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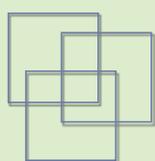


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ILO Asia-Pacific Working Paper Series

Choosing and assessing local youth unemployment interventions

Jude H. Esguerra
December 2009



Subregional Office for South-East Asia and the Pacific
Manila

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Foreword

Youth unemployment and the difficulty of transiting from school to work has been a persistent and significant problem not just in the Philippines, but throughout the Southeast Asia and the Pacific region. A number of policy and programme initiatives have been introduced to address youth unemployment problems including provision of labour market information, skills training and upgrading, online job-matching, nurturing of entrepreneurship skills, etc. All these initiatives benefit from the political will of different stakeholders and often require both large sum of money (usually taken from national budget appropriations where they have to compete against other urgent priorities) as well as human resources and the energy to sustain each initiative. Despite all these programmes, the problem of youth unemployment persists. This might lead one to pose questions such as: “are we doing the right thing?”, “what types of youth-oriented and labour market initiatives would lead to employment creation?” and so forth.

In order to ensure these initiatives and reforms impact on young people and their lives in a positive and tangible manner, there is a need for a greater understanding of the nature of the environment that such initiatives are designed to address. As well as understanding the dynamics of the labour market, an important first step is to know the current profile of young people entering the workforce for the first time. This study is a response to that need and was commissioned by the ILO through the *Promoting Youth Employment in the Philippines (PYEP): Policy and Action Project* to assist policy makers (especially those operating within local government units who interact most often with young people needing work) in analyzing the real situation of the youth today in their locality: their needs, aspirations, and constraints, etc. so that officials and social workers can target and prioritize particular youth groups in greatest need, better address the problems they face and craft value-for-money solutions, measures, and/or youth investment options.

As always, we at the ILO Office hope that this initiative can be used by other local government units (LGUs) towards better understanding of the youth and employment challenges in their locality for them to craft effective and efficient measures to address youth unemployment.

Linda Wirth-Dominice
Director, ILO-SRO Manila

Preface

The Philippines was one of four countries selected for an initial three-year phase of the International Labour Organization's Action Programme for Decent Work under an agreement signed in 2002 between the local tripartite partners.¹ Promoting youth employment is one target outcome under this Decent Work Country Programme (DWCP) specifically under Pillar 2: "creating employment opportunities for men and women."²

CIDA Philippines through its Private Sector Development Fund provided a grant to pilot-test the youth employment project in the Philippines. The PYEP project aimed at capacitating relevant stakeholder institutions to assess the state of the labour markets at both the national and local levels, identifying employment growth areas that would provide opportunities for current and future youth, and its various segments. These segments were identified as: (i) students; (ii) the employed youth (including those that were self-employed); (iii) the unemployed job-seekers; and (iv) those not in the workforce.

Finally, armed with the knowledge of current and potential future opportunities, the project sought to foster the necessary conditions to realize such opportunities. An important component of this was recognition of the need to promote entrepreneurialism among the youth and a series of training modules were introduced and piloted in specific localities designed to encourage youth to think of themselves as micro entrepreneurs.

Importantly, the project disaggregated the factors and conditions surrounding youth unemployment from the more general unemployment and underemployment problem facing the Philippines and fostered the realization among stakeholders that this was indeed a separable problem that required its own specific set of interventions in order to resolve. Unemployment during a person's early working years can discourage a person and reduce self-esteem. This often leads to a lifetime of unemployment or underemployment and wasted potential for the country.

To make the programme implementable and measurable, the project management team dovetailed its project strategy with the ongoing effort of the ILO Manila to promote local development and decent work in other areas.

Thus, there were a number of activities funded under the youth employment project that were carried out to address broader targets of the DWCP and which were co-funded through other allocations: for instance promoting local development and decent work (such as developing the studies linking youth employment to local economic development strategies) and also funds allocated for promoting gender equality in employment.

Eight pilot locations were selected partly on the basis of recommendations of the Department of Labor and Employment (DOLE)–Bureau of Rural Workers which the DOLE assessed as showing already some level of success based on implementation of other national flagship programmes including those on poverty reduction. The final decision was also made on the basis of an assessment of the ILO Manila as to the openness of the LGU leadership to work with the ILO in this regard.

Policy research was undertaken which led to consequent technical discussion and advocacy activities conducted to harness multi-sector support for a policy and action agenda that would complement, replicate, disseminate and scale up the delivery of tried and tested employment support services for youth throughout the country. These policy research papers are integrated into this set of working papers.

National and local partners participated in a series of ILO-organized advocacy and learning forums and were oriented in the ILO entrepreneurship tools (KAB, GYB/SYB, and GET AHEAD) which

¹ See for example http://www.unwire.org/unwire/20020514/26368_story.asp (accessed 21 November 2009).

² See for example ILO, 2006 *From Pilot to Decent Work Pilot Programme*, Geneva; available online at http://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/publication/wcms_079471.pdf (accessed 23 November 2009).

were pilot tested in 48 secondary schools throughout the country as well as in TESDA-administered schools.

Knowledge materials were produced to assist both institutional partners and target youth beneficiaries during and after the project period while documentation of the supported demonstration projects helped in disseminating lessons and facilitated replication of good practices by other parties. Three of these are incorporated into this working paper series: the Briefing Guide; the Operations Guide; and the Independent Evaluation Report.

Finally, ILO-CIDA-PYEP supported projects were developed to create immediate and limited scale of demonstration effect on jobs, incomes and decent work status of target youth segments. These were piloted in select localities using ILO tools and expertise which generated results favourable to intermediary local institutions and target youth beneficiaries. These demonstration projects were useful for improvement, replication and scaling up.

These particularly covered:

1. For Angono – five projects anchored on art tourism including: (i) arts exhibits; (ii) traditional animation and artistic training, (iii) souvenir items development and culinary arts, (iv) souvenir items development using recycled materials, and (v) tour guide training and transport-aided tourism promotion that directly enhanced skills translated to jobs and income opportunities for 110 young artistically inclined youth.
2. For Concepcion – one project anchored on eco-tourism titled “LGU and Youth Employment Generation Capacity on Tourism Development” that enabled 20 youth direct beneficiaries duly screened and selected, from the different barangays of the town to acquire through structured learning opportunities necessary attitude, exposure and skills to start, grow and sustain in a business-like manner the operations of an LGU tourism services shop, This will indirectly benefit 400 local potential and existing artisans and entrepreneurs.
3. For Cotabato City – one project on enabling a Muslim youth-run organization to prepare and expand its business service lines to include blueprinting services on top of established computer and photocopying service lines; in effect creating additional opportunities for the organization’s target out-of-school-youth; and enabling employed out-of-school-youth to earn incomes sufficient to cover for their needs and for costs in pursuing a short vocational/technical training course of their choice.
4. For Davao City – one project enhancing the employability factor of targeted disadvantaged youth in the city such as the out-of-school-youth and the job seeking unemployed youth technically inclined to engage in jobs in the hotel and restaurant industry, building electrical wiring trade and metal arc welding trade. The programme provided for skills training, testing and certification; entrepreneurship orientation, personality development, post-training employment services, and a mechanism for employers’ feedback on programme participants.
5. For Dumaguete – one project enhancing values, industry/trade skills and entrepreneurship base of local unemployed graduates. As an adjunct to this, the city provided two tracks of post-training employment facilities services for the youth. One track is geared towards getting trainees employed in the labour-short but high-paying Business Process Outsourcing-Information and Communication Technologies (BPO-ICT) sector as well as in hospitality and automotives sectors. Another track is geared towards enabling these young people to start-up their own service shops.
6. For Guimaras Province – two different projects with the first one supporting employability and actual employment of 50 local youth for housing sector jobs; the second one complementing resources mobilized by the provincial government to implement an integrated set of employment interventions based on identified gaps and action points from the youth employment planning workshop.

7. For La Castellana – one project affording young people and their parents in comprehensive agrarian reform programme (CARP) whose long pending land disputes case have been finally settled and thus ready to respectively invest in the development of their respective lands with entrepreneurship orientation, training and post-training support services.
8. For Marikina City – provided the city with technical (e.g. feasibility studies) and brokering (e.g. between BPO firms and Marikina LGU) services to complement the overall efforts of the LGU to organize a fully functioning one-stop-shop labour market centre capable of delivering a comprehensive set of employment services for the city with a special focus on the more disadvantaged youth segments.

These projects served as a deciding point for LGUs and stakeholders to mainstream youth employment policy and action points in local development planning, budget and administration processes. The second set of papers in this series provides case studies that highlight how the ILO-sponsored interventions complemented local economic development initiatives in each of these eight areas and the result obtained.

The evaluation report concluded with a note that the PYEP is clearly just a beginning; that it has managed to establish momentum that can be carried on by the project partners with or without further project support. It underscored the challenges facing all the partners involved, the local governments, the partner non-governmental organizations (NGOs), the schools and training institutions, the employer groups, trade unions, national government agencies, and the international development institutions involved (ILO and CIDA), that is to do what is necessary to ensure that such momentum is not dissipated.

This series of working papers provides a record of the project outcomes and a benchmark from which to assess the longevity of the interventions.

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List of acronyms

ADB	Asian Development Bank
ALMPs	Active Labour Market Programmes
BLES	Bureau of Labor and Employment Statistics
BPO	Business Process Outsourcing
CDA	Cooperative Development Authority
CIDA	Canadian International Development Agency
CRBB	Cooperative Rural Bank of Bulacan
DILG	Department of Interior and Local Government
DOLE	Department of Labor and Employment
EO	Executive Order
FIES	Family Income and Expenditure Survey
GNP	Gross National Product
GPU	Gami Pubuduwa Upadeshaka
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
LMIS	Labour Market Information System
LGU	Local Government Unit
MEDA	Micro-Enterprise Development Assistance
NATCCO	National Confederation of Cooperatives
NCC	National Credit Council
NCR	National Capital Region
NGO	Non-Governmental Organization
NOVADECI	Novaliches Development Cooperative
NSO	National Statistics Office
OSY	Out-of-School-Youth
PAHRDF	Philippine Australian Human Resource Development Facility
PCEDO	Provincial Cooperative and Entrepreneurial Development Office
PCFC	People's Credit and Finance Corporation
PESO	Public Employment Service Office
PGMA-TWSP	President Gloria Arroyo-Training for Work Scholarship Programme
PYEP	Promoting Youth Employment in the Philippines
QC	Quezon City
RA	Republic Act
REECS	Resources, Environment and Economics Center for Studies, Inc.
SBCC	Sikap Buhay Entrepreneurship and Cooperative Development Center
SBFC	Small Business Finance Corporation
SPES	Special Programme for the Employment of Students
SSS	Social Security System
SUCs	State Universities and Colleges
TESDA	Technical Education and Skills Development Authority
TNS	Taylor Nelson and Sofres
WAP	Work Appreciation Programme
YIPS	Youth Investment Promotion Society

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Acknowledgement also to Enrique Villanueva and James Esguerra for the research assistance provided to the author and the ILO Employment, PYEP, and Publication Teams for providing the overall coordination in delivering this knowledge product.

A note on spelling conventions

In accordance with the practice of the International Labour Organization (ILO) this document follows the general spelling conventions as laid out in the Oxford Dictionary. Where two or more alternative spellings are allowed, we normally apply the first such spelling.

Exceptions are made for proper names. Thus we use the general term of “labour market” and “labour scenarios” but “Department of Labor and Employment” and “Labor Code of the Philippines.”

³ Clustered in five digits ending in 5 and 0.

Choosing and assessing youth unemployment interventions

by

Jude H. Esguerra

1 Introduction

A study of the cost effectiveness of programmes that address youth unemployment necessitates a number of steps:

1. Disaggregating the unemployed youth from total unemployment.
2. Understanding the causes of involuntary unemployment among the youth.
3. Laying down appropriate responses to such market failures.
4. Assessing existing public interventions in terms of the extent to which these respond to these failures.
5. Assessing the cost of public interventions, including any remedial measures necessary.

This paper intends to address these issues and is organized accordingly.

The first section distinguishes between voluntary and involuntary unemployment among the youth and argues that programmes must be directed addressing the causes of involuntary unemployment.

The second section discusses market, financial, locational, and training failures that result in involuntary unemployment among the youth.

The third section lays down a menu of appropriate responses—both programmes and policies—to such failures. It looks into existing programmes (assessing the extent to which these address market or policy failures) before attempting to evaluate the cost of providing such services.

Finally, section 4 discusses remaining gaps—missing programmes that may be considered for introduction to solve, or at least ameliorate, current problems and reduce the extent of involuntary unemployment.

Our case study work is based on an analysis of the youth unemployment situation in two locations: Quezon City, a highly urbanized area within Metro Manila and the province of Bulacan, just north of Manila. Bulacan is a mix of rural, residential, and industrial areas.

The primary survey work was undertaken in 2006 and 2007.

2 Understanding youth unemployment

There are known characteristics of youth unemployment around which any project needs to be shaped. It is important to ascertain whether and to what extent youth unemployment is of a structural nature and therefore a social problem requiring public intervention, and the extent to which it is a temporary labour market imbalance capable of sorting itself out through normal market forces.

An important distinction needs to be made at the outset between involuntary and voluntary unemployment. A state of involuntary unemployment exists when people in search of work are not qualified for those opportunities that they encounter. They wish to work but are unable to do so. Involuntary employment is particularly prevalent among younger workers.

By contrast, young people are said to be voluntarily unemployed where they are between jobs or in situations where they can afford to wait to acquire work that matches their long-term career aspirations, location preferences, and desired income-levels. Those who are voluntarily unemployed are said to choose leisure or alternative activities (such as home care) over the exertion of effort that employment requires; in that sense, unemployment is viewed as a deliberate choice.

Young people who lose their jobs may pursue further opportunities for acquiring skills and credentials (if their families have the means) even as they make themselves available for employment opportunities that are, at least, as good as their previous employment. This too, would be considered as voluntary unemployment, and there is nothing that needs to be done.

When one young person chooses not to take on a job that is offered, there would normally be many others who are qualified and willing to take it. In such situations the only social cost is the additional cost to the worker who has to exert extra time for job search, and who has a smaller budget for leisure.

Beyond the distinction between voluntary and involuntary unemployment, it is also important to specify situations when the more socially desirable direction of policy would be to provide households the means to keep young workers out of the labour force and into schooling, rather than to help them find employment that is below their potential, should they be able to complete their education.

3 Causes of involuntary unemployment and choice of programme interventions

When unemployment is involuntary, there are usually limited degrees of freedom that constrain directional change; usually, governments are already pursuing policies that seek to maximize employment without triggering a general rise in prices that often result in situations where there is a labour shortage.

Involuntary unemployment may, however, still occur even where the economy has a healthy demand for workers.

3.1 Information and signalling failures

Involuntary unemployment may occur simply because job seekers remain uninformed of job opportunities offered by employers. They may not know what kinds of jobs are needed and where they can apply their skills. Young people are often unsophisticated and typically lack information about the compensation and job categories that their education and limited experience can fetch. Thus, if young job seekers sense that opportunities open to them are, and will remain, limited until they have acquired more experience and more training, then they will be better equipped to assess their marketability.

Beyond access to information, labour market signals may not have been getting through either to households or training and educational institutions. Individuals, often guided by parents or other relatives, may choose the “wrong” courses that may not be useful to employers in their area or they may find themselves achieving a level of education that falls below the minimum requirements of many desirable jobs.

The educational system may also be part of the problem in as much as it is unable or unwilling to adapt existing curricula or develop new curricula and provide the skills and education needed at the workplace.

3.2 Mismatch between skills and opportunities

Involuntary unemployment may happen where there is a mismatch between skills that the unemployed possess and those that are in demand. Several different factors can account for such a mismatch.

3.2.1 Failure in the training and educational system

A mismatch occurs when the educational system fails to deliver the minimum capabilities that are needed by the economy—and especially by an economy embedded in highly demanding global markets where production technologies are constantly changing.

A mismatch of skills and opportunities, however, may also happen because training and educational systems (both on the side of the service providers and on the side of households that do the enrolling) may not be sensitive to labour market signals, or those signals are not there at all. Because of lag effects inherent in training, today's demands may have already been met by the time, new entrants seek to acquire the needed training. By that time, the demand will have shifted elsewhere. This constant shifting of the goalposts requires an approach to education and training that is dynamic and lifetime oriented. Recognition of this is as important for educational institutions as it is to individuals.

At the present time, training systems are often supply-driven and may not be linked to industry stakeholders at all. Furthermore, when enrolment is free and competition among training service providers is limited, trainees tend to take whatever is on offer, especially in a price-sensitive market; choice is driven by price rather than information. Individuals need to understand the market and seek out training that would make them readily employable.

3.2.2 Tendency of firms to under-invest in training

There can also be important labour market failures, particularly in the incentives that firms need in order to provide training. Because training can be both firm- and industry-specific as well as broad-spectrum, firms often tend to under-invest in the more general skills that could be seen to benefit competitors, who might tend to poach highly trained staff from others.

If such a market failure is acute, it can result in the severe under-provision of training that the private sector may in fact be best placed to provide and finance. This can create a market bias among firms who will tend to hire older and more experienced workers, thereby exacerbating the problems of youth unemployment.

3.2.3 Locational problems or failures

Locational problems can also account for mismatches of supply and demand for skills. For a variety of reasons, often associated with changing demographics, companies sometimes find themselves located in places to which workers do not wish to relocate. Workers are, of course, mobile and in an almost seamless global economy, it is wage differentials across locations that determine whether workers with particular skills are attracted in sufficient numbers to specific locations where there is a demand. One example of this at the present time can be found in the mining industry where until recently, global demand was such that experienced personnel could readily find work overseas that was both better-paying and offered more by way of lifestyle, than employment at remote locations in the Philippines.

Mining is an extreme example; other examples can be found where firms have invested and located in particular areas only to find the demographics shift over the course of a generation to the point that a once abundant supply of local labour finds more profitable employment elsewhere. This happens frequently in areas that are changing from rural to urban/industrial or where populations are aging. While firms must discover for themselves whether there is a need for them to relocate to another region if they cannot raise local wages to levels sufficient to attract needed staff, this situation can, in certain instances, be mistaken for a mismatch between available jobs and skills. Such problems can sometimes be eased through a dialogue between industry and the training institutions whereby the latter can themselves be 'educated' to better meet the demands of the local market.

3.3 Labour regulation effects

There are also failures in some areas of labour regulation that exacerbate the problem of youth unemployment. Labour regulations can sometimes have a perverse effect on the behaviour of firms

and workers. Rules on the minimum wage (and on the ceiling wage in the case of health professionals in the public sector) and regularization of employment—creating market inflexibility—are two important examples that are further discussed.

3.3.1 Regulations on minimum wages

Regulations specifying a minimum wage that is applied indiscriminately without regard for the experience of a worker can prevent firms from entering into contracts that have the potential to solve a firms' underinvestment in training; whereas firms can and do adjust wages downwards so that training given to new workers is, in effect, financed by the workers themselves. The enforcement of the minimum wage can limit the attractiveness of taking in young workers without any prior work experience.

In such cases, firms would prefer to wait for older and more highly skilled applicants to apply in the belief that these would be more productive and require less supervision, even if there are trainable youth applying for work. Employment of young people is seen as an unacceptable 'risk'.

3.3.2 Rules on regularization

This can also lead to perverse effects, causing frequent episodes of joblessness by people who are temporary hires and a disincentive for employers to provide training to non-regular workers who must be dismissed before it becomes mandatory for the firm to regularize them as permanent staff. On the other hand, knowledge that hiring is only temporary acts as a disincentive for workers to excel at their job; many would prefer to mark time knowing that no matter the effort they make, the end result, retrenchment, will be the same.

3.4 Financial market failures for human capital build-up

Involuntary unemployment may occur where despite investment into education and training by governments, individuals or the private sector, fail to create a supply situation that matches the demand of the market. Simply put, investments are made but they are misdirected.

The study of failures in financial markets for human capital build-up is very important, especially since such failures appear to be endemic. In the Philippines, it is difficult to secure loans without collateral, regardless of the viability of a project. Households with limited cash must rely on relatives (so-called intra household transfers) to finance training and education.

The failure of financial markets to match investments that poor households might want to make is also found in the limited windows for financing entrepreneurial initiatives of the poor who cannot provide the collateral for their small loans; this is where Grameen-type approaches become important as a solution to financial market failures that are a cause of unemployment. Because talent and labour are the assets that the poor have in abundance, the failure of financial markets to match the demand and the supply for capital that would allow the poor to develop these assets must count as being among the most important long-term problems that need to be addressed.

Projects—whether in terms of investments in either human or productive capital that will result in the creation of new employment—that can earn a good return, ought to be deserving of finance without reference to the current income status of a person. The reality, however, is that there is a strong correlation between the ability to offer collateral and the wealth—in monetary terms—of a household or of an individual. This is one of the most important mechanisms for the transmission of inequality, where those who have, will tend to have even more and those without, will never be able to rise from their poverty trap. The problem is exacerbated by the perception that the poor have little ability to properly manage funds that are advanced to them and that any money received will be spent without regard to the need eventually to pay it back. This suggests that, among the poor especially, there is a great need to teach basic financial management skills.

3.5 Poverty and vulnerability to shocks and involuntary employment

Employment opportunities can of course also be a problem, especially if it induces people to take their children out of school as in the case of child labour or undesirable employment undertaken due to poverty and which makes individuals vulnerable to shocks in later life. In other words,

those who should not be part of the labour force may be looking for jobs out of desperation. The need for immediate income outweighs the need to invest in the future. This kind of employment is usually a product of poverty and, invariably, a result of limited financial means resulting from the lack of cash at the household level that would leave sufficient reserve to sustain desired investment levels in schooling. In such situations, the only immediate remedy is a cash subsidy paid to keep children in schooling.

But shocks may also affect the non-poor. It may be the result of limited mechanisms for insuring against or mitigating household income-shocks so that the loss of income of the family breadwinner leads to the deployment by the household of secondary income earners, including young people who are forced to leave school. The shock here is not poverty *per se* but the prospect of falling into poverty as a consequence of loss of income that result in an inability to sustain a way of life. One manifestation of this may not be inability to put food on the table but, rather, inability to meet credit card debt. Either way, the problems have the same effect on those affected.

The best assistance in such instances may not be those programmes that make it easier for young people to find employment, but rather those that enable them and their households to correct the situation by other means. Income- or education-support for youth and re-training programmes for unemployed heads of households can be just as important in addressing the premature entry of youth into the labour market as direct assistance to the youth themselves.

During the Asian Financial Crisis of 1997–98 for instance, priority access to wage subsidies through the *Special Programme for the Employment of Students* (SPES) was given to students whose parents became unemployed because of the crisis. While such a programme was implemented during school vacations and helped increase the total income of households, an even better programme would have been one that created employment for heads of households; either those that increased access to financial resources (e.g., from pension entitlements) or those that even only temporarily reduced the opportunity cost associated with sending children to school—e.g., school feeding programmes, student loans etc.

4 Assessing public interventions on youth unemployment

This section begins the attempt at assessing the cost-effectiveness of public programmes that seek to address unemployment problems among the disadvantaged youth. However, such an assessment is not simple because often, public programmes are ‘pre-existing’ and were not designed according to the above framework. There is no one-to-one correspondence between programmes and the perceived need or problem. They may in fact be designed to meet problems that are no longer there but once established, take on a life of their own.

In the absence of a clear matching of *programmes* to *needs*, this paper simply assesses existing programmes in terms of the extent to which, as currently designed and implemented, they address present needs and at what cost. Table 4-1 provides an overview or a map of ‘problems’ and ‘available responses.’

Table 4-1: Identified problems and current responses to youth unemployment

Problems	Responses: Public	Responses: Private	Remarks
Applicants have only limited information about vacancies, remuneration, and costs associated with employment that make it difficult to gauge net benefit (remuneration less costs).	Job fairs, job-solicitation by PESOs for job-matching services. Labour Market Information System (LMIS), Manpower Registry and Skills census.	Workers' gradual acquisition of information through experience in job-search. Labour services agencies that recruit for firms. Worker-owned labour service cooperatives seeking employment contracts for members. Firms faxing vacancy information to PESOs. University-based placement agencies. Commercial, internet-based placement service.	Pre-screening and pre-employment seminars by PESO reduces hesitation on the part of the worker and increases confidence of employer. LMIS reach remains limited; company profiles are not available; job vacancies solicited by PESOs are not uploaded to the employment database.
Under investment in youth training by the private sector.	Wage subsidy via the <i>Special Program for the Employment of Students</i> (DOLE) to provide job experience for young workers. A firm's accreditation in the DOLE's apprenticeship programme allows firms to pay young workers less-than the mandatory minimum wage.	Some firms do subsequently hire young workers who they employ initially under the SPES, though the extent to which this is done is not monitored by PESO. Firms are under no obligation to retain workers hired under the apprenticeship programme.	Leakage is reduced because DOLE provides that workers from poor households be given priority. Cost-effectiveness is difficult to assess due to absence of records on skills acquired.
Locational problems—there is a high cost associated with out-of-town job search and employment.	Bulacan PESO deals directly with out-of-town work force services and implements screening, preliminary interviews and even medical clearances (for a time) to limit the cost and duration of out-of-town excursions for job applicants. TESDA regional centres have dormitories but these are mainly for trainees.	Pier one Center for Seafarers who are in-between jobs (Manila). Cheap bed space near workplaces in Calabarzon.	Mobility allowances (transportation and board and lodging) for job search are needed. Tighter coordination between PESO and out-of-town work force service providers to localize pre-screening to reduce required job search costs.
Regulation on minimum wage may be creating a bias against youth employment.	DOLE accreditation of firms apprenticeship programmes.	Application for exemption from coverage e.g., firms with less than 10 workers.	A separate minimum wage for young workers could also work. The extent to which the minimum wage is a binding constraint on youth employment is not known. It would be binding where minimum wage laws are strictly monitored and enforced.
Rules on regularization of workers inadvertently increase the churning and unnecessarily shortens the period of employment.		Emerging practice of giving priority to contract workers who previously worked for the company.	The most common practice in formal sector firms is still that of terminating employment before mandatory regularization. Other countries have more flexible definition of "regular workers" called in during peak production periods and for a minimum number of days per year.
Financial market failure for human capital build up and entrepreneurship since banks do not normally lend without collateral.	Grants from TESDA, including those facilitated by congressmen; Socialized tuition fees in some universities; Grameen-type group loans for the self-employed and entrepreneurial women, with training in leadership and enforcement supported by LGUs—Sagip-Buhay in Quezon City. This programme makes up	Inter-household transfers (scholarships for nieces and nephews) sponsored by relatives working abroad. Cooperative Banks on-lend concessional funds from national sources. Schools of business and entrepreneurship deploy students and trainers to	Better targeting of available grants is important. There is generally little use of education loans in the country. More than 12,000 women have been reached by Grameen-type programme in Quezon City. Most of the work generated is in the form of self-employment for the applicant and family members. Only one-third of the

Problems	Responses: Public	Responses: Private	Remarks
	for the inability of banks to lend without collateral.	support business plan development and implementation.	beneficiaries are aged 18 to 35, in part because young people would tend to seek out wage-earning occupations before thinking of becoming entrepreneurs.
Poverty and vulnerability to shocks – when income and employment shocks affecting of the head of household pushes secondary income-earners and young workers into the labour force and out-of-school.	SSS salary loans, PhilHealth coverage but this would be available only if a worker (at least one in the household) is still employed. Food-for-work programmes implemented during droughts and also in periods of post-conflict reconstruction in Mindanao. Labour-based equipment supported public works construction.	Inter-household transfers, these are either altruistic or in the form of loans. It is known that (up to a point) such transfers cover contingencies of sickness, death, and joblessness. Separation pay for workers (heads of households), though this is not available for non-regular workers and is not always easy to enforce.	Off-season, non-farm job search for rural workers can be a very critical coping mechanism for the poorest households. Workers in other countries are able to draw from future pension entitlements during bad times and replenish the same during good times. Food-for-work and labour-based infrastructure projects have been deployed massively in other countries to address rural and seasonal unemployment, not yet in the Philippines.

Source: Compiled by author

Public responses need to be examined side-by-side with actual and feasible private responses and gauged for effectiveness. While the situation may differ from place to place, if job matching services, for instance, are being provided by the private sector or for specific kinds of job-seekers and employers, duplication of effort by the public sector should be avoided. The caseload of Public Employment Service Offices (PESOs) can thereby be reduced or the can be refocused on towards niche activities that are desirable but which are not being undertaken by private providers.

By way of example, PESOs may be most adept at soliciting information about local job vacancies and at providing pre-employment training, screening, and referrals and feedback programmes for educational and training institutions.

PESOs, especially in provinces that are not highly urbanized, may also need to start paying greater attention to specific categories of young workers in their locality that have difficulty finding employment. Most often, these are the youth from surrounding rural areas who did not complete high school.

An empirical analysis in this paper shows that rural youth who did not finish high school have difficulty looking for work, more so if they try to look for employment in the urban areas (those seeking non-farm incomes) during the lean agricultural months. This finding is also supported by the experience of the Bulacan PESO itself, where it is generally presumed that young jobseekers who did not finish high school will have a difficult time being employed within the formal sector. This is a most important fact that should alert public institutions to prioritize young people who would like to return to school and finish their secondary education or who wish to enrol in vocational courses. Such a system is not yet working, however.

PESOs may have a role in disbursing mobility allowances⁴ for poor job-seekers, since they are already involved in facilitating job-matching for out-of-town opportunities and in screening applicants in other programmes so that youth from poor households get the benefit from available public programmes. Income screening is done, for instance, in the case of the SPES. This is achieved by providing grants to job-seekers who can repay the amount loaned, once they work.

⁴ An allowance that allows them to travel and search for work outside of their home area.

While local variants exist, the broad range of problems that need to be addressed is similar throughout the country. What differs from one province to another is the extent to which these problems affect unemployed youth. The labour force surveys undertaken by National Statistics Office (NSO) provide insufficient sample size at the province level to provide reliable information about the provincial level picture.

The PESO which operates at the local government level throughout the Philippines could with little effort, bring together the following information:

- Disaggregated information from the Department of Education (DepEd) regarding high school dropout rates, so that this information could be mapped down to the local level.
- Disaggregated information from the civil registry about births to young couples in the poorest barangays to supplement information about need and future demographic trends that might impact on the local employment situation.
- Information about prevailing local wages for various categories of non-farm and formal establishment work opportunities (beyond information that is secured from job solicitation forays) to gauge the degree of slack or tightness in the labour markets for certain skill categories.
- Information from micro-finance groups in the locality about the queue or unfulfilled demand for loans for those wishing to be self-employed.
- Information from educational institutions about unmet demands for student loans for tuition fees.

In sum, the appropriateness of public interventions needs to be judged in relation to the limitations of the known repertoire of responses of households, training institutions of employers, and financial institutions.

The previous section identified some of the key market and coordination failures that need to be addressed. As the response of private players (firms, households, training institutions and financial institutions including the Social Security System {SSS}) increasingly becomes elaborate (e.g., as the internet spreads and job-matching portals increase and as commercial banks enter into the realm of micro-financing) then public programmes need to be refocused to match the changed circumstance if they are to remain relevant and cost-effective.

To be effective, the scale of the needed public responses has to be based on local information—whether a province or a municipality. It is apparent that PESOs, which form part of the operations of a LGU not only customize but also alter the scale of their operations depending on the perceived demand for specific services in their locality.

PESOs, however, rarely have programmes for unemployed rural workers during the lean agricultural months, nor do they have response modes to the employment problems of young people who did not finish high school; it is a fact, however, that these categories of unemployed workers are found in great numbers and in most areas that are not yet highly-urbanized.

Quezon City may be an exception among the highly-urbanized areas in developing economic opportunities and niches for one such group. This local government is facilitating self-employment programme for women through an innovative microfinance programme; yet such economic opportunities for both young and older women are not necessarily unique to Quezon City (see 4.3.6 Quezon City experience).

Where programmes of the appropriate mix and scale are already in place that is the time to undertake an analysis of cost-effectiveness. While, it is beyond the scope of this paper to undertake such an analysis; it does offer three preliminary steps towards that direction.

First, to obtain first hand information, this study examines the operations of PESOs in Bulacan and Quezon City; second, it establishes the case for a mobility fund for those seeking work to explore out-of-town job opportunities and third, the paper examines the partnerships developed—or capable of being developed—between the public (LGU) and private sector (finance cooperatives) in addressing financial market failures confronting poorer unemployed women.

An econometric regression analysis has been undertaken to demonstrate that useful information about the duration of job search for different categories of workers can be generated. Such a benchmark should be useful for the further examination of the extent to which particular interventions are able to shorten the period of job search for particular youth.

The results of the regression analysis are contained within the next section (Section 4.1.3) and detailed in the Appendix 1.

4.1 Facilitating job search in Quezon City and Bulacan

Often, unemployment among the youth is transitory in nature. It may be the transition from being a student or other dependent to being part of the labour force. It could also be a transition from one job to another as a young worker gains skills. The term ‘in between jobs’ is perhaps more than a euphemism for joblessness; in fact, it is a more accurate term for many unemployed workers.

Regardless of income status, because the unemployed, by definition, are looking for jobs and therefore not contributing to production, it is always in the best interest of the individual worker and the economy as a whole to shorten the period of unemployment or the duration of job search as far as possible. It is all the more important for young workers to be assisted in this task because of their inexperience in the job market which lengthens the search period. Often, they lack realistic assessments of what their education and limited job experience can fetch in terms of compensation and job assignments.

The PESOs are an important means of facilitating job search by matching prospective employees with available jobs. PESOs are non-fee-charging multi-employment service facilities established under Republic Act No. 8759 (otherwise known as the *PESO Act of 1999*) in capital towns of provinces, key cities, municipalities and other strategic areas. Under the Act, a PESO *shall ensure the prompt, timely and efficient delivery of employment service and provision of information on the other DOLE programmes...* (Section 4) in line with the policy of promoting *...full employment and equality of employment opportunities for all...*(Section 2).

The first listed function of a PESO is to “*...encourage employers to submit on a regular basis a list of job vacancies in their respective establishments in order to facilitate the exchange of labour market information between job seekers and employers by providing employment information services to job seekers, both for local and overseas employment, and recruitment assistance to employers.*”(Section 5).

Other specific statutory functions of a PESO include the testing and evaluation of applicants; providing access to livelihood and self-employment programmes as well as training and reintegration assistance to returning migrant workers. If pre-screening has been undertaken by a PESO on prospective applicants for an employment opening, then prospective employers have increased confidence in taking on new entrants (those with no prior employment experience). This is a useful function for both employer and employee provided the PESO understands the requirements of potential employers. With this understanding, the PESO is then able to function as a reliable broker in the labour market referral system and is able to function as an extension of the human resource framework of the company.

4.1.1 Assessing cost effectiveness of the PESOs in Quezon City and Bulacan

There are standard annual administrative reports available about the performance of individual PESOs. The information in Table 4-2 and Table 4-3 below are derived from such reports. Table 4-4, however, was generated from a more painstaking process of interviews to estimate time and resources spent in soliciting job vacancies, in pre-screening applicants and referring and placing them with establishments.

The accounting is not straightforward because PESO staff are often engaged in other activities that do not necessarily feed directly into the task of job-seeker placement: these include maintaining local files that would go into the Labour Market Information System (LMIS) of the DOLE, conducting pre-employment seminars in Bulacan, organizing job fairs, career guidance and

counselling, administration of the SPES and accreditation of firms for the apprenticeship programmes, and others.

There are neither separate financial statements nor balance sheets nor time allocation data for these specific activities. Overheads as well as personnel are shared across all activities of a PESO.

4.1.2 PESO performance in soliciting jobs, referrals, and placements

Table 4-2 and Table 4-3 show the performances of Quezon City (QC) and Bulacan PESOs for the year 2006. Bulacan fared better than Quezon City in procuring jobs—soliciting 42,519 vacancies for the period compared with the latter’s 23,174 vacancies. However, QC was able to ‘generate’ five times more overseas job offers than Bulacan.

In QC, some 27.5 per cent of total vacancies were actually placed and 43.7 per cent were referred. In Bulacan, 31.4 per cent of vacancies were placed and some 46 per cent were referred. These leave about 28.8 per cent of jobs unfilled in QC and 22.7 per cent in Bulacan.

Table 4-2: Performance of PESOs in Quezon City and Bulacan, 2006

Item	Quezon City	Bulacan
Local vacancies	17,642	41,515
Locally referred	9,437	19,070
Locally placed	6,312	13,293
Local vacancies unfilled through PESO	1,893	9,152
Overseas vacancies	5,532	1,004
Overseas referred	691	433
Overseas placed	56	54
Unfilled overseas vacancies	4,785	517
Total vacancies	23,174	42,519
Referred	10,128	19,503
Placed	6,368	13,347
Unfilled	6,678	9,669

Table 4-3: Percentage of jobs referred, filled in, and unfilled

Item	Quezon City (per cent)	Bulacan (per cent)
Local vacancies	100.0	100.0
Locally referred ^(a)	53.5	45.9
Locally placed ^(b)	35.8	32.0
Unfilled vacancies	10.7	22.0
Overseas vacancies	100.0	100.0
Overseas referred	12.5	43.1
Overseas placed	1.0	5.4
Unfilled vacancies	86.5	51.5
Total vacancies	100.0	100.0
Referred	43.7	45.9
Placed	27.5	31.4
Unfilled	28.8	22.7

Note: (a) “referred” means sent for interview... (b) “placed” means successful interview

For local vacancies, QC was able to attain a high average, referring 53.5 per cent of the total jobs that were available during the reference period compared to Bulacan which had a success rate of only 45.94 per cent. Bulacan had a surplus of job vacancies that were not filled through referrals from PESO. At the same time, it was learned from the field work undertaken that the local labour market has unfulfilled needs beyond those that are being posted; for example accounting and accountancy services are needed but are not posted, because there are no local schools or universities that offer relevant courses.

This unfulfilled demand will continue to expand in the future leading to a situation of more intense structural unemployment, a situation where there is a mismatch between the available skills in a community and those that are needed. This is caused by a number of factors including geography, timing, and the range of skills being produced by the local school systems.

The fact that the Bulacan PESO was able to place relatively fewer applicants than Quezon City does not necessarily mean that Bulacan fared worse with their referral system. Local geography, location and demographics of the population all played a part. Quezon City is in the heart of Metro Manila, surrounded by other cities of the metropolis including Marikina, Makati, Pasay, Pasig, and San Juan, which are all within commuting distance and all possible sources of vacancies for job seekers domiciled in Quezon City. By contrast, Bulacan, is semi-rural.

Moreover, preparation of applicants could also be a factor. QC PESO conducts its pre-employment orientation seminars for local jobs on a regular weekly basis whereas the Bulacan PESO only undertakes such activities when there is an influx of new applicants—usually at the end of the school year. It is possible too that the seminars of QC are more effective than those conducted in Bulacan, possibly because of the smaller group size, and therefore greater intimacy, which means that participants are better able to interact with the resource persons and therefore learn better.

Because of its prime location, QC was able to solicit more overseas jobs than Bulacan. However, it has a poor success rate, netting only 56 persons placed out of the 5,532 solicited jobs. This amounts to a success rate of only 1.01 per cent. One possible explanation for this situation might be that the solicited positions are also promoted in other cities within the metropolis so that there is greater competition, and more talent vying for the available positions.

Despite the seemingly good performance of PESOs in terms of jobs solicited and jobs placed, a number of questions arise naturally:

- whether the ‘success’ could have been achieved even without PESOs and similar public job facilitation programmes?
- at what cost were these successes attained?
- whether the benefits are primarily public in nature, considering that the cost is borne by public funds?
- whether these public programmes compete with or duplicate the efforts of private placement agencies and the recruitment programmes of private companies?

4.1.3 Regression results: could workers have found jobs even without PESOs and similar public job facilitation programmes?

Gauging the success of programmes entails setting benchmarks against which results can be measured. An analysis of the cost-effectiveness of programmes requires knowledge of baseline information that compares a programme’s results with the employment situation prevailing in the absence of the programme.

The fact that young job-seekers subsequently land jobs after participating in PESO pre-employment seminars and after obtaining a recommendation from a PESO officer does not, by itself, provide sufficient information to gauge the benefit arising from the programme. A first stage comparison would have to show, for instance, that the period of job-search has been shortened to some extent in the case of the young person who has been hired by a company as a result of the public programme. Furthermore, another factor to consider is whether the company might have taken longer and incurred greater costs in finding a suitable hire had there been no programme intervention.

This latter information is altogether unavailable. It would, however, be crucial to any meaningful analysis to attempt to assemble similar information from records that companies might have, in order to discover the extent to which young workers who come through the PESO channel and who bring referrals from PESOs might be displacing other applicants who reach the employers’ gates through other means such as by responding to newspaper advertisements.

This type of analysis should demonstrate whether a programme intervention might be leading to a shortening of the job-search period for workers who avail of the services of PESOs—thus leading to significant private benefits; on the other hand, the displacement of other workers, who would then take a longer time to secure a job, could cancel out such benefits, leading even to zero net social

benefit. The dilemma is to be able to determine whether there is a ‘net public good’ arising from the programme.

Displacement or ‘deadweight losses’ would be tolerable if publicly funded youth employment services focus their attention on vulnerable youth such as those from minorities, from poor families or from those with low educational attainment. The deadweight losses might not be less but if social benefit is gauged to be higher with the employment of those who would otherwise be marginalized then the benefit/cost-ratio would be higher.

On the matter of baseline information about job-search by young workers, no information from the literature is available about, say, the period it takes for a young undereducated person, from a poor family to search for and find a job. For purposes of illustration, this research develops such baseline information using regression results from combined year 2000 public use files of the Labour Force Survey and the Family Incomes and Expenditures Survey.⁵

The primary result is derived for those workers aged 15 to 18 years, from poor households, without high school diplomas and not living in the country’s main urban centres. The regression results show that for this category of workers, job searches take 8.7 weeks on average. Further results reveal that job search periods vary significantly depending on age, location, household income and educational attainment. This kind of information needs to be matched with information on programme outcomes for specific beneficiaries of interventions such as those offered by PESOs in Bulacan province and Quezon City.

The regression results show that to maximize the cost-benefit ratio it is important to give priority to workers who failed to finish high school and who are searching for jobs in the country’s main urban areas. It takes an average of 9.8 weeks for a non-high school graduate to look for a job in the main urban areas. With a high school diploma, however, the job search period is reduced by almost half—to 5.3 weeks.

Second, it is also possible that the absence of a high school diploma affects young workers more negatively as they mature. Poor workers aged 19 to 24 years in the rural areas without high school diplomas have a slightly harder time looking for work compared to younger (15 to 18 year old) entrants into the labour force. The extra job-search time needed is not dramatically increased, but the fact is that older youth who are non-high school graduates from poor families have a harder time looking for work than their younger cohorts. The job experience that older workers usually bring with them does not appear to be a factor in their employability. Further data analysis could show that this effect becomes greater with age.

If the needed period of job-search lengthens for this category of workers as they grow older then two possibilities should be worth noting: (i) job experience may not count for much if a person does not have a high school diploma—this in turn may result from limited learning capacities of individuals or from limited learning opportunities that come their way during employment;⁶ and (ii) this could lead to impoverishment, especially for already poor youth who have started to form their own families and who would then have increased financial responsibilities.

The third result from the regression analysis relates to the apparent weakness of high reservation wages (as proxied by family income) as a predictor of the length of job search. The hypothesis is that with higher family incomes, young job seekers would tend to search for a longer period of time. There are two reasons for this predicted tendency for extended job search: first, young workers with high family incomes can afford to be without a job for a longer time because the additional income that they earn may not constitute a large portion of the family’s entire income. Second, job search itself entails costs. Young people from poorer families cannot afford to be engaged in this activity for extended periods and will accept lower pay rather than be out of work.

⁵ Income status of households is predicted following the approach in Addun and Beronilla 2004.

⁶ One might say that it is in such situations that subsidized job apprenticeships become important. Unfortunately, even PESOs, apparently, no longer make the effort to find employment for young people who have not finished high school.

The results for non-high school graduate job-seekers (15–18 years old) in urban areas are consistent with the above hypotheses—job search is longer by 2.5 weeks for youth with these characteristics who come from non-poor families in urban areas relative to poor workers seeking work in the rural areas (for whom, as noted above, job search is an average of 8.7 weeks). This result is reversed in the case of young workers from non-poor families in the rural areas, where job search for non-poor youth is shorter by 2.8 weeks compared to those that come from poor families in the rural areas.

To explain such a contrast, it can be assumed that mechanisms on the demand side such as social networks that facilitate job-matching play a larger role in job search in the rural area, but are less important in the urban setting. It can be posited that non-poor families might have greater access to job vacancies in rural areas. Where non-poor families, for instance, are engaged in inter-linked contracts in the rural economy, they may have a greater ability to secure jobs for their family members compared to the poor.

Controlling the variables for location, the regression results show that job search among the poor who search for jobs in the urban areas, while longer compared to the job search period of their peers in the rural areas, is shorter by more than one week compared to non-poor youth who search for jobs in the urban areas. Further data analysis could show that job search periods may indeed rise with income especially in cases where educational attainment is higher than college level. The results discussed above pertain to young job-seekers aged 15 to 18 who have not finished high school.

Finally, the notion that higher educational attainment leads to longer job search periods is validated through the regression results. Controlling other factors (young people aged 15 to 18, from poor families searching for work outside of main urban areas), those with high school diplomas take 1.4 weeks longer to search for work compared to those without high school diplomas, those with some college education take almost two weeks longer than those without high school diplomas, while those with college degrees on average take three weeks more to search for a job.

Again, however, available data are insufficient to be able to gauge the success of PESOs against the benchmarks coming from regression results. While these results suggest trends, more detailed profiles of applicants and the firms served by PESOs may be needed for conclusive results.

4.1.4 At what cost were successes of public job search programmes attained?

Assuming, however, that positive results were achieved, it is important to look into the cost incurred in producing these results.

Here we look again at the cases of the PESOs in Bulacan and Quezon City (QC) to provide our reference data. With an annual budget of PhP957,000, Bulacan was able to place 13,347 applicants. For QC, with an annual expense of PhP844,000 it was able to place 6,368 applicants. This provides a measure of unit cost as outlined in Table 4-4.

Table 4-4: Illustrative LGU annual expenses on employment facilitation programmes

Indicator	Quezon City	Bulacan
Annual expenses(pesos)	844 366.00	957,088.80
Number of applicants placed	6368.00	13,347.00
Cost of placing one applicant	132.60	71.71

For Bulacan, for every PhP71 of expenditure, one applicant is hired, with a return on investment of PhP280–300 per month for at least six months as minimum wage. Quezon City, meanwhile, had to spend PhP132.60 to place one applicant. One reason why QC is spending this higher amount is because of its fewer solicited jobs. Were there more jobs available, there would be more choice for applicants and overheads per applicant would be lowered.

Yet the above results have limitations as measures of cost-effectiveness. A detailed expenditure analysis may be required. However, data on the overhead costs of PESOs are difficult to generate.

Before proceeding to detailing the costs of the PESO, there is an implicit assumption made that the PESO and other institutions are designed and functioning in a sound manner. However, it is not

safe to make this assumption. The current actual expenses are reflective of a situation that needs to be changed. These changes are not easy to implement, and some of them might not be acceptable to some of the stakeholders.

In order to map out the costs of running the PESO, its overheads as well as various programmes and services, there is a need to document the existing system systematically, in terms of all cost items, including personnel, supplies and materials, consumables and others. There are, however, particular difficulties in preparing such an estimate of the operating costs for the PESOs of QC and Bulacan. Presumably, this is indicative of similar problems in other such offices. These difficulties and the concerns they generate are outlined below.

A major concern relates to the lack of dedicated staff and the limitations on efficiency imposed by multi-tasking in both Bulacan and QC. For Bulacan, those doing PESO work are employees of the provincial government and shared with the other units of the LGU. It is very difficult to disaggregate the work that they do for PESO from the work undertaken for other government units. Within the PESO unit in Bulacan Province, the six personnel involved also work in implementing a range of different tasks, including office administration:

- The overall head of the PESO unit supervises all concerned functional units but also participates in the implementation of the different tasks as needed.
- The deputy is active in the twice-a-week job vacancies solicitation rounds or expeditions with another staff member.
- Job fairs and assistance in passport processing are collective tasks for the entire team.
- Career Guidance is deputized to one of the staff.
- Another staff member is tasked with maintaining the LMIS, which is a standardized database of job-seekers and vacancies that all PESOs are expected to set-up and operate.
- Pre-employment seminars are supervised by the deputy head, but these are also implemented collectively by the team.
- A further assistant is engaged to handle the pre-employment screening, although this is just one component of the entire job-matching procedure.

The unit costs for estimating their activities are not well documented, and are not easy to disaggregate from the other activities being undertaken by the provincial LGU.

For QC, while all staff are dedicated within the local PESO, there are a number of different programmes being run by the office and it is very difficult to disaggregate the use of the various resources to enable a programme-specific breakdown to be obtained. For this to be done, there would have to be a process of separation of accounts in terms, for instance, of a time monitoring system, wherein staff would log-in the time used for each kind of activity on a daily or weekly basis. Such task-specific time records do not exist for either Bulacan or Quezon City.⁷

Assignment of operating and programme overhead costs should be straightforward because it should be a matter of dividing these costs in proportion to the time-spent by staff for each activity. However, that is not a straightforward exercise either because of the large differences in logistical inputs for different activity types. Pre-employment seminars and job-fairs are often much more costly to operate because of items such as facility rental costs compared to job-referral systems. These expenses vary of course depending on the ability of the local government to secure counterpart funds from other institutions to offset programme costs.

Where other institutions do contribute to the cost of certain PESO activities, these contributions are not necessarily recorded in the books of the LGU. Thus, while it is not impossible to attempt an estimate of total costs through examining case studies there can be multiple sources of errors. And even should it become possible in the future to disaggregate personnel, programme overhead

⁷ There is computer software (e.g., Base Camp) as well as administrative set-ups that could facilitate such task-specific recording systems.

and operations costs, there can also be important costs to provision that may not enter the local government's accounting system.

The question that might be raised at this point is, whether, on the basis of available information, it is helpful to hypothesize on the estimated costs and whether to do so in these specific cases would have applicability to other areas, for example small provincial towns?

To answer this question, it should be noted that both Bulacan and QC are two of the largest geopolitical units in the Philippines at their respective levels—province level for the case of Bulacan and a metropolitan component city in the case of QC. While QC is predominantly urban, Bulacan, despite being a dormitory area for Metro Manila remains semi-rural. In terms of size and scope, there are very few other areas of the Philippines that could be compared directly with the situation either of the PESO of QC or of Bulacan, so that a direct comparison with these two offices may have limited application.

For future reference, a better approach might be to identify study sites that have similar characteristics to one or other of the two reference sites or, possibly, consider a range of study sites that might provide a continuum, and from which it might be possible to identify target replication sites or extract the common elements. In this manner, the selected case study sites would provide a broader basis for extracting programmes and designs that might be more reasonably close to the target replication sites. Some conclusions might be generally applicable across all such sites while the applicability of others might show a correlation with size and nature of the area in which the study was undertaken. In any case, there will always be the question of soundness of the design of the existing government programmes given the wide disparity in the situation of the various PESO locations and without proper study of those elements that are common to all and which are location- or situation-specific.

The PESO personnel in Bulacan believe that among the various activities they are tasked to undertake, the one with a very high degree of cost-effectiveness is the job referral system. Even granting that this is the case does not mean, however, that it would be straightforward to claim that a job referral system would also be cost-effective in smaller jurisdictions without proper study.

The main out-of-office cost for implementing the job referral system is the job solicitation procedure. The two Bulacan PESO officers move around twice a week using an official vehicle and are able to solicit information about vacancies from an average of ten companies every week. This procedure is the main source of information about job vacancies even though companies also sometimes provide the same information by approaching the PESO via telephone or fax. Company initiated contact happens usually in situations where companies have already been visited by the PESO officers or have recruited already via the PESO and are familiar with its operations and the relationship established.

Several factors can be identified that could immediately alter the PESO officers' estimate of the cost effectiveness of this segment of the job referral system:

- First, PESOs are not the only service providers, nor indeed are they regarded as the first point of reference by the private sector.

Companies in Bulacan are relying increasingly on private human resource agencies in their search for staff. In such cases even where companies provide vacancy information to PESO officers, often the private services firm are already actively recruiting even before the PESO officers return to their offices to document the information that they have. Actual vacancies, in contrast to the list made available by the companies to the PESO, could become much shorter much sooner if more and more companies have recourse to the services of these private agencies.

There can be situations in many areas wherein the job solicitation procedure conducted by PESO could become redundant in the sense that successful recruitment would take place even without the activities of the PESO. Because the private sector itself is providing these services in many areas, the PESO sometimes finds itself making referrals to companies where posts have already been filled. This duplication of effort represents a waste of resources. To stay ahead of the private

agencies, the PESO would have to exert even more effort and incur more expenses to look for additional vacancies—for instance by making three or four job-vacancy search expeditions per week instead of just two. Without the additional effort, the waiting-time for applicants relying on the PESO, even for qualified applicants, could otherwise become longer.

- Second, since Bulacan is a semi-rural, semi-industrial area close to Metro Manila, it is better endowed with industry than many other parts of the Philippines. There would be few other provinces with the same concentration of commercial or industrial activity. Conducting twice-weekly search expeditions could therefore yield far fewer vacancies in provinces that are less urbanized compared to Bulacan even if the need for employment is uniformly high among provinces with varying degrees of urbanization.
- Third, the expense of job search expeditions could also rise or fall depending on the physical concentration and size of firms in a particular province—whether they are scattered or concentrated in industrial parks for example. Where PESO officers have to travel greater distances and visit smaller companies compared to those in Bulacan (and which would be true in many areas of the Philippines), the cost of travel could be much higher and the yield in terms of job vacancies determined per trip could significantly be lower.

4.1.5 Who benefits from public job search programmes?

To the extent that excessive unemployment intrinsically depresses the growth potential of the economy and is indicative of economic inefficiencies and market failures, it is to the benefit of the overall economy that job search duration be shortened.

However, the immediate question is whether the service provided by PESO is a public or private good, and depending on how that question is answered there will be a need to clarify how this service should be financed. Considering that public funds are used in PESOs, an assessment of their cost-effectiveness necessarily entails asking whether the programme is largely a “public good” that warrants government intervention. Should the job facilitation service be paid for on a per-case referred, or per successful hire, for example? Should the payment be made by the applicant or by the company? Or is it the case that the payment of taxes already covers this? Otherwise, is it the case that the government is unnecessarily subsidizing the job search of an individual or the recruitment process of firms? Should this be the case, it would represent a waste of scarce public resources.

The operations of the private sector employment sector agencies (which normally charge the company) provide a basis for comparison. Are the PESOs augmenting private agency services or detracting from them? The answer may be different depending on location and it might well be that they can complement one another instead of competing. This is discussed later.

4.1.6 Way forward: enhancing job facilitation services

Labour market information services that seek to match people looking for work with available employment opportunities can be a useful service depending on location. By their very nature, web-based services will favour the youth since they are more likely to be computer literate than older workers. However, internet coverage is uneven and in some parts of the Philippines, access can be a problem. Where it is available it can be a useful adjunct to the more traditional modes of job-matching. In some areas, SMS messages sent over the cellular networks could be a viable alternative.

Private sector agencies are already active in aggregating demand. Perhaps, the prime niche for the PESO lies in aggregating supply and in this aspect, it could well focus on servicing the schools and colleges rather than on individual firms.

4.2 Addressing skills mismatch

Addressing mismatches requires identifying minimum skill and competency levels that local educational institutions need to adopt so that these core competencies will match the requirements

of industries that may be attracted towards establishing a presence in a particular locality. Availability of suitable labour is a necessary but not a sufficient condition for locating a business; however, it is a fundamental prerequisite. There is a need—and an opportunity—to mobilize labour market information systems to support programmes of curriculum re-design in educational institutions.

In the information technology sector, young graduates usually discover that a degree in computer science is, nowadays, insufficient to obtain a well-paying job with career prospects; a basic degree needs to be supplemented with specialization and mastery of particular programming languages or database systems. This is one industry where educational institutions as well as the students themselves need to have their fingers on the pulse of the industry and the manner in which it is evolving.

Yet PESO officers in Bulacan testify that the underlying problem does not lie with the curricula being taught. The most common mismatch that they encounter arises not from too few students enrolling in training for high-demand jobs but from the failure of students to master the skills that were supposed to have been taught in school. Students who finished computer secretarial courses understand the basics of operating computers but they are sometimes incapable of interacting on the telephone, sustaining a conversation and responding to inquiries in a manner expected of frontline staff. This discovery was made by PESO officers in Bulacan in the course of on-the-job-trainings (OJT) wherein the PESO itself served as the employer-trainer.

In view of the foregoing, college graduates routinely end up becoming production or fast-food workers. The mismatch that arises in this case is between the aspiration of young people, and the jobs that are available. They have the skills needed for production workers and for employment in fast-food outlets, but these are lines of work that are not aligned with their expectation of white-collar employment. Thus, when students are placed in less-preferred jobs (those they categorize as being their second or third preference) about a third of those placed would change their minds and wait for other possibilities.

4.2.1 Indicators of benefits of TESDA training

The field work undertaken in Bulacan in mid-2007 uncovered an ongoing empirical review of the effectiveness of training provided by the Technical Education and Skills Development Authority (TESDA) service providers in those organized and partly financed by Bulacan local governments.⁸ The tabulation and analysis of that tracer study were, however, not available at that time. On the other hand, the TESDA-regulated training modules for call centre agents are still in their early stages of implementation. An ongoing evaluation of this training is discussed here because it provides an illustration of how analysis of cost-effectiveness might be done.

⁸ As in the case of most of its training programmes, TESDA does not allow local governments to provide the training themselves. TESDA graduates and TESDA-accredited training providers are merely compensated for services rendered.

The potential cost-effectiveness of training for call centre jobs may be uniquely high for two reasons: First, from many indications, the demand for these jobs far outstrips the supply—a situation where supply is capable of creating its own demand. As new workers enter the industry there is an expansion of facilities and an increase in the country's Gross National Product (GNP). This is because many of the new employees who enter the industry do not displace others, but allow the industry to grow. Second, in contrast to overseas workers, a greater part of the income of call centre agents is spent within the country. The National Manpower Summit in 2006 revealed that the situation of demand outstripping supply for call centre agents is one that required a public programme.

While the intervention appears to be achieving some success, what is not clear is whether the cost of the training should have been borne at least in part by the beneficiaries (Box 1). The key public good appears to be that of setting standards for service providers that would increase the employability of training graduates. What is also not yet clear is whether there are ways of further improving the design of the training to improve further employability of trainees.

At the time of writing, the PGMA-TWSP Finishing Course for Call Center Agents has just started, and better measures can be implemented in order to make the programme more cost-effective. Researchers from the Philippine Australia Human Resource Development Facility (PAHRDF-REECS) believe that the screening process of applicants is important in order to increase the benefits of the PGMA-TWSP scholarship even more.

For instance, the PGMA-TWSP 100 Hours Finishing Course should be given to those who really need the scholarship. This refers to three groups of applicants: (i) females; (ii) those who graduated from *public* high schools or colleges (who generally are less financially enabled than those that attend private institutions); and (iii) those who took up arts and sciences at the tertiary level.

Box 1: The employability of the graduates of PGMA-TWSP

*100-Hour Finishing Course for Call Centre Agents in Region VII (Central Visayas)**

The 100-hour finishing course was developed by TESDA in response to the very low acceptance or hiring rate by call centres among its applicants. It has been reported that only 5 per cent of the applicants for job openings in the Call Centres are hired. In response to this, President Arroyo created the President Gloria Arroyo-Training for Work Scholarship Programme (PGMA-TWSP).

Out of the 120 graduates of the course surveyed in Region VII, 69 of them or 57.5 per cent landed a job after their training. Out of those who landed a job, 47 or 39.2 per cent of the total number of graduates surveyed were actually utilized or employed within the call centres. This figure is much lower than the 50 to 60 per cent target rate. This information also proves that in Region VII, at least, the TESDA run PGMA-TWSP 100-Hour Finishing Course for Call Centre Agents cannot be considered as entirely successful.

A question that therefore arises is to ask at what cost a higher utilization rate of the graduates of the finishing course could be achieved. The PGMA-TWSP through TESDA spent PhP5,000 to support each trainee in the 100-hour finishing course. This implies a total amount of PhP600,000 for all the 120 graduates surveyed in Region VII. For those unable to get a job the investment maybe lost, although not necessarily a total loss because some of the new knowledge and skills they acquired from the finishing course might be useful in other work. However, when benefits to the target industry alone are considered, dividing the PhP600,000 by 47 or the number of graduates surveyed that landed a call centre job, gives a unit cost of PhP12,766 per successful graduate. This amount is small compared to the expected income of the call centre agent, which at present does is at least PhP10,000 per month for the starting level. The level of investment therefore represents approximately one month of income.

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* Region VII encompasses four provinces, namely Bohol, Siquijor, Cebu, and Negros Oriental, with nine cities.

The PARHDF-REECS study recommends that there should be ongoing study and monitoring of the performance of the graduates of the finishing course. There may be beneficiaries who require more than the standard 100-hours training who need to be accommodated.

4.2.2 Linking up PESO with SUCs

The PESO has the potential to link up with educational institutions such as the state universities and colleges (SUCs) to address skills mismatch where it is needed most. At present, the only mechanism that is available to determine a cost-effective investment. Is the price of a skill or job as determined by the market. Unfortunately, there is too little information available to determine the optimum price for a job or skill in many industries. The PESO, as a public agency, is aware of those who do not qualify or only minimally qualify for low-skill jobs offered by firms and is well placed and well-motivated to provide feedback to educational institutions especially SUCs on what measures are needed to upgrade basic skills. Indeed, the PESO network has the potential to become the primary information exchange to guide schools and colleges in the direction they should take to enhance the employability of their students. This is a possible interface that private firms would be reluctant to undertake—and those that did so would not make their findings publicly available.

Private firms are more likely to discard information about needs in the market that is not immediately useful to them. TESDA might have a similar disposition to PESO and would probably be more willing to share information on the availability of opportunities to develop training courses for specific occupations that are emerging or where present skills are under-supplied. TESDA and PESO working together, could actually help document information indicating market gaps that are detected and can be useful if shared with relevant stakeholders.

The involvement of PESO and TESDA in joint programmes might be most effective in relation to employment for those that are highly qualified. At present there is growing interest in the call centre industry. While TESDA already offers finishing and accent neutralization courses for call centres, it does not offer courses on enhancing self confidence and the like. Neither, at present, does it offer courses for the youth who are below the entry level requirements of the call centres (and who are outside of the classification of “near-hires”). The objective should be to target selected out-of-work-youth capable of getting (at least) to this level so that the industry itself can undertake the final “cut and polishing.”

While PESOs can only do so much, they can work better with schools and universities. They are well placed to offer aptitude tests for the purpose of remedial pre-employment preparation. These remedial classes could be done by the schools themselves (for a fee) or by TESDA. This might be needed only for the short to medium term while the schools develop responses to the specific needs of employers, by integrating these concerns into the college curricula. If this is done, then over the longer term, there should be no need for such remedial classes. Examples of skills needed that have already been articulated are such tasks as clarity of expression (English communication, writing a paragraph, or telephone skills), and personal organization (developing plans for tasks or activities, goal setting and working towards achieving targets).

The preceding themes suggest that a key problem causing the skills/labour market mismatch is the failure of the educational system. But the solution is also there: it suggests that the TESDA and the PESO can play important roles in providing feedback to the school system, through the school board for example, or through the other education related organizations, such as the Association of Deans, or the organization of SUCs.

4.2.3 Programmes to address skill mismatches or programmes to address effects labour market regulations and barriers to worker mobility

The typical argument made by the DOLE is that there are mismatches in the market between the skills that Filipino workers possess and the skills demanded by firms to fill available jobs. This may be true in many instances. Where skills mismatch is the correct explanation for joblessness, the recommendation for an improvement in training systems may be warranted. The presumption of a skills mismatch has led to major new efforts by TESDA to improve counselling, training, remedial pre-employment courses and skills certification systems.

There is even a plan at the DOLE to create localized skills inventories; this too arises from the concern about skills mismatches. A hypothesis that has yet to be explored empirically is whether

workers that foreign investors presume to be in the category of “unskilled workers” might nevertheless need to possess a minimum aptitude that the country’s educational system does not routinely provide. Outside of skills mismatches, however, there may be other explanations for the inability of firms to recruit suitable workers. Consequently, there maybe other more appropriate programmes that could also be given attention.

To avoid problems associated with granting permanency to workers, many companies offer short-term contracts so that they can shed workers and rehire before the need to grant permanency applies. The Labor Code of the Philippines requires companies to grant workers the benefits of regular employment once their period of continuous employment exceeds six months. This periodic shedding of workers is usually part of efforts to avoid having to legally recognize staff as part of the firm’s permanent work force; in such situations there is no question of vacancies advertised arising because of a skills mismatch (and in fact such vacancies are usually quickly filled).

There are also situations where work is seasonal, such as those firms that produce Christmas decorations or filling Christmas orders, where work has an irreducible seasonal or even temporary character. Therefore, in some situations, the often impressive listings of domestic vacancies, that give the impression of robust growth in the economy, may be nothing more than a manifestation of this periodic shedding of workers or the seasonality of employment.

This strategy of shedding workers whose skills are perfectly matched to their job is an important example of a perverse regulatory outcome; wherein the good intention of the law leads to an unintended and sometimes undesirable consequence. Firms must search for other workers, sometimes with difficulty, even when there is actually an entire batch of qualified workers right within the company premises. In such situations, the public response may have to take the form of recasting of the laws on the regularization of workers, instead of the provision of more training.

Simply increasing the months of continuous employment that would trigger mandatory regularization is bound to have a mutually beneficial result for both workers and employers. Alternatively, it is also possible to re-define the meaning of ‘regular employment’ itself so that a firm would not be in violation of labour laws even if it guarantees to employ and compensate a worker for, say, only two hundred days a year, especially when there is a downturn in demand for the firm’s products due to competition, seasonality or fast-changing consumer tastes. It is, after all, the need to survive by keeping overhead expenditures, including the payroll, in line with sales that makes firms wary of regularizing workers in the first place.

If labour market flexibility can be made compatible with regularization, the likely outcome is that periods of unemployment, especially among young workers, will not be as frequent or as long as they now tend to be. Some labour services cooperatives supplying pooled labour services to firms have adopted the legal fiction that that the deployed workers are self-employed and have formed a cooperative that would facilitate their own employment. Though it may be controversial, this is one way used to get around the unintended effects of the six-month rule on the regularization of workers.⁹

There is at least one other additional alternative explanation for what could sometimes be misclassified as unemployment due to a situation of skills mismatch—this alternative explanation is made apparent when a PESO (in Bulacan in this example) succeeds in matching local workers with firms outside of the province (in Cavite) but the employment relationship is not finalized.

What may be operating here is neither a training system failure nor a labour regulation failure; rather it is a locational failure. Available supply and demand for skills often do not result in employment because the high transaction costs associated with commuting or relocating to another

⁹ This organizational form is being questioned by the DOLE in court for being in violation of the rule that says that such workers have to be employees of the firm or else they are employees of the worker services cooperative. In this case, they only happen to be owners of the worker services coop without being employees.

province creates a wedge between firms that wish to hire workers and workers who wish to be hired (other than those in the immediate locality of the enterprise).

In the particular case of employment outside of Bulacan, the initial transactions costs may come in the form of the outlays needed to undertake the job application process of interviews and medical examinations in Cavite or other nearby provinces after the initial match has been facilitated by the Bulacan PESO and the labour services company hired by the Cavite firms (in the example cited). Subsequent transaction costs are those associated with commuting or relocating if the application is successful. It may also come in the form of the perception of high costs associated with having to pay for rentals if one has to relocate—a cost that is not incurred if employment is found within the province. If commuting is involved, then the cost of doing so is greater than the daily wage offered.

There may be economies of scale in the movement of individuals from a place such as Bulacan to Cavite. “*The success of a villager in a low-skilled job attracts, at first, one neighbour or cousin and then the next*” (Kuznetsov and Sabel, 2005). This could mean that the cost and the perception of uncertainty could be high for the first few workers who would negotiate the trip from Bulacan to a place like Cavite, but as these people learn to adapt, they discover the possibilities of newcomers being accommodated in the dwellings of their friends; the costs are lowered and the methods of coping with uncertainty are learned.

This could justify local government support for inter-province mobility that could result in the emergence of informal networks of support among townspeople. Mobility allowances may, for instance, be given to recruits of Golden Bell Manpower Resources Corporation and other recruitment agencies). Such mobility funds whether loans or grants may need to cover at least two weeks of board and lodging expenses—or until the first pay day (see Table 4-5 for an idea of rental costs involved). The PESO could facilitate networking among workers from the same province or town by keeping directories that could help track the whereabouts of Bulacan workers working in other areas such as the provinces of Calabarzon.

Table 4:5 Comparative costs for transient job-seekers

Bed space for contract workers in Cavite and Laguna	Bed space in the TESDA Regional Training Center Dormitories	Pier One Center for seafarers who are in-between jobs
PhP600 to PhP700 per month	PhP750 per month for students, PhP100 per day for transients	\$1 or PhP50 per day or volunteer work to maintain the place

Alternatively, and with the rapid growth of social networking via the internet, a more practical solution might now be for PESOs to have facilities that would enable disadvantaged workers access to the internet so that they could develop their own social networks.

Until workers from Bulacan go to Cavite (or network with those already there) they will not find out that free as well as subsidized shuttle buses are available to and from the places of work and the main areas of residence. They will not discover that a bed space (accommodation quarters) can be obtained at between PhP600 and PhP800 a month.¹⁰ This rental cost, if it is available to all workers who want it at this price, is even cheaper than the PhP50 per night of stay (PhP1,500 per month) that Illiac Diaz needs to charge to maintain his 40-bed migrant job-seeker “Pier One Center” at the Port Area in Manila.¹¹ It is about the same price as the dormitory facilities provided by TESDA at eight beds to a room to students at its regional training centres.

¹⁰ Interview with Donabel Trinos, Finance and Operations Manager of Golden Bell Manpower Resources Corporation. Unit 1 and 2, 3450 Cemetery Road, Elsol Subdivision, Cabuyao Laguna.

¹¹ “Pinoys at M.I.T. celebrate RP entrepreneurial spirit” http://www.filipinoexpress.com/19/52_eweek.html

Box 2: Cost to a Bulaqueño of pursuing a Calabarzon job prospect

Golden Bell is a labour services agency operating in Bulacan that regularly recruits contractual workers for between 10 and 13 firms in Laguna and Cavite (Calabarzon region, south of Metro Manila). The number of vacancies during the hiring season can be as high 3,000 workers, though this high a number of vacancies merely arises because the Cavite and Laguna firms choose not to extend the employment of many other contract workers.

According to the officers of the Bulacan Public Employment Services Office more than a hundred young workers initially express interest in each vacancy but only 50 would end up applying for the job. The move to Cavite, especially for short-term contract work, daunts the younger workers who have never been separated from their families. The uncertainty and high cost of having to set-up separate living quarters in another province where there are no relatives who could take them in discourages others. The income prospect from a temporary contract is often not attractive enough for the effort and the uncertainty that the move would entail. Cavite province is no Dubai; average monthly wages for young non-agricultural workers in Cavite* at PhP7,096 (or PhP355 per day based on a 20 day working month) are less than the average wage of PhP7,632 in Region III where Bulacan is located and are lower by around two thousand pesos compared to average wages for the non-agricultural workers who land jobs in nearby Metro Manila.

Of the 50 who would apply through the Bulacan PESO, up to 10 would be qualified. Golden Bell Manpower Resources Corporation has strict instructions from its principals that applicants should have birth certificates without typographical errors, very good eyesight and should be single—single parents need not apply.

Out of every 10 qualified to proceed to Cavite only 5 end up pursuing the employment opportunity. The high cost of going to Cavite and of completing the job application process (medical examinations, further interviews) is a common reason for this falling out. Below are typical costs per trip:

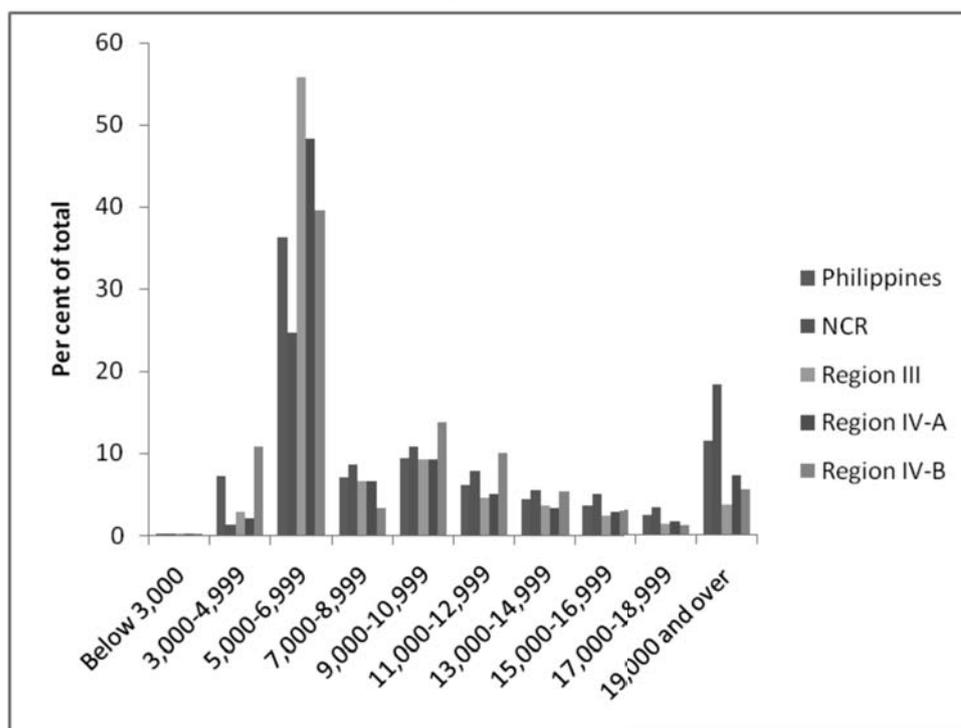
Hagonoy to Malolos (jeep) :	9 pesos
Malolos to Cubao (bus)	65 pesos
Cubao to BLTB in Pasay (MRT) :	16 pesos
BLTB in Pasay to Cabuyao (bus) :	65 pesos
Cabuyao to Golden Bell (tricycle) :	30 pesos
<i>(the above costs multiplied by two)</i>	
Food (lunch, merienda supper) :	105 pesos
Total :	475 pesos

* Computation based on the 2004 Occupational Wages Survey of the BLES and NSCB - with outliers discarded

We have used the above case study to illustrate the more general problem associated with relocation of workers from places of work scarcity to places where there is a labour shortage but, in the absence of national incentive programmes to attract new industries to soak up the pool of unemployed labour, the concept here applies to other areas as well. The overarching factor that could be preventing mobility across nearby provinces might not be the absence of mobility funds or the uncertainties that would confront a young worker who makes the move to another province; rather it is the costs uncertainties associated with such a move in the absence of clear knowledge about employment and earning prospects.

In the case cited above, the average incomes for non-agricultural workers in Laguna and Cavite (Region IV-A) are not significantly higher than average incomes for similar non-agricultural workers in Bulacan (Region III) and are significantly lower, on average, than that of a job in Metro Manila. Therefore a move to growing industrial areas such as Cavite may prove to be more attractive to unskilled workers from other provinces, especially the poorer ones in Bicol and in nearby Region IV-B, where incomes seem to be highly uneven across provinces (Figure 1 and Table 4-6).

Figure 1: Distribution of non-agricultural wages in the Bulacan vicinity



Source: PUF of the Labour Force Survey- October rounds, various years

Table 4-6: Distribution of non-agricultural wages in Bulacan and adjacent provinces, in per cent

Region/Pesos per month	Below 3,000	3,000-4,999	5,000-6,999	7,000-8,999	9,000-10,999	11,000-12,999	13,000-14,999	15,000-16,999	17,000-18,999	19,000 and over
Philippines	0.2	7.2	36.3	7.1	9.5	6.2	4.4	3.7	2.4	11.4
NCR	0.1	1.3	24.8	8.7	10.8	7.9	5.6	5.0	3.3	18.3
Region III	0.2	2.9	55.8	6.6	9.3	4.6	3.7	2.4	1.3	3.7
Region IV-A	0.2	2.1	48.3	6.6	9.2	5.0	3.3	2.8	1.7	7.2
Region IV-B	0.2	10.8	39.6	3.4	13.8	10.0	5.3	3.0	1.1	5.6

Source: Occupational Wages Survey (2004), Bureau of Labor and Employment Statistics

Whether or not it might come about in the future that wages in Cavite and Laguna would become attractive to unskilled young workers from Bulacan will depend on the ability of the Calabarzon region (Region IV-A) to absorb new job entrants at a pace that is dramatically faster than the pace at which young people enter the ranks of the unemployed. In turn, this depends on the pace at which investments are made and the labour intensity of such future investments. Investments in the Calabarzon region, especially in the electronics industry have typically been highly capital intensive and not labour-absorbing.

In fact, with the opening of the Central Luzon growth corridor, Bulacan is strategically placed to take advantage of new developments in the Clark-Subic growth areas. It is likely that whereas previously many local workers sought employment either in Metro Manila itself or in the industrial areas of Calabarzon south of the metropolitan area (Cavite and Laguna), the focus of attention in the future will be in Pampanga (Clark) and Zambales (Subic). This will bear monitoring in any future study of this nature.

4.3 Addressing the financial limitations of self-employment through micro-finance

Labour market programmes generally fall into one or other of the following four categories:

- Employment services
- Labour market training
- Job creation through:
 - i wage or employment subsidies
 - ii public works and direct public employment creation
- Micro-enterprise development assistance (MEDA) or self-employment creation measures through micro-financing and other measures.

The first three categories have already been addressed. This section addresses the role of micro-financing for entrepreneurship as a means of addressing unemployment.

4.3.1 Overview of micro-financing

Micro-finance can be defined as the provision of a range of financial services, primarily savings and credit to poor and low-income households that normally do not have access to formal financial institutions. It is widely documented that the formal financial system rarely provides access to poor entrepreneurs in developing economies. It is estimated that in most developing countries, the formal financial system reaches at a maximum the top 25 per cent of the economically active population, leaving the bottom 75 per cent without access to financial services apart from money lenders. This is because the techniques used by financial institutions do not enable them to lend to the poor in a cost-effective manner.¹²

One critical constraint which may prevent regulated banks from lending directly to the poor relates to interest rates. Microfinance is an inherently costly activity. Effective microfinance programmes require intensive inputs in motivating and training borrowers and in follow-up, with regular monitoring and frequent loan repayments. Microfinance programmes must go to where the borrowers are located, rather than locate in regional centres. All of these factors add to costs. And loan amounts are small, implying high overheads and low interest income per loan.

To be sustainable, microfinance programmes must therefore charge higher rates of interest than those charged on other loans. This is true regardless of whether programmes are undertaken by specialised MFIs or regulated banks. The Grameen Bank, the largest and one of the most efficient microfinance programmes in the world, charges an effective interest rate of 20 per cent per annum, and most smaller programmes need to charge considerably more than this to be sustainable. Even if regulated banks adopt the techniques of specialist MFIs, they need to charge higher interest rates on their microfinance loans than on their other loans if their microfinance programmes are to be sustainable.¹³

Today, it is generally accepted that populations traditionally excluded from the formal financial sector can be a profitable market niche for innovative banking services, and that microfinance can be an important tool in reducing poverty. The success of micro-financing activities in many countries—including the Philippines—show that it is possible to serve loans to finance the economic enterprises of the very poor: (i) as a commercial activity that pays for itself; (ii) without subsidy from government; and (iii) with a very high repayment rate or very low defaults on loans, even in the absence of collateral. These are based on the observations that the poor need sustained access to financial services more than lower interest rates and they have the capacity to repay their

¹² Paul B McGuire, et al. 1998.

¹³ *Ibid*

loans and to save. Given these observations, micro-financing can be operationally and financially self-sufficient.

Although the micro-financing industry has gained fame only over the past three decades following the success of the Grameen Bank (Bank of the Villages) in Bangladesh, cooperatives have actually been in the business of providing financial services to the poor over more than 100 years, beginning with the “village bank movement” (or credit unions) initiated by Friedrich Wilhelm Raiffeisen, who was mayor of several German municipalities over the course of his lifetime.

A distinction needs to be made between ‘cooperatives’ and ‘micro-financing’ institutions. Cooperatives are owned and governed by their members who are the savers and borrowers themselves and often build their capital from their members. Micro-financing institutions are organized as non-profit corporations or foundations governed by trustees on behalf of patrons that contribute the funds.

Because of their nature as user-owned services, credit coops are sometimes thought of as catering more to the needs of the capable non-poor who can pay for their equity share and for the loans that they take out. Microfinance NGOs came to be seen as the only institutions with a directed focus on the needy poor and which has the methodology for reaching them, but only because they are dependent on external sources of funds as non-profit and non-stock organizations.

Some private commercial banks are beginning to target the micro-financing market and would have the most extensive mechanisms and networks needed to undertake financial delivery. But private banks are still generally seen as lacking the willingness, the technology, and the vision to lend to the poor. Government supply-led credit programmes would have the advantage of funding from government budgetary allocations and donor agencies, but while they may be useful as a means of seeding programmes, often they are inefficient and unsustainable over the longer term.

Coops, by their very nature, are unable to accommodate the poor outside their membership. As organizations focused on the poor and similar to the microfinance NGOs, coops face the same information problems, inadequate collateral, and high transaction costs associated with processing small loans to those outside their membership.

In the 1980s, attempts to increase membership in coops dramatically created tremendous ‘past due’ accounts, which in some cases rose as high as 60 per cent. The bankruptcy of some coops that followed created a more conservative and cautious attitude to rapid expansion of membership.¹⁴

Even today, coops normally seek out ways to address the credit needs of the poor beyond their existing membership but not at the risk of high delinquency. However, the same cautiousness has produced a valuable experience among coops in that high delinquency has nothing to do with the clientele. Whether a person is poor or not, delinquency issues can be resolved by imparting the needed knowledge and skills to the board and management running a financial service coop.

As they claim to be the original micro-financing institutions, coops lately have started to present programmes directed at non-members using the more recent micro-financing innovations. These programmes differ from other microfinance programmes in that coop microfinance involves a process of raising the poor to the level of regular members with shareholdings and voting rights.

4.3.2 Micro-finance and the youth

In Betcherman’s studies¹⁵ of active labour market programmes (ALMPs) in a limited number of countries (Betcherman: 1999 and 2004), he observed that micro-enterprise development/self-

¹⁴ Conversation with Cresente Paez, CEO, National Confederation of Cooperatives (NATCCO).

¹⁵ Betcherman, et al. 2004. Impacts of Active Labour Market Programmes: New Evidence from Evaluations with particular Attention to Developing and Transition Countries. Social Protection Discussion Paper Series. No. 0402. Social Protection Unit, Human Development Network, the World Bank. January 2004.

employment programmes can be a useful means of encouraging unemployed workers to start their own enterprises. Assistance can involve providing financial and advisory support for start-up, ‘incubator services’, or supporting operating costs of small businesses.

These programmes have been offered both universally and for particular groups, such as the newly unemployed or the long-term unemployed and tailored to the needs of each group. In some cases, financial contributions are made through an initial lump-sum payment while in other cases they involve periodic allowances. Often there is ‘screening’ process whereby potential beneficiaries undergo an assessment that evaluates their likelihood of success. Public programmes to support small business loans can contribute to the removal of distortions arising from credit rationing.

However, these programmes also risk placing small businesses and entrepreneurs that do not receive assistance at a disadvantage relative to those that do.

Betcherman observes that where private banks are often unable to conduct comprehensive risk assessments required in offering credit packages to unemployed workers who want to create their own business, public programmes to support small business loans can contribute to the removal of this distortion arising from credit rationing. Thus, micro-enterprise development aims at creating and promoting new small-scale businesses and providing self-employment through technical assistance, credit and other support. Public programmes of this nature are often aimed at countering ‘market failures’—not in the labour market but in the financial market. Possible pros of such programmes include fostering entrepreneurial spirit and the empowerment of women and other disadvantaged groups. Possible cons include: (i) high deadweight loss; (ii) small businesses that do not get this assistance may be displaced; and (iii) low take-up rate among the unemployed (due to risk-aversion).¹⁶

The results of Betcherman’s studies are less than effusive in terms of the net positive impacts of all categories of ALMPs across all groups and for the youth in particular. The few evaluations undertaken in a limited number of countries that look at micro-enterprise development/self-employment assistance offer a mixed picture of the extent to which these programmes help future earnings and have an overall employment impact. Generally, micro-enterprise development assistance does show some positive impact for older and better-educated workers, even if the overall take-up is low. For younger workers, the results are less clear. In terms of job creation programmes, targeting the youth is a priority in many other public-sector employment interventions; in job matching services, in labour market training, and job creation programmes. Micro-enterprise development as a form of job creation, however, does not appear to be suited for the youth but is more relevant to other disadvantaged groups.

Nevertheless, there have been instances elsewhere where micro-financing is part of employment programmes for the young and these are worthy of study for the lessons that may be gleaned from them.

4.3.3 Micro-financing for young people: the experience of others

In Pakistan, the Youth Investment Promotion Society (YIPS) scheme provides loans of between Rs10,000 (\$285) and Rs200,000 (\$5,700) to unemployed high school graduates aged between 18 and 35 for self-employment projects and with a mark-up (interest on repayment) of 14.5 per cent.¹⁷ This YIPS is a government agency which identifies the borrowers and provides technical training. Loans are disbursed through the Small Business Finance Corporation (SBFC) of the

¹⁶ Gordon Betcherman, et al.1999. Active Labour Market Policies: Policy Issues for East Asia. Social Protection Unit, The World Bank. Second Draft.

¹⁷ Based on the principles of Islamic finance.

Ministry of Finance. However, the nature of the target group is such that it does not tend to reach the poor, and most loans are for considerably more than the minimum Rs10,000.¹⁸

In Sri Lanka, the government has introduced the Samurdhi Development Credit Scheme, targeted at welfare beneficiaries. The scheme is implemented by the Ministry of Youth Affairs, Sports and Rural Development in collaboration with two state commercial banks. The government provided Rs500 million (US\$9.1 million) to the two participating banks for 1997. Borrowers were selected by village task forces, and receive loans of between Rs2,500 (\$45) and Rs10,000 (\$180) at an interest rate of 10 per cent. Because of the newness of the scheme, no data on its performance are available at this stage but this scheme warrants further monitoring for the future.

One innovative microfinance programme of Sri Lanka was the Gami Pubuduwa Updeshaka (GPU) scheme operated by Hatton National Bank, a private commercial bank. The programme was introduced in 1989, aimed at rural and semi-urban unemployed youth. It is based on the concept of 'barefoot banking'. Essentially, the GPU officers act as a linkage between the bank and the rural community, with most banking transactions carried out in the village, rather than at a bank branch. At present, there are around 7,000 borrowers under the programme, and the programme has also been very successful in terms of savings mobilisation. In addition, the bank has a linkage programme for lending to the poor, involving around 15 NGOs. The bank's microfinance programme has been considered in detail by the World Bank.¹⁹

4.3.4 Government role in micro-financing

In the Philippines, there used to be more than one hundred government-run credit programmes, many of which involved government agencies lending directly to final borrowers. These programmes have been criticized for being inefficient, highly politicized, uncoordinated, and unsustainable.

*"Philippine experience has shown the huge inefficiency and high costs of using government non-financial institutions to implement credit programmes. Recent research has shown the unsustainability of government supply-led credit programmes, the great capacity for leakage of the benefits of government credit programmes to the non-poor, the duplication and overlapping of a number of credit programmes leading to gross inefficiencies, the distortion of the financial market and weakening of private sector incentive to innovate."*²⁰

In 1995, the government established the People's Credit and Finance Corporation (PCFC) as a government finance company for lending to the poor. The National Credit Council (NCC) envisages that the corporation should gradually replace many of the other lending programmes operated by line agencies of government.

PCFC lent funds to NGOs, rural banks, cooperatives, and other intermediaries as 'conduits' for on-lending to the poor and targeted to ensure that such intermediaries are replicable, self-sustaining and operationally viable. PCFC also availed of funds from Asian Development Bank (ADB) and the International Fund for Agricultural Development (IFAD) exclusively to support micro-financing institutions replicating the Grameen Bank approach. PCFC also lent funds to conduits for capacity building.

¹⁸ Paul B McGuire, John D Conroy and Ganesh B Thapa. 1998. Getting the Framework Right: Policy and Regulation for Microfinance in Asia. Banking with the Poor. <http://www.bwtp.org/publications/pub/GettingTheFrameworkRight.htm>

¹⁹ Paul B McGuire, et al. 1998.

²⁰ Llanto, Gilberto M., Garcia, Edgardo, and Callanta, Ruth. 1996. 'An assessment of the capacity and financial performance of microfinance institutions: The Philippine Case'. Discussion Paper No. 96-12, Philippine Institute for Development Studies.

4.3.5 Local government initiatives in micro-financing

A local initiative that aims to use micro-financing as a tool for employment generation would have to take into account the emergence of viable micro-financing institutions, the phase out of credit programmes directly provided by government agencies and their rationalization through PCFC, and the use of micro-financing institutions as conduits of PCFC funds.

Although local governments may not access government funding to provide loans to end-users, they can perform other activities that facilitate micro-financing activities. In the survey of Asian countries undertaken by the Banking with the Poor Network, a Singapore-based NGO that works to build larger scale sustainable microfinance organizations,²¹ local governments seemed to play a role more in terms of identifying the targets of government-led credit programmes. Rather than just being a tool in supply-driven programmes, local governments can play the role of a genuine facilitator between the poor who seek out micro-financing and micro-financing institutions who seek out clients that are poor.

NGOs and cooperatives involved in micro-financing are a response to the inability of private commercial banks to serve the credit needs of the poor. However, micro-financing institutions including the cooperatives, like private banks, also face costly information gathering needed to enable them to begin extending their services into new areas. At the other end of the spectrum, the poor face the problem of searching for the financing package most suited to their needs and the one that is available to them at the least cost.

Given a policy goal of helping the poor to access financing, local governments can use their machinery in a match-making role by putting micro-financing institutions that operate for the benefit of the poor in touch with clients requiring loans. If these information services are operated on a regular basis, as the Quezon City government is doing, the costs faced by the two parties can be drastically reduced and market transactions facilitated.

More micro-financing supply would be forthcoming if local governments could be made more effective in identifying the clients sought by micro-financing institutions. Information problems can be mitigated by local governments without incurring the same moral hazard problems that are present when they are used merely to identify the recipients of a government lending programme at a pre-set supply amount (example: *Lingap para sa Mahihirap*).

4.3.6 Quezon City experience: the Sikap Buhay Programme

Our case study in this section focuses on self-employment through microfinance by considering the cost-effectiveness, replicability, and possible design improvements of the key programme for financing for self-employment and micro-enterprise in Quezon City—Sikap Buhay Entrepreneurship and Cooperatives Development Center (SBCC) and specifically as it affects females and the youth.²²

Quezon City provides a concrete example of local government facilitation of the micro-financing market.²³ In 2001, Quezon City started the Task Force Sikap Buhay to implement an assistance programme for the city's small entrepreneurs. In 2005, the programme was transformed into the SBCC.²⁴ There is a pending move to transform SBCC into a regular city government department.²⁵

The SBCC is the equivalent of the cooperative development office found in other LGUs. The appointment of provincial, municipal, and city cooperative development officers are authorized under the Local Government Code of the Philippines (RA 7160).

²¹ <http://www.bwtp.org/> (accessed on 21 July 2009).

²² Quezon City Council Ordinance SP 1607, S-2005.

²³ See for example: Clarence G. Pascual, *Social and economic empowerment of women in the informal economy: Impact case study of Sikap Buhay*, Working Paper 18, ILO Manila, 2008.

²⁴ Quezon City Council Ordinance SP 1607, S-2005.

²⁵ Key informant: Rhodora T. Elpa, Cooperatives Division Unit Head, SBCC. Interview date and venue: April 19, 2007, SBCC Office, Quezon City Hall.

SBCC aims to promote entrepreneurship and self-reliance among its clientele, to expand the number of entrepreneurs and their businesses, develop community and institution-based training for entrepreneurial skills and values, and coordinate city-based coops concerned government agencies, and local bodies.

While there are assertions that a significant percentage of the beneficiaries of the SBCC programme are young people,²⁶ the programme in fact does not specifically target this group. Yet, 30 per cent of programme beneficiaries are in the 18–35 age bracket. This suggests that there is a demand, among younger workers and their under-representation (by comparison with their over-representation in the unemployment data) suggests that there may be an unsatisfied demand.

The three major programmes of Sikap Buhay are the following:²⁷

- Facilitating access to capital loans and continually finding ways to increase the sources of capital loans. SBCC has assisted more than 20,000 micro-entrepreneurs in the last five years to access capital loans from its conduit or partner micro-financing organizations, which are cooperatives.
- Expanding entrepreneurship training services by organizing entrepreneurship skills and leadership seminars through in-house trainers and institutional partners.
- Promoting cooperativism by proactively advocating the concept of cooperatives for economic endeavours, closely networking and coordinating with cooperative federations and alliances, promoting small entrepreneurs' coops, and coordinating with them in implementing the objectives of the Cooperative Development Authority (CDA). SBCC has published a Cooperatives Directory of Quezon City.

Quezon City is undertaking a micro-financing facilitation programme that matches poor entrepreneurs with micro-financing institutions. Under this programme, the city government has entered into separate memorandum of agreements with the Cooperative Rural Bank of Bulacan (CRBB), Novaliches Development Cooperative (NOVADECI), and the EuroCredit Cooperative to provide loans to the poor identified by the city as being suited for micro-financing assistance.

These institutions have different pre-existing financing packages and policies and offer different lending rates. The agreements do not impose an obligation on the part of the partner institutions to revise their programmes and policies.

CRBB is based in Bulacan but has pre-existing operations in District 2 in the northern part of Quezon City. NOVADECI was originally confined to the Novaliches District until it expanded to other parts of the city. Eurocredit is also based in Quezon City.

As a cooperative bank, CRBB has cooperatives as members/owners and can offer financial services to members and non-members, institutions, or individuals. It operates a micro-financing programme patterned after the Grameen model, under which the borrowers, who are individuals, are organized into groups composed of five members who monitor each other's compliance with the lending terms.

As primary cooperatives of the savings-and-credit type, NOVADECI and EuroCredit are owned by individuals and offer services only to members. The Grameen-style micro-financing for group borrowers that the two coops also offer is therefore contingent on a programme of initially enlisting the micro-financing clients as associate members without voting rights and eventually graduating them to full membership. However, prospective borrowers may also opt to apply for membership at once, meet the regular membership requirements, and file the normal procedures for member's loan applications.

Prospective borrowers among the poor are sought by barangay political leaders and mobilized to attend orientation seminars, usually for groups of 25 participants, where they are briefed on the

²⁶ Made, for instance, by the Head of the PESO of Quezon City.

²⁷ Quezon City Cooperatives Directory. *Introduction*. Quezon City Sikap Buhay and Cooperatives Center, 2007.

different micro-financing programmes. The beneficiaries must be poor or with income below the poverty threshold, female, between 18 and 60 years old, and must have an existing small business, which can be of any type ranging from vending *gulaman* (sugared drink) to a sari-sari store. Most of the beneficiaries are in fact engaged in some form of direct selling business. In addition to these criteria, beneficiaries must be living in the barangay for not less than one year. Residents living in rented houses are a secondary priority. Only 15 out of 25 attendees at the orientation seminars usually qualify under these criteria.

The programmes and policies of the micro-financing partners are presented by SBCC staff in these orientation seminars.²⁸ The staff present first the programmes of the micro-financing partner that operates in the area from where the seminar participants come. As questions from the participants begin to reveal their particular preferences and qualifications, the staff end by presenting the programmes of all the other micro-financing partners. Thus, the needs, preferences, and qualifications of the prospective borrowers are matched by information on the micro-financing institution with a programme that best suits them.

The choice of micro-financing package by prospective participants is influenced by interest rates and other exigencies. The interest rate in CRBB's micro-financing programme is only 1.5 per cent per month for six months while it is 2.5 per cent in NOVADECI. These are well below rates that would normally be made available to the poor by informal lenders, which is often the only available alternative. The minimum loan is PhP5,000 per cycle of six months. Some participants, undertaking successive cycles, have already qualified to take out up to PhP40,000 in loans.

However, participants in group borrowing schemes must undergo intensive seminars on group values and solidarity, and must actually search for group-mates that they can trust. To form a group of borrowers, beneficiaries choose their own group-mates who live nearby in the same community. Applicants who are otherwise qualified but unable to find qualified group mates may not be accommodated by the programme.

At least three groups, composed of five borrowers each, comprise a centre, with at least 15 borrowers per centre. Clustering the borrowers' groups into centres is meant to facilitate monitoring, advisory services, and enforcement by SBCC and the micro-financing partner concerned.

On the other hand, individual borrowing does not involve any transactional relationship with another borrower or group of borrowers. However, this requires that a participant becomes a member of the cooperative and hence must put up share capital and undergo cooperative membership education. This option is available under NOVADECI, which requires a minimum paid up capital of PhP830 and the EuroCredit Coop, which requires PhP5,000.

Of the qualified participants that underwent SBCC orientations, 60 per cent opted to become clients of CRBB's programme, 20 per cent of NOVADECI, and 10 per cent of EuroCredit. The remaining 10 per cent opted not to take a financing programme. Most participants were generated in 2006, totalling PhP12,000 to PhP15,000. Since 2002 when the programme started, more than 20,000 people have participated.²⁹

SBCC workers observed that the criteria disqualify a significant component of the entrepreneurial poor who are otherwise qualified except that they are male and above 60 years old (senior citizens). Persons with disabilities (PWDs) and the out-of-school-youth (OSY) who also are not covered by the programme. Thus, a 73-year old fruit vendor at Philcoa who approached the programme could not be accommodated.

²⁸ Noel Alcantara and Rommel Macaro, Section Heads for District 2 and 4, respectively, are in charge of the orientation seminars.

²⁹ These numbers may now be higher but were correct at the time this research was undertaken.

4.3.7 Application of the programme to the youth

Female beneficiaries between 18 to 35 years old comprise 30 per cent of the participants in the Quezon City programme. According to SBCC staff, an 18-year old applicant can be accommodated only if she is the breadwinner of the family. Thus, young adults enrolled in the programme are either working mothers or siblings supporting their families. However, an 18-year old can also be accommodated into a group if one of the five group-mates resigns or is disqualified and a vacancy therefore becomes available. The idea behind this is that the younger and inexperienced member will be mentored by others with experience in the programme.

The programme does not particularly target young people (those 18 to 25 years old) who may or may not be breadwinners or heads of families. However, the programme does promote itself to young people. And yet, young people have generally shown little interest.

SBCC participates as a booth exhibitor in the job fair organized annually by the city government. In one recent fair, it promoted the programme to the youth with a streamer that read: “*Pagod ka na bang maghanap ng trabaho? Bakit di ka magnegosyo?*” (Tired of job hunting? Why not start your own business?) Very few young people took an interest in the SBCC booth while those booths occupied by local companies had long lines of jobseekers hunting for employment.

SBCC staff further observed that the partners must attempt to accommodate all types of needs. One SBCC Microfinance Development Officer observed that CRBB project officers tend to be conservative and inflexible in the application of the qualification criteria. They also tend to rotate frequently between their main operation in Bulacan and the post in Quezon City, which sometimes appeared to act as a training ground for new project officers of the cooperative bank. The solution might be to expand the set of micro-financing partners, and our interlocutor said that SBCC in fact is continuously seeking out more partners so that more beneficiaries and those with different characteristics can be accommodated.³⁰ These include senior citizens, PWDs, and OSY. The SBCC Entrepreneurship Division Chief observed that micro-financing programmes of the partners do not seem to include the “very, very poor.”

SBCC has 28 staff. There are two line divisions (Entrepreneurship Division and Cooperatives Division) and two staff units (Special Projects and Administration). The Entrepreneurship Division is divided into the Promotion and Networking Unit and the Monitoring Unit. The former is responsible for recruiting and orienting prospective micro-financing beneficiaries and linking with possible micro-financing partners. The latter, which is responsible for monitoring the centres composed of group beneficiaries, is further divided into District 2 Section and the District 1, 3, and 4 Section. There is a pending move to transform SBCC into a regular department of the city government.³¹

4.3.8 Assessment of the findings

Quezon City’s facilitation of micro-financing benefited a total of 20,000 poor from 2002–2005. Of the total, 15,000 were generated in 2005 alone. If these numbers could have been generated even without the city’s intervention, then the programme represents a deadweight loss to the city.

But this may not be the case. There are indications that the programme represents an added value to society. Micro-financing, as an activity that delivers financial services to those who would otherwise be left unserved by financial institutions, is a relatively young industry. Even the cooperatives that traditionally included the poor in their membership are just beginning to target the poor and very poor in their service coverage.

³⁰ Key informant: Junnie P. Natad, Microfinance Development Officer (since 2003), SBCC. Interview date and venue: April 19, 2007, SBCC Office, Quezon City Hall.

³¹ Key informant: Gloria Alcoran, Entrepreneurship Division Chief, SBCC; CP No. 09152355402. Interview date and venue: April 19, 2007, SBCC Office, Quezon City Hall. Alcoran was formerly with Uplift, a micro-financing institution.

The newly organized networks or federations of micro-financing coops and NGOs have yet to fully standardize their operations and pool sufficient resources to provide for common services to make the activities of their members more efficient. Such services may include common promotional activities and common credit investigation bureaus. Local governments can fill these gaps under a programme of providing immediate relief to the financing needs of their constituencies.

Cultivating the micro-financing market serves the public interest. Economic information and imparting the values of entrepreneurship, savings, and credit-worthiness as contained in SBCC orientations and fieldwork can be seen as public goods that, just like school education, are at least in principle available also to all types of financial institutions.

From a different point of view, such activities also represent an improvement in the content of the political constituency work of politicians and political parties. In terms of local administration, attracting and mobilizing private micro-financing institutions to meet local goals tend to keep local governments in the business of leading and coordinating, rather than in actually staking out meagre public resources when alternatives can be made available.

4.3.9 Replicating the SBCC

Replicating the SBCC initiative should not be particularly difficult, particularly where there are existing micro-financing operations by coops or NGOs or both, and where there is an existing city or municipal cooperative development office. The appointment of cooperative officers by local governments is provided under the Local Government Code, although this is optional for provinces and cities (Section 487, RA 7160). In any case, offices taking care of entrepreneurial promotion and cooperative concerns have been instituted in a number of cities and provinces, partly in response to CDAs advocacy and to Executive Order (EO) 96 that calls on local governments to assist coops and to complement the work of Cooperative Development Authority (CDA.)

The EO 96 mandates that *“all departments, branches, subdivisions, and instrumentalities of the Government shall promote the formation of cooperatives under their respective programmes by providing them with appropriate and suitable incentives”* and instructs local governments to assist CDA in the collection of cooperative annual reports, mediation and conciliation of cooperative disputes, monitoring of compliance of cooperatives with the CDA rules and regulations, and implementation of programmes for cooperative promotion and development. These are reflected in the statement of objectives and functions of the local cooperative offices.

Bulacan has its Provincial Cooperative and Entrepreneurial Development Office (PCEDO) that operated even before EO 96. PCEDO's *Kaunlaran sa Pagkakaisa* Programme (KPP) initiated during the incumbency of Governor Roberto Pagdanganan, involved extending assistance, including financing to cooperatives. It is one of the most considered local government initiatives in cooperative development and is supposed to have inspired EO 96.

Muntinlupa City adopted the mandate for local governments under EO 96 for the functions, duties and responsibilities of its City Cooperative Office. Aside from technical assistance, the city government allocated Php2 million (later increased to Php5 million by Mayor Jaime Fresnedi) for lending to cooperatives.

Cooperative offices elsewhere would mostly serve to fulfil the mandate to support the promotion of coops, and EO 96 (which was written by CDA as signed by President Ramos in 1993) seeks to make local governments function as deputized agents of the CDA in assisting and regulating cooperatives, with the expectation that the assisted coops will meet local objectives in economic development, creating employment, or making credit more available.

In contrast, the SBCC initiative in Quezon City started with a clear objective, to provide financing to the poor, and enrolled cooperatives that could measure up to the task. EO 96 does not rule out innovations such as Quezon City's SBCC, but it provides little guidance for local governments on how to drive cooperatives to become more competitive and capable of meeting local goals.

Box 3: Multiple sources of finance for the programme for entrepreneurship (Bulacan)

The skills training programmes in Bulacan area were initiated by peoples' organizations. The trainings requested in rural areas (e.g., in the town of Dra. Trinidad) where there are scarcely any formal sector employment opportunities are more related to skills for self-employment through livelihood projects. In other places like Meycauayan and San Jose del Monte, skills demanded are those more appropriate for increased employability in formal sector firms. The participants are usually a mix of young and older workers, although there would be courses such as those in cell phone and computer repair offered in Pulilan town that tended to attract younger workers (one such course held in April 2007 attracted 569 participants aged between 18 and 35 years). The Bulacan province PESO keeps track of the participants, but these records were not immediately accessible during the period of the study. Based on such records, however, there was a tracer survey implemented between 2006 and 2007, but the results have yet to be collated and analyzed.

TESDA certified trainers implement the training, with the honorarium of PhP100 per hour for 40-hour courses provided by the province. It is possible that costs could be higher where, as may be the case in less urbanized provinces, trainers must come from elsewhere. Bulacan happens to have between 30 and 40 active TESDA-certified trainers readily available.

The municipal LGU provides for the materials needed for the training as well as the food and venue. Raw materials required for training courses are usually provided locally—by the barangay or sometimes by the participants. There are cases of courses in cooking where the meat and other cooking ingredients are supplied by the barangay administration.

In 2006, an average of four training sessions per municipality were provided for 24 municipalities on courses chosen by the peoples' organizations. The PESO officers estimate that around 9,000 people (including young people) were trained.

Most cooperatives operating savings-and-credit services to members (who are mostly poor) have yet to extend micro-financing services to non-members (the even poorer). However, cooperative micro-financing is catching up, with community-based savings and credit coops (such as NOVADECI) beginning to take a position in the microfinance market. NATCCO is undertaking a micro-financing programme to enable its members to deliver financial services to the enterprising poor on a massive scale. Local governments aiming to help their poor would benefit by tapping into the growing capabilities of these coops.

While the micro-finance programmes of the private sector and of local government have made some headway in addressing the needs of the poorer sections of the community, so far little has been done to make them relevant to the issue of youth unemployment. Those that have sought out the youth have, so far, targeted only female youth. This issue is addressed in the next section.

4.4 Areas for reform: towards a new policy agenda for youth

Having used the case studies from Bulacan and Quezon City related to employment interventions as they affect young people and from which we have attempted to draw some conclusions that may have broad applicability, in this final section we will discuss some of the areas identified that may inform a new policy agenda designed to reduce the present high levels of youth unemployment.

4.4.1 Addressing labour market rigidities

Aside from the TESDA-supported training, among the pre-employment seminars and the job facilitation services on offer, the most important programmes addressing youth unemployment are the SPES and the Work Appreciation Program (WAP). Both are nationally-supported programmes for young workers. The SPES requires significant expenditure, while the WAP involves a relaxation of the minimum wage applied to young workers.

The SPES is a 40 per cent wage subsidy on the (minimum) wage compensation that is given to firms that hire disadvantaged youth in jobs that would not otherwise have been open to them. There is usually a long line of prospective employees who wish to be part of the programme and demand exceeds supply (of funds). This may be an indication that there is scope for reducing the amount of the wage subsidy and spreading available funds more widely.

Unlike similar programmes in other countries, there is no requirement for hiring the young workers enrolled in the programme for a specific number of months after the subsidy has been used up. Neither is there a specific learning programme that is used to evaluate the extent to which the work experience gained had been a learning experience—and hence enhanced their future employability—for the youth participants.

These observations suggest ways in which the programme could be made more cost-effective. In the end it is unlikely that firms in Bulacan would employ fewer people should the subsidy cease to be available, the real question that needs to be evaluated is whether disadvantaged youth who go into the programme are indeed provided with opportunities that would otherwise have been given to other applicants who are more skilled, more mobile, and more socially networked.

A full-scale review of the SPES programme would be useful because of its widespread implementation in all regions in the country.

The WAP reduces the compensation that firms must pay to students who wish to earn an income while continuing with their schooling. In other countries similar programmes of labour law relaxation are classified as preventive programmes (in Chile for instance).

“Overly strict” enforcement of minimum wage laws is supposed to lead to the crowding out of inexperienced youth in the labour markets. Conceivably, a lower wage may be offered to a minimally qualified young person in exchange for which, the firm would be able to spend on firm-specific skills training. When enforced, a high minimum wage removes that option from the employers menu and leads to an inadvertent policy bias against young workers.

We have observed that most formal sector firms in Bulacan also enrol in this WAP programme. It is usually in larger formal sector firms that labour standards become enforceable through monitoring by the DOLE.

4.4.2 Social protection from income shocks

Job search facilitation, job creation, and skill acquisition are often the immediate programme types that come to mind when considering amelioration of youth unemployment and underemployment. It is important to circumscribe this mental reflex with the understanding that the entry into labour markets by young people is often undesired and premature. This is especially true for youth from the poorer sections of society. There are many cases where a young person has to quit school, be unavailable for taking care of younger siblings at home or be exposed to hazards and undesirable social influences that come with working far from home, simply in order to earn income to support the family.

Income shocks are the proximate reason households prematurely deploy young people into the labour force. Usually such income shocks affect the ability of the heads of households to continue earning the same level of income as before.

There are a wide variety of income shocks that vary greatly across sectors and across locations—closure of firms, pestilence, bad weather, injuries and sickness of breadwinners as well as seasonal slumps in the demand for farm or factory labour. A sudden increase in the price of key commodities such as electricity and rice can also be considered income shocks if they manage to reduce the ability of poor families to pay for other basic necessities.

Similarly, the formal and informal methods of avoiding risk of income shocks, insuring against them or mitigating their effects vary. There are loans from relatives or from the local pawnshop, temporary employment in Manila or other major urban areas, formal insurance against sickness, separation pay and many others. In most instances, already existing programmes are directed at skills diversification, to a greater capacity to find off-farm employment or to facilitate access to micro-finance loans to set up a small business.

It is important to identify the most common sources of local income shocks that, in the past, led to the undesired deployment of young people into the labour force since in many instances these are locality dependent. If an LGU discovers that the high cost of hospitalization for heart attacks is a major cause of the withdrawal of students from school and their entry into the labour force an important programme might have to be for the local government to enrol all poor households into the PhilHealth's programme for indigent families. If it is discovered that the erratic rainfall in unirrigated farms has been causing severe difficulties to rural households in several barangays then crop diversification or the extension of irrigation systems might be appropriate responses. The more focused the response, the better the outcome will be. To the extent that these programmes

support the main breadwinners in sustaining their capacity to earn incomes despite the shocks, these programmes also pre-empt the undesired entry of young people into the labour force.

While local poverty mapping methods are being promoted by the Department of Interior and Local Government (DILG) it is essential to complement this with instruments and methods for mapping the income shocks and risks that cause families to fall below the poverty line. In a sense this would amount to a vulnerability mapping.

The mapping of risks and vulnerabilities that led to income shocks in the past will provide local governments with an idea of which programmes to establish, modify, scale up, or—in some circumstances—abandon. Such mapping of risks will also provide a clear idea of the informal methods of risk avoidance, insurance, and mitigation that can be enhanced by public programmes so that they can become more adequate to the magnitude of the risks.

4.4.3 Encouraging youth entrepreneurship through microfinance

The MSBCC's weakness in spurring youth entrepreneurship through micro-financing suggests that the youth tend to be more biased towards institutional employment and avoid taking risks. However, such an attitude is not confined to the youth alone. Workers generally are risk averse and given a choice, most will opt for work opportunities other than self-employment. This has been observed in the Betcherman et al. studies.³² However, one study has shown that although the young have a relatively low probability of being self-employed—or at least choosing it as a preferred option, they are distinguished from older age groups in that they are particularly likely to say they would like to be self-employed if they had the choice.³³ This possibly reflects a natural rebellion by youth against authority and 'bosses' rather than a considered opinion.

As noted, the programmes of the micro-financing institutions assisted by SBCC are not designed specifically to target young people as a priority and the extent to which they do so, the focus is only on female youth. Thus, SBCC's record should not be seen as an argument against youth entrepreneurial promotion and youth micro-financing. There are sections of the youth for whom micro-financing is a relevant service, only that a different set of criteria should be expected to make youth micro-financing work. Entrepreneurial young people with drive and enthusiasm but with no track record can be helped by small loans, perhaps with mentoring attached to reduce risk. This is an area where the experienced private sector and the industry associations may have a role to play. Local initiatives such as the SBCC can still help young entrepreneurs by linking with an entirely different set of financing partners.

4.4.4 Missing programmes

The role of the PESOs and that of cooperative offices of local governments, can be facilitated or complemented by human resource service cooperatives, which are workers' coops that operate as investor-owned labour service agencies that contract workers demanded by firms, except that the supplying firm is owned by the workers themselves. As owners, the workers subscribe to the needed capital stock, appropriate the income in the form of worker's patronage refunds and interest in share capital, and elect the board and management. All things being equal, it is superior to investor-owned agencies that tend to exploit workers since these are driven by the need to seek a profit for external investors rather than maximizing income returned to the workers themselves.

To remain competitive, human resource service coops must be able to respond to the demand for labour services by those firms seeking to hire. This means they must attract into their fold sufficient workers across a range of different skills categories. However, in obtaining a broad base, many would-be members will not have the money to pay the subscription needed to become a regular member. However, such service coops can enrol these workers as associate members, without

³² Gordon Betcherman, et al. *op cit*.

³³ David G. Blanchflower. Youth Labour Markets in Twenty-three Countries: A Comparison Using Data. Department of Economics, Dartmouth College, Centre for Economic Performance, London School of Economics, National Bureau of Economic Research.

voting rights, but undergoing the same programme whereby they eventually pay the minimum capital subscription necessary to become regular members.

Local governments, through the coordination of the PESO and the cooperative office, can provide information on available workers in its jurisdiction to the service coops and also provide information to workers on the qualification criteria and job requirements sought by the coops. This can help labour service agencies save on costs associated with search and recruitment. It can help the PESO and the local government by lowering the costs associated with monitoring the job requirements of firms and employers. With contractual jobs on the rise and available regular positions declining or not growing sufficiently to absorb available labour, monitoring job requirements can be a tedious undertaking.

By providing help to human resource service coops in informing and recruiting workers, local governments can encourage the right kind of worker service coops—those that are competitive in supplying labour to firms, that can provide the best benefits package to workers, and possibly can provide other services to member-workers such as savings-and-credit, insurance, and pre-needs.

Human resource service coops in general would have incentives to recruit younger workers who have less chances of landing regular employment, unlike older and more experienced workers. Properly managed, these coops would be in a better position to provide continuing employment for their members as they would be able to manage the placement schedules of their members from one job assignment to the next.

Local governments would not have to use their funds in support of worker cooperatives. All that is needed is the organizational impetus. In terms of human resource service facilitation, neither would local governments have to directly monitor the requirements of the employing firms. Link-up with service coops could be most helpful in localities where people seek employment overseas or elsewhere in the country. Asiapro Cooperative, for example, supplies labour services to firms based in nearby Metro Manila and in far away Mindanao, and is studying methods to supply labour services abroad.

As illustrated above, the loop that connects the labour market information institutions with educational institutions appears to be missing—at least in Bulacan and probably in other areas as well. While market-based training programmes, for instance, provide incentives for trainers as well as students to invest effort in identifying activities and aptitudes that would increase employability and personal incomes, the market feedback is not having the effect that it should. The weakness of the supply and demand system is probably even more evident in public educational institutions. In such instances the market mechanisms needs to be supplemented with other mechanisms.

The PESOs, such as those in Bulacan are not confined to their own locality; they also receive information about job placement possibilities in firms located in other areas. There is a periodic surge in the demand for workers in Calabarzon because of the routine termination of production workers whose contracts are terminated after six months (due to labour code rules on regularization of status). Vacancies run into the thousands. These labour agencies soliciting vacancies from different firms obtain a fee for recruiting workers and screening applicants. In some instances, they also manage the everyday deployment of workers at the work sites or shop floors and constitute the basic supervisory tier in the management chain. A partnership with PESOs is a happy meeting of the demand side and of the supply side—this link up between the PESO and the private sector human resource services agencies may be one of the missing elements that could increase the attractiveness of public labour facilitation—increasing the options that applicants can choose from. This partnership is only being haltingly explored in Bulacan; other PESOs would do well to explore the option too.

The Bulacan-Cavite facilitation process falls short of being efficient because there can be significant transactions costs that prevent the hiring from being consummated. Because final interviews and medical check ups and clearances need to be done in Cavite, the estimated PHP500 per day cost of job-seeking can be a significant hindrance for individuals who after being placed by the local PESO would like to pursue the employment possibility in another province. There is probably scope for a small one-time mobility fund to assist workers in such circumstances. This should also probably apply for Bulacan farm workers who would like to seek non-farm employment in Metro Manila during seasons when there is little available work in agriculture.

The returns for such mobility grants can be significant, compared (for instance) to the funds spent for SPES. It is also quite possible, however, that what is really preventing the movement of workers from one province to another as they search for better employment is that the opportunities might not be all that attractive.

After the cost of moving, separation from parents and the cost of renting a bed space in the new location are factored in—waiting for a local job might appear to be a better choice. The income differential might be attractive for people from poorer provinces, but not for those who come from Bulacan, which is closer to Metro Manila. The wage differentials among different provinces would perhaps become more significant once labour absorption is sustained and the demand begins to outstrip supply. That is expected to happen in the medium- to long-term period.

While our case study looked at the Bulacan-Cavite axis, with the recent emergence of the Central Luzon growth corridor (and the new North rail link currently under construction), new employability opportunities will likely be opened up not only for workers from Bulacan but from Quezon City and other parts of Metro Manila also. It will be interesting to reassess the situation as these new growth corridors mature.

Appendix 1

Job search duration for youth with various characteristics

Data set: combined FIES and LFF 2000

Model	Un-standardized coefficients		Standardized coefficients	T	Sig.
	B	Std. Error	Beta		
(constant)	8.724	0.065		133.940	.000
PR_EX	-2.846	0.070	-0.112	-40.77	.000
Main urban	1.030	0.067	0.045	15.382	.000
Labour19_24	0.552	0.037	0.019	14.959	.000
NPR_URB	2.496	0.064	0.073	38.825	.000
NPR_HSUP	0.839	0.070	0.027	11.974	.000
HS_URB	-3.400	0.070	-0.153	-48.912	.000
HSGRAD	1.407	0.069	0.059	20.454	.000
SOMCOLL	1.957	0.071	0.072	27.729	.000
COLGRAD	3.057	0.069	0.117	44.323	.000

Legend of main variables:

PR_EX-> 1= non poor; 0 – poor

Main urban: main urban areas = 1; 0- otherwise

Labour 19_24 ->15–24 looking for work: 1=19-24 yrs; 0= 15-18 yrs

HSgrad: 1=HS grad; 0 =otherwise

SomColl: 1=some college; 0 =otherwise

ColGrad: 1=college grad; 0 =otherwise

Interaction variables:

NPR_URB: 1=non poor and living in urban; 0=otherwise

NPR_HSUP: 1=non poor and HS grad & up; 0 = otherwise

HS_URB: 1=HS grad & up; 0 = otherwise

Interpretation

- Baseline: 8.724 is the average number of weeks of job search before employment for youth from poor households aged 15 to 18 years who are without a high school diploma and who search for jobs outside of the main urban areas of the country (Metro Manila, Cebu Province, Calabarzon Provinces, Davao Province).
- 2.846 weeks less time is required for job search if it is undertaken by a youth from a non-poor household (compared to the baseline). This appears a surprising result. It does not support the hypothesis that, other things being equal, youth from households with higher incomes would tend to have higher reservation wages and would therefore find employment more easily.
- In the context of less urbanized areas, however, it is possible that the shorter job search for the non-poor may have something to do with better social networks that non-poor households have access to for the purpose of job search. Further data analysis may yet show that this result might not hold in the case of urban areas. The coefficient of the variable *NPR_URB*, which shows that non-poor youth takes longer to find jobs in urban areas, supports this hypothesis.
- 1.030 weeks more time for job search if search is in main urban (compared to the baseline). This specific result—when brought together with the result below (see coefficient for *HS_URB*) regarding high school graduates looking for a job in the main urban areas of the country—implies that youth who have not finished high school have a difficult time searching for jobs, especially in urban areas. Job search for baseline youth is shorter outside of the main urban areas. With a high school diploma, however, job search in urban areas would be much shorter.

- 0.552 weeks more time for job search if job search is done by (baseline) youth aged 19 to 24 years; ordinarily one would expect that as workers become older they will also gain more experience and greater knowledge about what their skills can fetch. It would appear that there may be other mechanisms at play that prevent the period of job search from being shorter. It is possible that young people who did not finish high school have a harder time looking for a job because a greater proportion of job seekers of similar age have higher educational attainment. It is possible that the value attributed to employment experience for those who have been working mainly in unskilled tasks is lower compared to those whose higher educational experience which may have allowed them to absorb more knowledge and acquire more skills in the course of work.
- 2.496 weeks more time is required if a non-poor jobseeker (relative to baseline youth) looks for a job in an urban area. This may be a result of the standard mechanism of higher reservation wages for the non-poor but also, in the light of the coefficient of variable PR_EX, of the possibility that informal social networks for job search are less effective in the context of urban areas.
- 0.839 more weeks is required if (baseline) youth is non-poor and has a high school diploma or more.
- 3.4 weeks less time for job search is needed if search is by a high school graduate (or higher) and the job search is done in an urban area.
- 1.4 weeks more job search time is needed on average if the job searcher is at least a high school graduate
- 1.957 week's more job search time is needed on average if the job searcher had some college education.
- 3.057 week's more job search time is needed on average if the job searcher finished college.

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Choosing and assessing local youth unemployment interventions

In this working paper, the author looks at the cost-effectiveness of various programmes that address youth unemployment. The author disaggregates the youth segment from total unemployment and examines the two classes of unemployment – voluntary and involuntary – and their causes. Involuntary unemployment, argues the author, represents a market failure that requires a response. Current public sector interventions are assessed, their costs (including opportunity cost) are examined and tested in comparison to services offered in the private sector.

The author argues that with a greater range of choices now available to those seeking work, public interventions need to be carefully crafted and directed towards those areas where they will have the greatest impact. For example, instead of competing with private sector agencies in recruitment activities, the public sector agencies may be better placed to look at the labour supply side by working with schools and colleges to ensure that education and training provided equips graduates for the available jobs.

A complete section is given over to a comparative analysis of the youth unemployment situation in two locations—Quezon City, a highly urbanized area within Metro Manila and the semi-rural adjacent province of Bulacan.

This study concludes with a discussion of areas for reform and the issues that need to shape a new policy agenda for the nation's youth.

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