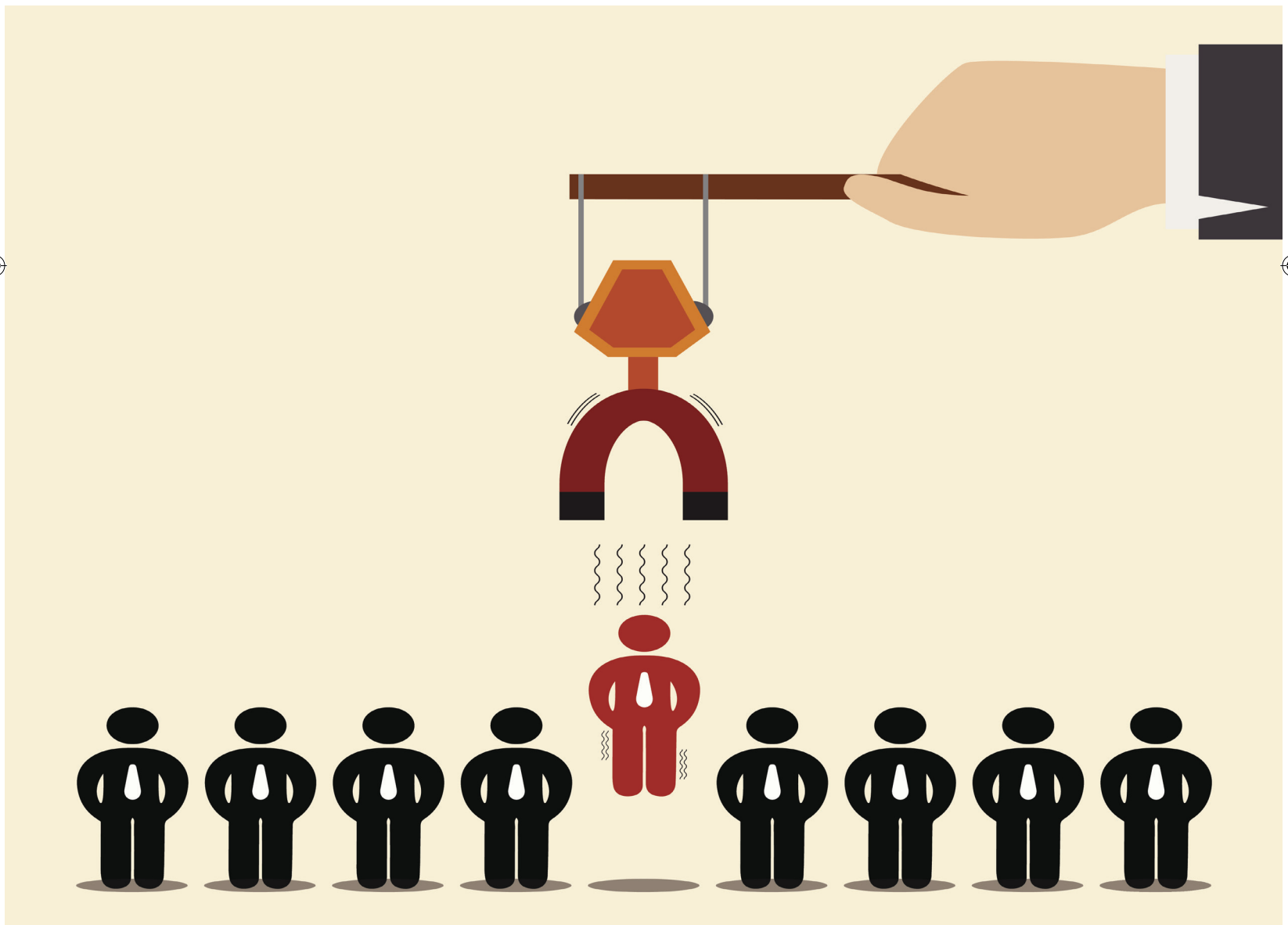


Skills needed: Addressing South Asia's deficit of technical and soft skills

Analysing the gap in Afghanistan, Bangladesh, India, Nepal, Pakistan and Sri Lanka

An Economist Intelligence Unit report produced for the British Council

January 2015



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The skills gap: In numbers

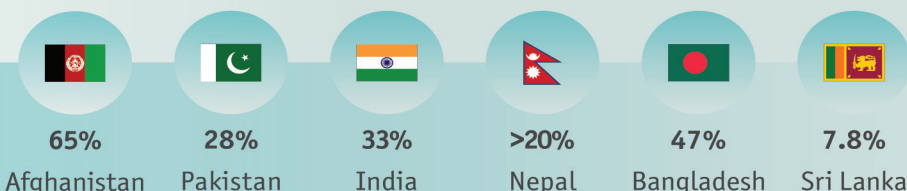


Youth unemployment and underemployment is especially pressing in South Asia, where there exists a demographic dividend poised to support the region's continued growth. However, the lack of technical and soft skills are leaving businesses yearning for more.

The higher you go, the less you know?

The unemployment rate rises with the level of education, partly because youth with lower educational background come from lower income households and cannot afford to remain unemployed for long. This keeps labour productivity low. For youth who are better educated unemployment rates are linked to lack of technical skills and soft skills. There is a need for better quality education, English skills, on-the-job training as well as better job formation.

Estimated graduate unemployment



Source: Labour ministry surveys, expert interviews.

Graduated, jobless Employability of technical graduates, India



Business process outsourcing

38.20%

Tech support

25.90%

IT services

17.80%

Knowledge processing outsourcing

9.50%

IT products

4.20%

Source: Aspiring Minds survey

Soft skills are important Skills Sri Lankan businesses want



Training/experience

73%

English and communication skills

63%

Team work and interpersonal skills

45%

IT skills

42%

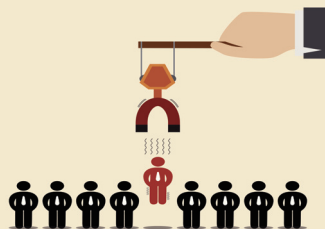
Leadership and decisionmaking skills

21%

Problem solving and analytical skills

21%

Source: <http://www.sljol.info/index.php/SLJHRM/article/viewFile/5107/4074>



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Summary

South Asia's ability to reap its full economic growth potential over the next decade will heavily depend on the ability of states to dramatically upskill their youth to maximise demographic dividends. This research report will explore the necessity of skills development across three major growth sectors (agriculture, manufacturing and services), with particular emphasis on the relevance of soft skills development amongst South Asia's youth to meet demand in the hospitality, IT and business process outsourcing (BPO) sectors. Skills development in the region will require partnerships across business, government and institutions to develop appropriate incentives, financing and learning solutions to meet demand. There is also space for improvement across the technical vocational education and training (TVET) and the university spaces to better prepare graduates for the workplace.

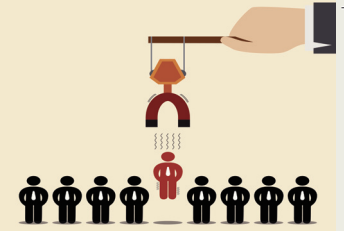
Based on interviews with experts around the world, this report outlines education and skills development of two major groups. The first, involves harnessing the region's large youth population who are already starting to benefit from significantly improved basic education systems. South Asia's bulging youth should be incentivised to undertake further studies in high-demand areas, and equipped with the right skills to ensure they are employable upon graduation. The development of soft skills and language would be of particular benefit to this group with employers across the growing services, infrastructure and health sectors identifying this as a major gap amongst graduates. This would also increase the global competitiveness of graduates, raising pay scales and helping to prevent brain-drain amongst young professionals.

The second requires the dramatic upskilling of the 70% of South Asia's current workforce who are characterised as informal, unorganised and unskilled – the upskilling of this group is critical to poverty reduction and boosting domestic demand. Scope for soft skills development amongst this group would best be developed through on-the-job training during an apprenticeships or through mentoring opportunities.



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Harnessing youth for growth

South Asia has one of the youngest populations in the world—around 40% are under the age of 20—and the population is expected to keep growing until 2045. Over the next 2–3 decades, the region will produce an average of 16 m new labour market entrants each year, most of whom will be aged between 15 and 20. Equipping this future workforce with the right skills to meet demand in growth sectors such as BPO, high-end manufacturing, health, hospitality and infrastructure will return an economic dividend. Failure to do so will result in a disenfranchised youth, increased rates of skilled and unskilled emigration, worsening poverty and stalled economies.

Critical to economic development, infrastructure will continue to be a major growth sector around the region over the next decade. Major roads, ports and rail projects are expected to come online in India and Sri Lanka over the next five years, while boosting energy production is a major priority region wide—shortages inhibit major industry growth, especially in Pakistan, Bangladesh and Nepal. Hydro-power could also become a major export for Nepal, but only if it can overcome its many internal challenges.

Demand for skilled infrastructure professionals such as engineers, architects, designers and managers is already high and unmet across the region amongst local and foreign companies. The problem is twofold: first, is that not enough students are studying these subjects: in India, for example, only 16% of university students were studying engineering and technology in 2012–2013¹. Leighton (an international contractor) India's Buildings Chief Operating Officer, Mark Griffiths, identified construction management as one of the biggest skills gap in the industry: "In Australia, they've had a construction management degree for a couple of decades, but this has only just been brought to India. There is a deficiency across the board, from procurement and supply chain management to equipment selection and design. The curriculum hasn't kept up with modern advancements."

The second issue is that amongst those who do graduate, most are highly unemployable: in Bangladesh for example, unemployment is highest amongst engineering graduates² and India's 2013 National Employability Report found that only 21% of its engineering graduates actually employable³. Mr Griffiths also identified soft skills, such as problem solving and proactive thinking as major gaps amongst graduates, though noted, "a new graduate [in the industry] can't be expected to predict problems when they have never done something before, and they need mentoring." Consultation with industry and education leaders would be a first step towards developing a new, holistic curriculum to meet employer demand. Seeking partnerships with MNCs for financing, placement and mentoring opportunities would also hone soft and technical skills.

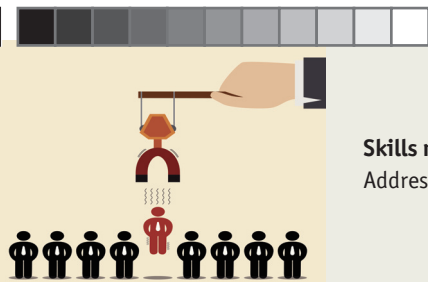
Services

Though services contribute over 50% to regional GDP, opportunities for growth are highly diversified. Those offering sophisticated international services (India and Sri Lanka) in the business process outsourcing (BPO), information communications technology (ICT) and hospitality sectors will see the

¹ Choudaha, Rahul, "Statistics on Indian Higher Education 2012–2013", DrEducation: International Higher Education, 2013.

² Ahmed, Israaq, "The urban labour market in Bangladesh", Financial Express, 15/07/2012.

³ National Employability Report: Graduates, Annual Report 2013, Aspiring Minds India.



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⁴ Prasad, Akanksha, "Indian BPO Sector Outpaces Services Growth", *The Economic Times of India*, February 2013.

⁵ Michael, Bobby, "India: Number of New IT Jobs Created to Halve in Four Years" *International Business Times*, November 2014.

⁶ Chintana, Mahinda, "A Vision for the Future", Sri Lankan Government, Department of National Planning 2010

⁷ "Recruitment: TCS creates world record at SASTRA", *IBN Live*, September 2011.

⁸ Country Partnership Strategy (2013-2016) for the Democratic Socialist Republic of Sri Lanka, *World Bank*, April 2012, pp. 9.

⁹ Hajela, Ruchi, "Shortage of Skilled Workers: a paradox of the Indian economy", *SKOPE Research Paper No. 111*, University of Oxford, 2012

¹⁰ Subramanian, Ramesh, "Soft-skills Training and Cultural Sensitization of Indian BPO workers: a qualitative study", *Communications of the IIMA*, Volume 5, Issue 2, Quinnipiac University, USA, 2005.

¹¹ "Afghanistan Youth to Receive Skills Boost for Better Jobs", *World Bank*, March, 2013.

biggest economic returns and demand for skilled workers. In Nepal, more basic services are linked to the success of domestic agriculture, so a poor yield will lead to stagnated services—though tourism is a possible exception. Afghanistan's domestically driven services sector has been in decline with the drawdown of foreign troops and looks unlikely to experience significant growth over the next decade. Bangladesh and Pakistan's services sectors sit somewhere in between, and if they can upskill its future workers efficiently enough, it may be able to deliver sophisticated services to international clientele.

BPO is projected to be India's biggest sector for growth over the next decade with the country's English proficiency, cheap labour rates and IT acumen making it a prime market for MNCs seeking to cut costs through holistic outsourcing. Sector growth has already been significant—the BPO arms of India's two largest firms, Infosys and Tata Consultancy Services (TCS), grew by 41% and 39% respectively in Q4 2013⁴—with BPO growth expected to nearly halve India's ICT jobs by 2018, as companies seek fewer individuals who can do more, to stay competitive.⁵ The sector offers strong potential for Sri Lanka too, with an estimated 500,000 new people required across the sector over the medium term.⁶

A significant soft skills gap is already impacting sector growth though. India's BPO companies are in desperate need of engineers and software developers to service foreign clients⁷ but are increasingly frustrated by graduates who are not workplace ready. Poor problem solving, lateral thinking, communication and decision making skills, and an inability to work in a team are listed amongst the most significant failings.⁸

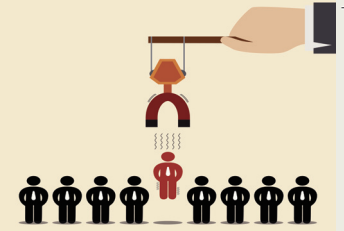
Partnerships between companies and universities to develop soft skills in this sector are starting to reap returns and signal the need for further institutional-business cooperation. Tata Consultancy Services (TCS) and Infosys have both established partnerships with engineering colleges to train students on soft skills and decision making techniques, which feed into their own internal training centres.⁹ Indeed, these centres are not new for companies in this field—many ICT arms developed successful in-house training programs to address these skills gaps and to develop cultural sensitivity for foreign call centre requirements a decade ago. Such in-house training programs deliver good results, with companies ultimately determining that this offers the most effective way to ensure an employee delivers the best product.¹⁰

Afghanistan's World Bank supported, National Institute of Management and Administration (NIMA) is reportedly proving successful in soft skills development and could offer a blueprint for success. NIMA offers English-language, technical diplomas in Accounting, ICT and Management with opportunities for students to undertake industry placements.¹¹ Such technical schools could be highly applicable for the development of the technical and soft skills required in the BPO and ICT industries with curriculum easily expanded to incorporate software development. However, it is worth noting World Bank comments that efforts to introduce these soft skills into curriculum in Sri Lanka have thus far been unsuccessful due to a continued emphasis on rote learning at all levels of study, a recurring theme across much of South Asia.¹² More generally, BPO sector growth may struggle to gain traction in Sri Lanka and Bangladesh with both countries still grappling with technical skills provision.¹³ Sri Lanka also needs to build English proficiency¹⁴ while Bangladesh must address illiteracy and a preference amongst graduates to work in government.



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Hospitality, Tourism & Retail

Demand for workers with strong, soft skills to service the foreign and domestic markets will continue to be high in South Asia's hospitality and tourism sectors, especially in India and Sri Lanka where the industry will experience the most rapid growth. Ganga Khadka, a freelance tourism guide in Kathmandu believes that soft skills are also of vital importance to boosting Nepal's recovering tourism sector "sincerity and truth, as well as good communication is critical to the sector".

A soft skills deficit in hospitality has long been an issue for those in the industry. Leaders in India's hotel sector estimate that only 10% of university graduates are job ready¹⁵—once again they lack core communication, customer relations, complaint management and critical thinking skills that the industry requires.

Many major hotel groups long-ago established their own in-house training programs. Accor's, a leading international hotel group, programme is designed to develop staff from the ground up, fostering soft skills and mentoring potential leaders through face-to-face training, e-learning, project work and on-the-job training. Such programs prove highly effective in delivery of the brand, and also dramatically improve worker retention. Development of tailored technical vocational education and training (TVET) courses in partnership with industry leaders would be of significant benefit in filling this gap. Students could be trained to international standards and undertake placements with streamlined positions into international groups. Increased awareness of opportunities in hospitality may also help to boost low student numbers at the university level.

Health & Education

Demand for health and education services will grow in line with each country's middle class. India, for example, estimates it will need an additional 3m doctors and 6m nurses by 2034 to meet anticipated demand.¹⁶ And while university curriculums must ensure they offer the most current and cutting-edge skill set, further consideration must be given as to how to retain graduates. Many doctors and nurses currently immigrate to OECD or Middle Eastern nations (this is a huge problem for Sri Lanka and India) to increase earnings, work in better facilities and access career-long development opportunities. Addressing skills gaps in this area should also seek to encourage graduates to remain at home. Consideration should be given to the development of exchanges or placements overseas or the financing of study in return for service. Across the region, government jobs will likely scoop-up fewer university graduates: Afghanistan's bureaucracy will suffer from a loss of foreign budget support, while graduates in India will seek higher-paying private sector work.

South Asia's improving education standards and moves towards universal education provide an excellent opportunity for teachers to begin to incorporate ESL and soft skills development, such as basic problem solving, into lessons from an early age. Additional support could also be made available via e-learning solutions. Increased student numbers also means an increased demand for qualified teachers: Pakistan needs 290,000 new primary school teachers by 2020, while 150,000 Afghani teachers (80% of whom haven't completed high school themselves¹⁷) are responsible for the education of around

¹² Country Partnership Strategy (2013-2016) for the Democratic Socialist Republic of Sri Lanka.

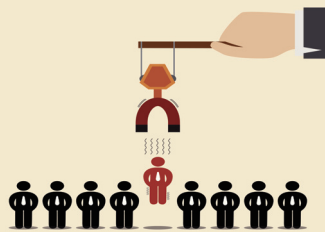
¹³ Ibid.

¹⁴ Ibid.

¹⁵ Interview with Christine Rumble, VP Learning and Talent Development, Accor Asia Pacific

¹⁶ Future of India: the winning leap, PWC, November 2014.

¹⁷ <https://aafriendshipfoundation.wordpress.com/teacher-training/>



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7m students¹⁸. Professor Mohaqqeq of Kabul University also stressed the need for improved managerial and leaderships skills amongst educators to ensure the success of private intuitions. Programs such as TESS-India (Teacher Education through School-based Support in India) are attempting to address the shortage while also encouraging learning in a manner that supports soft skills development.

Upskilling the current workforce

70% of South Asia's current workforce are unskilled, unorganised or under-employed labourers, most of whom work in agriculture, textiles or construction. With low levels of basic education this group offers the biggest challenge for skills development across the region to meet growing demand for skilled workers in these sectors. And while the roll out of universal education should reduce these numbers, a large basic skills gap will still remain for some time to come.

Agriculture and Agribusiness

Despite its declining contribution to GDP, agriculture is the region's biggest employer and will remain a critical safety net for many over the next decade. Overall, the health of agriculture will underpin economic growth—improved yields lead to more income, increased consumer spending, investment in education, SME development, and growth of agriculture for export, feeding a country's services and industrial sectors. For Afghanistan and Nepal in particular, agriculture offers the best sector for growth over the next decade. Both countries have suffered recent declines in their manufacturing and services sectors and will face difficulties implementing the necessary structural, governance and infrastructure changes needed to boost substantive sector growth. The upskilling of farmers to encourage cash-cropping and agri-business offer the best opportunity for economic growth and is the most effective way of implementing crop diversification to meet growing domestic and foreign demand. Upskilling farmers in Bangladesh would also contribute to the further growth of the country's frozen food export industry.

In many instances though, improving adult literacy and numeracy is the first step to boosting productivity. In Northern Bangladesh, farmers identified a high rate of illiteracy, low income and an inability to utilise media as their most significant problems.¹⁹ Implementation of adult literacy courses through short, locally run classes, television, or e-learning programs is the first step towards sector development.

Australia's MySkills program was designed specifically for this purpose. The program connects farmers with trainers, industry professionals and financing options and offers apprentice and traineeships, on-the-job training, online learning, and free workshops and mentoring opportunities. Tailored TVET courses in South Asia could cover topics such as mechanisation, fertilisers, crop diversification and irrigation to help improve yields. IT-led solutions such as Reuter's Market Light also offer effective information solutions for farmers in isolated areas.

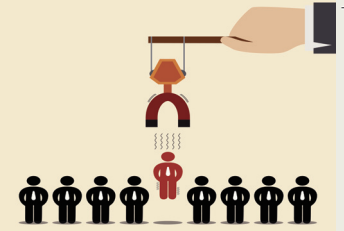
¹⁸ Pakistan to need 150,000 trained primary teachers by 2015: UN Report, Daily Times.

¹⁹ Akanda, Eamin Ali & Roknuzzaman "Agricultural Information Literacy of Farmers in the Northern Region of Bangladesh", Information and Knowledge Management, Vol. 2, No. 6, 2012.



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Construction

South Asia's already high demand for labourers will continue to grow over the next decade. In India, the sector is already the country's second biggest employer, and is still expected to create six times more jobs than IT-related sectors by 2022.²⁰ However, 83% of India's construction labourers are characterised as unskilled and across the region, this group represent a large proportion of South Asia's working poor. Labourers are also highly transient, with many seeking higher paying opportunities amongst regional neighbours or in the Middle East. Poor literacy, numeracy and basic sanitation standards are listed amongst the most problematic skills gaps for employers. Mark Griffiths of Leighton India noted that around 50% of workers had questionable literacy, an issue which can limit worker progression and seriously impact workers' health and safety.

The region is also in desperate need of tradespeople, with shortages of plumbers, electricians, finishers and carpenters a reflection of unsuitable TVET and apprenticeship solutions.²¹ To address this skills shortage, South Asia needs the rapid development and roll out of trade schools which offer updated theory, accredited apprenticeships, industry incentives and student financial support—insights on what works can be found in Bangladesh where the ILO, Bangladeshi government and European Union have been partnering on a TVET Reform Project since 2008. Inclusion of apprenticeship opportunities will also significantly contribute to the development of soft skills.

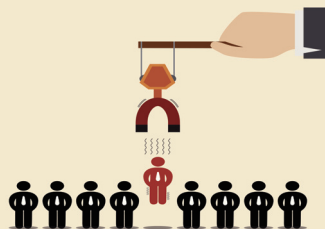
Manufacturing

South Asia's manufacturing sector has traditionally been dominated by textiles, requiring labour intensive, unskilled or semi-skilled workers. The dominance of the industry is unlikely to shift significantly in Bangladesh, Pakistan, Sri Lanka or Afghanistan over the coming decade for various reasons: workers still remain cheaper than mechanisation in many instances; some nations, such as Sri Lanka, will seek to grow services instead; while others will remain unable to develop more complex industries. Thus, workers are unlikely to require significant upskilling to meet demand.

Expansion into complex-manufacturing sectors such as automotive, pharmaceutical, chemical and electronics will see a shift away from labour intensity towards mechanisation and skill intensity, requiring a more developed skill set from its workers. Singapore's NTUC LearningHub successfully combines technical and soft skills development offering nationally accredited certificates in generic manufacturing skills including: machinery operations, productivity, back room operations and administration, teamwork and hand tool use which are tailored to meet market growth sectors. Such facilities could be operated separate to current institutions, or partner and coordinate shared learning with TVET.

²⁰ Hajela, Ruchi, "Shortage of Skilled Workers: a paradox of the Indian economy", SKOPE Research Paper No. 111, University of Oxford, 2012.

²¹ Rajya Sabha Passes Bill to Amend Apprentices Act, New India Express, November, 2014.



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TVET—the biggest benefit to the biggest number

The radical redevelopment of TVET around the region would significantly help to address many of these issues and provide opportunities for up-skilling current and future workers across all three growth sectors. A flexible system could offer opportunities from the development of basic literacy skills to the delivery of a highly qualified hospitality manager suitable. In particular though, the biggest benefit of the TVET system is in its ability to produce well-rounded graduates: the mixture of course work and on-the-job training enables students to develop both the soft skills and technical skills they need for the workplace.

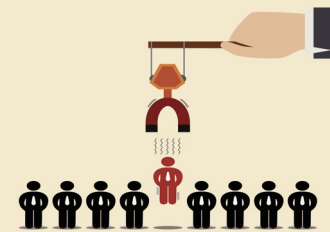
This ability to produce employable graduates for growth sectors such as construction, hospitality, tourism and manufacturing is being recognised by the region's governments with India, Sri Lanka and Bangladesh all making moves to reinvigorate their systems. But capacity of these institutions to rapidly transform is low: systems are underfunded—public spending amounts to less than 5% of the region's education budget—training is fragmented, coordination with industry is poor and the system itself has a bad image—it is regarded as a last resort for those who fail formal education.

Across the region, TVET reform requires the lowering of entrance prerequisites and inclusion of literacy and numeracy bridging courses to upskill those who have only received basic education; shorter timeframes for course completion; the dramatic overhaul of curriculums in-line with industry experts to develop new national standards and meet employer demand; the testing and recognition of practical skills learnt through family trades against these standards to count towards completion certificates; the provision of financing options to students; and the development of incentives to the private sector to encourage partnerships and apprenticeships.²²

South Korea's system offers relevant best practices for holistic reform. Facing similar challenges, the government overhauled its program to include: the alignment of education and training policy with economic development and industry policy; high school vocational training through the establishment of over 20 Meister schools; reform of junior college to use customised curriculum; and the development of strong industry-university links and programs. And some private and NGO run programs in India, such as IL&FS Skills, B-ABLE and Gram Tarang are also making significant headway at an institutional level: IL&FS Skills for example, trained 100,000 people in 2012 alone. Founded in 2007, the not-for-profit became one of 50 private partners selected for support by the NSCD in 2011 and now operates 18 skill schools and 355 skill centres in 24 states, targeting youth from poor and rural areas. IL&FS Skills has agreements with 1,000 partner companies, providing students with job placements and financing support, and guarantee of a job upon graduation. Courses also include mandatory English and digital literacy training.²³

²² Debroy, Bibek, "Vocational Education and India's Skills Deficit", ISAS Working Paper, No 130 - December 2009, Singapore.

²³ Education to Employment: designing a system that works, McKinsey & CoPp.74, 2014.



Conclusion

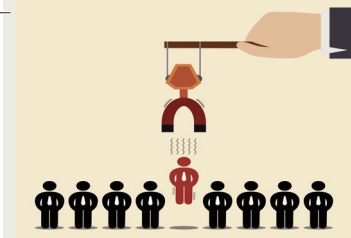
Skills gaps across two major groups—current workers and future workers—offer significant obstacles to sector growth across South Asia. Development of soft skills amongst future workers is of increasing significance if countries such as India and Sri Lanka are to capitalise on growth opportunities in services sectors such as BPO, ICT and hospitality. Development of these skills must be undertaken in partnership between institutions and the private sector, with increasing scope for shared learning experiences. Soft skills development will also become more relevant in complex manufacturing, with training undertaken as a part of technical skills development at a TVET level. Amongst current workers, all countries in the region need to dramatically upskill agricultural and construction workers at a basic literacy and skills level to enable a shift away from traditional subsistence agriculture towards more growth-oriented sectors.

Recommendations: skilling for the future

South Asia should pursue the skills development and education of two groups—the future workforce and the current unskilled workforce—to ensure opportunities for economic growth are achieved. For now, skills development amongst the current, unskilled or semi-skilled labour force should focus on basic literacy development, improving agricultural productivity, basic manufacturing skills and lower management courses. And in the future South Asia should capitalise on the benefits of improving basic education systems and upskill and incentivise youth to study courses at university and through TVET to meet demand in growth sectors such as high-end services and complex manufacturing. Strong emphasis should be placed on development of soft skills in these areas ahead of graduation

Major partnerships across government, industry and institutions should be developed to foster skilled graduates in growth sectors. These include better coordination between a government's educational and economic growth priorities, Develop and implement tailored courses at university or TVET level to match international or industry standards for growth sectors and high-demand jobs, provide student placements and mentoring and incentives for students to study in high demand areas.

A focus on not just technical skills, but also soft skills is key for tomorrow's growth. Businesses are just as concerned about poor English communication interpersonal and problem-solving skills as they are about subject matter training. This can be overcome by changing curriculum in schools to encourage development of such employable skills as well compulsory job placements and on-the-job training programmes.



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**The
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Intelligence
Unit

LONDON
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8500
E-mail: london@eiu.com

NEW YORK
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: (1.212) 554 0600
Fax: (1.212) 586 0248
E-mail: newyork@eiu.com

HONG KONG
6001, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com

GENEVA
Rue de l'Athénée 32
1206 Geneva
Switzerland
Tel: (41) 22 566 2470
Fax: (41) 22 346 9347
E-mail: geneva@eiu.com