STEPPING UP SKILLS
For more jobs and higher productivity

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The **STEP** framework

**Motivation**

- We know that productivity growth is a key force behind long-term economic growth.
- Skills (human capital) matter for productivity growth.
- Yet, large segments of the labor force remain uneducated.
- And, many of those who had access to education might not have acquired the “right” skills:
  - Limited opportunities in the labor market
  - Little contribution to labor productivity (LP) growth
Despite the expansion in access to education effects on LP have been small
Large segments of the labor force are unskilled workers.
Only a minority has higher education
Yet, unemployment rates among educated youth remain high.
As economies develop the type of skills demanded is likely to change.

Source: Levy and Murnane (2005)
**STEP**: An integrated framework

The STEP framework shows that skills needed for productivity and economic growth require a sequenced combination of education, training, and labor market activities.
Step 1: Getting children off to the right start

Problem: Failing to invest in ECD is costly, if not impossible, to compensate for later in life

By age 6 Ecuadoran children in less wealthy or less educated households have fallen far behind their counterparts in wealthier or more educated households—permanently.

Step 1: Getting children off to the right start

A whole range of physical, cognitive, language and socio-emotional skills

ECD programs enhance development of children from conception to primary school entry

- Ensure health & nutrition of pregnant and lactating mothers from conception to first 6 months
- Immunizations & regular health checkups from birth through age of 6
- Breastfeeding very young infants with introduction of solid food after 6 months
- Cognitive stimulation by caregivers & teachers from age 3
- Linguistic stimulation by caregivers
- Communicate and maintain a caring environment for the child from birth
- Interaction with peers by age 3
Step 2: Ensuring that all children learn

Problem: Many more in school — but not learning

Roughly half the students in middle-income countries lack the math skills to succeed in further education or work — PISA 2006

Source: Programme for International Student Assessment.
Step 2: Ensuring that all children learn

Policies to improve learning

- Policies must target the building blocks of an education system, which are:
  - Standards
  - Teachers
  - Resources
  - Regulation

- Governance of these building blocks
  - **3As**: Autonomy, Accountability, Assessment
Step 3: Building job-relevant skills

Problem: Skills bottlenecks strangle productivity

- Job-relevant skills include those relevant to the specific job of the worker as well as other skills that enhance productivity:
  - Problem-solving skills
  - Learning skills
  - Communication skills
  - Personal skills
  - Social skills

Firms identifying labor skills levels as constraint

% of Firms Identifying Labor Skill Level as a Major Constraint

Source: www.enterprisesurveys.org, Sep 2010
Step 3: Building job-relevant skills

Addressing skills bottlenecks can raise firm productivity and workers’ wages

Impact of in-service training on firm productivity in selected countries

(\% increase in value added)

- Sri Lanka (2002)
- Russia (2005)
- Pakistan (2004)
- Nicaragua (2000)
- Morocco (2002)
- Mexico (1992)
- Malaysia (1994)
- India (2004)
- India (2000)
- Guatemala...
- China (2001)
Step 3: Building job-relevant skills

Challenges in building job-relevant skills

- **Pre-employment training** not in line with requirements of the labor market
  - Curriculum geared for small number of formal sector jobs

- **On the job training (OJT)** favors workers with higher educational attainment and occurs mostly in larger firms
  - Smaller firms reluctant to provide OJT because:
    - fear losing trained workers to other firms
    - lack access to credit and information about training

- **Skills certification** absent in many cases as a mechanism to benchmark individuals’ skills and competencies
Step 4: Encouraging entrepreneurship and innovation

Problem: Traditional mindsets stifle creativity and risk-taking

- Labor and capital played an important role from 1960-73
- Increased average educational attainment from 6-10 years was main contributor from 1974-89
- Increased knowledge and innovation spurred by higher levels of education contributed to the rapid increases during 1990-2000

Contributions of capital, labor and innovation to economic growth

Note: TFP is total factor productivity.
Step 4: Encouraging entrepreneurship and innovation

Unlocking entrepreneurship and innovation is facilitated by three factors related to human development, and accompanying policies:

- First, individuals need a range of skills.
- Second, there is a need for a “culture of entrepreneurship.”
- Third, productivity increases when innovative small business owners can grow with the aid of risk management tools (step 4) or as innovative skilled workers enter the labor market (step 5).

Thailand: Top three skills that professionals lack the most in doing their job (manufacturing)

Step 4: Encouraging entrepreneurship and innovation

Connecting people and ideas

- For innovation to grow, innovators need other skilled individuals to share ideas with, bring those to market, capital to finance the realization of the idea and enabling environment that accepts new ideas.

Migration policies that geographically concentrate innovative thinking:

- In east Asia, governments fund scholarships for math and science students to earn degrees in external research programs and bring knowledge home.

Innovation spaces:

- The Millennium Science Initiative in Chile established a Competitive Fund for Scientific Excellence, which financed Science Institutes.
- Nigeria is providing a small number of promising institutions with resources to emerge as centers of excellence.

Publicly funded incentives for greater collaboration between universities and private sector:

- Chile provides financial incentives for collaborative research between public education and private firms, facilitates internships for PhD candidates in firms.
- 25% of university research is co-sponsored by private partners in Beijing.

Knowledge makes the difference between poverty and wealth.
Step 5: Facilitating labor mobility and job matching

Problem: None of the first four steps matter if people can’t find jobs that match their skills

- Lack of labor mobility could hinder firm production
  - Output of goods & services in US would have been cut by half between 1968-2000 without adequate labor mobility

Source: Based on Lee and Wolpin 2006.
Step 5: Facilitating labor mobility and job matching

Governments can help through providing a better combination of job and income protection policies and more proactive approaches to employment services and skills certification.

- Labor laws that give employers more flexibility in managing human resources
- More flexible regulation of hiring and dismissal procedures
- Innovations in income protection systems that provide an alternative to expensive severance pay systems
- Better worker protection
- Facilitate mobility
- Employment services that provide both intermediation and counseling to help individuals find better jobs
- Employment services seem to work better when linked to unemployment benefits, training, and competency assessment programs in “one-stop shops.”

How workers (don’t) find jobs in Lebanon

Source: Kasparian 2009.
**Step 5**: Facilitating labor mobility and job matching

**Country examples**

- **Facilitating labor mobility**
  - Several countries have changed labor laws to give more flexibility to employers in managing human resources
    - Azerbaijan, Belarus, Kyrgyz Republic, FYR Macedonia, Mauritius and Montenegro eliminated requirements relating to redundancy
    - Argentina, Mauritius, Mozambique and Peru reduced dismissal costs
  - Innovations in income protection systems can provide an alternative to expensive severance pay systems
    - Colombia, Brazil and Chile introduced unemployment benefit systems based on savings that demand less control and administrative capacity
    - Several countries in Latin America and Europe instituted defined-contribution arrangements making pension rights more portable
**Step 5:** Facilitating labor mobility and job matching

**Country examples**

- **Improving matching of skills and jobs**
  - In US, the JobsLink program in Virginia, uses systems that assess job-seeker qualifications and their suitability for jobs
  - The Korean government’s employment services integrate job-search assistance with unemployment benefits, training and job creation
  - Peru’s Red CIL Pro Empleo operates through a network of labor information centers managed by the private sector
  - In 2006, its placement rate was estimated at 28% of job-seekers, or 68% of demands placed by employers

**Staff Caseload: No. of registered unemployed per staff**
Implementing **STEP** as an integrated set of programs across workers’ life cycles

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