

SESSION 4: Skills Upgrading and Human Capital Development

Panel Remarks

Rana Hasan

Asian Development Bank

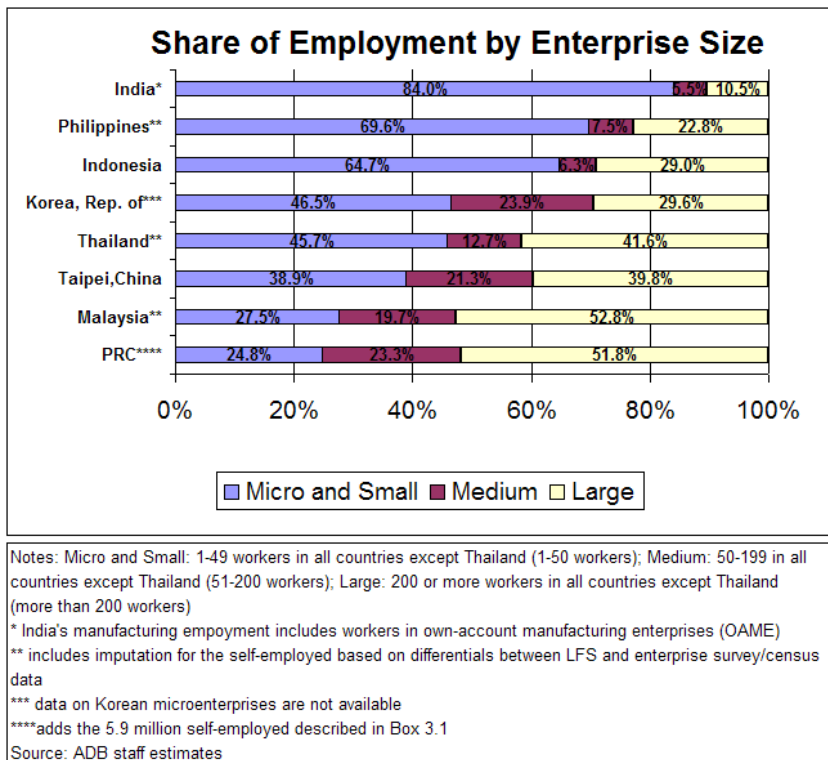
Some key takeaways

- Governance of the TVET system must involve the private sector
- It needs to be informed by data that seems to be missing (e.g., tracer studies and rigorous evaluations)
- TVET system needs to be aligned with other aspects of policy: Trade and industrial policy and labor regulations

Firms play a crucial role in the skills development process

- ❑ Evidence from the US: 20%-60% of skills are developed in firms and on-the-job
 - ❑ This is one reason the returns to experience can be so high
- ❑ But, not any job will do
 - ❑ The type of firm a job is in matters
 - ❑ The type of contract a worker has matters
- ❑ Does South Asia (and Philippines?) have a business climate that inadvertently makes its skills agenda all that more difficult to achieve?

Manufacturing in South Asia is more reliant on small/informal firms



- Small/informal firms typically use more rudimentary technologies and cater to less sophisticated markets
- Thus, their demand for skills will be different
- The skills they generate may also be different

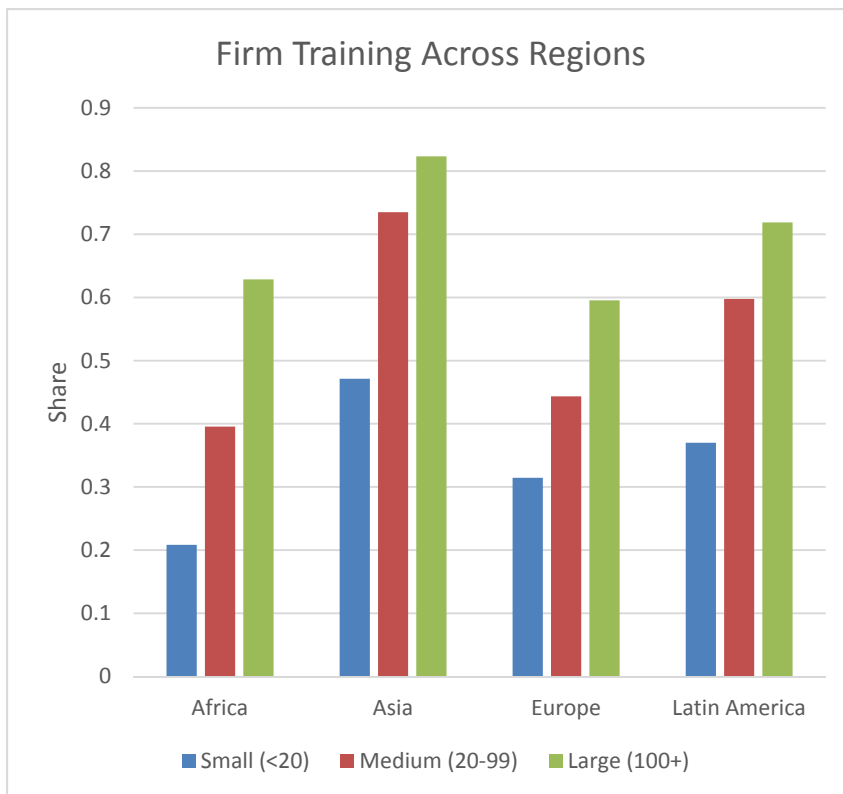
Larger/formal firms: A virtuous cycle of demand for and supplier/provider of skills?

Technology/equipment used in apparel (India)

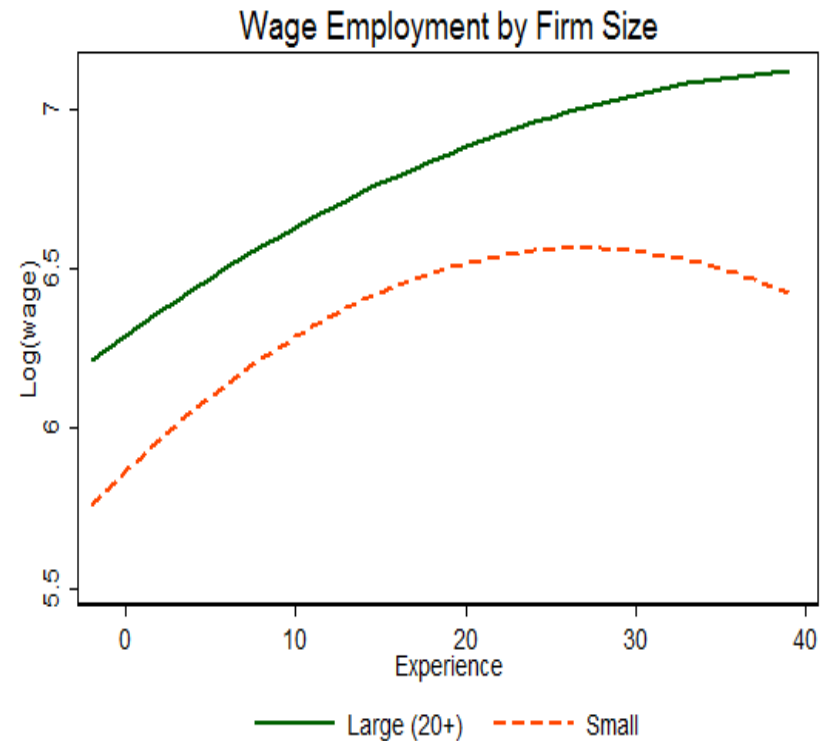
Purpose	Standard/ Best Practice	Description	Technology/Equipment used and costs (US\$)		Optimal scale that supports the technology/equipment: Sewing machines per plant
Spreading	Standard	Manual Spreading	Rudimentary	\$3,000	Any
	Best Practice	Automatic spreading of fabric for cutting	Autospreader	\$50,000	250
Cutting	Standard	Manual Cutting	Straight knife, Band Knife	\$7,250	Any
	Best Practice	Electronic copies of layouts are sent to computer controlled cutting machines	CNC Cutter	\$130,000	600

Larger/formal firms: A virtuous cycle of demand for and supplier/provider of skills?

Larger firms train more



Working in larger firms seems to develop more marketable skills (India)



What explains this?

- Larger firms have an easier time retaining staff
- Larger firms can afford the fixed costs associated with:
 - Adoption of new production technologies
 - Use of modern management methods, including Human Resource Management practices
 - Training

Obstacles to larger/formal firms can become obstacles to skills upgrading

- Obstacles work in 2 ways:
 - Small/informal firms don't "grow up"
 - New investment in larger/formal firms is lacking
- What might the obstacles be?
 - Credit
 - Bad infrastructure (power and logistics)
 - Barriers to entry and exit for firms, trade, and FDI
 - Industrial policy that dis-incentivizes growth/diversification
 - Labor market regulations and institutions
 - Do employment contracts align incentives of both firms and workers to invest in skills?
 - Do current institutions provide for effective matching?

Temporary employment is unlikely to be associated with acquisition of skills

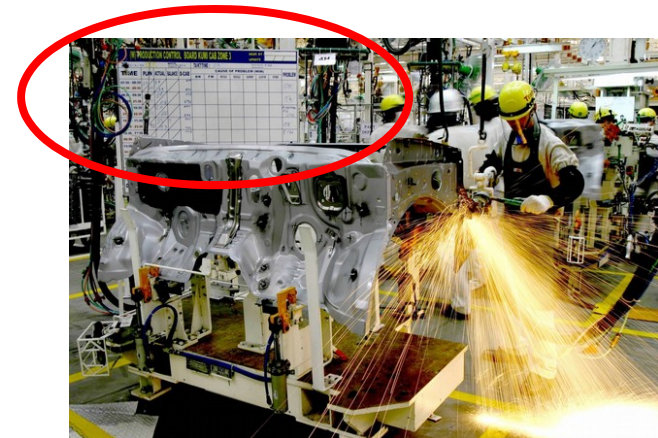


India: A convergence of “Make in India” and “Skill India”?

- ❑ Emphasis on economic corridors and logistics infrastructure
- ❑ Improving “doing business” processes for entry
- ❑ Easier exit
- ❑ Measures on labor regulations
 - ❑ Apprenticeship Act
 - ❑ 44 labor laws into 4
 - ❑ Industrial Disputes Act

Thank you

Modern management methods, including HRM practices



Source: Nick Bloom

Management scores by plant size for apparel, textiles and other manufacturing sectors in India

	Mean Management Scores		
Plant-size (No. of workers between)	Apparel	Textile	Other Manufacturing
20-49	2.21	2.35	2.40
50-99	2.23	2.29	2.52
100+	2.58	2.58	2.85
Overall	2.45	2.51	2.78

Source: Authors' analysis based on Bloom and Van Reenen (2010) datasets.

Note: Range of score: 1-5 (1 is the worst and 5 is the best). There were very few firms in the '10-19' category (only 8 firms in the entire sample) and were outliers, so they have been dropped. Sample size: 93 observations for apparel, 163 for textiles and 335 for other manufacturing.