Business Environment Reform Facility

Skills for Competitiveness – Synthesis of Evidence Report

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BERF Business Environment Reform Facility

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About Business Environment Reform Facility (BERF)

BERF is funded by the UK Department For International Development (DFID) under the Business Environment for Economic Development (BEED) Programme. BERF is a central facility responding to demand from the DFID's priority Country Offices and stakeholders to initiate, improve and scale up business environment reform programmes. BERF is managed by a consortium led by KPMG LLP. The programme started in January 2016 and will finish in March 2019.

We provide expert advice, analysis of lessons learned, policy research about what works and what doesn't and develop innovative new approaches to involving businesses and consumers in investment climate reform.

BERF has a strong emphasis on strengthening the Business Environment for women and girls, as well as for young adults more generally. It is also aiming to improve the relationship between business and the physical environment including where relevant through linkage to climate change analysis. BERF recognizes the need for appropriate political economy analysis in order to underpin business environment reform processes and interventions.

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.

The views contained in this report are those of the author and do not necessarily represent the views of KPMG LLP, any other BERF consortium member or DFID.

This is a working paper shared for discussion purposes only. No reliance should be placed upon this report.

Acronyms and Abbreviations

BERF	Business Environment Reform Facility
BMO	Business Membership Organisation
DFID	Department for International Development (UK)
EIC	Ethiopian Investment Commission
ETIDI	Ethiopian Textiles Industry Development Institute
FDI	Foreign Direct Investment
GoPb	Government of the Punjab
HIP	Hawassa Industrial Park
HIPSTER	Hawassa Industrial Park Sourcing and Training Employees in the Region
LMIS	Labour Market Information System
M4P	Making Markets Work for the Poor
OECD	Organisation for Economic Co-operation and Development
PEPE	Private Enterprise Programme Ethiopia
PPP	Public-Private Partnership
PSDF	Punjab Skills Development Fund
SDP	Skills Development Programme
SFC	Skills for competitiveness
SEZ	Special Economic Zone
SITA	Supporting Indian Trade and Investment for Africa
SNNPR	Southern Nations, Nationalities and Peoples' Region
TSP	Training Service Provider
TVET	Technical and Vocational Education and Training

Contents

Executive Summary

Three recent BERF Evidence and Learning Notes have examined the approach to skills for competitiveness programming taken by three DFID-supported programmes – Private Enterprise Programme Ethiopia (PEPE), Supporting Indian Trade and Investment for Africa (SITA) and the Punjab Skills Development Fund (PSDF, Pakistan). This Synthesis Paper draws together the key findings from each, before making recommendations for future SFC programming.

Skills for competitiveness

Well-targeted skills development policies are the key to developing and maintaining a competitive edge in an increasingly globalized economy. Public good elements justify a degree of subsidy for skills, but meaningful private sector engagement with skills policy is essential to ensure quality and relevance. Women and young people are vulnerable and underserved in the skills market globally but are also a source of great potential for the development of skills for competitiveness at scale.

At the early stages of growth and industrialisation, skills shortages can be one of many business environment challenges faced. Whilst important, they are often not perceived as the primary challenge – access to finance, materials, electricity, corruption and bureaucracy may take precedence from the perspective of industry. As such, it may be helpful to consider skills programming as embedded in this broader landscape. However, at later stages of development, improvements in other basic services whilst the economy becomes more complex may see skills rise in importance in order to maintain a competitive edge[1].

Innovations in skills delivery models

PEPE, PSDF and SITA have demonstrated various promising models, including third-party off-site training, on-the-job training, internships and value chain approaches, all of which are characterised by significant levels of private sector engagement and resource contribution. Cost-sharing and public-private partnership models recognise that whilst ongoing subsidy is likely to be required, greater industry engagement is possible than is found in traditional, government-led initiatives.

Successful PPP models play to the relevant strengths of the various actors involved, conduct patient coordinating roles in building trust and facilitating new relationships, and are nimble and responsive to feedback.

[1] N.B.This is an economic transformation agenda which DFID and the World Bank Group (WBG) are keen to explore as it dovetails with both organisations' assistance and investments in helping developing economies transform. As countries transform, skills will become a higher order issue. The WBG in particular, is very interested in this subject because they work in middle income as well as low income countries.

Ensuring inclusivity

Traditionally marginalised groups, including women, youth and the poor, can be specifically targeted with bespoke programmes. Reducing barriers to entry (i.e. removing the need for formal education attainment levels) can also help to increase inclusivity.

Achieving scale and sustainability

Government buy-in is often critical for achieving scale, even for initiatives with a strong private sector focus. The early successes of some of the models presented here have led to rapid scale-up, with training numbers correspondingly exceeding expectations. However, questions remain around the future financial sustainability of most of the models, with some legitimate concerns that, without a clear sustainability plan, initiatives risks being subsumed within government and losing their private sector ethos.

Recommendations for future SFC programming

The following recommendations arise from the synthesis for future SFC policy and associated donor programming:

- Close consultation with industry is essential in tailoring programming to private sector needs.
- Whilst an element of subsidy may be required, efforts should be undertaken to secure private sector investment in skills development via PPPs and/or cost-sharing agreements. Doing so not only reduces the burden on public finances but also helps to ensure that skills programming is demand-driven, is tailored to the needs of industry and secures active private sector commitment.
- Skills policy and donor programming should be nimble, innovative and responsive to industry feedback.
- Skills programmes should be mindful of the complex systems within which they operate; skills provision is one of many important functions required for a dynamic labour market, particularly at the early stages of development.
- Skills needs assessments should consider both the technical skills required for existing jobs, as well as soft skills required in the workplace, and potential future or transferable skills required for ongoing growth and competitiveness.
- Bespoke programming may be required to ensure that women are not excluded.

Areas for further research

Whilst the various approaches adopted by PEPE, SITA and PSDF provide useful insights into the potential for greater private sector involvement in SFC programming, there remains a lack of robust evidence on (a) long-term models for financial sustainability and (b) impacts on productivity and competitiveness of alternative models. Future research should seek to explore these issues further.

1. Introduction

Three recent BERF Evidence and Learning Notes have presented lessons learned from skills for competitiveness (SFC) programming on UK Department for International Development (DFID) programmes across Africa and South Asia:

- **Supporting Indian Trade and Investment for Africa (SITA)** (Ethiopia, Kenya, Rwanda, Uganda, Tanzania, India)

  SITA is a six-year private sector development programme aimed at increasing Indian investment into East Africa and African exports to India. Within SITA, a number of skills-oriented interventions have been implemented in various sectors.

- **Private Enterprise Programme Ethiopia (PEPE)** (Ethiopia)

  PEPE is an M4P programme focusing on developing the priority sectors of horticulture, leather and garments as well as access to finance in Ethiopia. Within PEPE, the Hawassa Industrial Park Sourcing and Training Employees in the Region (HIPSTER) intervention seeks to increase the supply and training of labour to Hawassa Industrial Park (HIP).

- **Punjab Skills Development Fund (PSDF)** (Pakistan)

  PSDF is a dedicated skills initiative in Pakistan supported by DFID through their Punjab Skills Development Programme (SDP), seeking to stimulate the market for private sector skills provision.

This latest Evidence and Learning Note serves as a synthesis piece for the findings from the aforementioned studies, with a focus on what works, what does not work, and why, particularly with a view to stimulating greater private sector involvement in SFC programming.

The findings and recommendations of this synthesis piece are aimed at both national governments (particularly government ministries with a skills remit) and development partners seeking to support skills development in order to enhance productivity, competitiveness, trade and investment.

The note is structured as follows – Section 2 outlines the literature on skills for competitiveness and a conceptual framework for the present Note; Section 3 provides more detail on each of the three DFID programmes and their approaches to SFC; Section 4 draws the findings together into a series of common conclusions and recommendations for SFC programming.

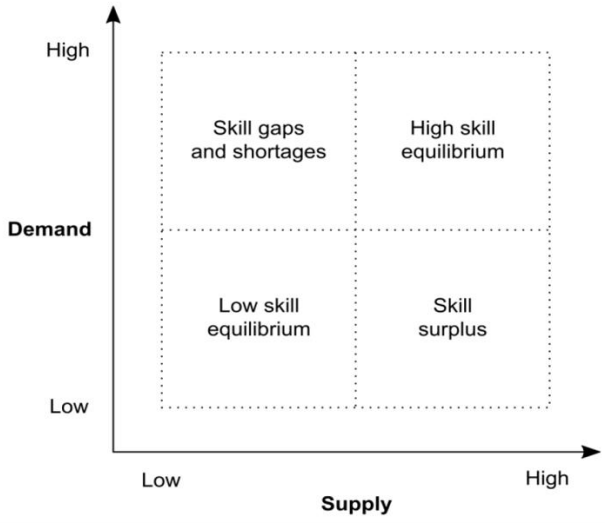
2. Skills for Competitiveness

The following sets out a summary of current thinking on skills for competitiveness, before presenting an outline of the specific contexts of the underlying countries studied for this report.

2.1 Conceptual framework

"Skills for competitiveness" is 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] The OECD adopts a conceptual framework for skills development as set out in Figure 1.

Figure 1: OECD skills market model[3]



This framework allows for useful distinctions between static and dynamic labour market models. Whilst a "skills gap" is understood to be a shortage of skilled labour compared to what is required by businesses operating today, forward-thinking skills programming may also seek to develop skills that will attract new businesses to the market in the future, thereby moving the economy towards a 'high-skill equilibrium' (Green, 2012). However, in the latter case, availability of skilled labour is not the only factor required – if other aspects of the business environment are not conducive to growth and investment, a "skills surplus" may arise whereby skilled labour begins to leave in search of employment elsewhere (the "brain drain" effect)[4].

[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.
[3] Based on Green *et al.* (2003), Froy *et al*. (2009), and Froy *et al*. (2012).
[4] A summary table highlighting the countries that are DFID's focus is available in Section 3, page 8.

2.2 Skills for competitiveness in developing countries

2.2.1 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).

2.2.2 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 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).

2.2.3 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 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 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.

2.2.4 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.

Key points

- Well-targeted skills development policies are important to developing and maintaining a competitive edge in an increasingly globalised economy.
- Public good elements justify a degree of subsidy for skills, but meaningful private sector engagement with skills policy is essential to ensure quality and relevance.
- Women and young people tend to be vulnerable and underserved in the skills market, but are also a source of great potential for the development of skills for competitiveness at scale.

3. Examples of SFC Programming

Table 1 provides a brief overview of the underlying programmes that informed this synthesis report. Further details of each programme are available in Appendix 2.

Table 1: Summary of SFC programmes reviewed

	PEPE (Ethiopia)	PSDF (Pakistan)	SITA (East Africa)
Challenges faced	Shortage of labour for new industrial parks (particularly in the garment industry); lack of soft skills in support of rural-urban transition.	Public sector skills programming not aligned with industry needs; competitiveness being eroded due to lack of skilled labour.	Lack of various skills undermining competitiveness and trade. Skills of note range from traditional, job-specific technical skills in agriculture and manufacturing, to transferable personal skills like IT literacy and job-hunting.
Innovation	Public private partnership with government-led labour sourcing, screening and grading, and private sector-led training and labour market information system (LMIS).	Competitive grant funding for training service providers in priority sectors and geographies. Focus on skills for women, youth and the poor.	Various interventions embedded in wider business environment programming, including internships, training programmes, and value chain knowledge transfer.
Results to date	68,000 jobseekers sourced, 36,000 screened and graded, 7,000 recruited and trained. 24,000 registered in the LMIS (85% of which are women). Issues remain around labour quality and retention.	250,000 individuals trained, 41% of whom are women and 80% aged 18-29. Positive anecdotal evidence from training providers, but more research needed to assess their willingness to invest in further service provision. Willingness to pay is likely to be higher with TSPs who are themselves employers with an ability to retain graduates.	Limited overall evidence due to spread of skills interventions across multiple other interventions. Peer-to-peer value chain learning has proven popular vs. traditional classroom learning. Positive feedback also from internship models.
Scale and sustainability	Strong government buy-in is driving the roll-out of the model to industrial parks around the country. However, more work is needed on securing a commercially sustainable model independent of donor subsidy.	Currently piloting a cost-sharing model to encourage more private sector contribution. Further public subsidy will be required to some degree in the near future. Key challenge is maintaining the Fund's autonomy and private sector ethos during this time.	Sustainability prospects are strongest in value chain models where skills providers have a vested business interest. Internships are relatively expensive and narrow in reach, but improved internship practices and norms could see greater private sector investment.

For context, Table 2 summarises the economic development levels of the focus countries of this report in terms of (a) the World Bank's Ease of Doing Business index and (b) income level group. DFID typically focuses on low income countries, although Pakistan and Kenya are both currently classed as lower middle-income countries. Ease of Doing Business varies significantly, from as high as 29th in the case of Rwanda to 159th in the case of Ethiopia (out

of 190 countries). Even within this sample of countries, therefore, there is likely to be significant variation in the nature of skills for competitiveness challenges faced.

Table 2: Country context – income and Ease of Doing Business

Country	World Bank Ease of Doing Business rank (2018)[5]	World Bank country income group (2019)[6]
Pakistan (PSDF)	136	Lower middle
Ethiopia (PEPE/SITA)	159	Low
Kenya (SITA)	61	Lower middle
Rwanda (SITA)	29	Low
Uganda (SITA)	127	Low
Tanzania (SITA)	144	Low

[5] Available at: http://www.doingbusiness.org/en/rankings

[6] Available at: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519

4. Synthesis of Findings

The following section provides a synthesis of experience across the three programmes in terms of:

- Their operational context and the skills for competitiveness challenges they seek to address;
- Their experience in engaging the private sector and key aspects of their engagement models which our studies suggest are correlated with success;
- Emergent results to-date in terms of skills delivery, inclusivity, productivity, competitiveness and prospects to achieve scale and sustainability.

4.1 Skills for competitiveness context

All countries considered suffer from a degree of the market failures described in Section 2 relating to skills for competitiveness.

Across East Africa, SITA has encountered a lack of skills alignment with the needs of industry due to coordination problems between the public and private sector. The resultant skills gaps ranged from more traditional, job-specific skills (such as workers in garment factories) to more transferable, individual-specific skills (such as job seeking and social and digital media skills). However, initial research also found that whilst employers frequently cite a lack of access to skills as a significant constraint, it tends to be one among many, and rarely the highest priority. As such, SITA's skills programming was embedded in wider business environment support, and tailored to a range of unique circumstances.

Whilst SITA noted that insufficient skills are often one of many serious business environment constraints in East Africa, Pakistan is an example of a growing economy where skills are an increasingly binding constraint as incomes rise. Compared to its lower-middle-income and South Asian peers, Pakistan has performed poorly in terms of human capital development in recent years. Women in particular are severely excluded from the labour market. Public sector TVET programmes have a poor reputation in the private sector, historically producing relatively low numbers of graduates trained to inadequate standards.

In Ethiopia, the centrality of industrial parks to national development strategy (modelled on the successes of Asian Special Economic Zones) places great strains on local labour markets to make the transition from a predominantly informal rural economy to a formal industrial setting. Industrial parks seeking to attract FDI require high concentrations of labour, often in geographies with little history of manufacturing and associated skills. Globally, comparative evidence on SEZs in Asia and Africa suggest that supporting functions and embeddedness in the local economy – including the quality and depth of the labour market – are more important determinants of success than the specific incentives most commonly associated with SEZs, such as tax breaks and reduced regulatory barriers. In Ethiopia, many investors moving to the new parks had expectations of an abundance of cheap labour, and underestimated the skills

gaps in place – particularly basic soft skills such as timekeeping, hygiene and teamworking that are required for an industrial setting.

Key points: Context

- All countries considered featured constraints to competitiveness and growth due at least in part to significant skills gaps and a history of poor public sector skills provision.
- In less developed East African economies, skills gaps tend to be one among many business environment constraints. Pakistan is an example of a more advanced economy where the lack of access to skilled labour is an increasingly binding constraint relative to its peers in the region.
- SEZs such as Ethiopia's industrial parks pose a unique challenge for local labour markets, requiring a high concentration of appropriately skilled labour in contexts with little history of manufacturing and associated skills.
- Women in particular are often underserved by skills markets, particularly in deeply unequal societies such as Pakistan.

4.2 What works and why in engaging the private sector in SFC delivery

The three programmes discussed here have adopted a variety of models in seeking to enhance skills for competitiveness, including formal training courses provided by third party training service providers (TSPs), on-the-job industry-led training, internships and value chain knowledge transfer. Notably, **all three seek to enhance the role of the private sector in skills provision, in order to share the cost burden and enhance the relevance of skills delivery to industry needs**.

Box 1 – SITA: Apparel training through a Business Membership Organisation (BMO) apex body

SITA took advantage of a well-organised pre-existing BMO, the Kenya Association of Manufacturers, in order to support the delivery of training in the apparel sector. A new apex body was established within the BMO, funded out of existing membership fees, which supported the development of a sector roadmap and skills gap analysis. Based upon this analysis, the apex body was able to design a training programme for apparel workers.

However, whilst serving as an effective model for private sector engagement, the success of the intervention was largely dependent on the institutional strength (and available finances) of the existing BMO. Such institutions are not common in East Africa, although this may suggest a case for further donor-led institutional capacity building as an indirect route to private sector-led skills development.

In all cases, a degree of private sector contribution has been achieved, be it cash or in-kind (see Box 1 on training through a BMO with SITA, and Box 3 on cost-sharing arrangements

under PSDF). **However, whilst the PPP used under PEPE's HIPSTER intervention and PSDF's cost sharing pilot demonstrate a degree of willingness to pay on behalf of industry, it is clear that in many cases a degree of public subsidy will also continue to be required**. This reflects the fact that firms will tend to underinvest in skills development due to the likelihood of not capturing the entire value of the investment.

Where an element of public subsidy is accepted as necessary, efforts are focused on arriving at the most effective public-private models. **Developing models that play to the strengths of both sides can help to overcome traditional coordination failures**. In Ethiopia, HIPSTER leverages the strengths of the government in terms of its extensive data on jobseekers and geographic outreach potential for labour sourcing and screening (Box 2). In Pakistan, care has been taken to assemble a board of directors at PSDF with strong private sector backgrounds in order to distinguish the Fund from traditional initiatives run by civil servants with little to no experience in industry.

Box 2 – PEPE: leveraging strengths in public-private partnerships

Early scoping work for the HIPSTER intervention identified that the government's jobseeker databases and extensive geographic outreach could be leveraged in order to source and screen large numbers of potential factory workers through existing state apparatus. At the same time, international investors moving to Ethiopia's new industrial parks had a comparative advantage in providing on-the-job technical training. PEPE has played a facilitative role in bringing these two sides together, ensuring that labour needs are communicated to the government through an Industry Association, and allowing for government-led labour sourcing to be better aligned.

In addition to the above, PEPE identified significant soft skills gaps, as well as inadequate data collection and sharing, as barriers to the success of the model. Local training providers and a local software company have been contracted to provide soft skills training and design a Labour Market Information System (LMIS) respectively.

Work continues to refine this complex model and arrive at a commercially sustainable solution for all actors involved. However, initial feedback has been positive from both the public and private sector sides, who note that such coordination would not have been achieved in the absence of PEPE.

As well as the funding implications of market failures in skills delivery, **there may be a political economy argument for a continued role for government involvement**, at least in the early stages of skills programme development. Since skills delivery is traditionally in the public domain, governments tend to assume a responsibility in this area – seeking to move services entirely into the private sector may not be a popular political measure. In all programmes discussed here, seeking a role for the government that plays to their relative strengths has also doubled as political prudence in seeking broad support for programmes.

Under SITA, however, **value chain approaches (connecting buyers to sellers and enabling knowledge transfer along the chain) and promotion of more effective internship models have required little to no input from government**. However, the benefits are fairly concentrated and have questionable scaling potential.

In addition to seeking resource contributions from industry, **all of the programmes here have benefited from developing a strong understanding of the needs of industry**. This contrasts with more conventional government-led TVET programming, which traditionally has not aligned well with the needs of industry.

Where SFC programming has been successful, **a common factor has been the ability to use nimble, innovative approaches**. Whilst lengthy design phases and rigid target-bound implementation are often hallmarks of donor programming, PSDF, PEPE and SITA have all benefited from the flexibility to innovate, gather and process feedback from industry, and refine their models accordingly. In order to achieve this, donor programming in these examples has typically played a patient coordinating role, facilitating relationships between public and private sector actors who may not normally collaborate effectively, and helping to build trust over time.

Box 3 – PSDF: moving towards a cost sharing model

The original PSDF model involved competitive grant funding for TSPs which sought to provide skills within a specific funding window designed by PSDF to target a skills gap identified by the Fund in a given sector and/or geography. The resulting training programme is fully funded by the PSDF grant.

However, PSDF has recently been piloting a cost-sharing model whereby TSPs themselves identify a skills gap and propose an offering to PSDF irrespective of existing funding windows. This allows greater flexibility for TSPs to address skills gaps without PSDF having to conduct extensive scoping work up front. However, under this arrangement, TSPs must contribute at least half of the funding for a training programme themselves and commit to employing 70% of graduates.

Despite the additional demands on TSPs (and the smaller share of funding available), this model has shown some early successes, with target cost-sharing TSP numbers being significantly exceeded, and some US$2.4 million in private TSP investment being leveraged.

Notably, whilst PSDF supports a range of industrial, institutional and civil society TSPs, the cost sharing model predominantly works with industrial TSPs who are able to employ successful graduates themselves.

Finally, **PEPE and SITA in particular have considered the SFC challenge within a broader context of labour market development**, and in the case of SITA market systems development more generally. This recognition of complex systems in the design of programming enhances the likelihood of success by targeting multiple interdependent factors.

Key points: What works and why

- PEPE, PSDF and SITA have demonstrated a range of promising models that seek greater private sector engagement in SFC programming, leading to outcomes that are likely to be more cost-effective than traditional public sector skills programming.
- However, inherent market failures mean that some degree of public subsidy is always likely to be required, whilst government buy-in is an important step to achieving scale in many cases. PPP models and cost sharing arrangements offer a potential way forward.
- SFC programming should be nimble, innovative and flexible, responding to the specific context of geography, sector, labour markets and local norms, and recognising skills delivery as one service among many required for well-functioning labour markets.
- The traditional roles of men and women in the labour market should be understood, and, if necessary, steps taken to ensure equitable outcomes. Bespoke programmes exclusively targeting women may be useful. Ensuring that formal educational requirements do not serve as a barrier to participation can also increase inclusivity.

4.3 Results to date

The following summary provides the results achieved to date across PEPE, SITA and PSDF.

4.3.1 Training and skills delivery

Whilst the strength of evidence across the three programmes is variable, there is a sense that these donor-supported initiatives have been successful in delivering skills to large numbers of individuals.

PSDF in particular has exceeded its targets, with around a quarter of a million people trained to date via PSDF-supported TSPs. Over 40% of these have been women – a remarkable achievement in an extremely unequal labour force with limited opportunities for women – whilst the majority have been young people.

Under PEPE, HIPSTER has seen around 7,000 people employed and trained, and many more reached by the sourcing, screening and grading process, as well as being registered in the new LMIS. The majority of beneficiaries are women.

Under SITA, quantitative evidence remains limited, but positive feedback on value chain knowledge sharing, improved internship models, and BMO-driven industrial training indicate early successes.

4.3.2 Inclusivity: Reaching women, youth and the poor

HIPSTER has featured almost exclusively female beneficiaries from poor rural areas, although this is largely attributable to the traditional role of women in garments production rather than a pro-active attempt to reach women.

Whilst SITA did not feature up-front gender targets, the 'hurdles' used in the screening process for a number of interventions helped to ensure that women and the poor would not be excluded due to a lack of formal education.

PSDF, operating in an environment where women are marginalised in the labour force, sought to develop training models specifically targeting women. Recognising that women would be less likely to travel far from home for training than men, the programme sought to use civil society TSPs which could have greater outreach in the villages. In addition, the majority of PSDF beneficiaries are youth, with programmes being targeted specifically at young people.

4.3.3 Productivity and competitiveness

Across the programmes, there remains very limited evidence on the productivity impacts of the above models, with programme M&E focusing on the delivery of sustainable skills models. Further research is required in order to assess the relative cost effectiveness of the public-private models versus traditional state-led TVET models.

However, there is anecdotal evidence to suggest some significant improvements. In Ethiopia, apparel producers on the Hawassa Industrial Park claimed that whilst they are still operating below capacity, they would not have been able to recruit and train anywhere near as many individuals in the absence of HIPSTER. Under SITA, farmers are improving their practices in order to satisfy the demands of Indian buyers. Under PSDF, the higher than expected interest in the cost-sharing model on behalf of industrial TSPs suggests that productivity gains are able to be reaped, although further research will be required to quantify this.

4.3.4 Achieving scale and sustainability

Scale and particularly financial sustainability remain the greatest challenge for all programmes considered here.

Despite the private sector-orientation of the skills programming discussed above, government buy-in often remains a crucial step in achieving scale, due to the traditional remit of governments in skills programming, and the likely need for some degree of ongoing subsidy even as private skills delivery markets emerge.

In each programme, the demonstration of innovative models with greater private sector involvement has been largely well-received by governments – the centrality of skills delivery for jobs and growth makes it a strong political interest of many developing country administrations. The rapid rollout of PSDF across the entire Punjab province and the Ethiopian government's commitment to implement a HIPSTER-style model in all future industrial parks are clear examples of innovations already going to scale.

However, detailed plans for the future financial sustainability of these models remain elusive. Whilst some degree of industry willingness to pay has been noted in a number of cases, detailed cost-sharing models are yet to be worked out, and there are legitimate concerns that innovative programmes will become subsumed within national governments and lose their private sector ethos over time.

Key points: Results to date

- Significant numbers of individuals have received training in a relatively short space of time under the programmes considered.
- Outreach has been successfully targeted at women, even in challenging and heavily unequal contexts such as Pakistan. In Ethiopia, HIPSTER almost exclusively benefits women, whilst SITA has sought innovative ways to reduce barriers to entry for women.
- Similarly, the programmes have been effective at targeting youth – PSDF's beneficiaries are almost exclusively under the age of 30.
- Further research is needed to understand the impact of these programmes on competitiveness and productivity. In some cases, such impact evaluations are planned for later stages of the programmes. In other cases, programmes may need to strengthen this element of their M&E plans, in particular where skills for competitiveness was not the focus of programme M&E.
- More work is also required to arrive at sustainable cost-sharing models that maintain private sector engagement in the long run, even if a degree of public subsidy is still required.

5. Conclusions and Recommendations

All of the countries considered in this synthesis face significant constraints to competitiveness and growth as a result of skills gaps, which in turn have arisen from a long history of inadequate public sector-dominated skills programming. State-led TVET programmes tend to be out of touch with the needs of industry, bureaucratic, and inefficient, leading to an inadequate supply of skills for competitiveness.

In light of this, SITA, PEPE and PSDF have all sought to improve private sector engagement in the delivery of skills for competitiveness in developing countries across Africa and Asia, whilst recognising that there may be a role for a degree of continued public subsidy. Innovative models used include competitive grant funding for TSPs, public-private partnerships, design and coordination of training through BMOs, the use of innovative internship models, and value chain-based knowledge exchange.

Key drivers of success have included:

- Nimble, innovative programming tailored to local contexts and responsive to stakeholder (particularly industry) feedback;
- Specific interventions targeting women, youth and the poor by reducing conventional barriers to entry such as formal education requirements;
- Patient facilitation of public-private partnerships that seek to play to the strengths of all stakeholders, building trusting relationships over time; and
- An understanding that skills for competitiveness sits within a wider array of business environment challenges within complex market systems.

As a result of these interventions, significant numbers of individuals (particularly women and youth) have benefited from training in a wide variety of skills. The models piloted by the respective programmes have demonstrated that a degree of public-private partnership and cost sharing is possible in SFC delivery, which helps to both reduce the burden on public funds and increase the relevance and quality of skills programming through greater private sector engagement. However, more work is needed to secure long-term cost sharing models that maintain private sector involvement without donors subsidising elements of the models and playing the facilitative role. More evidence is also required on the cost effectiveness of these models with regards to productivity and competitiveness outcomes versus more conventional public sector programming.

5.1 Recommendations for future SFC programming

The following recommendations are made for future SFC policy and associated donor programming:

- Close consultation with industry is essential in tailoring programming to private sector needs.

- Whilst an element of subsidy may be required, relevant stakeholders should secure private sector investment in skills development via PPPs and/or cost-sharing agreements. Doing so not only reduces the burden on public finances, but helps to ensure that skills programming is demand-driven and tailored to the needs of industry.
- Skills policy and donor programming should be nimble, innovative and responsive to industry feedback.
- Programme results frameworks and M&E should include indicators and evidence on competitiveness and productivity impacts of SFC programming.
- Skills programmes should be mindful of the complex systems within which they operate; skills provision is one of many important functions required for a dynamic labour market, particularly at the early stages of development.
- Skills needs assessments should consider both the technical skills required for existing jobs, as well as soft skills required in the workplace, and potential future or transferable skills required for ongoing growth and competitiveness.
- Bespoke programming may be required to ensure that women are not excluded.

5.2 Areas for further research

Whilst the various approaches adopted by PEPE, SITA and PSDF provide useful insights into the potential for greater private sector involvement in SFC programming, there remains a lack of robust evidence on (a) long-term models for financial sustainability and (b) impacts on productivity and competitiveness relative to alternative models. In the case of the latter, this could arise from either strengthened M&E on SFC programmes or independent research. Future research should seek to explore these issues further.

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Appendix 2 Further Programme Details

The following sections present summaries of skills for competitiveness interventions currently being implemented in three DFID programmes around the world – PSDF, PEPE and SITA. More details of each programme can be found in the relevant Evidence and Learning Note in this series.

Punjab Skills Development Fund (PSDF)

PSDF was established in 2010 and is jointly funded by DFID and the Government of the Punjab (GoPb). The project was extended in 2016, with an additional £38 million from DFID and £63 million from GoPb.

Context

Pakistan's poor performance on skills development has contributed to a relative decline in its competitiveness, with the country falling from 85th to 147th in the World Bank's *Ease of Doing Business* rankings (out of 190 countries) between 2008 and 2018 (World Bank, 2018). The World Economic Forum's *Human Capital Index* ranks Pakistan 125th out of 130 countries in terms of the level of human capital in the country, the poorest in South Asia (WEF, 2017). The labour force is characterized by a booming youth population, high levels of employment vulnerability, and one of the largest gender gaps in the world, with women being largely excluded from the labour force (World Bank, 2017).

In the Punjab, which makes up more than half of the country's population, around a quarter of firms report a lack of skilled employees. The government-dominated skills development sector has historically suffered from a weak institutional framework, low quality and relevance of training, and a lack of evidence-based policymaking. Women and the poor are often excluded from training programmes due to a lack of prerequisite formal education (World Bank, 2015).

Intervention

Established in 2010, PSDF seeks to stimulate the development of a private market for skills delivery by providing competitive grant funding to (mostly private) training service providers (TSPs). The model is outlined in Figure 2, below.

At the outset, PSDF conducts in-depth sector studies to identify skills gaps, before outlining projects targeting specific sectors, geographies and/or TSP types. TSPs can then bid for these service provider contracts. Once operational, the TSPs delivering the training services are assessed by a third-party monitoring service, before receiving performance-linked grant payments. Performance is assessed in terms of the quality of the course, attendance and completion rates, and subsequent income increases achieved by beneficiaries (understood as either securing employment or increasing agricultural productivity).

Figure 2: The PSDF model

PSDF is also piloting a cost-sharing model whereby TSPs can bid for grant funding independent of the specific funding windows currently available, so long as they are willing to cover at least 50% of the costs themselves. Cost sharing TSPs are not allowed to charge for the training, instead being expected to benefit by recruiting the trainees upon graduation. In order to be eligible for financial support, applicant firms are required to demonstrate a desire and ability to hire at least 70% of graduates.

A third-party placement service is currently being piloted that will help to match training graduates to employment opportunities.

All of PSDF's projects target poor and vulnerable young people, whilst seeking to ensure that at least 40% of beneficiaries are women.

PSDF is registered as a not-for-profit company with a private sector-led board of directors.

Results to date

PSDF has exceeded its targets in terms of numbers of people trained, which currently stands at around 250,000 individuals. Exam pass rates stand at 92%, and 80% of TSPs do repeated business with PSDF. 24 agreements were signed in the first year of the cost sharing pilot (2017/18), leveraging some US$2.4 million in private sector contributions to training initiatives, again exceeding expectations, and signalling a degree of private sector willingness to invest in training if co-financing is available.

Around 30-40% of graduates have found employment to date, slightly lower than the target of 50% (although employment rates are at 70% under the cost sharing scheme). 41% of graduates are women and 80% are aged 18-29, in line with PSDF's targets.

More broadly, the Government of the Punjab have recognised the PSDF model as a "solid foundation" upon which to build cost-effective skills delivery across the region – a priority under their 2015-18 Growth Strategy (GoPB, 2015).

Early evidence also suggests a broadly positive response from the private sector TSPs. It was noted by some stakeholders that the positive demonstration effect of training conducted to date should increase the willingness to invest on behalf of both trainees and trainers, especially where PSDF funds have been used to cover substantial up-front costs of establishing training centres and producing training materials that can be reused. However, further research is required in order to fully assess the extent to which PSDF has succeeded in its objectives of stimulating the private TSP market.

Key drivers of PSDF's success to date include (a) a demand-driven, evidence-based approach, (b) strong and transparent governance, (c) a capable, private sector-oriented team with autonomy from government, (d) specific initiatives to overcome barriers to training access for women (i.e. providing support for transport or community-based training in remote areas), (e) strong government support.

Further research is also required to understand the long-term employability impacts on graduates, as well as to understand in more detail the perspectives of industry *vis* PSDF. More evidence on both issues should arise from the Graduate Tracer Study and Employer Survey, forthcoming later in 2019.

Scale and sustainability

Over the course of its eight years in operation, PSDF has scaled from four pilot districts to all 36 districts of Punjab, suggesting commendable scaling of the programme over its relatively short lifetime. Meanwhile, the number of trainees has grown from an average of around 30,000 per year in the first phase (2010-11 to 2014-15) to over 90,000 in 2017-18 alone, across 196 active TSPs.

However, the key outstanding question for PSDF remains the issue of sustainability. Recent DFID Annual Reviews have emphasised that whilst PSDF has outperformed its targets in many areas, there is a pressing need to develop a sustainability strategy.

Whilst no formal sustainability strategy is in place, the current assumption arising from discussions with donors, staff and stakeholders is that government funds will be the most likely route to sustainability if donors do not extend their current commitments. Whilst the GoPb has made no formal commitment to this end, it has already committed substantial resources to the PSDF, and has voiced enthusiasm for the results delivered under the programme.

However, many stakeholders voiced concern that over-reliance on government funding could erode the private sector ethos of the organisation, and create a risk of developing the negative characteristics associated with public sector skills programmes described above. In light of this, more work is needed to appraise the potential for public-private cost sharing arrangements, and to develop a detailed sustainability plan for the fund.

Key points

- Competitive grant funding for TSPs based on detailed training needs assessments can help to stimulate the private market for skills delivery.
- The fund has benefited from strong and transparent governance and private sector-oriented leadership.
- Whilst a cost sharing pilot has demonstrated a degree of willingness to pay on behalf of private TSPs, significant ongoing subsidies are likely to be required. In the absence of a clear sustainability plan, there are concerns that PSDF may risk losing its autonomy and being subsumed within government.

Private Enterprise Programme Ethiopia (PEPE)

PEPE's HIPSTER intervention seeks to increase the supply of skilled labour to the Hawassa Industrial Park (HIP) using an innovative PPP.

Context

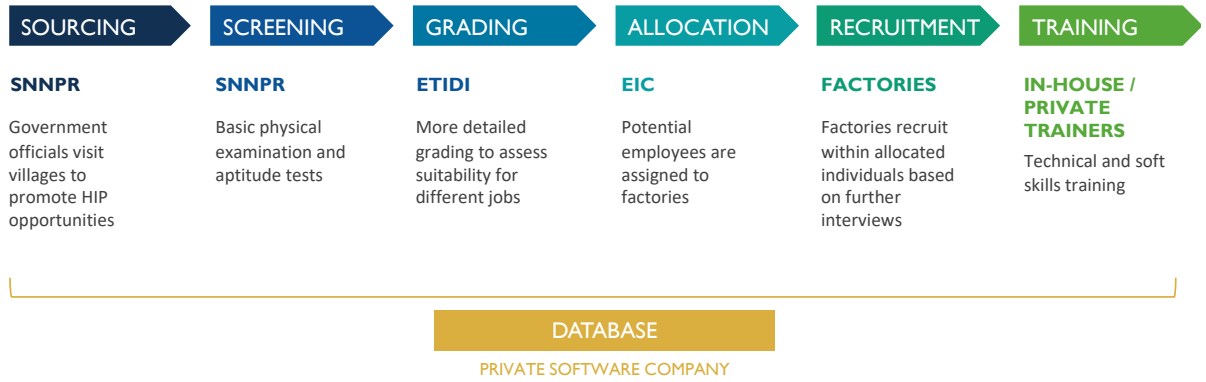
Whilst Ethiopia has consistently been one of the fastest growing economies in the world over the past decade, its manufacturing sector remains a relatively small contributor to GDP (World Bank, 2018). In their efforts to accelerate industrialisation, the Government of Ethiopia is in the process of developing some 30 industrial parks modelled on the Special Economic Zones (SEZs) of East Asia (Government of Ethiopia, 2016).

Within this plan, development of the garments sector has been identified as a priority. Ethiopia's flagship Hawassa Industrial Park (HIP) is currently home to 18 international textile and apparel companies, as well as six local firms. Attracting sufficient skilled labour to the park is a major challenge. Located in rural southern Ethiopia, the park has to draw from a widely dispersed labour market unaccustomed to industrial life. Market failures in skills provision and labour market information make it difficult for investors to attract, train and retain the labour that they need. At present, most factories are operating well below capacity, which severely limits productivity and competitiveness (EP, 2017).

Intervention

In light of this, PEPE has facilitated a public-private partnership (PPP) that looks beyond skills provision to a broader range of labour market services, from sourcing, screening, grading and allocation through to recruitment and training. The model is summarised below.

Figure 3: The HIPSTER model



At the sourcing and screening stage, the model draws on the strengths of the local government of the Southern Nations, Nationalities and Peoples' Region (SNNPR), who have strong rural outreach capabilities, as well as information on jobseekers in the villages. SNNPR staff routinely visit villages and inform people of new opportunities at HIP, before conducting basic screening of potential workers (for basic aptitude and physical abilities).

This information is then passed on to the Hawassa office of the Ethiopian Textiles Industry Development Institute (ETIDI), where candidates undergo further assessments and grading before being sorted into a number of different potential job categories.

This information is in turn passed to Ethiopian Investment Commission (EIC), which serves as the main interface between public sector labour sourcing and private sector labour demand. The EIC allocates candidates to specific factories within HIP, at which point the factories conduct their own interviews and assessments before making a recruitment decision.

With regard to training, PEPE made an early decision to leave responsibility for technical training to the factories, most of which could conduct international standards of training in-house. PEPE instead focused on the additional delivery of soft skills – including basic timekeeping, hygiene, and teamwork and communication skills that are essential in moving from the informal rural sector to formal industrial employment.

Soft skills were initially delivered in one-week induction courses provided by third party training providers. However, it was found that factories had limited willingness to pay for this relatively expensive approach, and PEPE is currently working to redesign the service offering to focus on more long-term, modular and multimedia-based support delivered in a more cost-effective manner.

In addition to the above, AhadooTec, a private software developer, has been contracted to design a digital Labour Market Information System (LMIS) that will enable more efficient and transparent information sharing along the chain. The LMIS will be managed by the EIC.

Results to date

Selected headline results of HIPSTER are presented below.

Table 3: 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*

Whilst many factories are still operating below capacity and requesting additional labour, the model has enabled the mobilisation and training of far more workers than would otherwise have been possible in a relatively short time period. Soft skills training has helped to ease the rural-urban transition for many workers and is helping to bring labour turnover rates down. AhadooTec's LMIS has been well-received by the EIC, and factories have voiced a preference for the system over the limited manual information sharing that was being done previously.

Some key drivers of HIPSTER's success to date are as follows:

- Recognition of the importance of soft skills, particularly at the early stages of industrialisation with a labour force that is unaccustomed to employment in the urban formal economy.
- Recognition that skills delivery in general is just one supporting service among many that are important for the development of dynamic labour markets in support of productivity growth and competitiveness.
- Patient facilitation of a PPP has drawn on the relative strengths of each of the main actors (i.e. giving the government responsibility for sourcing and screening, whilst the factories take responsibility for technical training).
- A nimble, innovative approach that has been responsive to stakeholder feedback.

Despite these successes, a number of challenges remain:

- The first iteration of the soft skills delivery model did not lead to a viable commercial model, and work is ongoing to find alternative solutions with greater flexibility and lower cost. One potential solution is increasing in-house soft skills provision, drawing on support that PEPE is providing as part of a separate intervention building capacity of HR systems.
- The screening and grading processes have not been robust enough in filtering out unsuitable candidates, leading to a lack of willingness to pay on behalf of industry for

these services at present. The grading process in particular is a bottleneck, with all candidates being filtered through a single grading centre. Since a number of factories already perform their own detailed grading assessments, it may be the case that this service is increasingly taken in-house, with the government left with the role of sourcing and basic screening.

- Despite the efforts outlined above, labour retention remains an issue, due to the challenges of adjustment to the urban setting. Stakeholders suggested that clearer communication about the reality of factory work be delivered to jobseekers in the villages before they relocate.

Scale and sustainability

The development of a detailed sustainability plan will be a priority for HIPSTER in 2019. To date, the model has received very promising buy-in from the government, who have endorsed the model as a general blueprint for all future industrial parks. However, the challenges outlined above mean that a number of issues still need resolving in future iterations of the model before a clear cost-sharing model can be arrived at. Whilst the model has generally been well-received by industry, their willingness to pay for these services remains unclear, particularly with respect to grading and soft skills provision.

Key points

- Skills provision is one service among many that are important for the development of dynamic labour markets for productivity growth and competitiveness.
- Soft skills are important in supporting a labour force transition from rural informal to urban formal employment.
- More work is needed to refine elements of the model before private sector willingness to pay can be secured in a long-term cost sharing arrangement.

Supporting Indian Trade and Investment for Africa (SITA)

SITA (2014-2020) aims to increase foreign direct investment from India into East Africa, and in turn to stimulate African exports to India.

Context

More than a quarter of firms in Kenya and Rwanda see workforce education as a major constraint, and in Tanzania the figure is more than 40%. However, fewer than 5% of firms across East Africa perceive workforce education as their biggest obstacle. Indeed, in Tanzania, despite two in five firms considering this a major challenge, on average they list ten other constraints as being more serious. Access to finance, electricity and corruption are frequently cited as leading concerns (World Bank, 2018). In light of this, SITA recognises that

wide-reaching approaches to business environment reform are needed, with skills being just one important part of the picture.

In SITA's experience across East Africa, skills deficiencies were found to take a number of forms. In Kenya, similar to the Ethiopian experience described above, the apparel sector struggles to attract sufficient skilled labour to its factories. Elsewhere, it was noted that more general skills such as CV writing and interview technique were lacking in young applicants, whilst transferable general skills in digital and social media were also identified as a problem.

Intervention

SITA tackles a wide variety of barriers to trade in multiple countries and sectors. Rather than having any one bespoke SFC component, SITA has adopted a flexible approach whereby innovative solutions to skills gaps are developed on a case-by-case basis.

In support of this approach, diagnostic tools ranged from relatively light-touch interviews, expert consultation, direct observation and informal surveys, to more conventional skills gap analysis in the case of the apparel sector in Kenya.

A similar variety in solutions have been implemented. In Kenya, an apparel industry apex body has been established in support of training delivery, with factories contributing resources and facilities to the efforts and government playing a minimal role. Elsewhere, the potential for skills development is considered to be embedded within broader interventions, such as the piloting of new hand looming business models in Ethiopia or connecting spice producers in Ethiopia and Rwanda to Indian buyers. In these cases, it is hoped that successful demonstration effects will incentivise replication by investors, including support for the skills required to implement the model.

With respect to IT and digital and social media (DSM) skills, SITA has used an internship model. Finding that internships across East Africa are commonly poorly managed and yield few benefits for either employer or intern, SITA sought to improve the model by ensuring that both sides had clear expectations, that interns had clear goals and reporting lines, and that employers invested more in the orientation and training of interns.

Results to date

The wide variety of approaches taken to skills development under SITA and the embeddedness of these activities within broader interventions creates difficulties in evaluating performance and attributing results to any one model of SFC delivery. However, a number of examples illustrate some of the successes achieved to date.

In the case of the spice market, SITA found that establishing communication between producers and buyers was a more effective form of practical 'peer-to-peer' learning than traditional 'classroom'-style approaches used elsewhere. Once producers were convinced of the potential of suppliers and made an initial investment, they were willing to invest in ongoing farmer training.

In Kenya, the apex body responsible for training delivery saw successful industry engagement in skills delivery, with factories providing resources and facilities for on-site training.

Positive feedback from the IT and DSM internships demonstrate the importance of clear expectations and well-managed internship programmes, including simple procedural steps as ensuring that an intern has clear terms of reference.

In terms of inclusivity, screening for candidates on a number of programmes deliberately avoided using prerequisites of extensive formal education, as this would often exclude women and the poor. Instead, alternative 'hurdles' were set to test for motivation and other basic aptitude signals. Simple requiring candidates to provide their own transport, whilst not offering per diems, for example, can help to filter out those who are not dedicated to learning a new skill and pursuing an associated career. However, these approaches do potentially risk excluding certain groups by raising the cost of training.

Scale and sustainability

The various models adopted by SITA vary in their potential for scaling and sustainability.

The Kenyan apparel sector training has had the greatest skills delivery reach within the SITA portfolio – however the potential for scale and replication elsewhere is questionable, given its reliance on the institutional strength of a pre-existing business membership organisation.

Highly concentrated interventions such as internships bring benefits to relatively few people at substantial cost. Whilst it is unlikely that significant public funds could be directed toward such intensive skills delivery, there may be potential for promoting improved norms around internship delivery in the private sector. More research is needed to assess the value for money proposal of internships and their potential spillover effects on the wider economy.

Perhaps the greatest potential for scale and sustainability arise where new business models have been demonstrated or supply chain links facilitated. Farmers who are connected to new export markets have an incentive to invest in learning and applying new and improved practices, whilst Indian investors have a vested interest in supporting their suppliers in doing so.

Key points

- SITA has taken a flexible and innovative approach to addressing skills gaps on a case-by-case basis within a wider portfolio of market development interventions. A variety of solutions have been applied, from more conventional large-scale training programmes, to more focused internships, to value chain-based skills delivery.
- Skills gaps were identified using a variety of diagnostic tools, and included a mix of skills directly needed for existing vacancies and agricultural productivity, to more transferable skills in IT, DSM and job seeking.
- Candidates were filtered using specific 'hurdles' that would select for motivation, problem-solving skills and self-directed learning, rather than conventional education that might risk excluding women and the poor.

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