

## **Ishrat Husain: The perils of higher skill shortages for Pakistan's economy - what can we do about it?**

Chief guest address by Mr Ishrat Husain, Governor of the State Bank of Pakistan, at the Prize Distribution Ceremony of the Institute of Bankers, Karachi, 26 November 2005.

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It is highly paradoxical that in a developing country such as Pakistan, we are experiencing serious skill shortages and, at the same time, high rates of open and under employment. A lot has already been said about the causes of the mismatch between the skills required by the economy and the skills generated by the educational institutions. In this paper, I am also not going to focus on technical and vocational skills such as carpenters, masons, electricians, plumbers, automobile, air conditioning, refrigeration mechanics, medical technicians, nurses, foremen, etc. but mostly on higher skills such as needed by the I.T. and telecommunications industry, aviation industry, financial sector, accountancy, engineering goods industry, infrastructure industries, bio-medical sciences and bio-medical engineering, media industry, etc. A box, containing my assessment of where the shortages and surpluses are, is presented for provoking further refinement and discussions. (Box I).

### **BOX I**

#### **Emerging Employment Scenario in Pakistan**

##### **Where are the Jobs Being Created?**

- Mobile Phone, Wireless Loop and LDI Companies
- Public Call Offices
- Internet Service Providers and Broad Band Service Providers
- Cable Services
- Electronic Media Companies
- Private and Non-Governmental Educational Institutions
- Scientific Research and Development Organizations
- Private and Philanthropic Hospitals and Clinics
- Agriculture Farm Machinery Sales and Workshops
- Automobile Service Stations and Show Rooms
- Automotive Vendor Industries
- Fertilizer, Pesticides, Seeds and Agro-chemical Distribution
- Dairy and Milk Processing Packaging and Marketing
- Livestock, Fisheries, Fruits and Vegetable Industry
- Feed Mills
- New Private Banks including Microfinance Institutions
- Advertising, Marketing and Creative Services
- Inter-city and Intra-city Coach, Bus and Transport Services
- CNG Filling Stations
- Hotels and Restaurants
- Information Technology and Internet related Companies, Call Centers
- Accountancy and Management Consultancy
- Construction Services particularly Plumbers, Electricians, Masons
- Islamic Banking Services
- Risk Managers in the Financial Sector
- Private Airline Companies
- Oil and Gas Exploration, Drilling
- Biomedical Sciences, Biomedical and Genetic Engineering

#### Where are the Jobs Disappearing or Stagnating?

- Federal Government Ministries and Attached Departments
- Provincial Government Departments and Agencies
- Public Sector Corporations
- Nationalized Commercial Banks
- Public Sector Universities and Colleges (except for certain disciplines)
- Print Media Companies
- PIA, Pakistan Steel, Pakistan Railways
- Water and Power Development Authority
- Provincial Government Owned Enterprises and Corporations

The basic thesis of this paper is that in absence of an integrated model of skill formation, upgradation and maintenance, the adhoc and piecemeal approaches will remain unproductive and inadequate. It is true that the start-up costs and time involved in getting this integrated model up and going are high but we have already wasted so much time and energy that we are lagging behind other countries. Moreover, this proposed model has been tested and applied in case of the State Bank of Pakistan (SBP). We should, therefore, adopt a bootstraps approach and lay solid foundations for reliable flows of high quality skilled manpower responsive to the changing needs of the economy. The pipeline we have constructed in the State Bank in the last six years has already produced 400 out of 800 professional staff easing the shortages of skills in the Central Banking segment. These young men and women, I am very proud to say, are in heavy demand both within and outside the country. From a situation that we were stuck with people who could not be used anywhere now there is a high degree of mobility and the SBP professionals recruited and trained in the recent years are commanding premiums in the market place. We have not adopted a myopic approach by preventing them from leaving the SBP as this will be highly counter-productive; on the other hand, we are enlarging the capacity of our pipeline by increasing the number of recruits and training and developing the staff in-house and outside. We are keen to maintain the quality of intake as once the quality is compromised then the model which I am proposing will become dysfunctional.

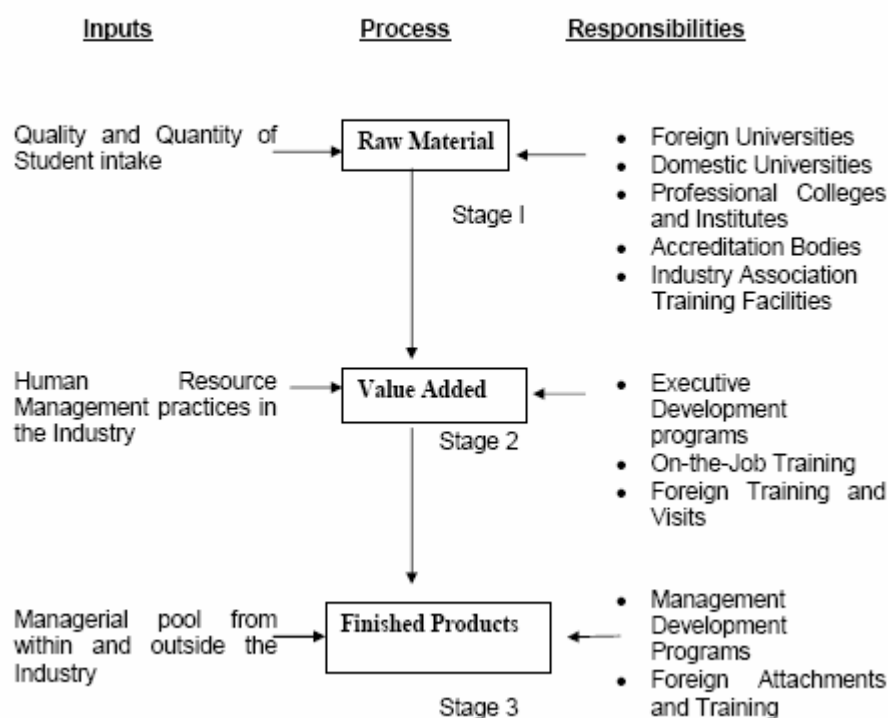
The structural reforms in the banking industry have brought about some unintended consequences that are creating serious pressures on the future growth of the industry. From a situation where the movement in and out of the banks was almost non-existent and life-time secure tenure was assured for all the insiders, the industry is going through a major upheaval in achieving stable and cost effective work force. During my recent farewell visits to more than 30 banks in the country, the common theme was the complaints about the widespread poaching of staff among the banks, the unwarranted escalation in compensation packages to attract and retain the staff and the consequent instability in the work force. In a way it is extremely satisfying to witness that the banking industry is going through the early pangs of professionalization where the market is able to discern and reward people on the basis of their output and performance and hunt for the talent. Another positive aspect is that this process gives signals to the rest of the employees and potential entrants that they should also acquire and master the skills that are in short supply if they have to advance their careers or earn more money. Overtime, the expansion in the supply brings back the equilibrium in the market and normalizes compensation packages. But in the transition period the pains are felt by everyone. In this transition phase, this instability gives rise to dangerous trends of out pricing of banking products with adverse impact on the consumers, the widening gaps between the marginal and average salary scales in the industry and thus the consequences for motivation of the majority staff and the perpetual struggle by the senior management to manage the scarcity and mobility of human resources.

What can be done to smoothen this transition and enhance the requisite supply of skills? Let me first say that there is no short cut and it will take time, efforts, coordination among various players and agencies and continuous monitoring and follow-up. The business model for the skill formation, upgradation and maintenance process is presented graphically below. There are three distinct stages of this process with spheres of responsibilities and inputs.

The starting stage is the quality and quantity of student intake into our universities, professional colleges and institutes, along with strong accreditation bodies. In Pakistan, we all have become familiar, with the passage of time, as to which institutions are the breeding grounds for quality raw materials of skills for various industries. The problem at this stage is that the numbers being produced from the quality institutions are totally inadequate in relation to the demand. For example, the banking industry is now moving to second tier educational institutions for sourcing their recruitment. This may give a false sense of complacency to these institutions that as their graduates are finding jobs in the market they have attained the required standards of acceptance. Nothing could be far from the truth. The banking institutions have no other alternative but to scrape at the bottom of the barrel to bring people on board to meet their rapidly growing demands.

At this stage, the Universities should work closely with the Industry Associations such as Pakistan Banks Association to revise the curriculum, attract qualified faculty and instructional staff, and modify the testing and examination methodology to produce the required number and quality of graduates. There should be no compromises and short cuts by the universities to meet this upsurge in demand. Linkages should be established to train the trainers at world class institutes of learning. This will have a multiplier effect in producing both the numbers and quality.

**An Integrated Model of Skill Formation, Upgradation and Maintenance**



The Industry Associations or individual large firms can help upgrade the quality of our Universities and institutes by setting up endowed chairs and attracting world class scholars, establishing competitive research grants for exploring practical issues of interest to them, funding scholarships for the best and brightest, who cannot otherwise afford to study at the top private universities and provide travel grants to teachers to attend international conferences, symposia, etc. These initiatives will not cost very much in terms of actual outlays but produce highly desirable results in enhancing the quality of our educational institutions and promoting scientific and technological disciplines needed by the economy.

The second stage is the recruitment process and post-induction period after the professionals have entered the industry. The recruitment should be based on merit through a highly competitive process. The written test should be more a test of applying knowledge and techniques to solving problems rather than reproduction of memorized material. The interviews should be structured to find out the interpersonal communication skills, suitability to work in a team environment and the values and

attitudes. At this post induction stage, the responsibility shifts from individual company to the industry associations which should develop, certify and help maintain excellent centers for imparting standardized, uniform, theoretical, applied and hands-on training to the new recruits. In some cases, passing of professional examinations such as the Diploma in Banking may also be the pre-requisite for career progression.

The experience of the State Bank of Pakistan in this regard may be illuminating. The recruitment practices initiated by SBP several years ago have been adapted by almost all the banks and are becoming industry-wide standard practices. Post-entry training is also catching on rapidly but the efforts of individual banks should be supplanted by a collective effort of Pakistan Banks Association (PBA) and the Institute of Bankers, Pakistan (IBP) to develop standardized curriculum, approved list of trainers, pedagogical tools, testing methodology, and minimum acceptable grading system. The training delivery can then be decentralized under these parameters and quality control and assurance can be centralized by the PBA and IBP.

The process of value addition does not end simply with the post-entry training. We have found that the direct linkage of intermediate training courses and advanced training courses and passing of professional examinations linked with promotion plays a critical role in the continuous improvement and voluntary upgradation of skills. As there is overall shortage of trainers in these areas, the PBA and IBP should enter into strategic alliances or joint ventures with foreign and international banks or training institutions. This will minimize the costs to individual member banks and also relieve them of the search and organizational costs.

Another clever way of skill upgradation is to send the rising stars in the industry or profession for attachments to foreign banks for short periods of time to acquire the state-of-art knowledge and practices. They should be expected, on their return, to disseminate and share their learning with their peers and colleagues and take the lead in applying those practices in their own institutions. The SBP has so far sent almost one half of their 800 professional staff for foreign training and attachments and the results are for everyone to see. Those Chief Executives, who only focus on the cost side of the equation and miss the benefit side, are indeed doing a great disservice to their own organizations as the competition will sooner or later beat them because of this inadequacy in the skill acquisition by their staff.

The universities should organize Executive Development Programs such as being done by the business schools. The banks should also avail of these courses and work with the business schools to tailor them to their requirements. Institutions such as GIK, NED, UET, NUST, FAST, etc. should not only organize refresher technical courses for the executives working in engineering profession but also hold management courses for the middle level managers of various companies.

There is an acute shortage of project management skills in this country. To begin with, our engineering universities can bring in foreign trainers or institutions as partners and then gradually build up their own capacity. Continuous collaboration with leading universities such as Caltech, Georgia Tech, etc. would be the best way to value addition of our engineering professionals.

At the last stage, the finished product rising from within the organization or recruited from outside should remain engaged in learning and skill upgradation. At this stage, the job content emphasizes less of technical skills but more of leadership and managerial skills. We do not realize how much difference a good manager can make to the efficiency and productivity of an organization. But our senior managers feel they have reached the nirvana, they know everything and nobody can teach anything to them anymore. I believe they are sadly mistaken as they do not realize how much they are missing in terms of their own personal and professional growth. Management Development Programs both at our universities and institutes of higher learning and at foreign institutes should be encouraged and made an integral part of their career management.

The model that I have laid out is nothing new or spectacular. The different elements of this model do exist in bits and pieces and have been applied in varying intensity across many companies in Pakistan. I have mostly relied upon the examples of banking industry as I am more familiar with the developments there. I do not know very much about the other sectors and I am sure a lot must be happening there. If it is not happening, then I will urge the universities, institutes, industry associations to work together and test this model, adapt it and apply it widely and in a systematic way. I am confident that the skill shortages, which we are observing today in Pakistan, will not only disappear domestically but we will become the conduit for supplying these skills to other countries and a magnet for outsourcing business.