Business Environment Reform Facility

Skills for Competitiveness – Hawassa Industrial Park Sourcing and Training Employees in the Region: Private Enterprise Programme Ethiopia, March 2019

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About this Report

This Evidence and Learning Note is one in a series of Skills for Competitiveness studies developed by BERF for and in association with the World Bank Group's Finance, Competitiveness & Innovation (FCI) Global Practice.

The World Bank Group (WBG) played a critical role in the development of the Evidence Notes. The idea for the series came from FCI's Skills Team which designed the ToRs and provided comments and guidance. DFID funded the series through the BERF programme.

Research for this study was conducted by Thomas Hilton between January and February 2019.

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Acronyms and Abbreviations

ALMP	Active Labour Market Policy
BERF	Business Environment Reform Facility
BoTI	Bureau of Trade and Industry (Ethiopia)
DFID	Department for International Development (UK)
EIC	Ethiopian Investment Commission
EP	Enterprise Partners
ETIDI	Ethiopian Textiles Industry Development Institute
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan (Ethiopia)
HIP	Hawassa Industrial Park
IA	HIP Investors' Association
HIPSTER	Hawassa Industrial Park Sourcing and Training Employees in the Region
LMIS	Labour Market Information System
M4P	Making Markets Work for the Poor
MDI	Multi-Donor Initiative
NGO	Non-Governmental Organisation
OTJ	On-the-job
PEPE	Private Enterprise Programme Ethiopia
PPP	Public-Private Partnership
SEZ	Special Economic Zone
SNNPR	Southern Nations, Nationalities and Peoples' Region
TVET	Technical and Vocational Education and Training

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1. Executive Summary

This Evidence and Learning Note presents lessons learned from an innovative labour supply and skills development model currently being implemented in Ethiopia by Enterprise Partners (EP), under the UK Department for International Development's (DFID) Private Enterprise Programme Ethiopia (PEPE). EP is a flagship M4P (*Making Markets Work for the Poor*) programme focused on the priority sectors of garments, leather, horticulture and access to finance. Within EP, Hawassa Industrial Park Sourcing and Training Employees in the Region (HIPSTER) seeks to mobilise and train large numbers of workers at Ethiopia's flagship Hawassa Industrial Park (HIP) using an innovative public-private partnership.

1.1 Skills for competitiveness

As low-income countries around the world go through the early stages of industrialisation, a lack of access to skilled labour is often a major constraint to productivity growth and competitiveness. Market failures lead firms and individuals to under-invest in skills development, whilst public sector skills programmes often suffer from bureaucratic inefficiencies and a lack of harmonisation with industry needs. Innovative models of skills development with a greater degree of private sector involvement are much sought after.

1.2 Special economic zones

Special Economic Zones (SEZs) can serve as effective models for the promotion of trade, investment and GDP growth, as demonstrated by China's economic growth and transformation since the 1980s. Attempts to emulate this success in the African context have, however, had mixed results. One key to the success of SEZs is a reliable supply of appropriately skilled labour from local labour markets. Where labour markets are under-developed or predominantly rural, sourcing large numbers of workers for industrial jobs can be challenging.

1.3 Industrialisation of the Ethiopian garment sector

In recent years, Ethiopia has been one of the leading African countries seeking to pursue the Chinese SEZ model, with a host of new industrial parks being central to its national industrialisation policy. With an apparent abundance of cheap labour, preferential trade deals with the EU and USA, and the tax breaks and other benefits associated with the new industrial parks, Ethiopia has become one of the leading FDI destinations on the continent.

In the garments sector in particular, rising labour costs in traditional Asian manufacturing centres is driving FDI towards Africa, and Ethiopia is one of the best-placed countries on the continent to take advantage of this trend.

However, investors in Ethiopia's industrial parks are struggling to attract and retain sufficient skilled labour and are currently operating far below capacity, severely hampering productivity and competitiveness.

1.4 HIPSTER

The HIPSTER model features an end-to-end labour sourcing, screening, grading, allocation, recruitment and training process, recognising that functioning labour markets require more than just skills delivery, particularly during the early stages of industrialisation in a predominantly informal, rural economy.

The model leverages the significant capacity of regional government to mobilise labour from the surrounding rural areas, and couples this with the strengths of (mostly international) investors on the industrial park in providing on-the-job technical training. A new digital labour market information system (LMIS) allows information to be shared along the chain, and for factories to post week-by-week labour requests. A soft skills component and HR function supports jobseekers – particularly women – in making the rural-urban transition.

The model has been well-received by government, which has adopted it for all future industrial parks in the country. However, more work is needed to develop a sustainable cost-sharing arrangement for the model. Whilst employers have been generally positive about the process, a number of elements will require fine-tuning before long-term private sector willingness to pay can be secured.

1.5 Recommendations

Drawing on the lessons learned from the HIPSTER model, the following recommendations can be made for broader programming elsewhere:

- Skills development should be considered as one supporting function among many in the wider context of the development of dynamic and competitive labour markets. This is particularly true for the development of industrial parks, which typically require high concentrations of labour with particular skillsets in a new geography, placing significant demand on the local labour market.
- The problem of underinvestment in skills development by firms and individuals can be approached using public-private partnership models whereby service offerings are tailored to the needs of industry, enabling the development of cost-sharing arrangements.
- Skills for competitiveness programming should be nimble, innovative and responsive to context-specific feedback from industry.
- The importance of soft skills should not be underestimated, particularly during the early stages of industrialisation where the workforce is undergoing a challenging rural-urban

shift. This again may be particularly true for the development of industrial parks, where labour may have to be drawn from a wide catchment area.

- Further work is required to design and evaluate sustainable funding models that secure long-term willingness to pay of both public and private actors.

2. Introduction

As low-income countries around the world seek to industrialise and integrate with global markets, a common constraint to growth and competitiveness is often a lack of skilled labour. Market failures in labour markets around the world demonstrably lead to under-investment in skills by both firms and individuals. At the same time, public sector attempts to correct these failures have often led to bureaucratic and inefficient skills programming that is not tailored to the needs of industry.

These constraints can be particularly limiting in the case of Special Economic Zones (SEZs). SEZs can be an effective means of promoting trade and investment, as demonstrated by the success of China and other Asian countries in recent decades. However, these zones rely upon the availability of large numbers of workers in a very concentrated geographical setting. Where labour markets are under-developed or predominantly rural, securing even low-skilled manufacturing labour in sufficient numbers can be challenging.

This Evidence and Learning Note examines an innovative labour market model that seeks to address this issue.

Hawassa Industrial Park Sourcing and Training Employees in the Region (HIPSTER) seeks to correct a number of market, coordination and information failures through the use of a public-private partnership (PPP) model in order to improve the supply of skilled labour to investors in the garment sector on a flagship industrial park in southern Ethiopia.

HIPSTER is currently being implemented by Enterprise Partners (EP), under the UK Department for International Development's (DFID) Private Enterprise Programme Ethiopia (PEPE).

2.1 Methodology and limitations

The evidence presented here draws upon interviews with a range of key stakeholders, including the HIPSTER implementing team, private sector representatives from Hawassa Industrial Park, AhadooTec and independent evaluators of EP. Interviews were complemented by reviews of internal EP documents and independent evaluation reports, as well as secondary literature reviews[1].

[1]Following a request for additional information which slightly extended the scope of the work, a second, smaller round of consultations with HIPSTER and further literature search was carried out.

Note on administrative sub-divisions of Ethiopia

Ethiopia is made up of nine **regions**, which are in turn subdivided into 68 **zones**. Beneath these are **woreda** (districts), followed by **kebele** (municipalities or villages), the smallest administrative division.

Hawassa Industrial Park (HIP) lies on the outskirts of Hawassa (also spelled 'Awasa' or 'Awassa'), the capital city of the Southern Nations, Nationalities and Peoples' Region (SNNPR) in south-west Ethiopia. The city of Hawassa is itself a zone of the SNNPR.

The note is structured as follows: Section 3 provides an overview of the skills for competitiveness challenges faced in relation to SEZ strategies, and specifically in Ethiopia's garment sector today; Section 4 examines the HIPSTER model in detail, including considerations of the underlying drivers of success and the prospects for scale and sustainability; and Section 5 presents conclusions and makes recommendations.

3. Skills for Competitiveness

The following sets out a summary of current thinking on skills for competitiveness. For the present paper, "skills for competitiveness" are defined as skills that are immediately relevant and appropriate for employment in areas that increase the competitive advantage of firms in the pursuit of economic development.[2]

3.1 Skills for competitiveness in developing countries

3.1.1 The importance of skills for competitiveness

As globalisation intensifies competition through the increased fluidity of goods, services, labour and technology, flexible labour markets and well-functioning skills development systems are vital to individuals, firms and governments seeking to develop and maintain a competitive edge (EDFI, 2016).

In particular, as countries rise to higher levels of development and economic sophistication, the lack of access to skills is increasingly cited by firms as their primary constraint (IFC, 2013). Nine out of ten jobs in the developing world are in the private sector, where 38% of employers complain of a lack of availability of appropriately skilled labour (EDFI, 2016).

Nevertheless, firms demonstrably underinvest in training their workforce, partly because the costs of training are tangible and immediate, whilst the results are often intangible and/or take longer to fully materialise. Individuals underinvest in their own up-skilling for similar reasons. Firms are further discouraged by the threat of losing trained workers to competitors (IFC, 2013).

3.1.2 Public sector skills provision

These market failures significantly hinder the development of private sector training providers. As such, skills provision has traditionally been in the domain of the public sector, through Technical and Vocational Education and Training (TVET) programmes and Active Labour Market Policies (ALMPs) such as labour exchanges and apprenticeship schemes.

However, government provision of such schemes has often been through supply-side policies with poor levels of engagement with industry, and few incentives to deliver high-quality and well-targeted skills. Poor quality programming undermines the confidence of individuals and firms in the system and further erodes willingness to pay, again hindering the development of market-oriented skills systems (IFC, 2013).

3.1.3 Encouraging private sector involvement

Whilst the public good elements of skills development merit a degree of ongoing subsidy, it is now widely recognised that direct private sector involvement is essential in improving the

[2] Drawing upon the guidance of the World Bank's *Finance, Competitiveness and Innovation Global Practice* and the OECD definition of "competitiveness", available at https://stats.oecd.org/glossary/detail.asp?ID=399.

quality and appropriateness of skills for competitiveness (Dunbar, 2013; IFC, 2013, OECD, 2012; UNESCO, 2012).

Overcoming the market failures that discourage private sector involvement can be challenging. Dunbar (2013) provides an overview of approaches documented in the literature:

- Firms are most likely to engage when they have confidence in both the business environment and the government's commitment to skills development, and when bureaucracy is low.
- Fiscal measures such as tax breaks and skills levies can have some success, but tend to rely on the existence of a large formal sector and strong government administrative capacities – often neither are true of developing countries.
- Multinational firms can be influential in skills development through their extensive supply chains, particularly when supported by donors and/or NGOs.
- On-the-job (OTJ) training and apprenticeships are effective in both the delivery of practical skills and financial incentives for trainees.
- There remain substantial information gaps for firms and individuals in terms of the availability and benefits of training, and finance gaps for the delivery of skills at the scale required globally.

3.1.4 Inclusive skills development for vulnerable populations

Women and youth are particularly vulnerable and underserved in these systems, with global youth and female unemployment being significantly above the average for men and women of all ages (a challenge compounded for young women). Globally, women in the labour force are systematically discriminated against to varying degrees, whilst gender norms in many parts of the world exclude them from the labour force entirely (ILO, 2018).

Young people tend to represent relatively inexperienced, unskilled and therefore inexpensive labour, making them particularly vulnerable in times of adverse economic shocks. The limited capacity of the private sector to absorb the demographic "youth bulge" in the developing world exacerbates this vulnerability (IFC, 2013).

Whilst women and youth are particularly vulnerable and underserved demographics, they also represent very large shares of the labour force. Extending skills and opportunities to these groups holds great potential for enhancing competitiveness – indeed IFC (2013) found that the most impactful skills initiatives have often been those targeting women and young people.

3.2 Special Economic Zones (SEZs)

Special Economic Zones (SEZs) are areas with specific business and trading laws independent of the wider business environment designed to attract FDI and promote growth in exports, employment, and GDP. Having been central to the rapid economic growth and transformation of China and other Asian economies since the 1980s, many African countries

began to follow suit in the 1990s (UNDP, 2015). Worldwide, the ILO recorded an increase from 176 zones across 47 countries in 1986 to 3,500 zones across 130 countries in 2006 (Farole, 2011).

Whilst there is relatively little evidence on the African experience with SEZs, a number of studies suggest that they have generally underperformed relative to their Asian peers (Farole, 2011; UNDP, 2015). Farole (2011) identified this underperformance in terms of both 'static' economic benefits (short-term, localised results, such as increased investments and exports) and 'dynamic' benefits (wider reforms and spillover effects), as well as social benefits such as employment and living standards.

CIIP (2017) found that, across 346 zones in 22 countries (globally) between 2007 and 2012, the greatest impacts were in attracting FDI and boosting exports, whilst evidence on job creation potential and wider spillover benefits were more mixed. Whilst SEZs tend to attract large numbers of workers, these are often displaced from elsewhere. One exception was in the case of job creation for women – many manufacturing operations on SEZs are primarily carried out by women, which can have a substantial impact if women are traditionally more marginalised within the labour force (Farole, 2011; FIAS, 2005).

In terms of drivers of success, a number of studies have found that common SEZ incentives such as tax breaks actually have a relatively marginal influence on outcomes, and that performance instead appears more closely linked to the performance (and business environment) of the wider economy (CIIP, 2017; Farole, 2011).

One important driver of SEZ success is the availability of appropriately skilled labour in large numbers. Whilst many developing world SEZs focus on low-skilled, labour-intensive manufacturing, this still places significant demand on labour markets to deliver large numbers of workers to a very concentrated geography. When zones are located in more remote areas away from densely populated urban centres, even low-skilled industrial labour can be difficult to source. Close integration of SEZ models with wider training and education efforts in order to increase human capital and better align skills development to the needs of industry have been vital in the success of SEZs in China and elsewhere (Zeng, 2015; Farole, 2011; UNDP, 2015; CIIP, 2017).

3.3 Skills for competitiveness and Ethiopia's industrial parks

In recent years, Ethiopia has been one of the leading African countries in seeking to emulate the Chinese success with SEZ models, placing a series of new industrial parks at the heart of its industrialisation strategy.

3.3.1 Macroeconomic context

Ethiopia has consistently been one of the fastest growing economies in the world over the past decade (albeit from a relatively low starting point), averaging a 10.3% annual GDP growth rate from 2006-07 to 2016-17. Growth has primarily come from agriculture, construction and

services, driven by private consumption and, increasingly, public sector infrastructure projects (World Bank, 2018).

However, the manufacturing sector remains a relatively small contributor to GDP. Over the period of Ethiopia's first Growth and Transformation Plan (GTP I, 2010-11 to 2014-15), manufacturing averaged just 5% of GDP (Government of Ethiopia, 2016). Over the same period, the country's trade deficit widened as export growth failed to keep up with rising demand for imports. Key constraints to industrial growth include an underdeveloped private sector and a lack of competitiveness limiting job creation and exports (World Bank 2018).

3.3.2 Industrialisation strategy

Ethiopia's latest Growth and Transformation Plan (GTP II, 2015-16 to 2019-20) seeks to build on GTP I, with a focus on industrialisation in order to propel the country to lower-middle-income status by 2025 (Government of Ethiopia, 2016). Central to this industrialisation plan is the development of a number of industrial parks across the country. The national strategy currently envisages the development of 30 such parks by 2025. 14 are currently operational, with a further 9 in development.

Across the parks, skills shortages have been identified as a significant constraint. For many international investors, there has been a tendency to underestimate this challenge prior to establishing business in Ethiopia. A common perception is that the country has a sizeable pool of available and low-cost labour due to high unemployment and underemployment. However, equipping this labour with the requisite skills and making the shift from a predominantly rural informal economy to an urban industrial one is proving challenging.

3.3.3 The garments sector

The garments sector is a key priority sector under the government's GTP framework, and a major focus of the industrial parks. As labour costs rise in major garment manufacturing hubs of East Asia, investors are turning to Africa as a new manufacturing base (EP, 2017).

A 2015 McKinsey survey found Ethiopia to be the seventh most promising sourcing destination in the world, and the highest ranked in Africa. Investors are attracted by an abundance of cheap labour, low energy costs, preferential trade agreements with the EU and USA, and the possibility of vertical integration with domestic cotton production (McKinsey, 2015).

In light of this, foreign direct investment (FDI) to the sector has been increasing, with export revenues almost tripling between 2010-11 and 2014-15, and 65 international firms licensed to do business in the Ethiopian garments sector as of 2017. The government is aiming for almost 174,000 new jobs in the sector (with around 75% expected to be women) by the end of 2019-20 (EP, 2017).

However, Ethiopia still accounts for just a fraction of a percent of the global garments market, whilst factory productivity remains around a quarter of the global average, and most factories

are operating well below capacity. One of the key constraints to growth is a critical lack of skilled labour (EP, 2017).

Ethiopia's industrial parks are often located away from large urban centres, whilst the garments sector in particular struggles to compete with the salaries offered by higher-skilled urban jobs. At the same time, there is an abundance of young, under-employed, and unskilled labour available in rural areas surrounding the parks. However, market failures in skills provision and labour market information make it difficult for investors to attract, train and retain the labour that they need (EP, 2017).

Key points

- SEZs can be useful models to promote FDI, exports and GDP growth. However, their success depends in part upon a reliable supply of appropriately skilled labour. This can place significant strains on an under-developed or predominantly rural labour force.
- Growth of the garments sector, particularly through FDI flows to newly developed industrial parks, is a key priority in Ethiopia's industrialisation plans.
- The labour intensiveness of the sector holds great job creation potential, particularly for women.
- Whilst an abundance of cheap, underemployed labour is available, labour market failures and significant coordination problems involved in the required rural-urban adjustment make it very difficult for factories to attract and retain workers.
- These shortcomings in the labour market are severely undermining the productivity and competitiveness of the Ethiopian garments sector.
- If Ethiopia's model of growth through industrial park development is to be a success, it is vital that more work is done to attract, upskill and retain labour at the parks.

4. PEPE and HIPSTER

HIPSTER is an intervention under DFID's flagship Ethiopian M4P programme, PEPE. The following sections set out the background to PEPE and HIPSTER, the details of the model, the results observed to date, and the key drivers of success and challenges faced.

4.1 PEPE

PEPE is a seven-year (2012-2020), multi-sector, £69 million programme set up with funding from DFID to support access to finance for small and medium sized businesses in Ethiopia, especially those owned and run by women. The programme also aims to support productivity and growth in the horticulture, leather and garments sectors in order to create jobs and increase incomes, with particular emphasis on impact for women and green growth. The programme aims to create a transformational effect by supporting Ethiopia's economic growth and ability to respond to climate change over time (DFID, 2013).

The programme is made up of four components – (a) Enterprise Partners (EP, applying M4P practices to priority sectors of garments, horticulture and leather), (b) Access to Finance (promoting financial inclusion), (c) the Ethiopian Competitiveness Facility (ECF, a challenge fund), and (d) the IFC Multi-Donor Initiative (MDI, focused on business environment reform).

Within EP, HIPSTER is one of a suite of interventions in the garments sector. The estimated cost of HIPSTER to the project (excluding leveraged funds from partners) is around £700,000 - around 1% of PEPE's £70 million total budget.

4.2 HIPSTER background

Initial garments sector scoping exercises conducted by EP revealed that a lack of access to skilled labour was severely hampering productivity and competitiveness, particularly at the nation's new industrial parks. A tendency was observed amongst international firms to believe that an abundance of cheap labour would provide a competitive edge to investors in the parks. The on-the-ground reality, however, tended to demonstrate greater difficulty in securing an adequate supply of skilled labour.

Hawassa Industrial Park (HIP) is a 1.3 million square metre development focused on textiles and apparel production. At present, the park has 18 international investors from China, the USA, India and Sri Lanka, as well as six local investors. It is estimated that 60,000 jobs will be created when the site reaches capacity. By comparison, before the park opened in 2016, the city of Hawassa employed just 45,000 people.

This intense concentration of labour demand puts great strain upon local labour markets to deliver sufficient workers with appropriate skillsets. Moreover, the distance of HIP from major urban centres means that a wide and predominantly rural catchment area is required. Many prospective workers have never lived and worked in an urban industrial environment. The

skills required for such a transition go beyond the technical skills of the garments industry to the basic 'soft skills' of industrial life.

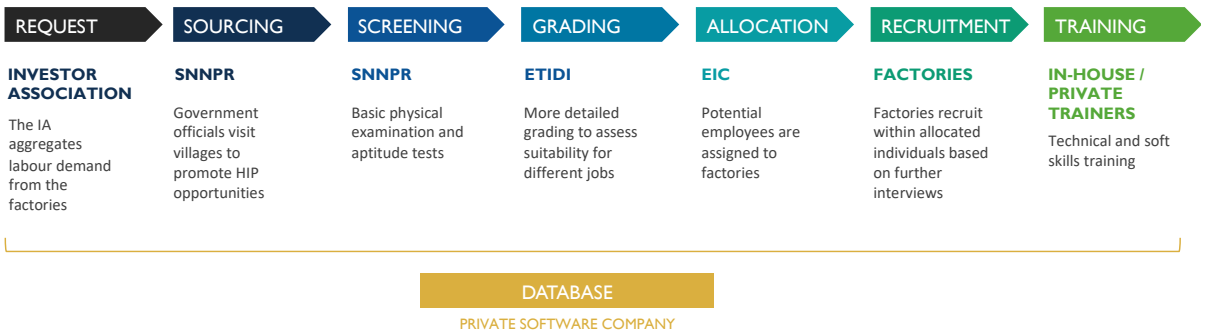
In light of these challenges, EP designed an innovative public-private partnership model, HIPSTER, to be piloted at HIP. At its core, HIPSTER acknowledges that a functioning labour market requires more than just skills delivery, particularly at the early stages of industrialisation. As such, it seeks to support a stable, dynamic system of labour supply to industrial parks, from labour sourcing, screening, grading and allocation through to recruitment, with skills development being just one element of the package.

The model takes advantage of the extensive reach and jobseeker information held by the government, whilst seeking to better align this with the needs of industry through a public-private partnership approach. Partners include local government (SNNPR), the Bureau of Trade and Industry (BoTI), the Ethiopian Investment Commission (EIC, responsible for the country's industrial parks), the Ethiopian Textiles Industry Development Institute (ETIDI), the private sector investors on the park and their representative Investors' Association (IA), and private training providers. A private software company, AhadooTec, is currently involved in developing a database and digital platform for the entire process.

4.3 The HIPSTER model

The basic outline of the model is presented in Figure 1. At the outset, factories communicate their week-by-week labour needs to the IA, which is the point of contact with a public sector-driven labour sourcing, screening, grading and allocation mechanism. This mechanism brings workers to the park from villages as far as 200km away. Those who are successfully recruited into the factories are supported with a range of training and HR support in order to enhance productivity and minimise turnover and absenteeism. Each step is discussed in more detail below.

Figure 1: The HIPSTER model



4.3.1 Labour request

The labour requirements of the factories on the park are routinely provided to the IA, which is made up of representatives from the various investors. The IA was established at the outset

of the park as a channel through which common concerns of investors could be voiced to the government or other relevant stakeholders. Amongst its other duties, the IA aggregates labour demand information and provides it to the government via the EIC.

4.3.2 Sourcing

Local government officials from the SNNPR make twice-weekly visits to villages in order to inform villagers of job opportunities at HIP. These activities are carried out from 50 sourcing centres across seven catchment areas. The local BoTI also promotes job opportunities using posters and loudspeaker announcements in the villages.

Government registers of job seekers are formally updated twice a year and passed on to the BoTI for screening purposes.

Whilst the government apparatus for jobseeker outreach and labour sourcing was already in place before the programme, HIPSTER has helped to focus this service on the needs of investors at HIP, and to leverage the capacity and knowledge of the regional government.

4.3.3 Screening

Screening is carried out by the local BoTI office within the SNNPR, involving a basic physical examination and aptitude test. Candidates are also provided with additional information about the nature and requirements of industrial park work, including conditions and pay. Screening is carried out at 28 centres across the catchment areas, with bus transport provided to potential applicants. Candidates are informed as to the use of their personal data and required to sign consent forms at the screening stage.

Suitable candidates are then passed on to the ETIDI for more in-depth grading.

4.3.4 Grading

Candidates who pass the screening process undergo a more in-depth grading assessment carried out by ETIDI at the test centre in Hawassa, with travel from the villages being provided by BoTI. At this stage, a series of technical assessments are made based upon internationally recognised grading standards for the textile industry. Grading standards were decided upon jointly at the outset between ETIDI and PVH, a leading international apparel company for whom many of the early tenants at HIP were suppliers.

Candidates are then sorted into one of three categories – (a) sewing, (b) quality control, packaging or cutting, and (c) other (including ironing, bundling and transportation). The results are passed on to the labour unit of the EIC for allocation to the factories.

4.3.5 Allocation

The EIC's labour unit oversees the allocation of prospective workers to factories based upon the labour requests posted by the factories via the IA one the one hand, and the grading of workers provided by ETIDI on the other. Allocation is on a first-come, first-served basis within

the park – labour is allocated where it is needed, rather than jobseekers having a choice of specific factories.

4.3.6 Recruitment

Individual factories process their allocated applicants accordingly and make a decision as to whether or not to recruit individuals. If candidates are rejected, the EIC is informed, at which point they may be reallocated to other factories.

4.3.7 Training

During the scoping phase of HIPSTER, it was decided that technical training was best carried out in-house by the companies, most of which are international firms with extensive technical expertise. On-the-job technical training would be funded by the factories themselves. Upon recruitment, workers are provided with on-the-job technical training on various factory roles. For most workers recruited from nearby rural areas, this is their first exposure to technical skills development for the manufacturing sector.

The value addition that EP could bring was believed to be in the 'soft skill' training required to sensitise workers to factory jobs, particularly as most had little to no experience of urban life and formal employment. Early skills needs assessments carried out by EP revealed this to be a particular constraint that the investors were not well-equipped to address. As such, in the earlier iterations of HIPSTER, training focused upon skills such as timekeeping, discipline, workplace safety and hygiene. The training was delivered by local private service providers contracted and fully funded by EP. At present, the soft skills training is undergoing a redesign following industry feedback (see the results section below).

4.3.8 Digital platform

In order to increase the efficiency and scalability of the above process, private software developer AhadooTec have been commissioned by EP to develop a digital labour market information system (LMIS) that captures jobseeker information in a single database. By doing so, it enhances the rigour of data collection and management, and allows for a more impartial, transparent and detailed system linking jobseekers to employers. Information on candidate skills, prior experience and qualifications can all be stored within the database. The platform is owned and operated by the labour unit of the EIC.

Box 1: Complementary interventions

HIPSTER is one element in a suite of interventions aimed at improving the labour market within the garments sector. Parallel interventions by EP are seeking to establish and build capacity in HR units within the industrial parks and factories, to provide gender-oriented support particularly for women in the workplace, and coordination on other labour related issues such as housing, transport and minimum wages.

Plans for HR capacity building include a HR needs assessment to be carried out by international experts, the development of standardised HR manuals for industrial parks and worker handbooks, the establishment of a centralised Human Resource Centre to support individual factory HR departments, and a centralised Counselling Centre to ensure worker access to a range of HR services.

Whilst some international investors brought a degree of HR expertise to the parks, the support provided through EP seeks to contextualise this in the Ethiopian setting, whilst also building capacity of domestic investors with less experience in HR services.

4.4 Results to date

A selection of headline indicators from the HIPSTER intervention to date are presented in Table 1, below.[3]

Table 1: Selected HIPSTER results to date

Indicator	Latest result (February 2019)
Screening centres established	25
Grading centres established	1
Jobseekers sourced	67,797
Jobseekers screened and graded	36,070
Jobseekers recruited and trained	7,260
% of recruits who are women	97.7%
Users registered on AhadooTec platform	24,341 *85% female*

The most promising results emerging from the model can be summarised as follows:

- **Large numbers of workers have quickly been sourced, recruited and trained in a challenging environment** – Over 7,000 workers – predominantly women – have been recruited and provided with a combination of technical and soft skills training in just two

[3] A recent midterm review of EP (Palladium, 2018) questioned the extent to which these job creation figures could be attributed to EP, arguing that elements of the model – i.e. labour sourcing by regional government, recruitment efforts by factories, soft skill training – would have occurred in one form or another in the absence of EP. These views are contested by the programme. Whilst these arguments have been noted, a detailed examination of quantitative attribution to different actors is beyond the scope of this paper. Instead, the focus remains on the lessons that can be learned from the overall model.

years of operation. For many, this has been their first opportunity to enter the manufacturing sector and develop valuable new skills.

Key informants praised the way that EP have facilitated a model that helps to tackle the severe coordination issues of rapid employment scale-up in a largely rural environment. Factories at HIP noted that whilst they are still do not have the labour required to operate at full capacity, their productivity levels would have been far lower without the HIPSTER model. Further work is needed to evaluate the actual productivity impact – this has not been covered by EP to date, but will be a priority for monitoring and evaluation going forwards.

- **The digital database being developed by AhadooTec is a transparent, efficient and scalable LMIS with strong government buy-in** – Key informants spoke highly of the digital platform, which already has some 26,000 subscribers. Factories noted that it is a big improvement over previously used manual approaches, helping to reduce search costs, improving transparency and compliance, and allowing for richer and more efficient information sharing. Through the LMIS, specific details of jobseekers' skill and expertise levels can be recorded, allowing for more selective, efficient and competitive recruitment.

  The Ethiopian government is now proposing the model as a basis for future industrial parks, including sectors beyond the garment sector, whilst a major Chinese investor intends to adopt the model at a private industrial park near Addis Ababa.

- **Soft skills training has helped with the rural-urban transition for many workers, although a viable commercial model for this service has yet to be developed** – Key informants noted the crucial importance of soft skills training in helping jobseekers to transition from the informal rural economy to a formal industrial setting. Initially, HIPSTER contracted private providers to deliver a one-week induction course which, whilst well-received, has proved difficult to make affordable given the cost of the service providers.

  Instead, factories have voiced a preference for more flexible, modular, ongoing training with stronger audio-visual elements, and a preference for in-house delivery. In light of this, EP is now shifting its attention to helping investors to improve the relevance of their own training material for the Ethiopian context, whilst complementary interventions continue to support the development of in-house HR capacity. It is intended that this approach, more tailored to the needs of industry, will serve as a sustainable solution.

At present there is little evidence of the impact of the model on overall productivity and competitiveness or investment in the garments sector. These higher-level impacts will increasingly be the focus of EP's in-house monitoring and evaluation team, as well as the endline evaluation of PEPE.

4.5 Drivers of success

The successes outlined above can largely be attributed to the following:

- **Early identification of labour and skills as key constraints to industrial park development** – The challenges of delivering large numbers of appropriately skilled labour to HIP were identified early on in the development of the park, and HIPSTER has supported these functions since the first investments of early tenants. Subsequent FDI in park has come with the understanding that a labour sourcing model was already in place.
- **A nimble, innovative approach to the development of the model** – Whilst lengthy planning phases and rigid implementation can often be a hallmark of donor programming, stakeholders commended EP's willingness to move quickly and repeatedly iterate the model according to the circumstances and lessons learned. The approach to soft skills provision is a good example – having trialled an approach with third party providers, the lack of private sector willingness to pay has led EP to remodel the curriculum and move towards a lighter-touch approach, coupled with capacity building to in-house HR departments.
- **Patient facilitation of a public-private partnership, leveraging the relative strengths of respective actors** – Stakeholders reported that whilst elements of the model did already exist in some form (i.e. local government labour sourcing), EP served a vital role in brokering relations between public and private actors, and ensuring that the process as a whole functioned in a way that much better serves the needs of industry. Missing support services such as the digital platform and soft skills training provision were identified and incorporated, whilst the strengths of existing actors were recognised and leveraged (i.e. relying on local government outreach for sourcing and relying on industry for in-house technical training). Questions remain, however, as to who will play this coordinating role in future (see the Scale and Sustainability section, below).
- **Context-relevant skills targeting** – Ethiopia's industrialisation strategy relies upon a major rural-urban population shift, requiring individuals not only to develop new technical skills, but to adapt to an entirely different way of working life. EP identified this soft skills gap as a key area where support is needed, particularly when dealing with foreign investors unfamiliar with the Ethiopian social and cultural context.

4.6 Challenges faced

However, in some areas, challenges remain:

- **A lack of selectiveness in the sourcing, screening and grading process leads to variable quality of candidates being allocated to factories, and subsequent retention problems** – In practice, the screening process eliminates very few candidates (typically those who are underage or physically unable to work), whilst the grading

process sorts candidates into the aforementioned categories with few rejections. For allocation purposes, the EIC only receives the headline candidate categorisation, rather than any detailed information on the aptitude of the candidate, before allocating jobseekers to factories.

As such, very few candidates are filtered out prior to arriving at the factories. It is not uncommon for jobseekers to then either be rejected at the interview stage, or to leave the job soon after recruitment having not met the desired standards. Whilst monthly labour turnover fell from around 6.5% to around 4.5% during 2018, it remains a drain on productivity. By comparison, whilst these monthly figures suggest annual turnover rates of over 50% at HIP, a 2014 EY labour market survey found that seven out of ten firms in Sub-Saharan Africa report annual labour turnover rates of less than 5%, whilst just 4% of firms report annual turnovers over 20% (EY, 2014).

As noted above, the LMIS could potentially improve this situation significantly, by allowing for more detailed and efficient information sharing along the chain.

Stakeholders also suggested that any future business model for HIPSTER should give careful thought to incentivising retention on behalf of providers of the sourcing, screening and grading process, rather than simply jobseeker mobilisation and recruitment. At present, payments to SNNPR/BoTI, ETIDI and AhadooTec are per individual screened, graded and registered respectively, with no formal incentives related to the quality of job candidate or labour retention. Retention-related payments should in theory incentivise more selective filtering of applicants and a higher quality supply of candidates.

- **The rural-urban shift also proves a major challenge for labour retention** – Despite the investments in soft skill training to date, a more concerted effort will be required in order to help people adjust to urban industrial life. Key informants noted that many candidates had not been given realistic expectations of factory life at the screening stage. Improved information campaigns in the villages combined with ongoing soft skill training and support to HR systems (see Box 1) could help to improve this situation.
- **The ETIDI grading system is a bottleneck, and in some cases their efforts are duplicated by the factories** – As well as the grading quality issues outlined above, many factories (particularly international investors) conduct their own in-house grading assessments, leading to a duplication of effort. Moreover, ETIDI's capacity to process candidates is limited – at present, just ten employees are responsible for the entire grading process, based in a single test centre in Hawassa. A long-run solution may involve the grading process increasingly taking place in-house, guided by the expertise of industry, rather than being an additional public sector step in the process.
- **Constraining recruitment to one model can lead to bureaucratic inefficiencies** – EP are investigating ways in which direct private sector recruitment channels could be added to the model so as not to rely solely on a public sector labour sourcing base. For

example, whilst the labour sourcing process reaches as far away as 200km from Hawassa within the SNNPR region, the border with the neighbouring Oromia region is just a few kilometres away from the site. However, recruitment efforts do not currently extend to nearby Oromia towns, as they are beyond the reach of the SNNPR administration.

4.7 Scale and sustainability

Further development of the HIPSTER model in order to promote scale and sustainability will be a primary focus in 2019. Whilst strong partner buy-in to elements of the model are already helping to scale up the approach, questions remain over how it will be financed in the long run.

4.7.1 Scale

In one of the most promising signs for scaling potential, whilst acknowledging that aspects of the model need further work, the Government of Ethiopia has mandated that all future industrial parks broadly adopt the HIPSTER approach. This is expected to reach as many as 30 industrial parks by 2025.

To date, the model has been extended to Mekelle and Kombolcha Industrial Parks, with varying degrees of success. In addition, a private industrial park owned by Chinese investors has approached AhadooTec with a request that the model be brought to their own operation.

An early learning from attempted rollout of the model elsewhere in the country is the fundamental importance of local government capacity. Adoption in Mekelle, capital of the Tigray region with relatively well-resourced local authorities, has showed promising signs. At the same time, the process has encountered more difficulties in Kombolcha, a smaller town in rural Amhara with fewer resources at its disposal. Further work will be required to tailor the model to the specific circumstances of each park.

Related to this, in considering the potential for scale and replication outside of Ethiopia, it is notable that the HIPSTER model has successfully leveraged the relatively extensive Ethiopian government apparatus present in rural areas, having recognised that labour sourcing at such a scale is not a cost-effective role for the private sector to play. Implementing a similar approach may be difficult in countries with a less statist administration.

As the programme progresses, EP will continue to play a facilitation role at sites beyond HIP, communicating the benefits of the model and supporting rollout in new areas of the country. However, given the centrality of the role that EP has played in facilitating the model and brokering agreements between multiple stakeholders, there are questions as to who will play this role in future. If a commercially sustainable model can be secured at HIP (see below), the EIC may be able to take the lead on implementing the model elsewhere. However, until such a model can be proven, there may be a case for continued donor facilitation and iteration of commercial models.

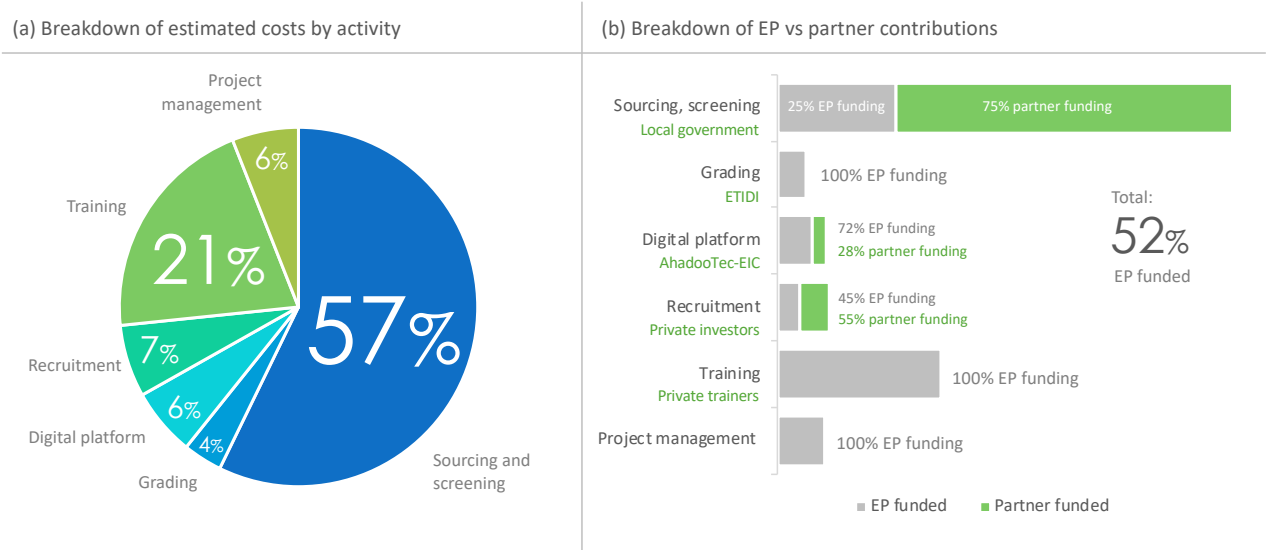
4.7.2 Sustainability

More work is needed to arrive at a cost-sharing solution to prove the future financial viability of the model. At present, it is estimated that EP (i.e. donor subsidy) covers just over half of the total cost of HIPSTER (Figure 2).

Sourcing and screening are the most expensive components by far, making up 57% of total costs. However, since local government already has a budget allocation for this, it covers three quarters of this cost, making them the largest single contributing partner. Similarly, EIC has a budget allocation relating to ensuring skilled labour supply at the industrial parks, whilst the private sector and AhadooTec have also contributed resources.

The two areas that are wholly EP-subsidised (other than management overheads) and pose the greatest challenge for commercial sustainability are the grading process, carried out by ETIDI, and the soft skills training. As noted above, a number of industrial partners have voiced concerns over the quality of the grading process and the value addition of ETIDI, whilst the soft skills training model is being reconsidered in order to incorporate industry feedback.

Figure 2: HIPSTER cost breakdown



Discussions with key informants revealed a degree of optimism in being able to arrive at a cost-sharing model whereby grading and soft skills training are increasingly carried out in-house by firms, whilst a combination of public and private funding covers the cost of the sourcing, screening, allocation and recruitment based on the digital platform.

For a successful cost-sharing solution to be developed, however, it is vital that industry sees ongoing value in the model in terms of its impact on firm productivity and profitability. At present, private sector partners have reservations about the model's ability to be selective enough in filtering job candidates at the screening and grading process (thereby reducing the burden of in-house labour grading), and in being able to provide sufficient labour (with high

retention rates) for their current needs. A scaled-up LMIS may help to solve some of these issues and enhance the value proposition to industry. With regards to soft skills, a limited willingness to pay for the original third-party providers has been recognised and the approach is being reconsidered.

Box 2: A holistic approach to skilled labour market development

HIPSTER's greatest success to date has been in overcoming significant coordination challenges in order to supply large numbers of workers to the new factories. However, the long-term success of the model will require ongoing improvements in labour quality and retention, driven by improvements in both technical and soft skills within the workforce.

EP's holistic view of skilled labour market development seeks to address these issues. Having laid the foundations of the model, it will now increasingly focus on improving productivity through skills development with greater involvement of private sector employers in labour market decisions. The digital platform provides an opportunity for more detailed information on jobseekers' skills to be recorded and shared, allowing employers to be more selective, making labour markets more competitive.

Key points

- The HIPSTER model seeks to correct market, coordination and information failures within regional labour markets in order to increase the supply and upskilling of labour to garments factories operating in Ethiopia's new industrial parks.
- The model takes a PPP approach, leveraging the government's extensive network and data on the rural labour force to mobilise large numbers of jobseekers and match them to garment factories. Once recruited, employees benefit from international standards for on-the-job technical training.
- Additional elements of the model include soft skills training in order to ease the adjustment from rural to urban life, and a digital Labour Market Information System to improve information sharing and transparency.
- The model has led to the recruitment and training of around 7,000 workers (predominantly women) in just two years, and the government has announced that it will be rolled out to all future industrial parks.
- However, further adjustment of the model is required to reduce labour turnover, as well as to develop a public-private cost-sharing model that ensures the sustainability of the adjusted model independent of donor funding.

5. Conclusions and Recommendations

5.1 Conclusions

SEZs can serve as useful models for the promotion of FDI, exports and GDP growth. However, their success depends in part upon securing a reliable supply of appropriately skilled labour. In predominantly rural, under-developed labour markets, this can be extremely challenging, even for low-skilled manufacturing jobs.

HIPSTER takes an innovative PPP approach to tackling market failures in regional labour markets, seeking to increase the supply of skilled labour to garments factories in Ethiopia's industrial parks.

The attractiveness of the model lies in leveraging the relative strengths of (a) central, regional and local government in mobilising jobseekers across remote rural areas, and (b) international garments manufacturers in providing world-class on-the-job technical training. These two core elements are brought together in a process of labour sourcing, screening, grading, allocation, recruitment and training, involving multiple public and private actors.

The implementing partner has successfully begun to mobilise soft skills training and HR service support to facilitate the rural-urban shift undertaken by large numbers of workers; while a digital Labour Market Information System is being rolled out to enhance information sharing, transparency and efficiency, and enable nationwide scaling.

The design and operation of HIPSTER recognises that labour market interventions are not solely about technical skills delivery; instead HIPSTER seeks to build a stable yet dynamic labour market with a range of integrated support services in the challenging environment of a newly industrialising geography. These support functions seek to ensure that skills for competitiveness are not just developed but are also retained in the long-term.

Industrial partners have been broadly happy with the model's ability to deliver large numbers of workers in a short space of time. However, more effort will be required to improve the model's ability to supply high quality labour and improve retention rates in a financially sustainable way. In particular, improvements to the screening and grading processes are needed in order to allow employers to be more selective in their recruitment, and thereby to reduce rejection rates and labour turnover. It may be the case that the grading function in particular increasingly becomes an in-house private sector function, with the role of government limited to sourcing, screening and maintenance of the LMIS.

At the same time, whilst it seems clear that HIPSTER has mobilised more workers than would otherwise have been possible, factories are operating significantly below capacity. An increase in the scale of labour supply will be required for factories to reach their competitive and productive potential.

Whilst it is recognised that adjustments to the model are still required, particularly relating to screening and grading, the Ethiopian government has endorsed the model as a general

blueprint for labour recruitment and training in all future industrial parks, which in turn are a central pillar of the country's industrialisation strategy.

Finally, whilst there are some promising signs of a potential commercial future for the model, more work needs to be done to fine-tune it and seek agreement from all partners on a lasting public-private cost-sharing model.

This evidence and learning note set out to investigate the lessons that could be learned from HIPSTER for wider skills for competitiveness programming, particularly in the context of industrial park development. HIPSTER demonstrates that where governments have strong geographic outreach and labour market information, there can be a useful role for them in the sourcing and screening of labour. This may be particularly important when attracting labour from wide catchment areas to highly concentrated industrial centres, particularly at the early stages of industrialisation. More advanced grading and technical training is best left to industry, particularly when highly experienced FDI is involved. Skills programming can help to overcome coordination failures by facilitating a productive relationship between these actors. Thought should also be given to building the capacity of local partners to take over this coordination role during scale-up of successful models. Digital platforms such as the LMIS described here can further help to strengthen the relationship through improved information sharing and transparency.

5.2 Recommendations

Drawing on the lessons learned from the HIPSTER model, the following recommendations can be made for broader programming elsewhere:

- Skills development should be considered as one supporting function among many in the wider context of the development of dynamic and competitive labour markets, and in particular for the development of concentrated labour markets around industrial parks.
- The problem of underinvestment in skills development by firms and individuals can be approached using public-private partnership models whereby service offerings are tailored to the needs of industry, enabling the development of innovative cost-sharing arrangements. Donors can play a useful role in bringing the relevant actors together and facilitating relationships. Thought should also be given to building the capacity of local partners in taking over this coordinating role for the scale up of successful models.
- Skills for competitiveness programming should be nimble, innovative and responsive to context-specific feedback from industry.
- The importance of soft skills should not be underestimated, particularly during the early stages of industrialisation where the workforce is undergoing a challenging rural-urban shift.

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