



Youth Unemployment in the Caribbean

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Youth Unemployment in the Caribbean

Preliminary findings and policy considerations.

Global economic shocks coupled with natural disasters left most Caribbean countries with zero to negative growth and high unemployment rates. The Caribbean region was strongly affected by the last great financial crisis, which resulted in a regional average of zero economic growth in 2010¹. While some countries like Anguilla and Antigua and Barbuda were hit the worse and experienced negative rates of 18% and 12% respectively, others like Dominican Republic and Guyana, experienced a slowdown but did not see negative rates². The economic collapse in the United States and Europe, and more recently, a fall in commodity prices (induced by a softening of the Chinese demand for raw materials) led to a sharp decrease in tourism, remittances and financial activity in the Caribbean countries. The widespread recession, in addition to high indebtedness and fiscal imbalances³, led to a deterioration of labor market conditions in the past years. At the same time natural disasters have periodically taken a large toll on the region, and became a stronger source of vulnerability, affecting lives, infrastructure and employment⁴.

The purpose of this note is to evaluate the nature of youth unemployment in order to propose policy options to address it. It is organized in three sections. The first section describes the trends and patterns of total unemployment. The second section focuses on youth unemployment. The third and final section discusses policy considerations.

Data on unemployment and other labor market outcomes is scarce in the region. This note puts together data from different sources including the World Banks' World Development Indicators and

reports, ILO's Key Indicators of Labor Markets, and specific official data and reports produced by some of the countries. Official government data was maintained in cases when more than two sources were found. A detailed description of the data used is presented in Parra Torrado (2014).

I - Unemployment levels, trends and patterns

Unemployment rates and trends varied among the Caribbean countries with the most rapid increases registered in The Bahamas, Barbados, St. Lucia and Belize. In The Bahamas unemployment nearly doubled from 7.9% in 2007 to 13.7% in 2011, a 73% rise. In Barbados, unemployment rose from 7.4% in 2007 to 11.6% in 2012, an increase of 57%. Although the latest available unemployment figure for Belize is 13% in 2009, it already represents a 53% increase compared to the 2007 unemployment rate of 8.5%. Finally, unemployment in St. Lucia rose from 14% in 2007, right before the 2008 crisis, to 20.6% in 2012 representing a 47% rise⁵ (See Figures 1A and 1B). Jamaica, Grenada, Antigua and Barbuda experienced slower growth in unemployment. In Jamaica unemployment increased from 9.4% in 2007 to 12.7% in 2011. In Grenada, unemployment reached 29% in 2010 from 25% in 2008, an already high pre-crisis rate; it was 10.2% in 2001⁶. In Antigua and Barbuda, unemployment was 10% in 2011, 1.6 percentage points higher than in 2001 (8.4%)⁷. See Figures 1A and 1B.

¹ This average estimation includes Anguilla, Antigua and Barbuda, The Bahamas, Barbados, Belize, British Virgin Islands, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago.

² Source: World Development Indicators except for Anguilla (Eastern Caribbean Central Bank), British Virgin Islands (2000-2009: Development Planning Unit; 2010-2011: United Nations Statistics Division), Jamaica (2002-2006: ECLAC), and Montserrat (2000-2005 y 2007-2011: Eastern Caribbean Central Bank; 2006: United Nations Statistics Division)

³ External and domestic public debt in the Caribbean surpassed 76% of GDP on average in 2012, and it reached ratios greater than 100% in Jamaica and St. Kitts and Nevis (ECLAC, 2014).

⁴ Some examples of costly natural disasters are hurricanes Ivan (2004), Dean (2007), Omar (2008), Tomas (2010), Tropical Storm Nicole (2010), and Haiti's earthquake in 2009.

⁵ See Parra-Torrado (2014) for sources on unemployment for each country.

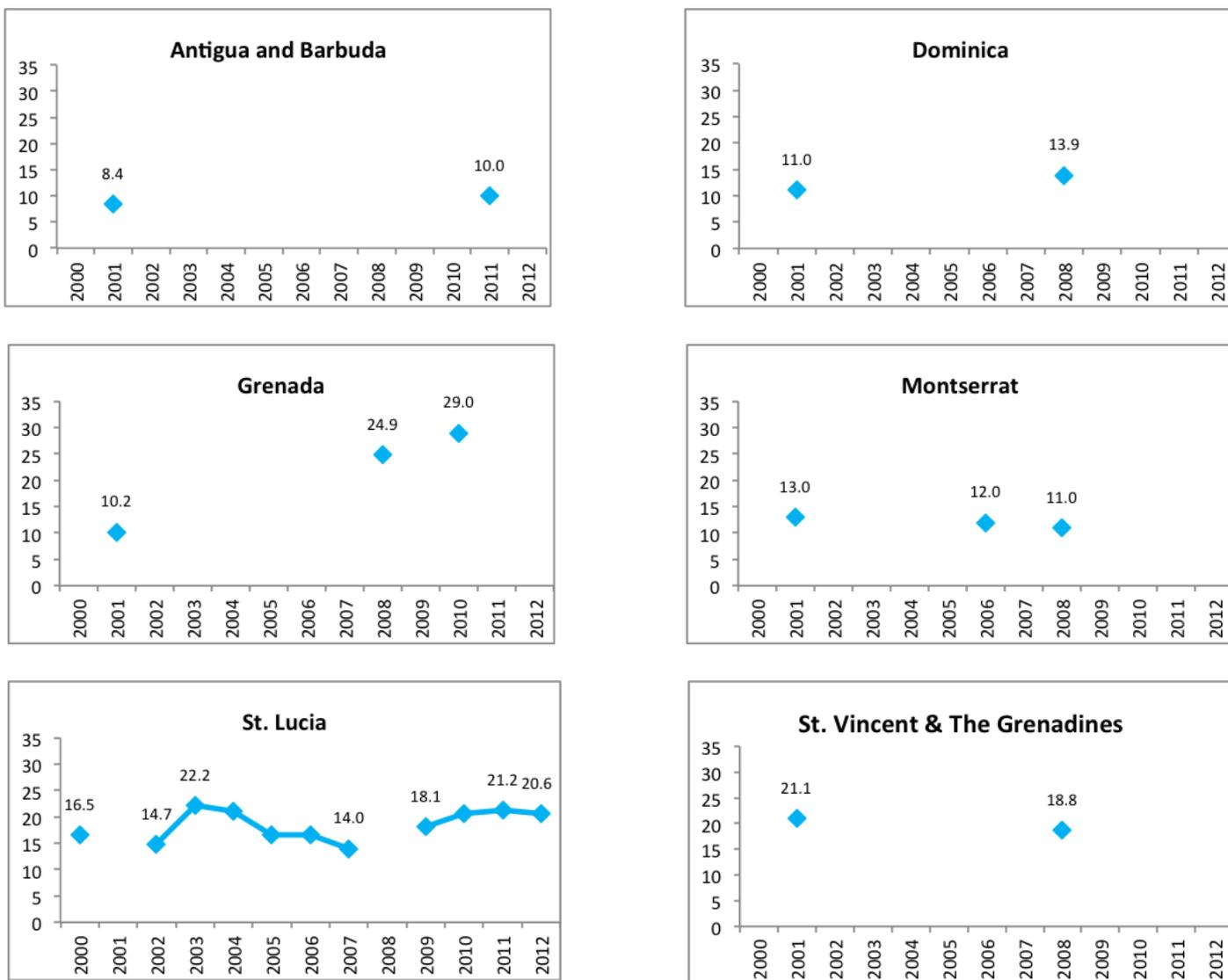
⁶ The 2013 Budget Statement mentions that between 2008 and 2012 unemployment in Grenada has doubled but unfortunately, no hard data was found available to confirm this fact.

⁷ Unfortunately, there is no data available in between this period to have a clearer vision of the effect of the crisis.

Dominican Republic and Guyana have maintained persistently high unemployment rates while Trinidad and Tobago experienced a decreasing unemployment rate. Dominican Republic experienced higher unemployment rates during the early 2000 years, in particular in 2004 when it reached 18.4%, the highest rate in the last thirteen years which declined to 14% in 2008 and has not changed since then. Guyana has maintained unemployment at around 21% since 2007, after experiencing a peak of 28.5% in 2006 (see Figure 1B). In contrast to the rest of the countries

with available data, Trinidad and Tobago experienced a decreasing unemployment rate from 2000 until 2008, and practically unchanged since then. At the beginning of the decade, unemployment rate in Trinidad and Tobago was 12.1% and in 2008 it decreased to 4.6%, the lowest rate in the period. Currently, unemployment represents 4.8% of the labor force in the country, being the lowest rate in the region⁸. Nonetheless, this figure should be taken with caution as it masks high youth unemployment rates, as discussed later. (See Figure 1B)

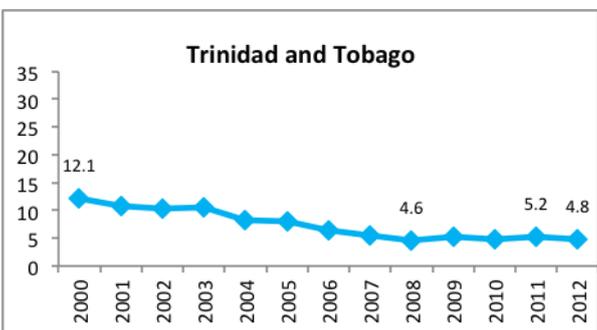
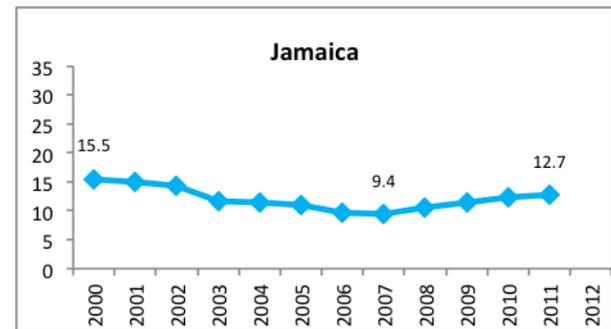
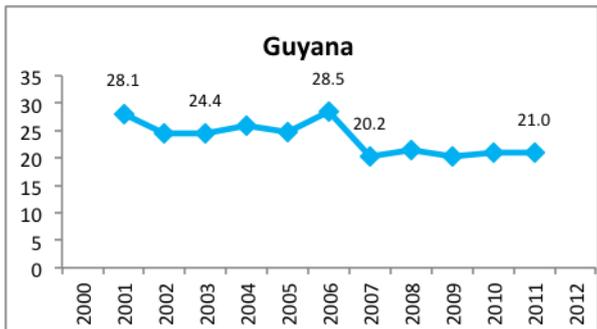
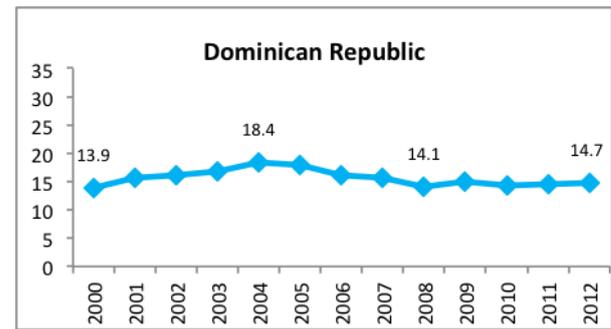
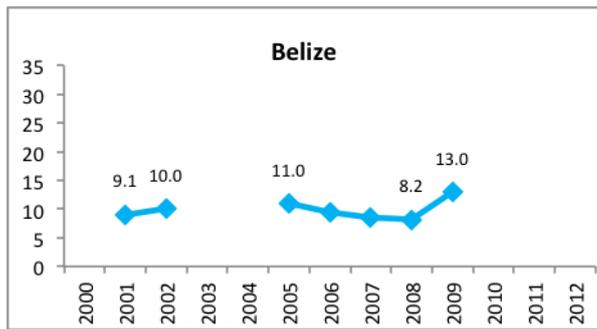
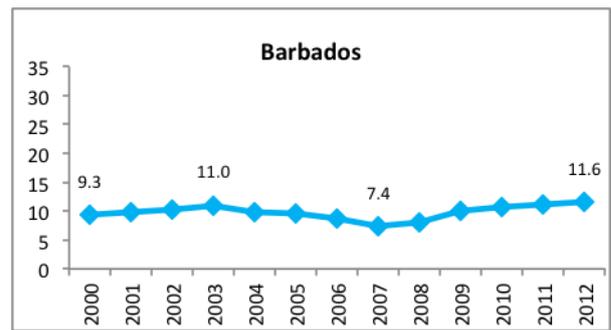
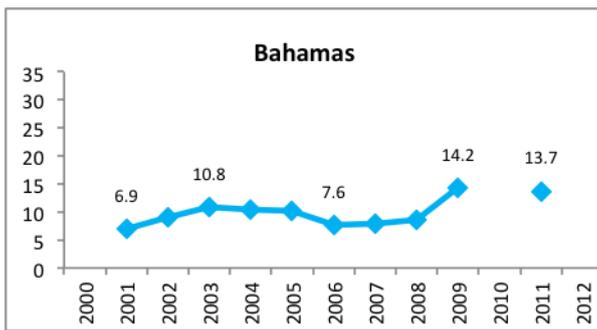
Figure 1A: Unemployment in the OECS region, countries with available data, 2000-2012



Source: Parra-Torrado (2014).

⁸ Trinidad and Tobago had the lowest rate among those countries in the region with available data on unemployment in 2012. For instance, in 2007/2008, St. Kitts and Nevis had an unemployment rate of 5.1% (6.3% in St. Kitts and 1.5% in Nevis) but there is not more current data to compare.

Figure 1B: Unemployment in the non-OECD region, countries with available data, 2000-2012

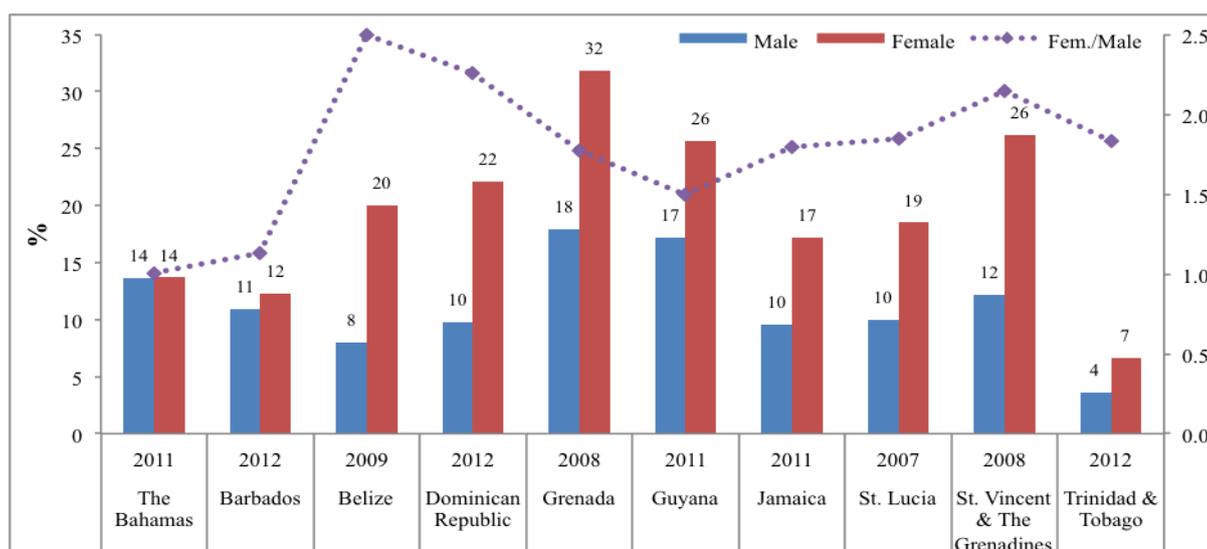


Source: Parra-Torrado (2014).

Unemployment in the region tends to be of long duration. According to a set of four country studies undertaken in the region between 2007 and 2010⁹ there is a large share of individuals who spend more than a year unemployed after they lost or left their last job. Half of the unemployed in Dominica (51%) and in Grenada (48%), and one third of unemployed in Barbados (34%) and St. Kitts and Nevis (32%) have been unemployed for more than a year¹⁰. There is no more recent data on the duration of unemployment in these countries but given current labor market conditions as well as increasing unemployment after the financial crisis and other external shocks, it can be expected that duration of unemployment has not improved.

Unemployment is considerably higher among females than among males in most countries. According to the most recent available data on unemployment by gender in the region, women are more affected than men in most countries with the exception of The Bahamas (2011), as shown in Figure 2. The most marked case is Belize, where female unemployment was 20% in 2009, almost three times the males' rate. In other countries female unemployment is nearly twice as large as male unemployment. For instance, in Grenada female unemployment in 2008 was 31.8% while for males it was 17.9%, 14 percentage points higher. Even in countries with lower unemployment rates such as Dominican Republic, Jamaica, St. Lucia, and Trinidad and Tobago, unemployment for women exceeds that of men by at least 80%¹¹. However, the difference against women is smaller in Guyana (49%) and less so in Barbados (13%).

Figure 2: Unemployment by gender in Caribbean countries, latest year available



Source: See Parra Torrado (2014).

However, for some countries gender gaps have been decreasing in recent years, although not due to a decrease in female unemployment but rather to an increase in male unemployment¹².

In the second half of the past decade, the difference between the unemployment rate for females and males has narrowed in a group of countries. This is mainly due to the increase in male unemployment during the years of economic crisis which is a trend that has been noted in a number of OECD countries and the US¹³. In The Bahamas,

unemployment among women was about 2 percentage points higher on average than among males before 2009, when such difference came to zero due to an increase of 87% in the males' rate. Similarly, in Barbados the unemployment gap closed in 2009 and 2010 due to a faster increase in men's unemployment rate; however, the rising trend reverted temporarily for men in 2011 and for women in 2012, when the gender difference is at one of its narrowest points, although at higher levels of unemployment for both groups.

⁹ Country Assessment of Living Condition Barbados 2010; Country Poverty Assessment Dominica 2008-09; Country Poverty Assessments Grenada 2007/08; Country Poverty Assessment St. Kitts and Nevis 2007/08
¹⁰ It is fair to say that even though these figures do not refer to complete unemployment spells, these give a sense of the dynamics of labor markets in these countries, in particular on unemployment duration.

¹¹ Dominican Republic (126%), Jamaica (79%), St. Lucia (85%) and Trinidad and Tobago (84%).

¹² Another interesting result is that the female unemployment gap widens with age in all countries as shown in Parra Torrado (2014).

¹³ Albanesi and Sahin (2012)

The gender story has been more positive in the Dominican Republic. Between 2000 and 2007 women's unemployment rate was around 17 percentage points higher than men's with the largest gap reached in 2004 (20 percentage points). In 2008 the gap narrowed to 14 percentage points and continued this trend until 2011, reaching 11 percentage points¹⁴. This result, unlike other countries, derives from a decrease in the unemployment rate within women (from 30.7% in 2004 to 21.5% in 2011) accompanied by a relatively constant unemployment rate for men. However, in 2012 this trend has relapsed as women's unemployment rate increased to 22.1% and men's unemployment rate decreased slightly to 9.8%.

II - Youth unemployment landscape

Youth are at higher risk of unemployment.

Although the information on unemployment by age in the region is scarce, available data shows that in most countries youth unemployment is double the rate of total unemployment. Among Caribbean countries with available data, the highest youth unemployment rates are found in Barbados, Trinidad and Tobago, Jamaica and The Bahamas where youth unemployment is about 2.4 times higher than total unemployment. According to the 2010 Survey of Living Conditions of Barbados, the youth unemployment rate was 27.6% compared to 11.1% for the entire population¹⁵. In Trinidad and Tobago, the unemployment rate for youth was 12% in 2012 while the total unemployment rate was only 4.8%; and in Jamaica (2011) and Barbados (2007) it was 30.1% and 18.9% compared to a total unemployment rate of 12.7% and 7.9%, respectively. Other countries like Guyana (2011)

and Dominican Republic (2007) have experienced youth unemployment rates around two times as high the total unemployment rates while Grenada (2008), St. Lucia (2010), and St Vincent and the Grenadines (2008) have experienced youth unemployment rates around 1.7 times higher than the total unemployment rate (see Panel A in Figure 3). Also, in St. Lucia 40% of the unemployed was younger than 25 years old in 2011.

Teenagers have the highest unemployment rates.

Figure 4 presents unemployment rates by age groups for Barbados, Belize, Dominica, Dominican Republic and Trinidad and Tobago. As the figure shows, individuals younger than 20 years have the highest unemployment rates. In Barbados, individuals aged 15 to 19 years old face unemployment 5 times higher than the total unemployment rate at 47% compared to 14% for those aged 20-44 years old¹⁶. In Belize, 43% of women in the labor force younger than 20 years old are unemployed compared to 28% of those between 20 and 24 years old and 16% for those between 25 and 49 years old. The comparable rates for men are 26% versus 16%, and 5% respectively. In Dominica, where 50% of the unemployed are younger than 30 years old¹⁷, the unemployment rate among teenagers practically doubles that of the aged 25 to 29 years old, and in the case of males it is 2.8 times larger. Likewise, in Dominican Republic, the unemployment rate for teenage females doubles that of individuals between 20 to 39 years old and for teenage males it is about three times that of such group. In Trinidad and Tobago the situation is quite the same, as shown in Figure 4¹⁸.

¹⁴ See Parra Torrado (2014).

¹⁵ According to the Barbados Continuous Labor Force Survey (LFS), the national unemployment rate in 2010 was 10.7%. Unfortunately, the Barbados LFS does not provide figures of unemployment for the group of people aged 15-24 years old but 15-19 years old (see Figure 4), which makes it unsuitable for cross-country comparisons.

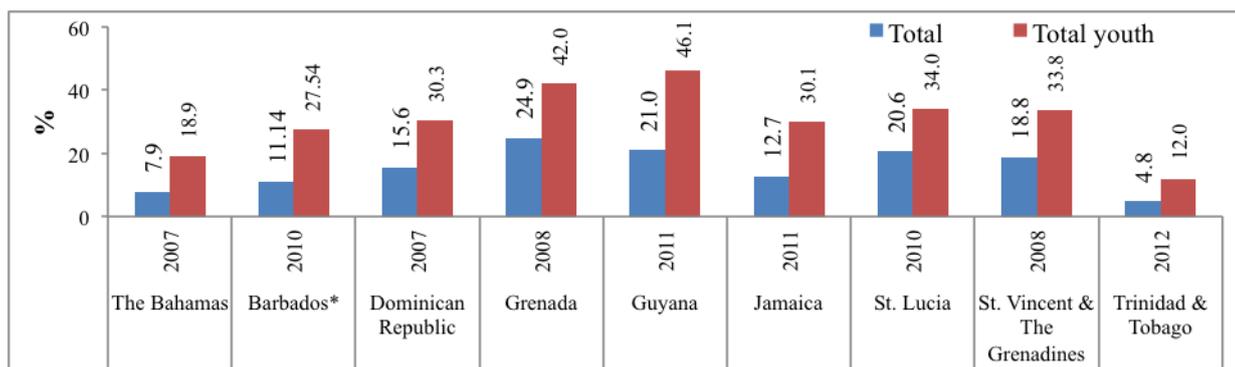
¹⁶ The unemployment rate for those older than 19 years old is 10.8, 10% for male and 11.6% for female

¹⁷ In Dominica, the individuals younger than 20 years old account for 13.8% of total unemployed (17.5% of female unemployed and 10.9% of male unemployed), individuals younger than 25 years old account for 36.4% of total unemployed (44.2% of female unemployed and 30.4% of male unemployed), and individuals younger than 30 years old account for 49.7% of total unemployed (55.4% of female unemployed and 45.3% of male unemployed).

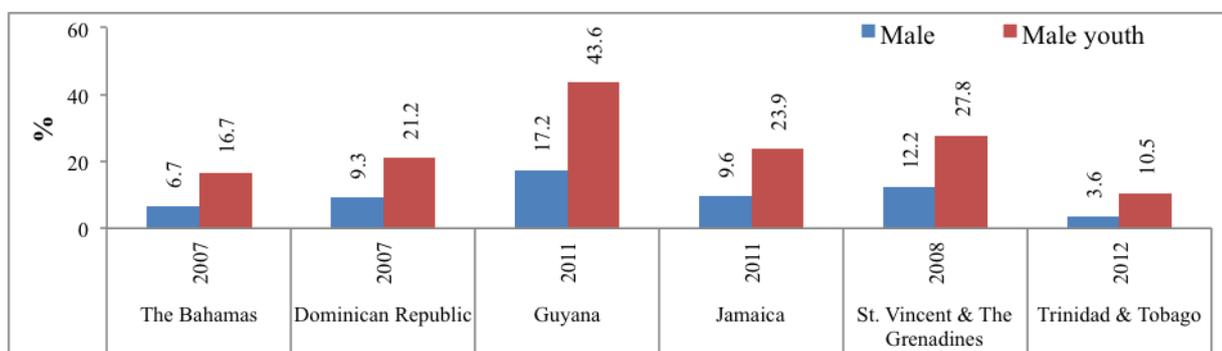
¹⁸ Note that although female youth unemployment is higher than male youth unemployment, the age gap is wider for males than for females.

Figure 3: Total and youth unemployment by gender in the Caribbean, countries with available data, latest year.

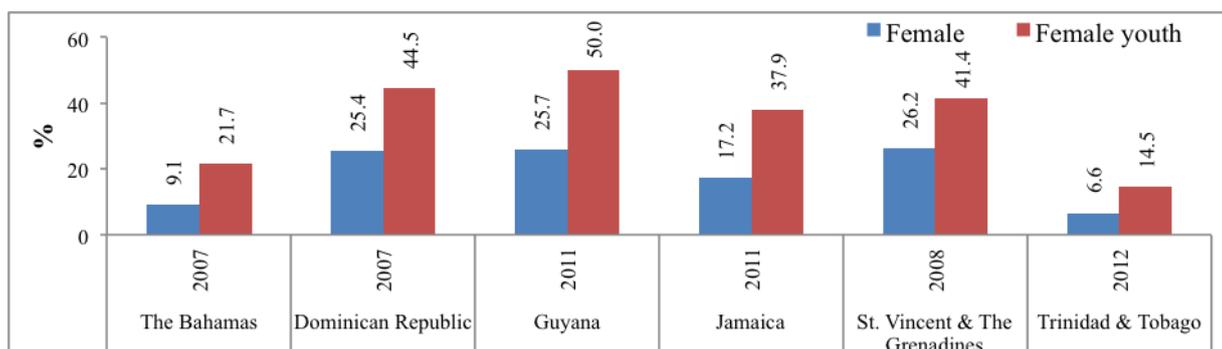
Panel A



Panel B



Panel C



Source: See Parra Torrado (2014).

Figure 4: Unemployment by age groups and gender in the Caribbean, countries with available data, latest year.



Source: See Parra Torrado (2014).

High youth unemployment in the Caribbean is consistent with similarly high youth unemployment rates worldwide, but some Caribbean countries are among those with the highest youth unemployment rates in the world. Figure 5, presents the unemployment rate for the total population as well as for the youth in all countries with available data in 2011¹⁹. Two observations can be made from it. First, in practically all countries youth unemployment is double that of the total population (2.3 times, on average)²⁰. Even in countries with low total unemployment such as Trinidad

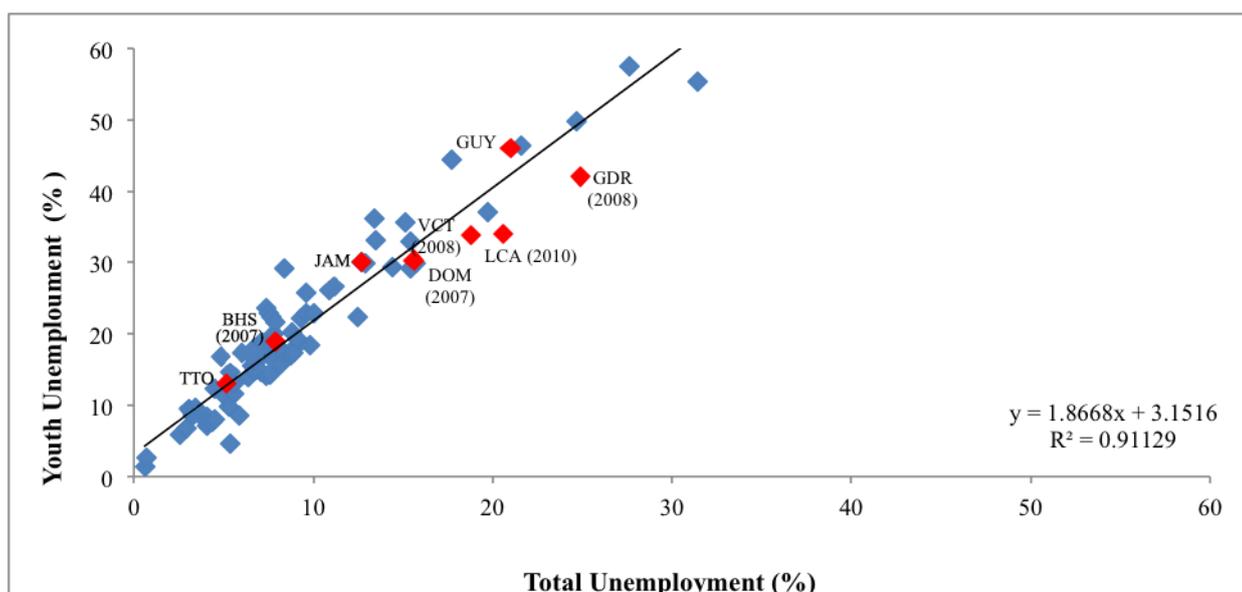
and Tobago where the national unemployment rate is as low as 4.8% the youth unemployment rate reached 12% in 2012 (2.5 times higher)²¹. Second, some Caribbean countries are among the ones with highest youth unemployment rates in the world. In particular, Guyana and Grenada (2008) join the set of countries with rates above 40% together with Bosnia and Herzegovina (57.5%), Macedonia (55.3%), South Africa (49.8%), Spain (46.4%) and Greece (44.4%).

¹⁹ Source is World Development Indicators for all countries except Caribbean countries (in red), for which the country specific sources can be found in Parra Torrado (2014).

²⁰ The country placed close to the 45-degree line in is Kazakhstan with total and youth unemployment rate of 5.4% and 4.6% respectively.

²¹ In 2011, the national unemployment rate in Trinidad and Tobago was 5.2% while the youth unemployment rate was 13%.

Figure 5: Total and youth unemployment in the world, 2011



Source: World Development Indicators and Parra Torrado (2014).

A. Some key factors contributing to youth unemployment

While no empirical studies are available for the Caribbean on the individual determinants of youth unemployment, some of the factors are likely to be similar to other countries. For example, several studies have identified that poor educational attainment, disadvantaged family background and test-measured ability and behavioral unobserved skills predispose individuals into unemployment²². Also, institutional arrangements in the education and training systems as well as in the labor market²³, skills mismatch, low labor demand and specific vulnerabilities are factors that contribute to youth unemployment²⁴. That said, we present the relevant evidence from the Caribbean on select factors that may contribute to youth unemployment in the region: lack of skills and lack of information. These are detailed in what follows.

One main factor contributing to youth unemployment is the lack of right skills for the job.

Quality of education in the region is low. Also, the set of skills youth acquire are not entirely relevant to the labor market needs; there is a mismatch of supply and demand of skills. This is aggravated by their lack of work experience, since skills are mastered, and sometimes even acquired, on the job.

The quality of education in the region has shown to be low, in spite of efforts and significant public investments in education.

The passing rates of the Caribbean Secondary Education Certificate (CSEC) in Math and English are around 45% on average and it is not better in other subjects like Chemistry, Information Technology, to name some. Also, in 2009 only 21.36% of students passed five or more CSEC examinations, which is the acceptable performance for matriculation and entry-level employment (CXC, 2012). The most worrisome part of this story is that the rest of students are far from attaining this goal. 28.14% did not pass any exam, 24.65% passed only one, 12.62% passed two exams, 7.36% passed three exams, and only 5.88% passed four exams.

²² Gregg (2001)

²³ Eurofound (2012)

²⁴ Cunningham et al. (2010) propose five general categories of constraints that may limit young people's access to labor market: job-relevant skills constraints, lack of labor demand, job search constraints, firm start-up constraints and social constraints.

Employers face considerable difficulty in finding skilled youth.

Employers in Caribbean countries, report a shortage in skills as one of the key constraints in hiring workers, and likely new recruits. The 2008 Grenada Employer's Needs Assessment Survey, carried out under the World Bank's Skills for Inclusive Growth Project, found that 66% of employers were having difficulty finding new workers and were also unable to find workers with the required skills²⁵. Results from the Caribbean Labour Market Survey²⁶ show that the main issue employers face in their recruiting efforts is that applicants have poor or no employment skills (42%) followed by lack of qualified workers (31%). Also, according to a recent study in The Bahamas²⁷, the main difficulty employers face for hiring is the under-qualification of applicants (33.8% of employers), followed by applicant's lack of experience (28.8% of employers), and by applicant's lack of soft skills (27.5%).

The shortage of skills is a dominant bottleneck for employers worldwide.

According to a recent study in nine diverse countries²⁸ lack of skills is one of the main problems employers face when recruiting for entry-level positions: 39% of employers mentioned a skills shortage as a leading reason. Also, 36% of employers reported lack of skills as a cause of significant problems in terms of cost, quality, and time in their companies²⁹. Another, more comprehensive, study in 42 countries and territories corroborates this result finding that lack of technical skills is the main factor behind talent shortages (34% of employers cited this as a chief factor) while lack of soft skills is the fourth factor (19% of employers cited this as a chief factor)³⁰. Moreover, through a meta-analysis of labor demand surveys, Cunningham and Villaseñor (2014) find that half of employers rank socio-emotional skills as the most important skill, followed by higher-order cognitive skills (29%) and technical skills (16%)³¹. They find that the greatest skills gaps are in socio-emotional and technical skills. Furthermore, the 42-country study shows

that the supply of skills is not meeting the needs of labor demand: 72% of educators compared to 42% of employers think graduates are adequately prepared for the labor market³².

Inexperience, strongly tied to lack of skills, also contributes to high youth unemployment rates in the Caribbean.

According to the earlier cited country studies³³, an important proportion of job seekers has never worked before, a fact that generally makes it more difficult to find labor opportunities. In St. Kitts and Nevis one third of the unemployed has never worked while in Dominica and Grenada about one in four has no work experience at all. In a recent labor demand study, lack of experience stands as the third most important obstacle to fill vacancies, with 24% of employers agreeing to this being the most important issue (Manpower, 2013). According to the mentioned study in The Bahamas, prior work experience is the second most important hiring criteria, with 34.5% of employers marking it a decisive factor for hiring. Also, 28.8% of employers claimed having difficulty hiring workers due to applicant's lack of experience³⁴. As younger workers are less experienced than adults, they also tend to be less attractive candidates. Employers prefer adult workers, as they, given their work experience, are more likely than younger ones to successfully apply job-specific skills and to have stronger socio-emotional skills and work ethics, and therefore to be more productive in the workplace. Inexperienced candidates are also more costly in the sense that they have to be trained with the risk of leaving or not fulfilling expectations.

Lack of information is another main factor that constrains youth employment.

Informal job-searching methods such as referrals from relatives and friends, or direct contact with employers are commonly used while information systems or employment offices, which hold better knowledge of the market, are much less used³⁵. This informal practice may be effective only for well-connected

²⁵ Hickling Corporation (2008)

²⁶ CKLN (2006)

²⁷ IDB (2013)

²⁸ Brazil, Germany, India, Mexico, Morocco, Saudi Arabia, Turkey, the United Kingdom, and the United States.

²⁹ Mourshed et al. (2011)

³⁰ Manpower (2013)

³¹ Higher-order cognitive skills refer to logic, abstract and creative thinking, for example.

³² Mourshed et al. (2011)

³³ Country Assessment of Living Condition Barbados 2010; Country Poverty Assessment Dominica 2008-09; Country Poverty Assessments Grenada 2007/08; Country Poverty Assessment St. Kitts and Nevis 2007/08

³⁴ IDB, 2013

³⁵ In Mexico, for example, among people aged 15-24 years old, 65.7% search for jobs directly with the employer, 11% ask friends and relatives and 9.4% answer Internet announcements. Only 1.5% resorted to the employment service and 0.9% to an employment agency. Similarly, 58.6% found a job through a friend or relative and 17.9% by contacting directly the employer. Only 0.3% of youth found a job with an employment agency and 0.2% with public employment service. Source: own calculations based on ENNVIIH, 2012.

people with strong networks. However, youth tend to have smaller networks, especially those out of school and employment, and the vulnerable. Employers do not have information on young workers either. Youth generally write resumes basically with information on educational attainment, if any, from which is hard to tell their actual skills.

The lack of work experience by young people makes them less attractive candidates mainly for two reasons. First, without work experience there is not possibility of obtaining referrals regarding the candidates' past performance. Second, as mentioned above, employers cite the lack of experience as a major inconvenient factor for hiring since they value socio-emotional and technical skills the most, which are proven and acquired on the job.

B. Costs and risks of youth unemployment

High youth unemployment also reflects the NEET phenomenon. In the Caribbean, and worldwide³⁶, a significant share of youth is not in employment, education or training (NEET). Information on NEET youth is only available for two countries in the Caribbean: Belize and Dominican Republic³⁷. For Belize, it is estimated that 27.9% of young people ages 15 to 24 are neither in employment, education or training; 17% of the male youth and 38.6% of female youth. For Dominican Republic the estimates of young NEET are higher for males (33.3%) and lower for females (26.9%), the aggregate figure is 20.9%. The youth NEET rates for these two countries are considerably above the average estimated by ILO³⁸ for 24 developing economies--(12.4 per cent for young men and 28.1 per cent for young women). Yet, in the case of Belize, the rates are comparable to those in Brazil³⁹. Given the lack of data on the NEET phenomenon in the Caribbean, evidence of declining labor force participation and low school enrollment is presented in the next paragraphs.

The NEET phenomenon may be reflected in a declining labor force participation of youth in the Caribbean over the past decade, even considerably in some countries such as Jamaica (26% compared to 8% reduction of the overall labor force). This decreasing trend has been stronger and more common for male youths: only the Bahamas, Haiti and Suriname experienced positive growing trends of labor force participation. In contrast, in the case of young women, only Barbados, Guyana, Jamaica and St. Lucia experienced negative trends in labor force participation over this period. These declining trends may reflect discouragement, or inability to find jobs. However, these may be explained partially by recent improvement in school enrollment in some countries in the region⁴⁰. Other reasons for youth low attachment to the labor market, as cited by youth themselves, include over-qualification, low wages or willingness to spend leisure, stress-free time and enjoy freedom⁴¹.

Despite recent improvements, school enrollment rates are still low in several Caribbean countries, also reflecting the NEET problem. Secondary education is far from universal in most of the countries with available data. Guyana is the closest with an enrollment rate of 92.6%, followed by Barbados with 89% of enrollment, then Antigua and Barbuda, St. Vincent and the Grenadines, and St. Lucia, Jamaica, Dominica and The Bahamas with enrollment rates between 85% and 83%. Belize, St. Kitts and Nevis, Dominican Republic and, in particular, Suriname have much lower secondary enrollment rates. Tertiary education enrollment rates are available for a reduced set of countries but, in all of these, enrollment rates are quite low, with the exception of Grenada (52.8%) and Barbados (60.8%). The enrollment rate for tertiary education in St. Kitts and Nevis is of 18.2% and in Belize and Jamaica is about 26%⁴². St. Lucia, Guyana, and Antigua and Barbuda have enrollment rates inferior to 15%. Low school enrollment and further school completion rates, in addition to low quality education, narrows the set of opportunities of youth in the labor market, fueling a vicious cycle of youth discouragement.

³⁶ According to the WDR (2013) on Jobs, 621 million young people are idle, that is, they are neither in school or training, nor working or searching for a job. The report estimates that the rate of idleness ranges between 10 and 50 percent among those aged 15 to 24 years old.

³⁷ Author's estimation based on ILOSTAT (<http://www.ilo.org/ilostat/>). ILO's note: For statistical purposes, youth are defined as persons between the ages of 15 and 24 years. Youth not in education are those who were neither enrolled in school nor in a formal training program (e.g. vocational training) during a specified reference period (e.g., one week).

³⁸ ILO's average is estimated based on household surveys across different years.

³⁹ 16.4% of male and 30% of female youth in 2009 (Kovrova et al., 2012)

⁴⁰ A descriptive analysis of labor force participation and secondary enrollment dynamics may be indicative of decreasing youth LFP in favor of secondary school enrollment in Belize, Dominican Republic, Guyana, St. Lucia and St. Vincent and the Grenadines. However, further analytical work should be done to make any causality statements.

⁴¹ UNDP (2012)

⁴² See Parra-Torrado (2014) for sources.

Youth unemployment can also reduce future employment prospects and earnings. The literature, theoretical and empirical, on the effects of unemployment on future individual labor outcomes is extensive and indicative of important scars left by unemployment spells on the labor profile of those affected. For instance, a recent study on a set of Caribbean countries⁴³ estimates the cost of youth unemployment, as forgone wages and lost productivity, to range between 0.65% of GDP in Anguilla and 2.46% of GDP in St. Lucia⁴⁴. Furthermore, a series of studies based on data from the UK have concluded that unemployment in early life increases the chances of experiencing unemployment spells in adult life for men and less so for women. Also, they find that youth unemployment reduces life time earnings with the effect being slightly reduced if higher education is obtained or future adult unemployment spells are avoided. In short, these studies find evidence of permanent scars of youth unemployment on labor profiles: after 20 years of the experiencing youth unemployment of at least 13 months the negative effect on earnings ranges between 10% (if unemployment has not recurred) and 30% (if unemployment has recurred)⁴⁵.

Unemployment and NEET status affect negatively the individual's mental health status and these effects are not compensated when securing employment. There could be other costs to unemployment aside those already mentioned. Studies on mental health have shown that experiencing unemployment decreases the scores of mental health measures indicating a continued negative effect on mental health, in greater extent in those individuals experiencing more than one spell⁴⁶. Also, McKenzie et al. (2014) find that moving out of employment into inactivity and individual deprivation has greater effects on mental health and psychological distress than changes in household income or area deprivation. Furthermore, Flint et al. (2013) find that the negative effects of joblessness are not compensated by the positive gains in psychological wellbeing from transitioning into employment as the latter are smaller.

Unemployment, NEET status and early school leaving may lead to youth involvement in risky behaviors. In addition to the already mentioned costs, youth unemployment and NEET status generates discouragement, disaffection, isolation⁴⁷, and lack of ownership and of purpose among youth. These sentiments in turn increase the chances of youth engaging in risky activities such as adolescent fertility and sexual risky behaviors, substance abuse, and crime and violence. In what follows, related evidence is shown in this regard.

Discouragement from the education system and the labor market may induce youth pregnancies and sexual risky behaviors. According to a recent World Bank study⁴⁸, young woman living under disadvantageous conditions are more likely to get pregnant and teen mothers are more likely to have poor outcomes such as educational failures or unemployment. That is, youth unemployment and educational failure⁴⁹, among other factors, are both determinants and consequences of teen pregnancy⁵⁰. Furthermore, an IDB study in Peru and Paraguay shows that female adolescents opt for pregnancy, given that the education system is not giving them chances to improve their future, to add meaning to their lives⁵¹. Similar conclusions are drawn in a study for Colombia⁵². This may be a latent risk for Caribbean youth, given the conditions of high unemployment, low school enrollment and already high adolescent fertility rates. While adolescent fertility rates have decreased in all countries in the region (with the exception of Guyana), these are comparably high with other countries in the world, in particular in the case of Dominican Republic, Guyana, Belize and Jamaica⁵³. Also, discouragement may induce youth into sexual risky behaviors affecting youth's health, increasing, for instance, the risk of contracting sexual transmitted diseases among youth⁵⁴. This may of particular concern in the Caribbean where the age of sexual initiation is one of the lowest in the world⁵⁵ and it has the second-highest prevalence rate of HIV among people ages 15-24 years old, after Sub-Saharan Africa⁵⁶.

43 Chaaban (2009)

44 Note, however, that this estimated cost does not include, the forgone opportunity of acquiring skills on-the-job, the psychological costs associated with unemployment, and the costs associated to engagement in risky behavior.

45 See Gregg (2001) and Gregg and Tominey (2005).

46 Milner et al. (2013)

47 Eurofound (2012)

48 Azevedo et al. (2012)

49 Azevedo et al. (2012) mention that recent studies have shown that "most adolescent mothers have already dropped out of school by the time they become pregnant, while adolescents who give birth while still enrolled in school are as likely to graduate as their peers."

50 Poverty, educational failure, drugs and alcohol consumption and unemployment are cited by Azevedo et al. (2012) as both determinants and consequences of teen pregnancy.

51 Näslund-Hadley and Binstock (2010)

52 Gaviglio (2000)

53 WDI, World Bank.

54 UNDP (2012)

Youth unemployment and early school leaving may also lead to youth participation in crime and violence – a particular rising issue in the Caribbean.

Youth unemployment is one of the socio-economic factors that may push youth into crime and violence⁵⁷. Likewise, early school leaving is a recognized risk factor for engagement in risky behaviors such as substance abuse and violence, among others⁵⁸. Some studies have also established that a violent environment is known to increase the risk of youth engaging in illegal and dangerous activities⁵⁹, this being of particular concern given the rising trend of violence in the Caribbean⁶⁰. An earlier regional study by the UNODC and the World Bank showed that youth people were increasingly overrepresented among both victims and perpetrators of violence⁶¹. Nonetheless, recent evidence is mixed. According to the UNODC the rates per 100,000 juveniles (aged 17 years old and under) brought into formal contact with the police or the criminal justice system show relatively high prevalence of youth crime in 2010: 454.1 in The Bahamas, 2,193.1 in Grenada, 125.2 in Trinidad and Tobago (2009), 308.6 in Belize, and 20.4 Guyana. As per the evidence from Trinidad and Tobago, 42% of youth join gangs for friendship, 29% are looking for protection and safety and 8% are interested in making money (UNDP, 2012). However, the Caribbean Human Development Report 2012, dedicated to Citizens Security, suggests that violent behavior is not prevalent or endemic among Caribbean youth. The report is based on the UNDP Citizen Security Survey 2010, applied at the household level in seven Caribbean countries, and finds that 1.6% of surveyed individuals between the ages of 18 and 24 years old self-reported to have been criminally accused or arrested for violent crimes involving the use of weapons, while 2.5% for violent crimes without weapons. That said, the higher numbers are worrisome and this issue bears further investigation.

Furthermore, risky behaviors, such as teen pregnancy and participation in crime and violence, can have long-lasting individual and social costs.

A recent regional study estimated the opportunity cost of these risky behaviors in terms of GDP⁶². It argues that pregnancies at adolescent age have, on one hand, costs that are associated directly with the pregnancy such as medical expenses, child support and public subsidies and transfers to teenage mothers and their children. On the other hand, there are some indirect costs reflecting the opportunity cost of dropping out from school and the labor market, proxied as the forgone annual income. Other indirect costs, more difficult to measure are the costs imposed to their families, lower (re-) marrying probabilities, and social inclusion, among others. The study estimates the financial costs to range from 2.1% of GDP in Suriname to 0.6% of GDP in Trinidad and Tobago while the indirect opportunity cost to be much higher in all countries: 17.1% of GDP in Suriname, 10.3% in Belize, and 3% in Trinidad and Tobago. Other studies have found that teenage fertility affects negatively school attainment, labor market performance and wages in adulthood and also puts pressure on young fathers to get a job to provide for their children⁶³. Also, adolescent motherhood has been found to increase the probability of their children engaging in risk behavior, in addition to increasing health risks such as maternal mortality, fetal death, and infant mortality, morbidity and suicide incidence among teen mothers⁶⁴. Finally, the same regional study argues that the cost of youth crime can be disaggregated into direct costs associated to public expenditure on policing, arrests, judicial processing and incarcerations, and into the opportunity cost of having youth crime, which entails the forgone earnings of the involved juvenile, and the forgone revenue from tourism as this may be negatively affected by both the perception and awareness of crime. It estimates that the total cost of youth crime amounts to about 3% or 4% of GDP in some of Caribbean countries⁶⁵.

55 Blum et al. (2003)

56 Cunningham et al. (2008)

57 World Bank (2007), UNODC and World Bank (2007), UNDP (2012).

58 UNDP (2012)

59 UNODC and World Bank (2007); Cunningham et al. (2008); UNDP (2012)

60 Recent figures place the Caribbean as the sixth most violent subregion in the world (UNODC, 2013). Belize and Jamaica are placed fifth and sixth in the list of countries with the highest intentional homicide rate in the world, after Honduras, El Salvador, Ivory Coast and Venezuela. St. Kitts and Nevis, The Bahamas, and Trinidad and Tobago follow in the list, placed in the ninth, eleventh and fifteenth positions. St. Lucia, Dominican Republic, St. Vincent and the Grenadines, Dominica, Montserrat and Guyana are also part of the fifty most violent countries. (Violence is defined by the intentional homicide rate).

61 UNODC and World Bank (2007)

62 Chabaan (2009)

63 See Azevedo et al. (2012). Also see Arceo-Gomez and Campos-Vazquez (2011) for Mexico; Levine and Painter (2003) for the United States; Chevalier and Viitanen (2003) for Great Britain; among others.

64 Azevedo et al. (2012)

65 Chabaan (2009)

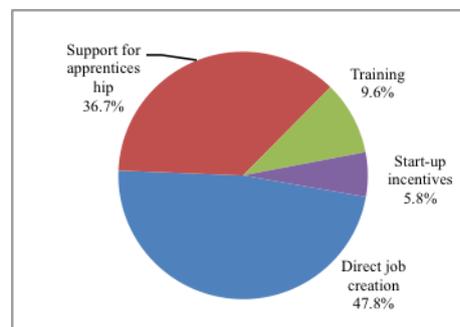
Box 1. Active Labor Market Policies in St. Lucia

An inventory of active labor market policies (ALMP) was created for St. Lucia by a World Bank team in 2013 collecting data from official documents and interaction with government representatives.

Spending on ALMPs in St. Lucia in 2012 represented 1.16% of GDP. This percentage is high compared to OECD countries, which in 2011 spent less than 1% of GDP, with the exception of Belgium (1.6%), Denmark (2.3%), Sweden (1.1%) and the Netherlands (1.1%). Comparing with Latin America, spending in St. Lucia is particularly high: Chile allocated 0.45% of its GDP in 2010, Argentina and Colombia allocated 0.45 % and 0.35%, respectively, in 2010.

Figure 6 shows the distribution of spending on ALMPs by program category. A larger proportion (47.8%) went to direct job creation, followed by apprenticeship programs (36.7%), training (9.6%) and development (5.8%). Direct job creation has also the largest number of beneficiaries (78.3% of the total), followed by learning programs (10.1%), promotion of entrepreneurship (7.2%), and training (4.5%). Note also that spending on youth programs is low compared to the total spending.

Figure 6: Distribution of spending on ALMPs in St. Lucia, 2012



Source: Parra-Torrado and Soto (2013)

A set of challenging characteristics emerged from the analysis of the ALMP in St. Lucia that may be preventing individuals to receive assistance in improving their job prospects. First, in St. Lucia there is no a unique governing body responsible for the management of all ALMPs. Employment and education matters are integrated following the merger of two ministries into a single entity and the Ministry of Social Transformation is responsible for managing and financing five of the fourteen existing programs. The NICE program was conceived as an umbrella instrument, which would absorb all other programs, but in practice the programs continued existing without change and coordination, and collaboration between actors is marginal. The lack of coordinated management has led to duplication of efforts. For instance, in St. Lucia there are five enterprise-incentive programs. This institutional arrangement may pose challenges unless there are clear coordinating structures that allow for an articulated functional provision of services. Second, St. Lucia does not have a sole institution that compiles vacancies with unemployed workers. Some programs provide assistance for job search, such as HOPE, Skills for Inclusive Growth and NAPP, but the country does not offer a single public service for the intermediation of labor supply and demand. Third, St. Lucia does not have a unique registry of beneficiaries nor a profiling instrument of beneficiaries and their needs that would support a more efficient provision of services. Fourth, most activation programs do not include a monitoring and evaluation component that could provide feedback to the design and implementation of the program and, in turn, an opportunity to correct mistakes and maximize good results. Furthermore, there is not a policy of evaluating the whole ALMP strategy based on the country's labor market needs and the cost-effectiveness of the programs.

III - Policy discussion and recommendations:

The diagnostic above leads to two main policy areas for discussion: (i) collection of data and creation of information systems; (ii) active labor market policies, which include, inter alia, labor market intermediation, and employment/training programs—especially those targeted to youth. It should be noted that active labor market policies and programs are just one policy area that needs to be tackled in order to address youth unemployment. Ensuring macroeconomic growth, reducing vulnerability to shocks, developing a vibrant private sector, and investing in sound education system are other policy areas that are critical for fostering growth and promoting employment. However, a discussion of these policy areas is outside of the scope of this paper.

A. Collection of data and information systems

The lack of information is a challenge for better diagnostics of labor markets in the Caribbean that should be further addressed. It would be useful for the region to produce detailed statistics of labor markets conditions and outcomes that help answering simple questions like how the labor force look like and what the quality of jobs in the Caribbean is. On one hand, it is important for countries to collect micro-data on a regular basis to estimate basic indicators of employment status, by gender, age group, education level and sector of work for the employed. Also, it would be useful to have information on quality of jobs, such as labor income, hours of work, type and terms of contract, social security, and labor benefits, among others. For the unemployed and inactive, it would be informative to know what the job search methods are (if any), how long they spend searching for a job or inactive, and the barriers they face, among other variables. Additionally, collect information on personal and household characteristics, including sources of income, such as remittances, as well as information on migration at the individual level. On the other hand, monitoring and evaluation

systems should be implemented at all levels so that program design and implementation can be adjusted according to results and outcomes, as well as to the local changing conditions of the economy.

There are some recent promising initiatives in the region aimed at closing the information gap.

A new World Bank IDF grant⁶⁶ aims at improving capacity for labor market monitoring and the establishment of information systems for improved labor market performance in a group of Caribbean countries⁶⁷. The IDF will principally strengthen the institutional capacity of government ministries and agencies, through the University of the West Indies, who are responsible for labor market policies and programs by establishing a culture of monitoring and evaluation, and information management in the Caribbean. Also, a World Bank team from the Poverty Reduction and Economic Management Unit has been supporting the OECS Statistical Office the strengthening of the statistical units in OECS countries and the development of harmonized labor force surveys⁶⁸. In fact, the OECS Member States are working towards establishing a Sustainable Household Data Collection Programme (SDP) for the Measurement of Living Standards in the OECS under the leadership of the OECS Living Standards Measurement Committee (LSMC), with the additional support of ILO.

⁶⁶ IDF Grant Strengthening Labor Market Monitoring and Performance in the Caribbean

⁶⁷ Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Trinidad and Tobago.

⁶⁸ St. Lucia, St Kitts and Nevis, Antigua, Dominica, Granada, St. Vincent and the Grenadines

B. Active Labor Market Policies

There is a need for implementing effective and affordable active labor market policies in the region. Active labor market programs (ALMPs) are a key pillar of a social protection system, the two other pillars being: social assistance for the poor and social insurance to help individuals manage shocks⁶⁹. ALMPs include labor market intermediation and job counseling at public employment services, training and skills development programs, employment incentives, direct job creation, start-up incentives, among others. In the region, an analysis of some of the active labor market programs indicates that while such programs exist, their coverage is small and there is considerable redundancy, duplication, lack of coordination and evident gaps in the supply of such services. For instance, an analysis of active labor market policies in St. Lucia provides an example of the challenges faced by current arrangements of programs including poor coordination, weak provision of key services, and inadequate or no monitoring and evaluation. (See Box 1).

As noted above, the lack of job relevant skills and information asymmetries are likely to be key constraints to youth employment. In what follows, youth activation interventions aiming at addressing these constraints are briefly presented in three large groups: (i) activation programs that aim at improving skills; (ii) programs that focus on matching labor supply and demand, and (iii) programs that combine both skills development and matching labor supply and demand. To conclude, it is briefly argued in favor of the third group⁷⁰ and some implementation modalities are presented.

Programs that focus on skills development generally have the objective of providing participants with education towards attaining a degree, vocational, high school or equivalent, aiming at improving their chances in the labor market. Some examples of this type of programs are ChileCalifica in Chile, the National Guard Youth Challenge and Job Corps in the United States.

Programs that focus on matching employers and job seekers can be exemplified as job placement programs or subsidized youth employment programs. For instance, programs like the public employment service of Argentina (Servicio Público de Empleo) and Jobcentre Plus in the UK provide diverse services to both employers and job seekers. In the region, an example is One Stop Job Centre (OSEC) in Antigua and Barbuda, which is currently being transformed to become fully operational under the World Bank's Public and Social Sector Transformation Project. Examples of subsidized youth employment programs are Subsidio al Empleo Joven in Chile and Contrato de Aprendizaje in Colombia.

Programs that aim both at developing skills and bringing together employers and job seekers include versions of a dual vocational education and training program that provides both vocational training and apprenticeship opportunities in firms that are implemented in Germany, Austria, The Netherlands, Denmark and Switzerland. Similarly, the Australian industry-led technical and vocational training system combines training, apprenticeships and qualification development. Different alternative approaches that combine on-the-job training or work-based activities and job placement initiatives are the Career Academy model and YouthBuild implemented in the United States⁷¹. Some successful examples in Latin America are two programs by the International Youth Foundation (IYF): Entra 21 implemented in 17 Latin American countries⁷², including Belize and Dominican Republic; and New Employment Opportunities (NEO) implemented in nine Latin American countries, including Dominican Republic⁷³. The Programa Juventud y Empleo provides training, a monetary stipend and a two-month apprenticeship in Dominican Republic. And in Jamaica, the pilot of the Steps-to-Work program, which provides training and on-the-job experiences to a targeted population.

⁶⁹ The emphasis of the system (choice or pillars) and complexity varies by country and its context (e.g. fiscal and administrative capacity)

⁷⁰ A broader discussion of the programs' advantages and disadvantages, and their impact evaluations, can be found in Parra Torrado (2014).

⁷¹ YouthBuild has also been implemented in Mexico as Jóvenes Constructores de la Comunidad (JCC) with some success in terms of continuation of education or training and employability (YouthBuild presentations and <http://www.youthbuildinternational.org/>)

⁷² Argentina, Belize, Brazil, Chile, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

⁷³ The nine countries are: Brazil, Chile, Colombia, Dominican Republic, El Salvador, Mexico, Panama, Peru, and Uruguay.

Of all youth programs, those that combine skills development with on-the-job training or work-based activities and job placement components are more effective in improving employability and earnings. Empirical research provides evidence in favor of programs that provide participants with on-the-job training opportunities. Examples are the dual-education model in Germany and Switzerland, apprenticeships and work trials in the UK, Entra 21 in Latin America and YouthBuild and Career Academies in the United States. In the region, the Programa Juventud y Empleo of Dominican Republic has shown positive results and the Jamaican pilot Steps-to-Work-Program has also shown good results and now it is being roll-out in the whole country⁷⁴. The success of this approach is due to three factors: skills are better learned on the job, industry participation, and government coordination and regulation.

Skills are better learned on the job, in particular life and work skills. The strength of these programs is based in the fact that by providing beneficiaries with on-the-job training they get the chance to see how the real world works in terms of the work-specific activity but also in terms of the relationships and situations that evolve in regular days at work. Combining the developing of cognitive and technical skills in academic settings⁷⁵ with on-the-job training or work-based activities allows students to see how the topics learned are applied in real life. Also, in working environments students get the chance to face real problems, consequences and challenges that helps them in the development of self-confidence, problem-solving and critical thinking abilities, work ethics, among other life and work skills⁷⁶. Moreover, there is evidence that youth prefer to learn in interactive settings: on the job (62%), hands-on (58%), multimedia (54%)⁷⁷.

The participation and commitment of employers is fundamental. Having the employers on board in a youth employment and training program is essential for assuring success. First, employers know their labor supply needs so a fluent communication with education providers is crucial to assure that education being imparted is relevant to the labor market, which will directly improve the employment opportunities of graduates⁷⁸. Second, employers' commitment in training apprentices not only on-the-job but supporting their technical formal training guarantees the sustainability of the programs. Also, incorporating mentoring components with employers into the program strengthens them as youth learn through observation and imitation⁷⁹. Such commitment can be leveraged with the imminent need that employers have of overcoming the increasing talent shortages⁸⁰. Third, active interaction of employers with policy makers in feeding information systems allows for informed design of policies and programs.

Government coordination and regulation is essential to ensure quality and proper functionality of the schemes. Governments are key actors in youth employment and training programs not only due to their role as policy makers and financial supporters (although private financial support is encouraged) but as coordinator and regulators. It is to the government to provide the institutional infrastructure for these programs to evolve. It should provide spaces for communication among actors (education providers, employers, trade unions), guide the dialogue and make sure that action is taken. Moreover, it is to the government to guarantee the quality of training programs as well as the labor and social protection rights of participants.

⁷⁴ Lerman (2013), Eichhorst et al. (2013); Cahuc et al. (2013); Eichhorst et al. (2012), Ibararán et al. (2012)

⁷⁵ Real-life classroom settings are also a newer and interest approach proven to have better results than traditional classroom settings. An example of this intervention can be found in Colombia with SENA's new adapted environment classrooms.

⁷⁶ Lerman (2013); Halpern (2012); Halpern (2009); Rauner (2007)

⁷⁷ Mourshed et al. (2011)

⁷⁸ World Bank (2011); Mathews (2013)

⁷⁹ Halpern (2009)

⁸⁰ According to a recent article in the New York Times, companies in the United States have resorted to creating their own apprenticeships programs or partnering with specialized providers in order to create their own labor force with the needed skills (Schwartz, 2013).

A critical element in effective delivery of programs is ensuring that programs are delivered in a coordinated fashion, with strong administration. Setting a one-stop shop with tailor-made services allows the job seeker to obtain information on all programs and services provided for his benefit of securing a job even though in some cases these programs or services are not directly provided by the official labor institution but are referred to. Additionally, the one-stop shop allows for the coordination of programs and services supply, avoiding duplication and closing any gaps in provision, strengthening a system approach of social protection. Furthermore, setting-up a one-stop shop allows policy makers to design programs in an interconnected manner that would ensure a path out of unemployment towards a self-sustained income generating status. This approach would also facilitate the collection and maintenance of databases to the authorities, for example, using a single data registry and a profiling instrument of beneficiaries to enhance service provision.

Heterogeneity of job seekers and their needs must be recognized when providing employment services. Not all unemployed face the same constraints to employment. It is essential that a first step in to the employment services is the identification of the job seekers' needs and characteristics. It is not just the standard demographics or academic qualification what explains unemployment spells. It is also the interaction of the individual characteristics with life trajectories what better explains the needs of service. In fact it may be that an individual facing difficulties with securing a job does not necessarily need a service from the employment office but from social services in general. For example, a qualified single woman with children may not be vulnerable in the labor market just for being women but for a combination of her living situation; she may not need more training or any type of intermediation services but affordable child care solutions. A similar case can be argued with a person having difficulties holding a stable job due to mental health problems. Thus, a good profiling of the individuals helps understand their needs and allows for a more effective assistance by referring them to the right service or program. A tailor-made

services approach is more effective in responding to the simplicity or complexity of individual situations. Also, a clear advantage of this approach is that resources can be better utilized as it allows for more accurate targeting of programs and services.

Ensuring programs are cost effective and financially sustainable. Given scarce resources it is important that the Government can assess which programs are most cost effective and suited to country context. Therefore piloting interventions and evaluating them prior to scale up is essential. More generally, a program of monitoring and evaluation allows a feedback loop to policy makers who can then assess whether programs are well designed, financially sustainable and effective in achieving their outcomes.

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