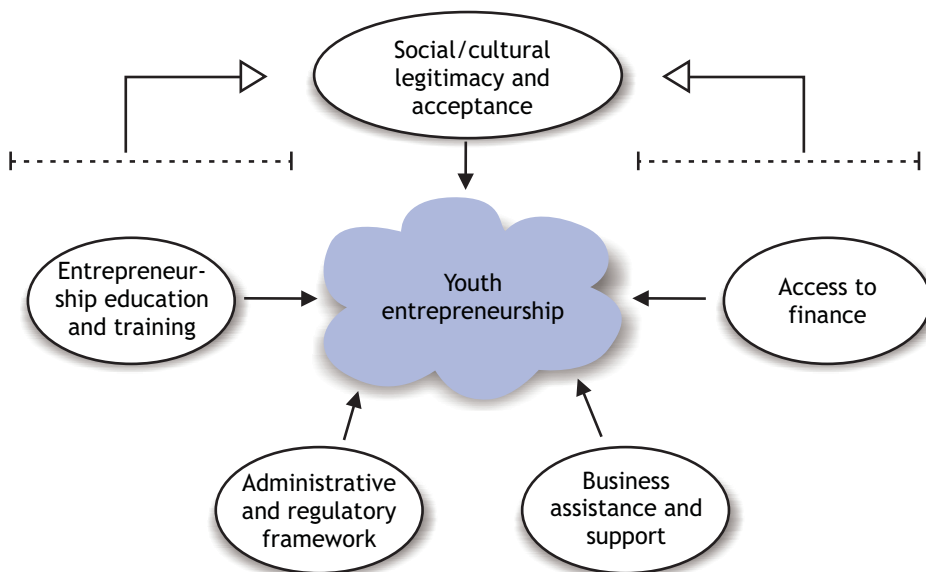
Follow up: eventually the employers' organization and the government agreed not to introduce the levy. In exchange the employers' organization promised to create enough apprentices places (National Pact on Vocational and Educational Training, June 2004).

Source: www.eurofound.europa.eu

5.7 Youth entrepreneurship

Entrepreneurship can directly create work for young people. If there is no demand for workers from employers, self-employment is a viable alternative. In many countries self-employment is often a survival strategy to generate subsistence income. But in the right business environment, a young person with an entrepreneurial mindset and some basic entrepreneurial skills and knowledge can do much more than just get by.

Factors that influence youth entrepreneurship



Source: www.ilo.org

Employers' organizations can push for governments to undertake a wide range of actions to increase the number of young entrepreneurs, such as:

- Providing enterprise education in schools to foster an entrepreneurial mindset among young people and give them entrepreneurial skills and knowledge (as we discussed in the section on *Enterprise education*)
- Providing access to support funds; *Provision of soft and guaranteed loans (government backed-loans)* involves the provision of no or low interest loans, usually through some form of revolving loan fund, to young entrepreneurs. There are generally no collateral requirements, but eligibility criteria like having a business plan, demonstrating commitment and responsibility, having reasonable equity participation and demonstrating an ability to repay the loan are required. *Micro loans* are still a fairly new source of finance for young entrepreneurs in the formal or informal sector with lower capital requirements, with little or no collateral and limited business experience. Micro-loans are small loans, mostly offered by micro finance institutions like credit unions and NGOs. Traditional banks are not generally interested in issuing small loans – as the interest benefits do not exceed the transaction costs.
- Diminishing the regulatory burdens on youth entrepreneurship and business in general (as we discussed in the section on *red tape*). These burdens are among the most important barriers to start-ups of young people in high-income and developing countries. Tax relief or differentiated tax rates can facilitate the start-up process for young people. Two methods are possible: either lowering the rates or granting a period of tax exemptions for young entrepreneurs and other underrepresented groups.
- Providing young people with easy access to business development services such as incubator facilities, legal guidance, etc. Business incubators have become a powerful tool for supporting the entrepreneurial process and for helping to increase survival rates for young innovative start-up companies. Besides the provision of physical working space,



they often provide a huge range of resources and services (management coaching, business plan preparation, administrative services, technical support, business networking, advice on intellectual property and sources of financing, assistance on tax issues-how to keep proper records) for a limited time period (around 3-5 years). Business incubators can be found in very different forms and can be private, public or based on a Public-Private-Partnership initiative involving many partners at national, regional and local levels (business angels, banks, regional and national government agencies, etc.). In the last twenty years, many governments have successfully launched systems of public business incubators to encourage and assist young enterprises. However, the success of an incubator depends upon providing the right package of services for the entrepreneur. Further benchmarking and best practice comparisons are needed to ensure business incubator solutions address the specific needs of young people.

Good practice example:

Fundación Impulsar – Youth start-up assistance in Argentina

Fundación Impulsar was established as a charity in Argentina in 1999, for the purpose of helping young people to set up and manage their own business, particularly when the appropriate financial or practical help has not been available. The aim is to help young people aged from 18-30 years, who have some sort of job problem and a good idea for what appears to be a viable business, by giving them an interest-free loan of an amount up to USD5000, with a repayment period of three years. Help is also given through the preparation of a business plan, and if the loan is approved, the young person is then assigned a mentor to support the applicant in establishing the business. By end of December 2004, more than 2,500 applications had been received, out of which 130 loans were approved for businesses such as a cycle tourism venture, a kindergarten, a furniture factory specializing in iron pipe structures, a cycle repair workshop and a fumigation company.

Source: www.fundacionimpulsar.org.ar

Good practice example:

Government of Cyprus

The 'Young entrepreneurs in Cyprus' programme, funded by the Cyprus government, develops, supports and encourages entrepreneurship among people between 20 and 39 who wish to set up a business. The programme focuses specifically on manufacturing, tourism, commerce, and services.

Candidates can put forward one business proposal. Their financial contribution must amount to at least 75% of the total share/corporate capital. Successful candidates must register a limited company and guarantee that all shareholders are employees of the company. Then they are given a grant of maximum USD 68,000. The costs covered by the programme include infrastructure (buildings), equipment, external expertise (i.e. consultants, studies), and marketing and promotion expenses.

Employees of the SME on the programme then participate in tailored training course organized and subsidised by the Human Resource Development Authority of Cyprus. The training course focuses on topics such as entrepreneurship, operational programming, economic planning, company law and marketing.

Results for the years 2004-2005 are encouraging. In 2004, out of 60 applications, 19 were accepted. In 2005, out of 51 applications, 23 were accepted. Over two years, 42 new SMEs were set up.

Source: www.innovating-regions.org

Good practice example:
Youth Entrepreneurship Campaign 2010
South Africa

Started in 2004, the Campaign is a partnership between Umsobomvu Youth Fund, the South African Youth Chamber of Commerce and the NAFCOC (National African Federated Chamber of Commerce & Industry).

According to the Campaign fact sheet, its missions are:

- To mobilise youth and other relevant stakeholders to engage in efforts that will increase the total entrepreneurial activity amongst South Africans, especially the young people.
- To conduct promotional campaigns in order to create awareness and encourage the culture of entrepreneurship amongst the youth.
- To lobby and advocate for an environment which is conducive for young entrepreneurs to start, grow and sustain their businesses.

Its objectives, informing strategy and activities are:

- To increase South Africa's Total Entrepreneurship Activity (TEA) and thus improve the country's total entrepreneurial activity ranking amongst developing countries by 2010.
- To address factors that hamper new entrants and growth of existing youth-owned enterprises.
- To contribute towards the achievement of the 6% target for national economic growth.

At the end of 2007, the 'Youth Entrepreneurship Campaign 2010' has achieved the following:

- 1000 young entrepreneurs from across all provinces have registered on the portal for young entrepreneurs which has 41 000 page views per day;
- the database for connecting mentors and entrepreneurs contains 699 entrepreneurs and 299 mentors;
- 10 finalist over 59 of the Enablis Business Plan Competition were young entrepreneurs;
- a media plan to promote the top 100 most promising emerging young entrepreneurs in the country has been planned for 2008.
- roadshows have been organized in several provinces for reaching out to young people, particularly in rural areas;

Source: www.uyf.org.za

5.8 Institutional arrangements for influencing policy

There are many ways of interacting with government and trade unions apart from lobbying, including commissions, collective agreements, joint declarations and partnerships. The main formal ways of interaction are outlined below.

Commissions

Definitions vary, but a commission, also called a committee, is generally a group of people appointed for specific duties or functions. Many government commissions are made up of key stakeholders in a certain field. Commissions on employment issues are likely to include not only a representative of the employers' organization, but also a trade union representative and representatives of other major players such as ministries, think-tanks, government agencies, service providers and NGOs.

The aim of commissions is to investigate a particular issue and propose/take policy decisions, with the representatives of all the important organizations in the field providing input. Examples include commissions on:



- The minimum wage
- The (future) skills needs of the economy
- Unemployment benefits and the rate of employer and worker contribution to employment insurance

Committees can also be run by other organizations, including think tanks, professional networks, universities, etc. but these will usually not have the same executive powers as government commissions.

Government commissions, especially high level ones, as well as other committees to a lesser degree, provide a great way to exert influence on policy makers and others. It is generally worth pushing for a seat if one is not offered, or even lobby for one of these committees to be set up to investigate and take policy decisions on youth unemployment related issues.

Consultations

In many countries the government will undertake either a tripartite or public consultation before making a change in policies or developing a new law. In the latter case, anyone can provide input to the consultation. Consultations are a good way to provide written input to government thinking on any policy areas relevant to business.

While consultation can be through committees, or *ad hoc* meetings, it is often carried out in written form. A good consultation document:

- Clearly sets out the proposed changes to policy or laws
- Gives the reason for the proposed changes, backed up by evidence
- Includes some basic questions it wants respondents to answer
- Has an appropriate deadline, allowing employers' organizations adequate time to consult their members if necessary, collect evidence, and write an official response
- Allows respondents to decide whether their input is to be made public or not.

Before implementing any changes, a good practice consultation will publish another report containing the key arguments of all respondents, the government's final decision and the reasons behind it.

When replying to consultation documents, employers may wish to build arguments around:

- **Costs** – for instance, are rising labour costs due to over-regulation of employment damaging job prospects for young people?
- **Competitiveness** – for instance, have educational reforms led to skills mismatches that are putting firms' competitiveness at risk?
- **Economic growth** – is the risk such that economic growth is endangered?
- **Red tape** – for instance, is red tape the reason why employers are taking on few apprentices, rather than a lack of interest?
- **Labour market flexibility** – for example, does the lack of agency workers mean firms are not able to maximise profits during market upturns?
- **Comparison with other countries/regions** – for example, are businesses less competitive than those in neighbouring countries where employment is less regulated?
- **The effect on employment rates** – for example, will increased benefits lead to higher costs for employers and lower work incentives for the unemployed, thereby having a negative effect on employment rates?

Good practice example:

The Recruitment and Employment Confederation - REC (UK)

Below is an extract of the REC's response to the UK government's consultation on better regulation. *Conduct of Employment Agencies and Employment Businesses Regulations 2003 Consultation – March 2009*

Suitability checks and permanent employment

REC believes that checking candidates' details is an essential part of the service provided by employment agencies. However confusion can result if the hirer is not aware of what checks have been carried out by the agency. Members have also raised concerns that online jobs boards are matching candidates to jobs, with no suitability checks being conducted.

Suitability checks should remain a contractual matter rather than one dealt with by the Regulations. However it should be made clear to hirers which checks are being conducted by employment agencies and online jobs boards so that the hirer knows which checks it may need to carry out itself.

Other matters

REC has not commented on the questions regarding agencies that can make up front charges to work seekers and medical deaneries as these do not affect our members.

REC asked members if there were other areas which could be considered for simplification in the Conduct Regulations. Matters which could be considered include the application of the terms where the hirer and the position is based overseas and the hirer has no knowledge of the regulations and Regulation 10 on temp to perm fees. There was also a clear demand for clearer guidance on the application of the regulations in practice. There was also a call for the regulations to be enforced effectively.'

Source: www.rec.uk.com/_uploads/documents/EAARECresponseJune09.pdf

Collective agreements

A collective agreement is a labour contract between one or more employers and one or more unions. The contract is the result of collective bargaining, which is a process of rule making leading to joint regulation in industry. Collective bargaining is part of social dialogue which is any communication activity involving social partners and intended to influence the arrangement and development of work related issues.

In collective bargaining, representatives of the unions and employers (the employers' organization in some countries) will negotiate the terms and conditions of employment of employees. Collective agreements aim to regulate relations between employers and workers. Some of the areas collective agreements tend to cover are:

- Pay
- Severance pay
- Holiday leave
- Education leave
- Sick pay and leave
- Minimum wage
- Hours of work and overtime
- Career development
- Health and safety
- Employee performance reviews



Usually collective agreements will only apply to union members, but in some countries, such as Finland, collective agreements with enough support are universally applicable regardless of union membership.

Collective agreements can cover aspects relevant to youth employment such as minimum wage and youth rates, vocational training, etc. Care must be taken however with including training in collective agreements. Many unions will push for a clause to be included saying that workers are entitled to a minimum amount of training. However, any training the employer gives the employee serves the purpose of improving that worker's performance and is therefore job-specific. Employers do not train for training's sake. If a business does decide to provide more general training to workers that is less relevant to their work, than it should be a voluntary decision.

Tripartite agreements, i.e. those that involve employers, workers and the government, also exist in some countries. For instance, Ireland has a long tradition of this type of agreements, known as 'social partnership' agreements.

Good practice example:

Spanish Confederation of Employers' Organizations and the Confederation of Small and Medium-sized Enterprises

In 2006, an Agreement on Vocational Training for Employment was signed by the Spanish government, the Spanish Confederation of Employers' Organizations (*Confederación Española de Organizaciones Empresariales*, **CEOE**), the Spanish Confederation of Small and Medium-sized Enterprises (*Confederación Española de la Pequeña y Mediana Empresa*, **CEPYME**), the Trade Union Confederation of Workers' Commissions (*Comisiones Obreras*, **CC.OO**) and the General Workers' Confederation (*Unión General de Trabajadores*, **UGT**). This agreement lays down the basis for merging the systems of occupational training (currently aimed at unemployed people) and continuous training (currently aimed at active workers).

In addition to creating a common framework of action for training of employed and unemployed people, the agreement creates mechanisms for linking training for employment to the national professional qualifications system, in order to provide accreditation for the skills acquired in both formal and informal training. Accordingly, all workers will be entitled to receive a skills and qualifications certificate and individualised monitoring of their professional career.

Moreover, active workers will now also be able to undergo specific training in any sector, whereas previously they could only receive training related to the sector in which they were working, or training that would be generally applicable. This opportunity to pursue specialist training for other areas will increase the **adaptability** of workers to a wide range of jobs and tasks, thereby increasing their **employability** and their ability to manage periods of employment insecurity. The careers guidance and training services will also be integrated, with the aim of reducing the number of people dropping out of vocational training.

The agreement extends the possibilities of applying for individual training leave, and stipulates that, if leave is refused by the company, this decision must be justified by reasons relating to organization or production needs. It also specifies that training will be provided free of charge, and puts forward the idea of an annual time credit for attending training courses.

With regard to funding, the agreement states that, as of 2007, resources other than the **vocational training** contribution paid by employers and workers will be incorporated, in order to fund the training of groups who do not currently pay contributions.

In order for these measures to become effective, the representatives of CC.OO and UGT state that, in addition to their legislative development, they must be included in **collective agreements**.

Source: www.eiro.eurofound.ie

Training and employment boards

Training and employment boards allow employers' organizations to directly influence both policy-making and implementation. There are many types of boards focussing on myriad issues. Boards are often tripartite and set up through legislation. They can focus on a variety of issues involving training and employment.

Training and employment boards can also be business-led. For instance, at a sectoral level a business-led training board can be responsible for training levies, where all companies pay a certain percentage of wage costs into a fund, which is then made available for training purposes. The board decides upon the rate of the levy, whether it is compulsory or voluntary, what types of training and which training providers are eligible for funding, and so on.

Good practice example:

National Employment Board, Uruguay

In Uruguay, the national employment direction (DINAE) and the tripartite national employment board (JUNAE) were created in 1992. This was a decisive step towards intervening actively in the formulation and implementation of vocational training policies. JUNAE administers resources from the labour retraining fund, which was also created in 1992. Law 16.320 of November 1996 empowers the board to finance training for different population groups, in particular low-income young people.

JUNAE is a tripartite body chaired by the employment director of the Ministry of Labour and Social Security of Uruguay, which manages and allocates resources from the labour retraining fund. The Fund is made up of contributions from employers, workers and the government for the training and retraining of persons who have special difficulties in getting a job, and laid off workers. The board has various programmes directed to the unemployed, young people seeking employment for the first time, and rural workers. The fund also finances training programmes submitted by firms or via collective agreements.

Source: www.ilo.org

Partnerships

Partnerships are established at the policy-making level through various forms of social dialogue, collective bargaining and tripartite and bipartite agreements on training. Partnership approaches are increasingly common when it comes to training workers, but are also used in other areas, such as health and safety.

In terms of training, both employers and unions aim for a well-educated, skilled workforce. Therefore they have significant ground in common and cooperation can benefit both parties. Another benefit of partnership is that it extends beyond unionised workplaces. It can involve partnership between a group of employees rather than a union and is therefore more widely applicable.

Actual training is also commonly provided today in partnerships between a wide range of institutions and stakeholders, for example, partnerships between employers and trade unions, between enterprises at the sectoral and branch level, and between small and medium-sized enterprises.



Good practice example:

A sector partnership: Overcoming the ICT skills shortage in Europe

With the support of the European Commission, a consortium of nine major ICT companies, (BT, Cisco Systems, IBM Europe, Intel, Microsoft Europe, Nokia, Philips Semiconductors, Siemens AG, Thales), and EICTA, the European Information, Communications and Consumer Electronics Industry Technology Association, has been exploring new ways of addressing this skills shortage. A project was set up to put in place a clear framework for students, education institutions and governments that describes the roles, skills and competencies required by the ICT industry in Europe.

The consortium developed generic skills profiles relevant to key jobs in ICT and created a dedicated website (www.career-space.com) to make this information widely available. The generic skills profiles presented on the website cover the main job areas for which the ICT industry is experiencing skills shortages. These core profiles describe the jobs, setting out the vision, role and lifestyle associated with them. The specific technology areas and tasks associated with each job are also outlined, as well as the level of behavioural and technical skills required to carry out the profiled jobs.

The consortium also worked with over twenty universities and educational institutions across Europe to develop new ICT curriculum guidelines. These guidelines are intended to assist the design of courses to match the skills profiles and needs of Europe's ICT industry.

Source: www.career-space.com

Joint declarations

Joint declarations between unions and employers' organizations serve to reinforce the message of both parties. Declarations underline the importance of the issue at hand and put the government under pressure to take action. Joint declarations can be a preliminary step towards partnerships and show the goodwill of both employers and unions—they are putting aside their differences to recognise the need to take action.

Good practice example:

International Organization of Employers (IOE) and the International Confederation of Trade Unions (ICFTU)

In 2003 the IOE and ICFTU sent a joint declaration on youth employment to the Director-General of the ILO:

'...the IOE and ICFTU are committed to working together to unite our efforts to try and arrive at solutions that will provide young people everywhere with opportunities for decent and productive work as stated by the UN Millennium Development Goals. We feel that the combined reach and global networks of our organization and their role as social partners could greatly enhance the ability of the ILO to make a success of this critical issue.'

The ICFTU and IOE aim to encourage governments in developing and transition countries to take a comprehensive review of their approach to youth employment and explore more effective ways to tackle the challenge by elaborating national action plans with their social partners. As part of our commitment both ICFTU and IOE will explore opportunities to identify joint action programmes. This will be done in partnership with our national members and will look to build on the efforts and initiatives taken to date, but will also at the international level, seek to both increase the profile of the problem as well as looking to increase the resources available to meet the challenge of addressing the issue.

The approach we have devised is a simple one, tripartite in nature and specifically concentrates on youth employment. Our concept is to develop a generic model, which could act as a guide in developing individual approaches to National Action Plans through social dialogue and the social partners. This activity would of course be carried out within the context of the Global Employment Agenda. We feel that this approach offers great potential for the ILO in assisting governments to achieve the development and implementation of national action plans on youth employment...'

Source: www.ilo.org

Contributing to a National Action Plan (NAP)

Following the “Resource Directory for Lead Countries of the Youth Employment Network” (interagency network composed of the ILO, the World Bank and the UN), “The Secretary-General of the United Nations encourages Member States to prepare national reviews and action plans on youth employment, either integrated into their National Action Plans on employment or issued as separate documents. In doing so, countries should make full use of existing data and statistics and involve young people and youth organizations in this process”.

Employers' organization can play an important role in the formulation and implementation of a National Action Plan: easy access to finance for entrepreneurs development of vocational qualifications frameworks, entrepreneurship development, etc. should be highlighted as concrete ways to address youth unemployment and introduced in the NAP.

Preparation Phase

In order to initiate the process several activities need to be conducted in preparation for the drafting and implementation of an Action Plan.

1. Identify the key stakeholders.
2. Set up a National Youth Employment Committee – NAP Secretariat and coordinating team which will liaise with all partners/stakeholders.
3. Establish a NAP Task team – a subset of the National Youth Employment Committee.
4. Set up a system to mobilize resources – political, technical and financial - for NAP development.
5. Identify the youth employment challenges in your country.
6. Appoint Working Groups to address the priority areas: Employment creation; Entrepreneurship; Employability; and Equal opportunity.
7. Review current and past policies and programmes on youth employment and assess what has worked and what has not; identify gaps and priorities.
8. Contact other Lead countries to gather more information, lessons learned and good practice examples.

Drafting – Consultation – Redrafting – Adoption Phase

Once a NAP governance structure is in place, relevant information collected and reviewed, the process of drafting can begin:

1. Make general recommendations on addressing the challenges, identifying priority areas.
2. Discuss the recommendations with the stakeholders identified through the NAP coordinating structure in various forums – workshops, meetings, roundtables.
3. Working Groups are formed, including relevant stakeholders, who are tasked with drafting policy recommendations.
4. Draft a NAP that incorporates the challenges identified and the policy recommendations proposed to address them.
5. Secure high-level sign-off on the NAP such as Presidential Decree or a Bill passed by Parliament.
6. Develop a long term proposal, building on the recommendations of the NAP and based on best practice examples identified.



Implementation – Monitoring – Evaluation and Revision Phase

The process does not end when the Action Plan is drafted and adopted. The Plan has to be put into practice so that the goals set can be met and surpassed.

1. Design and implement programmes/projects - putting the policies into practice, drawing on best practices shared through the partnership of Lead countries.
2. Combine national funding with funding proposals to mobilise resources from international and bilateral agencies, as necessary, to facilitate the implementation phase.
3. Monitor and evaluate the impact of the policies and programmes implemented. Identify gaps, problems, weaknesses and revise accordingly.

Youth Employment Action Plan in Serbia

Since 2007, the International Labour Office (ILO) has been assisting – through the Italian-funded project *Youth Employment Partnership in Serbia* (YEPS) – Serbian labour market institutions to build their capacity and design, monitor and evaluate an active policy on youth employment. This work resulted in the adoption by the Government of Serbia of the *Youth Employment Policy and Action Plan*.²¹

The policy development process was coordinated by the Employment Department of the Ministry of the Economy and Regional Development and is the result of the coordinated efforts of a number of Serbian institutions and agencies (Ministries of Labour and Social Policy; Education; Youth and Sport; Agriculture, Forestry and Water Management, the National Employment Service of Serbia and the Republic Statistical Office), the Serbian Association of Employers (SAE) and of the Serbian Trade Union Confederations and *Nezavistnost*.

The *Youth Employment Policy and Action Plan* was developed during a year-long capacity building programme that comprised the review of key labour market indicators, policies and institutions for youth employment; the identification of key problems for policy prioritization; the development of a framework to ensure a comprehensive and coherent approach to youth employment policy development; the design of objectives, targets and outcomes as well as the respective responsibilities of lead institutions and social partners; and the setting of costs, timeframe, coordination mechanism and monitoring and evaluation arrangements.

The *Youth Employment Action Plan* recognizes that employers, as providers of jobs, have a key role to play in the promotion of youth employment. Employers' actions – mobilized through their organizations – include encouraging companies to create new jobs through government programmes, establishing structured links between enterprises and schools and pooling resources to maximize enterprise-based learning. The Serbian Association of Employers directly support youth employment promotion in two areas: entrepreneurship education and training and the provision of targeted services for young entrepreneurs. The SAE is participating in the preparation of entrepreneurship curricula and teaching materials to be mainstreamed in upper secondary schools throughout Serbia. In addition, the Association developed a range of services and materials targeting young, potential entrepreneurs in setting up their business, (information and advisory services on taxation, regulations, liabilities and access to networking opportunities). Such work – aimed at contributing to the second objective of the *Youth Employment Action Plan* – resulted in the publication of a booklet (*How to start a business in Serbia*) and the design of an internet page linked to the employers' organization web site which also hosts an internet forum connecting young people and SAE experts.

²¹ The Action Plan on Youth Employment was approved by the Government of Serbia's Conclusion 05 Number 11-5709/2009 of 17 September 2009.

Resources to know more

For an overview of best practice policies on entrepreneurship and SMEs see: OECD *Small businesses, job creation and growth: Facts, obstacles and best practices*, www.oecd.org/dataoecd/10/59/2090740.pdf

ILO (2005) Employers' organizations and the promotion of small and medium-sized enterprises: Practical experiences from seven countries www.ilo.org

ILO (2006) *Stimulating Youth Entrepreneurship: Barriers and incentives to enterprise start-ups by young people*, www.ilo.org

IOE (2005) Approaches and policies to foster entrepreneurship: A guide for employers' organizations www.ioe-emp.org

IOE/ILO toolkit to develop outreach strategies to SMEs www.ioe-emp.org

World Bank (2005) Removing obstacles to growth: Doing business in 2005 www.worldbank.org

EU (2004) 'Labour market transitions and advancement: temporary employment and low-pay in Europe' in *Employment in Europe 2004* http://ec.europa.eu/employment_social/employment_analysis/eie/eie2004_chap4_en.pdf

For an overview of research on transitional labour markets see Schmid, G. and Schomann, K. (Eds.) (2003) *The concept of transitional labour markets and some policy conclusions: The state of the art*, tlm.net http://www.siswo.uva.nl/tlm/root_files/State%20of%20the%20Art.PDF

For an overview of both theory and empirical research on the Lump of Labour fallacy, see Börsch-Supan, A. (2002) 'Reduction of working time: Does it decrease unemployment?', paper for the 5th meeting of the Deutsch-Französisches Wirtschaftspolitisches Forum 1999, www.mea.unimannheim.de/mea_neu/pages/files/nopage_pubs/dp03.pdf

For an overview of the relationship between working hours and unemployment in OECD countries see OECD *Policy brief: Clocking in and clocking out: Recent trends in working hours*, www.oecd.org/dataoecd/42/49/33821328.pdf

Carcillo, S. and Grubb, D. (2006) *From inactivity to work: The role of active labour market policies*, OECD www.oecd.org/dataoecd/44/8/36945194.pdf

OECD (2005) *Policy brief: From unemployment to work* www.oecd.org

OECD (2005) OECD Employment outlook - Boosting jobs and incomes, Chapter 3: *Increasing financial incentives to work: The role of in-work benefits*, www.oecd.org

Schmid, G. and Reissert, B. (1997) 'Unemployment compensation and labour market transitions' in Schmid, G. et al. (Eds.) *International handbook of labour market policy evaluation*, Edward Elgar Publishing Limited, UK.

For an overview of the concept of employability by an employers' organization see CBI (2007) *Time well spent-A guide to embedding employability in work experience* www.cbi.org.uk

For another example of a phone survey on skills shortage see the one devised by the Government of New Zealand at www.dol.govt.nz/publications/jvm/skill-background.asp

For an example of lobbying by an employers' organization on all aspects of enterprise see UNICE (2005) *Let SMEs grow: European SMEs speak out their need for growth* www.unice.org



For more information on fostering entrepreneurship through education see the 2006 conference on *Entrepreneurship education in Europe: Fostering entrepreneurial mindsets through education and learning* <http://ec.europa.eu/enterprise>

For a review of different enterprise education programmes see ILO (2003) *Facilitating youth entrepreneurship: An analysis of awareness and promotion programmes in formal and nonformal education*, parts I and II, www.ilo.org

Ryan, P. and Büchtemann, C.F. (1997) 'The school-to-work transition' in (Eds.) Schmid, G. et al. *International handbook of labour market policy and evaluation*, Edward Elgar Publishing Limited, UK.

For a discussion on how different economic models explain the effects of national minimum wages on youth unemployment, including empirical evidence from various countries, see Ghellab, Y. (1998) 'Minimum wages and youth unemployment', *Employment Training Papers* 26, www.ilo.org

For an overview of the results of research on minimum wages between 1945 and 1995 see Joint Economic Committee, Congress of the United States (1995) *Fifty years of research on the minimum wage* www.house.gov/jec/cost-gov/regs/minimum/50years.htm

Schmid, G. et al. (Eds.) *International handbook of labour market policy and evaluation*, Edward Elgar Publishing Limited, UK.

OECD (1993) OECD Employment Outlook Chapter 3: *Making work pay, making work possible* www.oecd.org/dataoecd/62/59/31775213.pdf



Chapter 6

OTHER TOOLS AVAILABLE

This chapter finally focuses on other tools we have at our disposal for tackling youth unemployment.

Firstly, good practices will be on focus showing how to identify and spread them. Secondly, we will examine different ways of direct involvement.

6.1 Spreading good practices

One of the functions of employers' organizations is to keep their constituency up to date with the latest good practice to help them get more out of their business. Employers' organizations consider it as one of their duties to ensure the standard is kept high among their members (in fact, many employers organizations' will ask a member to leave the constituency if certain standards are not maintained or there has been serious misconduct).

Showcasing good practice may not be relevant to all factors affecting youth unemployment. All companies have to comply with employment laws and regulations. However, many employers will go further and undertake good practice in the absence of enforced legislation.

On the education and skills side of things, where employers usually only take voluntary action, spreading good practice can encourage employers to become (more) involved with young people and increase their employability.

Spreading good practice can be done in a variety of ways, but it always involves identification of good practice among members. For the employers' organization it makes business sense to seek good practice among its constituency.

After all, businesses will be pleased to have their good practice showcased and acquire/maintain a reputation as a good 'corporate citizen'. It will add to the value of their membership. Down a similar line, an employers' organization spreading good practice will be seen in a more positive light, particularly important in an age where businesses can be seen as only interested in making profits. Spreading good practice also positively influences the public image of an employers' organization, which helps it to gain influence. Finally, spreading good practice can be used as a lobbying tool, i.e. employers and their organization are taking action, but what are governments and trade unions doing?

When spreading good practice, it is important to showcase a representative sample of companies, i.e. representing a variety of sectors and different sizes. This will ensure that the good practice, in whatever way it is spread (publications, award ceremonies, etc) will be relevant to all businesses while at the same time clearly showing that the employers' organization is representing the private sector as a whole. This will add to the influence of the employers' organization by (further) solidifying its reputation as 'the voice of business'.

Businesses whose good practice is showcased can either be direct members, or indirect members of the employers' organization. For example, they could be the members of a trade association, which, in turn, is a member of the employers' organization. Approaching smaller employers' organizations in order to find examples of good practice can be very useful in ensuring a representative sample. In some countries, for instance, only larger companies tend

to be members of employers' organizations, with smaller companies being members of trade associations or employers' organizations which focus specifically on SMEs.

SMEs must be part of the companies showcased. They may not pay the most fees to the employers' organization or be household names, but, as a group, they often employ more people than big businesses. Secondly, many of tomorrow's big businesses, and well-paying members of the employers' organization, are among today's SMEs. Finally, and perhaps most importantly, SMEs work in a very different context compared to large businesses. Their good practice will be local rather than national, and probably more community-based. As SMEs have fewer resources, their good practice shows that all business can undertake good practice, not just the big players with the most resources.

Good practice can be identified using the employers' organization's networks. Usually members of staff will already have a good idea of which companies undertake good practice. Care must be taken, however, not to repeatedly showcase 'the usual suspects', which makes the employers' organization look like the 'voice of some businesses' rather than 'the voice of business'.

Good practice can be identified in numerous ways, including:

- Asking members with good practice to come forward in regular communications such as newsletters, e-bulletins, etc.
- Raising the issue in member committees
- Contacting member associations who have their own members
- Searching the web for existing publications and awards and checking whether the companies featured are members.

Once good practices have been identified, the employers' organization will wish to make in-depth studies, also called a 'case studies', of the actual good practice. Case studies are usually done in writing, but other mediums are also used, such as film or radio. Staff of the employers' organization can visit the company to collect material for the case study – face-to-face contact creates a stronger relationship than a phone conversation and allows the employers' organization to get a better idea of the action the company is undertaking.

A semi-structured interview, where the interview with the business is based on a questionnaire developed for this purpose but not rigidly adhered to, will help to obtain the right information while having a conversation that flows. It can be useful to record the interview if possible, and then transcribe it later on, to avoid missing any important details.

An important question to ask during case-study visits concerns the business case. If the business case for undertaking good practice can be illustrated, then other employers are more likely to become involved. This can be tricky in the Human Resources and employment field. However, the business case goes beyond the staff immediate impact on the financial bottom line. Reduced recruitment costs, increased retention, increased staff moral and motivation, and improved company reputation leading to competitive advantage in tenders, especially for public sector contracts, are but a few examples of why pursuing good practice is good for your business. Figures to illustrate the business case are always convincing but these can be difficult to calculate and, in their absence, good company case studies will inspire other employers. In addition, quotes by managers and employees (or apprentices, interns, pupils on work experience, etc) can make the case study more vivid for the reader.

Often, not all case studies will be suitable for using as a tool for spreading good practice. It can be useful to undertake more case studies than are needed, and then select the best ones.



Good practice case study:

Ridgeons Limited (UK)

The Confederation of British Industry (CBI) collected the following case study for a good practice guide on work experience.

Ridgeons Limited

Ridgeons Limited is a family-owned builders' merchants and timber processing operation in the East of England with 950 employees. The Ridgeons' work experience programme aims to create a local recruitment pool by raising awareness about the company and the employment opportunities it offers to school leavers. The company sees work experience "as a way of giving something back to the community by raising young peoples' aspirations and giving less academic students the chance to learn a trade".

Interview experience

Students put forward by local schools for placements are sent a letter by the company inviting them for interview. The interview is carried out by the manager of the branch where the student will be undertaking the placement. While there is no formal structure to the interview, the manager uses it to ascertain those areas of most interest to the student. This enables the branch manager, as much as possible, to offer a placement tailored to the student's preferences. The interview is also viewed as an opportunity for students to consider their attitude and self-presentation. *"Most work experience students don't have a clue about the appropriate manners and language to use in interviews with prospective employers, so we think that having an informal chat with them beforehand is beneficial"*, Ridgeons says.

Subsequently, the company writes to the student to offer a placement and confirm the start date, location, who to report to etc. The students are encouraged to confirm in writing their acceptance of the offer, thereby having the opportunity to apply their formal written communication skills.

Building understanding of employability skills

On the first day of the placement the students meet their branch manager, who runs through a health and safety briefing and introduces the students to the rest of the team and their assigned supervisor. The students are required, like all employees, to clock in and out each day. The branch manager explains the importance of the system for keeping track of staff during emergencies and how it works: *"I make it absolutely clear to the students that we expect good attendance and punctuality and that they should phone in if there is a problem"*.

During the two-week placement, the students are rotated between each of the three main areas:

- The shop-floor, where they are involved in stacking shelves, merchandising, carrying out stock counts and completing stock sheets, and shadowing employees dealing with customers on the shop floor and over-the-counter i.e. taking payment for goods
- Goods-in, where they help with checking deliveries against order notes, unpacking and storing deliveries, and delivering orders
- The yard, where they shadow employees dealing with customers.

The placement focuses to a large extent on dealing with customers. The students are given a briefing on why customers are essential to the business and how to respond to and deal with them appropriately. The students are encouraged not to shy away from customers. Instead, they are urged to explain who they are, that they are on work experience and that they will get an experienced member of staff to help the customer. The importance of a positive attitude is emphasised, with all employees taking responsibility for even the most basic of tasks. According to the branch manager, *"If the area supervisor sets a task like sweeping-up an area, this is put into context in terms of why it is important. Perhaps the tidiness is of vital importance for health and safety reasons or in terms of presenting a more professional image for the company"*.

Good practice case study (contd.)

The branch manager holds frequent meetings with students to ask them how things are going and what they have enjoyed and not enjoyed. At these meetings, the manager reinforces the importance of dealing with customers appropriately. The branch manager is very much focused on ensuring that the students' experience is as much like real work as possible. He ensures that the students take ownership for their conduct. For example, lateness and not tidying up after themselves are not tolerated and these matters are discussed with the students as they arise.

Providing feedback to students

Throughout the work placement, the student is required to complete a student record supplied by the school or local Education Business Partnership. The branch manager completes the evaluation section of the logbook during the placement. At the end of the two weeks, he holds a meeting with the student to discuss the placement and how the student thinks it has gone. As part of that meeting the manager gives the students feedback on their original pre-placement interview, their letter of acceptance and their overall performance during the placement. The aim is to be positive and provide constructive suggestions for areas of improvement. The manager may also outline the company's apprenticeship scheme if the placement has gone particularly well.

After the placement, the branch manager sends the students a letter thanking them for their contribution during the placement. The company sees this as important for the students' confidence.

Assessing the scheme

The major benefits of Ridgeons' work experience programme are that it identifies potential employees from the local community and introduces them to the opportunities available with the company. These are important given that the long-term career options and progression within the company are somewhat limited and many students today have higher aspirations. Ridgeons therefore seeks to get as many local students, particularly those with low levels of qualifications, into the work experience scheme as possible.

Equally important is the benefit to the company in terms of its public relations activities and image. Ridgeons is still a family owned business and has long formed an integral part of the community in which it operates – fundraising for local charities being a high priority. Raising the aspirations of local youngsters through work experience is seen as a fundamental way in which the company can contribute positively to the local community.

The branch manager also sees benefits in terms of personal development among his staff. He observes that *"employees who might initially view mentoring a work experience student as a burden generally feel they have made a valuable contribution to the student's placement and enjoyed working with them"*.

Source: CBI (2007) *Time well spent-A guide to embedding employability in work experience*
www.cbi.org.uk

There are many cases in which employers can be rewarded for good business practice while at the same time raising awareness of that good practice to other businesses. Publicising existing good practice means that good practice employer(s) and the employers' organization gain in terms of reputation. Young people also gain through the increased opportunities for work and training created by employers that have been encouraged and inspired by good business practices.

Below are some examples of how good practice can be shared with others:

- **Good practice guides** – these tend to consist of a number of good practice case studies. The case studies can be backed up by simple and clear guidelines for employers to follow, derived from the case studies. Employer survey results featuring interesting statistics can also be included. The guide can be distributed to employers for free, for example at a special launch event to which the press, relevant ministers and employers are invited.



Subsequently, the guide could be put on the employers' organization's website so that others can access it easily and download it for free.

- **Awards** – award ceremonies are another popular way of sharing good practice in a way that leads to potentially high levels of publicity. They involve setting up a panel of judges and encouraging members to submit nominations. The actual award ceremony can, for instance, involve a dinner, speeches by employers who previously won the good practice award(s), and the announcement of the winners.

Young people can also be involved in the ceremony. For instance, if an employer provides particularly good work experience, the students who participated in the work experience placement could set up a stall where they can showcase their work and where other employers can ask them about why the work experience was so successful.

Care must be taken with awards: if there are too many covering the same field, their value will diminish.

- **Fact sheets** – these are a faster, less resource intense way of spreading good practice than good practice guides and award ceremonies. They usually consist of one or several pages with easy, clear guidelines for employers, in addition to a couple of short case studies. The benefit of fact sheets is that, because they take so little time to read, they are good tools to use in the workplace. Of course, the fact sheets must be accessible, but this can be easily done by putting them on the web or by mailing them out. This will not be as costly as with a heavy good practice guide, for example.
- **Networking events** – these can vary in their size and the level of publicity they provide. For instance, both the launch of a good practice guide and an awards ceremony will attract employers interested in good practice and provide excellent networking opportunities. At the other end, regular employer committees run by the employers' organization can also provide a great platform for sharing good practice.

Good practice example:

Business Education for Salons Today (BEST)

BEST is a non-profit organization supporting the continued growth and development of the global hairdressing salon industry through recognition, publicity, advanced business education and resources. BEST's Global Salon Business Awards recognise and honour the world's leading hairdressing salon owners, whom have mastered the business, management, leadership and entrepreneurial skills necessary to enjoy business success.

Nearly 700 representatives of the professional salon industry attended the 2006 Global Salon Business Awards Forum and Awards. The awards ceremony followed three days of seminars, panels, educational forums and networking events. Industry leaders shared their experience and expertise on topics including strategy, globalization, brand and lifestyle marketing, creativity, inspiration and entrepreneurship. Nearly 80 salons, representing 21 countries, received the Salon Entrepreneur of the Year and Entrepreneurial Excellence awards.

Source: <http://salonbusinessawards.com>

Case: spreading good examples on recruitment and hiring practices

Well-functioning formal recruitment channels are an asset to both young people and businesses. While informal networks can help to find a successful candidate, they must never be the only way to recruit new staff. If recruitment is based on word of mouth, businesses are only able to access a limited number of young talented workers. Young people with plenty of talent will be unable to apply for available positions. It makes business sense to have access to the largest and most diverse recruitment pool possible in order to recruit the best person for a position.

The lack of formal channels of recruitment is also a barrier to tackling inequality. In many countries those from privileged classes run the wealthiest organizations. If they recruit using word of mouth, they are likely to recruit from their own social group, perpetuating the status quo.

To ensure all young people are able to apply for a position, good practice employers will:

- Have a standardised application process that all must go through, including those young people recommended via informal networks;
- Distribute job advertisements as far and wide as possible (on websites, in local and national newspapers, via the Public Employment Services, via the careers service of universities, etc);
- Ensure that all applications are judged on merit and not on other characteristics, such as name (which can indicate a particular social group), age, sex, race, etc. This can be done, for example, by removing the page containing these details from job applications before these are evaluated;
- Ensure that the interview is as objective as possible by having an interview panel of two or more rather than a single interviewer;
- Include a graded exercise before the interview. For example, an employer can check the basic skills of applicants for an office job by asking them to write a sample document. The skills of a sales person can be tested by providing a fictional customer profile and product description and ask candidates to describe how they would go about selling the product;
- Check that claims made on the CV and during the interview are true and follow-up references provided.

Good practice example:

Institute of Directors (IOD) (UK)

The guidelines below are adapted from the IOD's fact sheet *Directors Briefing on Recruitment*.

Finding candidates

Advertise externally, using a carefully written advertisement

- Advertise in appropriate publications. For example, target employees using national newspapers or specialist trade magazines. Unless you expect the candidate to relocate to your area, local newspapers may be the best option.
- The cheapest way to advertise is on your website. But this may be inefficient if your site does not attract enough visitors. You can also advertise on job sites such as www.monster.com. Use your industry's business portals to find sites that cover your geographical or business area.

Consider using an employment agency, preferably with experience in your business sector

- Agencies can be helpful when recruiting specialist or temporary employees, or recruits from skills shortage areas.
- Hiring temporary staff can be a good way to get to know employees before offering them permanent positions.

Build relationships with local schools, colleges and universities to attract promising candidates for trainee positions.

- Be ready to interview candidates when they start to look for work at the beginning of their final year.



Good practice example (contd.)

Attracting candidates

Carefully write your job advertisement, or agency brief.

- Model your own advertisement on the best advertisements for similar jobs.
- Describe your business. State what you do and where you are located.
- Detail the important elements of the job.
- Remember to mention attractive features. For example, explain what makes the job interesting and why your company is good to work for.
- Indicate the salary involved. Specify a range so that you can vary your final offer according to what a candidate seems to be worth.
- Include any training and promotion opportunities.
- State what you want from a candidate (e.g. indicate what experience is required).
- Tell candidates how to apply and what the closing date is for applications.
- Invite applications in a form that helps you assess each candidate. A CV and covering letter should give you the information you need to draw up an interview shortlist.
- Using your own application form can help you get more specific information, and provides an easier and fairer way to compare candidates.

Source: www.iod.com

Good practice example:

Youth employment: Making it happen tool

International Labour Organization (ILO) and the International Organization of Employers (IOE)

This tool is part of an ongoing effort by the ILO, together with the IOE, to strengthen the capacity of employers' organizations to engage in youth employment, especially in developing and transition countries.

The main purpose of this tool is to shed light on practical action and concrete programmes employers and their organizations, as well as other business associations, can undertake to promote youth employment. The tool, by selectively pulling together and systematically organizing examples of employers' and business initiatives on youth employment, aims to serve as a "bank of ideas" for employers and other business actors interested in pro-actively engaging in youth employment.

Source: <http://www.ilo.org/youthmakingithappen/>

6.2 Direct involvement

Awareness raising, lobbying and spreading good practice are indirect ways of taking action on youth unemployment in the sense that the employers' organization is asking others to take action. This section will look in more detail at how activities and initiatives undertaken by employers' organizations can have an impact on youth employment:

- Education business partnerships
- Skills collaboration
- Labour market information and careers advice
- Matching workers with jobs
- Technical assistance to young entrepreneurs

There are, of course, many ways in which employers' organizations can become more directly involved with tackling youth unemployment, and the list above is certainly not exhaustive.

Example:

Bureau for Employers' Activities of the ILO and employers' organizations in Cambodia, India, Indonesia, Nepal and Uganda - Project on Social Dialogue and Youth Employment

The Bureau for Employers' Activities of the ILO is running an interregional project on Social Dialogue and Youth Employment. The programme was launched in 2007 and is funded by the Norwegian Government. It addresses employers' organizations and aims at strengthening their influence and participation on national policies relevant to youth employment and to promote job creation through the implementation of practical measures and initiatives.

The programme currently has on-going activities in Cambodia, India, Indonesia, Nepal, Uganda and Vietnam (for more information *please refer to boxes in section on direct involvement*).

The country projects follow a similar three-pronged strategy focusing on the three following main areas:

- Knowledge and capacity building: diagnostic studies that identify the mismatches between the skills available through the education/training systems and the skills required by employers, measuring not only the current but also the future training needs in relevant sectors.
- Lobbying and advocacy: with the knowledge and capacity acquired from the surveys, employers' organizations influence the education and training systems at sectoral level to increase their relevance to the workplace.
- Tools and methodologies: direct services developed by employers' organizations for their members aimed at enhancing the employability and productivity of youth, including setting up mentoring and apprenticeship programmes, career guidance, employability skills and school-to-work programmes and business clinics for young entrepreneurs.

Source: www.ilo.org/actemp/

Education-business partnerships

Education-business partnerships are a great way for employers to influence the skills and attitudes of young people, and there are endless easy ways for employers' organizations and employers to become involved. Employers' organizations can themselves offer internships in the organization and participate in national vocational training systems and training programmes through interventions aimed at facilitating the transition of the young people to the world of work; moreover employers' organizations can also help their members in organizing effective work experience, internships and apprentices inside the companies by:

- establishing partnerships with schools and training institute;
- organizing training courses on how to train apprentices, how to form links with schools, how to widen recruitment channels;
- spreading good practice information on properly planning internships, work experiences and other activities;
- informing members on legislative developments related to (youth) employment issues.

Work experience

The most common way of becoming involved with schools and further and higher education institution is through work experience, which is one of the most resource intensive ways of engaging with schools.

Work experience placements tend to be relatively short, lasting from one to several weeks. During this time, the young person spends his/her days 'working' (generally without remuneration) in a real workplace. Schools will usually match pupils with work experience places offered by employers, but businesses can also influence which young person comes to their workplace. For



example, employers can ask all those eligible to participate in a 'recruitment process', i.e. write CVs and cover letters and, if selected to do so, undergo a recruitment interview.

Considering the short duration of work experience, employers often feel that a focus on employability skills instead of purely business knowledge greatly contributes to a work experience placement. A young person cannot be expected to gain in-depth business knowledge after a one-week placement. However, the placement can be very helpful in teaching young people more generic skills, such as presentation and behaviour in the workplace, team working, communication skills, etc. Moreover, in a few weeks it is difficult to gain job-specific skills but work experience can provide general business awareness and insight into a particular career.

Work experience is more worthwhile for young people and employers if both the employer and the school invest time not only in the actual work experience placement, but also in the preparation and the follow-up. If the young person only photocopies or brings around cups of coffee, neither the young person nor the business will benefit from the experience. A planned approach to work experience is often a feature of good practice work experience and tends to involve:

- Proper briefing by the school and the employer of the young person;
- Appropriate and high quality supervision;
- Knowledge of expected outcomes by both the employer and the student;
- Debriefing the young person at the end of the placement and providing feedback on how he/she performed (preferably in a standardised form so that it can be used by other employers interested in recruiting the young person later on).

Internships

While work experience placements are usually for young people in school, internships (or 'stages') are a kind of work experience mostly intended for students participating in, or having just finished, higher or further education. An internship is a work-related learning experience for individuals who wish to develop hands on work experience in a certain professional field. They are often organized through educational institutions. Most internships are temporary assignments that last approximately three months to a year and are project-based. Therefore internships, contrary to work experience placements, can provide students with in-depth company and business knowledge, and job-specific skills.

Interns are most often unpaid or given a stipend or living allowance. They are therefore a cost-effective way for companies to:

- Locate and train motivated students to fill immediate needs
- Convert student interns to full-time employees who can be immediately productive and do not require a lengthy induction period
- Assess each student's 'fit' with the business and evaluate the young person's ability without having to sign a binding and costly employment contract
- Generally improve recruitment and retention outcomes.

Internships are equally valuable to young people:

- While not officially 'employed', young people on internships are not 'unemployed' either, and are investing in their employability
- Internships help to ease school-to-work transitions: A successful internship is considered as proof of employability by the vast majority of employers. In many cases the business

providing the internship will offer a good intern a permanent job after completion of the internship, making the school-to-work transition even easier.

- Networking opportunities are gained that help young people locate jobs more easily.

Good practice in internships is similar to that in work experience, although good practice in internships also reflects good practice in employment (communication, management, training, etc). It is important that the internship is planned, including:

- Defining the project to be undertaken before the placement and communicating it clearly to the young person
- Clearly informing the student who he/she will report to and the level of supervision he/she should expect
- Providing clear information about the tasks that interns may be expected to perform and how their time will be divided between different tasks
- At the end of the placement, evaluating the performance of the intern, and communicating it to the intern in a way that other employers can use (for example, through the use of a standardised form or a recommendation letter).

Vocational education

Vocational education, or apprenticeships, plays a crucial role in ensuring that there are enough young people with technical skills. Vocational education is often partially classroom-based but many skills are taught directly by employers in the workplace. Sometimes apprenticeships take place entirely in the workplace, with employers overseeing all of a young person's training.

Therefore, business is directly involved in vocational education and the influence of employers on the future workforce is particularly strong. If employers teach young people well, then apprenticeships will deliver highly skilled and employable young people. Both employers and young people benefit from good apprenticeships and the business case for getting involved here is a very clear one. In many instances, young people, when they have finished their apprenticeship, will be recruited by the employer with whom they undertook their training. This is a win-win situation as the business is recruiting someone with all-important company knowledge and who is 'work-ready', thereby saving the company the trouble of recruiting and inducting a new employee. Meanwhile, the young person has made an easy school-to-work transition.

In many countries, businesses are suffering from skills shortages, in part because they are not able to provide enough training places for young people. This may not be because employers do not want to take on apprentices, but, for example, because it has become too costly or dropout levels are too high. There is therefore a need for employers to be encouraged to provide training places.

It is difficult to define universal good practice in apprenticeships as vocational educational systems vary from country to country, and apprenticeships will differ according to sector. However, it can be said that good practice employers taking on apprentices generally:

- Provide structured training
- Provide ample opportunities to develop knowledge and skills
- Provide ample supervision and support
- Are mindful that most apprentices are minors
- Provide a safe working environment.



Facts and figures:

On average for each Canadian dollar (CAD) invested in an apprentice, a benefit of CAD 1.38 accrues to employers, or a net return of CAD 0.38 (USD 0.32)

The cost benefit results indicate that apprentices begin to generate net benefits for employers by the end of the second year or earlier

Employers feel that there are important qualitative or non-monetary benefits associated with apprenticeship training. Specifically, hiring apprentices ensures that an organization has skilled labour and a lower turnover rate.

Source: Canadian Apprenticeship Forum www.caf-fca.org

Example:

Vietnam Chamber of Commerce and Industry (VCCI) and Bureau for Employers' Activities of the ILO - Youth Employment Project (2007 - April 2010)

In Vietnam, as in many other developing countries, decisions on public education and training are made by the Government. Linkages between education and training and industry are inadequately developed. Yet such links are especially important in a country like Vietnam where the economy is under going industrialisation and restructuring. Dialogue between the relevant government ministries and industry is needed to ensure that schools and other education and training institutions are producing graduates needed by businesses. Furthermore such dialogue would facilitate early and better actions to deal with manpower mismatches which are inevitable in a rapidly changing economy.

The Youth Employment Project in Vietnam (*please see box above on Bureau for Employers' Activities of the ILO and employers' organizations*) is implemented by the Vietnam Chamber of Commerce and Industry aims to strengthen dialogue with Government agencies on youth employment policies and to develop and deliver training and advisory services that contribute to increasing youth employment.

The project includes:

- **A Survey** which explores the demands of Vietnamese employers for young workers, their experiences of employing young people and the employers' views of education, training and skills levels.
- **A Work Experience for Schools programme**, which involves placing high-school students with local businesses to help develop their business skills as well as soft skills such as interview and writing techniques. The VCCI targets especially university students who need work experience.
- **An Employability Skills Programme**: In collaboration with the employers' federation of Singapore, SNEF, trainers are trained and later conduct their own training courses on Personal Effectiveness Skills and Communication and Team Work. By the end of June 2009, the VCCI project in Ho Chi Minh City had conducted 7 training courses on Personal Effectiveness and Communication and Team Work Skills for a total of 210 managers/team leaders of enterprises in Ho Chi Minh City and Southern area.

Source: www.ilo.org/actemp/

Good practice example:

Taylor Street Tea Rooms (Australia)

Taylor Street Tea Rooms, a small business in the hospitality sector, won the Minister's Award for Excellence 2004 (Central & South Eastern Western Australia). As a result, the Australian government put the following case study on its website.

Taylor Street Tearooms is a busy café/restaurant in rural Esperance, Western Australia. The business employs the equivalent of 20 full-time employees including five apprentices.

With the business' four owner/operators all working on the premises, the apprentices from Taylor Street Tearooms always have the opportunity to gain feedback and tune their skills.

"All four owners are an important part of the Taylor Street Tearoom business, so we all have a hand in the training of apprentices," said Ms Catherine West, who has been a manager since 1998 and a part-owner for one year now. "We can see first hand how apprentices are progressing. This allows us to identify strengths, weaknesses and issues as they happen."

Apprentices study via distance education as the nearest registered training organization is more than 500 kms away, with studies leading to a national qualification. However, Ms West is adamant that the isolated workplace is compensated for by a greater level of support for staff.

"As well as providing on-the-job training, we help out our apprentices with their studies, and monitor their progress closely. I think the fact that we have a happy and supportive workplace has really turned the business into a great learning environment as well," said Ms West.

Initiatives introduced by Taylor Street Tearooms include an incentive programme called 'play of the week' where staff nominate a workmate for exceptional commitment or initiative in the workplace. The staff member with the most nominations receives a AUD 30 (around USD 23) voucher.

Apprentices also often prepare the 'special of the day' so that they can gain practice preparing a particular dish.

"Extra responsibility and new challenges motivate the apprentices. This is contrary to the old-school belief that apprentices do years of boring chores before they progress to the more complex stuff," says Ms West.

Linda Brandenburg is in the fourth year of her apprenticeship with Taylor Street Tearooms. She is grateful for her opportunity, and believes that the apprenticeships programme is essential for isolated areas like Esperance.

"I really enjoy the adrenalin of being a chef and working in a busy kitchen. The staff that I work with at Taylor Street Tearooms are fantastic and I appreciate the responsibility that they give me," said Linda.

"The apprenticeships programme is important for our local area as it provides opportunities to gain a national qualification and receive great on-the-job training. Normally, I would have to head to a larger city to get an opportunity like this, so I really do appreciate my job."

Source: Adapted from www.australianapprenticeships.gov.au



Good practice example:

National Confederation of Entrepreneurs' (Employers') Organizations of Azerbaijan Republic (ASK)

ASK has undertaken different kinds of measures for entrepreneurship education and managers training. First, in 2006, with the support of the ILO, ASK conducted a school-to-work transition study (SWTS) in eight regions of Azerbaijan. One of the aims of the survey was to identify the role played by employers in the development of youth as skilled employees. ASK also implemented several entrepreneurship projects based on ILO tools such as "Start and improve your business" (SIYB) and "Know about business" in the framework of the "Increasing employability of young men and women and other marginalized groups through entrepreneurial skills and education" programme. Initially, 15 trainers, selected among teachers of vocational and technical training institutions, were trained under the KAB programme. Subsequently, following a request put forward by the Ministry of Education of the Azerbaijan Republic, ASK was involved in the training of trainers process in selected educational institutions. Graduate trainers were then involved in the implementation of the KAB programme in two regional vocational and technical training institutions.

In order to improve the efficiency of its operations, the Azerbaijan Employers' Confederation established the *Managers Training Centre*.

Source: <http://www.ask.org.az/>

Skills collaboration

Employers' organizations, because of their vast networks, can enable employers to pool and share resources, thereby achieving economies of scale on a wide range of undertakings, including those involving training. Both employers' organizations and employers can set up skills collaboration arrangements to maximise not only the quantity of young people trained, but also the quality of the training.

There are many types of skills collaboration arrangements. Some of them can include:

- **Larger employers sharing their training premises with SMEs** – SMEs are often keen to train but have no suitable resources in terms of space and equipment
- **Pooling apprentices** - many SMEs find it difficult to commit to the full term of an apprenticeship (three to four years). For instance, most small construction firms are unlikely to have contracts of that duration. This problem can be overcome by larger employers sharing apprentices with suppliers or partner organizations for the duration of a project. This can also benefit the individuals involved through the opportunity to gain experience of working in a range of firms.
- **Partnership between employers and universities** – for instance, a consultancy firm could lecture students, and the university could provide the company with the most up to date training methods and material
- **Learning in supply chains** – this occurs when individual firms in the chain help their suppliers, and sometimes their customers, to improve their performance and develop their own capabilities.
- **Training levies** – these also fall under skills collaboration agreements, as they allow employers to pool their resources so that all are able to train, not just the larger firms.

Good practice example:

Employers' Confederation of the Philippines (ECOP)

ECOP's Big Enterprise/Small Enterprise Productivity Improvement Programme, BESE-PIP (originally called the 'Big Brother/Small Brother Programme'), is a twinning programme between large and smaller enterprises. It is a productivity-based supplier-partner programme designed to develop and maintain a long-term profitable working relationship to bring customers and suppliers closer together to draw from each other's areas of strength, and develop manufacturing techniques based on human capital.

The programme is designed to eliminate adversarial relationships where big corporations leverage their way to success by negotiating their small suppliers and subcontractors into submission. The trust generated by the BESE-PIP helps to bring about a smooth transition into the next generation of products and services, creating a collective advantage for many companies and reducing the need for redundancies and creating jobs through increased productivity.

In each region involved, larger companies provide some of their management staff as trainers on the programme, who then work closely with National Workforce Productivity Commission (NWPC) consultants. The small enterprises provide the trainees, from targeted categories of employees. These attend a productivity attitude course for three months of the programme. During the second three months, the trainees are taught plant layout and process flow. The management of the small enterprise then coordinates the implementation of improvements back in the workplace. In turn it is hoped that the small enterprises can eventually start productivity and production skills courses for the micro-enterprises who supply them.

Source: ILO (2004) Employers' organizations and the promotion of small and medium-sized enterprises: practical experiences from seven countries www.ilo.org

Good practice example:

Corporate partnership with CIDA University (South Africa)

CIDA is a business university set up to help black youngsters who leave school without any decent job prospects. Corporate partnership is key to the success of CIDA. CIDA's corporate partners provide support in the following ways:

- Funding the institution, specific programmes, CIDA schools of excellence, or the CIDA community outreach programmes
- Sponsoring student scholarships. Platinum, Gold, Silver and Bronze partnerships are available (students study for free but upon graduating are asked to pay for the fees of another student)
- Sponsoring accommodation
- Donations including computers, equipment, food, books, clothing, and materials
- Building infrastructure for academic facilities, office space, and residential use
- Teaching and lecturing
- Tutoring and mentoring.

Not only does the private sector have a strong partnership with CIDA, in fact, CIDA's founding partners were companies: Puregas, Monitor Company and Investec Bank. Numerous other companies are involved in partnership, including: Investec Bank, First National Bank, Dimension Data, Kelloggs Foundation, MTN, T-Systems South Africa, PriceWaterhouseCoopers and BATSA.

Sources: www.cida.co.za

Sean Coughlan (2005) University for South Africa's poor www.bbc.co.uk



Good practice example:

Cambodian – employers tackle youth unemployment

In Cambodia, young people are two to three times more likely than adults to find themselves unemployed. One of the main causes of such youth unemployment is the mismatch between demand and supply of skills in the labour market.

In 2007 the Federation of Employers and Business Association - CAMFEBA, embarked on a project to tackle youth unemployment. The Project is a joint-initiative between CAMFEBA and the ILO-Bureau for Employers' Activities under Social Dialogue programme (see box above). To ensure that the social partners play a strategic role in promoting youth employment, CAMFEBA set up a tripartite Project Advisory Committee, whose members are representatives from the Government, employers, trade unions, NGOs, universities and donor agencies.

The Youth Employment Project aims mainly to promote better dialogue between all relevant stakeholders so that they can jointly address the youth unemployment issue in Cambodia by promoting income opportunities for youth through matching supply and demand in skills in the labour market.

Main activities:

- Developing knowledge base
- Public advocacy
- Youth employment network and facility
- Employability skills training program
- Networking

Source: YEP website www.yep.camfeba.com/

Labour market information (LMI) and careers advice

Employers' organizations are best placed to inform young people about the current and future requirements of employers. While LMI can be made available directly to young people by employers' organizations, for example by putting it on the web, it can be easier and more efficient to use the networks of existing job facilitation organizations such as Public Employment Services, professional careers' advice organizations, university careers departments, and so on. These organizations are particularly useful when it comes to hard-to-reach groups, such as young people who are not in work or training, and are therefore outside any institutional framework through which they might receive LMI and careers advice.

Employers' organizations can further collaborate with job facilitation services by, for example, informing them of the best way to collect job advertisements directly from employers, how employers like to be approached by speculative applicants, and what kind of information employers are looking for on CVs and application letters.

Good practice case study:

Steel and Engineering Industry Federation of South Africa (SEIFSA)

SEIFSA's FUNDI training centre not only provides training to apprentices and other learners, but also advice and guidance to both companies and young people. Young people either contact the training centre directly (usually via email) or are directed to the centre by SEIFSA.

The FUNDI training centre gives advice to two different groups: young people interested in pursuing a career in engineering and those already working in the industry but desiring to continue their education. Both groups look mainly for information on qualifications. The training centre not only provides advice on its own apprenticeship training, but also on that provided by universities and further education and training (FET) colleges.

Companies can obtain guidance and advice from the centre on how to take on an apprentice. While this information is on the web, the centre has found that many firms, particularly smaller firms ones, require a deeper understanding of how the system works.

SEIFSA also provides scholarships and technician bursaries to selected engineering students.

Source: www.seifsa.co.za

Good practice example:

Federation of Uganda Employers and Bureau for Employers' Activities of the ILO

The project focuses on addressing the challenge of inadequate education and training in meeting the requirements of the job market through provision of labour market information, policy influence for vocational training reform, occupational skills profiling, career guidance, mentoring and institutional capacity building. The Federation of Uganda Employers (FUE) organized a series of activities including:

- Advice and support to companies to develop youth employment policies.
- Award companies promoting youth employment during the Employer of the Year Award.
- Identification and dissemination of good practices through the media (monthly supplements).
- Study to identify the skills gap between the education system and the skills requirements by employers in the manufacturing, Hotel & Tourism and Agro-processing sectors.
- Development of employer's policy guidelines on Vocational Education Training to educational institutions and employers.
- Orientation workshops for heads and teachers of vocational/education institutions on the labour market skills requirements.
- Identification, orientation and placement of industrial training trainees and apprentices and monitor performance.
- Career guidance culmination in the formation of Youth Clubs – structuring apprenticeship programmes, mentoring etc.
- Dissemination of labour market information in the media (news paper supplements).

Source: www.ilo.org/actemp

Matching workers with jobs

Using their networks among employers, employers' organizations can help to match supply and demand in terms of jobs. There are two key ways to do this:

- By establishing a job bank
- Job brokering



Job banks

Job banks can be created relatively easily on the web, with employers feeding in their vacancies through an automated process and applicants responding directly to the employer. Therefore, besides setting up the website and maintaining it, an electronic job bank can require relatively few resources but have a significant impact on the access young people have to jobs. A job bank is also likely to benefit many businesses, particularly smaller ones which may not have the resources to widen their recruitment channels in order to find the right young person for the job.

Job advertisements can also be posted in relevant places, such as universities, schools, and other education institutions and relevant organizations. Many of these may have their own job bank into which employers' organizations can feed vacancies.

Of course, for a job bank to be effective, both businesses and young people must be aware of its existence and value. An information campaign can be a useful tool to achieve this. In addition, the job bank must be user-friendly and efficient if it is to make a real impact.

Job brokering

Job brokering goes a step beyond job banks, in which the employers' organization can have minimal involvement. Employers' organizations that act as brokers actively match worker profiles with job descriptions. This way, employers' organizations improve the employment chances of (young) workers by facilitating their integration into the labour market.

However, by working in partnership, employers' organizations can contribute to effective job brokering in an easier and less resource intense manner. For example, employers' organizations can work together with Public Employment Services to find positions for unemployed youth. Employers' organizations have a large network of employers which Public Employment Services, usually the government agency placing the unemployed, lack. On the other hand, Public Employment Services have access to the young unemployed, which employers' organizations do not. By allowing Public Employment Services access to its networks, the employers' organization can help to match supply and demand in terms of young workers.

Down a similar line of thinking, employers' organizations can also play a role in education-business partnerships by, for instance, linking up young people (or their schools) looking for work experience and companies providing placements. In this type of situation, the employers' organization effectively becomes a broker in education-business partnerships. Alternatively, they can work together with 'education-business partnership brokers', which exist in many countries.

Good practice example:

Italian Union of Chambers of Commerce (Unioncamere)

In partnership with the Italian Ministry of Labour and the European Union, Unioncamere established a labour market and training information system, EXCELSIOR, implemented at the national level in 1997 following successful pilot projects. Based on a sample of more than a thousand companies and using a computerised database containing information both qualitative—i.e. type of profession most in demand—and quantitative—i.e. number, sector, location and turnover rates of enterprises—the system predicts where jobs will become available over the next two years. The system provides local authorities, decision makers and private and public labour market and training organizations previously unavailable information on enterprises' skills demand.

Sources: www.unioncamere.it

Good practice example:

Korea Employers' Federation (KEF)

KEF provides the following services to its members:

- Placing skilled employees at no cost
- Counselling on job searching
- Placing experts in various fields such as finance, marketing, overseas sales, personnel, planning, production, management, etc.

Source: <http://eng.kef.or.kr>

Technical assistance to young entrepreneurs

Direct involvement with enterprise and budding entrepreneurs is relatively common among employers' organizations. In fact the more business assistance a young entrepreneur obtains in the start-up and new business phases the better his or her chance of creating a successful and sustainable business. Again, there are numerous ways of getting involved. Some of these include the following:

- Training schemes (for young entrepreneurs). Young entrepreneurs require tailor-made training and counselling pertinent to their particular start-up situation, their business and the sector it operates in. In many cases, there is a lack of on-the-job training focusing on technical aspects of starting up a business (business plan preparation, project formulation, start-up administration, procedural details, forms, duration, what to do and in what order, accountancy, taxation, etc.)
- Providing networking opportunities through, for example, young entrepreneurs' forums. These tools can help young entrepreneurs in exchanging information, finding business partners and in entering in supply chains.
- Helping young entrepreneurs with good business ideas obtain credit by, for instance, assisting them with writing a good business plan and linking them up with investors.
- Mentoring programmes and business coaching. Formal or informal mentoring is probably the most beneficial service and support that can be offered by larger business and employers' organizations to a young entrepreneur. It refers to relationships designed to provide young entrepreneurs with informal advice and guidance from experienced professionals. (see for instance, the good practice example on ECOP in the above section on *Skills collaboration*).
- Consortium type organizations where, once a potential member's business plan has been approved, a young entrepreneur can join a peer-type collective institution and through this, for example, access loan guarantees or low interest credit.
- Facilitating the access to trade fairs and exhibitions (e.g. through reduced charges). This enables young people to present their product and services and to find clients, business, partners and networks.



Good practice example:

Croatian Agency for Small Business (HAMAG)

HAMAG was established in 2002 as a legal successor of the Croatian Guarantee Agency, with the goal of encouraging small business creation and growth. HAMAG's target group includes SMEs, sole traders, crafts producers, co-operatives, agricultural businesses and freelancers having residing in Croatia, which it supports through loan guarantee schemes.

In collaboration with the Croatian Ministry of Economy, Labour and Entrepreneurship (MELE), HAMAG implemented the school cooperatives and training firms grant scheme. This scheme is aimed at primary and secondary schools. The goal of the project is to promote entrepreneurship awareness in schools. A grant scheme co-finances partial costs of specialization workshops and seminars for teachers, furnishing facilities and purchasing equipment necessary for the work of school cooperatives and training firms.

Again in cooperation with MELE, HAMAG has implemented the target groups grant scheme, which is aimed at women entrepreneurs who own 51% or more of the company, young entrepreneurs aged 30 or less, start-ups that have been in business for up to two years, and disabled entrepreneurs. The maximum grant to entrepreneurs is €10.000 (around USD 13,000).

The project:

- Finances activities that involve education and consulting services
- Provides consulting services during foundation and start-up
- Provides partial coverage of registration and foundation costs
- Assists with the creation of strategic and operational business plans
- Covers IT education costs.

Source: www.bamag.hr

Good practice example:

Jamaica Employers' Confederation (JEF)

The Jamaica Employers' Confederation officially launched a Young Entrepreneurs' Association (YEA) in 2006. JEF received advice from its Mexican counterpart COPARMEX, which had already taken significant action in this area. The YEA is a volunteer-driven, non-profit association incorporated under the JEF. The stated purposes of the YEA are to:

- Promote entrepreneurship as a viable option for youth
- Provide services specific to this segment of the enterprise market
- Represent young entrepreneurs
- Lobby government and give a voice to the concerns of young entrepreneurs.

The benefits of joining the YEA include:

- A peer mentorship programme
- Access to JEF membership services and benefits
- Access to a member-to-member discount programme
- Networking opportunities among young entrepreneurs
- Access to business development and expansion resources.

The JEF also launched the Jamaica Youth Employment Network (JYEN) in September 2005.

Source: www.jamaicaemployers.com

Good practice example:

Nepalese Young Entrepreneurs' Forum (NYEF)

The Nepalese Young Entrepreneurs' Forum (NYEF) was officially set up by the Federation of Nepalese Chambers of Commerce & Industry (FNCCI) in 2003. It aims to promote an entrepreneurial mindset and a shared vision through effective networking of young entrepreneurs. Specifically, the initiative has the following objectives: help young entrepreneurs in Nepal build fruitful and productive business networks and links among one another; and help them gain a better insight into the present status of key business sectors of tomorrow.

Source: www.nyef.org.np

Resources to know more

For more information on partnerships see EIRO (1999) Assessing the significance of partnership agreements, www.eurofound.europa.eu/eiro/1999/07/feature/uk9907214f.html

ILO (2006) The effective employers' organization: A series of 'hands-on' guides to building and managing effective employers' organizations, www.ilo.org

For more information on skills collaboration and good practice case studies see CBI (2005) *Employers collaborating to raise skills in supply chains and clusters* www.cbi.org.uk

ILO (2004) Employers' organizations and the promotion of small and medium-sized enterprises: Practical experiences from seven countries www.ilo.org

ILO /IOE (2007) Youth employment: an electronic resource tool for employers www.ilo.org/youthmakingithappen

IOE (2005) Approaches and policies to foster entrepreneurship: A guide for employers' organizations www.ioe-emp.org

The Shell Livewire website is a great source for all information on starting up a business. It provides free advice, toolkits, information specific to an entrepreneur's business plan, a local Shell Livewire contact, and organization awards for 16-30 year-old entrepreneurs. For more information see www.shell-livewire.org

APPENDIX

THE ILO'S INTERNATIONAL LABOUR STANDARDS

Depending on institutional frameworks and the inclination of governments, it can be difficult, as an employers' organization, to fully exercise influence. If the government does not consult properly or collective bargaining is impeded, the ILO's legal instruments can help employers' organizations have their voice heard.

Tripartite consultation

Consultation of employers' organizations can take place through various mechanisms, including some of those described above: training and employment boards, commissions, and consultations. There are several important instruments that promote tripartism and can help employers' organizations to ensure that government adequately consults them. The main International Labour Standards (ILS) are:

- The Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144), which has been ratified by 120 countries.
- The Tripartite Consultation (Activities of the International Labour Organization) Recommendation, 1976 (No. 152).

The purpose of Convention No. 144 is to promote tripartism and social dialogue at the national level through ensuring the involvement of e

1. Items on the ILO conference agenda

These include governments' replies to questionnaires on agenda items (e.g. on youth unemployment, on what constitutes an employment contract, the right to freedom of association, etc.) and their comments on draft texts. The final content of the replies and comments remains governments' responsibility, but employers' organizations and unions must be able to provide input.

2. Ratification or implementation of ILS

Any decisions on whether to ratify or implement an ILS must be done in consultation with employers' organizations and unions.

3. Re-examination on unratified ILS

Any re-examination of unratified conventions and recommendations must likewise be done in consultation with the social partners.

4. Reports to ILO on implementation of ILS

Upon ratification of a convention, member States must report to the ILO on its implementation in law and practice on a regular basis. Employers' and workers' organizations should be consulted before each report on ratified conventions is finalized and forwarded to the ILO.

5. Denunciation of ratified ILS

If a country wants to end its obligations under a convention, the government should consult employers' organizations and unions before making a decision.

While Convention No. 144 requires consultation on the five specific ILO-related matters, Recommendation No. 152 suggests other issues that could be the subject of consultation:

1. ILO technical cooperation activities
2. Resolutions and conclusions of ILO conferences and meetings
3. Promotion of better knowledge of ILO activities.

The choice of type of consultation is left to each country, with employers' organizations able to request consultation on particular topics. Types of consultation set out in the Convention include:

- Committees (as described earlier)
- A body with general competence in the field in question (a training board, for instance)
- A number of bodies with responsibility for particular subject areas (for example maritime affairs, occupational safety and health, social security)
- Written communications (such as the consultation procedure described earlier)
- *Ad hoc* committees and meetings.

However, Convention No. 144 is more prescriptive when it comes to other aspects of consulting:

All consultation must be effective and meaningful

Consultation means more than just providing information: it should mean that the voice of the employers' organization is being heard. The consultation should provide government with relevant information to make informed decisions.

Consultation must be with representative organizations

Representative organizations are independent employers' and workers' organizations that enjoy the right of freedom of association. Not only should the largest organizations be consulted, but all those representing a significant body of opinion on the issue under discussion.

Employers' organizations and unions must be represented equally

Employers' and workers' organizations are to be represented 'on an equal footing'. This does not mean that the number of representatives is the same, but that the view of each side is given equal consideration.

The government makes the final decision

The aim of the consultation is not that all parties reach agreement. The consultation procedure may set the objective of reaching a consensus, if it so wishes. The social partners are not bound to support the final government decision or position, and can communicate their views and comments directly to the ILO.

While Convention No. 144 deals with national tripartite consultation strictly on ILO standards-related activities, because these standards cover the large majority of employment and labour issues at a national level, the convention can be a useful tool in making sure the employers' organization's voice is heard.

Good practice example:**The Government of Trinidad and Tobago**

The following case study is adapted from ILO *Tripartite Consultation: Ratify and apply Convention No. 144*.

The Government of Trinidad and Tobago established a tripartite committee in 1996, which is called *The ILO 144 Tripartite Consultations Committee*. Its members comprise individuals with expertise in economic, social and labour issues. Through its regular monthly meetings and subcommittee meetings, the Committee undertakes thorough technical examination of national law and practice in light of conventions being considered for ratification. Examples include Conventions Nos. 138 and 182 on child labour. In its deliberations, the committee consults with the relevant stakeholders in order to obtain their views on the ratification and implementation of conventions. In the case of the Nursing Personnel Convention, 1977 (No. 149), the committee met with nursing representatives of various institutions. The committee also liaises with experts and resource persons relevant to its discussions.

Source: www.ilo.org/ifpdial

Many other ILS, if ratified and implemented, also impose the obligation on governments to consult employers' organizations, including in the field of employment policy and promotion, vocational guidance and training, labour administration, etc.

For example, the Human Resources Development Recommendation, 2004 (No. 195) states in:

- Paragraph 11 (1) that 'Measures should be adopted, in consultation with the social partners and using a national qualifications framework, to promote the development, implementation and financing of a transparent mechanism for the assessment, certification and recognition of skills, including prior learning and previous experience, irrespective of the countries where they were acquired and whether acquired formally or informally.'
- Paragraph 15 (c) that countries should 'Identify, in consultation with the social partners, roles and responsibilities of employment services, training providers and other relevant service providers with respect to vocational and career information and guidance.'
- Paragraph 19 that 'Members should, in consultation with the social partners, and taking into account the impact of data collection on enterprises, support and facilitate research on human resources development and training, which could include:
 - a) learning and training methodologies, including the use of information and communication technology in training;
 - b) skills recognition and qualifications frameworks;
 - c) policies, strategies and frameworks for human resources development and training;
 - d) investment in training, as well as the effectiveness and impact of training;
 - e) identifying, measuring and forecasting the trends in supply and demand for competencies and qualifications in the labour market;
 - f) identifying and overcoming barriers to accessing training and education;
 - g) identifying and overcoming gender bias in the assessment of competencies;
 - h) preparing, publishing and disseminating reports and documentation on policies, surveys and available data'.

Collective bargaining

ILS cover not only consultation of employers' organizations, but also collective bargaining. As in the case of consultation, ILS can be a useful tool in ensuring that employers' organizations are able to effectively bargain with trade unions.

One of the most well-known and widely ratified conventions that relate to collective bargaining is the Right to Organize and Collective Bargaining Convention, 1949 (No. 98) which says that countries should encourage systems of voluntary negotiations to regulate terms and conditions of employment through collective agreements. Several other conventions and recommendations complement Convention No. 98, including the Collective Bargaining Convention (No. 154) and its accompanying Recommendation (No. 163). While Convention No. 98 provides that member States should promote voluntary collective bargaining, Convention No. 154 and Recommendation No. 163 show how it can be done in a practical way and how the right to bargain collectively can be effectively exercised.

Convention No.154, ratified by 38 countries, states that collective bargaining covers all those negotiations that take place between, on the one side, an employer, a group of employers or one or more employers' organizations, and on the other side, one or more workers' organizations, and which:

- Determine working conditions and terms of employment; and/or
- Regulate relations between employers and workers; and/or
- Regulate relations between employers or their organizations and a workers' organization or workers' organizations.

Moreover the Convention 154 calls for the promotion of collective bargaining in all branches of economic activity, including public service. It states that in those countries that have ratified and implemented the convention, measures adapted to national contexts should be taken to:

- Make collective bargaining possible for all employers and all groups of workers
- Extend collective bargaining progressively to working conditions and terms of employment, regulation of relations between employers and workers, regulation of relations between employers or their organizations and a workers' organization or workers' organizations
- Encourage the establishment rules of procedure agreed between employers' and workers' organizations
- Prevent collective bargaining being hampered by the absence of rules governing the procedure to be used or by the inadequacy or inappropriateness of such rules
- Ensure that bodies and procedures for the settlement of labour disputes contribute to the promotion of collective bargaining.

ILS on collective bargaining are cross-referenced in many other conventions and recommendations, which can also be used as way to put pressure on governments and unions who are not open to hearing the voice of business. For instance, the Private Employment Agencies Convention, 1997 (No. 181) states that its provisions 'shall be applied by means of laws or regulations or by any other means consistent with national practice, such as court decisions, arbitration awards or collective agreements' (paragraph 14.1). Article 12 of the same convention states that countries must determine and allocate, in accordance with national law and practice, the respective responsibilities of private employment agencies in relation to collective bargaining, among other employment related issues, such as minimum wages, social security benefits and access to training.

Enforcement of ILS

Employers' organizations have several different ways of expressing the lack of observance of ratified ILS on consultation and collective bargaining. Firstly, once a country has ratified an ILO convention, it has to report regularly on measures it is taking to implement it. Depending on the convention, reports generally have to be made every two to five years. Governments are required to submit copies of their reports to employers' organizations and trade unions. These

organizations can comment on the governments' reports and can also send comments directly to the ILO.

Secondly, there is ample opportunity for employers' organizations to make a direct complaint to the ILO. A complaint may be filed against a member state for not complying with a ratified convention by:

- Another member state which ratified the same convention
- A delegate to the International Labour Conference, i.e. an employers, trade union or government representative
- The ILO Governing Body, also consisting of employer, worker and government representatives.

Following a complaint, the Governing Body can set up a commission of inquiry to carry out a full investigation of the complaint. This is the ILO's highest-level investigative procedure, generally set up when a member state is accused of committing persistent and serious violations and has repeatedly refused to address them leading to recommendations on measures to address the problems raised by the complaint.

When a country refuses to fulfil the recommendations of a commission of inquiry, the Governing Body can take action under article 33 of the ILO Constitution. This provision states that "[i]n the event of any Member failing to carry out within the time specified the recommendations, if any, contained in the report of the Commission of Inquiry, or in the decision of the International Court of Justice, as the case may be, the Governing Body may recommend to the Conference such action as it may deem wise and expedient to secure compliance therewith."

Example:

Article 33 was invoked for the first time in ILO history in 2000, when the Governing Body asked the ILO Conference to take measures to lead Myanmar (Burma) to end the use of forced labour. One of the measures taken involved asking all the ILO's constituents by letter that they review their relations with Myanmar and ensure that such relations do not perpetuate or extend the system of forced labour in that country, and to report back to the ILO Governing Body.

In February 2007 the ILO announced that it had concluded an understanding with the Government of Myanmar designed to provide, as previously requested by the ILO Conference and Governing Body, a mechanism to enable victims of forced labour to seek redress. According to the understanding, alleged victims of forced labour in Myanmar will have full freedom to submit complaints to the ILO liaison officer in Yangon. The liaison officer will then make a confidential preliminary assessment as to whether a case involves forced labour, so that cases can be investigated by the Myanmar authorities and appropriate action taken. The understanding incorporates guarantees that no retaliatory action will be taken against complainants.

Source: www.ilo.org

Sanctions (of a non-economic nature) have so far been applied only in exceptional cases. Enforcement usually takes the form of naming and shaming in the international community as complaints are raised in the ILO's annual committee of experts on the application of conventions and recommendations, consisting of employer, workers and government representatives around the world. Generally, if there are any major issues, the ILO will provide technical cooperation to help solve the problem.

In conclusion, employers' organizations are a valuable source of information for the ILS supervisory system. And while the enforcement system of the ILO is sometimes considered as weak, it is a useful tool for the legal evaluation and correction of cases of non-compliance.

Resources to know more

For a guide to Convention No. 144 see the ILO's *Tripartite Consultation: Ratify and apply Convention No.144*, www.ilo.org/ifpdial

For the complete list of ILS see the ILO website
www.ilo.org/public/english/standards/norm/index.htm

For a guide to Convention No. 154 see the ILO's *Convention No. 154 Promoting collective Bargaining*, www.ilo.org/ifpdial

For the complete list of ILS see the ILO website
www.ilo.org/public/english/standards/norm/index.htm

Wisskirchen, A. and Hess, C. (forthcoming) *The employers' handbook on ILO standards-related activities*, ILO. (Unfortunately this publication is not available of the web. Participants can contact actemp@ilo.org if they would like a copy).

ILO website's section on ILS www.ilo.org/public/english/standards/norm/applying/index.htm

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USEFUL INFORMATION SOURCES

Economics A-Z <http://economics.about.com>

Economic Forum's website www.weforum.org

European Industrial Relations Observatory On-line (EIRO) www.eurofound.europa.eu/eiro

Global Entrepreneurship Monitor (GEM) www.gemconsortium.org

ILO: The complete list of ILO's international labour standards www.ilolex.org

ILO: Key Indicators of the Labour Market www.ilo.org/kilm

ILO: Employment protection legislation database, <http://www.ilo.org/dyn/terminate/>

International Institute for Management Development (IMD) website www.imd.ch

McKinsey Global Institute www.mckinsey.com

Youth Employment Network (YEN) www.ilo.org/public/english/employment/strat/yen

Shell Livewire website www.shell-livewire.org

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