ACE SOAS Consortium
Anti-Corruption Evidence
Making Anti-Corruption Real

Briefing Paper 007

Better jobs: a strategy to end fraud in skills training in Bangladesh

Photo Credit: Fahad Faisal – @ CC Garments factory in Bangladesh

Key messages

- There is a **correlation between the level of fraud that training providers engage in and the organisational capabilities** of the firms they supply to.
- The efficacy of incentive schemes, such as aligning the interests of training providers with positive training outcomes, depends on the characteristics of the **demand-side of the job market**.
- **Organisational capabilities have to improve significantly** to increase demand for skilled workers and to reduce fraudulent behaviour by training providers.
- A **combination of policy and governance** measures will result in low levels of fraud and corruption in the skills sector and high levels of job creation and inclusion.

What is ACE?

The Anti-Corruption Evidence (ACE) research consortium takes an innovative approach to anti-corruption policy and practice. Working with a multi-country coalition of 12 partners over five years, ACE is responding to the serious challenges facing people and economies affected by corruption by generating evidence that makes anti-corruption real and using those findings to help policymakers, business and civil society adopt new, feasible, high-impact strategies to tackle corruption.

Anti-Corruption Evidence
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This briefing paper tests the hypothesis that improving the organisational capabilities of firms in tandem with skills training is an effective and feasible anti-corruption strategy in developing countries. It summarises the findings of Khan et al.'s (2019) Working Paper *Better jobs: a strategy to end fraud in skills training in Bangladesh.* The study focuses on the garments industry in Bangladesh and draws on research relationships with two important skills programmes in the country.

Introduction

Developing countries need to create jobs in globally competitive industries to achieve and sustain growth. But, despite huge investments in skills programmes globally, up to half of employers in Asia and Africa believe that their productivity and profitability are held back by the poor education and skills of their workers (Almeida et al., 2012). Evidence shows that very few skills programmes have achieved any positive training effects and fewer still can be justified on a cost-benefit basis (Blattman and Ralston, 2015).

A World Bank (2015) evaluation of five skills programmes in India found that only 28% of trainees were in jobs after a year. The treatment effect – that is, the percentage of people who secured jobs following training who would not have otherwise – was even smaller at 7% because many of these trainees would have found work anyway. An earlier tracer study in Bangladesh (World Bank, 2007) found that only around 12% of trainees had found employment two years after graduation. And, again, the treatment effect would be even lower.

These disappointing effects contradict the widespread perception of employers that skills shortages are holding them back. If the problem was simply a matter of skills, training programmes should achieve much greater success in employment terms, particularly in countries like Bangladesh with large manufacturing sectors. Instead, the evidence points to increases in outmigration of skilled people to other countries when they are unable to find jobs locally. We need to understand the skills problem better.

Governance of skills training in Bangladesh and the cost of corruption

Bangladesh's garments industry is the most developed manufacturing sector in the country, employing around three million people. But there is a high turnover of workers, and employers regularly report skills and worker shortages.

As in other developing countries, surveys in Bangladesh have always identified significant skills gaps and suggest that the provision of high-quality training is constrained by problems such as a shortage of trained teachers, inadequate funding and poor links with business (World Bank, 2007; GOB, 2011, 2015; ILO, 2012; Rahman et al., 2012; ADB, 2014a, 2015). It is impossible to address all of these constraints given the general level of poverty in Bangladesh. Instead, we should be asking: how can policy be *feasibly* redesigned to improve skills training outcomes?

A degree of public coordination and financing is often required to avoid underinvestment in skills for both trainees and employers. Unfortunately, any public policy – including skills policy – can be subject to rent-seeking, which in developing countries is likely to manifest as fraud, corruption or collusion.

There are three ways in which public funds for skills training can be delivered, each with specific problems for governance and rent-capture: 1) providing financial support or tax breaks directly to the *firms* investing in training; 2) providing training subsidies (e.g. vouchers) directly to *workers*; 3) financing and supporting *training institutes* to provide high-quality training. The latter is most widely adopted, but it can result in training providers appointing politically connected trainers or in unqualified trainers paying bribes to secure posts. Further, training providers may enroll fake trainees or trainees who are not interested in seeking jobs, in order to collect stipends.

External auditors should be able to check these failures and withdraw funding from persistent violators. In Bangladesh, a **policy of aligning the interests of training providers with good training outcomes** has been widely adopted, which links part of their payment to training outcomes and aims to reduce the costs of

external monitoring. This should **incentivise trainers to provide training of the appropriate quality and type**. Unfortunately, **these schemes also create incentives to misreport training outcomes, particularly for employment**. Subsequently, in the context of a budget of well over US$1 billion that Bangladesh is spending on skills training in the next four to five years, the most conservative estimate of direct resource loss due to this type of misreporting and related invoice fraud is around US$200 million.

Organisational capabilities and productivity

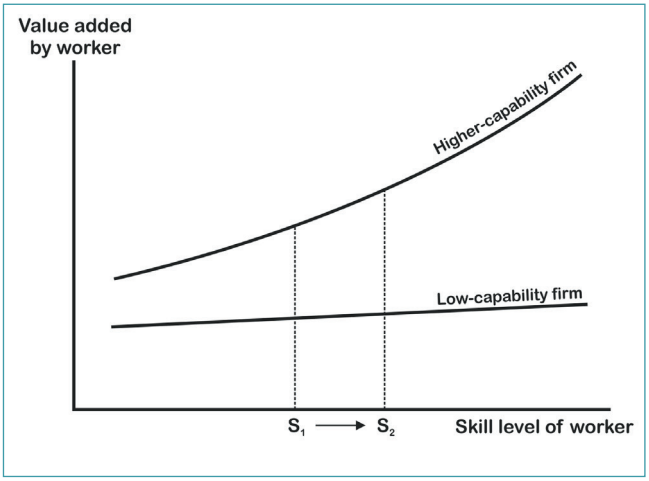
A feasible strategy to address fraud and corruption in skills programmes requires a working hypothesis of the determinants of productivity and competitiveness in firms.

In theory, the productivity of a worker depends on their skills and education, the type and quality of the machinery the worker operates, and other firm- and country-specific variables. The relationships between these variables are potentially of great importance for understanding the anomalous outcomes of investments in skills, and why these can trigger some types of corruption.

In reality, organisational failures can significantly lower the output of a factory by slowing down production lines or as a result of frequent stoppages beyond the control of individual workers. These differences in factory output are arithmetically captured as differences in output per worker-hour with similar machines, regardless of the skills of individual workers or how hard they are working, or indeed their cultural differences. If the throughput of production is faster, if stoppages due to missing raw materials or product rejections are less frequent, if machine breakages are fixed more rapidly, if spare parts are present and so on, one factory could produce much more output per worker-hour than another with similar machines and with workers of similar skills.

The presence of firm-specific organisational capabilities or management practices mean that we cannot expect skills improvements to have an additively separable or linear effect on productivity. Figure 1 illustrates the effects on productivity of improvements in skills depending on firm capabilities.

Figure 1: Skills, organisational capabilities and productivity



Source: The authors

The value added by a worker depends not just on their individual skills, but on the coordinated behaviour of all other individuals in the organisation as well as the firm's organisational routines. This is what we call **organisational capability** (Nelson and Winter, 1982; Dosi, 1988; Perez and Soete, 1988).

In firms with **low organisational capabilities**, an improvement in the skills of specific workers from S1 to S2 may have no noticeable effects on the value added by these workers, as production lines move slowly and there is frequent down time due to bad order flow, missing inventory, product rejection, and so on. Here, skilled workers standing idle do not add value and unskilled workers can perform just as well on slow-moving production lines after a few days of on-the-job training.

In contrast, for a firm with **high organisational capability**, production lines are moving rapidly, and the ability of a worker to perform quickly and precisely comes at a premium. Here, an improvement in skills from S1 to S2 for lagging workers may have a big impact on the value that they add to a firm's productivity.

The relative organisational capability of a firm can be measured in a number of ways. Ideally, we want to compare a target firm with another producing the same product with similar machinery and technologies, a workforce with similar skill levels, and similarities in other observable factors that may affect outcomes. Observed differences in the value added per worker can then give us a measure of the degree

of organisational advantage or disadvantage that the target firm has relative to another, or relative to the average of similar firms.

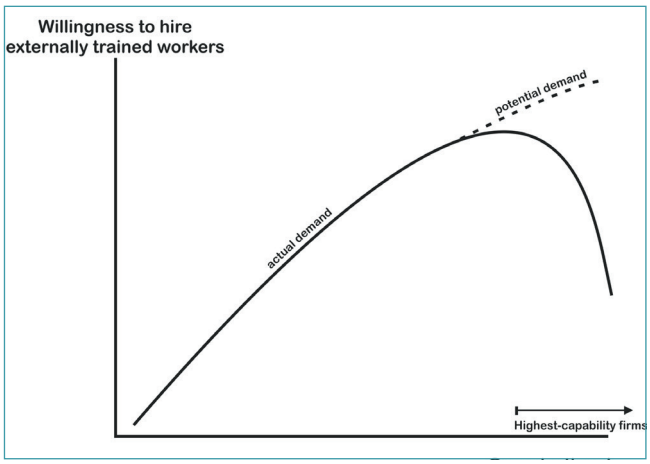
If we distinguish firms in terms of their organisational capabilities, a pattern does emerge, but it is the reverse of what we would expect: **firms that are most in need of skilling up appear to be most resistant to employing skilled workers.** When these employers discover that hiring skilled workers makes no difference to the speed of their production lines or their profitability, they tend to blame it on poor training and revert to employing cheaper unskilled workers at the factory gate. Of course, some trainers do a bad job of training, and the training is not aligned with the needs of the employer, making it even more difficult for the employer to identify the true causes behind their persistently low productivity.

High-capability firms, on the other hand, may be willing to pay a wage premium for workers with greater skills and, in some cases, may even be willing to pay some of the costs of training. In fact, the quality of skills may be so critical for the highest capability firms that they may invest in their own skills training rather than rely on external trainers whose quality they may find hard to assess.

In interviews with Bangladeshi garments firms, we observed just such an inverse U-shaped demand for skills across firms of different capabilities when we asked them about their willingness to employ trained workers. We observed a strong relationship between how well a factory appeared to be organised and its willingness to employ trainees from external training providers. The relationship that emerged through conversations with employers and trainers, and which we could theoretically explain using differences in organisational capabilities, is summarised as the paradox of skills demand in Figure 2.

The upward slope in Figure 2 constitutes the paradox because the demand for skills should theoretically be highest in firms that have low capabilities and low productivity. In actual fact, intermediate-to-high-capability firms with steady export orders and good relationships with foreign buyers preferred to employ workers with some exposure to skills training. And the highest capability firms supplying to foreign retailers organised their own training because the quality of skills mattered most.

Figure 2: The paradox of skills demand



Source: The authors

Improving organisational capabilities to end fraud and corruption in the skills sector

The hypothesis we wanted to test is that private training providers (PTPs) supplying to low-capability firms are more likely to engage in fraud than PTPs supplying to more capable firms where demand for skilled workers is higher. If our hypothesis is correct, firms need to be supported to raise their organisational capabilities to such a level where the effective demand for skilled workers is highest in Figure 2. We would then expect to see prevalence of fraud reduce or disappear when training providers supply to such firms.

To test our hypothesis, we developed research relationships with two important skills programmes in Bangladesh. The first was a partnership with Palladium International, an international development company that runs the Sudokkho skills programme. The second was with the Underprivileged Children's Educational Program (UCEP), a well-known non-governmental organisation and training provider with a high employment success rate.

The partnership with Palladium International allowed us to access sensitive data from PTPs engaged in training entry-level workers for the Bangladesh garments industry. The analysis of invoices from these providers over a six-month period and random

checking of trainees who were reported to be in employment showed significant variations in the extent of misreporting across otherwise similar training providers. This evidence enabled us to investigate plausible causes of differences in the **'propensity to misreport'** among PTPs. We found a statistically significant correlation between the propensity of a training provider to misreport employment success and the organizational capabilities of the cluster of firms to which they were supplying trainees. Our interest in the UCEP data was to use placement evidence to check whether reported employment figures were consistent with our estimates of the organisational capabilities of the firms that they supply to.

Policy implications for governance and anti-corruption

Our evidence suggests that a feasible and effective anti-fraud and anti-corruption strategy for the skills sector is possible, but it must include a policy component that has so far been overlooked – namely, supporting firms to raise their organisational capabilities. The propensity for fraud on the part of training providers is virtually zero in the presence of governance and external monitoring by a credible implementing agency, as long as the placement of trainees in factory jobs is feasible. This, in turn, depends on the organisational capabilities of firms and whether they are able to profit from better-trained workers.

The challenge is **to improve the low treatment effect of skills programmes across developing countries** through incentive and governance structures combined with supportive policies to improve the demand for skills. This is essential for inclusive growth.

Our assessment suggests that providing supervisory and management support to firms is not enough. This can make some difference, but a **substantive upgrading of organisational routines within firms is also essential** to raise productivity and product quality, as well as to reduce wastage and downtime. The necessary investments to improve firms' organisational capabilities cannot feasibly be made by skills programmes directly. However, we believe these investments are commercially feasible and require joined-up efforts by development partners and governments.

Our **capabilities indicator (see Khan et al., 2019) provides a quick way of establishing the initial organisational capabilities of a cluster of firms.** This can then be used to identify the starting point of any upgrading strategy and the appropriate levels of skills that a cluster of firms will have effective demand for once their own capabilities improve.

Raising the organisational capabilities of firm clusters, combined with employment targets for training providers supplying to these clusters and adequate governance and oversight by implementing agencies, constitutes the combination of policy and governance that we believe will result in low levels of fraud and corruption in the skills sector and high levels of job creation and inclusion.

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About the Anti-Corruption Evidence (ACE) Research Consortium:

ACE takes an innovative approach to anti-corruption policy and practice. Funded by UK aid, ACE is responding to the serious challenges facing people and economies affected by corruption by generating evidence that makes anti-corruption real, and using those findings to help policymakers, business and civil society adopt new, feasible, high-impact strategies to tackle corruption.

ACE is a partnership of highly experienced research and policy institutes based in Bangladesh, Nigeria, Tanzania, the United Kingdom and the USA. The lead institution is SOAS University of London. Other consortium partners are:

- BRAC Institute of Governance and Development (BIGD)
- BRAC James P. Grant School of Public Health (JPGSPH)
- Centre for Democracy and Development (CDD)
- Danish Institute for International Studies (DIIS)
- Economic and Social Research Foundation (ESRF)
- Health Policy Research Group (HPRG), University of Nigeria Nsukka (UNN)
- Ifakara Health Institute (IHI)
- London School of Hygiene and Tropical Medicine (LSHTM)
- Palladium
- REPOA
- Transparency International Bangladesh (TIB)
- University of Birmingham

ACE also has a well established network of leading research collaborators and policy/uptake experts.

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