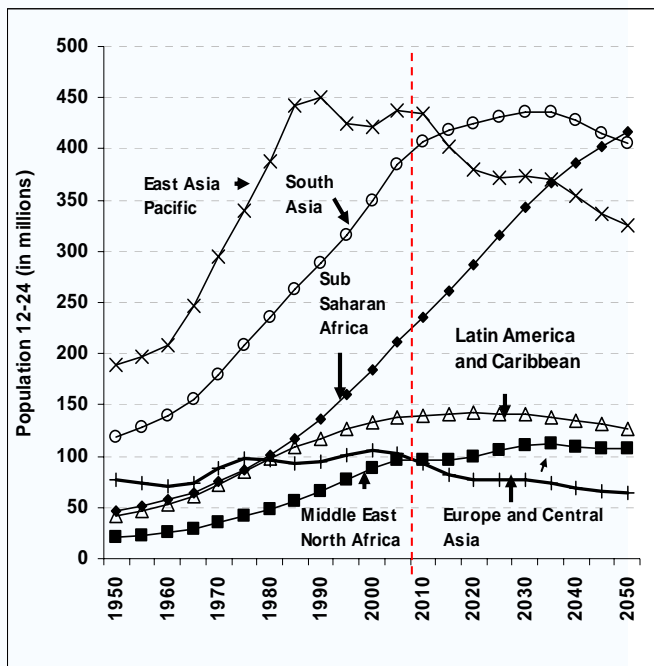


Special Focus

Investing in Young People in East Asia and the Pacific *World Development Report 2007: Development and the Next Generation*

There are more young East Asians and Pacific Islanders aged 12 to 24 than ever before. The number of young people in the region is at a historical peak of 450 million. They account for one-third of the developing world's 1.3 billion youth population, largely because of the large youth populations in China, Indonesia, the Philippines, and Vietnam. These numbers will decline in the near future because the region's fertility rates began to decrease earlier than those of other regions (see Figure 1). Within this overall picture, trends differ across countries within the region. In China and Thailand, the youth population peaked over 15 years ago, but everywhere else the numbers of young people are at historical highs or will continue to grow in the foreseeable future.

Figure 1: The number of young people in East Asia and the Pacific is near it's historical peak



Source: UN Population Division, 2005

These large numbers could cause problems for the countries in question because of the need to employ all of these young people and to maintain social stability.²⁹ However, high youth populations also present

²⁹ Unemployment is not only costly to individuals in terms of foregone learning while on the job, but it is also costly to societies as high open unemployment also

these countries with unprecedented opportunities to grow and to make further progress in reducing poverty if the right policies and institutions are in place. There are at least two reasons for this.

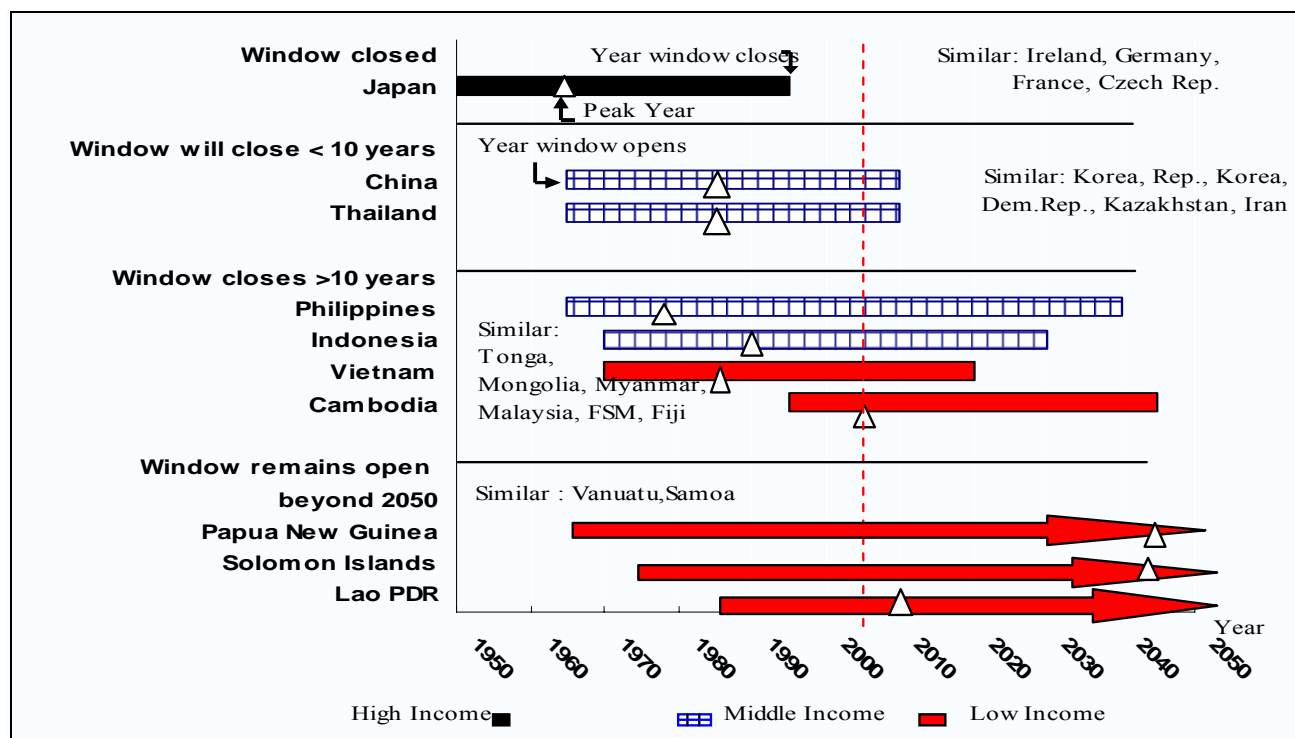
First, this generation of young people is more educated and healthier than previous generations, which is a strong base for countries to build on in a global economy that demands more than basic skills. Thanks to the success of past policies, more young people are surviving childhood diseases and completing primary school. For the region as a whole, primary completion rates are close to universal, which is the highest rate of all the developing regions. Even in countries where primary completion rates are still far from universal (such as Cambodia, Lao PDR, and Myanmar), recent progress has been dramatic, particularly in Cambodia where these rates increased from less than 30 percent in the late 1990s to over 80 percent by the early 2000s.

Second, because of falling fertility, the large numbers of young people today will translate into higher proportions of people of working age than of those of non-working age (chiefly children and the elderly), meaning that more income will be available per dependent. This demographic dividend can boost economic growth. One study attributes more than 40 percent of the high growth rates in the countries known as the East Asian “tigers” from 1965 to 1990 to their ability to take advantage of this dividend.³⁰

This dividend will not be available forever because this “demographic window of opportunity” will eventually close as this cohort ages. Happily, it is still open for most of the countries in East Asia and the Pacific (see Figure 2). For middle-income countries such as China and Thailand, the window of opportunity will close within 10 years, which means that these countries need to invest in their young people urgently if they are to take advantage of this

generates social unrest, potentially hurting the climate for investment.

³⁰ Bloom and Canning (2004).

Figure 2: Demographic windows of opportunity in East Asia and the Pacific

Source: UN Population Division, 2005

opportunity. For other countries in the region, especially the poorest, the window will remain open for much longer.

The dividend is also not automatic. For example, in Latin America, the fertility rate in some countries declined early, and these countries failed to reap the growth dividend because they did not have the appropriate policies and institutions in place to develop and deploy human capital effectively. So what are those policies and institutions?

The World Development Report (WDR) 2007, *Development and the Next Generation* (World Bank, 2006b) argues that key policies and institutions are those that develop young people's skills as they undergo five life transitions. These transitions are: (i) continuing education beyond primary-school age, (ii) going to work for the first time, (iii) growing up healthy, (iv) forming families, and (v) exercising citizenship. The WDR outlines three lenses through which to assess the adequacy of a country's existing policies for addressing these transitions. Do they offer **opportunities** for young people to develop their human capital and use it productively? Do they help young people develop their decisionmaking **capabilities** to choose wisely among available opportunities? Do they provide **second chances** when choices are either unavailable or missed?

This article summarizes some lessons from the WDR 2007 as they apply to the East Asia and Pacific region. The following sections discuss each policy lens in turn, focusing on three of the five transitions discussed in WDR 2007: transitions to learning, going to work, and growing up healthy. Each section begins by illustrating the current youth status in the region.

1. Broadening Opportunities for Young People

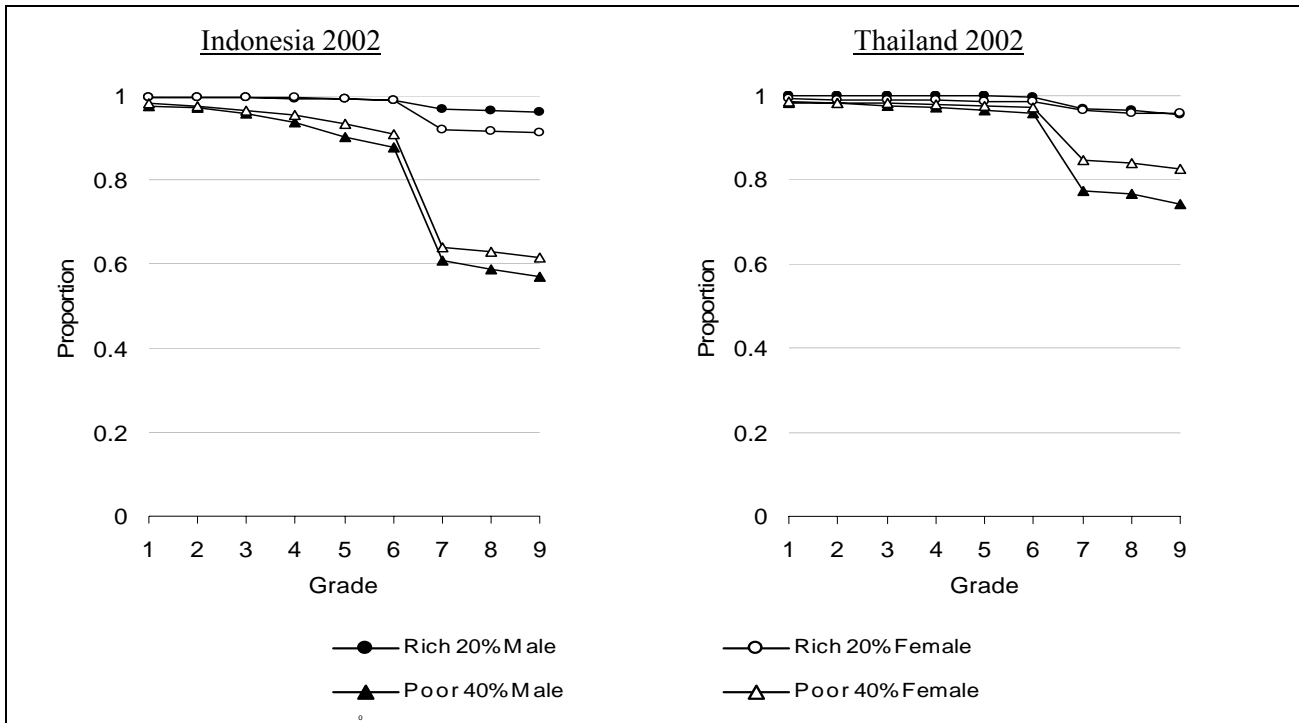
The growth of East Asian economies has been remarkably resilient. The rebound from the tumultuous financial crisis of 1997-98 has recently been described as a "renaissance."³¹ This growth has created many opportunities for young people to develop and use their skills, but they continue to face several challenges in terms of their transitions through education and into work.

1.1 Broadening Opportunities: Challenges

Most EAP countries have almost universal primary completion rates. Yet many children in Cambodia, Lao PDR, and Myanmar drop out before completing primary school, and too many children never even start school. Also, for many, particularly the poor,

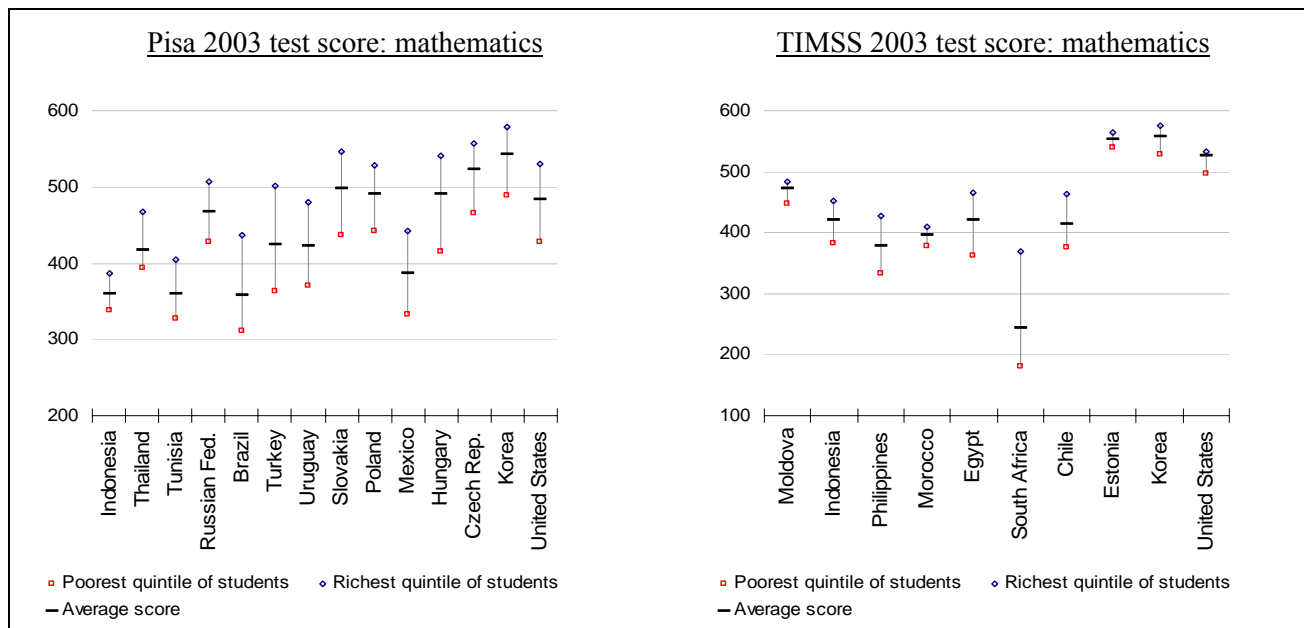
³¹ Gill and Kharas (2006).

Figure 3: The transition to secondary school is a stumbling block for many students
Proportion completing each grade



Note: The richest 20 percent and poorest 40 percent are derived from an index of assets and housing characteristics. Figures are Kaplan-Meier estimates based on nationally representative samples of 10-19 year olds: <http://econ.worldbank.org/projects/edattain>.

Figure 4: Learning achievement in EAP middle-income countries is low



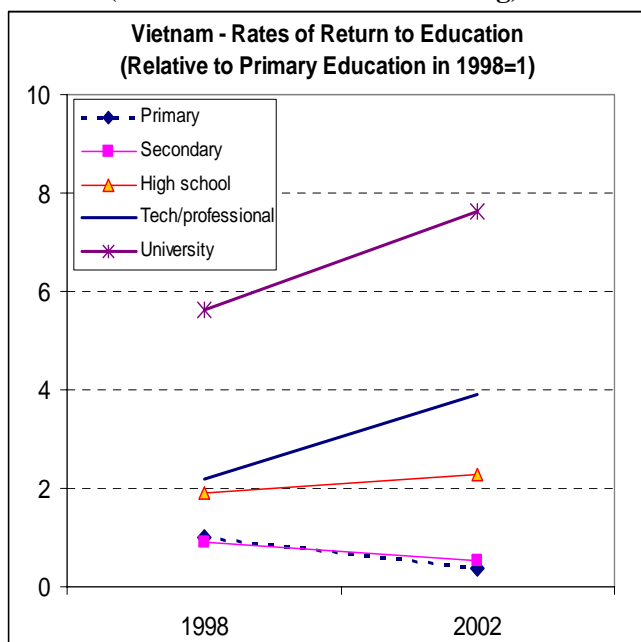
Source: World Development Report 2007. TIMSS 2003 test scores refer to grade 8.

there are barriers to making the transition to secondary school, even in countries with high primary completion rates such as Indonesia and Thailand (see Figure 3).

And the educational preparation of those who do get access to secondary school is low, particularly among the poor. The average performance of adolescents from three middle-income EAP countries (Thailand, Indonesia, and the Philippines) on standardized tests is well below the OECD average of 500 (see Figure 4). These numbers are all the more worrisome because these assessments do not include students who have already dropped out of school, who are likely to be the poorest and worst performing students.³²

Low learning achievement has knock-on effects as the economies of East Asia are increasingly in need of workers with high skills and knowledge. This is reflected in the increase of the returns to upper secondary and, particularly, higher education relative to primary and lower secondary education despite the increase in their relative supplies (see Figure 5 and Table 1).

Figure 5: High and rising returns to higher skills (annualized returns to schooling)



Another challenge is the rising youth unemployment rate in many countries in East Asia, which may have a negative effect on social cohesion.³³ Young people everywhere tend to have higher unemployment rates than adults (twice as high in rich countries).

³² In Thailand and Indonesia, the proportion of 15 year olds in school in Grades 7 and above is 84 and 73 percent respectively, while 85 percent of Philippino young people are enrolled in Grade 8.

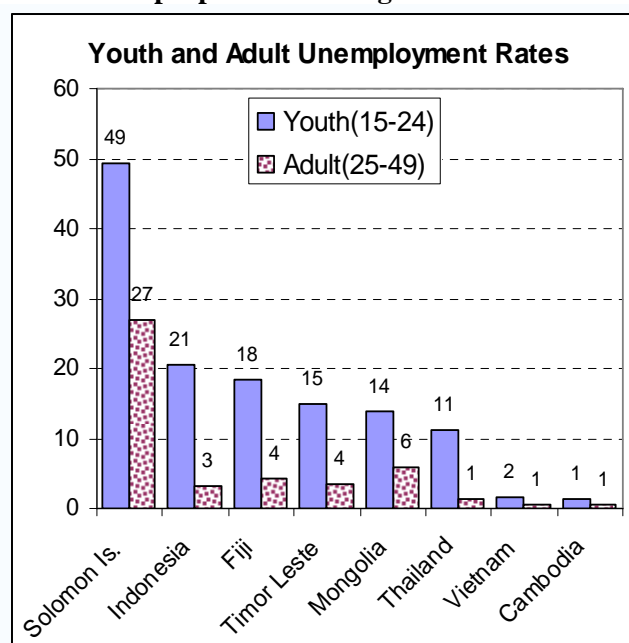
³³ Gill and Kharas, 2006.

However, in countries like the Solomon Islands, FSM and Tonga, even where such ratios are not so high, there are so few employment opportunities that open youth unemployment exceeds 35 percent. In countries such as Indonesia and Thailand, adult unemployment rates are low but youth unemployment is six to nine times that of adults (see Figure 6).

Table 1: High returns to higher skills (annualized returns to schooling)³⁴

	Primary	Lower Second.	General Second.	Tech. Second.	Tertiary
Singapore	5.7		7.6	8.4	23.7
Thailand	5.2	14.3	11.5	13.4	22.1
Philippines	10.7		7.6		19.8
Indonesia	5.6	8.6	10.7	11.7	13.6

Figure 6: Unemployment is higher among young people than among adults



Source: World Development Report 2007

Many of those who do find work are employed in dead-end jobs, which make it difficult for them to escape poverty. Many young people start working in the informal sector, which can be an important stepping

³⁴ Note: Estimates are based on log wage regressions for male workers whose primary employment was in the wage sector aged 18-65. Source: Vietnam (Living Standards Survey, 2002), Indonesia (Susenas, 2003), Thailand (Socioeconomic Survey, 2002), Philippines (Annual Poverty Indicator Survey, 1999), Singapore (Labor Force Survey, 1998).

stone, as in Latin America where the vast majority of apprenticeships occur in this sector. However, a study suggests that growing informality may be fueling growing inequality between the rich and the poor in urban areas in countries such as China.³⁵ In Indonesia, new jobs for young people are increasingly being created in the informal sector while at the same time employment in the formal sector is in decline, indicating that young people may be getting stuck in jobs that do not enhance their human capital.³⁶ Such poor opportunities can lead to discouragement. The proportion of young people aged between 15 and 25 who are neither working (in formal or informal sector) nor in school is large in countries like Indonesia (21 percent) and FSM (28.3 percent).

1.2 Broadening Opportunities: What is to be Done?

Those countries in East Asia that have successfully increased the opportunities available to young people to develop and deploy their human capital have focused on ensuring:

- The quality of basic education
- The relevance of post-basic education for work and life
- That economic growth fuels the demand for young workers
- Labor market mobility
- Opportunities for migration.

1.2.1. Improving the Quality of Basic Education

Large numbers of young people in EAP still do not acquire the basic skills needed for further study, work, and life.³⁷ Because learning is cumulative, early investments in children can increase their subsequent learning achievement and yield larger returns than later investments. For example, a program in the Philippines that combines education in preschools, health stations, and homes (parenting classes) has yielded significant gains in children's cognitive, motor, language, and social development, especially among children under the age of four.³⁸ So there is clear evidence that these early investments, complemented with subsequent learning investments in school, pay off.

A critical step towards ensuring that all young people have the basic skills necessary for work and life is to defer selection and specialization of students until after

the lower secondary level and to make lower secondary school part of the basic and compulsory education cycle. While all EAP countries have moved admission tests and vocational specialization to upper secondary or beyond, thus giving students enough time to build a solid academic base before having to choose an occupational specialization, lower secondary education is still not compulsory in low-income countries like Cambodia and Lao PDR, and even in the Philippines.

However, the universalization of lower secondary education should not come at the expense of quality. In Korea, the government's strong commitment to quality education and partnership with the private sector allowed the secondary education sector to expand without compromising its quality. Vietnam has increased secondary enrollment substantially since the early 1990s while also improving quality by introducing an effective cost-sharing system.³⁹ To ensure that basic education equips children with key basic skills, standards need to be set and evaluation systems need to be set up to monitor schools' performance. The success of these measures ultimately depends on having well-prepared and motivated teachers and schools that are accountable for their performance.

1.2.2. Increasing the Relevance of Post-basic Education for Work and Life

Middle-income EAP countries are challenged by the growing demand for higher levels of skills. Labor markets are increasingly demanding workers who are capable of creative and critical thinking. Surveys of the investment climate in Malaysia, Thailand, and Mongolia have also indicated that there is an increasing demand for workers with communication skills as well. Entrepreneurship also requires thinking skills and such behavioral skills as self-confidence and leadership.⁴⁰

The rising demand for these skills is largely unmet by the current education systems in EAP countries. The curricula remain too theoretical and fact-centered and provide little variety and flexibility.

The mismatch between the demand and supply of skills and its negative impact on growth are already being felt in a number of EAP countries. In a recent survey of the investment climate in Malaysia, about 50 percent of firms believed inadequate worker skills were

³⁵ Gill and Kharas (2006).

³⁶ World Bank (2004b).

³⁷ Basic skills denote the minimal set of abilities needed for further learning, work, and life, including numeracy and literacy and basic behavioral skills such as perseverance, self-discipline, and self-confidence.

³⁸ Armecina et al (2006).

³⁹ The new system included the creation of semi-public and private schools and the introduction of fees and, more recently, steps towards eliminating basic education fees for poor children. The additional resources were used to enhance quality (notably for effective textbook and teacher training policies) and to improve further the governance of the education sector (World Bank, 2006a: LAC-EAP secondary education book).

⁴⁰ Lee and Wong (2005).

the “top obstacle to business.” In Vietnam, about 50 percent of firms in the textiles and chemical sectors consider the supply of skilled labor to be inadequate for their needs. Software companies also report that local IT training institutions fail to churn out qualified graduates and that they have to spend at least one year retraining them.

Countries that have succeeded in meeting the growing demand for post-basic skills⁴¹ have taken a number of identifiable steps that have contributed to their success.

Providing Diverse and Flexible Post-basic Learning Options. Upper secondary education is still heavily directed towards preparing students for academic university degrees, except in China, Indonesia, and Thailand where vocational education accounts for between 30 and 40 percent of total enrollment in upper secondary schools. Students who chose vocational tracks should also be given the opportunity to enter higher education. Higher education is also heavily biased towards academic university degrees except in China and Malaysia, where half or more of all students are enrolled in shorter, more occupationally oriented programs. Governments can greatly facilitate the expansion and diversification of post-primary education by encouraging the private sector to become involved in financing and providing schools, while the governments themselves ensure quality standards throughout the education system. The private sector is small but rapidly growing in most EAP countries, except in the Philippines where it accounts for two-thirds of higher education enrollment. Private schools in the Philippines need to go through a probationary period after which they can ask to be accredited, which would enable them to receive government funds.⁴² Educational accreditation system is, however, rare in EAP countries.

Making School Curricula More Relevant to the Skills Needed in the Economy. School curricula can be made more relevant to producing the skills needed by the modern economy by teaching practical subjects, thinking skills, and higher order behavioral skills (such as decision-making skills, teamwork, the ability to negotiate conflict and manage risks), as well as blending the academic and vocational curricula at the upper secondary level. These were the goals of the recent reform of the secondary education curriculum in Malaysia. The new curriculum includes health and civic education as core subjects in upper secondary schools and has introduced such practical subjects such as science and technology, English language, and economics. It has also integrated

the general and vocational curricula by introducing vocational content into the academic curriculum as electives.

Connecting School and Work. School and work also need to be more connected. The German “dual system,” which combines schooling with work, has been tried in several EAP countries, but success has been limited mainly because of the inability of these countries to create jobs for apprentices and to ensure sustainable employment for them thereafter.⁴³ In Japan, full-time schooling is followed by full-time employment in enterprises closely connected with the school. The transition from school to work can also be eased by linking educational institutions with prospective employers so that the employers can provide feedback on the relevance and effectiveness of the curriculum. Formal university-industry partnerships are rare in EAP countries. In China, universities and research institutes (URI) have contributed a great deal to the growth of local industry. Some of the largest Chinese high-tech firms (such as Lenovo and Tongfang) are spin-offs established to make and market URI’s inventions.

Strengthening Educational Finance. Expanding and improving post-primary education can be costly. EAP countries should be able to raise the additional resources needed through a combination of cost-sharing, public-private partnerships, and efficiency enhancements, and some will also need help from donors. Vietnam and Korea managed to finance the expansion and improvement of secondary education by a combination of contributions from the families of students and working with the private sector. Soliciting contributions from those parents who are able and willing to pay prompts parents to become more engaged in the school’s management and therefore to hold it accountable. Free tuition is neither fiscally sustainable nor pro-poor, particularly at the higher education level. To ensure equitable access, cost-sharing needs to be accompanied by grants, loans and learning accounts (see below). In the Philippines, the private sector has played a key role in the expansion of tertiary enrollment. Private universities in the Philippines can receive government funding (including subsidies for students) provided they are accredited.

Efficiency can be increased by applying formula funding (which uses indicators such as enrollment rates) to channel funding to education institutions, particularly in countries where the institutions have considerable autonomy over how to use the funds. Secondary school autonomy over the design and allocation of their budgets has been associated with efficiency gains in Indonesia, Thailand, and Korea. Formula funding can also be combined with competitive funding. In Indonesia, about

⁴¹ Post-basic skills include thinking skills, higher order behavioral skills, specific knowledge applied to real-life situations, and vocational skills.

⁴² World Bank (2004b).

⁴³ Johanson and Adams (2004).

25 percent of the recurrent budget to public universities is allocated through competitive funding.

1.2.3. Increasing Job Opportunities for Young People

Economy-wide growth tends to be a rising tide that lifts all boats, including those of young people. Growing intra-regional trade and the rising importance of intra-industry trade in EAP are together creating diverse new job opportunities. Because the young are most able to meet new and growing demand for labor, these shifts favor young workers — not only because of the large numbers, but also because youth are typically more mobile and may be more adaptable than older workers to new production methods. In Indonesia, the industries with the highest shares of young workers (more than twice the national average) are electronics and textile manufacturing, both of which are heavily engaged in exporting.

Young workers in these youth-intensive exporting sectors are disproportionately well-educated; 47 percent have completed secondary schooling compared with only 11 percent of other young workers. In Vietnam, the comparable percentages are 20 percent and 8 percent.⁴⁴ As wages in these firms tend to be high, growth in export-oriented sectors can also give young people an incentive to acquire the skills required to get a job in these sectors. In Indonesia, young workers in the youth-intensive exporting sector were paid 30 percent more than young workers in other sectors and 20 percent more than young workers in other manufacturing firms.

More Flexible Labor Markets. In many countries, labor market institutions penalize new entrants. According to the *2007 Doing Business Report* (World Bank, 2006c),⁴⁵ labor market regulations in EAP as a whole tend to be relatively flexible, but there is wide variation among countries. For example, Malaysia and Thailand have little employment rigidity, while the labor markets in Cambodia and Indonesia are more rigid.⁴⁶

Job Training. Many young people who start out in the informal sector need to learn new skills while working in these jobs. If they are given practical on-the-job training in occupational and general behavioral skills in these informal sector jobs, then this will increase their

employability for the future. Leaving training to firms, either in formal or informal sector, does not ensure that all young people can get access to training,⁴⁷ which calls for public intervention. But the track record of public training institutions in providing training to young people is very poor. These public training programs are more effective when they include employment services, counseling, and training in life skills (see below).⁴⁸ China, Korea, Malaysia, and Singapore have launched on public-private partnerships to diversify the financing of these programs, to make them more sustainable and relevant, and to increase access to them.

Entrepreneurship. Another option for the young is self-employment, but young people face many more constraints to starting a business than their elders because of their lack of access to capital and networks of potential clients and suppliers. As shown by the *Doing Business* indicators, EAP countries could do more to reduce the bureaucratic and legal hurdles to starting a business, though some countries such as China and Indonesia have already made efforts in this direction. Programs that promote youth entrepreneurship specifically may be an effective way to increase youth employment, but this is an area in which there is little solid evidence of what works.⁴⁹

1.2.4. Generating Job Opportunities through Migration

Geographic mobility broadens opportunities. In this respect, the young are well positioned because they represent a disproportionately large share of all migrants both to urban areas and to other countries. However, there is a need for governments to help young migrants to assimilate into their new communities and to minimize potential stress on the host populations. Rural to urban migrants often face poor working conditions and limited access to social services. Migrants also lack information on required skills in the labor market. Recognizing the mismatch between the skills of these migrants and the demands of urban labor markets, the Chinese government has recently introduced a Rural Migrant Labor Training Plan (2003-2010).

International migration to larger economies is crucial for expanding the employment opportunities for young people, especially for young people from the Pacific Islands. However, this international migration is currently an option just for skilled workers. Governments can expand these international opportunities to a wider

⁴⁴ Authors' calculation using Investment Climate Surveys for Indonesia and Vietnam.

⁴⁵ Compared with other regions and the OECD, EAP has the lowest indices for difficulty in hiring and firing as well as rigidity of hours (with South Asia), hiring costs (second lowest after South Asia), and firing costs (third lowest after ECA and OECD).

⁴⁶ More research is, however, needed to assess the degree of labor market rigidity (beyond the assessment of labor legislation) and its impact in EAP countries.

⁴⁷ Large exporting firms with foreign ownership that tend to demand higher skilled labor are the most likely to provide training to their employees (Johanson and Adam, 2004).

⁴⁸ Betcherman, Olivas, and Dar (2004).

⁴⁹ World Bank (2006b).

group of workers, for example, by developing bilateral work arrangements with other countries, by recognizing the skills gained by migrants while abroad, and by lowering remittance costs. They can mitigate some of the risks associated with migration by providing job counseling and better information (for example, to reduce the risk of trafficking especially of women) and working with receiving countries to enable families to join migrants.

2. Developing the Decision-making Capabilities of Young People

Expanding opportunities is critical, but it is not enough. It is also important to help young people to choose among those opportunities.

2.1 Developing Capabilities: Challenges

As young people grow up (broadly between the ages of 12 and 24), they gradually take over from their parents the power to make decisions about their lives.

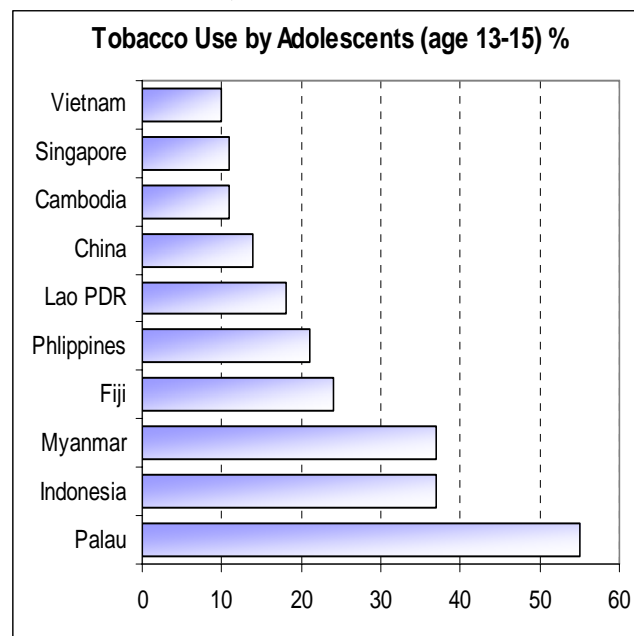
Yet many young people must make these decisions without the information, financial resources, or decision-making skills needed to make good choices among life's opportunities. Take, for example, the question of safeguarding one's health. Youth is a time for experimentation when many people begin smoking, consuming alcohol and drugs, engaging in sex, and having more control over their diet and physical activity. The chances of young people making the wrong choices are heightened by the fact that they may not be aware of the costs of such risky behavior until they are older. This is dangerous for those who are less risk averse and discount the future too heavily.

Although per capita consumption of tobacco is declining in developed countries, it is rising in many developing countries. Between 1970 and 1990, tobacco consumption rose by about 3.4 percent a year in low- and middle-income countries. Also, people are beginning to smoke at younger ages. In East Asia, smoking among very young people (aged 13-15) is especially prevalent in countries like Palau, Indonesia and Myanmar. (See Figure 7).

The major ways in which HIV is spread are unprotected sex and sharing infected injecting equipment. Although the average prevalence rate of HIV is low in the region, it has been a major health concern in countries such as Cambodia and Thailand where the prevalence exceeded 1 percent among the population aged between 15 and 49. Knowing how to prevent transmission is crucial for avoiding the infection, yet misconceptions about HIV/AIDS are widespread among young people in EAP. More than half of all young women in Cambodia,

Mongolia, and Vietnam and more than 80 percent in Indonesia and the Philippines think that HIV can be transmitted through witchcraft or mosquito bites or that a healthy-looking person cannot have the AIDS virus.⁵⁰

Figure 7: Many young people, especially young men, consume tobacco



Note: *Data for males only from WDR 2007. Others are taken from World Bank (2004a) *Youth in Numbers*.

2.2 Developing Capabilities: What is to be Done?

Risky health behavior during youth can deplete the economy of productive human capital for many years into the future. The best way to avoid the future loss of productive human capital and steep increases in future health care expenditure is to modify people's health behavior during their youth when habits are still being learned. Changing people's behavior is one of the most difficult goals to achieve, but three critical ways to do so are discussed in this section – informing young people, helping them to command resources, and enhancing their capacity to make good decisions.

2.2.1. Informing Young People

Use schools. Young people can be provided with the necessary information about good health practices in several different ways. First, this information can be transmitted via the schools, which is where young people pick up much of what they know about the practicalities of daily living. Health education programs and school

⁵⁰ UNICEF, Joint United Nations Program on HIV/AIDS, and WHO (2002)

health policies have been effective in increasing young people's knowledge and adoption of safe health behavior. While some countries in East Asia offer students information on HIV prevention, on reproductive health, and on the dangers of tobacco, alcohol, and substance abuse, evidence suggests that most school curricula in the region need to be improved. For example, Vietnam introduces HIV/AIDS education in schools to students from the age of 8, but a recent report⁵¹ showed that, among primary graduates aged 15 to 24, only 17.3 percent of women and 19.0 percent of men had comprehensive knowledge about HIV/AIDS.⁵² The percentages were 44.4 for women and 53.5 for men aged 15 to 24 among secondary graduates.

One way to improve this situation is to provide specific rather than general information. It is also important that messages delivered through campaigns are accurate and tailored to different targets.

Those who deliver information to young people must also be skilled at communicating with them. This requires that they receive better training and that better incentives are provided to attract people to become school-based counselors. School-based career guidance services, a fairly new initiative, have shown promising results in many countries. One consistent finding is that their success depends on the quantity and quality of information available to counselors.

Use options outside schools. It is not enough just to intervene in schools because so many young people drop out, often because of poverty but also because young people can be poorly informed about the benefits of continuing their education. Simple and relatively cheap interventions that inform young people of the payoffs from further schooling can help them to make better decisions.⁵³

⁵¹ General Statistical Office, National Institute of Hygiene and Epidemiology [Vietnam] and ORC Macro (2006).

⁵² Comprehensive knowledge here refers to knowing that people can reduce their chances of getting the AIDS virus by having sex with only one uninfected, faithful partner and by using condoms consistently; knowing that a healthy-looking person can have the AIDS virus; and knowing that HIV cannot be transmitted by mosquito bites or by sharing food with a person who has AIDS.

⁵³ In the Dominican Republic, a survey of boys in the final year of primary school showed that they underestimated the returns to completing secondary school by up to a factor of ten. Boys at randomly selected schools were then told about the "true" earnings premium to secondary education. Four years later they were found to have completed more years of secondary school than those who had not been told (Jensen 2006).

In countries where many young people are not in school, it is important to go beyond the school-based approach. Both Cambodia and Thailand have contained the spread of HIV/AIDS partly through nationwide information campaigns that broadcast health information through the media, NGOs, and other information providers. For example, in Thailand, NGOs were used to outreach to commercial sex workers (CSWs), which has been crucial to Thailand's success in reducing the HIV transmission through unprotected commercial sex.

Use new technology. Given that a very high proportion of young people tends to use the Internet, this can be an important conduit of information to young people, not just on matters of health but also education and work opportunities. A study in China showed that, among young people aged between 16 and 25, 35 percent use the Internet for online study, 31 percent use it for work, and 20 percent use it to search for medical information. More reliable information and greater guidance on how to access this information can be helpful to young people. Other new technologies that can be used to provide information include SMS (text messaging). New Zealand succeeded in using this means to help young people to quit smoking.

2.2.2. *Helping Young People to Command Resources*

Because young people are only beginning to be financially independent, they are more constrained in their consumption and investment choices than adults. Investing in secondary and higher education tends to be beyond the means of poor young people. The opportunity costs from foregoing work to stay in school are highest in poor countries like Cambodia where 43 percent of boys are already working by the ages of 10 to 12. In Vietnam, a study has found that when children aged between 8 and 13 work while also being in school, this reduced their school enrollment and educational attainment rates five years later.⁵⁴ However, even in Thailand and Indonesia where most children complete primary school, large numbers of poor young people do not make it into lower secondary school or beyond.

A combination of grants, loans and savings schemes can help to ease the credit constraints on the demand for education at the secondary and tertiary levels. Need-based grants are more appropriate for lower secondary education, while loans and savings schemes are more suitable for upper secondary and higher education.

Conditional cash transfers (CCT), which provide cash to poor young people conditional on them attending school, have proven to be effective in raising school enrollment in Latin America and are quickly becoming popular in other parts of the world. In Cambodia, a

⁵⁴ Beegle, Dehejia, and Gatti (2004).

secondary school scholarship program for girls has had a significant positive effect on girls' attendance in the first grade of secondary school.⁵⁵

Income-contingent loans are superior to conventional loans because, by deferring payments until individuals start working and reach a certain income, they have lower default rates and promote more equitable access and loan repayment. They also increase efficiency by addressing uncertainty about future earnings and by facilitating consumption smoothing. They are often collected alongside income tax or social security contributions and thus have in-built-in insurance against borrowers' inability to repay since the loan repayment falls if a borrower's income falls. However, they are hard to implement and may be a realistic option only in some middle-income countries.⁵⁶ Developing countries with well-developed tax systems such as Thailand are only now starting to try such schemes. For countries with poorly developed income tax systems, alternative mechanisms such as targeted vouchers and individual learning accounts that encourage saving for education may be better options.⁵⁷

3. Providing Second Chances

Invariably, bad choices will be made. Young people may drop out of school, begin working too early, or end up with jobs that lead nowhere. This can result in an enormous missed opportunity not just for the young but also for society as a whole. Policies that help young people to recover from bad choices or to escape poor circumstances can provide a safety net that benefits society well into the future. However, because remediation is costly, these programs must be targeted to those most in need, must be well coordinated with the mainstream programs and must provide the right incentives to beneficiaries.

3.1 HIV/AIDS

Thailand's experience in combating HIV/AIDS highlights the essential element needed for the success of second-chance interventions – the need to align these programs with interventions that provide opportunities and enhance capabilities. This is necessary to give the right incentives to beneficiaries, to avoid moral hazard, and to achieve high payoffs from the investment. In Thailand, many people living with HIV/AIDS (known as

PHA) have been given treatment through the auspices of government-led programs. Many PHAs who received treatment through these programs are now helping to plan and implement a wide range of HIV/AIDS programs using the extensive network of more than 300 PHA organizations. PHA peer educators play an essential role in providing health information and in promoting healthy behavior when the availability of doctors and nurses is limited. Experience over the past few years indicates that PHAs can make a large contribution to helping others to adhere to treatment by sharing experiences and providing basic information in easy-to-understand language. The increased role of PHAs not only increased acceptance of and support for PHAs within the health care system, but it also helped PHAs to regain self confidence and dignity.⁵⁸ Providing remediation programs may trigger moral hazard, which is a primary concern for policymakers, but, as Thailand's case illustrates, when people are given incentives to safeguard their health, then this risk can be mitigated.

3.2. Education

Many young people drop out of school without the basic skills needed to find productive employment. This is a particular problem in low-income countries like Papua New Guinea, Myanmar, Lao PDR, and Cambodia where many children drop out before completing primary school (or never start) and where literacy rates among 15 to 25 year olds are low (for example, 67 percent in Papua New Guinea and 79 percent in Lao PDR). But many young people, particularly the poor, in middle-income countries like Thailand and Indonesia also drop out of school after completing basic education. A coherent system of second-chance programs, such as equivalency education programs, literacy programs, and job training, is needed to meet the diverse needs of these young people. Involving the private sector and NGOs in providing these programs can increase both diversity and enrollments.

The Philippines has a good example of an equivalence education program. This program has three levels – basic literacy, primary, and secondary. Learners are pre-tested to determine at which level they should begin. The program is designed to be client-oriented and flexible, with the curriculum and material being divided into short, self-paced modules. When ready for testing, the learner can register for national tests and, if successful, will receive certificates equivalent to the completion of primary or secondary education. The program is supported by a strong private-public partnership that is key to its success – while the government develops the curriculum, materials, and tests, accredited private sector institutions and NGOs deliver the training

⁵⁵ Filmer, Deon and Norbert Schady. 2006.

⁵⁶ See Chapman (forthcoming).

⁵⁷ *Oportunidades* in Mexico introduced *Jovenes con Oportunidades*, through which conditional cash transfer beneficiaries accumulate points from the last year of lower secondary until the end of secondary school, which beneficiaries can tap for further study or to start a business if they complete high school before turning 22.

⁵⁸ World Bank (2006a).

Evidence from *Entra 21* and *Jovennes* in Latin America shows that job training programs need to be part of a larger package of services to maximize their impact. Both of these programs target disadvantaged young people on a massive scale to provide them with technical training combined with life-skills training. They also cooperate with both the public and private sectors to providing internship opportunities to young people that may facilitate their later employment. The keys to the success of these programs are the high quality of the training providers, frequent feedback from employers, and strong institutions managing the programs.

Because of the high cost of second-chance programs, it is important to direct them to those young people who are most in need, and design them in ways that meet their needs. Geographical targeting may be a better option wherever poverty is clustered in specific poor regions and in remote rural areas.⁵⁹

4. Footing the Bill

Some of the policy directions recommended here require a reallocation of resources. The biggest bill may be needed to underwrite increasing access to and improving the quality of basic education, while expanding the definition of basic education to include at least some secondary education. However as their economies grow, these sums of money are not beyond the capabilities of most countries in EAP.

Other measures that have been mentioned here may require less financial capital than political capital. Increasing the accountability of schools to students and their families or directing education subsidies towards those who need it the most are not easy to do. Neither is reforming employment protection legislation, which may threaten the entitlements of older workers. Similarly, providing young people with more and better information and developing their capability for making decisions may be controversial. At the same time, there are many ways to move forward that would allow young people, supported by good policies and institutions, to flourish and thereby contribute not only to their own futures but also to the future prosperity of the societies in which they live.

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⁵⁹ School attainment in urban areas is between 33 percent (the Philippines) and 50 percent (China, Indonesia and Thailand) higher than in rural areas.

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