



KNOWLEDGE BRIEF SERIES¹

Linkages and Youth Employment: Opportunities in Extractives and Infrastructure

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Around the world, the talents and aspirations of hundreds of millions of young people are lost in a fog of unemployment, with few accessible quality jobs in sight. Youth are up to 4x more likely to be unemployed than adults and the situation for young women is even more dire. Emerging economies struggle to recover from the global recession, create jobs, and spur growth. Resource-rich developing nations face the challenge of pursuing capital-intensive industry and creating employment for youth. Upwards of 5 million jobs a month are needed to keep pace with new worker entrants. Approaches that ignite the private sector and generate jobs that harness the productive capacity of young people are increasingly essential. Linkage-oriented strategies can open up supply and value chains and stimulate opportunities for youth enterprise and young workers.

This brief will inspire and guide corporations, linkage service providers, and donors seeking to promote youth employment through designing or strengthening the activities of impactful linkage programs.

Linkages, Supply Chains, Jobs and Economic Growth

What are linkages?

Linkages are the relationships present along supply chains that allow investment in industry to profit from both inputs and outputs. Linkage approaches in development are principally rooted in Hirschman's theory of unbalanced growth, wherein countries with fewer resources must utilize them more efficiently, and certain sectors in the economy should garner more strategic investment than others. Industries with the most linkages should be developed first. Linkage activities may also be known as or include "local content" measures that seek to maximize the participation of local workforce and local suppliers in production and commerce.



Backward linkages (or *downstream linkages*) refer to the goods, services, or supplies purchased by a company. With these linkages, the growth of an industry (or company within it) stimulates the growth of those that supply it with necessary materials, inputs, or services.



Forward linkages (or *upstream linkages*) exist when a company sells its products as an input to another. With forward linkages, the increased availability of materials or intermediate goods spurs the growth of value added, high processed, integrated industries.

¹ This brief is part of S4YE's Knowledge Work Program, in which the S4YE Secretariat, in partnership with a development partner, co-authors a short knowledge "brief" to share insights on a specific theme with the broader youth employment development community. This brief was led by Nicole Goldin (S4YE), Gosia Nowakowska-Miller (IFC), and Toniqua Hay (IFC). It does not necessarily reflect the views of individual institutions or specific S4YE partners.

IFC Mozlink Program

Between 2006 and 2011, the Mozlink Program in Mozambique developed linkages between clients and local small suppliers to build capacity, develop local procurement, and meet world-class standards to ensure sustainability and increase competitiveness and growth. The program partnered with Mozal aluminum smelter (Sasol), Coca Cola, and Cerveceria de Mocambique.

Main Areas of Intervention:

- Helped SMEs improve safety, quality, maintenance, and management
- Identified products/services required by industry and localization of procurement; trained local SMEs to meet tender, financial, and technical requirements
- Increased access to finance for SMEs
- Facilitated critical information flows between SMEs, industry, government, and new markets

Key Achievements:

- 75 SMEs selected to undergo capacity building program
- Over 3,000 employees impacted by the program
- Over \$20 million in revenues to SMEs generated by Mozlink corporate partners
- IFC partnership with local banks to leverage access to finance for SMEs
- 40% growth (2007-2008) on new contracts to local SMEs by Mozlink corporate partners

More information at: https://commdev.org/wp-content/uploads/2016/06/Mozlink_Factsheet.pdf

What are the economic benefits of linkages?

IFC notes that, while it can be difficult to fully calculate or even estimate the direct and indirect employment effects of linkages, they do boost productivity, stimulate demand that can produce a multiplier effect across value chains, and even the broader economic system. Bartelmy and Gorodnichenko's empirical analysis of input-output tables showed a strong and positive correlation of linkages (measured as the average output multiplier) to output per worker and total factor productivity. Moreover, because linkages generally originate from larger firms with generally better pay, benefits, and training, working conditions may improve along supply chains and among suppliers and smaller businesses as they formalize or turn a higher profit.

Linkages have industry stimulating, job creation, and economic growth opportunities. Some activities and interventions to amplify their effects in low- and medium-income countries include:

- Procurement matching
- Strengthening and expanding supply/value chains
- Micro-, small-, and medium-sized enterprise (MSME) training and support services
- Knowledge or skills transfer
- Business registration and formalization assistance
- Credit or financing mechanisms

Linkages in the Extractives and Infrastructure Sectors

Linkages can play an especially important role in lower income countries whose economies are dominated by or reliant on extractives, natural resource, and infrastructure sectors. Many such resource-rich developing nations experience high unemployment, especially among youth, alongside broader economic and social challenges (a situation often generalized as the "resource curse"). As these sectors and the associated "mega-projects" are generally capital-intensive, rather than labor-intensive, the lack of direct jobs can be a source of criticism and tension in local communities, especially in already depressed economic regions. Promoting MSMEs and business in the proximate communities and broader regions can be a vital way to sustain and generate additional direct and indirect jobs. This is also the reason for the proliferation of Local Content Policy/Regulation targeting oil, gas, mining sectors in many developing countries.

Supply or value chains of extractives and infrastructure will include a range of products and services, opening up a number of opportunities for local business. Product inputs more frequently purchased locally could include protective wear, pipes, metal parts, etc., while services could include catering, cleaning, laundry, etc. In addition, other services are frequently contracted instead of keeping in-house, such as facilities maintenance, accounting, payroll management, or transportation/trucking.

Youth employment and enterprise: Key constraints

Young people around the world are confronting a serious multi-faceted employment challenge. On one hand, a lack of growth in the formal sector means there are simply not enough jobs for incoming youth. In many developing countries, this demand side constraint drives youth into informal, often insecure, low-paying work or self-

employment. In conflict-affected or unstable areas, the demand-side constraint is particularly acute, as investment in the private sector is insufficient for growth and job creation.

On the other hand, youth who take an entrepreneurial or self-employment path, whether out of necessity or opportunity, also face numerous hurdles. Youth have more limited access to credit and finance, which hinders business start-up, operations, and expansion. The gap between youth and non-youth in borrowing from a formal financial institution is as high as 10%. Self-employed youth and young would-be entrepreneurs are often less educated or, at a minimum, do not have the requisite technical, managerial, or business know-how. Similarly, they likely do not know even where to start regarding the market landscape and sectors of opportunity for jobs and business. Insufficient networks, market information, or access to the market can mean fewer customers or clients and weak sales. Due to these factors, many youth-led enterprises start and remain small, lacking operational size and competitiveness. At the same time, youth rarely have meaningful influence into the institutional, governing, or enabling environment, so regulatory processes that may especially impede youth are more likely to be perpetuated.

Utilizing Linkage Programs to Promote Youth Employment and Enterprise

IFC, as well as several S4YE partners, has been a leader in using linkage-oriented activities to drive jobs, SME and private sector development, and economic growth. Linkage-oriented interventions are increasingly part of the solution set to challenges of youth employment.

By applying a youth lens, companies and donors can mitigate the above-mentioned constraints, increase program effectiveness, and better harness linkage programs' potential to advance youth economic opportunity, as well as their own bottom line. Possible action includes:

- **Addressing the lack of formal sector wage jobs for young people** by encouraging anchor companies to incentivize their suppliers or vendors to hire youth e.g. through contract preference, assigning value to a number/percentage of young employees in bidding and procurements.
- **Addressing informality of youth work** by helping self-employed youth and those operating micro and small businesses to formalize and connect to value chains of larger companies.
- **Addressing the credit market failures among youth and the financing risk burden** faced by would-be suppliers. Guarantee loans, establish financing arrangements, support the use of non-cash collateral, or establish insurance schemes for young entrepreneurs to provide start-up and operational capital, e.g. IFC's Mozlink program (Mozambique) partnered with local banks to leverage access to finance.
- **Addressing information gaps for providers and contractors** by creating one stop shops and ensuring they are youth-friendly by training staff in the distinct needs of young business owners, e.g. BP's Enterprise Center (Baku), Exxon Mobil

Improving Municipal Investment (MIM) in Peru - Transparency and Accountability initiative 2007-2014

In Peru, there was a lack of transparency in the political and administrative processes in local governments where many extractives industries operate. Between 2004 and 2014, fiscal transfers from mining royalties increased 750% (\$128.7 million to \$960.8 million), but in those years, there were not consistent corresponding improvements in the populations' wellbeing.

MIM Peru partnered with 47 civil society institutions, recognized locally for having a neutral stance on Extractive Industries (EI), to form MIM Peru boards in each region of Peru to monitor responsiveness and accountability of 31 local governments. In addition to the local technical team, young volunteers were widely engaged to act as spokespersons for the institution and to support the implementation of the initiative in their areas. MIM Peru informed local leaders, the media, Surveillance Committees, and the population, to enable opportunities for both demanding Municipal Good Governance and for providing periodic feedback to their authorities.

Key Achievements

The communities had an increased awareness of mining royalties, municipal investment, and their right to information, which led municipalities to willingly respond to the populations' questions regarding use of mining royalties. The media undertook an active role in monitoring municipal investment which helped put the royalties and investment topic on the public agenda. 27 of the 31 municipalities improved their responsiveness to the population's needs and their transparency and accountability rates. (IFC Social Accountability, Lessons from Experience. 2016. Spanish.)

and IFC's Enterprise Center (Chad), Rio Tinto's Enterprise Center (Guinea). Linkage programs could also support the development of online portals or mobile apps that provide information on business registration, open procurements, and other demand-side information. To better enable anchor companies to source youth-owned suppliers, linkage programs could follow the example of Petrobras' work with the National Small Business Association in Brazil (SEBRAE) to identify SMEs with potential to engage in their oil and gas value chain, adapting for youth by developing youth-owned business directories or support the establishment of a youth network within existing chambers of commerce.

- **Addressing the know-how gap** among young business owners by providing access to business acumen, one-on-one consulting, or mentorships. Direct training and SME development programs targeting procurement opportunities with extractive companies (such as those implemented by IFC in Guinea, Ghana, Peru, Mozambique, Zambia, Chad, India, and others) are among the most effective linkage activities. Youth-owned SMEs can also be supported by pairing with a larger mentor firm in the large company's existing supply chain, a practice followed by General Motors.
- **Address small business operational limitations** by unbundling contracts and issuing procurement policies to ensure bid requests and proposal opportunities are more accessible to SMEs. BP in Azerbaijan and ExxonMobil in Chad, for example, have explicit frameworks to guide field managers' engagement with SMEs and linkage activities; such national content strategies could include a youth-owned business preference component. The local procurement team within Newmont Ahafo Ghana raises awareness about the existence of capable local businesses while also providing them with guidance on the company's procurement procedures.
- **Address the lack of youth agency in policy and advocacy** to ensure youth have a seat at the table, with efforts to strengthen young business participation and influence via support for youth enterprise alliances (perhaps within larger networks, like the National Business Initiative in South Africa) and young chambers of commerce.
- **Increase the availability and quality of jobs** by creating opportunities for internships and apprenticeships, so youth are better prepared for roles within corporations and SMEs.

More broadly, in implementing linkage driven solutions to youth employment, it is important to keep in mind that youth employment programs need time for benefits and impact to accrue, as these interventions are a longer-term investment. Jobs are not created and incomes do not rise overnight, thus, partners need to have patience and should commit from the start to playing the longer game towards a more prosperous and stable future for all.

Solutions for Youth Employment (S4YE) is a multi-stakeholder global coalition established to improve youth access to work opportunities. This coalition was jointly launched by the World Bank Group, Plan International, the International Youth Foundation, Youth Business International, RAND, Accenture, and the International Labor Organization. The partnership now also includes multi-national companies, public sector donors, foundations, and international and national civil society actors.



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