

Youth Labor Market Index for Africa and Asia



Photo: UN Photo/Redenius.

Authors and Institution/University:

- Bartłomiej Kudrzycki, NADEL, ETH Zürich
- Erwin Lefoll, NADEL, ETH Zürich
- Isabel Günther, NADEL, ETH Zürich

Corresponding author's address:

Bartłomiej.kudrzycki@nadel.ethz.ch

January 2020

LELAM-TVET4INCOME PROJECT - R4D-Employment Module

Youth Labour Market Index for Africa and Asia

1.2 billion youth.

Over the past 50 years, the **youth population aged 15 to 24** has more than doubled, and currently numbers around **1.2 billion** (Figure 1). This growth has largely been driven by low-income and lower-middle income countries. In low-income countries, about 40% of the population is currently younger than 15, and child mortality has rapidly declined since the turn of the century. Hence, the youth population in developing countries is expected to continue to rise in the decades to follow. On the one hand, this population boom is an **opportunity for development**. Experience from East Asia suggests that an increase in the share of the working-age populations in productive work can contribute to economic transformation and rapid growth (Bloom and Williamson 1998). On the other hand, if these large youth cohorts experience difficulties transitioning to **decent work opportunities**, growing frustration with being excluded from economic prosperity can lead to political unrest and violence (Urdal 2006). Formal employment growth, particularly for entry-level workers, is stagnating. The severity of the problem has led the International Labor Organization (ILO) to declare a **“youth employment crisis”** (ILO 2012).

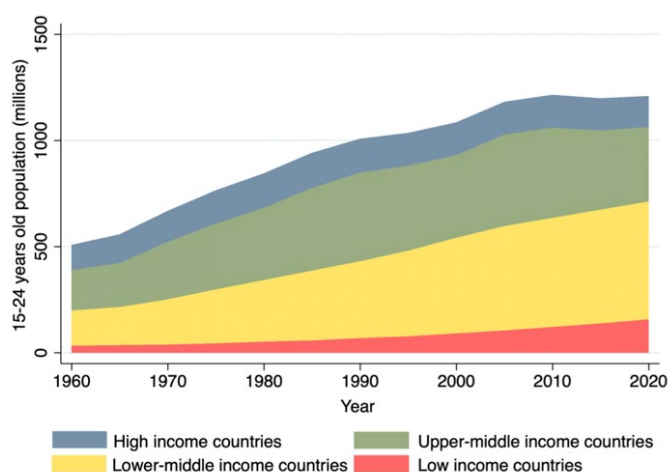


Figure 1: World youth population, 1960-2020.

Unemployment is a poor measure.

The unemployment rate is the most commonly used indicator for evaluating the health of labor markets. Yet the youth unemployment rate happens to be very low in many poor countries, often dropping below 5%. Rather than indicating a well-functioning labor market, unemployment rates in developing countries are low because of the **lack of social security systems**. Many young people have no choice but to take up low quality jobs that are poorly paid, lacking social protection, or incommensurate with their skill level (Fields 2011). Most end up in the **informal sector**. Thus, unemployment rates provide a uni-dimensional (and for many countries, misleading) picture of the labor market which fails to take into account working hours, wages, social protection, and other important dimensions of employment. We need an indicator that is better able to capture the multidimensional components of youth labor market in developing countries.

Youth Labor Market Index for Low Income Countries (YLILI)

Building on the KOF youth labor market index (Renold et al. 2014), which primarily relies on high-income country data, we propose a **new index for low income countries**. This index is the first to combine indicators specifically tailored to the realities of low-income countries and to provide an assessment of individual countries' progress in addressing the needs of young workers.

The index helps make a complex and multidimensional phenomenon more tractable by generating country-specific rankings that allow for **comparisons across countries**. Closer inspection of the components of the index can yield insights into labor market conditions in individual countries and **specific policy recommendations**.

To construct the index, **12 youth-specific labor market indicators** were selected from three broad categories that

best reflect the situation of the youth in the labor market: transition from education to the labor market, working conditions in the labor market, and educational background (Box 1). The indicators were obtained from three reputable compilers of international data: the ILO, UNESCO and the Demographic and Health Surveys (DHS). The index score is calculated as the arithmetic mean of the three dimensions, and is scaled to vary from 0 (dysfunctional youth labor market) to 100 (functioning youth labor market).

The transition dimension reflects the **quantity of employment** for youth and encompasses (1) the share of youth not in employment, education or training (NEET), which captures the share of inactive youth, (2) the relative unemployment ratio, which measure the degree to which unemployment affects young people more than adults and (3) the skills mismatch rate, which show whether unemployment disproportionately affects those with high or low education.

The working condition dimension captures the **quality of employment** and contains six indicators. The youth working poverty rate measures the proportion of working youth in poverty. The youth underemployment rate measures the share of employed youths who are willing to increase their workload. The informal employment rate captures the share of young people employed without contracts and/or social security. The vulnerable employment rate measures the share of own account workers and contributing family workers. The share of workers in elementary occupations measures the proportion of young workers in low-skilled basic tasks, which may require great physical effort and can carry a high risk of injury. Finally, the share of workers in agriculture complements the previous indicator, as jobs in agriculture are generally low-paid and labor-intensive.

Finally, the education dimension captures the **skill level of youth** and comprises (1) the proportion of youth with no secondary education, (2) the proportion of illiterate youth, and (3) a measure of schooling quality in the form of harmonized test scores.

Box 1: Overview of indicators

Transition

1. Share of youth not in employment, education or training (NEET)
2. Relative unemployment ratio
3. Skills mismatch rate

Working conditions

4. Working poverty rate
5. Underemployment rate
6. Informal employment rate
7. Vulnerable employment rate
8. Share in elementary occupations
9. Share in agriculture, fishery or forestry

Education

10. Share with no secondary education
11. Illiteracy rate
12. Harmonized test scores



Youth labor markets are weak everywhere.

Figure 2 maps the index by country. Globally, the index scores are relatively low. This means that there is much room for improvement for the majority of developing countries. Most countries in sub-Saharan Africa score below 60, while MENA and Asian countries score between 60 and 80.

Transition into the labor market is not a challenge.

Nearly all countries score above 60 on the transition dimension, suggesting that transition into *some* employment may play a smaller role in the overall strength of the youth labor market than in high-income countries (Pusterla 2015). This observation is particularly striking for sub-Saharan African countries, in which many countries score above 80 (Malawi, Tanzania, Benin and Ghana among others). This finding also suggests that African youth are unable to withstand long periods of inactivity.

Poor working conditions everywhere and lack of education in Africa.

While youth in low-income countries transition to work more smoothly than expected, the *quality* of their employment remains a major issue. Poor working conditions are a challenge for all developing countries, with many scoring below 60 and some even below 40, as is the case for India and several African countries (Niger, Burundi, Congo DR and Malawi among others). Finally, education poses a major challenge in Africa and in West Africa in particular, where the majority of countries score below 40. In contrast, most Asian countries attain a score of over 60.

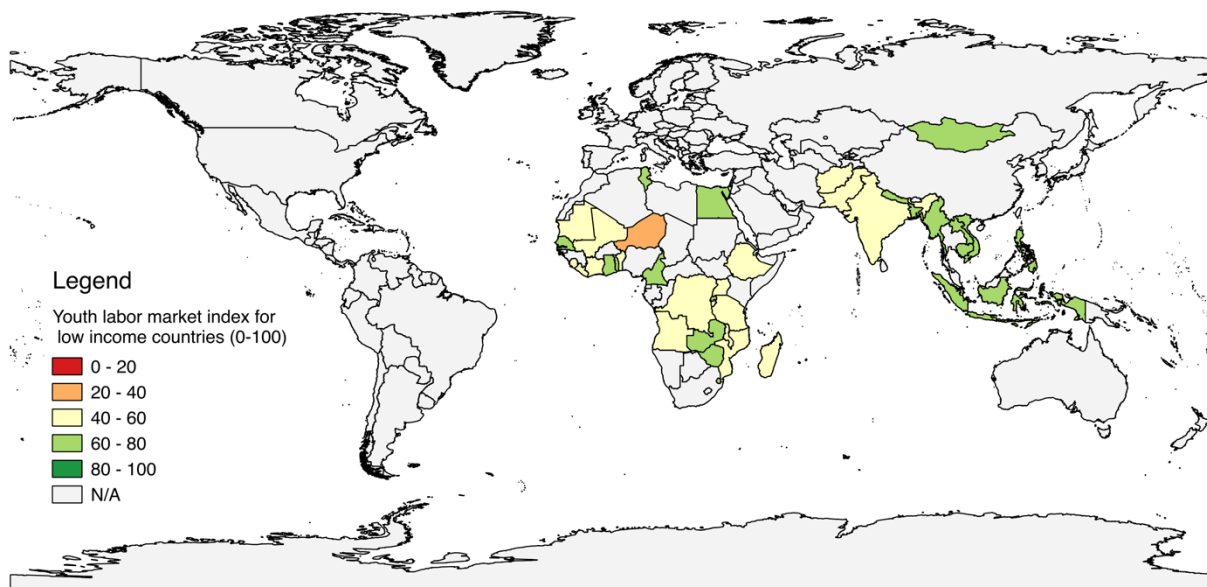


Figure 2: Youth labor market index for Asia and Africa

Index allows to focus national policy.

The breakdown of the index in three dimensions allows to focus policy on the most pressing issues for individual countries. For instance, the index suggests that Pakistan's priority when it comes to tackling its considerable youth employment challenge should be to improve its education system. Vietnam should focus on easing youths' transition into the labor market, as they face substantially higher unemployment rates than the adult population. Burundi needs to address the poor working conditions affecting its youth.

International policy should also address the scarcity of data on the youth.

Another urgent challenge to address the labor market situation of the youth with policy is to improve statistical capacity and accuracy (Jerven 2013). Evidence-informed policies are not possible if data is missing or unreliable. Limited administrative data on the labor market is a major problem for many countries. The availability of indicators is also highly scattered across time. For instance, while data on the share of youth NEET is available for 12 years for Mongolia, it is only available for one year for Senegal. As a result, it is currently impossible to track the development of the index over time. Instead, rankings were computed by taking the last available year data reported for each indicator between 2010 and 2018. Unfortunately, even this did not guarantee a sufficient number of observations for each country. After limiting the index to countries with a sufficient data coverage in each dimension and at least seven of the 12 indicators in total, we generate a ranking for 48 out of 78 low- or lower-middle income countries.

References

- Bloom, D. E. and Williamson, J. G. (1998), 'Demographic Transitions and Economic Miracles in Emerging Asia', *The World Bank Economic Review* **12**(3), 419–455.
- Fields, G. S. (2011), "Poverty and low earnings in the developing world". New York, NY, Cornell University, ILR School.
- ILO (2012), "The youth employment crisis: A call for action, Resolution and conclusions", International Labour Office, Geneva.
- Jerven, M. (2013). *Poor numbers: how we are misled by African development statistics and what to do about it*. Cornell University Press.
- Pusterla, F. (2015). *How did the youth labour market situation evolve between 2012 and 2013? Second release of the KOF youth labour market index* (No. 67). KOF Studien.
- Renold, U., Bolli, T., Egg, M. E., & Pusterla, F. (2014). *On the multiple dimensions of youth labour markets: A guide to the KOF youth labour market index* (No. 51). KOF Studien.
- Urdal, H. (2006), "A Clash of Generations? Youth Bulges and Political Violence", *International Studies Quarterly* **50**(3), 607–629.

This Policy Brief is based on

Kudrzycki, Bartłomiej; Günther, Isabel and Lefoll, Erwin (2020). Youth Labor Market Index for Low Income Countries. LELAM Working Papers No. 13, Zurich: KOF Swiss Economic Institute, ETH Zürich

Authors

- Bartłomiej Kudrzycki, ETH Zürich, Bartłomiej.kudrzycki@nadel.ethz.ch
- Erwin Lefoll, ETH Zürich, Erwin.lefoll@nadel.ethz.ch
- Isabel Günther, ETH Zürich, Isabel.guenther @nadel.ethz.ch

Funding

We thank the Swiss National Science Foundation and the Swiss Agency for Development and Cooperation for funding the research.

Websites

ETH Development Economics Group: <https://dec.ethz.ch/research>
R4D LELAM Website: <https://r4d.tvet4income.ethz.ch/>
Interactive Website with indicators forthcoming.

