



Book Review

# **BUILDING THE SKILLS FOR ECONOMIC GROWTH AND COMPETITIVENESS IN SRI LANKA**

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In the past few decades, despite facing a number of difficulties, Sri Lanka has made relatively strong progress in economic growth and reduction of unemployment. From the year 2000 to 2014, GDP at current market prices increased from US\$ 16 bn to US\$ 75 bn, per capita GDP increased from US\$ 869 to US\$ 3625, and unemployment rate reduced from 7.6% to 4.3%.

Sustaining this economic growth should be the main focus of any government to achieve its plans and vision, whether it is targeting US\$ 50 bn exports per annum or generating one million jobs. A whole host of prerequisites need to be met to sustain economic growth. Apart from political and social stability, a number of other factors like increasing savings and investment, reducing public debt, achieving low levels of inflation, increasing foreign exchange reserves, maintaining a stable exchange rate, among others are required for this purpose. A prerequisite that is often less emphasized but increasingly becoming important is the building of a skilled workforce to meet the growing demands of the economy. This area received less attention during the past policy deliberations in Sri Lanka despite employers identifying skills as the third leading constraint on company growth (p.30).

## **Objective and analysis**

The book notes that as Sri Lanka moves from a factor-driven economy to an efficiency-driven one, demand for skills – especially sophisticated skills – is rising at a time when the workforce is shrinking due to demographic changes. Recognizing the importance of this factor, the World Bank undertook the initiative to analyze the demand and supply of skills and scrutinize how skills are formed in the economy, what factors shape skills demand and how responsive



the system is for such demands. By analyzing these areas, the book offers suggestions on how skills development can be improved so that Sri Lanka can improve its competitiveness and meet high economic growth rates.

The research on which this analysis is based was conducted by a team led by Halil Dunder. The authors are qualified specialists and consultants with knowledge and experience in the subject area. The analysis is based on original surveys and data from multiple sources; it goes beyond the standard proxy measures of skills in terms of curriculum enrolment, completion rates, and test scores by looking at skills in three basic categories: cognitive, technical and non-cognitive (soft).

In order to identify the constraints on effective skills development and offer policy options for addressing gaps, the book which has nine chapters, focuses basically on the following key issues:

1. The extent of the demand for skills in Sri Lanka and the nature of the skills gaps and mismatches.
2. What are the skills Sri Lanka's workers have and how do individuals with different levels of education, training and skills fare in the labour market?
3. How can technical and vocational education and training (TVET) more efficiently build the skills demanded in the economy ?

## **Labour market and skills**

Chapter 1 deals with labour market and highlights that the low unemployment rate of 4.3% masks several well-known problems, viz.: (1) youth aged 15-29 are three times more likely to be unemployed (13%) than adults (4%), and unemployment is close to 20% for those aged 15-24; (2) while unemployment declines with education level for adults, almost 25% of the young adults aged 15-29 with bachelor's degree and above are unemployed, compared to 1% of adults; (3) the unemployment rate for women (10%) is three times higher than for men; and (4) underemployment is high (18%), especially for women (22%) and rural people (21%). These problems, the chapter argues have to be recognized in any skills development strategy.

The major drivers of skills demand in Sri Lanka, including economic growth, labour migration, urbanization, expansion of primary and secondary education, and demographic change, increasingly call for a better educated and trained labour force, upgrade skills, and workers equipped with higher-order competences that can use new technologies and perform complex tasks efficiently. The chapter emphasizes that the complex demands of a competitive global economy require advanced skills and the ability of workers to adjust not only to domestic shifts in demand but also to what is happening in the global economy. It analyzes the skills required for productivity enhancement and emphasizes that skills development needs to be part of a comprehensive economic development strategy and that job creation and skills development should be pursued together. Furthermore, skills development should be part of a lifelong education and training strategy because it is a cumulative life cycle process.



## **Technical and Vocational Education and Training, and Tertiary Education**

Chapter 2 introduces the general education system in Sri Lanka, describes how the technical and vocational education and training (TVET) sector is structured and discusses TVET enrolment trends and analyses the efficiency and equity of the sector. The discussion is based on official enrolment data and performance reports. The chapter points out that though skills development activities have expanded with the active participation of public, private and NGO providers, still the organization and management of the sector are problem areas. It is fragmented, supply-driven and there is a shortage of reliable information on labour market skills demand and supply, employers are sidelined in developing training programmes, and the resources invested are not linked to performance. It also shows that although a National Vocational Qualification (NVQ) framework was established in 2005, it has not been fully implemented or accepted by the private sector.

The proportion of Sri Lankans with tertiary education (4 % of the population aged 15-64 had completed tertiary education in 2010) is far below that of Malaysia (15%) and Korea (40%), both of which have been investing heavily in tertiary education and TVET for more than three decades. An efficiency-driven economy requires concentration of production process and product quality, which in turn requires specific skills. Consequently, strategic investment in higher education and training is of critical importance and Malaysia and Korea realized this long before Sri Lanka.

### **Skills demand and supply**

The skills demand in Sri Lanka is examined in detail in Chapter 3. It first analyses the existence, nature and consequences of skills constraints in the Sri Lankan economy, including demand drivers, shortages, the types of skills employers are seeking, skills mismatches and the consequences of skills shortages for firm growth and development. It next describes how firms in Sri Lanka are coping with skills gaps through, for example, interactions with skills producing institutions, in-service training, contracting out, and hiring. It argues that the skill gap makes it difficult for individual firms to reach their full potential and if Sri Lanka is to move to a high-skilled worker economy, this gap must be narrowed. It also suggests the direct involvement of industry and employers, especially in TVET to ensure the quality and relevance of the generated skills. The chapter also suggests the establishment of school and industry-specific advisory committees that could help design training programmes and curricula, particularly for TVETs.

The next chapter deals with skills supply, education and labour market outcomes. It first describes the education and skills profile of the Sri Lankan population in terms of general education, TVET and apprenticeship. It also studies how skills are formed by the general education and TVET systems and then analyses the link between skills and labour market



outcomes; returns to education and skills; and the relationship between skills and employment, underemployment and self-employment. The key conclusions of this chapter are: (a) Sri Lanka labour market is characterized by a large informal economy with 62% of the labour force (51% of the non-agriculture sector workers are in the informal sector), (b) despite high education in Sri Lanka, the overall skill stock of the workforce is much lower at the advanced level (e.g., tertiary education) than in middle and high income countries like Malaysia and Korea, and (c) supply of technical skills for which there is high demand, such as English and computer skills is at a low level.

Among the many recommendations the chapter suggests, the following are noteworthy: (1) recognizing the dominant role of the informal sector, vocational training should also be geared to this sector by the government; (2) horizontal links between TVET and general education need to be simplified; (3) awareness of students and general population about the TVET path must be expanded; and (4) impact of major TVET programmes should be periodically evaluated and the apprentice system should be reviewed.

## **Financing technical and vocational education and training**

Chapter 5 deals with the cost and financing of technical and vocational education and training in Sri Lanka. The first section analyses spending on TVET countrywide; the second section discusses efficiency and funding issues down to the production unit (training centres) while the third section concentrates on TVET management and governance. The chapter highlights the lessons from Korea for Sri Lanka where the full involvement of the private sector in Korean TVET made those institutions rapidly change to accommodate technological changes in industrialization, which is not the case in Sri Lanka. It also says that TVETs in Sri Lanka are under-resourced compared to neighbouring countries or other middle income countries. Furthermore, it is shown that TVET budget process is arbitrary, delinked from performance, not transparent and generally inefficient. Among others, these areas have to be addressed to create a truly demand-driven TVET.

Private provision of TVET is complementary to the public sector provision of TVET for skills supply. This is discussed in the next chapter where different types of private TVET providers operating in Sri Lanka are discussed. In 2011, there were 957 private TVETs offering 1,031 courses with a student enrolment of 52,859 and the private sector accounted for 30% of TVET training in the country. About 77% of private providers of TVET are for profit where student's fee represents a major source of funding.

The types of skills provided by private institutions and how they interact with industry including how graduates fare in the labour market are analysed in this chapter. The regulation and financing of private TVET institutions are explained in detail and the chapter concludes with a discussion on how to increase private participation in TVET. The chapter argues that the private sector can complement public services by broadening the coverage of resources



invested in TVET. It suggests a number of recommendations and among them is the formation of a guarantee fund at concessionary interest rates for private providers to expand training in areas of high labour market demand. It also calls for supporting students with financial assistance to pursue TVET in private institutions. There is also a suggestion to revisit the regulatory process for assuring quality and assisting training providers to comply with quality assurance standards.

## **Firm-based training and the reform agenda**

Firm-based on the job training (OJT) is prevalent throughout the world. The incidence of firm based training in Sri Lanka in relation to other countries and regions, the types and sources of in-service training, the types of providers as well as the results of in-service training in terms of firm productivity and worker wages are discussed in Chapter 7. It concludes by presenting policy implications of in-service training. One of the recommendations is for employers' involvement in reviving the Sri Lankan Skill Development Fund from the very beginning. Experience has shown that taxes for financing training should not be imposed on payrolls since it tends to make employers reluctant to recruit new staff. "It is important that employers perceive a training fund financed through levies as a genuine instrument to build skills, not just an additional burden." (p. 180).

The assessment of national policies and institutions that guide workforce development in Sri Lanka and their implications for skills supply and demand focusing on technical and vocational education and training is an important aspect of the study. In this context, the Systems Approach for Better Education Results Workforce Development (SABER-WfD) framework and diagnostic tool are discussed both in country and sector context.

The reform agenda is comprehensive and priorities have to be identified. The book provides an Annex (p. 207) which summarizes the challenges, the strategic directions and the priorities that the government can consider in addressing these challenges.

## **Main findings and the book's positioning**

The message that comes out from the analysis of TVET is the following. In the recent past, every year, close to 140,000 students qualified passing the GCE A/L examination for University admission, however only about 24,000 (17%) qualified for University admission given the limitation of the Sri Lankan higher education system. Successive governments have seen the TVET as a main means of finding alternative training for those who fail to enter the Universities. However, serious deficiencies in the TVET prevent it from playing the desired role, thus preventing Sri Lanka becoming a competitive middle income economy.

In a nutshell, the argument is that skill development in Sri Lanka is yet to become a truly demand driven activity aligned with the ever-changing needs of the economy. Overall, the book is of vital importance in the current situation of building skills for improving competitiveness



and economic growth in Sri Lanka. It is well written and supported by numerous tables, figures and graphs. The reader may find it sometimes tiring due to overlapping and repetition of issues in different chapters but the issues themselves are inter-related and this cannot be avoided.

This is not the first time the subject of skill mismatch in the Sri Lankan economy has been studied. In the early 1970s, even before the open economy came into place, Dudley Seers did a study for the ILO highlighting the skill mismatch in the Sri Lankan economy. Godfrey Gunathileke (1987), Terrence Kelly (1992), and Patricia Alailima (1992) did studies on the subject matter after the open economy had functioned for more than one decade – the first two studies were published by the Institute of Policy Studies of Sri Lanka (IPS). Frequent reference to the subject has been made in subsequent years by the IPS State of the Economy Reports for the attention of the policy makers; however, other areas of the economy received priority for politicians over and above skills development as it does not have the visibility of major physical infrastructure projects.

It is noteworthy that this is the first attempt at a comprehensive assessment of Sri Lanka's skills development sector, focusing on technical and vocational education and training by considering skills supply and demand, skills gaps and mismatches, system management, governance and financing. The World Bank has to be commended on an excellent and timely study conducted to highlight a pressing issue in the Sri Lankan economy. The book would be of interest and use not only for economists and policy planners but also for the chambers and corporate sector.