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Financing Technical and Vocational Education and Training

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Index

InWEnt in Brief

InWEnt – Capacity Building International stands for human resource and organisational development within the framework of international cooperation. InWEnt's services cater to new managers, skilled and executive personnel as well as to decision makers from businesses, politics, administrations and civil societies worldwide.

Programmes and measures at InWEnt aim to foster the capacity for change on three levels: They strengthen the capacity of individuals to act, increase the performance of businesses, organisations and administrations, and improve the capacity for action and decision-making at the political level. InWEnt's methodological tools are drawn up in modular form, so that they can be used for customised services development, according to needs and demand. In addition to face-to-face training situations, to exchange and policy dialogue, emphasis is also given to networking with the help of e-learning. InWEnt's partners are equally from developing, transition and industrialised countries.

InWEnt shareholders are the German Federal Government, represented by the Federal Ministry for Economic Cooperation and Development, as well as the German industry and the German federal states (Länder).

InWEnt was established in 2002 through the merger of Carl Duisberg Gesellschaft (CDG) and the German Foundation for International Development (DSE).

Division 4.01 of InWEnt is seated in Mannheim and conducts on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) advanced training programmes. Under the banner of "sustainable development", its work focuses on questions of technology cooperation, system development and management in the field of technical and vocational education and training. Its dialogue and training programmes are targeted at decision-makers from the public and private sectors, junior managers and multipliers from vocational training systems.

Introduction

From 2003 onwards, InWEnt´s Division "Technological Cooperation, System Development and Management in Vocational Training" is to present a series on everyday practice in vocational training.

The intention of this series is described in the title itself ("Beiträge aus der Praxis der beruflichen Bildung" = series on everyday practice in vocational training). The division aims to support its programmes of international personnel development in the above-mentioned areas with technical documentation in both printed and electronic form.

These reports

> originate in the partner countries, taking into account specific situational demand

> will be tested with and for experts in vocational training in the partner countries in conjunction with respective practice-oriented training programmes on offer, and

> with a view to global learning, will be improved and adapted prior to publication according to the recommendations of the partners or the results of the pilot events.

Thus, the Division "Technological Cooperation, System Development and Management in Vocational Training" is applying the requirements of InWEnt´s training programmes to its own products in the above faculties: i.e., these can only be as good as their practical relevance for the experts of vocational training systems in the partner countries.

To this effect, we look forward to critical and constructive feedback from all readers and users of this special series.

Our thanks go to Dr. Jutta Franz who made invaluable contributions to these activities.

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Introduction to the Topic

The question of financing technical and vocational education and training (TVET) is usually among the most crucial and at the same time most contentious issues discussed in the framework of TVET reforms. Underlying reasons may vary, however. In countries where training is mainly provided and financed by government, budget constraints force the authorities to diversify funding sources. In other countries, overall expenditure for TVET is expected to rise, either as a result of quantitative expansion of training or because TVET reform is aimed at quality improvement. Furthermore, in many countries new institutions are created, such as national training authorities or organisations for standardisation and quality assurance, trade testing, or technical teachers' training. To establish and run these institutions additional resources are required.

Generally, high quality TVET is expensive, usually significantly more expensive than general education. And costs tend to increase. Globalisation and the emerging knowledge society create new challenges for training. TVET needs to react flexibly to ever changing demands in the labour market, for instance with the development of new training courses, new training technologies and with creating possibilities for life-long learning. To meet these challenges, governments need partners in training, both in the delivery as well as in financing. Governments alone can no longer run and finance comprehensive TVET systems.

To respond to these challenges, an array of methods to diversify the financial sources of training have been introduced world-wide, aimed in one way or the other at cost-sharing with those who benefit from training, i.e., employers, trainees and their families, or the society at large. Encouraging training institutions to develop and increase the generation of own income to supplement the training cost is another increasingly common way to raise resources available for training.

Furthermore: New financing instruments are also introduced to support new training policies and to strengthen efficiency and effectiveness in the training system. For example, levy-grant systems can influence an employer's decision to invest in staff training, thus supporting a policy shift to enhance industry involvement in TVET. The introduction of performance-based or outcome-based financing of public training institutions provides incentives to institutions for increasing efficiency and relevance of training programmes. Some countries tender out publicly financed training programmes in order to stimulate the development of a training market.

Overall, the discussion about new mechanisms of financing TVET centres around the two main questions:

> How to mobilise resources for training?
> How to manage training resources?

This booklet intends to shed some light on the models and methods of financing TVET, and to raise some of the most frequently discussed issues. After a brief chapter on training costs, the following section will introduce the most important financing instruments, discuss their objectives and problems and point to relevant experience in other countries.

It is important to emphasise that there is no single international best practice to finance training. The effectiveness and appropriateness of the financial instruments is always dependent on the very specific problem, policy and stakeholder context. Each country that embarks on a TVET reform and aims to change the rules of its financing, needs to find its own way, i.e., its own best mix of different financing instruments that can accommodate the specific circumstances, resources and policy objectives.

1. Some Remarks on Training Costs

TVET is generally substantially more expensive than general education. This is mainly caused by

> lower student to teacher/trainer ratio in TVET compared to general education;
> high capital cost for training workshops and equipment;
> higher cost of training material, in particular if technical fields are concerned;
> more diversified system of curricula and standards which increases administrative cost incurred in the TVET system.

The cost of TVET programmes varies significantly with different types of training. Cost is dependent on where the training is provided (e.g. training institution or company), the relationship between practical and theoretical training, the organisation of practical training (e.g. training with production, apprenticeship or school workshop), whether trainees receive allowances and boarding or not, and on other determinants that are related to the organisation of training programmes.

Generally, training costs are composed of (see box):

1. Cost related to the subsistence of trainees
2. Capital and recurrent cost of training institutions including teachers' salaries, workshops and equipment, training material, administration of the training centre, institutional overheads
3. Cost incurred in companies that provide training, for instance apprenticeship training or attachments
4. Cost of examinations and certification
5. Cost of national TVET administration (ministries of education or labour, national training authorities, etc)
6. Cost to train the trainers

In some types of training parts of the cost can be recovered by income which the trainee generates through productive work while s/he is in training. In the German dual system, for example, where almost the entire practical training is delivered in enterprises, it is estimated that on average 47% of the gross training cost are recovered through the value of the work of the apprentice.

Furthermore, the sources of funding for each cost element differ from one type of training to the other. For example, sometimes trainees receive an allowance and/or boarding services while attending a training programme. In this case, the subsistence cost of the trainee is borne by the government. Where there are no boarding or allowances, the subsistence is borne fully by the family of the trainee. In the German dual system the enterprise is paying the apprenticeship wage, which covers the trainee's cost of living while in training.

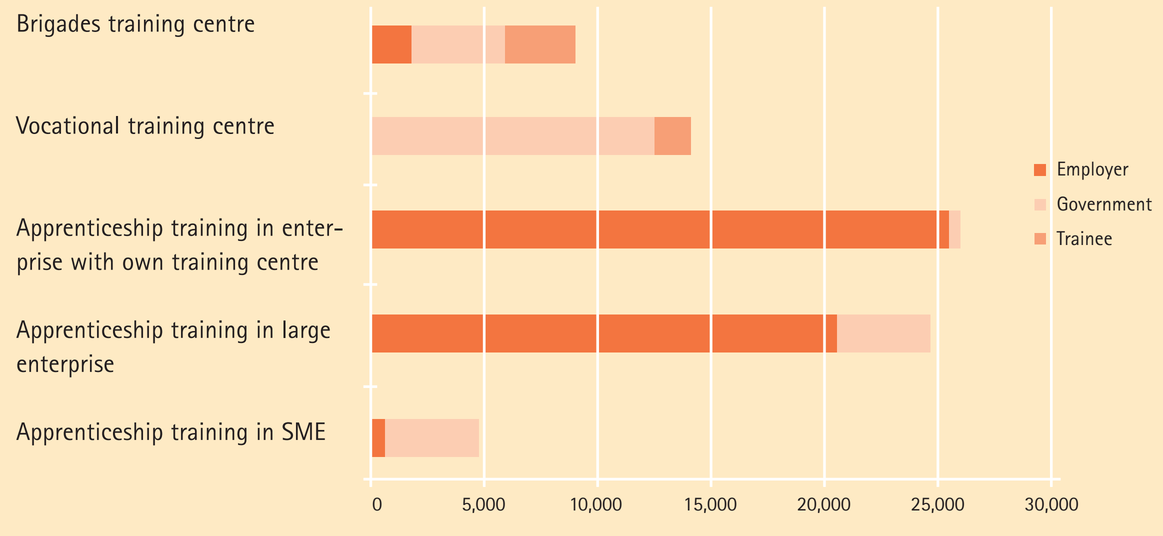
It should be emphasised that the specific kind of cost sharing, which usually reflects a different type of training organisation, tends to have a substantial impact on government spending for TVET. Different kinds of training are more or less expensive for government. For example, training fully delivered in a training institution is usually more expensive for government than apprenticeship training.

The example below shows the result of a cost assessment in different training schemes in Botswana that all lead to the same formal artisan qualification. It demonstrates not only enormous absolute cost differences between the different types of training delivery, but also the different cost burdens on government, enterprises and trainees. The high cost of apprenticeship training in large companies is mainly due to the fact that these companies pay wages to their trainees which are substantially higher than the stipulated apprenticeship allowance.

Composition of Training Costs

	Cost component:	Items:
I	Subsistence of trainee	**Student related costs** > Wages, salaries, allowances of the trainee (or pocket money) > Non-wage payments (bonuses, fringes, benefits) > Accommodation > Meals > Transport > Recreational activities, etc.
II	Cost of training institution (training workshop, classrooms, etc.)	**Instructors** > Salaries and benefits of full-time instructors > Salaries/benefits of part-time instructors > Cost of external instructors > Training of trainers (incurred at school level) **Training material** > Training equipment and material > Tools > Protective clothing **Administration** > Administrative staff > Water, electricity, communication, etc. > Any other recurrent cost (e.g. insurance) **Capital cost** > Depreciation of building, rent or notional rent > Depreciation of equipment and machines
III	Cost incurred in enterprises	**Company training centre/workshops** > Instructors/supervisors > Training material > Capital cost (depreciation of buildings, equipment and machines) > Administration of training centre **On the job-training** > Supervisors/instructors (also part-time) > Training material > Others
IV	Other cost	**Cost for examination** > Cost of assessment and certification system (test item development and management, issuance of certificates, etc.) > Cost of testing centres (incl. staff, testing material, overheads, depreciation, etc) > Transport/allowances for testers > Transport/allowances for candidates **TVET administration** > Proportionate cost in line ministries > TVET authorities > National training boards/councils > Research and services **Technical teachers' training** > Training institutions > Subsistence of trainees
	Minus return	**Enterprise** > Income through productive work of trainee > Opportunity gains of recruitment **Training institution** > Income through training with production > Other income of training centres **TVET administration** > Consultancy services > Other income (accreditation fees, etc.)

Example: Training Cost Differences in Formal Artisan Training Schemes in Botswana (in Pula)



Source: Jutta Franz, et al. (1997), Report on Financing Vocational Education and Training in Botswana. National Training Policy Study. Gaborone.

The example also demonstrates that if and when training costs are assessed it is important to look at each TVET sub-system differently. Understanding different cost structures in different types of training delivery allows for a more informed discussion about possible options to develop national TVET systems in a cost-effective way.

2. Diversification of Financing through Cost-Sharing with Trainees: Training Fees

In most countries, trainees do contribute to the cost of training in one way or the other. In public training schemes, they often contribute indirectly through loss of income and by covering their subsistence costs while in training. On the other hand, private commercial training institutions usually charge full cost-recovery fees from trainees. In many developed and developing countries, a rapidly growing private commercial training market actually demonstrates a high potential and preparedness of trainees and their families to invest in training.

While private training has always been fee charging, the introduction of training fees in public training institutions is now also becoming a widespread issue of discussion. Usually, the immediate reason for the introduction of fees is to raise additional resources for financing public training. However, training fees are also seen as

> an instrument to increase the value of the training for the trainee and to make sure that training is provided to committed students only (commitment expressed in preparedness to pay); and

> an appropriate price for the individual return of training through increased job and income opportunities after graduation.

The level of fees charged or introduced in public training programmes vary substantially. Sometimes so-called commitment fees are introduced, which are very low and mainly meant to be token contributions to demonstrate an interest in the training by the student. More often, however, fees become increasingly a significant cost-recovery factor in the provision of public training. This is more the case in short-term than in long-term training. Long-term training is often pre-employment training of school leavers where fees tend to be kept low for social reasons. In China, for example, fees have now been introduced for all secondary education streams including technical education. Government usually covers the bulk of investment cost plus teachers' and trainers' salaries. Training institutions have to recover the remaining cost through own income, mainly the income from training fees. The institutions can determine the fees on their own but need to have the fee level approved by a public price committee.

The introduction of training fees is often justified by the relatively high cost of TVET and fees are therefore calculated on the basis of training costs or a percentage of it. In the context of the entire education system, this can be a trap, however. When fees charged for TVET programmes are higher than fees for comparable general education, TVET may become an even more unattractive option, and existing prejudices of youth against TVET may be reinforced.

Introduction of Training Fees in African Countries

In many African countries, including Malawi, Madagascar, Mauritius, Nigeria, Tanzania, Zambia and Zimbabwe, training fees have been introduced in public TVET institutions. Fees are often commitment fees only. For example, fee income to the Industrial Vocational Training Board in Mauritius accounts for only 1 to 2 % of the total revenue. In other cases, fees are more substantial, although never at a cost-recovery level. In public training centres in Tanzania, for example, fees cover about 15% of recurrent cost, in Madagascar 27% (Ziderman 2003). In its recently published Financing TVET Strategy, the Ethiopian Government has set the target of recovering 30% of recurrent training cost through fees.

Overall, the rapid development of training markets with an array of private training providers as well as the trend to more and flexibly delivered short training courses to accommodate life-long learning is likely to make training fees a more and more common and accepted mode of training cost-sharing.

Mitigating the Social Impact of Fees

The introduction of training fees runs the risk of excluding low income groups from training. Therefore, mitigating strategies such as targeted subsidies are considered and developed in most cases where training fees are introduced, in particular for long-term training. Such mitigating instruments include, for example:

> Loan schemes and graduate taxes: Trainees have access to (often subsidised) loans to cover tuition and living expenses, which have to be repaid after graduation, when the trainee starts earning an income. Those schemes, more frequently introduced in the context of higher education, are not without problems. They are very costly initially until repayment takes off. To trace graduates and organise repayment after graduation requires substantial bureaucratic efforts, which often exceeds the actual revenues from repayment. Furthermore, income prospects of TVET graduates, as compared to higher education graduates, are often too low to organise loan repayment in a socially acceptable manner. This applies in particular to low income countries, where TVET graduates often find employment in the informal sector. Similar to loan schemes, a graduate tax is a kind of deferred cost-recovery, as students are expected to pay fees after graduation. The same problems as for loan schemes apply, mainly related to bureaucratic burdens, lack of income of graduates and difficult traceability of graduates.

> Exemption of poor trainees: Poor trainees may be exempted from paying fees on the basis of a means test. This instrument requires transparent and non-corrupt methods of means-testing. It is more likely to function in decentralised systems, where major management responsibilities are with the training institutions. However, if a great number of students is granted exemptions, the income from fees for the training institution is declining. This may create a particular problem for training institutions in poor, often rural areas.

> Scholarships from employers and other organisations: Employers or socially oriented organisations may provide scholarships to trainees. It is very common that employers financially support further training of their employees through refunding all or part of the training fees. In order to provide an incentive for good performance, it is also common that employers would only refund training fees after the training has been successfully completed and the trainee received a certificate. This kind of sponsorship is likely to become an increasingly important financing mechanism for life-long learning.

3. Commercialisation of Training: Income Generating Activities of Training Institutions

Another instrument to increase resources for TVET is to systematically strengthen the capacities of training institutions to generate additional income. Public TVET schools are increasingly encouraged and granted incentives to earn own income through commercial activities. In many countries, income generating activities (IGA) have always been practiced to some extent. However, the trend is clearly to encourage, extend and systematise this source of revenue.

Empirical Evidence

Generally, the income potential varies significantly from one school to another depending, among other things, on the range of training programmes offered (i.e., the type of products that can be sold), on whether the school is located in town or in rural areas (economic potential of environment) and other determinants.

Empirical data on cost-recovery rates through income generating activities also vary substantially. Usually, cost-recovery rates between 10% and 30% are common. Often, training centres run by NGOs and churches demonstrate remarkable success in subsidising training through commercial activities. Some have managed to reach almost full-cost recovery of training activities through a commercially oriented training approach. In these cases IGAs include the running of commercial workshops side-by-side with training activities, where trainees are active. Often, however, this approach results in relatively low enrolment rates.

Training with Production in Botswana

A well-known example of combining training with income generating activities is the Botswana brigades. Brigades are community based, independent development organisations involved in providing training, employment opportunities and services to the local community. The brigades offer formal and non-formal training in various occupations that are in demand in the community. Training is provided entirely at the brigade, organised as Training with Production, i.e., a combination of theory classes, practical instruction and real work experience (production). The curriculum of the training programme clearly states the amount of hours trainees have to spend in the training unit (theory and practical instruction) and the production unit. The production units of the brigades offer commercial services to the communities, such as auto repair, general mechanics, plumbing, construction, electricity, horticulture, etc. Brigades run workshops and participate in public tenders (e.g. construction). Entirely commercial activities, i.e., service provision without training, supplement the income of the brigades. Typical commercial production activities include blockyards, supplies and material shops, rental of property, woodwork, and agricultural activities. It is assumed that the production activities of the brigades recover at least 20% of the recurrent training cost.

The range of IGAs is wide and depends on the specific economic environment of the training institution, on how much flexibility the institution is granted and how creative its management is. Typical income generating activities include:

- Delivery of special/tailor-made training programmes for various target groups on a contract basis
- Evening courses offered to the general public
- Sale of products produced by students during the training, such as garments, wooden and metal furniture, tools, etc.

- "Training with Production", i.e., practical training as contract work (e.g. construction work, building maintenance, furniture production, sewing of school uniforms, typing services, etc.), or service centre (for example a coffee shop and restaurant)
- Letting and lending out of buildings, equipment and machinery
- Commercial use of equipment (e.g. Internet facilities in computer lab)
- Special events, such as open days with fundraising activities, dancing evenings, etc.

Some Concerns

Commercial activities of training institutions are discussed controversially. In particular the sale of products produced during the training is a cause of concern. Since the production is subsidised (tax free and free labour of students), it is feared that it may create unfair competition and crowd out the local market. It is difficult to empirically prove this assumption, and one may argue that training institutions should only offer training in those occupations where the market is large enough to accommodate many suppliers. Furthermore, there are indications that the cost advantage is often offset by inferior product quality offered by training institutions. Another argument is that training centres, in particular in rural areas, may be the only providers of special products and services, which would not be available otherwise.

Another frequent concern is that commercial activities may become more important than the actual training thus reducing the quality of training. This risk can be reduced by a systematic division between training and commercial activities in the management of schools. Furthermore, increased interaction between training centres and stakeholders in the local market may improve the market-orientation of the training institution, and hence improve the quality and relevance of training.

Encouraging IGAs

Instruments to encourage and stimulate an increase in income generating activities usually include:

- Granting autonomy to training institutions in terms of the use of the generated funds (within the overall legal and regulatory framework) is usually a first step to encourage IGAs. Very often, public training institutions had been forced by civil service laws and financial regulations to transfer funds earned through IGAs to the public finance authorities. This situation does not provide incentives for training institutions' management to increase income generating efforts.

- Some countries have started to "enforce" income generating activities through reduced budgetary allocation. In the VETA owned centres in Tanzania, for example, the anticipated share of own school income is deducted from the public subsidy in order to put some pressure on the schools to actively embark on IGAs. If the school fails to reach its income goal, it would have to cope with reduced spending. Other countries have started to limit the public subsidy to teachers' salaries and capital costs, leaving the responsibility to earn the additional income to the school. A case in point, as mentioned before, is China.

- Overall, success in increasing IGAs will more than anything else rely on competent and committed school management supported and supervised by active school boards. Therefore, instruments to encourage training institutions to embark on IGAs usually also include training and reorientation of school managements towards market-oriented management approaches.

4. Raising Training Investment of Enterprises

Enterprises are main beneficiaries of good and relevant TVET as a skilled workforce improves productivity and profits of a firm. This is why enterprises are usually expected to contribute to the financing of training above their usual tax contribution to the public budget. A wide range of different ways to let employers contribute to cost of training are being implemented, tailored to the specific economic conditions and training traditions in each country. Instruments range from incentives to invest in training to different compulsory contributions.

Principally, enterprises can contribute to, or invest in, training in different ways:

1. As a "real" investment, i.e., companies directly provide and deliver training to staff or apprentices. A typical example is the German dual training system. It is estimated that German enterprises spend on average € 8,700 (net) on the training of each apprentice. All over the world, large in particular technology intensive enterprises often run their own training centres for staff training purposes.

2. Through financing of staff training schemes. Enterprises directly pay for staff attending short or long training courses in public or private training centres and even abroad.

3. Through contributions to sector-specific or national training systems. This is often a "forced" investment, i.e., a compulsory contribution in way of paying a training levy or a specified amount to training institutions.

4. As voluntary contributions. This may take the form of scholarships for certain students/trainees, or financial or in-kind contributions to individual training centres, for instance equipment and training material, secondment of teachers, etc. In Iran, for example, some large companies have started to support public training centres that provide training in relevant occupational fields with training equipment and support to teachers' training.

The specific instruments governments choose to influence enterprise investment in training depends on the specific training system in each country and the policy priorities. Some typical patterns and problems are discussed in more detail below.

Incentives

Providing incentives for employer-based training is aimed at increasing employers' own responsibility in the provision of training. Special incentives for investment in training are most effective in countries with an already well developed culture of enterprise involvement in training. Typical incentives include:

> Training expenditure of enterprises is tax deductible. As a consequence, governments bear part of the cost of training conducted by employers. In Chile, for example, companies can reduce 1% of their tax obligations if they invest this amount in training and can prove the expenses. As a special incentive, some countries even allow for more than 100% deduction of actual training expenditure. One case in point is the Double Deduction Incentive for Training (DDIT) Scheme in Malaysia which allows companies to subtract twice their training expenditure from gross income to compute tax liability. However, those schemes are often not effectively used because bureaucratic requirements to establish eligibility are too high. Another problem is that tax rebate schemes often benefit only a limited number of companies. In particular in less developed countries, many enterprises do not pay taxes or operate below taxable profits.

> Enterprises are granted exemption from import taxes on training equipment, for instance in Pakistan and the Republic of Korea.

> In some countries, for instance the Republic of Korea, enterprises are offered low-interest loans and exemption from appropriation, property and land taxes if they build training centres.

> Finally, some governments offer direct subsidies or cost-sharing for training of employees or apprentices. Examples can be found in Europe, like in the United Kingdom, Belgium and Germany.

Training Levies

Training levies, or training taxes, are a very common method of compulsory investment, that can be found across the developed and developing world. Depending on how levy schemes are designed in detail, they can serve very different policy objectives ranging from supplementing public training financing to encouraging direct enterprise training delivery or enterprise financing of individual training institutions.

In most cases, training levies/taxes are introduced on a national scale and across industries. However, there are also many examples of sector or industry levies, for example in tourism, in the construction industry, or the fishing sector. Sometimes only certain types of companies are subject to levy payments. Very often levy systems exclude small businesses, for instance in Nigeria, Tanzania and Zimbabwe. In Peru, the size of enterprises who are obliged to pay the levy has recently been increased from five to 20 employees. Sometimes only a defined group of employers, for instance the most important industries in the country, is levied.
In Korea, only those enterprises were charged a levy that failed to comply with the compulsory training requirements introduced in the country. In Germany, where the introduction of a levy is being contemplated in recent years, only those enterprises are meant to be targeted that do not meet a set minimum target of apprenticeship training. Singapore is an interesting example of a country that decided to impose a levy on lower wage workers only, an instrument meant to support the policy of restructuring the economy into a more capital-intensive production system. Malawi until the 1990s used to have a levy for financing apprenticeship training, and only companies with employees in apprenticeable trades were obliged to pay the levy. Often, the public sector as an employer is exempted particularly if the government is already significantly involved in training delivery systems.

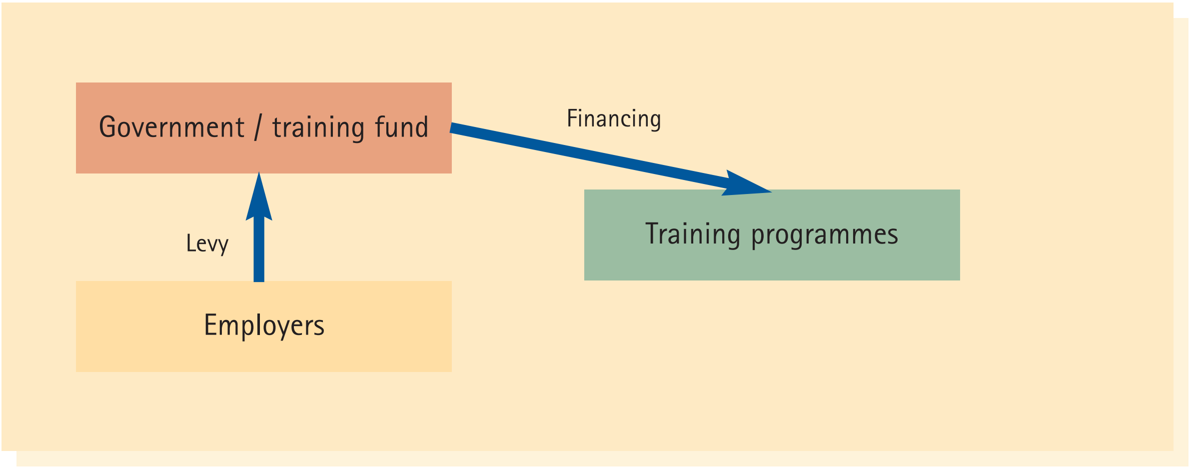
Most commonly, levies are based on the payroll of an employer usually ranging between 1% and 2% of the wage bill of an enterprise. Some countries frequently adjust the levy amount with changing economic conditions and financial requirements. Peru, for example, has recently reduced the training levy from 2% to 0.75%. Together with the reduced group of levy paying companies this has led to a reduced levy income forcing training institutions to sell their training programmes in the market.

In the case of sector levies that are earmarked to finance sector-specific TVET initiatives, levies are also based on turnover, output, profit or contract value. In the Botswana construction sector, for example, contractors have to contribute a small percentage of the value of government contracts into a construction sector training fund earmarked for supporting sector training initiatives.

Straight Levy Systems

The objective of straight levy systems, also called revenue-raising schemes, is to supplement public training expenditure and to make sure that all enterprises are equally contributing to the cost of national training delivery. In this case, the levy is channeled directly into the public budget, an ear-marked training account or a national or sector training fund (see also next section) out of which training programmes are financed. As the example of Tanzania demonstrates, this kind of financing scheme can provide a stable source of income for the training system even in poor countries.

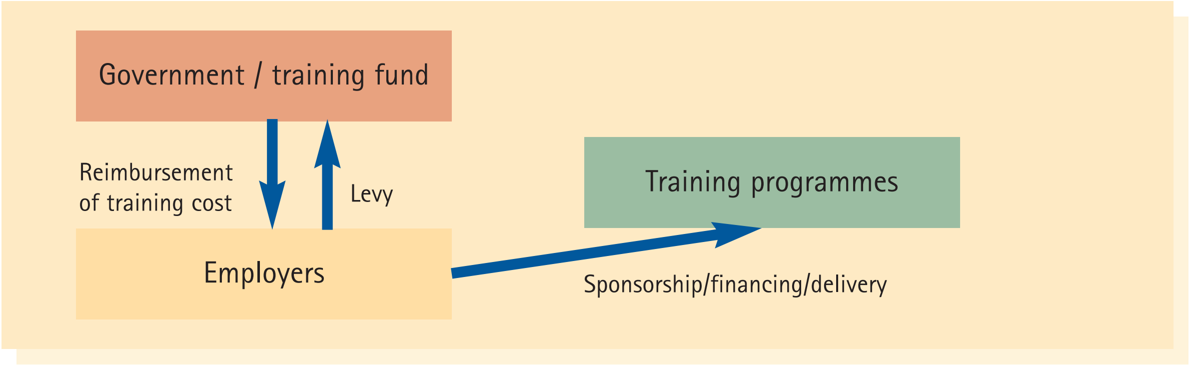
Straight Levy System (revenue-raising scheme)



Levy-grant Systems

Straight levy systems may provide disincentives to enterprises to embark on their own training initiatives and training delivery. If the active involvement of enterprises in the training system is intended – either by direct training delivery or by sponsoring of external staff training - so-called levy-grant systems may be more appropriate.

Levy-grant Scheme

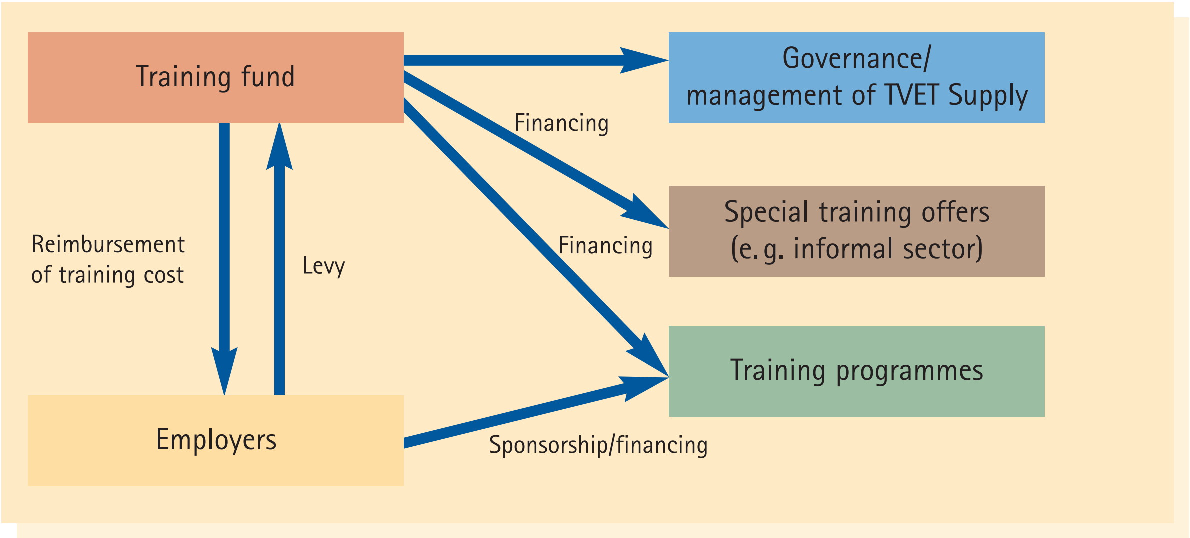


In levy-grant systems, those employers who have already invested in approved training programmes can claim the expenditure or part thereof back or they are being exempted from paying the levy. The levy-grant system therefore ensures that mainly those companies that do not train themselves become net payers for the training systems. On the other hand, companies that decide to train themselves will not pay or may even get expenses reimbursed that exceed their levy obligations.

This system has two advantages: Firstly, it provides incentives for companies to embark on training on their own thus stimulating enterprise investment in training. Secondly, it compensates training companies for their training efforts vis-à-vis non-training companies. Particularly in countries without a solid tradition of employer-based training, enterprises often tend to refrain from training investment with the argument that trained workers may leave for better jobs after training.

Nowadays, TVET reforms are often designed to develop more comprehensive national training structures in an effort to increase public-private partnerships, to broaden the involvement of stakeholders and to make sure that training is of high quality, labour market relevant and serves the training needs of the entire population. As a consequence, institutions are created such as national training councils and authorities, labour market observatories, national qualification frameworks, or assessment and certification bodies. Furthermore, diversified training offers are being developed for an array of different target groups including the informal sector, the unemployed, socially marginalised groups, etc. In order to secure sustainable funding for such developments, levy and levy-grant systems may also be integrated into more comprehensive national TVET funding structures, which are often organised through training funds. In these cases, part of the resources that are paid in by employers as levy is directed to supplement institutional costs and to run special training offers that may not be directly relevant for enterprises, such as training programmes for the unemployed. A case in point is South Africa, where 20% of the proceeds of the National Training Levy are channeled into the Skills Development Fund earmarked for funding special labour market training programmes.

Combined Schemes



Such national re-allocation of employers' contribution to training programmes that do not directly benefit enterprises is often disputed. Employers tend to resist such developments. It often requires extensive participatory discussion processes to reach national consensus.

What Makes Training Levies Work?

Training levies are usually well accepted by employers if they see a direct benefit, i.e., if the training which is financed out of the levy income results in a better skilled workforce. Accordingly, the major risk associated with training levies is that organisational and/or administrative deficiencies prevent levy proceeds being spent in an efficient and acceptable way. In such cases, the levy system would usually loose legitimacy resulting in low compliance of employers and consequently low income. Tanzania is a case in point, where the compliance rate with the levy continued to be very low for many years caused by a lack of responsiveness of the training system to the needs of employers.

Typical traps levy systems have fallen in include:

> Levy proceeds were not used for training but diverted to other purposes;
> The kind of training financed through the levy did not benefit all levy-paying employers;
> A low capacity to spend the levy income led to accumulated unspent income.

Experience has shown that training levies work best under the following conditions:

> The decision to introduce a training levy and the specific rules and conditions are made in co-operation and with the agreement of the enterprises;
> Enterprises which pay the levy are involved in the governance of the levy system and the decision on how the levy income is used (for example through Boards);
> The levy rate is reviewed periodically and adjusted if conditions change;
> The levy collection system must be designed in an effective and transparent manner;
> Mechanisms are in place to safeguard levy revenues from misuse and diversion, for instance through the establishment of specially earmarked accounts.

Promotion of Training Activities in the Informal Sector

The informal sector, in many developing countries by far the most important sector in terms of employment and economic opportunities, has often been overlooked in discussions on funding mechanisms for TVET. Very rarely are informal enterprises integrated in levy systems. Due to resource constraints and an array of cultural barriers small and very small enterprises will hardly be buying training services in the training market. Training and the informal sector is a sphere mainly dealt with by special development programmes and NGOs.

It should be emphasised, however, that the informal sector often has a large contribution to national skills development by organising informal on-the-job training in small and micro companies, the so-called traditional apprenticeship system. In many countries, in particular in West and Eastern Africa, traditional apprenticeships represent a well established – and self-financing - training system with established rules and conditions. Acknowledging this contribution, some development projects have emerged, notably in Zimbabwe and Nigeria. They aim at strengthening traditional training and increasing the number of young people that can be absorbed in the system.

The trend to develop more comprehensive and nationally oriented training funds furthermore opens up new opportunities to financially support training initiatives for and in the informal sector. Out of training funds, special programmes earmarked for training target groups in the informal sector can be financed. Emerging training markets, discussed below, have the potential to facilitate such training in a demand-driven way.

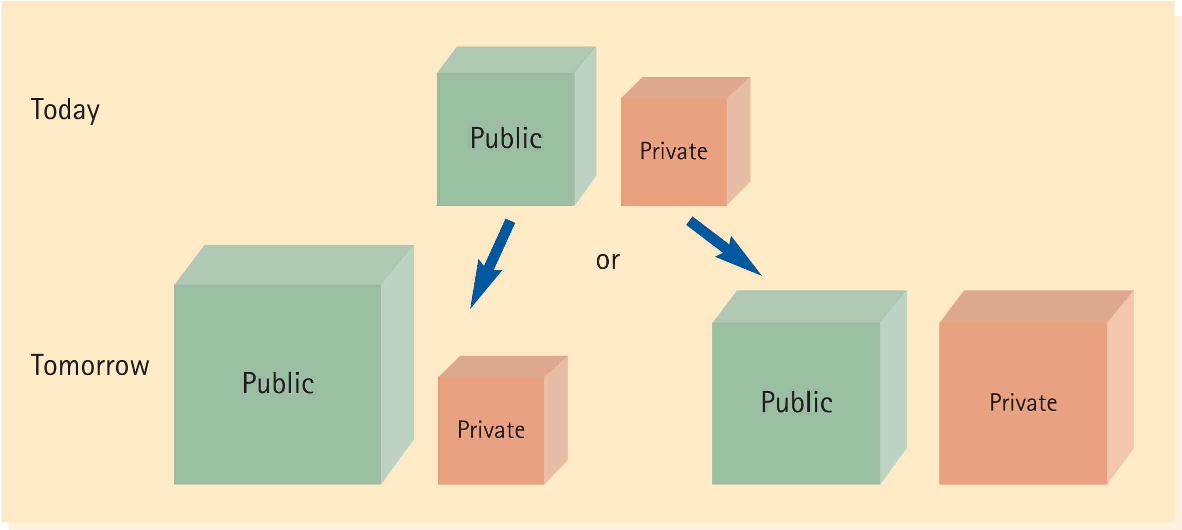
5. Training Markets and the Role of Private Training Providers

Another important instrument to mobilise additional resources for TVET is to encourage private investment for training institutions. Private investment in training can be instrumental in taking some of the financial burden away from government, in particular investment costs for new training centres. Aiming at the same quantity of training to be facilitated, the public sector spends less if substantial private investments form part of the training supply. This leaves more public TVET resources for other important tasks, such as teacher training, development of standards and curricula, trade testing, etc.

A strategic policy to strengthen private training providers has often been adopted in those countries which suffer from budgetary constraints and where the public sector is not able to allocate the financial resources necessary to maintain or extend the national TVET system. These examples include, for instance, some of the transition countries in Eastern Europe and many countries in Africa. Another prominent case in point is Chile, which started already during the 1980s to systematically support the development of non-public training providers. As a consequence the number of private training centres without any public funds were raised from 0 to 168 between 1980 and 1990. In the Czech Republic all new technical training programmes that emerged since 1993 are provided by private stakeholders .[1]

Furthermore, the emergence of private training providers can help to increase quality, efficiency and cost-effectiveness of training, also in the public training system. Unlike public training institutions, private commercial schools have to conform with market rules and sell their training courses. They have to provide (a) those skills which are in demand, (b) at a level of quality that enables graduates to find employment thereafter, (c) at a cost that is acceptable and affordable to trainees. Often, these private institutions tend to be better in terms of effectiveness and efficiency. As potential competitors to state-run training centres they may provide good examples, experience and expertise for the entire national training system.

Increasing the Training Supply



1 See Indermit S. Gill, Fred Fluitman, Amit Dar (ed.) Vocational Education and Training Reform. Matching Skills to Markets and Budgets. A Joint Study of THE WORLD BANK and THE INTERNATIONAL LABOUR OFFICE. Oxford University Press 2000, pp. 26ff.

What Can Be Done to Develop and Strengthen Private Training Providers?

There are a variety of legal, financial, administrative and policy instruments to strengthen the private training sector. The aim of all these instruments is to overcome the discrimination of private training providers and to create a level playing field between public and private institutions. Instruments to create a generally conducive market environment for private providers include, for example:

> Easy and transparent licensing and accreditation systems;
> A clear and lenient legislation governing the operations of private providers;
> Fiscal and policy instruments to ease access to the market (access to land and credit, tax holidays);
> Recognition of certificates provided by private providers.

Another way to stimulate private training provision is to channel public funds into the private training sector. Iran, for example, has established a special credit fund for private training institutions offering low interest loans to finance investment in private training centres. Furthermore, the Iranian Government is "buying" public training programmes in the private training market, i.e., it is sub-contracting private centres to provide TVET programmes for specific target groups.

Demand-side Financing in a Training Market

Another approach is demand-side financing of training with public and private training centres competing for the delivery of publicly financed training in a competitive training market. This can be facilitated in different ways, for example:

> Some countries have established voucher schemes. Specified target groups receive vouchers that can be used to pay for training courses at any accredited public or private training institution. The training institutions accept vouchers as payment from the trainees and receive the money equivalent upon presentation of the voucher from the subsidising agency (e.g. government, training funds, donors, etc.). Such a voucher scheme has, for instance, been implemented by the National Vocational Training Board of Mauritius that handed out vouchers to small businesses to finance staff training. Vouchers have also been introduced in non-formal training programmes in China.

Training Vouchers in the United Kingdom

In the early 1990s, a voucher system has been introduced in the UK with the aim to create a training market and increase access to training. The scheme mainly targets 16 and 17 year old school leavers. It was accompanied by decentralisation of the public training system and privatisation of public training institutions.

Training vouchers ("credits") have different values ranging from less than £500 to more than £5000 based on the individual's own training plan and the training cost in the local market. Trainees applying for a voucher consult with approved training providers who support them in developing a training plan. Training Enterprise Councils (TECs) will then examine and approve the plan and release the credits in phases.

Implementation so far has shown that the introduction of the voucher scheme has increased competition among training providers, enhanced quality of training and management capabilities in the training institutions and deepened co-operation between training institutions and employers. However, the scheme is expensive, as substantial resources for market information, management and monitoring are required.

Source: Vladimir Gasskow: Managing Vocational Training Systems, International Labour Office, Geneva 2000, p. 214-215.

- Other methods include the tendering of publicly sponsored training programmes, for example in Chile and Ivory Coast. In these cases, the national authorities responsible for training provision define training programmes to be sponsored and invite public as well as private training providers to submit tenders for the training delivery in a process of competitive bidding. Eligible are accredited or pre-qualified training providers. In the case of Ivory Coast, non-public providers win about 75% of all training contracts that are awarded through competitive tendering[1].

A joint World Bank and ILO study on TVET reform[2] found ample evidence for an overall increase in quality and efficiency in TVET delivery through competitive training markets, including improvement in public institutions.

6. Managing Training Resources: Training Funds

The type of management of training resources can strongly influence the development and shape of training systems: by sending signals to stakeholders and training providers, by influencing training markets and by setting training priorities. The emergence of training funds is one expression of the increased attention to appropriate structures in the management of training resources.

Training funds are sheltered budgets for specific purposes. Objectives, organisation and management of these training funds may vary from country to country. Comprehensive national training funds have become common, often accompanying and meant to support policies that aim at creating national, co-ordinated and integrated TVET systems.

National training funds are usually designed to concentrate and co-ordinate different funding flows in the training system and are often the financial arm of national training authorities. Apart from training delivery, training funds may also finance supportive services, such as assessment and certification, standards and curriculum development and TVET governance structures.

Typically training funds are sourced by budgetary allocation from governments (instead of direct funding of training institutions), training levies and donor support, or a combination of some or all of these sources. Other incomes of national training authorities (or other fund controlling organisation) such as license, testing or consultancy fees, may supplement fund incomes.

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1 Adrian Ziderman, Financing Vocational Training to Meet Policy Objectives: Sub-Saharan Africa. First Draft. Report prepared for the World Bank, June 2001, p.63.

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The Human Resource Development Fund in Malaysia

The Human Resource Development Fund (HRDF) was established in 1992. Its main source is a payroll levy of up to 1%. Initially government contributed a grant that matched the projected levy income in the first year and supplementary grants during the following three years. The fund is governed by the Human Resource Development Council with representatives from the private sector and responsible government agencies. A secretariat administers the scheme. The HRDF is aimed at stimulating employers' investment in training. Resources of the HRDF are used to reimburse part of the training expenses of companies which have paid the training levy. The Council has set different reimbursement rates for different kinds of training and different types of employers. The fund has three main windows, or training schemes that are eligible for reimbursement: the ATP (Approved Training Program) for approved training in registered institutions, the SBL (Skim Bantuan Latihan) scheme for ad-hoc in-plant or external training from non-approved institutions and the PLT (Pelan Latihan Tahunan) scheme for firms that train regularly and do not want to submit applications every year.

The HRDF also sponsors special programmes. To respond to the shortage of skilled workers in specific industries, the Human Resource Development Council has established an apprenticeship fund, which covers 95% of actual costs of HRDC-initiated apprenticeship schemes. Costs include apprentices' monthly allowances, insurance premiums and consumables for training.

Sources: Hong W. Tan and Intermit S. Gill: Malaysia. In: Vocational Education & Training Reform. Matching Skills to Markets and Budgets. Edited by I.S. Gill, F. Fluitman and A. Dar. World Bank and International Labour Office, Washington D.C. 2000; and information provided by Malaysia Manufacturers Directory and Trade Portal http://e-directory.com.my/doc/manpower for industry.htm

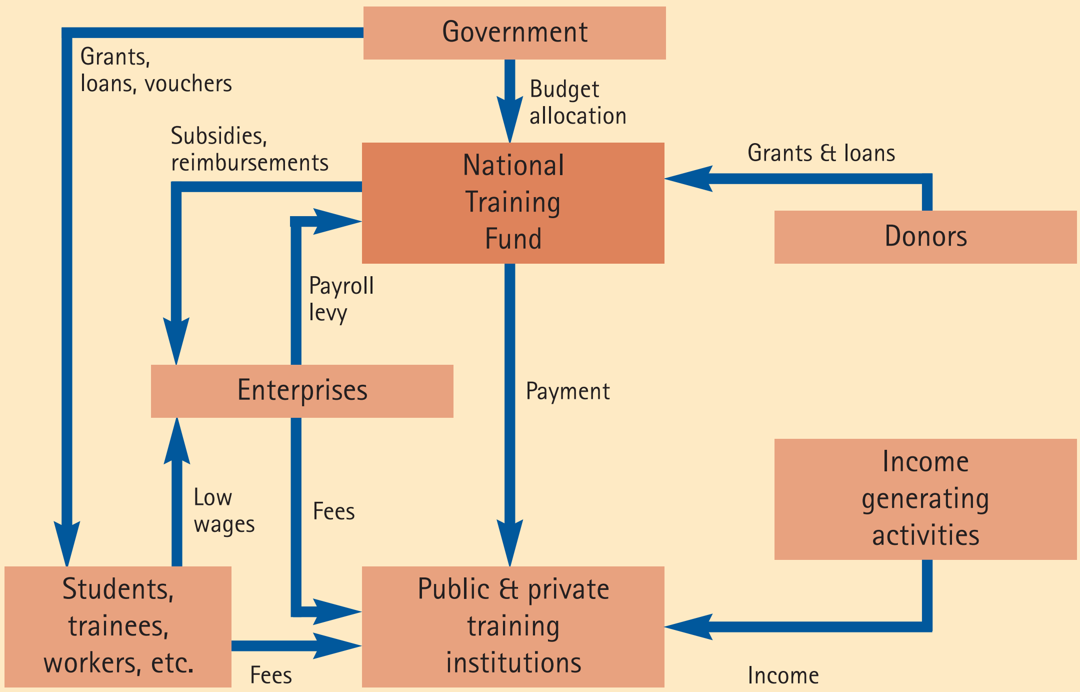
Examples for national training funds include Singapore, Malaysia, South Korea and a number of African countries. In Macedonia, Albania, Poland, Hungary and Turkey national training funds have been set up as combined employment and training funds.

Advantages of Training Funds

Financial management through training funds has advantages over conventional systems of direct institutional funding:

- Training funds are sheltered budgets, i.e., resources are clearly earmarked for training purposes and cannot easily be diverted to other (non training) purposes;
- Often, training funds have several income sources, providing a secure and stable funding source for TVET;
- Training funds often target various sub-systems of the TVET system, therefore promoting and facilitating integration and co-ordination of training development;
- Training funds make it easy to allocate national training resources according to nationally agreed and changing training objectives. This may also include a re-allocation between different training sub-systems. For example, parts of levy income may be used for sponsoring training for the informal sector or for the unemployed;
- Training funds allow for stakeholder participation in management and funding decision;
- Finally, training funds make it easier to employ modern and unconventional transfer methods, such as performance-based or outcome-based financing of training institutions.

Finance Flows in Integrated, Demand-Driven Training Markets



Source: Adapted from Ziderman, Adrian (2003), Financing Vocational Training in SubSaharan Africa, World Bank, p. 54.

Good Governance of Training Funds is Important for Success

The governance structure of training funds is crucial for success. Transparent decision-making and management is important for creating and maintaining legitimacy and trust among enterprises and those who contribute to the fund resources. Training funds are usually governed by boards, which may at the same time be national training boards or national training authorities with wider responsibility in TVET policy making. In these cases fund decisions are assumed to be in line with national training priorities.

Experience has shown that funds are more successful and sustainable, where the composition of the boards reflects major funding sources and beneficiaries ensuring a broad stakeholder representation in policy making, supervision and spending decisions. A tripartite composition with equal representation of the social partners, but also a wider stakeholder involvement including training providers and representatives of civil society is common.

7. Managing Disbursement: Mechanisms to Improve Performance in the TVET Sector

In a move to increase performance of public training institutions, countries (notably in Europe) depart from the traditional way of direct and guaranteed budgetary allocations to training centres and have started to employ different methods of linking funding to performance. These new methods all have in common that they intend to provide incentives for public training institutions to improve performance, for example improved quality and relevance, increased enrolment, increased cost-effectiveness or better employability of graduates.

Depending on the specific policy objectives, and the management structure and capacity of public training institutions, funding may be made dependent on the following parameters:

- Enrolment (input-based funding): Allocation of funds is made according to the actual enrolment achieved in order to encourage institutions to fully utilise their capacities and even to increase enrolment. Usually, a certain amount is calculated that is transferred to the institution per trainee in a specific course.
- Output: Allocation depends on the number of trainees that actually graduate, providing incentives to training institutions to increase internal efficiency, for instance through improvement of training quality or introduction of student guidance.
- Outcome: In outcome-based funding systems, the allocation is dependent on the achievement rate in terms of the intended outcome, i.e., usually the number of graduates who find a job after training. This system has been used, for example, in some European countries in the context of labour market training for unemployed. A major problem particularly in output- and outcome-based funding systems is the risk of "creaming", i.e., training institutions pick the best candidates only in order to maximise their chances to reach the targets, leaving the low achievers and problem groups behind.
- Composite formula: Composite funding formulas can be a suitable mix of any of the above-mentioned funding criteria, often combined with some institutional base funding that is not dependent on specific performance criteria. For example, institutions would be allocated the cost for staff salaries independent of the performance plus a specified lump sum per trainee (input-based funding) to cover the remaining cost of the training.

In performance-based allocation systems training institutions that do not achieve the set targets will be allocated fewer resources.

Composite Formula Funding in Denmark

Denmark has decentralised its training system some years back. Publicly owned schools are managed independently and are expected to earn revenues through selling training courses in the market. The Ministry of Education remains the major purchaser of training programmes, however, it is allocating its grants according to actual performance of the individual school.

Grants of the Ministry of Education to schools are divided into expenses directly related to teaching and joint expenditure. Teaching expenses are calculated as enrolment measured in student full-time equivalents (FTEs) by programme costs, which is dependent on the type and level of programme. This part of the grant, dependent on actual enrolment and training programmes offered, is supposed to cover cost for salaries, materials, teaching aids and equipment. The joint expenditure grant is a basic grant per school meant to cover school administration. It is based on the size of the school and number of courses offered and is different for commercial and technical school.

The grants are disbursed four times a year on the basis of audited reports. Grants are regularly adjusted for the actual number of FTEs. If students drop out, the grant will automatically be reduced. The grants are not earmarked for certain expenses, but the schools are free to allocate resources according to their needs. The funding arrangement is meant to promote efficiency and relevance through competition for students.

Source: Vladimir Gasskov (2000), Managing vocational training systems, p. 210.

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