

»» DEG evaluation results



DEG's education and training portfolio

Why qualification matters

This portfolio analysis is part of a larger study on skills gaps: “Bridging the skills gaps in developing countries – A practical guide for private-sector companies“. For more information, please refer to DEG's website: www.deginvest.de under the header “what is our impact”.

This report is a result of DEG's evaluation work regarding development effectiveness. DEG's monitoring and evaluating team checks at regular intervals whether the transactions it co-finances help to achieve sustainable development successes and points to ways of making further improvements for DEG and its customers. To ensure the independence of evaluation results, external consultants support the work of the team.

This study was prepared by The Boston Consulting Group in close collaboration with Ulrike Dangelmaier and Julian Frede (DEG).

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Why qualification matters and the role of the private sector in closing skills gaps

One major way of boosting global development and fighting global poverty is to **create productive and sustainable job opportunities**. Job-related events – finding or losing a job, or experiencing a substantial change in job-related income – are crucial factors in pushing people into poverty or saving them from it.¹ Worldwide, more than 200 million people of working age are unemployed. Due to population growth and demographic change, over the next 15 years, **600 million additional jobs need to be created** only to keep current employment rates stable.²

Nine out of ten jobs in developing countries are provided by private-sector companies. Yet globally, 38% of private sector employers report difficulties in filling vacant positions owing to a lack of adequately trained staff.³ **Skills gaps** – the difference in the skills required on the job and the actual skills possessed by the individual – impose a serious constraint on employers and economic growth throughout the world.⁴ As public education systems in lesser developed regions are often unable to train sufficiently qualified people, **private-sector investments in training and education initiatives are often indispensable** for the companies' own development and that of the local economy.

DEG tackles the skills-gap challenge

Recognizing the importance of education and professional training for employment, economic and social development and the reduction of extreme poverty levels, **DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH supports a wide range of initiatives dealing with skills gap challenges** in emerging and developing markets. With regard to these challenges, DEG's aim is to foster private-sector engagement in raising people's qualification levels. By improving training and qualifications, and thereby creating higher-quality job opportunities, DEG seeks not only to raise living standards in a region and boost its local productivity but also to impact on that region's long-term development.⁵ It does so through four different approaches: 1) investing directly in private educational institutions; 2) investing in and actively supporting companies and financial institutions to support/finance education and skills development projects; 3) supporting various vocational-education programs run by the private sector via business support service (BSS), formerly known as technical assistance projects; and 4) offering public-private- partnerships through its developPPP.de initiative.

Direct investments in private education institutions

As part of its core business, **DEG invests directly in private sector educational institutions**, in an effort to promote private-sector initiatives in lower- and middle-income countries. DEG's engagement of EUR 37 million in committed funds facilitates the training of individuals and the development of local labor markets, and thereby helps private companies to bridge the skills gaps they are confronted with. DEG's direct-investment clients provide sup-

¹ Let's Work (2014): *A global partnership to create more & better private sector jobs*.

² The World Bank Group (2015): *Working together for jobs*.

³ Manpower Group (2015): *Talent Shortage Survey*.

⁴ ACT (2011): *A better measure of skills gaps*.

⁵ World Bank (2015): *Skills and jobs – Lessons Learned and Options for Collaboration*.

port for tertiary education, vocational training, and education-related financial services. One success story is the Cravings Group’s “Center for Culinary Arts” (see **Textbox 1** on page 3).



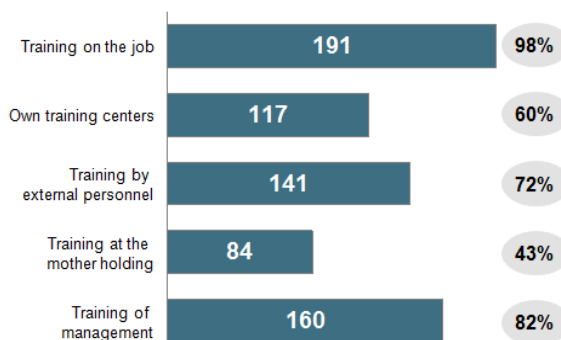
Textbox 1: Vocational training for the Philippines’ gastronomy

The **Cravings Group** is a Philippine food producer and restaurant operator. In 1995, through the support of a long-term DEG loan, Cravings established the “Center for Culinary Arts”, a **vocational training school** with worldwide partners. The Center offers a variety of qualifications in the hospitality business, provides targeted training for employees, and is a primary source for Cravings’ own recruitment. The Center has opened up career prospects in the gastronomic industry to hundreds of young Filipinos, of whom **90%** immediately found a job.

DEG’s clients engage in education and skills development

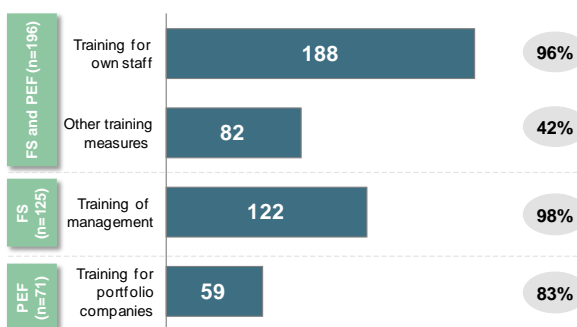
For the majority of DEG's clients, skills gaps are an important matter: In 2014, **92% of DEG’s clients (391 out of 426) implemented some kind of training or skills-related projects.**⁶ Of those, 195 clients are part of the non-financial sector – including manufacturing, services, agriculture, logistics and transport, tourism, mining, and the water and energy industries – while 196 belong to the financial sector, i.e. are financing institutions or private equity funds.

Figure 1: Training initiatives of DEG’s 195 non-financial sector training-active clients



Source: GPR data by DEG as of Dec 31, 2014

Figure 2: Training initiatives of DEG’s 196 financial sector training-active clients



Of the various training measures implemented by DEG's clients, by far the most popular initiative is on-the-job training (see **Figure 1**). Some **98% of training-active clients in the**

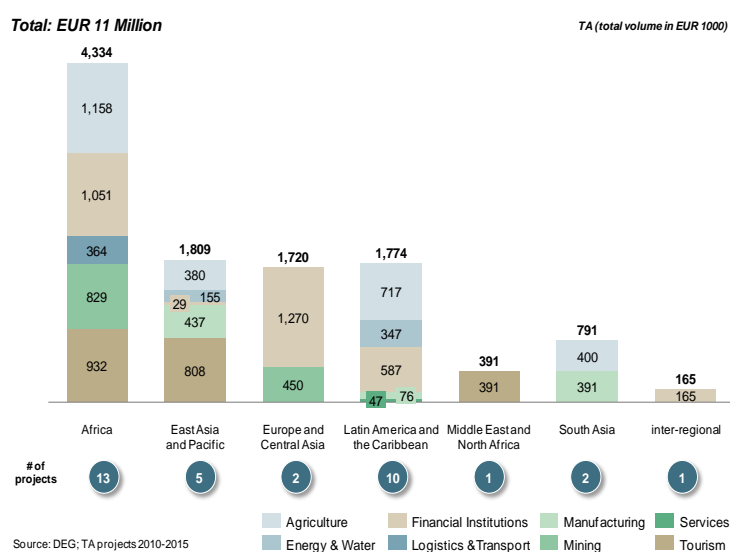
⁶ In 2014, DEG’s corporate policy rating database (GPR as of Dec 31, 2014) listed 488 clients across various sectors. The 488 clients represent a sub-sample of DEG’s total client number as documented in the Management Information System (MIS). Out of 488 clients, 426 clients received a rating score for training or educational initiatives because training data was not collected for infrastructure companies. 35 of the remaining 426 clients received a score of 0, indicating that they did not actively engage in training measures. That reduces the sample of training-active clients to 391.

non-financial sector offer on-the-job training,⁷ while 96% of training-active clients from the financial sector provide training for their own staff (see Figure 2). Even though the remaining categories differ for non-financial and financial training-active clients, the data underlines the importance of training activities for DEG’s clients. By providing long-term financing, DEG enables clients to invest in training and qualification initiatives, thereby contributing to skills development. In total, DEG has reached nearly 800,000 employees through its client engagements.⁸

Business Support Service (BSS) projects

DEG also offers technical and advisory assistance to support its clients beyond the mere provision of financing. From 2010 to 2015, DEG supported 34 BSS projects related to skills development. BSS projects are offered to DEG’s core business clients, and co-financed by DEG and the German Ministry for Economic Cooperation and Development (BMZ). Regarding the BSS projects, DEG’s aim is to foster skills initiatives that have a wider development impact beyond the direct benefit for the client. DEG committed 19% of its total BSS project volume of EUR 23.7 million to skills-related BSS initiatives.⁹ The large majority of DEG’s skills-related BSS measures were implemented in Africa and Latin America, and most of them were directed at the agriculture, finance and tourism sectors (see Figure 3). The largest investment volume was allocated to African clients.

Figure 3: Regional comparison of BSS projects by sector



Most BSS projects focused on know-how transfer from DEG or external experts to the company e.g. specific employees (14) and internal further-qualification initiatives for individual employees (15). Five of the BSS projects focused on establishing long-term training facilities. The target group of 23 BSS projects were the client’s workforce, for 12 the client suppliers, and 11 projects aimed at organizing skills development of the community. On average, BMZ contributed 58% of the financing. An encouraging example of the impact of BSS

initiatives is that of Ohorongo Cement (see Textbox 2).

⁷ This figure does not include ad hoc training measures, but only training which is offered systematically to all employees and/or apprentices and follows a programmatic curriculum or training schedule and which is implemented on a regular basis (at least quarterly).
⁸ This number includes direct employees of all 391 training-active clients, according to GPR data.
⁹ Of the EUR 4.4 million invested in BSS projects by DEG, EUR 3.4 million were provided by BMZ.



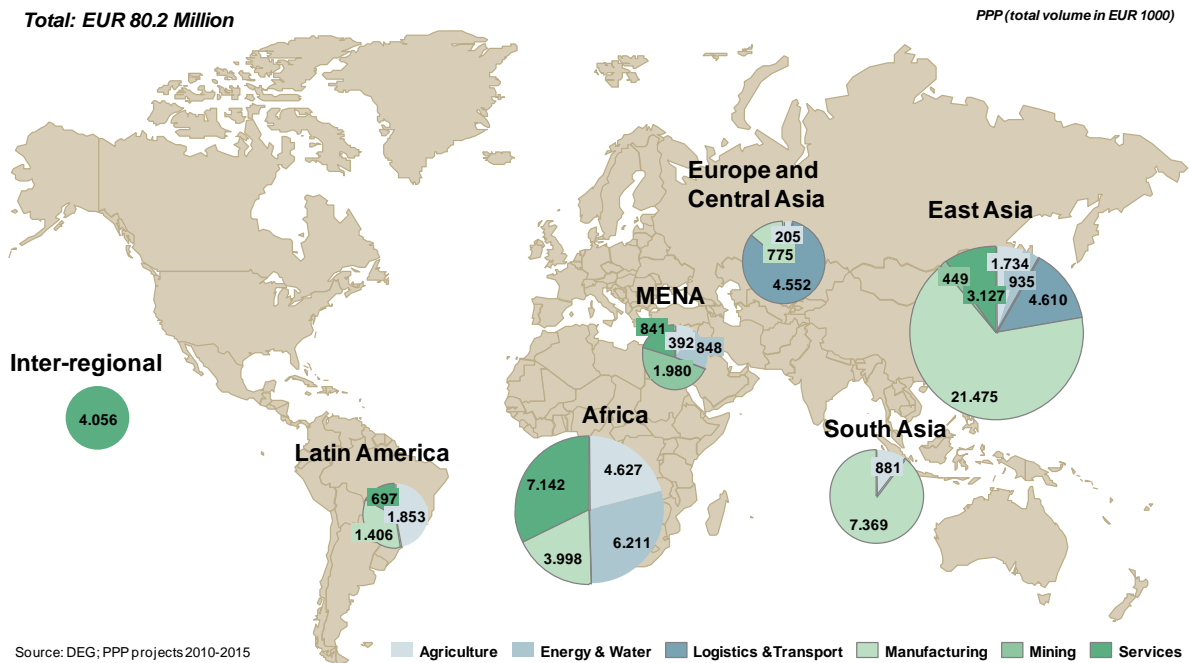
Textbox 2: Training for control-room operators for Namibia’s industries

By means of a BSS project, DEG supports **Ohorongo Cement (PTY) Ltd.** – the only cement producer in Namibia – in establishing and maintaining a training center to foster the training of control-room operators. Being the first center of its kind, it will not only address Ohorongo’s skills gap but also contribute to the development of control-room skills for the Namibian manufacturing and mining industries.

Projects in the develoPPP.de-programme

Initiated by BMZ under the develoPPP.de framework, Public-Private-Partnerships (PPP) actively involve the private sector in projects at the intersection of development and business interests. Targeting companies from Germany or the EU, DEG supports develoPPP.de-programme initiatives in order to bring sustainable improvements to the living conditions of people in low- and middle-income countries. About 25% of DEG’s develoPPP.de initiatives are directed at skills gaps.

Figure 4: Regional comparison of DEG’s skills-related develoPPP.de projects



From 2010 to 2015, **DEG invested 38% of the total develoPPP.de-project volume (EUR 80.2 million invested in 90 develoPPP.de programme projects) into partnerships addressing skills gaps.** More than 50% of the committed funds were invested in skills-related projects in East Asia and Africa. The largest beneficiaries/participants from the non-financial sector were manufacturers who received 35 million, service providers (16 million), agriculture (10 million) and logistics and transport (10 million). Overall, 37% of the projects involved know-how transfer, while 32% aimed at advancing general qualification levels and 31% targeted vocational training or higher education. Only 29 of the 90 develoPPP.de projects

aimed at workforce development; 48 were devoted to supplier and value-chain development, and 32 to community development. The German welding company Lorch successfully implemented a develoPPP.de project to qualify poor students in India (see [Textbox 3](#)).

Textbox 3: Dual education in India

In cooperation with Don Bosco, **Lorch Schweißtechnik GmbH** – a leading German welding company with operational sites in India – offers courses on modern welding technologies to poor students in India. For this purpose, Lorch established the Don Bosco Welding School in Pune to train 120 students per year, as part of a 12- or 6-month dual apprenticeship. Via the project, Lorch managed already to train 200 welders. The ambitious goal is to train 400 students in 30 months.

Qualification matters: DEG supports sustainable growth in developing and emerging countries

By actively supporting private-sector companies and financial institutions engaged in training and skills-development initiatives, DEG contributes to bridging skills and qualification gaps in developing and emerging countries. **Skills development initiatives benefit clients by increasing the supply of adequately qualified personnel**, thereby boosting productivity and enabling companies to maintain or even increase their competitiveness. **Employees profit/benefit directly from enhanced career prospects and employability as well as a higher market value and salary.** Thanks to the investments in the skills development of the workforce, the community likewise benefits, for instance, through the provision of affordable local education services and by boosting local economic activity as well as preventing migration.

DEG's global experience as a development finance institution enables it to identify innovative approaches with the aim of solving skills shortages on a long term basis, and to strengthen vocational know-how at a local level. Vocational training is an important tool to provide current and prospective employees with the necessary practical (and theoretical) skills for a wide range of jobs. **Practical know-how and learning opportunities are particularly impactful in areas where low general levels of education are prevalent.** Systematic and regular on-the-job training is another critical element in the skills development toolbox.

Overall, **DEG's 391 training-active clients provide employment for more than 770,000 people.** Through its investments in private educational institutions, in training and qualification programs, and in its own skills-gap-related projects, DEG has become an active participant in the global movement to create more and better jobs.

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