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ASSISTANCE WITH LABOUR SKILLS AS AN INCENTIVE MEASURE^{1/}

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ASSISTANCE WITH LABOUR SKILLS AS AN INCENTIVE MEASURE

Issues for discussion

"Many of the education and training systems existing in the developing countries are unable to supply, at the right time and in sufficient number, the qualified persons needed for industrial development These shortages seriously hamper industrialization plans and programmes".

UNIDO/ILC (1)

I. INTRODUCTION - THE PROBLEM

1. A shortage of the required labour skills can act as a serious obstacle or disincentive to the promotion of industrial development in developing countries. One of the major obstacles to an enterprise establishing a new industry in a developing country is the time, expense, and risks involved in developing a suitable skilled labour force. This paper will consider some of the measures which a Government can take to overcome this problem⁽²⁾.
2. The Government of a developing country can help reduce this disincentive by developing the supply of labour skills required for industrial development. This can be achieved mainly in two ways: (i) by adjusting the education and training system of the country to achieve this goal, and (ii) by encouraging existing industrial firms to play a part by training labour in their own plants.
3. Any direct Government contribution towards the cost of an in-plant training programme provided by a company can be considered as an incentive measure in its own right. The cost of training labour for a new industrial enterprise can be very significant; by granting subsidies to firms which provide their own in-plant training, the Government can reduce the cost of the investment in training

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- (1) Education and training programmes for industrialization, a background paper presented by UNIDO and the ILO to the International Symposium on Industrial Development, Athens, December 16-19, 1962, I/33.
 - (2) As the country background papers concentrate on the development of appropriate labour skills rather than the development of management skills as an incentive policy, the problem of developing an adequate supply of managerial skills will not be considered in this paper.

which the enterprise must make and hence enhance the potential profitability of the project.

4. Since in-plant training programmes also reduce the need for places in the Government-sponsored labour training programmes, the cost to the Government of these subsidies may not be as great as they may at first appear.

II. SURVEY OF ISSUES RAISED

5. A range of issues can be suggested for discussion. The issues raised in this paper can be considered under three headings: (A) Have developing countries made sufficient provision for developing the quantity and quality of labour skills required by their programmes of industrial development? (B) Have developing countries made maximum use of the training facilities of industrial enterprises? (C) What forms of incentive can be devised to assist new industrial enterprises to undertake their own in-plant training programmes?

A. Developing a suitable supply of skilled labour

6. The country Background Papers show that a number of developing countries have failed to anticipate the rapidly rising demand for skilled labour which an accelerated programme of industrialisation brings. This was the case in Iran during the Second Development Plan (1957 - 1962). It has also proved difficult to keep pace with the growing range of skills required. In the Republic of Korea until recently little attention was given to the quality of labour required and as a result vocational training facilities have lagged behind the rising demand for skilled labour in industry. The issue arises therefore: has a shortage of skilled labour proved a serious handicap to the industrial development programmes of some developing countries?

7. A number of developing countries have tried to study the present inventory of labour skills and to plan ahead for future demands. In the Republic of Korea for example, the Government checked and screened the skills of about 63,000 workers in 1968.

However, both the rate and type of industrial development is difficult to anticipate as well as the skills which new enterprises will require. The issue arises therefore: can man-power planning effectively anticipate the skilled labour requirements of industrial development programmes in developing countries?

8. The country Background Papers show that most countries have recognized the need to adapt their system of education to the needs of an expanding programme of industrial development. Most of the countries have established vocational ^{and technical} training centres to help meet the special requirements of new industries. The issue arises therefore: what adjustments are required in the Government-sponsored education and training system of a developing country if it is to meet the growing demand of industry for skilled labour?

9. Since industry is only one of the activities requiring vocational skills, the issue arises: what special types of skill does the industrial sector require at various stages in the industrialization process?

B. In-plant training provided by new enterprises

10. Whilst a potential investor considering the establishment of a new industrial enterprise in a developing country will welcome the availability of labour trained in Government-sponsored training institutions, the enterprise will normally find that further training is required on the job. In many industries the management may prefer to provide the major part of the training of a skilled worker on the job itself irrespective of whether Government-sponsored training facilities are available or not.

11. The natural interest of new enterprises in training their own labour force may result in the enterprise establishing its own programme of in-plant training without financial assistance from the Government. However, as there is a risk that the enterprise may lose part of the labour force which it has trained to other enterprises, thereby benefitting the economy at some expense to its own operation, there is some justification for Governments assisting

enterprises willing to run their own labour training programme. The issue arises therefore: have the Governments of developing countries provided sufficient encouragement for firms to provide in-plant training?

12. For the higher grades of skills, such as technicians and other levels, training can be an expensive exercise. Some Governments have established apprenticeship schemes to promote the development of these higher range of skills; other Governments have co-operated with existing industrial enterprises in developing training programmes in more advanced institutions. The issue arises: have the Governments of developing countries made maximum use of the co-operation of existing industrial enterprises in developing the higher range of skills?

C. Different forms of incentive or subsidy

13. The incentives or subsidies which Governments offer to individual enterprises to provide training of their own labour forces appear to take two principal forms: First, where the Government makes a charge or levy on all industrial enterprises to help finance its vocational training programme, those firms which provide in-plant training can obtain exemptions. Secondly, in some countries Governments have provided a direct grant or subsidy to finance the training programme of selected approved enterprises.

14. The first approach is used in Argentina where industrial enterprises must pay a 1% tax on their total wage bill to finance the activities of the National Council of Technical Education. This Organization finances a wide range of vocational and technical training centres which provide free courses throughout the country. Where an individual industrial enterprise contributes to a privately-financed training centre or programme, it is exempted from paying the 1% tax.

15. The same approach is followed in the United Kingdom where firms must pay a levy of 1% or 2% of the total payroll under the Industrial Training Act (1964). Should an enterprise decide to provide some

training itself, the system of exemptions or subsidies relieves most of the burden of the levy. In France, industrial enterprises pay a sum equivalent to 0.6% of their total payroll, but two-thirds of this sum can be reclaimed under various exemption provisions. These provisions include wages paid to industrial apprentices during the first ten months of their training, the enterprise's expenses involved in setting up and running in-plant training workshops, and contributions to vocational or technical training institutions.

16. The issue arises: is this system of a small tax or levy on the payroll of an industrial enterprise a useful and fair way of raising finance for the Nation's vocational and technical training programme?

17. The issue also arises: where such a system exists, can exemptions from the levy be used to encourage the provision of in-plant training by individual enterprises?

18. The second approach involving a direct payment or subsidy to finance the training of labour does not appear to be widely used in developing countries. Of the countries studied in the Background Papers, only Jamaica mentions such assistance, and even this has been on a very limited scale.

19. However, one example of its use in developed countries is the United Kingdom where firms who move to a "development area" (a region where incentives are offered to attract new industry) have received special grants to assist them in training labour in skills which are new to the area. The issue arises therefore: should developing countries consider providing such grants or subsidies to those industries where the expense of training skilled labour is exceptionally high?

III. SUGGESTED ISSUES FOR DISCUSSION

20. A range of issues have been raised in this Issue Paper. In order to make the session devoted to this subject of maximum value, it is suggested that discussion might focus on the following issues:

To bring out the experience of countries represented at the Seminar, participants might indicate

- (a) whether their country has experienced a shortage of skilled labour and technicians;
- (b) whether this shortage has had a noticeable effect in deterring potential investors in new industrial projects;
- (c) to what extent labour training is provided by industrial enterprises rather than Government-sponsored institutions;
- (d) whether such training is encouraged by a form of incentive or subsidy.

More general issues which might be discussed include:

- (e) is there any justification for considering grants or subsidies to individual enterprises for training skilled labour as a useful (but so far neglected) type of incentive measure?
- (f) If so, what type of system might be used?





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