Technical education and professional training in LAC: the challenge of productivity

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CAF and Inter-American Dialogue
Education, skills and productivity in Latin America

1. Macroeconomic outlook: the productivity challenge
2. Shifting wealth and skills in Latin America
3. Vocational education and training: open questions
Slowdown in the short-term

GDP growth in Latin America and the Caribbean and the OECD
(annual %)

Persistent *middle income trap*

**Middle Income Trap in Latin America vs. selected OECD economies**

(per capita GDP; 1990 USD)

![Graph showing Middle Income Trap in Latin America vs. selected OECD economies](image)

“Productivity in the long-run is almost everything” (P. Krugman)

Total factor productivity relative to the US

Macroeconomic outlook: the productivity challenge

Shifting wealth and skills in Latin America

Vocational education and training: open questions
Shifting Wealth: Gradual increase in global pool of skills

Population by level of education
(millions; 1980-2010)

Shifting Wealth: Mixed impact on skills demand

Globally

• Technological change favours skill demand (skill-biased technical change)
• Trade and financial liberalization fosters the role of skills as the source of economic competitiveness

In Latin America

• For countries with natural resource endowments, shifting Wealth intensifies their role as commodity exporters
• Greater difficulty to develop comparative advantages in a wide range of manufacturing industries
Latin America is characterized by a large skill gap …

Proportion of firms that consider the lack of labour force with the adequate skills a significant restriction to growth (% formal firms; circa 2010)

... with significant variation among countries

Proportion of firms in Latin America that consider the lack of labour force with the adequate skills a significant restriction to growth (% formal firms; circa 2010)

Employment and occupations in LAC tend to be low-skilled…

… in stark contrast to OECD countries

High skills (education and task)

Large skill gaps but falling returns to education: wrong supply?

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Vocational education and training: some OECD good practices

South Korea

Skills within a **productive development policy**: targets in sectors and occupations

Public subsidies, more for SMEs in selected sectors

Chile

**Skills framework** in strategic industries (e.g. mining) to match demand with supply

Germany and UK

**Dual systems** with apprenticeship programmes

Public-private co-funding
Vocational education and training in Latin America: what do we know?

Some evidence for the formal sector in Bahamas, Colombia, Honduras, Panama and Uruguay:

- **Limited on-the-job training** (30%-50%; less in SMEs), too job-specific
- Training benefits mostly **high-skilled workers**
- **Limited use of available public financing** (especially SMEs)
- Positive **impact on productivity** among big firms (+1 p.p. workers under training raises productivity by almost 1%). No impact on SMEs

Vocational education and training: open questions

Quality of data

How big is the skill gap? Informal sector
Which skills are needed?

Policy

How to reach informal workers and firms?
How to involve the private sector?
How to finance these policies (labour taxes vs. other)?

Evaluation

Duration, contents
Wages and employment + competitiveness and productivity
Thank you!

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