“What if we train them (workers) and they leave?.....What if we don’t and they stay?”

- An SME Entrepreneur’s Dilemma, Auto Cluster Interview(s), India 2013

PRACTICAL SKILLS AND FIRM PRODUCTIVITY

The level of practical skills that a country’s workforce can assert on the job is crucial to enhance firm productivity, competitiveness and job creation. Practical skills encompass financial literacy for informal enterprises in micro and small holder enterprises to more technical, job-specific, management, social and behavioral skills for workers in small medium enterprises (SMEs) and large firms. A distinctive feature of practical skills is that they are immediately applicable to the day-to-day setting of the workplace. Practical skills can enhance a firm’s productivity, help them move up global value chains and improve firm and industry competitiveness over time. ILO analysis of labor markets over the years shows that productivity and employment have tended to grow in unison. Policymakers increasingly recognize that practical skills need attention for job creation across levels of development.

Practical skill development is essential for growth with rapid social inclusion. These skills help at two levels: an economic level through productivity enhancement, but also, as Paulo Freire, the leading advocate of critical pedagogy, argued, a “practice of freedom” level, through which young individuals build self-esteem and discover how to critically participate in the transformation of their present social realities. The pursuit of inclusive growth requires complementing investments in fundamentals like early childhood and primary education - which typically have a long gestation period for payoffs – with practical skill development for youth in the near term. Such skill development is beneficial for managers and workers, alike.

Recent impact evaluations show that improvements in various types of practical skills lead to rises in firm productivity.

Results from an impact evaluation conducted in four clusters in Tanzania, Vietnam and Ethiopia show that management training...
programs provided to SME entrepreneurs were linked to positive impacts on financial performance of the firm (as measured by revenue, value added, gross profit and labor productivity). Productivity effects were found to grow stronger with years of schooling, indicating the foundational nature of cognitive skills built in early life and its importance for lifelong learning. Rudimentary training through short-term courses in recordkeeping, sales promotion, quality improvement and KAIZEN were linked to firm productivity across academic levels of entrepreneurs. In another experiment conducted in textile plants in India, improved management skills were found to lead to improvements in firm productivity by 17 percent through improved quality and efficiency, and faster scaling in the longer run. In a study done among employers in Botswana, Peru and India, it was seen that social and behavioral skills like willingness to learn, reliability, teamwork and communication skills are consistently rated as factors of success for entry-level workers.

Understanding the experience of firms in availing such practical skills and what support the World Bank has provided so far is therefore essential in moving the inclusive growth agenda forward. This leads to the following two sets of questions, explored in the remainder of this note:

a. What is the global experience - by region and firm type - with matching firm demand for skilled workers with its supply? What do firms report about ability to hire qualified workers? Are workers able to find and grow in the right jobs? What market failures maybe at play?

b. What is the nature of investments that organizations like the World Bank provide in the skill development area? Within the World Bank, what types of interventions have received support for skill development over the past decade? What learnings does that hold for work in this area going forward?

GLOBAL EXPERIENCES WITH MATCHING DEMAND AND SUPPLY OF PRACTICAL SKILLS

Few countries have managed to move to a zone of ‘high skills equilibrium’, characterized by high demand and corresponding supply for skills that enhance firm productivity (see Figure 1). Labor markets in parts of Africa and the Middle East are characterized by low productivity; the market clears, but it tends towards a low-skills equilibrium, where a low supply of training is matched by sparse demand for skills from mostly informal enterprises. In sub-Saharan Africa, 50 percent of young workers are occupied in non-paid and/or low-skilled or unskilled jobs. In other regions, nearly one-third of those employed in countries as diverse as Pakistan, Sri Lanka, Brazil and Costa Rica are either under- or over-qualified for

---

8 Bloom, Mckenzie et al. 2013. Does Management Matter? Evidence from India. Management practices involved interventions that helped firms adopt better practices in inventory, HR, sales and order management, quality control and factory operations.
10 Youth Unemployment Brief. 2014. World Bank.
the work they perform. A recent report by McKinsey & Company estimates that, by 2020, developing countries could have 45 million jobs for workers with secondary education that will go unfilled for reasons including skill mismatches. South Asia is more heterogeneous: India’s rising wage premiums for skilled managerial jobs indicate a rising demand for skilled professionals, while Sri Lanka’s overqualified youth queue up for public-sector jobs, leading to unemployment rates of over 20 percent.

Only a handful of countries like Germany and Korea have experienced high skills equilibrium phases in their developmental path.

Across countries, firm managers report that skills obstacles have become more acute over time (see Figure 2). At the firm level, certain types of firms appear to be hit harder by skills mismatches. Across 106 developing countries, firms that are more globally integrated take longer to fill job vacancies. Export-oriented companies in Indonesia and the Philippines report skills constraints more often than firms focused on domestic production. Younger and growing firms report bottlenecks, including a shortage of trained middle managers. In a study by the Institute of Applied Manpower Research (IAMR, 2014) covering automobile and electronics manufacturing sectors, smaller companies were found to largely face the issue of “quantity” of skills while large firms complained about “quality” more often.

Practical skills provision suffers from two types of market failures: information and incentives. Firms are not incentivized to provide training, it appears. Firms are known to be reluctant to invest in training for fear that their better-trained workers will be poached by rival companies. Invoking a classic “public goods” argument, Prof. Dani Rodrik in 2004 made the case for subsidiizing

WORLD BANK PORTFOLIO ON SKILLS – AN IEG EVALUATION

Over 80 percent of the World Bank Group lending for skills has focused on ‘supply side’ interventions like improving formal TVET systems among others, rather than ‘demand side’ work involving firms, private sector or competitiveness. In 2012, the Independent Evaluation Group (IEG) conducted an analysis of World Bank Group projects that focused on skill development, active labor market programs and other youth interventions. They found that skill development was a frequently included intervention in Bank projects on youth employment - 82 percent of the projects analyzed included interventions on skills. However, over 80 percent of lending in skills was for ‘supply side’ interventions - improving the quality of formal vocational education, skills recognition, certification, and learning opportunities for the youth (see Table 1). Out of the total of 90 projects analyzed, less than 10 percent mentioned “growth”, “competitiveness” or “SMEs” in their project development objective.
IEG indicated more space for collaboration across sector teams in skills projects. According to IEG, “interventions appear to reflect the priority of the managing sector”, “projects are not designed comprehensively”, and “interventions from the three categories (see Table 1) are not complementing each other”. Overall, the IEG analysis reflected that the Bank has committed extensive resources to skill development primarily on supply-side interventions with few that tackle firm-level on the job training or inter-firm type of interventions. It also pointed to the need for further collaboration across units while designing such interventions.

CONCLUDING REMARKS

While firm productivity appears to benefit from practical skills training, market failures persist and firms under-provide training. Evidence from global experiences in skills matching reveals that skills constraints have become more severe across countries. In addition, the bulk of public investments in this field, supported by institutions like the World Bank Group, have focused largely on improving the supply side of the problem - e.g. formal TVET training in schools and certification issues. Much less has been invested in how firms can access skills that increase their knowledge, productivity and competitiveness. In 2013, the World Development Report on Jobs clarified that firm-influenced training is consistently found to go hand in hand with productivity increases while TVET from public and private institutes has a mixed record. How can more firm-based training be encouraged? Despite market failures, how have firms, unions and public agencies navigated obstacles to deliver practical skills effectively? We explore such questions in Part II of the skills note series.

TABLE 1: IEG TYPOLOGY FOR SKILLS INTERVENTIONS

<table>
<thead>
<tr>
<th>DEMAND-SIDE: FOSTERING JOB CREATION/WORK OPPORTUNITIES (I)</th>
<th>SMOOTHING SCHOOL-TO-WORK TRANSITION AND JOB MOBILITY (L)</th>
<th>SUPPLY-SIDE: FOSTERING SKILL DEVELOPMENT AND LABOR MARKET RELEVANCE OF SKILLS (E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Improving the business and investment climate</td>
<td>• Counselling, job search skills, information on vacancies, placement</td>
<td>• Improving the quality of formal technical and vocational education and training (TVET)</td>
</tr>
<tr>
<td>• Regulations to encourage the hiring of young people</td>
<td>• Improving information on the labor market</td>
<td>• Expanding/improving work-based learning in vocational and apprenticeship schemes</td>
</tr>
<tr>
<td>• Fostering self-employment and entrepreneurship</td>
<td>• Program for overseas employment of young people</td>
<td>• Certification of skills</td>
</tr>
<tr>
<td>• Raising in entrepreneurship or business management</td>
<td></td>
<td>• Remedial education/second chance/non-formal technical and vocational programs</td>
</tr>
<tr>
<td>• Support to start business and farms</td>
<td></td>
<td>• Providing information on training</td>
</tr>
<tr>
<td>• Providing wage subsidies</td>
<td></td>
<td>• Training subsidies and vouchers</td>
</tr>
<tr>
<td>• Direct job creation (public works programs)</td>
<td></td>
<td>• Support for transportation and change of residence</td>
</tr>
</tbody>
</table>

Source: IEG Report, 2012

Disclaimer
CI Notes aims to share lessons learned in interventions focused on boosting industry competitiveness. The series is funded by:

CIIP - Competitive Industries and Innovation Program

World Bank Group
Trade & Competitiveness