

Chapter 5

Human Capital Development in South Asia



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This paper reviews South Asia's achievements, prospects, and policy challenges in human capital development, particularly in education and skills. It also looks at how progress in these areas in South Asia compares with the improvements seen in other Asian economies, including the People's Republic of China (PRC), the Republic of Korea (ROK), and selected Southeast Asian countries, and analyzes the role of various factors that have contributed to differences in human development.

An important question is how a South Asian country may be able to bridge the huge development gap to catch up with more advanced Asian countries. To catch up, South Asia must improve workers' education and skills. Human capital has been an important factor in the growth of income and productivity across economies in the long run (Barro and Lee 2015). Studies show a strong correlation between the level of higher education and training and technological readiness in an economy (ADB 2017).

However, in South Asia, education and skills remain a binding constraint. Raising the quantity and quality of a workforce's education and skills is necessary to reach the level of human capital and economic development of the ROK, the PRC, and the more successful Southeast Asian economies.

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Achievements and Challenges in Education and Skills Development

Education

There has been strong—albeit uneven—educational progress in South Asia, with enrollment ratios at the primary and secondary levels rapidly increasing. This has allowed South Asian countries to narrow the gap with other Asian countries, even closing it at the primary level. However, at the higher levels, South Asia continues to have much lower rates of enrollment, with the tertiary level seeing especially limited progress between 1960 and 2010.

The number of years of schooling in South Asian countries also increased significantly, while the percentage of those with no schooling has been reduced, but there remains the challenge of how to train this portion of the population.

An analysis of the situation regarding educational attainment (Barro and Lee 2013) shows that, while South Asian countries notably increased access to schooling and average educational attainment between 1960 and 2010, all except Sri Lanka remain less educated than other Asian countries. As of 2010, Nepal's average years of schooling of 4.2 years is comparable to that of the ROK in the 1960s, while both Bangladesh and India have figures—6.0 and 6.3 years, respectively—similar to the ROK in the 1970s. Sri Lanka, however, has excelled, obtaining a level of educational attainment on par with the ROK in the 1990s. As of 2010, 79.4% of Sri Lanka's adult population (aged 15–64) had obtained at least some secondary education, with only a limited number never having attended school. In contrast, Bangladesh, India, and Nepal see greater gaps in schooling accessibility, with 30–50% of the adult population having some secondary education or higher, but around a third remaining uneducated. This striking observation suggests that, in most of South Asia, these gaps in educational attainment among the population continue to be a major concern.

Despite significant progress, there remain disparities in access, participation, and completion across gender, income, and social groups throughout South Asia. As in other Asian economies, gender disparities in educational access have narrowed, bringing the gender parity index for enrollment closer to 1 (i.e., equal ratios for males and females) in the 2010s, especially at the primary and secondary levels. However, except in Sri Lanka, there remains significant gender disparity at the tertiary level. The high disparity in educational quality and earning outcomes is also an issue. School completion rates in the region are also low, as many of those who enroll in school drop out. In India, for instance, about 35% of students who enroll do not reach grade 10 (Sabharwal 2013).

Beyond school attendance, the goal of education is ultimately to improve learning and develop both cognitive and noncognitive skills. Recent literature has shown that a substantial part of the variation in individuals' labor market outcomes and differences in national economic growth rates can be explained by the quality, rather than the quantity, of schooling (Hanushek and Woessmann 2008). Hence, governments must both improve access and ensure that children are learning in school.

In South Asia, educational investments have led to large improvements in access and reduction in enrollment gaps but have not translated into improved learning outcomes. Low learning outcomes across all levels of education in comparison to international standards indicate the poor quality of education (Dundar et al. 2014; Panagariya 2008). This undermines South Asia's competitiveness and economic growth, especially considering the rapid evolution of technology. Nonetheless, South Asian governments are increasingly recognizing that a focus on improving education is essential to fully realize the returns on their investments and increase labor productivity and income.

South Asia urgently needs to shift focus from increasing educational access toward improving learning outcomes, especially at the primary and secondary levels, as well as narrowing regional and social gaps in learning (Dundar et al. 2014). To ensure that all children have the opportunity to learn, it is also necessary to address disparities in early childhood. This means addressing early gaps in health, nutrition, and education.

Although learning is influenced by many factors, motivated and capable teachers play an important role in both imparting knowledge and supporting students, especially weak learners, to develop their cognitive and noncognitive skills (Hanushek and Woessmann 2011). In some South Asian countries, the pupil–teacher ratio is very high. Teacher absenteeism—a symptom of having poorly motivated workers—is also pervasive, with absenteeism rates ranging from around 15–25% (Dundar et al. 2014). The lack of motivated and well-trained teachers results in learning that is mainly procedural. Students can read and execute mathematical operations but are unable to express thoughts in their own words and to relate the mathematical concepts to their everyday applications. To address this, we need to improve teacher training.

As public expenditure in education as a percentage of total government expenditure has been declining, improving education and training must again be made a government priority.

Skills Development

South Asian countries are going through a very fast structural transformation. At the same time, the young population is growing in many countries, leading to the challenge of how to train them to meet industry demands. The public and private sectors need to work together to meet both capacity and quality demands. There is a need to address the many systemic problems in technical and vocational education and training (TVET)—in inputs, processes, and outputs—to reduce the mismatch between the supply of and demand for skills.

Though there are variations by country, skills development policies and systems in South Asia share many weaknesses. For example, girls from poor families and rural residents usually have less access to quality education and training. Many South Asian countries also have few teachers qualified and well equipped to teach in TVET and quite limited public resource allocation for skills training. As a result, the share

of students, on average, participating in formal TVET at the secondary level is quite low compared with East Asia (ADB 2017). For example, India's training system has the capacity to train only a quarter of the annual 13 million people entering India's labor market.

There is also very little involvement by potential employers, resulting in TVET systems in South Asia that rarely respond adequately to labor market changes. The lack of well-qualified teachers and good governance and management also lead to poor outcomes in terms of TVET systems. As a result, the employability of graduates is low.

Similarly, the private sector provides limited worker training in South Asia, despite the participation of the private sector in skills development increasing globally. For instance, in Bangladesh and Sri Lanka, less than a fourth of companies formally conduct in-firm training. This is also true in Indonesia (ADB 2017). Vocational training is rarely available to workers in small- and medium-sized enterprises (SMEs) and the informal sector. However, the majority of the South Asian workforce is in the informal sector (Mehrotra and Biggeri 2007). In India, 78% of the workforce is employed by small enterprises with fewer than ten workers, as of 2011–2012 (Mehrotra et al. 2014). This figure is even higher in the smaller South Asian economies, although lower for Sri Lanka (around 62% of nonagricultural sector employment in 2010).

Firms should play a greater role in providing and financing training. As there is a significant variation in skill level among employees, the challenge for firms is how to train these workers, especially how to upgrade the low-skilled workers, alongside the development of the economy.

Wage inequality in South Asia has also been affected by an increasingly skilled workforce and changing labor market demand. Microdata from 1994 to 2010 show that the least-educated group and those with university degrees gained the most, while the relative wage of the secondary-educated grew less (ADB 2017). This is due mainly to the weak growth of manufacturing industries and the demand for middle-skilled workers. Continuous technological progress in manufacturing industries alongside the upskilling of workers can help reduce both wage inequality and skill-job mismatches.

Policy Actions for Human Capital Development

Human capital has been an important factor in economic growth in South Asian economies. Estimates from growth accounting suggest that, between 1981 and 2010, human capital growth through education contributed directly to about 22% of annual gross domestic product per worker growth in India, around 21% in Bangladesh, and 16% in Sri Lanka (ADB 2017).

Skills improvement also contributes to economic growth, with an impact quite comparable to that of education. Education and skills should be developed together to improve the human capital necessary for economic growth.

Educational policies in South Asia should focus on improving access to good quality education for all children to address poor and highly disparate learning outcomes. More efforts are also required to improve the readiness of graduates to satisfy the changing demands of today's job market and compete in the global economy.

The following policy actions may be considered to develop a more productive, well-skilled, and relevant labor force for a modern, competitive economy:

- Implementing a human development strategy in line with national development policies and relevant to changing demand. This is essentially mainstreaming skills development in national development policies and ensuring the commitment of policymakers.
- Broadening access to quality education and skills development training to reduce geographical and gender disparities. Disparities among social groups could be reduced by offering education scholarships and stipends to socially or economically disadvantaged students. Empowering local governments and rural communities to demand and use local resources to support better learning outcomes can also reduce geographical disparities.
- Increasing investment devoted to educational quality and skills, partly through improved teacher quality. This is necessary if the quality of education and training is to improve.
- Improving accountability and governance. Greater efforts should be made to improve the autonomy and accountability of school operations. Strengthening monitoring and evaluation mechanisms also helps to improve education outcomes. Increasing competition among institutions can improve the quality of education and training provision.
- Improving the quantity and quality vocational education at the secondary level (where vocational education constitutes a very small proportion and is of very low quality), as well as in tertiary education. Bringing in the participation of employers is also very important.
- Boosting the quality of training and skills development systems to meet industry standards and hasten job skill matching. While private sector participation is encouraged, the public sector should provide information about employees and future labor requirements, evaluate system performance, and provide quality training opportunities for those in the informal sector.
- Pursuing sustainable mechanisms for financing. Setting up sustainable financing mechanisms for all public systems is very important. Training voucher systems, training levies, competitive financing, and other financing mechanisms should supplement public resources.
- Forging closer regional cooperation for human development. For instance, sending teachers to countries with better teacher training will enable exchange trainings and knowledge-sharing. Another area of cooperation is using information and communications technology in distance education and TVET.

Conclusion

Education and skills development should be prioritized and mainstreamed in South Asian national development policies. This is important to strengthen commitment and to ensure that education and skills development support economic development priorities.

Over the coming decades, South Asia will continue to provide a huge influx of workers to the global labor market. The future of the South Asian and global economy hinges on these workers, and on whether they can upgrade their skills to meet changing demand.

Link to the presentation material: <https://events.development.asia/materials/20151201/human-capital-development-south-and-southeast-asia-achievements-prospects-and>.

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