

RETURN ON INVESTMENT (ROI)

New Employment Opportunities (NEO) Program

UN MILLÓN DE JÓVENES

neo

UN MILLÓN DE OPORTUNIDADES

ABOUT THE NEO INITIATIVE

NEO is an initiative led by the Inter-American Development Bank (IDB), through its Multilateral Investment Fund (MIF) and Labor Markets Division (LMK), the International Youth Foundation (IYF), and partners: Arcos Dorados, Caterpillar Foundation, CEMEX, Fondation Forge, Microsoft, the Brazilian Social Service of Industry (SESI) and Walmart. NEO is a pioneering initiative in which businesses, governments, and civil society in 12 Latin American and Caribbean countries have joined forces to improve the employment opportunities for 500,000 young people, half of whom are women. The alliance pools resources, knowledge, and skills to drive effective and sustainable solutions to the problems of youth unemployment and skills gaps.

This study, entitled “Return on Investment for the NEO Initiative”, is part of a series of five thematic studies that analyze various aspects of NEO’s implementation at the local level, the local-level implementation of NEO, documenting achievements, identifying the operational challenges and restrictions, and recording lessons learned and best practices.

THE AUTHORS

The “Return on Investment for the NEO Initiative” study was written by Juan Pablo Jiménez of B.O.T.

The opinions expressed in this publication are the author’s alone and do not necessarily reflect the viewpoints of the IDB, its Board of Executive Directors or the countries it represents. Nor do they necessarily reflect the point of view of the MIF, IYF or NEO’s corporate partners.

Copyright © 2018 Inter-American Development Bank. This work is licensed under a Creative Commons Attribution Non-Commercial No Derivatives 3.0 IGO license (CC-IGO 3.0 BY-NC-ND) (<http://creativecommons.org/licenses/by-nc-nd/3.0/igo/legalcode>) and may be reproduced for any non-commercial use by acknowledging the IDB as the original source. Alterations or modifications to this work are not permitted.

All disputes related to the use of the IDB's works that cannot be resolved amicably shall be referred to arbitration pursuant to the UNCITRAL rules. Using the IDB's name and logo for any purpose other than acknowledging the IDB as the original source is not permitted under this CC-IGO license and requires an additional license agreement.

Note that the URL link includes additional license terms and conditions.

The opinions expressed in this work are solely those of the authors and do not necessarily reflect the views of the IDB, its Executive Board of Directors, or the countries it represents. Nor do they reflect those of the MIF's Donor Committee or the countries it represents. Similarly, these views do not necessarily reflect those of the MIF, IYF, or NEO's corporate partners.



EXECUTIVE SUMMARY

This document corresponds to the final report, “Return on Investment for the NEO Initiative”, which focused on the NEO initiative in Mexico. The study was led by B.O.T.

This report aims to provide companies with a tangible measure of efficiency relating to the relative value of investments made in strengthening the NEO program by calculating the monetary benefits of hiring young people who have gone through the NEO program in relation to the associated costs. To that end, a quasi-experimental evaluation was carried out in Nuevo León, Mexico, using a return-on-investment (ROI) methodology to assess the value gained by employers who employ NEO-trained youth. During the study, two tools were used to gather information from companies in Nuevo León: 1) a perception survey for NEO employers, which obtained responses from 355 companies (of which, 203 employed NEO-trained youth and 152 did not); and 2) a standardized basic skills test – 172 companies were contacted to take the test, of which 14 were visited in Nuevo León and 10 administered the test to their employees.

Among the study’s findings was the discovery that the ROI for companies in Nuevo León that employ NEO youth is 1.9 percent of the annual salary of the employees hired. Three additional indicators were generated to measure this ROI:

- ROI_1 (Productivity) = 6.2 percent of annual salary (234 USD/year per young person); ROI in productivity measured as annual salary x percentage of highest productivity (6.2 percent) of NEO youth versus non-NEO youth.
- ROI_2 (ROI_1 + Training) = 7.8 percent of annual salary (304 USD/year per young person); ROI in training measured as cost x hours of training x fewest hours of training per year for NEO youth versus non-NEO youth (1.2 hours).
- ROI_3 (ROI_2 + Turnover) = 1.9 percent of annual salary (74 USD/year per young person); ROI in turnover measured as cost of turnover as a percentage of annual salary x highest annual turnover of NEO youth versus non-NEO youth – NEO-trained youth demonstrate higher turnover than their non-NEO counterparts. One hypothesis is that the higher turnover can be explained by the perceived higher productivity of NEO-trained youth, generating a higher demand for them in the market.

The study reveals that companies place a “medium–high” value on the usefulness of skills testing, which could be included on a regular basis as part of the program’s added value. This would improve relationships with companies and would allow the program to adjust its curriculum, making the training more relevant and impactful.

The study concludes by making recommendations for employability programs on two levels: 1) recommendations for replicating the study; and 2) recommendations for employability programs. In general, employability programs should strengthen their relationships with companies (which, today, are almost non-existent, or distant in the case of the NEO program in Mexico) because the programs' success depends on being positioned as strategically important initiatives for companies with the proven ability to boost productivity.



www.jovenesNEO.org