CHAPTER 5 : SKILLS, WAGES, AND THE LABOR MARKET

5. 1 The skill endowments of the labor force are indispensable for technology absorption, productivity improvement, diversification and overall competitiveness. Building a strong skill base is particularly important for competitiveness in the OECS countries because of their reliance on services and niche manufacturing. With the recent weakening of the traditional sources of growth, companies need to move up the value chain and into new market segments in order to remain competitive, making the need for a skilled labor force paramount. However, the shortage of skilled labor has been cited by firms in the OECS as the key constraint to improving competitiveness. Also, real wages in the OECS appear to be growing faster than productivity. These comparatively high wages accompanied by persistently high unemployment (especially among youth) suggest that labor markets in the OECS may not be functioning efficiently. Addressing the fundamental weaknesses in the labor market will also be needed to improve competitiveness, exports and aggregate demand, and increase employment, a key factor in reducing poverty and improving the quality of life.

5. 2 This chapter presents an assessment of the OECS countries' education and training policies and examines whether OECS institutions provide the desired learning opportunities and outcomes required to build a skilled labor force. It prioritizes policy recommendations around three themes of: (i) improving quality of education, (ii) increasing access to tertiary education and job training through improved allocation of public spending and greater private involvement, and (iii) producing skills demanded by employers.

5. 3 The chapter also examines OECS labor costs and the functioning of labor markets, including the extent and nature of unemployment and migration, and identifies some rigidities in labor market regulations. The chapter makes the case that the OECS countries can realize very significant gains from reducing the burden of the public sector on the labor market (both in terms of wages and numbers), increasing the flexibility of hiring and firing arrangements, and rapid implementation of both the OECS mandate and the CSME protocol on free movement of labor.

A. Skills, education and training

5. 4 **Skills are important for achieving and maintaining competitiveness**. The skills of the labor force are crucial for a country's competitiveness. A more skilled labor force raises productivity and, in turn, incomes. In addition, a strong skills base has the dynamic effect of facilitating improvements in other growth-contributing areas, notably technology adoption, quality of government and corporate governance. The complementarity between skills and technology adoption is particularly strong, and is manifested through three channels. First, skilled workers are more adept at dealing with changing technologies. Second, the availability of more skilled workers creates incentives for firms to adopt and develop new technologies that are more skill intensive (Acemoglu, 2001). Third, skilled workers, engineers, and scientists are required to produce adaptations of existing technologies and even more to create new ones. The skill base is also particularly important for economies in transition. Box 5.1 illustrates how a skilled labor force can help a region in the search for new sources of competitive advantage during a period of structural adjustment.

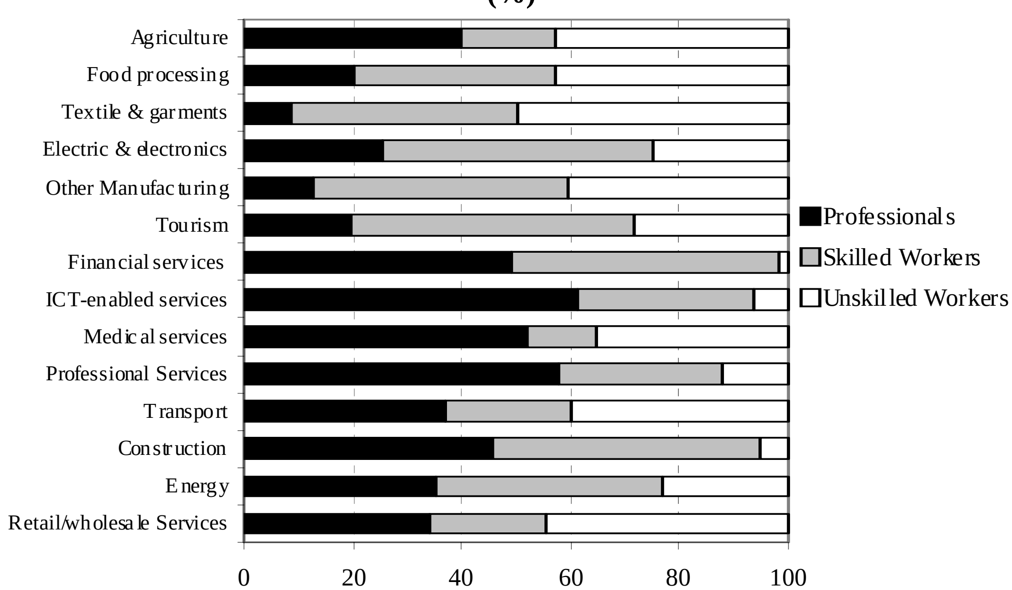
BOX 5.1: HOW THE SKILLS BASE HELPED BOSTON TO STAY ON TOP

Recent economic studies on the competitiveness of American cities and regions suggest that human competencies may be even more important when facing adverse economic conditions. A high stock of human capital allows both workers and firms in a region to acquire new competencies and adopt new technologies faster, and thereby gain new areas of competitiveness. Glaeser (2003) examines Boston as a case study of regaining competitiveness. Boston successfully bounced back from three economic crises that each could have left the region stagnated and abandoned. First, the city transitioned from a dying seaport to a thriving base of global shipping and fishing operations; second, in the late 19th century its economy shifted towards manufacturing building upon skilled immigrant labor; and third, in the late 20th century it adapted from a dying manufacturing city to the current vibrant economy based on highly advanced competences in biotechnology and ICT. Boston's excellent performance compared to other regions specialized in manufacturing, such as Detroit, can be traced back to its learning ability embedded in its high stock of human capital.

Source: Glaeser (2003) and Glaeser and Saiz (2003).

5. 5 **Building a strong skill base is particularly important for competitiveness in the OECS, because of the potential future reliance on services and niche manufacturing.** Service industries are generally more labor and skills-intensive than traditional manufacturing and agriculture. Moreover, moving up the value chain in services will entail increasing numbers and levels of skills in the labor force. In a survey of foreign investors across the Caribbean, firms in the service sector stand out as requiring far more professional and skilled labor, than their manufacturing counterparts (see Figure 5.1). In addition, niche and specialty product manufacturing will require a continuous adaptation of products to stay ahead of the competition. One commonly held myth across the Caribbean is that small markets like the OECS do not provide opportunities for very specialized scientific skills, yet a number of the highest value added niche manufactures now emerging as potentially competitive exports from the sub-region - specialty foods, beverages, herbal products, hurricane resistant windows - are all founded by entrepreneurs or have staff who are applying a high level of scientific training in their work.

FIGURE 5.1: SKILLS COMPOSITION OF A SAMPLE OF FOREIGN FIRMS IN THE CARIBBEAN (%)

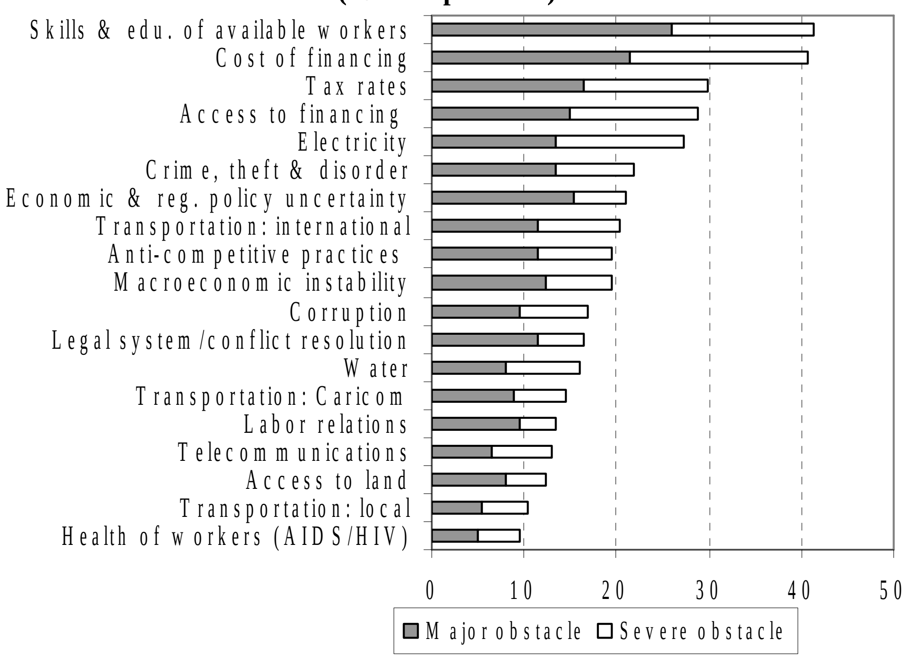


Source: World Bank (2004a).

5. 6 **The shortage of skilled labor has been cited by firms in the OECS as the number one constraint to improving competitiveness**. Despite the frequent claim that one of the comparative advantages of the OECS is a relatively well-educated English-speaking workforce, the public and private sector alike report severe shortages of skilled labor across the sub-region. In a survey of 24 export firms undertaken for the OECS Export Development Unit, the education level of labor was ranked as the biggest problem.[1] The shortage of skilled labor was cited as the number one constraint to increasing competitiveness by firms in Grenada, where a diagnostic of the investment climate was conducted in 2004[2] (see Annex 1).

5. 7 **The shortages are found in very specific skills like equipment mechanics for food processing companies, as well as in more broadly applied skills such as accounting and information technology**. As identified by the enterprises surveyed for the recent Diagnostic of the Investment Climate in Grenada,[3] the key skills shortages are found in technical skills such as industrial engineering, and managerial skills at middle and senior management levels.

FIGURE 5.2: MAJOR OBSTACLES TO FIRM COMPETITIVENESS IN GRENADA
(% of respondents)



Source: World Bank (2004e.)

5. 8 **The dearth of skills is further reflected by the difficulties with which firms recruit qualified personnel.** A manufacturing firm that recently set up operations in St. Vincent and the Grenadines reported receiving over 400 applications for 10 posts, but only around 20 candidates were potential hires. Similarly, a hotelier in St. Vincent and the Grenadines reported receiving over 300 applications for 15 posts. Of the 50 applicants interviewed, only five had any prior experience in the tourism industry. A yachting operator could not find a single diesel mechanic

[1] Madsen (2004).
[2] A full description of the survey is provided in Annex 1.
[3] World Bank (2004e).

or one with skills in marine refrigeration, and instead had to train a car mechanic. Table 5.1 shows that far fewer vacancies were reported for management and skilled posts in Grenada than for unskilled posts, but that when they do occur, it takes much longer to find suitable candidates to fill these vacancies than for unskilled posts.

TABLE 5.1: TIME NEEDED TO FILL A VACANCY IN GRENADA

	Management	Skilled worker	Unskilled worker
No vacancies reported (% firms)	29.4	23.9	12.4
Median delay (weeks)	8	4	1

Source: World Bank (2004e).

5. 9 **The shortage of skills is also reflected in increasing returns to education.** Table 5.2 reports the average difference in wages in various Caribbean countries, between workers with specific skills levels and workers with only primary education.[4] The variation of returns across countries reflects primarily differences in the quality of education and thus worker productivity, the supply of skills to the market, and wage-setting practices. Higher returns generally signal more scarcity. In the Caribbean, Barbados is the star performer because the returns are lowest. For example, in St. Lucia a worker with secondary education has an average wage 73 percent higher than one with only primary education. Similarly, a worker with post secondary education earns a wage 146 percent higher than a primary education holder. St. Lucia, while having a more adequate supply of secondary graduates than Guyana or the Dominican Republic, suffers from the most severe shortages with respect to post-secondary and university educated workers.

TABLE 5.2: INCREASING RETURNS TO EDUCATION

Percentage (%) higher wage received than a *primary* education holder:	**Secondary**	**Post-secondary**	**University**
Barbados	17	35	72
Dominican Republic	72	146	210
Guyana	42	74	110
St. Lucia	34	165	223
Trinidad and Tobago	25	89	186

Source: Various national labor market surveys and World Bank staff estimates.

5. 10 **The shortage of skilled labor in the OECS results from a number of compounding factors.** The first is relatively low educational attainment, in terms of both numbers and quality of secondary education graduates despite recent progress in expanding access, and low tertiary enrollment. This is compounded by an under-supply of tertiary education and training by both public and private providers and within firms. The latter is, in part, related to the higher costs of in-firm training when the quality of secondary output is low. The situation is further exacerbated by labor market rules which, although intended to protect workers, limit the degree of flexibility that employers have to adapt to changing needs and circumstances. They raise the cost of formal labor even beyond the skills differential and already high costs of training, and as such limit the supply of trainable jobs. Steady flows of migration have served to further exacerbate the shortage of skills.

[4] This exercise was only completed for St. Lucia in the OECS because it is the only country that produces regular labor force surveys.

(i) Basic and secondary education

5. 11 **The OECS has made remarkable progress on expanding access to education, but quality remains a major issue.** As with the most successful cases of educational upgrading (the US between 1850-1950, and Korea and Scandinavia between 1960-2000), the post-independence governments in the OECS did focus on primary education first. A comparison of educational attainment in St. Lucia between 1980 and 2000 indicate rates of increase that may be on the order of those achieved by Korea between 1960-2000, around 1.7 years per decade.[5] All the countries have achieved universal primary enrollment and completion and have rapid increases in secondary school enrollment rates, now around 81 percent, underway. However, completion rates are lagging at around 67 percent, and the quality of secondary education remains a major issue. The few available indicators of quality point to the mediocre outcomes from secondary education (see Table 5.3). The Caribbean Examinations Council publishes results by country, but these are only Caribbean-wide. Pass rates in the Caribbean Examinations Council (CXC) English and Math examinations averaging 56 and 38 percent, while higher than in other Caribbean countries, do not suggest adequate quality for maintaining international competitiveness. Further comparison internationally is hindered by the fact that no OECS country, indeed no Caribbean country except the Dominican Republic, participates in internationally recognized assessments of schooling quality such as Trends in International Mathematics and Science Studies (TIMSS) or the Program for International Student Assessment (PISA).

TABLE 5.3: SECONDARY AND TERTIARY EDUCATION

	Secondary					Estimated tertiary enrollment
	Gross enrollmen	Gross completion	CXC pass rates English	CXC pass rates Math	Range of CXC pass[a]	
Antigua and Barbuda	81		58	34	..	
Dominica	91	56	66	45	56% – 96%	8
Grenada	88	84	46	35	18% – 90%	13
St. Kitts and Nevis	100	67	53	46	64% - 80%	12
St. Lucia	77	72	58	39	36% – 96%	14
St. Vincent and the Grenadines	67	51	61	37	41% – 81%	5
OECS (pop-wtd)	81	67	56	38	..	11
Caribbean [b,c]	75		46	36		21
Micro states [b]	80		..	..		..
Up middle inc.[b]	83		..	..		..
Latin America	69		..	..	NA	24
World	70		..	..		26

a. in General Proficiency.
b. Not including the OECS countries.
c. Belize, Barbados, Dominican Republic, Jamaica.
Sources: di Gropello (2003). Caribbean Examinations Council (2003), World Bank (2004i), and Joseph (2003).

5. 12 **Poor education outcomes have emerged despite high spending, indicating serious inefficiencies in the education system**. The OECS, like much of the Caribbean, has traditionally valued education as evidenced by very high public spending, 6.4 percent of GDP compared to the Latin American and OECD averages of 4.1 and 4.6[6] percent, respectively. However, the OECS has become a showcase for the lesson that "it is not how much is spent on education but how it is

[5] However, it should be noted that there are some issues of comparability between the two data periods.
[6] It is important to note that in the OECD countries, private spending on education adds another 1.3 percent of GDP to the latter figure.

spent that is important". Inefficiently low pupil-teacher ratios, inefficient teacher deployment, generous study leave provisions and scant in-service training, and cumbersome teacher training-hiring programs have combined to raise the personnel costs, meanwhile constraining the share of trained teachers in classrooms across the sub-region to below 50 percent (see Table 5.4). The record high share of education spending on salaries (92 percent) leaves far too little for other critical inputs into learning outcomes, such as materials and school maintenance.

5. 13 **In addition, secondary school curricula are in dire need of reform.** For example, some schools continue to offer manual typing as a separate subject with separate equipment, from computer literacy. It is important to note that while curriculum reform has been on the sub-regional agenda for some years as evidenced by the establishment of the OECS Education Reform Unit in 1993, most countries acknowledge that little has been achieved by the regional effort and have resorted to national, and generally, uncoordinated efforts.

5. 14 One could argue that the high spending on education is inefficient because of the diseconomy of small population size, where fixed costs of administration, 9 percent of recurrent spending in the OECS, consume a lot of the public budget. In a multivariate regression of per capita public spending on education for a sample of 159 countries, Eskeland et al (2004) find evidence of economies of scale, after controlling for income levels and geographic size,[7] but this effect disappears in the Caribbean sub-sample including the OECS countries. In the Caribbean as well as in states with populations under 10 million, primary school pupil-teacher ratios rise with population, but without associated increases in per capita spending or reductions in primary education outcomes (as measured in secondary enrollment rates). This suggests that there may be scope in the OECS to reallocate spending from teacher salaries to other areas, without radically increasing per capita spending or reducing outcomes.

TABLE 5.4: EDUCATION INDICATORS

	Pub. exp. on educ. as % of	Pupil teacher ratio		% trained teachers	% of current	
		primary	secondary		salaries	admin.
Antigua and Barbuda	4.2	17	15	67	..	..
Dominica	7.1	18	18	23	92	10
Grenada	6.8	23	23	31	82	10
St. Kitts and Nevis	7.5	18	13	29	95	10
St. Lucia	7.1	26	18	57	92	9
St. Vincent and the Grenadines	5.5	20	18	86	96	7
OECS weighted	**6.1**	**19**	**16**	**49**	**92**	**9**

Source: World Bank (2003e), (2004e.), (2004f.), (2004g.) and (forthcoming), and di Gropello (2003) and Joseph (2003).

5. 15 **High spending on education also masks severe inequities in the system**. Although the Caribbean has a more egalitarian distribution of education than most other regions, as a result of the early post-independence emphasis on access, this masks serious inequities in the quality of education received by students. The range of CXC pass rates across schools in the OECS varies from as low as 18 percent to as high as 90 percent across very small numbers of schools in each country (between 2 and 18 schools). This is surprising in such small and egalitarian societies which have traditionally placed such a high value on both education and on the equitable distribution of benefits from development. The striking disparities are illustrated in Box 5.2 below in a comparison of two high schools in one of the countries.

[7] Schools systems that are spread over large geographic areas could be more expensive to run.

BOX 5.2: A TALE OF TWO SCHOOLS

GHS and CHS are situated 20 minutes from each other in one of the OECS countries. The former is located in the capital and the latter just outside. At the CXC examinations in 2003, 2 percent of the exam-takers passed Math and 52 percent passed the general proficiency requirement at CHS, whereas at GHS, 89 percent passed Math and 96 percent passed the general proficiency requirement. Large differences equally exist between the schools in repetition, dropout and completion rates. A range of factors explain the disparities in learning outcomes, namely: (i) school financing; (ii) academic selection; (iii) familial and institutional enabling environments; (iv) quality of teaching staff; and (v) infrastructure.

- *School financing. In the past, CHS received around half the per pupil funding from the government than did GHS.*
- *Academic selection. CHS draws from the bottom quintiles of those that passed the primary-to-secondary entrance examination ("common entrance"), while GHS skims the cream.*
- *Enabling environment. Despite catering to a higher share of at-risk youth, CHS has no student counselor and fewer extra-curricular activities compared to GHS which employs both a counselor and nurse, and the GHS students are from supportive, engaged and stable family environments.*
- *Training and motivation of the teaching staff.*
- *School infrastructure. GHS sports a fairly well-equipped library and science labs in sharp contrast to CHS' run-down infrastructure.*

5. 16 **There is a common tendency in the OECS to spend relatively more public financing on the better performing schools** which already have the benefit of good selection and supportive family environments, **instead of concentrating spending where needs are highest**. This is often reflected in the periodic national celebrations of top students who have achieved regional successes in the CXC examinations, with little attention to the average performance of the country as a whole. Not only is the public financing policy regressive, it appears to pin the hopes of an entire nation on a few elite performers, when global competitiveness depends on the ***average*** level and quality of education of the workforce. There is a general shortage of detailed public information on the distribution of inputs and individual school outcomes. For example, neither the Caribbean Examinations Council nor individual governments make publicly available annual results by school. This may have reduced accountability regarding the administration of education systems to the public by masking the low average quality of education, thus dampening the demand for improvements.

5. 17 **One outcome of the low quality and inequitable secondary outcomes is high youth unemployment** with 32 percent of the 15-24 year old cohort in the OECS unable to find work, compared with an adult unemployment rate of 11 percent.[8] Youth unemployment imposes a high cost in the Caribbean in terms of foregone productivity, partly because the youth make up approximately 18 percentage of the working age population. A recent World Bank study on youth development in the Caribbean[9] estimated that if youth unemployment were reduced to the level of adult unemployment, GDP could increase by 1.2 percent in Antigua and 2.6 percent in St. Lucia. High youth unemployment is also an indication that low secondary education outcomes are contributing to low tertiary enrollment and inadequate job training, by reducing the pool of suitable candidates for these forms of continuing education.

[8] In Dominica where we have recent data, unemployment among poor youth is even more acute – among both poor and indigent[8] 15-24 year-olds, the unemployment rate is estimated at an astonishing 74 percent.
[9] World Bank (2003b).

TABLE 5.5: YOUTH UNEMPLOYMENT

	Year of source data	Unemployment rate Youth	Unemployment rate Adult	Youth share of unemployment
Antigua and Barbuda	1991	13.0	4.2	47.0
Dominica	2001	56.0	16.7	50.1
Grenada	1998	23.9	9.2	49.0
St. Kitts and Nevis	2001	11.0	3.6	44.0
St. Lucia	2001	36.8	11.7	48.6
St. Vincent and the Grenadines	2001	39.4	15.3	45.3
OECS		**31.9**	**10.8**	**47.6**

Sources: Halcrow (2002), country labor force surveys, censuses and Bank staff estimates.

(ii) Tertiary education

5. 18 **The OECS also has a serious shortfall in tertiary education output.** The OECS remains far behind its competitors in tertiary education with enrollment rates estimated at around 11 percent including nationals enrolled overseas. This rate is almost 10 percentage points lower that in the Caribbean as a whole, and 13 and 15 percent lower than in Latin America and the rest of the world, respectively (see Table 5.3). Given its average per capita income, the OECS should have tertiary enrollment rates of around double the current rate.[10]

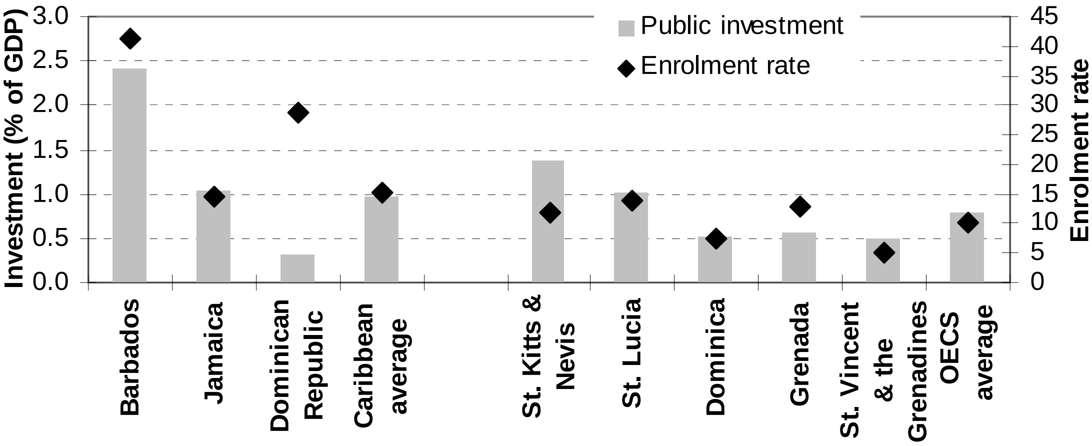
5. 19 **Both supply and demand factors explain the shortfall in tertiary education.** On the demand side, the irregular quality of secondary education reduces demand for tertiary education by reducing the pool of potentially qualified graduates. Nevertheless, enrollment into tertiary education has not kept apace with the last decade's expansion of secondary education and increase in secondary school graduates. In 2001, an estimated 57 percent of the relevant population cohort graduated from secondary schools, but only 15 percent entered tertiary institutions. The primary bottleneck seems therefore to be an inadequate provision of tertiary education services, although low demand due to inadequately qualified candidates is still a factor.

5. 20 **Supply of tertiary education has been predominantly publicly-financed and -provided.** Up until recently, the OECS, and much of the English-speaking Caribbean, relied exclusively on public financing and provision of tertiary education for the domestic/onshore market.[11] Given the fiscal constraints facing all the governments and the generally low cost-recovery from students (with the exception of Dominica where 13 percent of costs is collected in tuition fees), this has meant severe limitations on the number of places and quality of instruction. The private sector is now beginning to emerge as a significant provider in Grenada with the entry of St. George's University into the domestic and regional markets, and in Jamaica, where it accounts for approximately 19 percent of tertiary enrollment. In contrast, the Dominican Republic relies predominantly on private financing of tertiary education. There, the public sector devotes only 0.3 percent of GDP to tertiary education, while households invest a total of 1 percent.

[10] World Bank (2003e, 2004f, 2004g, 2004h, forthcoming).

[11] The private sector is the main provider of offshore education (serving foreign students) in the OECS.

FIGURE 5.3: TERTIARY EDUCATION: INVESTMENT AND ENROLLMENT (2000)



Source: UNESCO (2002), various country sources and staff estimates.

5. 21 **Public institutions are inefficient and spending is likely to be regressive**. In addition to the limited fiscal resources available for tertiary education, there are some key inefficiencies in how the resources are spent which serve to limit the number of places in public institutions. These include full salary payments to student nurses and teachers while engaged in full-time training.[12]

5. 22 **Relying predominantly on either private or public investment has pitfalls in terms of equity.** Public financing of higher education is well known to be highly regressive spending, since limited places go to the best performing students who generally come from middle-to-high income households. On the other hand, purely private financing is associated with large inequities. For example, in the Dominican Republic where private households finance three times more of tertiary education than the public sector, 47 percent of tertiary students come from the top quintile of households. In Jamaica, where a combination of public and private providers exists, the top quintile accounts for only 19 percent of tertiary enrollment. In all cases, reliable and available financial aid programs are necessary to assist low-income households with the burden of tuition fees and foregone income.

5. 23 **Public spending on tertiary education may not be sufficiently geared to the needs of the private sector.** In addition to reforming the financing structure of public tertiary institutions, the OECS needs to ensure that the curriculum and offerings are appropriate to the needs of the market place. The sub-region's tertiary institutions cannot afford to devote themselves purely to a scholastic agenda, although it remains an important public good for understudied societies and cultures. There could be an effective division of labor between the University of the West Indies which continues to serve the scholarly needs of the whole Caribbean (albeit with relevant questions about its own sustainability) and national colleges which strive to produce knowledge workers for the local economy.

[12] Further details can be found in the OECS Analysis of Fiscal Issues series.

5. 24 **To address the shortages, the OECS will need to ensure that the few public tertiary institutions contribute efficiently and effectively to solving the skills shortages that affect competitiveness, and to find ways to increase the private supply of tertiary education.** Adapting education institutions through reforms of curricula, innovations in course offerings, investment in specialized equipment and formation of education-business networks, is a lengthy but necessary process to ensure availability of cutting-edge specialized competences to local enterprises. The Barbados Community College provides an excellent model of governance strategies to improve the relevance of public tertiary institutions in the sub-region (see Box 5.3).

BOX 5.3: ACCOMMODATING THE TRAINING NEEDS OF THE PRIVATE SECTOR

The Barbados Community College may be the region's best example of how a public tertiary institution can ensure that its outputs meet the training needs of the private sector. The College has put into action several strategies to ensure that its offerings and graduates meet the private sector's needs, including:

(i) An external governing board that counts seven private sector representatives out of nine members, in the key areas of Retail, Banking, Oil, Manufacturing, Legal, Health, Education/Culture and the IT sector;

(ii) Advisory committees for each division of the College, which consists of professionals directly related to the division's careers. The committees meet at least once a semester;

(iii) Sale of training and consulting services to firms carried out via an Industry Service Unit located in the industrial area of Bridgetown. These activities not only contribute to the provision of relevant skills and business services and provide hands-on experience for students, but also augment the College's revenue; and

(iv) Facilitation of staff exchanges/attachments with firms through flexible staff rules.

5. 25 **Attracting additional private tertiary education providers to the OECS may be difficult given the small market size.** With the growing international trade in education, one possibility might be to attract efficiency-seeking, rather than market-seeking foreign investors in this area, similar to the existing medical education exporters (see Chapter 7) who service an international market, but in areas that also have relevance to the OECS needs. The linkages between St. George's University and the Grenada Community College are evidence that this can be done. The role of the state would be to identify and encourage those investments that have the spillovers to areas of greatest domestic needs, including through an appropriate trade stance on the tertiary education services. In addition, the Governments could encourage more innovative use of ICTs to provide local students with access to distance learning opportunities as proposed under the Caribbean Knowledge and Learning Network.

5. 26 **At the minimum, the OECS can improve the functioning of the market for tertiary education.** Across the globe, governments have been struggling to encourage private investment in tertiary education mainly by improving the functioning of the market. Some strategies include: (i) reducing regulatory obstacles to non-governmental providers; while (ii) providing public information on quality, labor market value and relevance of new training offerings through appropriate accreditation; (iii) diversifying tertiary education by recognizing shorter term technical and technological degrees; and (iv) expanding student loan programs. Regarding recognition of shorter degrees and certification programs, there is no need to reinvent the wheel. While ongoing efforts by the OERU to establish a sub-regional Associate Degree program are admirable, competitiveness in the OECS may be best served by taking advantage of already internationally-recognized certifications and relying as much as possible on Caribbean regional efforts, such as the Regional Nursing Program.

5. 27 **Close attention should be paid to trade negotiations on the treatment of tertiary education.** In this regard, the OECS needs to consider carefully its stance regarding the

treatment of tertiary education under the General Agreement on Trade in Services. The US, the world leader in export of education services, has sought full market access and national treatment from its trading partners for its modes 1, 2, and 3 higher education and training services providers.[13] In effect, they are seeking free entry of US education institutions to supply domestic markets and the same treatment from the public sector as received by local institutions. Regarding the latter, there is an outstanding issue as to whether 'national treatment' includes subsidies and concessions provided to public training and tertiary institutions, such as UWI and the Clarence Fitzroy Bryan College in St. Kitts and Nevis. In the Caribbean, some educators have cited this issue as reason to propose preventing entry by foreign training institutions, but this would only perpetuate the shortage of tertiary education offerings within the sub-region. Instead, the OECS trade stance in this area should aim to encourage the entry of investors – both domestic and foreign.

5. 28 **Finally, the demand for certain types of tertiary education may be limited by the segmented labor market space in the OECS**. The labor market in the OECS remains a geographically fragmented space, as most governments still restrict the free movement of workers across countries. Under current agreements, the sub-region is committed to free movement of labor only by 2007. Although some rules have been relaxed in a few countries, work permits are still required for most OECS nationals to work in another member country. This has a dampening effect on the demand for certain types of specialized tertiary education. The smaller the market space, the more limited the scope of opportunities as perceived by school graduates, who will only seek training for those positions in which there is a deep enough market. A larger market space allows graduates to explore more specialized and technical skills. At a minimum, the OECS countries should rapidly accelerate progress toward economic union and the Caribbean Single Market Economy.

(iii) Job training

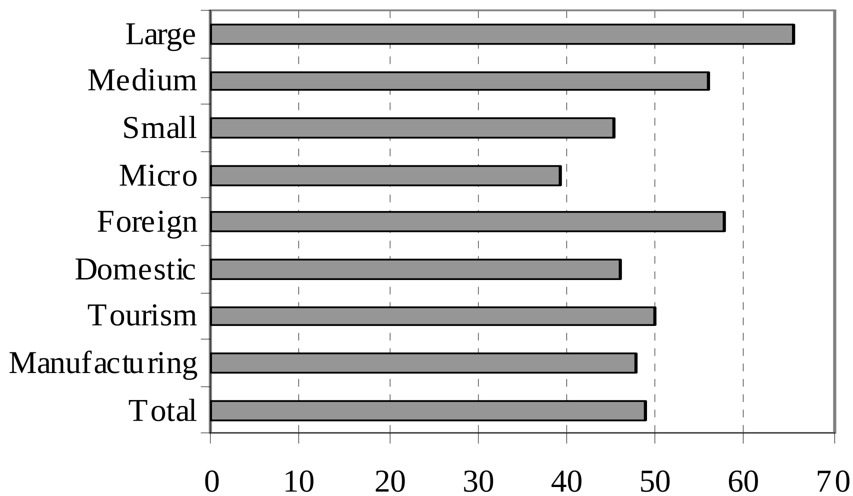
5. 29 **Job training is an important part of the supply chain for skilled labor.** The aim of job training is to build upon existing abilities of the worker by providing the opportunities for him/her to acquire new competencies directly related to creation of value-added within companies. Training should be seen as a complementary policy to education and technology, since firms generally choose to train employees only if those employees are adequately educated, and opportunities for the introduction of new technologies exist. Training therefore often has an incremental character. The decisions regarding training— the skills to be acquired, the duration of the training programs, and the choice of service providers—should be made by the firm itself, in order to ensure relevance and impact. Gill et al (2000) confirm through international evaluations the marked difference in outcomes between privately-financed training and publicly-provided courses. It is therefore critical that job training be highly demand driven in order to be effective in improving employee productivity as well as ensuring job-placement for unemployed.

5. 30 **Job training appears to be lower in the OECS than in the rest of the Caribbean and Latin America.** Approximately 65 percent of firms in the Caribbean provide training to their workers (85 percent of firms in the Dominican Republic, 65 percent in Belize, 54 percent in Haiti,

[13] Within CARICOM, Jamaica, Haiti and Trinidad and Tobago have responded with varying commitments. Jamaica's commitments are the most open with no limitations on market access and on national treatment only in modes 1, 2 and 3, but requiring local certification, registration and licensing of institutions in mode 3. Jamaica has no commitment in mode 4 which requires work permits and visas except from CARICOM citizens.

41 percent in Trinidad and Tobago, and 90 percent in Jamaica), which is lower than the regional average of 75 percent of firms for Latin America. Less than 50 percent of firms surveyed in Grenada[14] provide formal training to their workers (see Figure 5.4). Although foreign companies are more likely to offer training than domestic companies and larger establishments tend to train more than smaller ones, there remain a considerable number of firms – a third or more – that do not provide any training to their workers.

FIGURE 5.4: SHARE OF FIRMS OFFERING FORMAL TRAINING IN GRENADA
(% of respondents)



Source: World Bank (2004e).

5. 31 **Job-training is a complement, not a substitute for basic education.** Evidence from across the Caribbean confirms this. In Jamaica and the Dominican Republic, more than three quarters of recipients of training hold a secondary education diploma (McArdle, 2004). Marquez (2002) finds that in all surveyed countries (Trinidad and Tobago, Haiti, Dominican Republic and Belize) technicians, supervisors and skilled workers are around twice as likely to receive training than unskilled workers. Ashton (2000) confirms the same ratio for Barbados. Among the companies that reported offering training to their workers in Grenada, 84 percent said they provided formal training to skilled workers in 2003, but only 31 percent indicated that they offered such opportunities for unskilled workers. Unskilled workers are generally not considered "investment-grade" in that they lack the foundations for learning, thus rendering training costly and ineffective. Training programs should, therefore, not be seen as a substitute for basic education or a placement for school dropouts. On the contrary, providing quality secondary education to all is a must for a productive work force, and will increase the likelihood of future upgrading of the workforce through on-the-job training by firms.

5. 32 **Public training programs are not well geared toward the needs of the private sector.** Table 5.6 illustrates the distribution of investments in training by firms surveyed in Grenada. This suggests that although Grenadian firms under-invest in training in general, the private sector is bearing the main responsibility of upgrading the skills base of the labor force – both inside the firm and through private training providers. Private training facilities are frequented several times more than public training institutes. Indeed, the public training centers in Grenada lag so far behind the private sector in offering the kind of training demanded by the companies that they

[14] World Bank (2004e). Also see details in Annex 1.

account for only 19 and 13 percent of the total training provided to skilled and unskilled workers, respectively. For example, in St. Lucia, one hotel has been responsible, through its training program and high employee turnover for having trained most of the local massage therapists, thus facilitating the introduction of health and wellness services at other properties on the island. Most of the companies surveyed in Grenada recognize the merit of formal training in skills upgrading, but are not satisfied with the available training facilities. According to these enterprises, the Government should collaborate with the private sector to provide more training programs in all areas, and schools should be encouraged to expose young people more to the world of work in order to prepare them better for the job market.

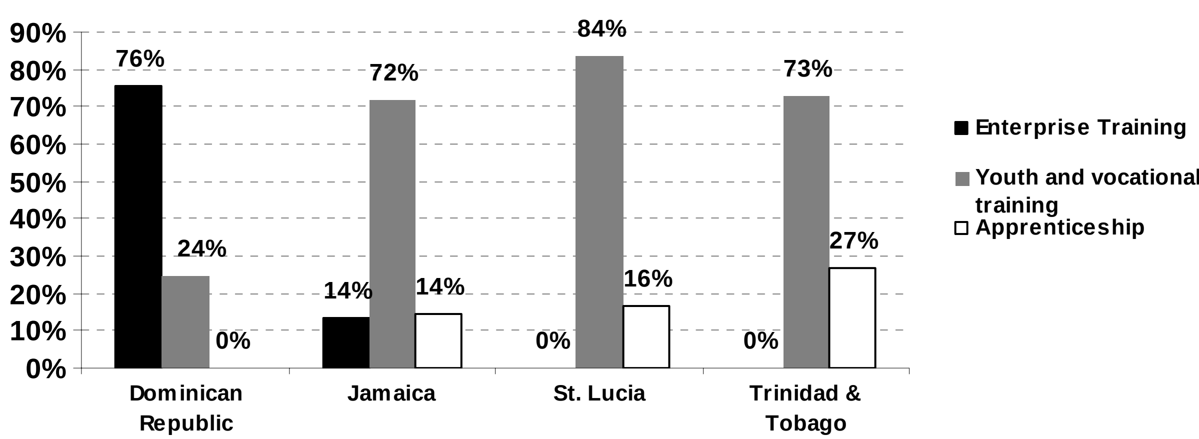
TABLE 5.6: TYPES OF TRAINING INSTITUTIONS USED BY FIRMS IN GRENADA

% of respondents who used these types of institutions	Skilled Workers			Unskilled Workers		
		External			External	
	Internal	Private	Public	Internal	Private	Public
Total	77.6	52.0	19.4	92.6	31.5	13.0
Manufacturing firms	61.9	36.6	1.5	96.4	3.6	0.0
Tourism firms	56.3	25.8	18.0	79.8	16.8	3.3
Domestic firms	52.7	35.7	11.7	79.1	16.5	4.4
Foreign firms	67.0	30.5	2.6	91.4	8.6	0.0
Micro firms	61.3	27.7	11.0	98.0	2.0	0.0
Small firms	56.9	28.1	15.1	91.7	1.1	7.2
Medium-sized firms	49.6	48.0	2.4	68.9	28.5	2.5
Large firms	56.9	35.5	7.5	78.3	18.3	3.3

Source: World Bank (2004e).

5. 33 **Public training programs in the OECS tend to focus almost entirely on youth training and basic vocational training aimed at remedying shortcomings of the secondary education system.** These programs generally emphasize skills for traditional microenterprise development such as dressmaking and carpentry rather than building skills for the formal labor market. Though useful, they have little impact on the competitiveness of private firms, and do not promote innovation in the economy. Instead, they act as safety nets and only provide limited income-earning opportunities for their beneficiaries. In St. Lucia, 84 percent of public spending on training goes toward youth and vocational training, with the remainder on apprenticeships (see Figure 5.5). Further, the public agencies usually define and provide training with little involvement from private sector employers. Within the Caribbean, only the Dominican Republic and Barbados allocate a significant portion of their budgets for job training towards demand-driven and incentive-based training schemes where firms are the central decision makers. For example, at Instituto Nacional de Formación Técnico Profesional (INFOTEP), the apex organization for training in the Dominican Republic, over 75 percent of training benefits employed workers, and the majority of training takes place within firms, aims at directly developing the capacities of the work force and thereby contributes to private sector productivity improvements. This appears to be a Caribbean best practice in this area.

FIGURE 5.5: DISTRIBUTION OF PUBLIC SPENDING ON TRAINING



Source: McArdle (2004) .

5. 34 **Outcomes of donor-financed training programs have not been well measured.** In the OECS, training programs geared to the private sector are also administered through stand-alone donor-financed programs like OECS Export Development Unit, the Small Enterprise Development Unit, CaribExport and Caribbean Regional HRD Program for Economic Competitiveness (CPEC) which support technical assistance directly to firms, including some employee training. However, there is a dearth of rigorous evaluation to clarify the impact on firms' productivity, sales or exports. In one case, an exit survey was done but the results are limited to whether the firms were satisfied with the assistance provided, rather than a more precise measure of improvements in worker productivity.

5. 35 **Despite the apparent willingness of private firms to train their workers, the under-provision of job training in the OECS will persist if left entirely to the private sector.** This is because firms are reluctant to train employees in general portable skills for fear of losing their investment to other employers. This risk is exacerbated in the OECS by the shortage of skilled personnel and resulting high turnover. Hence, there is a role for government in promoting training.

5. 36 **The international best practice is to separate public financing from provision of training**. Some Caribbean governments administer a payroll levy to finance training. Jamaica has an exceptionally high levy of 3 percent, compared with the more common practice worldwide of around 1 percent; however, the outcomes of this spending are not clear. There have been few rigorous impact evaluations and the job-replacement data that exists, shows mixed results. In OECD and Latin American countries, governments have opted to separate public financing from provision of job training, because of disappointing results with public training programs. Instead they now provide incentive schemes for firms to use private providers and concentrate on the regulation of those providers to ensure quality. There are many successful models of the public sector being able to provide financial incentives to firms for training (Malaysia, Chile, Brazil, Mexico, to name a few) from which the OECS can draw.

5. 37 **Small market size may hinder entry of private training providers to the OECS.** To deal with this, the OECS should accelerate support for the establishment of a seamless regional market for training providers under the Caribbean Association of National Training Agencies through common occupational standards, common and portable accreditations and technical and vocational certificates. Not only will this create a large market space and encourage more private suppliers, but it will also strengthen demand by individual workers for training. Further, allowing providers to compete across the region for training of workers—financed by public and private resources—would increase the quality of service to the employee and the company.

(iv) Recommendations

5. 38 The challenge for the OECS in terms of building and improving the skills base of its workforce is threefold: (i) improve the quality of education; (ii) continue expanding access to secondary education, and begin expanding access to tertiary education; and (iii) refocus the education and training systems on building skills demanded by employers.

5. 39 ***Improving the quality of education***. Key action here will be to improve the efficiency of public spending on education by:

- Reforming teacher training and deployment schemes, by adopting a sub-regional approach to teacher training (i.e. common curriculum, delivery modality, and certification system) will help to conserve limited resources, achieve economies of scale and facilitate teacher mobility/deployment across the sub-region.
- Shifting resources from better performing schools to those where the needs are greatest in order to raise the average quality of schooling, address youth unemployment and youth-at-risk issues at the source, and limit later labor market segmentation.
- Accelerating the reform of secondary education curriculum to provide youth with appropriate competencies and skills for the further education and/or the transition from school to work. In this regard, the performance and accountability of the OERU needs to be strengthened.
- Improving monitoring and international benchmarking of, and public information on, education outcomes across the sub-region. This is intended to increase accountability of education providers for educational outcomes, and deepen involvement of the public in achieving education goals.

5. 40 ***Expanding access to secondary and tertiary education***. In addition to improving quality of education, it is imperative that the OECS continues the rapid expansion of access to secondary education undertaken in recent years, and begins to expand tertiary education, by:

- Encouraging greater participation of the private sector in tertiary education while ensuring that adequate standards are maintained. A sub-regional approach to accreditations that emphasizes integration with regional and international standards will help both to make the OECS market more attractive to external service providers, and stimulate greater demand by students. However, the latter will also depend on progress on free movement of labor within the OECS and under the CSME.
- Improving the efficiency of spending on tertiary education by increasing cost-sharing, and appropriately targeted loan or scholarship programs. In this regard, the sub-region should take a close look at reforming teacher and nurse training programs.
- Negotiating better terms of trade for tertiary education services to increase spillovers to domestic needs. In promoting further the development of exports of education services, the sub-region should target those areas that also have an impact on domestic needs, such as tourism, IT, and other areas.
- Accelerating implementation of CKLN and other distance learning efforts. Greater use of ICTs can not only help the sub-region overcome the issue of small market size and remoteness, but it has also helped to increase collaboration among the public training institutions across the sub-region to achieve economies of scale.

5. 41 ***Refocusing education and training systems on the skills demanded by employers***. Ultimately education and training systems in the sub-region need to be carefully focused on the skills needed by employers and the labor market. In this regard, the OECS needs to:

- Strengthen the involvement of the private sector in the secondary school curriculum reform, governance of tertiary institutions, and the design and provision of job training programs to ensure that curriculum and course offering are relevant to market needs.
- Expand skills training in some key areas such as IT, hospitality, non-hotel tourism services, accounting and management.

- Refocus public spending on training by targeting vocational training on linkages with export sectors rather than on microenterprise skills that only provide safety nets for beneficiaries, and promoting in-firm training through the judicious use of financial incentives.

B. Wages and the labor market

5. 42 **Comparatively high wages accompanied by persistently high unemployment suggest that labor markets in the OECS may not be functioning efficiently.** Table 5.7 presents data on wage rates for a range of positions compiled recently by the Commonwealth Secretariat across 92 countries.[15] In almost all the positions, with the exception of kitchen porters, average OECS wages are higher than the comparators.

TABLE 5.7: SELECTED WAGE RATES

	Unskilled			Semi-skilled				Professional			
	Construction Worker	Check-out Clerk in Large Supmkt	Kitchen Porter	Bank Clerk/ Teller, local bank	Bank Clerk/ Teller, foreign bank	Garage Mech.	Payroll Clerk	Qualified Teacher in State School	Branch Mgr, local bank	Branch Mgr, foreign bank	Gen. Reg'd Nurse
	Hourly wage in US$			Annual wage in US$'000s							
Caribbean*	2.09	1.70	1.78	6.4	6.5	6.6	6.0	7.5	22.4	29.5	9.3
Up mid inc*	2.03	1.76	1.65	6.2	6.2	6.1	6.7	6.9	21.3	26.4	7.2
Micro state*	2.01	1.90	1.83	5.7	6.2	6.8	6.6	7.2	26.3	34.3	8.0
OECS	**3.45**	**1.84**	**1.51**	**7.8**	**8.6**	**7.4**	**7.5**	**9.8**	**32.0**	**37.1**	**10.1**
Antigua and Barbuda	4.07	3.33	2.45	10.9	10.9	9.0	12.0	8.8	55.6	55.6	12.9
Dominica	2.30	1.84	1.30	8.2	9.3	5.1	6.0	10.3	19.9	22.1	9.9
Grenada	3.03	1.80	1.26	7.1	8.0	9.5	8.1	8.6	26.5	30.9	7.5
St. Kitts and Nevis	5.30	1.40	1.90	6.7	7.0	8.9	9.1	12.6	23.0	40.4	12.5
St. Vincent and the Grenadines	2.53	0.81	0.63	6.3	8.2	4.5	2.7	8.5	35.2	36.3	8.0

* Each comparator group excludes the OECS countries.
Source: Commonwealth/UNCTAD (2002).

5. 43 **In addition, real wages appear to be growing faster than productivity.** Real average government wages have grown faster (except in St. Kitts and Nevis) at 2.1 percent per year between 1995 and 2002 than both real per capita GDP at 1.5 percent (see Table 5.9) and productivity growth (see Table 1.2), implying that public sector wage-setting mechanisms across the sub-region are not market driven. Although there is no specific data on the trends in private sector wages, the lack of persistent vacancies, high turnover or long queues for government employment in most countries (again with the exception of St. Kitts and Nevis) suggest that government remuneration is not substantially out of line with the market. As such, one can infer

[15] One of the challenges associated with labor market analysis in the OECS is the incomplete and sometimes inconsistent nature of the data. Only St. Lucia has collected data on the labor force, employment and unemployment on a consistent basis over the past decade. Labor market data for the other countries is obtained from population censuses and special one-off labor force surveys. Data on wages, salaries and earnings are even more difficult to obtain on a consistent basis and come from the decadal censuses and one-off surveys by the Commonwealth Secretariat, Price Waterhouse Coopers, and the Barbados Employer's Federation.

that private sector wages have been growing at similar rates as public sector wages, and also exceeding productivity growth.

5. 44 **High labor costs unless justified by high productivity only serve to hurt competitiveness and limit job growth and generate unemployment.** Indeed, unemployment has been persistently high in the OECS countries, except for Antigua and Barbuda and St. Kitts and Nevis, and in many cases has risen over the last decade (see Table 5.8). Both problems impact competitiveness negatively – high wages because it raises the cost of production and unemployment because it wastes a crucial factor of production.

TABLE 5.8: UNEMPLOYMENT TRENDS

	1991	Mid 90s	2001
Antigua and Barbuda	6.0	..	..
Dominica	23.1 (1997)	15.7 (1999)	25.0
Grenada	13.7	29.1 (1994)	15.5 (1997)
St. Kitts and Nevis	4.5 (1994)		5.1
St. Lucia	16.0 (1995)	22.0 (1997)	18.9
St. Vincent and the Grenadines	19.8		26.8

Years in parentheses are dates of labor force surveys/censuses, if other than indicated above.
Source: Various labor force surveys and censuses.

5. 45 Across the sub-region**, unemployment rates are higher for youth, rural residents, and those with at most primary education.** However, there are some variations that are worth noting. In St. Lucia, workers in rural areas have a lower probability of being unemployed, and in Dominica, where there has been a large retrenchment among banana workers over the last decade; farmers now report a shortage of agricultural labor. In Dominica, unemployment rates do not vary that much across education levels – notably, 18 percent among those with junior secondary or lower education to 10 percent among those with community college education. In St. Kitts and Nevis and St. Vincent and the Grenadines, unemployment is lower among women than among men, whereas the opposite holds in Dominica and St. Lucia.

5. 46 In addition**, the duration of unemployment appears to be quite long with the majority of the unemployed experiencing spells of one year or longer.** The shift toward services has implied a radical shift in the skills needed by new employers. Workers who are being increasingly retrenched from old sectors need time to acquire the necessary human capital appropriate to the new economy jobs. Delays in adjusting the curricula of job training programs only prolongs the skills mismatch in the economy and exacerbates the unemployment situation. Clearly, the major challenge for the OECS in the coming years will be to equip this large share of the labor force that are currently chronically un- or under-employed with the skills required by growing and emerging sectors

5. 47 **As a result, the OECS also appears to be experiencing an increase in informal employment as workers from declining sectors scramble to find alternative sources of income.** Grenada's labor force surveys record an increase in informal labor from 19 percent of total employment in 1991 to 23 percent in 1998, St. Lucia's from 27 percent in 1994 to 31 percent in 2000 and Dominica's show rapid growth from 21 percent in 1997 to 35 percent in 1999. The

informal labor market is often a source of income during economic downturns, as displaced workers engage in various low value-added service activities such as street vending and petty trading. In this respect, it is a source of employment for low skilled workers who are otherwise unable to find jobs, thus raising aggregate employment. However, informal work also comprises many core economic activities, such as trading, transport and domestic work as well as some professional services that are either informal by definition (i.e., own-account workers) or through evasion. Evasion often emerges as a flexible response to excessive labor regulation. But over-reliance on informal sector jobs has economic costs – particularly in the long run – because workers tend to be unskilled and perform tasks with low value-added. So although informality in some ways helps labor market competitiveness through lower wages and increased flexibility, a forward-looking strategy of increased growth and competitiveness through higher labor productivity will require addressing the incentives for informality.

5. 48 **In a fully functioning labor market, persistent unemployment should exert downward pressure on wage rates, stimulate additional demand for labor and lead to a reduction in unemployment over the medium term.** In reality, however, there are a number of labor market imperfections – both structural and frictional – that restrict job growth and keep unemployment high in the presence of high wages. The labor market can be segmented in a number of ways that prevent surplus labor for being channeled toward labor shortages. It can also be restricted in ways that prevent wages from adjusting to balance supply and demand. The following are four key issues facing the OECS that may be preventing the smooth adjustments of the labor market

- **Skills mismatch and labor market segmentation.** Workers cannot move from sectors with surplus labor, such as agriculture, to other sectors with labor shortages either because they lack skills or there is a mismatch between their skills and those required by the demanding sector. There may be a long lag between changes in demand for certain skills in the market place and adjustments in the curricula of the education system that create pools of inappropriately skilled workers who remain unemployed despite the fact that the demand for skilled workers is strong. In addition, workers have few means of retooling. For example, they may not be able to afford the upfront costs or foregone income of retraining or there is a shortage of appropriate training services. Furthermore, hiring firms are often reluctant to provide training for unskilled workers because the kind of skills required are very portable and the firms risk training workers who then leave. In other cases, the worker's skills deficit is so large that investments in retooling may not be efficient. This may be the case for older farm workers who cannot exit the labor force because they do not have appropriate safety nets.

- **Large governments and strong unions.** Large government sectors put pressure on the labor market by driving up both demand and wage levels. Strong unions can distort the wage-setting mechanisms by bargaining for wage increases that are not effectively linked to productivity. Separate wage-setting mechanisms for government or unionized workers can also lead to a wedge between the effective compensation of those workers and other private sector employees. These separate mechanisms prevent wages from adjusting to surpluses or shortages in the labor market. For example, across the board improvements in the government wages (or allowances) may increase the average salaries of a specific labor market group, say secretaries, despite the fact that there is a surplus of secretaries in the market. As a result, the costs to the private sector of hiring good secretaries from that pool increase, despite the fact that the unemployment rate among secretaries is high.

- **Rigid labor regulations.** Labor regulations can make it difficult or costly for firms to adjust the size or the composition of their workforce or simply replace less productive with more productive workers, as they try to implement improvements needed to become or stay competitive.

- **Migration, remittances and regional integration of the labor market.** Migration affects the functioning of the labor market in several ways. Opportunities to migrate can lead to queuing where workers delay entry into the labor force as they wait for overseas jobs. In addition, remittance flows from nationals overseas can raise the reservation wages of recipients and drive up domestic wage levels. Greater integration of the sub-regional and regional labor markets will reduce the frictional impact of migration – as the markets are more integrated, workers can move more easily and wages become more aligned across countries.

5. 49 The issue of skills has been discussed in detail in the previous section.

5. 50 **In most of the sub-region, large and growing government sectors are putting pressure on the labor market.** The public sector – not including regional institutions such as the OECS Secretariat, ECCB, ECTEL – accounts for approximately 20 percent of employment and the wage bill for 13 percent of GDP. In part this reflects the typically large public sector to be found in small, open economies, but also reflects a government sector in the OECS that has been growing steadily in employment during 1995-2002.

TABLE 5.9: GOVERNMENT EMPLOYMENT AND WAGES

	Central Government (2002)					**Average Annual Growth (1995-2002)**				
	Wage bill % GDP	**Empl (000s)**	**% Emp** [a]	**% LF**[a]	**% Pop**	**No. positions**	**Nom. wages**	**CPI (Inflation)**	**Real wages**	**Real pc GDP**
Antigua and Barbuda	12	13.0[b]	34	31	17	..	..	..	..	0.7
Dominica	15	5.5[c]	20	17	5	2.1	2.8	1.3	1.5	0.7
Grenada	11	5.1	5	12	5	-0.5	5.0	1.9	3.1	2.7
St.Kitts and Nevis	15	4.7	29	28	10	4.4	2.3	3.4	-1.1	2.3
St.Lucia	11	6.8	11	9	4	0.7	4.7	2.1	2.6	-0.4
St.Vincent and the Grenadines	14	6.1	27	27	6	2.2	4.4	1.3	3.1	3.9
OECS	**13**	**41.2**	**21**	**19**	**7**	**1.7**	**3.8**	**1.7**	**2.1**	**1.5**

a. LF=labor force. Extrapolated from most recent labor force or census data.
b. Broad estimate of central government employment, because more precise numbers are not available.
c. Includes an estimated 1600 non-established workers who may not be full-time equivalent employees.
Sources: World Bank (2003e, 2004f, 2004g, 2004h, forthcoming) and IMF estimates.

5. 51 As noted above in para. 5.43**, during 1995-2002 average real government wages grew faster than real per capita GDP implying that wages levels were outpacing productivity growth**. Strong unions have succeeded in extracting near automatic annual salary increments, routine thirteen-month bonuses as well as relatively generous across-the-board wage increases for public sector workers. The vibrant trade union movement in the OECS emerged in conjunction with independence movements rather than as a result of industrialization and worker discontent, as in Europe and the U.S. As a result, the unions have broad membership bases and strong historical links to political parties on both sides of the aisle. This has served to make wage and

other negotiations with the public sector unions across the sub-region are generally quite fractious, and has severely limited governments' abilities to achieve wage moderation and contain public sector employment.

5. 52 **Although public sector base salaries are generally lower than those in the private sector, many governments also provide a host of non-wage benefits, which make the comparison uncertain.** For example, wage regressions using recent St. Lucia labor force data indicate a positive public sector wage premium (12 percent), while a rudimentary comparison of selected positions illustrate consistently positive private sector premium. In St. Kitts and Nevis, where real wages in the public sector have been falling, a similar comparison shows a consistently positive private sector wage premium, where as in St. Vincent, the comparison indicates that the public sector may be paying a wage premium for clerical staff and mid-level professionals, while the private sector is paying more for semi- and unskilled workers and senior professionals. Most governments in the sub-region supplement public sector salaries with a host of non-wage benefits. These are generally embodied in separate legislation that differentiates public sector remuneration and employment rules from those for private sector workers, and is itself a form of labor market segmentation. For example, civil servants in Dominica are entitled to a year of study leave at full pay, complemented in some cases by tuition assistance. Vacation leave is equally generous between 21 and 36 days per year. According to the Dominica Employer's Federation, this is significantly more than is provided in the private sector. However, as noted in para. 5.43, the lack of persistent vacancies, high turnover or long queues for government employment in most countries (except for St. Kitts and Nevis) suggest that on average government remuneration across the sub-region is not substantially out of line with the market.

5. 53 **Regardless, public sector reform aimed at containing the size of government and aligning public sector remuneration and employment rules with those for the private sector will be an important part of improving labor market conditions in the sub-region**.

5. 54 **Over the past three years, public sector labor relations seem to have moderated somewhat in the OECS, and a number of countries have made progress in slowing and containing public sector wage increases.** None, however, has achieved any systematic link between wages and productivity such as has been realized in Barbados under its Protocol for the Implementation of a Prices and Incomes Policy. Nevertheless, the trade union movement appears to be seeking a broader role in promoting general economic development and social welfare, versus the more limited one of representing only the narrow interests of the employed. In St. Vincent and the Grenadines, the trade unions participate in the National Economic Council. In Dominica, albeit not entirely smooth-sailing at first, trade unions participated fully in consultations on the Economic Stabilization and Adjustment Program. This suggests that efforts to expand trade union involvement in national policy issues, in particular competitiveness issues, would be instrumental in broadening public ownership of necessary reforms to contain the size of government and its impact on the economy.

5. 55 **Across the sub-region there appears to be a very different tone in the relationship of unions with the government versus that with private sector firms.** In the private sector, relations between management and labor appear to be relatively cordial. Most of the companies surveyed in Grenada, as well as the majority interviewed in other countries, reported generally cordial relationships between labor and management, which in turn was confirmed by the trade unions. Only three companies out of the 201 surveyed in Grenada reported days lost due to strikes or other labor disputes during the previous year. Foreign companies cited the ease with

which they can resolve company-wide labor related issues as an important reason for them to remain and expand their businesses in Grenada.

5. 56 **In comparison with other countries, labor market regulations in the OECS are moderately rigid, but there are high costs to firms of laying off workers due to either redundancy or poor performance, and important limitations on their abilities to hire temporary or short term workers.** Table 5.10 presents various labor rigidity indices (from the World Bank's Doing Business database) computed for the OECS countries and how they ranked in terms of quintiles from a sample of 145 countries measured in January 2004. Although the sub-region ranks well, in the second best quintile, in terms of overall rigidity of employment, it performs poorly on difficulty of hiring and firing, and the cost of firing indices. Regulation of working hours seems to be least restrictive, and is consistent with the needs of the tourism and hospitality sector. It is important to note that the design of the rigidity of firing index and firing costs estimates focus on the difficulties associated with making workers redundant, whereas many employers around the sub-region also point to difficulties of dismissing workers for poor performance. Whereas in other countries, weak enforcement or compliance sometimes mitigates the impact of job security regulation, the strong rule of law in the OECS translates to frequent and costly judicial actions on both collective and individual labor disputes.

TABLE 5.10: INDICES OF LABOR MARKET FLEXIBILITY

	Rigidity of Employment	Q	Difficulty of Hiring	Q	Difficulty of Firing	Q	Rigidity of Hours	Q	Firing Costs	Q
OECS	**22**	2	**23**	3	**40**	4	**4**	1	**59**	4
Other micro states	**7**	1	**8**	1	**5**	1	**8**	1	**15**	1
Upper middle inc	**28**	2	**27**	3	**22**	2	**35**	2	**38**	3
Dominica	37	3	50	4	60	4	0	1	57	4
Grenada	20	1	0	1	60	4	0	1	28	2
St. Kitts and Nevis	7	1	0	1	20	2	0	1	62	4
St. Lucia[a]	39	3	67	4	30	3	20	1	108	5
St. Vincent and the Grenadines	10	1	0	1	30	3	0	1	42	3
Dominican Republic	40	3	11	2	30	3	80	5	70	4
Haiti	24	2	11	2	20	2	40	2	26	2
Jamaica	10	1	11	2	0	1	20	1	12	1

a. Computations for St. Lucia are based on the draft (new) Labor Code as of October 2004.
Each index ranges from 0 to 100, higher values indicate greater rigidity.
Q = quintile among the sample of 145 countries.
Sources: Country legislation, World Bank staff estimates, World Bank (2004d); Annex 3 contains details on the sources, methodology and the raw data compiled for the OECS.

5. 57 Regarding the flexibility to dismiss workers**, the OECS countries impose tenure-based severance payments and provide for relatively complex appeals processes in an attempt to safeguard job security and employment stability,** especially in the absence of other forms of unemployment benefits. Generally, severance pay is considered one of the least appropriate means of providing income protection. Unless prohibitively high, it provides inadequate (one time lump sum payments only) and incomplete (coverage is only provided to formal sector workers) protection, it distorts the behavior of workers and firms, and it often leads to excessive litigation. There is conclusive evidence that this form of labor protection has a negative effect on job creation (Heckman and Pages, 2000) and that reductions in severance pay generally favor more disadvantaged workers, like youth (Gill et al, 2001). However severance pay does have three strengths – it generally does not create an incentive to delay future job search, it is easy to

administer, and it pools employee risks at the firm level. In trying to reduce these costs, countries have experimented with unemployment insurance or unemployment insurance savings accounts as alternative mechanisms, but these too can have negative impacts on efficiency. For example, Vodopivec (2004) points to the risk that workers who would normally settle for temporary lower wage jobs while unemployed may substitute public or other forms of guaranteed insurance that become available instead. Other factors such as the duration of unemployment spells, inter-household transfers and other informal social protection mechanisms, and the types of employment shocks typically faced by workers in the OECS, will inform the appropriate design of necessary severance payment reform. At the minimum however, the OECS countries should consider reduction of severance payment levels in line with regional and international competitors.

5. 58 **Limitations on fixed term and temporary work are only applied in Dominica and St. Lucia.** Betcherman, Luinstra, and Ogawa (2001) show that restricting the use of short term and temporary work contracts also results in lower employment rates, longer unemployment spells, greater informal employment and less job creation—with the key losers being women and youth. In other countries, liberalizing the use of temporary contracts has, as expected, resulted in their widespread use and has been accompanied by higher employee turnover, but it has also translated into higher formal employment creation.

5. 59 **Reforms aimed at reducing the burden of the public sector on the labor market – both in terms of wages and numbers – and increasing flexibility of employment arrangements are likely to generate strong opposition from trade unions and workers in protected sectors.** However, from the above analysis, they remain critical to improving competitiveness in the sub-region. In the short run, there is clearly a tradeoff between workers who currently benefit from market segmentation and wages in excess of their productivity, and the unemployed who would benefit from more job creation even at lower real wages. In the long run, greater wage competitiveness and employment flexibility will stimulate more investment and more job creation. And a larger share of formally employed workers will contribute more to increasing productivity, growth and incomes for all. Successful experiences in Ireland (discussed in Chapter 3) and in Jamaica with Social Pacts and in Barbados with the Social Partnership and Social Compact, suggest that the need for these reforms must first be internalized by the general public, including the employed and unemployed workers, in order to be successful.

5. 60 In making the case for labor market reform, it will also be important to note that business regulation is neither an appropriate nor an effective tool for social protection. Box 5.4 notes the lessons learned by the Nordic countries in this regard.

BOX 5.4: SOCIAL PROTECTION REQUIRES MORE BUSINESS REGULATION.

The World Bank Doing Business in 2005 identifies several "myths" related to the regulatory environment for investment and business. One is that social protection requires more business regulation. The report looks at the Nordic countries which are renowned for their defense of social welfare. According to the report, all four Nordic economies are on the list of countries that rank highest in terms of having the simplest business regulation: Norway (#6), Sweden (#9), Denmark (#12) and Finland (#14). Few would argue that they scrimp on social benefits relative to other countries, or regulate too little. Instead, they have simple regulations that allow businesses to be productive. And they focus regulation on where it counts – protecting property rights and providing social services. Estonia, Latvia and Lithuania, having learned much from their richer neighbors, are also among the countries with the best business environment. Heavier business regulation is not associated with better social outcomes.

Source: World Bank (2004d).

5. 61 **The third critical issue in understanding the OECS labor markets relates to migration and the sub-regional labor market space.** It is now well acknowledged that migration can have both positive and negative effects on the labor market. The OECS, and the wider Caribbean, have seen significant migration of skilled personnel beyond the region over the past two decades. Recent estimates based on overseas census data indicate that the stock of OECS migrants abroad represent just under 30 percent of the combined labor force (residents at home and migrants overseas). This represents a significant "brain drain" or the loss of skilled labor over time. However, it does not take into account the impact of the broader phenomenon of "brain circulation" which reflects the growing importance of return migrants in transferring skills and technology to the home country. Box 5.5 illustrates the positive impact return migrants can have on an economy. This may be even more important in the OECS where there is a significant portion of intra-OECS and intra-Caribbean migration of shorter duration than the traditional South-North migration, and where foreign investment has been accompanied by in-migrants from more developed countries.[16] At the same time, migration opportunities often provide an additional incentive for education among the source country population, which has spillovers to the local economy (discussed in para. 5.28).

BOX 5.5: RETURN MIGRATION IN IRELAND AND ISRAEL

In both Israel and Ireland, the impact of recently returned migrants on innovation has been dramatic. The massive migration during 1989-1991 of one million immigrants from the former Soviet Union where the emphasis on theoretical sciences was very strong, contributed to making Israel a mathematical superpower. Israel has since translated these skills into a technical and engineering skills base to fuel its high tech manufacturing sector. In Ireland, software industries benefited from returning expatriates – who earlier had constituted the largest EU source of immigrants to the US (mainly California) in the 1980s and 1990s where many completed tertiary and acquired important skills in this computer and software industries.

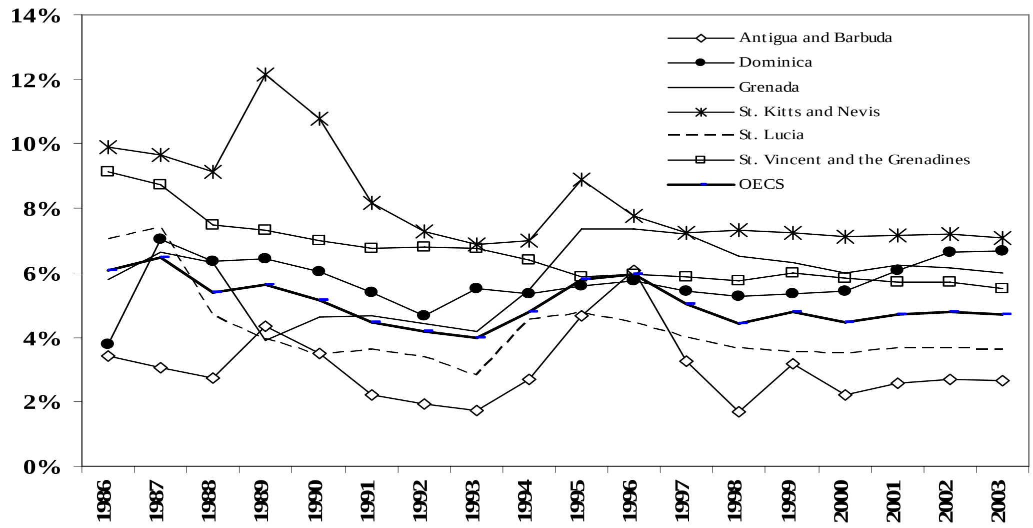
Source: de Ferranti *et al* (2003).

5. 62 **A second impact of migration on the labor market is through remittances.** Remittances to the OECS averaged 5 percent of GDP in 2003, and most countries experienced a small but steady decline over the period 1986-2003 (see Figure 5.6). Only Dominica and Grenada saw slight increases. Nevertheless, these flows are large enough to have an impact on the labor market. Remittances provide an important element of the safety net for the poor and unemployed.[17] However, they have also been shown to raise the reservation wages of recipients who delay entry into the labor force or queue for jobs in particularly lucrative sectors, tourism in neighboring islands and other migration opportunities. This has the impact of raising voluntary unemployment, but also maintaining a higher average wage than would be competitive.

[16] Up until recently Dominica, Grenada and St. Vincent and the Grenadines operated economic citizenship programs through which persons undertaking a certain amount of investment qualified for citizenship.

[17] However, findings from the recent Dominica poverty assessment (Halcrow Group, 2003) indicate that the poor and non-poor are equally likely to be recipients of remittances.

FIGURE 5.6: REMITTANCE FLOWS (% of GDP)



Source: CARICOM and ECCB estimates.

5. 63 **Finally, intra-regional migration flows both within the OECS and CARICOM, to date and in the future under the OECS Economic Union and the CSME, ultimately help to fill unmet labor demand** at both the low and high ends of the skill spectrum and to reduce wage pressures that negatively impact competitiveness. In fact, the OECS countries stand to benefit from the former impact more than the larger states because the small market size may make it more difficult to find specialized skills.

5. 64 **Disparities in wage rates and regulatory barriers to movement of labor across the OECS indicate that the sub-regional labor market is far from seamless.** Table 5.7 also illustrates the large variation in wage rates across the OECS countries. In addition, firms generally report paying around EC$250 per week for unskilled labor in the Leeward Islands versus EC$180 per week in the Windward Islands. Moreover, when the wage and salary rates in Table 5.7 are adjusted to reflect local prices,[18] the disparities across countries increase, rather than decrease, indicating that the wage variation reflects different labor market conditions – relative shortages and different wage-setting mechanisms – across countries.

5. 65 **Under current agreements, the sub-region is committed to free movement of labor only by 2007**. Although some rules have been relaxed in a few countries, work permits are still required for most OECS nationals to work in another member country. In a number of cases these permits are limited to a duration of one year and require annual renewals that are lengthy and cumbersome. For example, in Antigua and Barbuda legislation requires the Minister of Labor to personally sign each permit. This practice only serves to impede firms' abilities to find the specialized skills that they need to expand production and jobs for local residents.

5. 66 **Greater integration of the sub-regional and regional labor markets will reduce the frictional impact of migration –** as the markets are more integrated workers can move more easily and wages become more aligned across countries. As such, the OECS should push for

[18] Using purchasing power parity factors.

rapid implementation of free movement of labor in the sub-region and under the CSME protocol and reduce as much as possible regulatory constraints to the flow of workers.