

6 ways Latin America can close its skills gap



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Skills gaps are one of the leading social and economic issues of our time. In Latin America and the Caribbean (LAC), more than in any other emerging region, companies are not seeing their skills needs being met. According to the World Bank Enterprise Surveys, 36% of firms say they struggle to find an adequately qualified work force, a percentage higher than in any other region in the world, compared to a global average of 21% and an OECD average of 15%.

Addressing the human capital and skills gaps has very high development returns because human capital and skills are a vector connecting five of the key interrelated challenges facing the region: sluggish productivity growth, low innovation rates, inequality, informality and social exclusion.

The skills challenges in LAC should not be considered in isolation, but against the background of the new global geographies of talent. The expansion of highly educated, highly competent workforces in a number of emerging countries, including but not limited to China and India, means LAC is competing not just with low-skilled, low wage-labour, but with highly-skilled

talent pools in the rest of the world. The reason this is crucially important is that skills-intensive industries grow faster in countries with a more skilled workforce. In a very real sense there is a global race for education and training to capture investment flows and accelerate technological progress.

Against this background many recent diagnostics have documented the limited role played by both skills and innovation in LAC's growth model and have argued, correctly, that this is one of the reasons why LAC remains in the "middle-income trap", [unable to decisively enter into a more knowledge-based, skills-based, innovation-driven economic model](#). This not only limits the capacity to reduce poverty, it also poses major hurdles for the creation of good quality formal jobs, and therefore to sustain middle class societies. Those countries that are able to accumulate a larger stock of high-quality human capital are more likely to avoid a middle-income trap.

Successful countries have developed models of education and training (E&T) with three key characteristics: (1) life-long-learning pathways that allow easy transitions for workers between the world of work and the world of education throughout their working life; (2) close and institutionalized integration of education and training systems with the world of work, through such mechanisms as dual apprenticeship systems and strong public-private collaboration; (3) close alignment of their skills development system with their strategies of growth and productive transformation. For instance, Korea did this over decades, and this was a major factor in its impressive economic performance.

Latin America is far from having these practices and models of education and training generalized and institutionalized. It is high time for Latin American leaders, in government, business, workers organizations, academia and research institutions to focus their efforts in ensuring LAC countries institutionalize such models and practices. They are the models that can produce workforces with 21st Century skills and help countries acquire escape velocity from the middle-income trap.

This requires sweeping reforms and new mindsets in both public policy-makers and the private sector. Specifically, I would argue that it requires the following Action Agenda:

A laser-sharp focus on 21st Century Skills

21st Century skills is not just a fancy term, they have a very concrete definition related to the technological revolution, globalization and the new realities in the world of work. This is the right starting point to think about the skill needs of the region's workforce. The University of Melbourne has a project on [Assessment and Teaching of 21st Century Skills](#). Working with more than 250 researchers across 60 institutions worldwide this project categorized 21st Century skills into four broad categories: (1) **Ways of thinking**: that includes creativity, innovation, critical thinking, problem-solving, decision-making and learning; (2) **Ways of**

working: that refers to communication, collaboration and teamwork; (3) **Tools for working**: most of them based on new information and communications technologies and information age literacy; (4) **Skills for living in the world**: such as sense of global and local citizenship, life and career development; and personal and social responsibility.

A similar classification has been developed by the [World Economic Forum and Boston Consulting Group](#) that distinguishes 16 skills organized into three categories: **Foundational literacies**, that include scientific, ICT, financial, cultural and civic literacies; **competencies**, that include critical thinking, creativity, communication and collaboration; and **character qualities**, such as persistence, adaptability, curiosity, initiative, leadership and social and cultural awareness.

Each of these categories of skills enables individuals to function in the modern world of work and contribute to modern age social and intellectual capital. The best jobs are those associated with these types of skills, whether in services, industry and even agriculture.

Unfortunately, surveys of employers in Latin America confirm how far education and training systems in the region are from instilling 21st Century skills in their graduates. They show that firms report valuing socio-emotional or non-cognitive skills more than general technical or even industry-specific knowledge. In other words, socio-emotional skills are the most difficult to find in the young labour force in LAC, [seriously affecting their employability](#).

And yet, if education and training systems in LAC are deficient in assessing and measuring performance in technical skills, the measurement and assessment of other dimensions of 21st Century Skills is only in its infancy. Effective systems to measure the progress of students in all categories of 21st Century skills and incorporation of results into curricula, teaching methods and public-private collaboration should be at the top of education and training reform in the region.

New vision and new models for education

LAC has made great strides in education investment and coverage. Public investment in education has risen to 5% of GDP (versus 5.6% for OECD), resulting in almost universal access to primary education. But the enrolment in pre-primary remains low: 66% vs 83% in OECD. Enrolment is also low in secondary education (74% vs 91% in OECD) and in tertiary (42% vs 71% in OECD). In terms of years of schooling, people in OECD countries complete an average of 12 years, whereas LAC countries are 1 to 3 years below this, depending on the country. These are large gaps that must be filled. The secondary education gap is particularly worrying, as recent research shows that countries with an educational attainment structure (EAS) with a missing middle (secondary education) have much less capabilities and flexibility for productive transformation and diversification.

Although there are still significant quantitative gaps to be filled, the most serious problems are in **quality and relevance**. Consider this: It has been found that quantity, as measured by years of schooling, explains 28% of the difference in GDP per capita between LAC and OECD countries. However, when the quality factor is included, human capital explains almost 60% of the per capita income difference. The eight Latin American countries that have participated in the OECD PISA measurements of educational [quality were in the bottom third of the 65 country ranking in the three subjects tested](#) (mathematics, science and reading). Quality is also a challenge for tertiary level institutions. These institutions rank poorly in international university rankings. The Times Higher Education University Ranking for 2013/14 listed no Latin American or Caribbean university among the world's top 100 and only three among the top 400.

[New technologies can help improve education policies](#). Today the digital revolution and the explosion of MOOCs (Massive Open On-line Courses) are producing a monumental disruption and shift in the education industry. Education is moving from a factory model to a digital, personalized model. In LAC this revolution is in the early stages, but there is no doubt it can bring to the region a wealth of new educational opportunities and models. It has the potential to ease both the access problem and some of the quality problems. However, there are various obstacles to make the most of this opportunity:

First, we are talking here of social innovation at a massive scale. But education is well known to be a sector quite resistant to change. Public Education systems are very large bureaucratic structures with many players: teachers, students, administrators, parents. It is in human nature to be attached to long-standing habits and to strongly defend interests and the status quo, all of which stifles innovation. The good news is that now we have good measures of education quality such as the PISA tests. These help focus attention and make the policy dialogue more concrete. It is imperative, however, to expand measurement efforts to other types of 21st Century skills: non-cognitive or socio-emotional skills, and make these central in the reform efforts. Second, for capitalizing on the opportunities of the digital revolution in education and training there are also other concrete barriers: lack of adequate mass connectivity and broadband infrastructure, lack of access to computers and tablet devices, and lack of digital literacy.

New vision and new models for TVET

A variety of diagnostics point out serious deficiencies and gaps in the vocational education systems in the region. The Inter-American Development Bank is the most critical: it argues that these systems are “generally outdated, discredited, and disconnected from the needs of the private sector”, that “their operations are ineffective, coverage rates are deficient, and levels of quality and relevance are poor”. It argues also that these deficiencies are a key factor [explaining the skills gap characterizing the region](#).

Other evaluations by institutions such as the [Andean Development Corporation](#), [The World Bank](#), [ILO](#) and ECLAC, are perhaps less dramatic in their bottom line statements but point to similar empirical gaps and institutional challenges.

Some of the figures speak for themselves. Public spending in training averages only 0.4% of regional GDP. Only a small percentage of workers receive some type of training: 15% in Chile, 24% in Colombia, 10% in Dominican Republic, 5.5% in Honduras, 4.3% in Panama and 24% in Uruguay. According to World Bank Enterprise Surveys, only 43% of enterprises offer training to their workers. Enterprises that invest more are those engaged in exporting, foreign ones as opposed to local ones, and larger ones.

Reversing this situation is one of the main challenges for the productive development of LAC. Nothing short of a major revamping of vocational training models and systems will work.

The dominant model in LAC has been traditionally one of large national public training institutions that act both as providers and as policy leaders and regulators. In some countries this model is still dominant, with some evolution and improvements (Bolivia, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Dominican Republic, Venezuela). In others, a separation of policy-making and regulation with service provision has been promoted, along with the proliferation of training providers, mostly private (Argentina, Chile, Uruguay, Trinidad and Tobago). Other countries present a mixed system (México, Brasil, Ecuador, Perú, Paraguay). There is a wide variety of institutional arrangements. A number of successful sectorial practices have emerged, most of them led by the private sector, often motivated by the failure of existing public training institutions to satisfy sectorial skills needs.

In a number of cases training reform efforts have been driven by social policy requirements to target vulnerable groups (young, unemployed, marginal populations). Only in a few countries, and only recently has this driver been complemented by a sharper focus on aligning training with productive transformation and industrial policies (Brasil, Chile, Colombia).

A number of large companies and sectors have engaged in dual apprenticeship systems, but no country has institutionalized dual apprenticeship systems with a significant level of ambition at the national level, which means LAC is missing on one of the most effective skills development models known.

A reform agenda of vocational training systems in LAC must include a number of key elements: First and foremost a stronger alignment of skills development policies with productive development, employment, competitiveness and innovation policies, including in key clusters and sectors. Other elements are: greater quality and pertinence; better skills anticipation; more rigorous monitoring and evaluation; well defined national qualifications frameworks and related policies to facilitate skills recognition and portability; and institutionalization and scale-up of dual apprenticeship systems. Success in all these lines can

only be achieved via a much more proactive involvement of the private sector. Coordination failures among key public sector players such as Ministries of Labour and Education, as well as Ministries of Industry, Trade and Agriculture, and Investment Attraction/Export Promotion agencies must also be tackled. Governments have to more fully assume responsibility as promoters of skills and leaders for investment in human capital as part of their productive transformation strategies.

Close public-private cooperation

The skills-quality and skills-mismatch challenges are closely linked to the *major disconnects between the world of education and the world of work*: between higher education institutions and employers regarding both curriculum and research and technology development activities; among higher education institutions themselves and between them and training providers. [Evidently, there is a major agenda for reform here.](#)

Addressing these disconnects is of course a matter for public policy, but not exclusively. It is also very much a matter of private sector engagement and responsibility.

The business sector has traditionally depended on governments to educate and train their future employees. However, these traditional separations are no longer working well and must change: first, because, traditional education and training systems by themselves can no longer deliver the skilled graduates companies need. But also, as the Director of the Wharton Center for Human Resources, Professor Peter Cappelli has argued, because it is unrealistic for companies to expect prospective workers to be completely job ready, [without previous on-the-job training](#).

Therefore, there is a very strong case for much greater involvement of business in education and training. Companies cannot just wait at the end of the education and training pipeline for graduates with the right skills. Too many graduates have gaps in hard or soft skills which are too deep for corporate training programmes to bridge.

What is needed is a new business mindset for engaging in education and training and for developing the industry's workforce. Harvard Professor Michael Porter has called this new mindset [the shared value approach](#).

Companies with such an approach take a broader view of their industries' workforce needs, build public-private partnerships, engage pro-actively with education and training providers in order to align curricula with the skills needed for employment, and make efforts to combine formal education and training with on the job apprenticeship opportunities.

[Employer engagement in education](#) can take many forms and modalities: apprenticeship training; internships and other work experience placements; job shadowing; career talks and networking; workplace visits; business mentoring; enterprise competitions; curriculum

enrichment. Apprenticeships, under the dual education approach, are a particularly effective modality of training [that must be given much higher priority in LAC](#) than it has received so far.

Alignment of education and training systems with a long-term productive transformation vision

Most high performing Asian countries, most notably Korea, not only have had a long-term productive transformation vision and proactive productive development policies, they have also closely aligned their education and training systems with such vision, including sectorial strategies for skills development with [close cooperation between industry and vocational training institutions](#).

In LAC a number of factors have prevented such alignment. One is the lack of clear productive transformation and innovation strategies in the first place, and the reluctance in the last 20 years to engage in industrial policies. Not surprisingly, LAC is weak in innovation as measured by such indicators as the low numbers of patents registered, the low share of high tech exports, the low innovation investment and capabilities in companies. R&D expenditure is much lower in LAC than in OECD and Asian countries, and most of it is public investment with very little contribution by the private sector. The skills and innovation challenges are complementary because lack of skilled workers affects innovation negatively, while low levels of innovation suppress the demand for highly skilled workers contributing to a vicious circle of low productivity.

In addition, there is still a cultural preference for studies in non-scientific fields. Universities in the region have historically emphasized social sciences and the humanities. And besides, if there is no clear national productive development vision where public policy is making a commitment to the growth of certain high technology sectors, or to R&D in certain areas in partnership with industry, there are no positive signals and rather little incentive for young people, and their families, to choose to study subjects like specialized engineering and other hard disciplines. On the contrary, it is natural that many of them feel attracted to social science areas perceived as relevant to address [pressing problems faced by their societies](#). Skills development policies are most successful when there is a clear vision and robust policies for productive transformation and innovation, including sectoral-skills policies with the active participation of the private sector.

A new culture of entrepreneurship

Finally, there is also evidence of some cultural barriers to the detriment of entrepreneurialism. Most students from MBA schools in LAC say their plans are not to open a business but to become employees of large multinational companies. Most public policies have been focused on supporting existing SMEs, not start-ups. It is important for LAC to promote vibrant start-up ecosystems, with an integrated vision of these ecosystems, from business development

services to incubators, from entrepreneurship-friendly legal frameworks, to mentoring services and finance. Entrepreneurial talent is one of the most valuable skills and a relatively scarce resource, and LAC cannot afford to let any of it go to waste.

In summary, skills are one of the main inputs for escaping the middle-income trap, and for steering the growth model towards higher value added, technology-intensive and knowledge-intensive activities. To increase economic complexity and diversification, the quality and complexity of the skills must also increase and include all the range of 21st Century skills: hard technical competencies, soft competencies, as well as character qualities. The future of work and the future development path of LAC countries depend crucially on the choices they make today to address their human capital and skills gaps.

[The World Economic Forum on Latin America 2015](#) takes place in Riviera Maya, Mexico, from 6-8 May.

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Image: A medical student of Cuba's ELAM (Latin American School of Medicine) studies in the campus library on the outskirts of Havana March 11, 2010. REUTERS/Desmond Boylan.

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