

1.3.6 Demand for Labour?

1.3.6.1 Labour Market Regulation

Strong labour market regulations in Africa segment the labour market by protecting employment for incumbent workers (typically adult workers) at the expense of prospective entrants (the majority of which are young). The duration of contracts, the costs of hiring and dismissal, and the legal provisions regarding contract termination all affect the number and type of hires in significant ways (AfDB et al. 2012). While this provides essential protection to people in formal employment, it may reduce labour market turnover since increased hiring or dismissal costs make employers more likely to retain inefficient workers rather than hire potentially more productive workers. High firing costs may increase employers' reluctance to hire riskier applicants, of which youth constitute a sizable share (AfDB et al. 2012).

As noted by Bertrand and Crepon (2013), there is a paucity of research regarding labour employment regulation and its effect on youth employment in Africa, but evidence from a variety of countries has consistently demonstrated the significant detrimental effect of labour market regulation on permanent hires. In the African context, Magruder (2011) finds that in South Africa, extending centralized agreements made by unionized firms to small firms decreased employment among small firms and start-up companies. Global evidence have found positive effects on youth employment from reduced dismissal costs for young workers on long-term contracts in Spain (Kugler, Jimeno, and Hernanz 2005), though the programme had some displacement effects on older workers. If firms are discouraged from hiring new staff because of severance pay provisions, providing greater social safety nets (e.g. unemployment benefits provided by the government) may ease the pressure on firms and improve labour market turnover.

There is still no clear vision as to what is effective in alleviating the disproportionate effects that labour market regulation has on youth employment, and few studies have explored the subject at length for the case of Africa. A greater variety of methods must be employed over a larger array of contexts if we are to determine whether temporary contracts can be structured to improve permanent employment probabilities for youth, whether alternative methods work better in fostering long-term labour force attachment, and whether policies that relax employment regulations for youth will generate long-term improvements in economic outcomes.

At the same time, it is possible that labour markets in rural areas could benefit from labour protection in the form of a set of minimum labour standards that may have positive benefits in terms of improved labour productivity and helping to address underemployment in agriculture. Here the evidence is much more scarce.

1.3.6.2 Employment Subsidies

By definition, young workers have less experience than older workers and are less capable of signalling their productivity to potential employers. If they are aware of these disadvantages, young people should be willing to accept lower wage offers in order to secure full-time employment. However, minimum wage regulations and other sources of wage rigidity, such those induced by collective bargaining agreements and powerful unions, will prevent entry into the formal labour market for those youth that would have otherwise been employed at a wage below the minimum wage. Those regulations therefore place structural barriers on labour demand and generate deadweight losses

that disproportionately affect young people (Freeman and Freeman 1991). Possible policies to address this inefficiency include instituting a separate minimum wage for youth, lowering labour taxes or providing employment subsidies for hiring youth, or addressing information barriers relating to youth's productivity signals.

A detailed review of the existing evidence on employment subsidies is provided in Bertrand and Crepon (2013). Aimed to compensate firms for screening, orientation, and training costs, as well as any losses in firm productivity that resulted from hiring a young worker instead of a more senior job applicant, the evidence available so far suggests that employment subsidy policies are difficult to implement and are weakly effective in helping youth access stable and durable employment, partly because of their costs and temporary benefits.

Other effects relating to employment subsidies may be of significant importance too. On the downside, wage subsidy programmes have been associated with displacement effects in Jordan where incumbent workers were displaced by demand for new, young workers (Groh et al. 2012). On the upside, subsidy programmes may encourage the formalization of informal jobs as were observed by Betcherman, Daysal, and Pages (2010) in Turkey. Even if this does not create new jobs, it may be effective in spurring competition in the formal private sector and in incentivizing more efficient wage adjustments among formal sector employers. Also, because of easier access to credit and other government benefits, formal firms typically grow more and at a faster pace than informal firms.

1.3.6.1 Public Works Programmes

Public works programs use public finances to create (often low paid, temporary) work opportunities related to economic and social infrastructure development. Projects can include work on irrigation, drainage, protection of agricultural land, roads, and building restoration. Through these work opportunities, it is hoped that young people gain labour market experience that may serve as a stepping stone into formal or informal sector jobs. In addition, the development of local infrastructure may create new jobs and grant rural communities greater access to basic necessities. Finally, public programs can provide an alternative form of welfare assistance for the society's most needy.

Research has shown benefits and shortcomings of public works programs including those in Africa. On the upside, a pre-post evaluation of a public works program in Liberia showed positive gains from the project's infrastructural improvements. These included a reduction in the poverty gap relative to baseline, reported gains in soft skills and benefits in the surrounding community. In the short-term, the program cost US\$1.96 to pay a participant US\$1, but this estimate ignores potential gains in market activity due to the infrastructural improvements as well as possible impacts on participants' future labour market success. Andrews et al. also find that the program appeared to benefit women more than alternative job options would have. The long-term impact of this program remained to be studied.

On the downside, evaluations of programs in Kenya, Botswana (Teklu and Asefa, 1999) and South Africa (Adato and Haddad, 2002) find that programs were badly targeted at poor households, and that they are more effective in providing temporary financial relief to households but typically fail to function as stepping stones into longer term employment (Kluve, 2010; and Betcherman, Olivas, and Dar, 2004).

There is a considerable amount of political appeal to public works programs, since they can drastically increase employment rates in the short-term. Consequently, rigorous research as to how to make these programs more cost-effective is needed urgently. Most countries in Africa do not have resources to finance large-scale public works programs, and may at most use such programs in their effort to target particularly poor and marginalized communities though economies of scale may make such programs more expensive. The merit of such programmes requires that they are not captured by political elites or subject to corruption.

1.3.6.3 Job Training and School-to-Work Transition Programmes

Job training programs target skill mismatches in the economy. Apprenticeships are the primary avenue of job training for youth and as noted by Bertrand and Crepon (2013) have strong social and cultural roots in several parts of Africa, in particular in West and Central Africa. Limited evidence exists on the returns to these programs as the first evaluations have shown mixed results. An RCT in the Dominican Republic reported a short-term positive effect on wages, although the effect attenuated in the long run, with no effect on employment rates (Card et al. 2011). Another RCT in Colombia (Attanasio, Kugler, and Meghir 2009) finds increased average wages and the probability of employment, especially for women; however because the program had multiple components besides job training, it is difficult to tease out the effect of the job training program.

Offering certification for apprenticeships, which has been done in Benin (AfDB et al. 2012), may facilitate recognition of skills acquired during informal training and rectify information asymmetry. In South Africa, workers can obtain accreditation for prior learning, which are seen as skills that they acquired on the job but do not have any formal qualification to shown for. Making sure that these certification options are available in relevant professions, including lower skills level, may enable young adults to accumulate better returns to their spells into and out of employment as they try to gain a footing in the labour market.

1.3.7 Summary

There exists a non-trivial body of micro-based evidence relating to youth labour market outcomes in Africa, but policy recommendations could be strengthened by greater cross-country evidence in order to flesh out precisely what works, what doesn't work, what programme components contribute to the success of a policy, and what country-specific factors make a policy work in one setting but fail in another.

Africa is a vast continent with substantial contextual differences across countries. Some countries and environments have been more conducive to research regarding certain topics than others. There is stronger evidence on some topics in Sub-Saharan Africa, than in North Africa, and vice versa. In addition, some issues with a high potential for improving youth employment have essentially only been studied outside of Africa (e.g. wage subsidy programs, job training programmes, etc.) and will need to be rigorously studied within African contexts. Finally, despite the effort we put in isolating all of the relevant research, a lot of the most convincing studies reported in this paper have not been targeted specifically at youth, and there should be greater research on whether the results of these studies carry over to youth. We have identified three broad areas of further research: improving skills and human capital formation; improving young people's transition into the labour market; and increasing labour demand.

Our policy conclusions are summarized in section 1.4.

1.4 Conclusions and Recommendations

It is often argued that poor people's main asset is their labour. In countries without social security systems, labour markets serve as the direct and main link between productive sectors and household livelihoods. This suggests that job creation should be centre-stage in Africa's development agenda. However, it also flags a potential challenge in that labour market policy easily can be overloaded with multiple goals, of which not all of them may necessarily be complements. This is evident in the World Development Report 2013 where jobs are described as "instrumental to achieving economic and social development; [...] critically important for individual well-being, [...] poverty reduction, economy-wide productivity growth, and social cohesion. [...] skills acquisition, women empowerment, and stabilization of post-conflict societies." (WORLD BANK, 2013)

The centrality of jobs for development should not be interpreted as the centrality of labour policies and institutions. Eighty percent of Africans are farmers or self-employed and fall outside of the formal economy. Even in the case of wage employment, labour policies and institutions may or may not be the main obstacle to job creation. Often, the most relevant obstacles lie outside of the labour market. The catalysts for job creation may be policies that make economies grow, make cities work better, help farmers access and apply appropriate agricultural techniques, or allow firms to develop new exports. If markets are dominated by a small number of firms (as in South Africa) that prevent entry by new firms, competition policies may form part of the employment creation strategy.

Of the policies discussed in this chapter, a few stand out as key priorities:

The micro literature on the learning and cognition benefits of better health is extremely strong and conclusive. This is especially true of young children, for whom the benefits of better health are magnified across their entire life cycle. If health status and skill acquisition are complementary and build upon each other across various stages of life, then policies that improve the health of youth are all the more important. This is not a labour market policy per se, but may well be a necessary precondition for successful labour market outcomes over the next decades. Similarly, interventions that keep girls in school for longer also reduce fertility rates and could begin to slow the challenges of high population growth across many African countries.

Insufficient evidence exists on post-primary education. While the micro-evidence on education is strong, most of the evidence comes from primary education and especially post-secondary, education. Yet, the fact that several African countries, especially in North Africa, face very high levels of unemployment among their college-educated youth strongly suggests that more of the education literature should be devoted to how secondary and post-secondary schools are functioning, and to the (mis)match between the skills of their graduates and the skills that are currently demanded in the labour market.

While vocational schools are the most apt at tailoring young people's skills to the needs of the labour market, we know very little about the supply of these schools, access to these schools, and the quality of the learning that happens in these schools. On a related note, job training programs, which take the form of apprenticeships in many African countries, are a direct tool to reduce the mismatch between the skills with which young people enter the labour market and the demands of the economy. Yet, our knowledge about the impact of such job training programmes in Africa is extremely limited. We believe that many of these questions are very well suited to convincing, RCT-type, micro studies.

More generally, there is a need for new models be developed and rigorously tested to be able to expand the reach of skills training programmes and the job learning to the informal sector to make any dent in the skills development needs. With 80% or more of total employment accounted for in the informal sector more attention needs to be paid to increase skills, skills accreditation and productivity growth in this sector. This could include incentive schemes for employment and skills development, which may have the added benefit of contributing to the formalization of informal firms.

Turning our attention to the labour market, it is striking how little evidence is available on ways to increase rural household wellbeing. There is emerging evidence on how to get farmers to adopt improved technologies to increase their efficiency, but scope for more policies that could help households diversify their labour supply and optimize their return to their supply of labour through migration. Especially seasonal and temporary migration, from one agricultural climate/sector to another, is not well studied and understood.

The evidence on SME training and/or financing programmes is mixed. Take-up rates tend to be low (10-20%) and those households that have been shown to benefit the most from such programmes are households with existing businesses. The success rate in helping to start new business is much weaker. New models and more evidence are needed to better target SME support programmes to entrepreneurs with the potential to start and run employment creating firms. These are unlikely to be recent graduates or young adults, but mid-career civil servants or skilled nationals who have lived abroad. The effects on reversing the brain-drain and generating job opportunities by targeting SME support services to highly-educated individuals and introducing management and entrepreneurship training in secondary and tertiary education programmes need to be better understood but may be a more appropriate level of targeting.

More evidence is needed on the labour demand side for policy formulation in South Africa which should have some relevance for other (especially neighboring) countries with declining informal sectors. There is some promising evidence on interventions targeted at reducing information imperfections. Information campaigns are typically quite cheap to implement, so even slight benefits may justify their cost-effectiveness. As examples, job search process could be substantially improved if young workers had better information about the nature and location of jobs available, and the wages they might expect at those jobs. A spatial mismatch between employee location and firm location in many African countries may enhance these information asymmetries. Information communication technologies could be effectively used to facilitate information flows between firms and prospective workers.

Finally, we discussed a few public policies that might potentially be effective ways of promoting youth employment without formally undoing core labour market regulations. In particular, some countries have shown political interest in introducing wage subsidies for youth. In addition, large scale public works programmes have been proposed as a way to offer the most needy in the population some form of assistance. There is essentially no robust evidence on the potential impacts of such policies in Africa. The evidence that exists outside of Africa is somewhat bleak. While these programmes provide benefits to the targeted groups, the benefits appear to last only as long as the programmes last; there is little evidence that those programmes serve as stepping stones into longer term employment. Moreover, these programmes have been shown to exhibit substantial crowding-out effects, which casts doubt as to whether they can create real jobs. Nevertheless, given the political interest in these programmes, especially in public works programmes, we strongly believe that more should be done to understand how these programmes might be reshaped (such as by combination with job training, or a referral system, or stronger incentives for job performance) to deliver long-term benefits for participants.

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