



## A Review of National Training Funds

Richard Johanson

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This paper is the result of a joint partnership between the Social Protection Unit of the World Bank and the Korean Ministry of Labor on Skills Development. This partnership was aimed at better understanding the Korean skills development strategy and drawing lessons and best practices for developing countries. This paper benefited from the financial support of the Korean Ministry of Labor and the World Bank. The paper expresses the author's own views on the topic which are not necessarily those endorsed by the World Bank or the Korean Ministry of Labor.

**Abstract:**

This review identifies over sixty countries that have – or had – pre-employment and enterprise training funds. The characteristics, advantages and limitations of each are presented as well as key design questions and examples of good practice. National training funds are an increasingly common vehicle for financing training. The review presents a typology of three main types of training funds by purpose: pre-employment training funds, enterprise training funds and equity training funds. The review points to a lack of rigorous evaluation of the impact of training funds on the skills and employability of the workforce in developing countries.

**JEL Classification:** I28, J24, J29

**Keywords:** national training funds, training levies, pre-employment training funds, enterprise training funds, equity training funds

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## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>I</b>
<b>INTRODUCTION .....</b>	<b>1</b>
<b>I. OVERVIEW OF TRAINING FUNDS.....</b>	<b>3</b>
1.1 DEFINITION AND FRAMEWORK .....	3
1.2 OBJECTIVES AND FUNCTIONS .....	4
1.3 TYPOLOGY OF TRAINING FUNDS .....	6
1.4 CHARACTERISTICS OF TRAINING FUNDS .....	6
<b>II. OVERVIEW OF LEVY- FINANCED TRAINING FUNDS .....</b>	<b>9</b>
2.1 TYPES.....	10
2.2 COVERAGE.....	11
2.3 STRENGTHS AND WEAKNESSES.....	14
2.4 SECTORAL LEVIES .....	15
2.5 ADDRESSING THE NEEDS OF SMALL ENTERPRISES .....	17
<b>III. PRE-EMPLOYMENT TRAINING FUNDS (FINANCED BY REVENUE-GENERATING LEVIES).....</b>	<b>19</b>
3.1 OVERVIEW .....	19
3.2 PRE-EMPLOYMENT TRAINING FUNDS.....	19
<b>IV. ENTERPRISE TRAINING FUNDS (IN-SERVICE TRAINING OF ENTERPRISE WORKERS).....</b>	<b>24</b>
4.1 OVERVIEW .....	24
4.2 RATIONALE AND OBJECTIVES .....	24
4.3 TYPES.....	27
4.4 ADVANTAGES AND LIMITATIONS .....	32
4.5 TAX CREDITS .....	33
<b>V. EQUITY TRAINING FUNDS.....</b>	<b>33</b>
5.1 OVERVIEW .....	33
5.2 GOVERNMENT AND LEVY-FINANCED EQUITY FUNDS.....	34
5.3 DONOR-FINANCED EQUITY TRAINING FUNDS.....	35
<b>VI. KEY QUESTIONS AND GOOD PRACTICE IN TRAINING FUNDS .....</b>	<b>48</b>
6.1 COMMON CONCERNS .....	48
6.2 LEVY-FINANCED TRAINING FUNDS .....	50
6.3 EQUITY TRAINING FUNDS .....	53
6.4 UNANSWERED QUESTIONS: AN AGENDA FOR FUTURE RESEARCH.....	55
<b>ANNEX 2.1.....</b>	<b>62</b>
<b>ANNEX 2.2.....</b>	<b>64</b>
<b>ANNEX 3.1.....</b>	<b>67</b>
<b>ANNEX 3.2.....</b>	<b>72</b>
<b>ANNEX 4.1.....</b>	<b>75</b>
<b>ANNEX 5.1.....</b>	<b>80</b>
<b>ANNEX 5.2.....</b>	<b>87</b>
<b>ANNEX 5.3.....</b>	<b>94</b>
<b>ANNEX 5.4.....</b>	<b>99</b>

## List of Tables

TABLE 1. A TYPOLOGY OF TRAINING FUNDS .....	6
TABLE 2. APPROXIMATE DISTRIBUTION OF TRAINING LEVIES BY REGION AND TYPE.....	11
TABLE 3. ADVANTAGES AND LIMITATIONS OF LEVY SYSTEMS.....	14
TABLE 4. ADVANTAGES AND LIMITATIONS OF PRE-EMPLOYMENT TRAINING FUNDS FINANCED BY REVENUE-GENERATING LEVY SYSTEMS. ....	23
TABLE 5. ADVANTAGES AND LIMITATIONS OF ENTERPRISE TRAINING INCENTIVE SCHEMES BY TYPE. ....	32
TABLE 6. ACHIEVEMENTS AND LIMITATIONS OF EQUITY TRAINING FUNDS.....	47

## List of Figures

FIGURE 1. NATIONAL TRAINING FUNDS: FRAMEWORK OF ACTIVITIES .....	4
FIGURE 2. TYPES OF LEVY FINANCING.....	10
FIGURE 3. INCIDENCE OF FORMAL ENTERPRISE TRAINING BY REGION .....	24
FIGURE 4. INCIDENCE OF FORMAL ENTERPRISE TRAINING BY COUNTRY .....	25
FIGURE 5. PRODUCTIVITY GAIN FROM ENTERPRISE-BASED TRAINING (%).....	26

## List of Boxes

BOX 1. MISALLOCATION OF LEVY PROCEEDS IN TOGO AND THE GAMBIA .....	13
BOX 2. THE SOUTH AFRICA SECTORAL LEVY .....	16
BOX 3. PROGRAMS TO REACH SMALLER FIRMS IN SINGAPORE (SDF) AND MALAYSIA (HRDF) .....	18
BOX 4. SENAI BRAZIL .....	20
BOX 5. EMPLOYER-OWNED AND MANAGED TRAINING IN BRAZIL.....	21
BOX 6. MAURITIUS VOCATIONAL TRAINING FUND.....	22
BOX 7. MALAYSIA LEVY REIMBURSEMENT SCHEME .....	28
BOX 8. SINGAPORE SKILLS DEVELOPMENT FUND (SDF) .....	29
BOX 9. COTE D'IVOIRE – VOCATIONAL TRAINING DEVELOPMENT FUND (FDFP) .....	31
BOX 10. FONCAP- CHILE (FONDO NACIONAL DE CAPACITACION) – THE NATIONAL TRAINING FUND .....	34
BOX 11. THE NATIONAL SKILLS FUND (NSF) OF SOUTH AFRICA .....	35
BOX 12. COTE D'IVOIRE CASE- THE VOCATIONAL TRAINING DEVELOPMENT FUND (FDFP)..	39
BOX 13. TRAINING FUND FOR SUSTAINABLE SKILLS DEVELOPMENT IN PAPUA NEW GUINEA	43

## Acronyms

AfDB	African Development Bank
ADB	Asian Development Bank
CEDEFOP	European Center for the Development of Vocational Training
CINTERFOR	Center for Research and Development of Vocational Training /ILO
CNFTP	National Council for Technical and Vocational Training- Madagascar
EBT	Enterprise-based training
ETF	European Training Foundation
FAFPA	Support Fund for Vocational Training and Apprenticeship- Burkina Faso
FAFPA	Fund for Promotion of Employment and Vocational Training- Mali
FDFP	Vocational Training Development Fund- Cote d'Ivoire
FODEFCA	Fund for the Development of Vocational Training and Apprenticeship- Benin
FONCAP	National Training Fund - Chile
GTZ	German technical assistance agency
HRDF	Human Resource Development Fund - Malaysia
IDA	International Development Association
ILO	International Labor Organization
IVTB	Industrial Vocational Training Board - Mauritius
NGO	Non-governmental organization
NITC	National Industrial Training Council -- Kenya
NTA	National training authority
NSF	National Skills Fund – Republic of South Africa
NTF	National Training Fund - Cambodia
OECD	Organization of Economic Cooperation and Development
PNG	Papua-New Guinea
SDF	Skills Development Fund - Singapore
SEBRAE	National Apprenticeship Service for Small Enterprises- Brazil
SENAC	National Commercial Apprenticeship Service- Brazil
SENAI	National Industrial Apprenticeship Service - Brazil
SENAR	National Agricultural Apprenticeship Service-Brazil
SENAT	National Transportation Apprenticeship Service-Brazil
SENATI	National Industrial Training Authority - Peru
SENCE	National Training and Employment Service - Chile
SETA	Sector Education and Training Authority – South Africa
SEGF	Self-employment Generation Fund - Cambodia
SSA	Sub-Saharan Africa
SWDA	Singapore Workforce Development Agency
TGF	Training Grant Fund- Cambodia
TSF	Training Support Fund - Mauritania
TVET	Technical and vocational education and training
UNEVOC	Unesco Vocational Education Center
VET	Vocational Education and Training
VETA	Vocational Education and Training Authority - Tanzania
VTC	Vocational training center

## **Executive Summary**

The objective of the review is to identify lessons of good practice in the design and implementation of National Training Funds. It seeks to answer the question: what is effective, or not, under different conditions.

The review presents a typology of training funds that differentiates three main types by purpose: pre-employment training funds, enterprise training funds and equity training funds. Given the paucity of evaluations, the review presents mainly anecdotal, descriptive evidence on how the various types of training funds are financed and what they have done.

National training funds are an increasingly common vehicle for financing training. A ‘training fund’ is a stock or flow of financing outside normal government budgetary channels dedicated to developing productive work skills. The overall purpose of training funds is to raise the productivity, competitiveness and incomes of enterprises and individuals by providing them with needed skills. Most training funds are financed by levies on enterprises, but may also be based on public subsidies or donor financing.

Generally national training funds serve to (a) unify various sources of financing for training, (b) augment the volume of resources for training, and (c) allocate the funds in accordance with national policies and priorities. Training funds may be single purpose, but most have multiple objectives. These may include pooling of income from various sources, mobilizing resources, building training capacities, expanding the volume of enterprise training, providing access to training by disadvantaged populations, improving the relevance and quality of training, using resources efficiently and developing competitive training markets.

Payroll training levies are the principal sources of financing for training funds. This review has identified over sixty countries that have -- or had -- levy schemes for training. Most schemes are found in Latin America and Africa, but also tend to be prevalent in Europe. Training levies are not restricted to larger countries; they operate in

countries with relatively small populations. However, levy success depends on a sufficiently wide economic base in the formal sector and reasonable administrative capacity.

Payroll training levies are basically of two types: revenue generating levies and incentive schemes. Incentive schemes, in turn, are made up of three types: cost reimbursement, levy grant and levy exemption or rebate. However, distinctions among these types of training levies should not be pushed too far. Few pure models exist; many are hybrids.

Earmarked payroll levies can be viewed as “benefit taxation,” i.e. those that benefit (employers and workers) pay for the training. Levies can provide a steady and protected source of funding for training, particularly in the context of unstable public budgets. However, under fiscal pressure, government may divert levy proceeds into general public tax revenues for non-training uses. Payroll levies may constitute an over-sheltered source of funding, leading to unspent surpluses, inefficiencies and top-heavy bureaucracies

Sectoral, or industry-specific, training funds are an alternative to national (centralized) funding models. Sectoral levies are limited to a defined sector of the economy, such as industry or transport. A national system of sectoral funds offers the advantages of flexibility and the ability to focus more directly on sectoral training needs. They may be more palatable to employers because of a sense of greater industry-specific orientation, less bureaucracy and greater sense of ownership. However, they do not facilitate redistributing funds across sectors or financing non-sector related skill priorities. Sectoral funds may duplicate efforts and fail to develop common core skills, transferable across industries.

Virtually all levy-financed training funds experience difficulties in assisting small enterprises. Reasons include inability of small enterprises to diagnose training needs and design programs; inability to release staff for training in view of production requirements; lack of cash flow. Explicit programs to target small enterprises include vouchers to ease cash flow constraints, grants for training needs analysis and course design, use of



intermediaries to organize training services and simplification of administrative approvals.

The principal rationale of pre-employment training funds is to reduce shortages of skills workers by increasing the supply of well trained individuals in the labor market. The objectives typically are to create an adequate training supply for the needs of employers and create the necessary training capacity to do so. The source of financing is a compulsory revenue-generating payroll levy on formal sector enterprises employing at least a minimum number of employees (usually 5-20). Enterprises paying the levy do not benefit directly in that their workers are usually excluded from the pre-employment training. However, enterprises benefit indirectly in being able to recruit better trained workers in the labor market. The modus operandi is for the payroll levy to finance the establishment and operation of pre-employment training institutions owned and operated by the training agency. Pre-employment training funds are found mostly in Latin America, but also in Hungary, Mauritius (previously) Tanzania and Fiji. Pre-employment training funds have been effective in building national training capacities and increasing training provision. For example, SENAI in Brazil trains 2.8 million people p.a. and has accounted for over 30 million trainees since its creation. Where governed by employers pre-employment training funds can increase the relevance of training to economic requirements. However, care must be taken to avoid conflicts of interest and crowding out of other providers, as in Tanzania and Nigeria.

The rationale of enterprise training funds, or enterprise incentive schemes, is to increase the productivity and competitiveness of firms by raising the skills of workers. The objective is to increase the incidence of training within firms. The source of financing is enterprise levies, usually on payroll. The modus operandi varies according to type of scheme: (a) cost reimbursement, (b) levy-grant and (c) levy exemption (train, or pay). Beneficiaries tend to be larger enterprises, and within enterprises, those at higher occupational levels. Small firms tend not to benefit proportionately. Enterprise incentive funds are the most common form of levy scheme world-wide. Rigorous evaluation is generally lacking, but in some cases levy schemes have led to an increase in the volume of training within enterprises. Levy-grant systems, in particular, can allocate resources

according to national priorities. However, enterprise incentive schemes require administrative capacity to operate and can discourage enterprise participation because of red tape.

Equity-oriented training funds aim at raising the incomes of disadvantaged groups by providing opportunities to acquire productive skills. They seek to reach people not covered by enterprise training schemes, i.e. those outside employment in the formal sector who do not have the opportunity for in-service upgrading of skills. The objectives of such funds are to train specified target beneficiaries, e.g. unemployed, women, youth, those in the informal sector. They often include subsidiary objectives of stimulating competition and training markets, and reducing unit training costs. Equity-oriented training funds can be financed through government or levy proceeds, but many are financed by international donors. The number and distribution of equity training funds could not be determined in this review, but coverage is concentrated in low income countries and disadvantaged segments of middle-income countries. The modus operandi involves disbursements either through pre-determined funding windows or applications by training providers. Equity-oriented funds have been successful in reaching disadvantaged people particularly in the informal sector. Some evaluations have found clear impact of training in raising incomes of beneficiaries, but such evaluations are not widely practiced. The most basic challenge for equity-oriented training funds is sustainability after completion of donor financing.

The final section poses questions that must be addressed in the design of training funds and adduces some examples of good practice. Key issues common to all types of funds are stakeholder participation in governance, allocation of funds, administrative autonomy and capacity, use of competition, how to support small enterprises and evaluation of outcomes and impact. Concerns specific to levy-financed training funds include whether they are appropriate to the country context, employer buy-in, avoidance of conflicts of interest, degree of cross-subsidization, global vs. sectoral coverage, periodic revision of levy rates, collection methods and security of levy proceeds. Concerns specific to equity funds include targeting, allocation windows, eligibility of

private providers, quality assurance, accounting/auditing, complementary inputs and financial sustainability.

The findings of this review suggest that payroll levies may not be appropriate in low income countries where the industrial base is limited and levy-income generating capacity is weak. Such schemes may also not be feasible where administrative or organizational capacity is weak for levy collection and administration. Employer-buy-in for levy schemes is crucial: extensive consultations and consensus with employers is essential on the need and benefits before introducing a levy scheme. Countries that allocate a leading role to employers tend to be successful – e.g. Brazil, Singapore. Balanced tripartite governance can also be successful – as in Cote d’Ivoire, but over-control by government (Hungary, Togo) can have deleterious results. Pre-employment training funds sometimes crowd out non-fund training providers. There is clearly a need to focus more on providing levy-financed training for small enterprises and the informal sector. Sustainability of donor-financed training funds looms as a major challenge.

Which types of training funds work best under what circumstances? More evaluation is needed to answer this question. Pre-employment training funds (supported by revenue-generation schemes) should be seen as an initial means to establish national training institutions, to be augmented later by more cost-effective systems such as employer training incentives. All three types of enterprise training funds require administrative capacity and to an extent impose barriers to access by firms. Cost-reimbursement schemes, in particular, can impose a high administrative burden on the training fund. Levy-grant mechanisms have the advantage of directly addressing national priorities. Levy-exemption may have the disadvantage of a “leveling effect,” i.e. firms that would otherwise have invested more in training tend to reduce their effort to that required by law. Equity training funds may be most appropriate in low income countries and for disadvantaged segments in middle-income countries provided financial sustainability can be assured.

The level of rigor in evaluating training funds appears to be relatively low. Most evaluations were simple enumerations of outputs against targets without controls to judge the net impact. Therefore several basic questions remain unanswered, such as whether

one type of fund is more effective in achieving objectives than another type; whether incentive-based levies actually stimulate more enterprise-based training than without the levy; the extent to which training costs have been lowered and private training markets have been stimulated. More systematic and rigorous evaluation of training funds may be one of the most effective ways to develop relevant and cost-effective training systems.

## **Introduction**

The objective of the review is to identify lessons of good practice in the design and implementation of National Training Funds. It seeks to answer the question: what is effective, or not, under different conditions.

The review entails a desk study of National Training Funds worldwide in developed and developing countries through an internet search and literature review. The focus is on developing countries, bringing in where possible relevant lessons from developed countries. The review covers activities of training funds in (a) pre-employment vocational education and training, (b) in-service training and (c) training for the unemployed and disadvantaged groups.

The review:

- Profiles the various types of funds by rationales, objectives, sources of financing, modus operandi and coverage/achievements;
- Identifies the strengths and limitations of different approaches;
- From available evaluation studies of Fund performance and outcomes, documents the effectiveness of different approaches in such areas as:
  - Linking training supply with market demand, involving employers and installing demand-side incentives
  - Stimulating enterprise based training (including for small enterprises)
  - Stimulating training markets through competition in provision with active private participation
  - Establishing and raising quality standards for training
  - Reaching disadvantaged and under-served groups; and
- Concludes with key questions and lessons of good practice in the design and operation of training funds in developing countries.
- Annexes brief descriptions of representative and outstanding funds and their characteristics.

The report is presented in six sections: (I) an overview of training funds; (II) an overview of levy-financed training funds, followed by examination of three types of training funds: (III) pre-employment training funds; (IV) enterprise training funds; and (V) equity training funds, and, finally: (VI) key questions and good practices in training funds.

# **A REVIEW OF NATIONAL TRAINING FUNDS**

Richard Johanson\*

## **I. OVERVIEW OF TRAINING FUNDS<sup>1</sup>**

### **1.1 Definition and Framework**

A ‘training fund’ is a dedicated stock or flow of financing outside normal government budgetary channels for the purpose of developing productive skills for work. The overall purpose of training funds (TFs) is to raise the productivity, competitiveness and incomes of enterprises and individuals by providing them with needed skills. Many TFs are financed by levies on enterprises, but may also be based on public contributions and donor financing.

National training funds are an increasingly common vehicle for financing training. They are a central instrument for financing training in many countries worldwide. TFs provide an institutional framework for collecting and allocating funding to training providers.

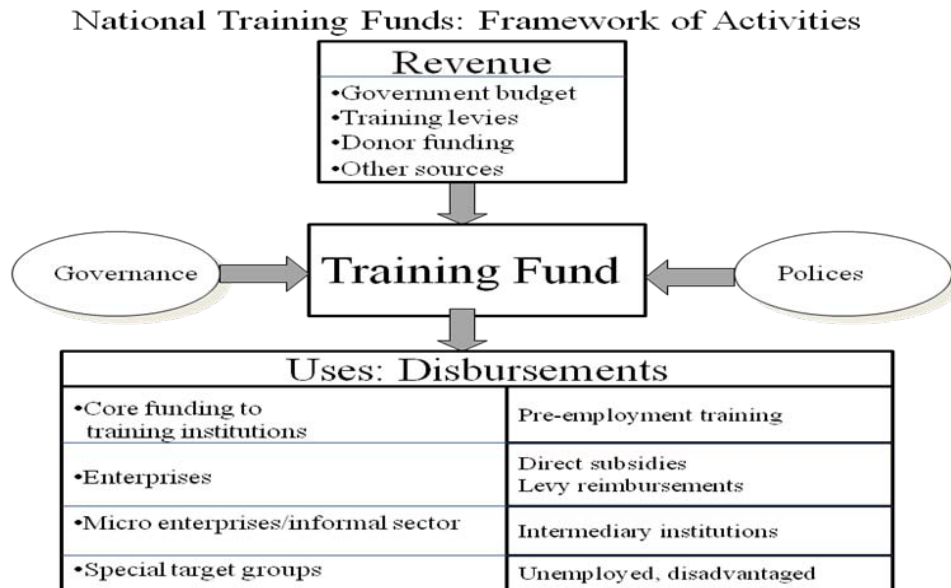
The functions may differ, but training funds often have the same objectives, coverage and modus operandi. Figure 1 shows the overall framework for training funds, depicting sources and uses of funds.

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<sup>1</sup> Based on Ziderman. 2003. “The Development of National Training Funds,” Chapter 5.

**Figure 1. National Training Funds: Framework of Activities**



Source: Ziderman 2003, Figure 5.1.

Figure 1 above emphasizes the diversity of sources of financing – including public, private and donor sources – and the diversity of beneficiaries of fund expenditures.

## 1.2 Objectives and Functions

A major question to answer is why it is necessary to establish training funds separate from an account within government. Training funds promise several advantages compared with financing of training through public ministries. They can (a) contribute to resource mobilization from enterprises and donors; (b) involve employers and foster collaboration among stakeholders and social partners; (c) relate training supply better to market requirements through active participation by employers; (d) enhance quality through accreditation of training providers and insistence on performance conditions; (e) induce efficiency in the use of resources through competitive bidding on training contracts. Moreover, they can focus attention on neglected segments, such as small and informal enterprises, the unemployed and needs of women.

Generally national training funds serve to (a) unify various sources of financing for training, (b) augment the volume of resources for training, and (c) allocate the funds



in accordance with national policies and priorities. Training funds may be single purpose, but most tend to have multiple objectives. These may include the following:

1. Unify and coordinate various sources of revenue, i.e. pooling of income from different sources;
2. Mobilize resources and increase revenue available for training;
3. Build pre-employment training systems and capacities;
4. Expand the volume of employer-based training by encouraging enterprises to invest more in worker training;
5. Provide equality of opportunity for access to training services by disadvantaged populations;
6. Improve the relevance of training, e.g. allocate funds according to employer priorities and market needs;
7. Raise the quality of training, e.g. through accreditation of training providers and specification of performance conditions;
8. Use training resources efficiently, e.g. lower the unit costs of training;
9. Develop competitive training markets; and
10. Foster involvement by employers and collaboration among stakeholders.

The multiplicity of objectives makes it difficult to generalize about training funds. “The characteristics of individual training agencies (funds) vary so greatly that it is difficult to generalize about them ... The concept of “best practice” in relation to training funds is nebulous, given this heterogeneity of objectives and practice.” (Ziderman 2003). Multiple objectives also make it extra important to specify objectives clearly and to evaluate systematically outputs, outcomes and impact in relation to the stated objectives.

### 1.3 Typology of Training Funds

Three main types of training funds can be differentiated by purpose: pre-employment training funds that finance pre-employment training, enterprise training funds that finance in-service training of workers, and equity training funds that target disadvantaged groups.

**Table 1.** A Typology of Training Funds

<b>Type</b>	<b>Main Purpose</b>	<b>Financing Sources</b>
1. Pre-employment Training Fund	Finance the expansion and delivery of initial training before employment	Payroll levy- revenue generating
2. Enterprise Training Fund	Provide incentives to increase in-service training of workers within enterprises	Payroll levy- incentive schemes
3. Equity Training Fund	Increase opportunities for skills acquisition by disadvantaged groups not covered by enterprise schemes	Public subsidy, levy or donors

Source: Author.

### 1.4 Characteristics of Training Funds

Training funds originated with earmarked training levies – developed in several Latin American countries in the 1940s and 1950s. A protected depository was developed for the proceeds of the levy, which accounts for the growth of special training funds. Early training funds (e.g. Brazil) tended to be single purpose – aimed at financing pre-employment training. Others focused on expanding the volume of in-service training within enterprises. Typically training funds exhibited a high degree of congruence between those who financed the levy and those who received the benefits. More recently, training funds have been increasingly regarded as a general funding pool for a wide variety of beneficiaries.

Most training funds receive their income from training levies, alone or in concert with funding from other sources, mainly government budgets. In other cases, no training levies exist and the government and donors remain the principal financiers.

Figure 1.1, above, shows the major categories for the destination of funds, sometimes called “funding windows.” A fund may not cover all the purposes. Each of the categories aims at different clients and represents a response to different training needs and policy objectives.

- Core funding for pre-employment training in training institutions constitutes the primary and most traditional use. This pertains mainly to formal sector occupations and employment.
- The second use can be for training of workers in enterprises, through apprenticeships, on-the-job training or training off the premises. This constitutes the bulk of training provided through training levies.
- Third, training funds may offer services to build the skills and productivity of people working in microenterprises and the informal sector. Given the small scale of such operators, the way to reach them is often through intermediaries, such as informal sector associations. Training for the needs of micro-enterprises and the informal sector has generally been neglected in traditional training programs.
- Fourth, training funds may open a funding window to train the unemployed or disadvantaged groups. Such training traditionally has been regarded as a government responsibility, but competitive contracting for such training is becoming a preferred mechanism to finance it.

The effectiveness of a training fund depends to a large extent on the degree of autonomy, participation of stakeholders and composition of governing bodies. Governance varies considerably across training funds. Some TFs are part of broader, usually autonomous national training authorities, vested with a wide range of powers and responsibilities. Others are more narrowly focused on specific sectors of the economy. Most training funds are statutory, quasi-autonomous bodies. They usually operate under the general umbrella of labor ministries and under the direction of a board with varying degrees of stakeholder representation. Board representation is typically tripartite (government, employers and unions), often divided equally among the three parties.

Historically, separate training funds were developed as part of training levy systems to protect the levy proceeds from government encroachment. But the main rationale for training funds is not protective. Rather, it is to evaluate and plan the needs of the training system as a whole, minimize political intervention in the allocation of funding, and ensure that disbursements coincide with market needs. The benefits of autonomy are unlikely where ministerial control remains strong and where governing boards are unrepresentative of stakeholders, and advisory only rather than managerial (Ziderman 2003).

Where payroll levies finance a substantial part of training a case can be made that employers should have some control on the uses of the levies. The degree of employer involvement varies greatly. Madagascar (IDA funded) 10 of the 12 members on the Board of the National Council for Technical and Vocational Training (CNFTP) were employers. In Cote d'Ivoire (FDFP) and Kenya (NITC) employers made up one third of the membership of tri-partite bodies. In Tanzania (VETA) only 2 of 11 members of the management board are employer representatives. In Brazil – SENAI the fund is controlled by employers without worker representation. In Singapore the SDF employers have a near majority (7 of 15 positions, including both Chair and Vice-Chair) compared with three positions for union representatives and four for government.

However, the substantial representation of employers does not mean necessarily that it is representative of the broad constituency of employees. The employer representative may be merely a bureaucratic officer in a large organization with little direct enterprise experience or contact.

Training funds are typically allocated functions that transcend simple disbursements. They must monitor the effects of the expenditures and the training system. They may also provide related services, such as advising enterprises on how to develop and improve training capacity. Some training funds, such as SENAI, are moving beyond training to give technological advice to firms. Often training funds are used to finance the wider responsibilities of national training authorities, such as developing training policies, supervising national skills testing and certification, and providing information about training demand and supply. Training authorities often are responsible

for accreditation of training providers. More recently, national training authorities throughout the world have become involved in developing national qualification frameworks that establish skills standards and promise greater portability of skills. Independence from close ministerial control and strong representation of employers on NTA management boards can provide for strong enterprise links, flexibility and responsiveness and for fostering private training markets (Atchoarena 1996).

The next section looks at training levies, the main sources of financing for training funds. This is then followed by an examination of the three main types of training funds.

## **II. OVERVIEW OF LEVY- FINANCED TRAINING FUNDS <sup>2</sup>**

The Minister of Labor of South Africa articulated the rationale for levy financing of training funds succinctly in 1999: “Internationally, the establishment of training funds, sourced from training levies on company payrolls, has been an important instrument for catalyzing increased and more effective investments in skills formation by companies. Levy schemes provide incentives to encourage individual employers to invest in their own training needs, and allow government to leverage more structured training on the part of enterprises. They smooth over fluctuations in training caused by the business cycle. The more effective schemes locate levy funds under national training authorities, giving employers and unions a direct say over the disbursement of these funds, thereby improving the accountability and relevance of education and training provision.” (Ministry of Labor, address to National Assembly, 1999, Annex 2.1)

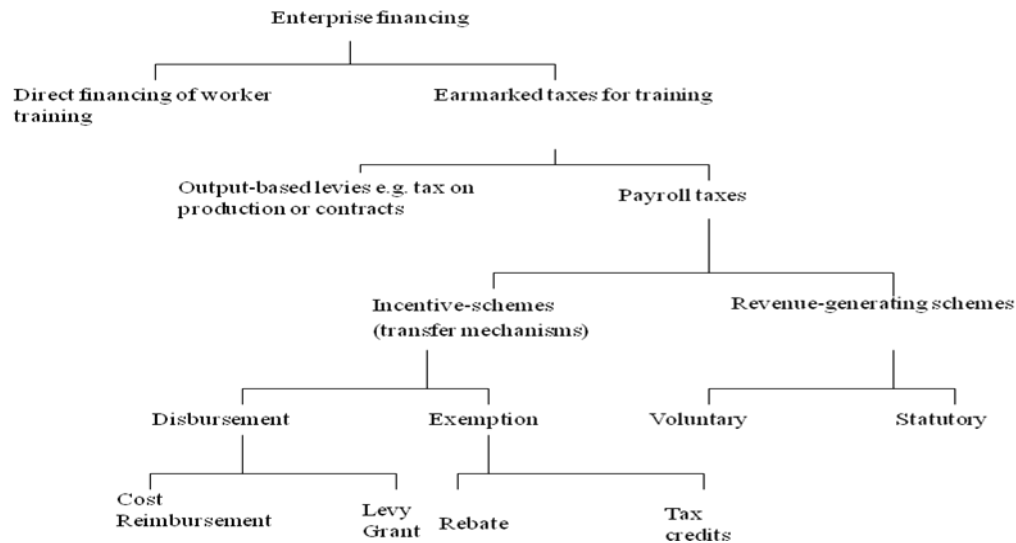
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<sup>2</sup> This section is drawn mainly from the following sources: Gaskov 1994; ADB 1997; Ziderman 2003.

## 2.1 Types

Within the context of enterprise training, the following diagram depicts the various types of levy-financed training funds:

**Figure 2. Types of Levy Financing**



Source: Johanson 1996.

Payroll training levies are basically of two types: revenue generating levies and incentive schemes. Incentive schemes, in turn, are made up of three types: cost reimbursement, levy grant and levy exemption or rebate.<sup>3</sup> However, distinctions among these types of training levies should not be pushed too far. Few pure models exist. They tend to change over time. For example, training levies that started as purely revenue-generating schemes have become mixed with the inclusion of elements of levy grant or rebate. Also, funds tend toward multiple uses, such as France. (UNEVOC 2006, 4.2) Jamaica and Mauritius are examples of hybrid funds – using more than one *modus operandi*. The Jamaica levy is both revenue-generating for training the unemployed and exempts firms from some of the levy to the extent that they training their own workers.

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<sup>3</sup> Tax credits are not used frequently in developing countries, and are not discussed in this report. They require mature or maturing economies to work successfully (UNEVOC 2006, 4.6). They have been tried unsuccessfully in Mauritius and Brazil. Chile is the main example of a country using tax credits at present.

(ADB 1997). The Mauritius scheme is clearly mixed: about half the levy proceeds goes to support public training institutions, and about 40% is reimbursed to firms. (Ziderman)

## 2.2 Coverage

A 2003 review of levy systems (Dar et. al.) noted more than thirty countries world-wide that had adopted levy financing for training. However, this review has identified about sixty countries<sup>4</sup> that have – or had – levy schemes for training (Table 2).

**Table 2. Approximate Distribution of Training Levies by Region and Type**

Region	Countries with Training Levies	Revenue-Raising Levies	Enterprise-Incentive Levies			Not Available
			Cost-Reimbursement	Levy-Grant	Levy Exemption	
	(1)	(2)	(3)	(4)	(5)	(6)
Central, Latin America and Caribbean	17	16	-	-	1	4
Sub-Saharan Africa	17	6	2	9	6	-
Europe	14	2	1	9	2	2
Middle East and North Africa	7	2	-	-	4	1
Asia & Pacific	7	1	2	4	2	-
Total	62	27	5	22	15	7

Note: Column 1 refers to countries. Columns 2-6 refer to the specific types of schemes. Several funds include more than one type of scheme.

Source: Summarized from Annex 2.2.

Most schemes are found in Latin America and Africa, but also tend to be prevalent in Europe. Asia, particularly South Asia, has relatively few training levy schemes. The great potential of levy schemes for expanding the tax base for training explains the wide dissemination of training levies (UNEVOC 2006, 2.4).

<sup>4</sup> The 2003 review and the present one differ in number of countries with training levies mainly because this review includes several advanced countries in Europe, as well as those newly created (Namibia, Botswana, Poland).

Training levies are not restricted to larger countries. They operate in countries with relatively small populations – Fiji, Marshall Islands, Botswana, Mauritius, Barbados, Jamaica, Namibia and countries of Central America. However, levy success depends on a sufficiently wide economic base in the formal sector and reasonable administrative capacity. These schemes are more effective in countries with large formal sector, i.e. a large tax base. They are less effective in countries with highly informal economies. Therefore training levies tend to apply almost exclusively in middle and upper income countries where these two essential conditions exist, not in low income countries (Ziderman 2003; Dar et. al.2003).

The coverage of levy systems varies widely from country to country. Most schemes exclude the public sector from collections (Mauritius, Tanzania, South Africa.) This may result in a cross subsidization of training for public sector employees by the private sector to the extent that public employees are trained with levy money. Size of company included also varies. The Nigerian scheme covers enterprises with 25 or more workers, SENATI in Peru with  $\geq 20$  workers,  $\geq 10$  workers in Colombia, and  $\geq 5$  workers in Honduras, Venezuela and Costa Rica. The South African levy is assessed on firms with annual payrolls over R500,000. Most of the revenue collected by training funds comes from large and medium sized firms. Given the administrative costs and likely yield, collections from small firms may not be cost-effective. (Ziderman).

Collection methods vary and include: self collection by the training fund (Kenya), collection by the social security agency (Namibia), but the most common and effective is collection by the tax administration (South Africa). VETA in Tanzania increased its revenue dramatically when it switched collections from the social security agency to the tax revenue authority in 2001.

In several cases payroll levies are appropriated by the central government and never reach the training fund. This has happened in Costa Rica, Gabon, Togo and, briefly, in Cote d'Ivoire. Box 1, below, illustrates this problem for levies enacted in Togo and The Gambia.



### **Box 1. Misallocation of levy proceeds in Togo and The Gambia**

Several World Bank-financed projects sought to activate or redirect payroll levies. The Gambia project attempted to make an existing levy functional and a project in Togo aimed at redirecting an existing one percent vocational training tax to its original purpose. Levy on the wage bill of enterprises was collected, amounting to about \$500,000 equivalent per year. The Ministry of Finance only allocated it to the Training Fund only for a short time in the initial stages. Thereafter, paying the civil service and debt service became higher priorities. One cause of this misappropriation was reportedly poor understanding of VET reforms among top leaders. Moreover, The Gambia project helped create a training levy in 1994, but it was not used to finance TVET because of other political priorities for the funds. The National Education Levy of 1995 was amended in 2005 for the collection of 0.25% of the gross annual revenue (turnover) of an employer. Collection started in January 2007, but only lasted one month in implementation. Enterprises in some sectors, such as banking – with high turnover and low profit margins – were required to pay heavy sums. They resisted and approached the President to present their dilemma, claiming that the levy would cause investors to run away. The President rescinded the law in February 2007 and put in its place a modified schedule. The levy schedule introduced in March 2007 now calls for companies earning over D5 million to pay a flat fee of D50,000, and companies under D5 million will pay D30,000. There is no lower cutoff. All firms are supposed to pay. This formula is flawed, as smaller firms are not exempt and many complain they cannot pay the D30,000 levy as it would take an excessive share their meager profits. The reduction in levy proceeds means that the NTA has no functioning financial wing by which to provide support to training providers. These experiences underscore the risk that training levy proceeds may be misappropriated by financially-strapped Ministries of Finance.

Source: Johanson 2002, 2008b.

In other cases payroll levies have led to unspent surpluses, in effect becoming an over-sheltered source of funding. This has happened in Zimbabwe where revenues from training tax far exceeded the demands of cost reimbursement. This led to questionable forays into fields unassociated with objectives of the fund (e.g. purchase of real estate.) Surpluses in Latin America also led to top-heavy bureaucracies and inefficient use of resources, e.g. INCE in Venezuela and SENA in Colombia. This highlights a central question: how can a payroll tax system be made flexible enough to respond to changing requirements and avoid surpluses without forgoing the benefit of stable funding (Ziderman, 105-106)?

## 2.3 Strengths and Weaknesses

The strengths and weaknesses of training levy systems are well documented. Table 3 provides a summary of the main points.

**Table 3. Advantages and Limitations of Levy Systems**

<b>Advantages</b>	<b>Limitations</b>
Earmarked payroll levies can be viewed as “benefit taxation,” i.e. those that benefit (employers and workers) pay for the training.	Earmarked taxation does not conform well with the principles of sound public finance and weaken attempts to unify the national tax system.
Levy systems can augment substantially the resource base for training.	Payroll levies raise the cost of labor to the employer, possibly discouraging employment.
Increased training resources, in turn, can substantially increase the incidence of training	Employers may shift the incidence of the levy on to workers in the form of lowered wages; in this case, workers and not the employers bear the burden of the tax.
Levies can provide a steady and protected source of funding for training, particularly in the context of unstable public budgets.	Insecurity of income: Under fiscal pressure, government may divert levy proceeds into general public tax revenues for non-training uses
Levy-grant systems can encourage firms to intensify their training efforts, increase training capacity and raise training quality.	Unequal access: many firms, particularly small ones, do not benefit from the scheme; this breeds resentment, opposition and compromises the status of training levies as “benefit taxation”
Training levies collected from formal sector employers can serve as a vehicle for cross subsidization, e.g. for smaller employers and especially for firms in the informal sector.	Inefficiency: Payroll levies may constitute an over-sheltered source of funding, leading to unspent surpluses, inefficiencies and top-heavy bureaucracies
Funds with tri-partite management can forge cooperation among the social partners and facilitate formulation of appropriate training policies.	Red tape may erect high barriers for firms to access funds
Funds can influence the quality of training through accreditation procedures and helping to stimulate a competitive training market.	
Levy-financed funds can also help correct imbalances in training access by pooling funds – e.g. for training disadvantaged segments of society, unemployed, those in the informal sector. This redistribution can be termed “cross-subsidization.”	
Establishment of a separate training fund account can facilitate transparency and minimize distrust between employers and the public sector	

Sources: Ziderman 2003, as summarized in Johanson and Adams 2004; CEDEFOP 2008.

## **2.4 Sectoral Levies**

Sectoral, or industry-specific, training funds are an alternative to national (centralized) funding models. Sectoral levies are limited to a defined sector of the economy, such as industry or transport. In some countries sectoral training funds have been established based on training levies. This includes Brazil (SENAI in industry; SENAC in commerce; SENAR in agriculture; SENAT in transport), Peru (SENATI in industry and SENCICO in construction) and in South Africa (23 sectoral training authorities- SETAs.)

As shown in Annex 2.2, a few countries have multiple sectoral-based funds (Brazil [5]; Belgium [11]; Denmark [10-15]; Italy [14]; the Netherlands [89]; South Africa [23]; U.K.[25]). Many of these sectoral funds are the result of collective bargaining agreements between workers and employers, and some are voluntary. The approach shown in South Africa is particularly unique (Box 2).

## **Box 2. The South Africa Sectoral Levy**

In 1999 South Africa faced severe shortages of technical and vocational skills in the labor force alongside major unemployment. Previously, 27 industrial boards had collected voluntary contributions to training levies, but these boards covered less than 20 percent of the workforce. The government restructured the boards into Sector Education and Training Authorities (SETAs) and expanded their coverage to virtually all of the non-government wage sector of the economy. Each private enterprise must register with one of the 23 SETAs. The entire system operates under the aegis of the National Skills Authority under the Department of Labor.

In 1999 the government adopted a one percent compulsory payroll levy to be assessed on all non-government enterprises with annual payroll above R500,000. Eighty percent of the levy proceeds are allocated through the Department of Labor to the SETAs. The SETAs, in turn, return half (or 40% of the total levy) to firms that prepare annual work skills training plans. SETAs allocate the balance to special training priorities as defined by each bi-partite SETA Board (employers and workers). Twenty percent of the total levy goes to the National Skills Fund to fund training in scarce skills, unemployed, etc. The National Skills Fund is guided by five-year National Skills Development Strategies. In this way a compromise is achieved where enterprises cross-subsidize training in other areas, and a national skills strategy is followed. The levy system is, thus, a hybrid including elements of levy-grant and levy-exception. The performance of the SETAs has varied considerably. Several had difficulty in spending the funds allocated to them in the early to mid-2000s. However, disbursements have improved across the board to nearly 100 percent.

Source: Annex 4.1.

A national system of sectoral funds can focus on the training needs of particular sectors and in principle engender a greater sense of ownership among the enterprises. Sometime sectoral funds can address specific manpower or qualification shortages. A national system of sectoral funds offers the advantages of flexibility and the ability to focus more directly on the particular, often differing, sectoral training needs. They may be more palatable to employers because of a sense of greater industry-specific orientation, less bureaucracy and greater sense of ownership. However, sectoral funds suffer from narrow focus, which runs counter to an integrated, national approach to skills development. The argument against these sectoral funds is that they lock up resources in the sector when national interest may require reallocation of training funds across sectors, i.e. from non-growing sectors with old technology to rapidly growing sectors with new technology. They do not facilitate redistributing funds across sectors or financing non-

sector related skill priorities. Sectoral funds may duplicate efforts and fail to develop common core skills, transferable across industries. A purely sector-by-sector approach is also poorly adapted to regional needs (Ziderman 2003; UNEVOC 2006; CEDEFOP 2008).

## **2.5 Addressing the Needs of Small Enterprises**

Virtually all levy-financed training funds experience difficulties in fostering participation by small enterprises. Several factors account for this. Lack capacity to assess training needs and design appropriate programs. Production suffers when key employees are released for training; the time away from work can be costly in foregone output. Small enterprises often face constraints in cash flow to pay for training. The smaller scale of training required adds to costs. Small firms may be unaware of the benefits and availability of training. (Adams 2007, Adams 2008a) Small companies tended to lag behind because of diseconomies of scale, lack of knowledge about how to train, lack of financing and low skills demand from use of mature technologies. (Tan, n.d.) Both the SDF and HRDF have developed explicit programs to target small enterprises. These included vouchers to ease cash flow constraints, grants for training needs analysis and course design, and simplification of administrative approvals (Box 3).

In Chile the National Training Fund (FONCAP) is charged, *inter alia*, with providing training for micro and small enterprises. It does this through about 20 non-profit intermediaries (OTICs) that organize and competitively contract training services for groups of small enterprises that would not have the capacity to do this by themselves (Martinez 2007).

The three main types of funds – pre-employment, enterprise and equity – are the subjects of the next three sections of the report.

### **Box 3. Programs to Reach Smaller Firms In Singapore (SDF) and Malaysia (HRDF)**

Both the SDF and HRDF Funds included special incentives to encourage smaller firms to train. Singapore offered a training voucher to companies with less than 50 workers. Working like a discount voucher, it allowed firms to pay 30 to 50 percent of training costs upfront while the SDF supported the balance. The voucher helped small enterprises ease cash flow problems when investing in staff training as well as reducing the amount of administrative procedure. The voucher helped SDF reach 65 percent of enterprises with 10 to 49 workers and 14 percent of those with fewer than 10 workers. In Malaysia, large enterprises having excess training capacities are encouraged to offer training places to employees of other enterprises, particularly small and medium-sized enterprises which do not have the expertise and resources to formulate and run their own training programs. Small enterprises sending workers to these programs are eligible for training grants from the HRDF. SDF grants were also extended to enterprises to engage external consultants to conduct company-wide.

Training Needs Analyses leading to the submission for financing of a Worker Training Plan to the SDF. Although available to all firms, this helped smaller firms access the specialized resources needed to assess training needs and design appropriate training programs. Malaysia's HRDF offered similar support helping companies select the most suitable programs to plan for the skill development of all employees. This support helped employers to formulate annual training plans that led to only one application for a training grant rather than one every time they wanted to train. The SDF made available a wide range of pre-approved public courses for companies to subscribe to under its *Approved-In-Principle (AIP) System*. This program was effective in attracting small companies that had neither the expertise nor the critical mass to conduct such programs on their own. Malaysia's HRDF offered a similar *Approved Training Program (ATP)*. Employers could select any ATP course and send employees for training without prior approval of the HRD Council and claim for reimbursements, subject to terms and conditions set by the Council for completion of the training program.

Source: Adapted from Yaushi Hirosato, "Skills Development Fund: A Preliminary Assessment of a Financing Alternative for Enterprise-Based Training in the Context of APEC," (processed), as presented in Arvil V. Adams 2007

### **III. PRE-EMPLOYMENT TRAINING FUNDS (financed by revenue-generating levies)**

#### **3.1 Overview**

The principal rationale of pre-employment training funds is to increase the supply of well trained individuals in the labor market and reduce the gap between supply and demand for skills. The objectives typically are to create an adequate training supply for the needs of employers and create the necessary training capacity to do so. The source of financing is a compulsory revenue-generating payroll levy on formal sector enterprises employing at least a minimum number of employees (usually 5-20). Enterprises paying the levy do not benefit directly in that their workers are usually excluded from the pre-employment training. However, they benefit indirectly in being able to recruit more highly training workers.

The modus operandi is for the payroll levy to finance the establishment and operation pre-employment vocational-technical training institutions owned and operated by the training agency. Pre-employment training funds are found mostly in Central and South America, but also in Hungary, Mauritius (previously) Tanzania and Fiji. Pre-employment training funds have built training capacity and increased substantially training output in several countries. For example, SENAI in Brazil trains 2.8 million people p.a. and has accounted for over 30 million trainees since its creation. Where governed by employers pre-employment training funds can increase the relevance of training to economic requirements. They have been effective in building national training capacities and increasing training provision. However, care must be taken to avoid conflicts of interest and crowing out of other providers, as in Tanzania and Nigeria.

#### **3.2 Pre-employment Training Funds**

Brazil was the progenitor of revenue-based levies in the 1940s through SENAI (industry) and SENAC (commerce). These schemes are funded by payroll taxes, managed by employers. The proceeds finance and operate a system of vocational training institutes distinct from the school system (Box 4 and Annex 3.1).

#### **Box 4. SENAI Brazil**

SENAI, the National Industrial Apprenticeship Service, is the oldest autonomous training agency in Latin America. It is financed through a one percent payroll levy assessed on industrial enterprises as well as those of fisheries, transportation and communications. It is privately managed through the National Confederation of Industry and is structured with a national department and 27 regional departments. The national office provides overall normative guidance, technical assistance and coordination. The regional councils are the executive arms of SENAI and operate vocational training centers as well as provide training services to enterprises. Workers organizations are not represented in SENAI management bodies.

The SENAI's training infrastructure including over 500 vocational training centers, more than 200 mobile training units and several personnel development centers. Many of these institutions are joint ventures operated in co-operation with industry. Major training activities combine in-center pre-employment vocational training, an apprenticeship scheme and continuing vocational education, including company-based programs. SENAI trains more than 2.8 million people per year, administers a network of 726 operational units and has enrolled 30 million since its creation in 1942.

SENAI's strengths are its close relationship to employers and its needs through its governance structure, its administrative independence and its reliable income independent of the government budget. These have allowed it to fulfill its major goal of developing a strong national training system. However, with its own captive training institutions, SENAI has tended to monopolize the training market, to favor large companies and provide inadequate incentives for shop-floor worker training.

Sources: Annex 3.1, Leite 2007, Atchoarena 1996, ADB 1997 and SENAI.br.

SENAI's prestige explains the wide dissemination of the Brazilian experience all throughout Latin America and the Caribbean. However, this propagation did not purely duplicate the governing model but adjusted it. Government ministries figure prominently in the governing bodies of similar institutions in other countries (Atchoarena 1996).



Much of the success of the Brazilian training funds can be explained by the close involvement by enterprises. Box 5 indicates the evolution of training governance and delivery.

### **Box 5. Employer-Owned and Managed Training in Brazil**

Experiences in Brazil, one of the earliest countries to adopt levy-financed training authorities, underscore the importance of ownership and employer participation. The chronic gulf between supply and demand is bridged by giving full control of training to its users. The National Industrial Apprenticeship Service (SENAI) was created in the 1940s and operates under the ownership of the Federation of Industries. SENAI was followed by four other sector-specific services aimed at, respectively, commerce (SENAC), rural areas (SENAR), small enterprises (SEBRAE), and transport (SENAT). All the institutions operate under the same basic structure and legal framework. The industries tax themselves to fund their training programs. A 1 percent levy on the payroll funds the training operations, and the chambers of employers run the institutions with full independence and under private sector statutes.

The five institutions have evolved in separate directions. SENAI maintains a network of 500 training institutions and trains 2 million workers a year. SENAR and SEBRAE were first created as government bureaucracies, but this led to inefficiencies, lack of responsiveness and flexibility, and political spoils. They were recreated more recently with ownership, management, and budgets given to the respective employer associations. Because training markets had already been developed in the country, both SENAR and SEBRAE opted to buy training in the market rather than to establish their own training institutions. SENAT, the most recent offshoot of SENAI, with the same rules and legal framework, took an entirely different path for delivery of training. It created an extensive network for training via satellite for more than 1,000 firms throughout the country.

Source: Claudio de Moura Castro, 2000, "When Employers Control Training Many Things Can Happen," in Johanson and Adams, 2004

Annex 2.4 describes the Vocational Training Fund of Hungary which started exclusively as a revenue-generation levy directed exclusively to finance initial vocational training in public training institutions, but now allocates part of the levy to companies for continuing training for their own employees.

Other examples of revenue-generating levies from other regions are Tanzania and Mauritius. These two cases illustrate the problem of conflict of interest inherent where

the funding agency finances its own training institutions directly. Tanzania's Vocational Education and Training Authority (VETA) is financed through a two percent payroll tax on formal sector enterprises with more than \*\* employees. The tax is problematic for several reasons. First, it was introduced without much consultation with employers and they still resist paying. Second, the revenue finances mainly the operations of VETA itself – the administration and the functioning of its training centers. The more than 700 private training providers outside the VETA system receive only five percent of the total levy revenue. While a private training market exists, it is not encouraged or developed through VETA. Third, when employers began paying the levy the government withdrew completely from financing any of the costs of vocational training. Subsequent structural changes in Mauritius have eliminated the conflict of interest (Box 6).

#### **Box 6. Mauritius Vocational Training Fund**

The Training Levy Grant Scheme has been in operation since 1990. The Industrial Vocational Training Board (IVTB) was initially a provider, a facilitator and a regulator of training in Mauritius. However, experience showed that the three roles of IVTB could give rise to conflicts of interest and were inconsistent with the principle of good governance. It was decided in 2001 that the IVTB would concentrate on its role as provider of training. In 2002, the role of regulator was transferred to the Mauritius Qualification Authority (MQA). The role of facilitator (design and management of the levy grant scheme) was transferred to the Human Resource Development Council (HRDC) in 2004.

Employers in Mauritius now have to pay an equivalent of one per cent of their salary bill to the Human Resource Development Council (HRDC) for training purposes (training levy). The Council has been vested with the responsibility of setting up and managing the National Training Fund. To encourage employers to provide training to as many staff as possible the HRDC offers training grants as incentives. Under the existing provisions employers can recover up to 75 per cent of training costs, depending on their tax rate. To qualify for the training grant, training programs may either be conducted in-house or in training institutions registered with the MQA.

Source: African Development Bank/OECD. 2008. *Economic Outlook 2008*, 440-441.

Few evaluations have been conducted of pre-employment training funds (Dar et al., 2003). The reviews that have been done focus on enumeration of outputs, such as trainees enrolled. For example, over 15,000 people were trained by the Hungary training fund in 1995. Evaluations done on SENAI programs showed that training had gone up by 300 percent. The VETA system in Tanzania has not been evaluated for its impact apart from a DANIDA tracer study on two institutions it supported in 2003.

**Table 4. Advantages and Limitations of Pre-Employment Training Funds Financed By Revenue-Generating Levy Systems**

Advantages	Limitations
Constitute a sheltered source of funding for national training systems, more stable than public financing.	Develop large bureaucracies in some cases. Some agencies under-provide training and accumulate unnecessary surpluses and use payroll funds for non-training purposes. (e.g. Zimbabwe.) SENAI in Colombia built up surpluses to expand gradually into agriculture, construction and training for self-employment.
Increase the volume of financing available for training, reducing the burden of training funding falling on the state.	Use funds inefficiently, in some cases
Compensate for weak public financing of training where public sources are severely constrained.	Lack direct incentives for enterprise training.
Build competent national training capacities, as in Brazil and Colombia.	Do not benefit employers in proportion to the paid levies. For example, enterprises with high average wages may have highly trained workers and pay high levies, but receive little training. It may be difficult to sustain employer interest.
Enhance accountability to employers who finance them, e.g. in Brazil,	Tend not to build training markets, as the agencies finance their own training institutions first and foremost. It is important not to crowd out private training providers
Foster more efficient institutional management when employers are in charge.	Can cause government to reduce or eliminate its funding of training (example: Tanzania).

Source: Ziderman 2003, UNEVOC 1996, CEDEFOP 2008.

#### IV. ENTERPRISE TRAINING FUNDS (In-service training of enterprise workers)

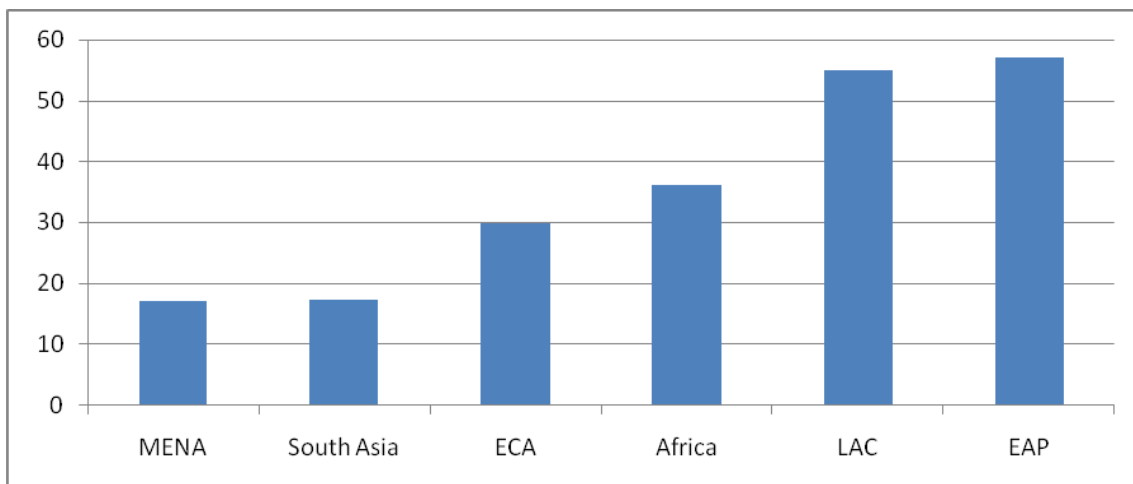
##### 4.1 Overview

The rationale of enterprise training funds is to raise the productivity and competitiveness of firms through worker training. The objective is to increase the incidence of training within firms. The source of financing is enterprise levies, usually on payroll. The modus operandi varies according to type of scheme: (a) cost reimbursement, (b) levy-grant and (c) levy exemption (train, or pay). Beneficiaries tend to be larger enterprises, and within enterprises, those at higher occupational levels. Small firms tend not to benefit. Enterprise incentive funds are the most common form of levy scheme world-wide. They require administrative capacity to operate and often discourage participation because of red tape. Although rigorous evaluation is generally lacking, in some cases levy schemes have led to an increase in the volume of training within enterprises.

##### 4.2 Rationale and Objectives

Enterprise training varies considerably across regions and countries (Figure 3. and Figure 4).

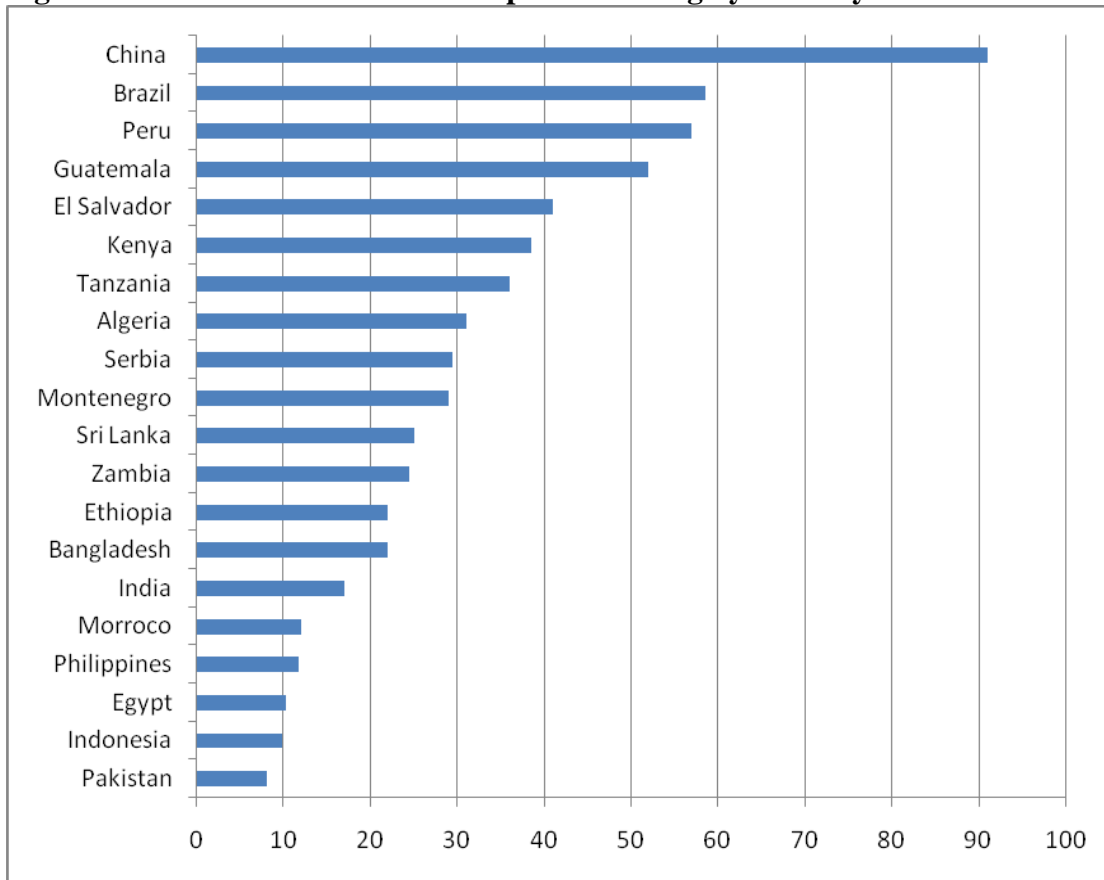
**Figure 3. Incidence of Formal Enterprise Training by Region**



Note: MENA= Middle East and North Africa; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; EAP = East Asia and the Pacific.

Source: Tan (2006).

**Figure 4. Incidence of Formal Enterprise Training by Country**

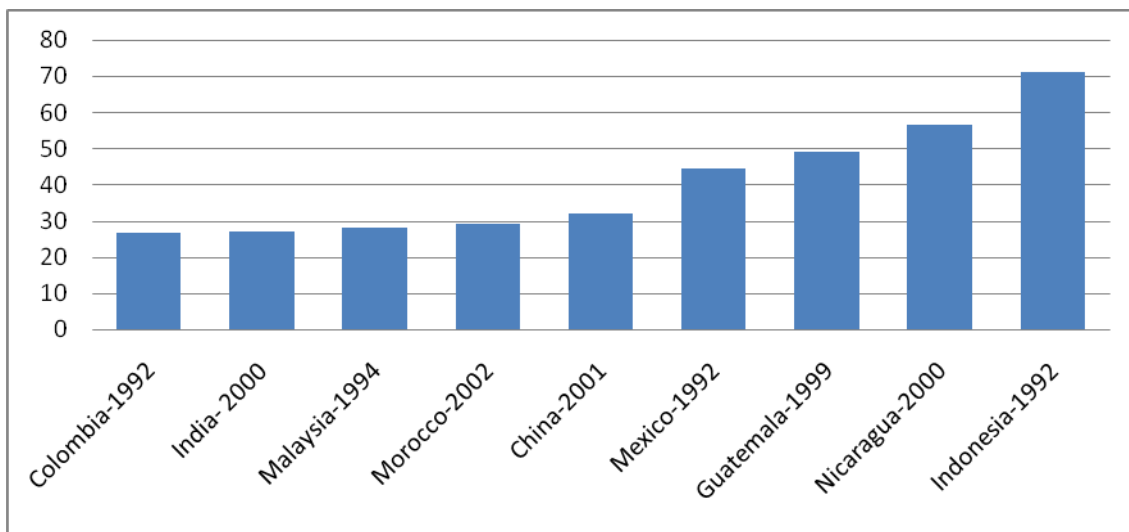


Source: Tan (2006).

Low investment in worker training is correlated with low firm productivity. A 1995 World Bank report found that enterprise training in a number of developing countries including Colombia, Indonesia, Malaysia, Mexico and Taiwan, "...is associated with higher firm level productivity in all five economies". The report concluded that this "should dispel any skepticism [employers have] about the beneficial effects of training on productivity." (Tan and Batra, 1995) A subsequent study, which analyzed data from Investment Competitiveness Assessments (ICAs) found the following productivity gains from enterprise-based training in developing countries (Figure 5).

Despite the importance of training in raising firm productivity, many enterprises under-invest in training because of market failure. Firms may under-invest in training their workers because of fear of poaching, or the “free-rider” problem. Trained workers are free to move from job to job, so enterprises can never be sure of recouping their investment in training of workers. Non-training competitors may seek advantage by “poaching” trained workers from another firms, thereby appropriating the benefits of the training at little or no cost. The fear of poaching reduces the incentives of firms to train.

**Figure 5. Productivity Gain from Enterprise-based Training (%)**



Source: Tan and Batra (1995); Batra (2000), Tan, Savchenko and Pei (2003). “In-Service Training and Productivity: Results from Investment Climate Surveys”.

Despite the importance of training in raising firm productivity, many enterprises under-invest in training because of market failure. Firms may under-invest in training their workers because of fear of poaching, or the “free-rider” problem. Trained workers are free to move from job to job, so enterprises can never be sure of recouping their investment in training of workers. Non-training competitors may seek advantage by “poaching” trained workers from another firms, thereby appropriating the benefits of the training at little or no cost. The fear of poaching reduces the incentives of firms to train.

The market failure explanation is appealing because it gives a plausible reason why the market might under-provide training. The view that market failure was extensive, and that such market failure led to skill shortages, gave impetus to the growth of levy schemes<sup>5</sup>. The objective of these schemes has been to correct the presumed market failure in enterprise training. (Garavan 1995).

Enterprise incentive schemes focus on company in-service training. The rationale is to raise the productivity of firms by upgrading the skills of workers. The objective of enterprise levy schemes is to induce firms to invest in the skills development of their workforce, either internally or externally.

### **4.3 Types**

The objective is sought through three types of incentive schemes: cost reimbursement, levy grant (cost redistribution) and levy exemption (Gasskov 1994; ADB 1997; Ziderman 2003). These are explained in sequence below, followed by a comparison of strengths and limitations of each.

#### *4.3.1 Cost-Reimbursement*

Formal sector employers above a minimum number of employees pay a levy into a training fund usually based on the payroll. Approved training expenditures are reimbursed in part, within the limits of the levy paid by the enterprise. In practice, reimbursement is set below the levy paid to cover central administration costs and sometimes to allow for central expenditures on other training services. Nigerian Industrial Training Fund (ITF)<sup>6</sup> is an example. Firms can qualify for not more than 60 percent of the levy paid, and in practice less than 15 percent of firms apply for reimbursement for training costs (Ziderman 2003, 93).

Malaysia operates a highly successful scheme of training cost-reimbursement through its Human Resources Development Fund (HRDF), Box 7.

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<sup>5</sup> Other means to increase financial incentives for firms to invest in training include payback clauses if a trained worker leaves, apprenticeship contracts with lower-than-normal training wages, tax credits.

<sup>6</sup> In addition to operating the cost-reimbursement scheme, the ITF finances and operates its own training centers, provides advisory services to companies on training and in developing training plans.

### **Box 7. Malaysia Levy Reimbursement Scheme**

Malaysia's Human Resource Development Fund is an example of a flexible, demand-driven training scheme. The Fund was established in 1993 with a matching grant from government. The objectives of the HRDF are "to facilitate and encourage employers in the private sector to systematically retrain and upgrade the skills of the workforce in line with their business plans and national development." The Act created a HRD Council with representatives from employers and government and a secretariat to administer HRDF schemes. A payroll levy of one percent for employers with  $\geq 50$  employees (or, 0.5 percent for small enterprises that wish to participate) is used for partial reimbursement of approved training expenses. Those who have contributed a minimum of six months are then eligible to claim a portion of allowable training expenses up to the limit of their levy payments for the year. Depending on their training needs, firms can choose flexibly from among several programs: (i) approved training courses provided by registered external institutions; (ii) ad hoc in-plant or external training courses on an as-needed basis; (iii) annual training programs. Prior approval of the training courses under the second and third programs is required from the HRD Council. However, the Council's overhead costs are kept low.

Administrative burdens on firms are reduced by automatic approval of courses under the first program, by using registered training institutions as collection agents of the council, and by giving firms with well developed training plans the option of filing under the annual program. Between 1992 and 2006, the HRDF reimbursed firms over 70 percent of the RM 2.0 billion collected and approved training for 5.3 million workers. Critical success factors were: (1) active employer involvement in the governance and operating committees; (2) reduced bureaucracy; and (3) dissemination of information about the importance of human resource development for raising productivity and competitiveness. In addition, the HRDF provides firms with grants for developing training plans, organizes regional courses on training needs assessments, and administers a variety of programs targeting small enterprises.

Sources: Harold et. al. 1996; de Ferranti et. al. 2003.



### **Box 8. Singapore Skills Development Fund (SDF)**

The objectives of the Singapore SDF go beyond training to influence company choice of technology. This formed part of a broader government industrial strategy to restructure the economy towards a more capital-intensive production system. What makes the Singaporean system unique is that the levy is imposed only on the lower-wage workers. The Skills Development Levy is imposed on employers with workers earning S\$2,000 or less a month. The current levy rate is 1 percent of the monthly remuneration, or S\$2, whichever is greater. In 2007 the SDF received S\$108 million from the levy and in 2008 S\$121 million.

One distinguishing characteristic of the SDF is the strong role of employers. Seven of fifteen members of the Singapore Workforce Development Authority – the agency that controls the SDF --represent employers (including the Chairman and Vice-Chairman), compared with four for government and three for workers .

Incentives for training are offered on the basis of a cost-sharing principle and the training must be relevant to the economic development of Singapore. The amount of incentives that a company can obtain is not tied to the levy contribution. The Skills Development Fund (SDF) provides financial incentives for training those in the workforce, those preparing to join the workforce, and those re-entering the workforce.

In its effort to support company training, the Fund provides grants on the basis of approved training plans through the Total Company Training Plan Scheme. It also promotes special training programs focusing on the upgrading of workers' skills. This includes the Training Assistance Scheme which aims at all types of skill upgrading. In addition, the SDF finances training vouchers and assistance for IT training for SMEs. It promotes a systematic approach to skills certification through the Skills Certification Plan for training at least a third of a company's workforce in certifiable skills over a three-year period. In addition, the SDF supports a training leave scheme for older workers and on-the-job training consultancy services for accelerating skills development in the Knowledge Economy.

The increase in company-based training programs has been significant. The number of people trained and number of firms benefiting have multiplied since 1991. Still, the Fund experienced difficulties in transforming employers' attitudes towards training. Small enterprises and low skilled workers still constitute largely unreached targets. In the mid-1980s only 2.2% of firms with 10 employees or less applied for grants, compared with all firms with 200+ employees and 25 percent of firms with 50 employees. Participation by small firms increased to 14 percent by the end of the 1990s. (See Box 2.8 for details.)

Sources: ILO < [http://www.ilo.org/public/english/employment/skills/hrdr/init/sin\\_2.htm](http://www.ilo.org/public/english/employment/skills/hrdr/init/sin_2.htm) >; Atchoarena 1996; UNEVOC 4.6; Dar et. al.; SWDA Annual Report 2007/08.

#### 4.3.2 *Levy-grant (Cost-redistribution)*

Levy-grant seeks to redistribute the burden of training expenditures among enterprises. This is designed to counter the ill-effects of poaching on training supply. The modus operandi involves the collection and administration of the levy by a special training fund. National or sectoral funds or boards are created, usually tri-partite in nature. These funds collect levies and decide on the distribution of training grants among enterprises. Grants are offered to enterprises on a case-by-case basis in accordance with agreed criteria. The grants need not reflect an enterprise's payments; training companies can receive grants far in excess of the amount paid, thus providing incentives for firms to train. Funds can be targeted on a variety of benefits, including on the implementation of national or sectoral training policies. Cost-redistribution schemes allow a much greater distribution of funds towards enterprises that train than revenue raising levies. The drawback of the mechanism is the cost of administration in terms of case-by-case decision-making. Many training funds have elements of cost-redistribution, e.g. Mauritius. Box 8 shows the parameters of the Singapore Skills Development Fund (SDF).

#### 4.3.3 *Levy-Exemption (Train or Pay)*

Under this variant, firms are exempted from paying the training levy to the extent that they provide approved training to their workers. The government fixes the percentage of a payroll either to be spent on training or transferred to the fund. The employers manage their compulsory training allocation within agreed regulations. Companies report their training expenditures. Any balance is transferred to the government budget or a central training fund. This can also be called "train, or pay" schemes. Examples: France, Quebec.

Korea introduced a type of levy-exemption scheme in the mid-1970s. In plant training was made compulsory for firms with  $\geq 500$  employees in 1974. This was reduced to 300 employees in 1976 and 150 in 1991. The government defined strictly the kinds of training recognized for this purpose. Employers were given the option to waive this training and instead pay a training levy to a government-administered Vocational Training Promotion Fund. The scheme stimulated an increase in the number of trainees

from 13,000 in 1974 to over 96,000 by 1976. However, the number of trainees fell sharply to 15,000 by 1989. Firms claimed it was easier and less expensive to pay the levy than meet the training targets. The levy was repealed as ineffective in sustaining increased in-plant training. Part of the reason for failure can be attributed to complicated rules governing training requirements and criteria for approval. (Dar, et. al., 2003) In Cote d'Ivoire the Fonds de Developpement de la Formation Professionnelle (FDFP) is an example of a successful levy-exemption scheme (Box 9).

### **Box 9. Cote d'Ivoire – Vocational Training Development Fund (FDFP)**

Cote d'Ivoire has had long experience with implementation of two training taxes: one for continuing training and one for apprenticeship training. An apprenticeship tax was introduced as early as 1959. The core of the system is the vocational training development fund (Fonds de développement de la formation professionnelle – FDFP). FDFP manages the apprenticeship tax (0.4 per cent of the total wage bill) and the additional tax for continuous vocational training (1.2 per cent), levied through compulsory contributions.

Firms can qualify for a tax exemption of half the continuing vocational tax obligation (0.6 percent) on approval by the Fund of a company training plan including internal and external training of employees. In addition, firms have an additional incentive of retaining up to an additional half of the tax (0.9 vs 0.6 percent) by implementing approved training plans for three years and justifying training expenditures beyond 1.6 percent of payroll. This arrangement certainly meets the demand of one section of the employers, it limits the possibilities of redistribution among enterprises to the detriment of the smaller ones.

Since 1991 reforms provide for the separation of the financing of training from implementation by public or private providers. A major change in the system concerns the financial circuit and the role of the Treasury. The collection is still performed by the income tax department, but the revenue is now directly allocated to an account at the disposal of the FDFP.

The FDFP resources are intended to finance the training programs of enterprises, as well as collective forms of training for micro-enterprises and non-subscribers through a mutualization system. From 1993 to 2006 the FDFP carried out 24,600 training programs that involved 483,000 employees for the amount of nearly €125 million. In the course of this period 188,000 people were able to benefit from collective training offers at a cost of €51 million.

Sources: AfDB/OECD, *African Economic Outlook 2008*, Box 42 and p.267; Atchoarena 1996; Ziderman 2003.

Few in-depth evaluations have been made of training incentive schemes. Dar, et. al. 2003 presents evidence on the effectiveness of incentive based levy schemes that show

some impact on increasing training within enterprises: The Malaysia HRDF participants were more likely to have training their employees compared to non-participants (Tan and Gill 1998). The amount of training undertaken by employers increased in Singapore (Tzannatos and Jones 1997). Similarly, the levy-exemption scheme in France is fully used by employers and has increased worker training (Kuruville 1999). In contrast, the levy exemption scheme in Korea decreased the number of trainees in the mid 1970s owing to complicated rules governing requirements and approval criteria (Gill and Ihm 1998).

#### 4.4 Advantages and Limitations

Each of the three types of levy schemes has advantages and limitations, summarized in the table below.

**Table 5. Advantages and Limitations of Enterprise Training Incentive Schemes by Type**

Type of incentive scheme	Advantages	Disadvantages
<b>Cost-Reimbursement</b>	<ul style="list-style-type: none"> <li>• Supports industry training initiatives</li> <li>• Leads to improvement of company training in some countries, e.g. development of training policies, requirement of company training plans, and central advisory guidance on training</li> </ul>	<ul style="list-style-type: none"> <li>• Imposes high administrative and maintenance costs which reduce the amounts that can be returned to employers</li> <li>• Tends to favor routine training instead of new programs</li> <li>• Deters many enterprises from applying because of bureaucratic requirements and paperwork</li> <li>• Delays training within enterprises in some cases because of a slow approval process</li> </ul>
<b>Levy-grant</b>	<ul style="list-style-type: none"> <li>• Promotes the allocation of resources to priority training programs</li> <li>• Supports industry-wide training initiatives</li> <li>• Changes priorities flexibly in accordance with changed circumstances</li> </ul>	<ul style="list-style-type: none"> <li>• Imposes high administrative costs</li> <li>• Requires effective management skills and capacities</li> <li>• Excludes many enterprises paying the levy from funding</li> </ul>
<b>Levy-Exemption</b>	<ul style="list-style-type: none"> <li>• Keeps financial allocations within enterprises; employers are free to plan, manage their funds and administer their training.</li> <li>• Economizes on costs --Central administration of funds is not required; the national cost of administration is low.</li> <li>• Forges links between employers, schools and agencies, and stimulates the development of private training markets through the option for training institutions to compete for employer grants (French apprenticeship tax).</li> </ul>	<ul style="list-style-type: none"> <li>• Ineffective spending of the compulsory allocation in some cases</li> <li>• Cannot support broader sectoral (or national) training priorities and activities.</li> </ul>

Sources: Adapted from ADB 1997 and Ziderman 2003.

## **4.5 Tax Credits**

Tax credits can be used as an alternative to payroll levies. Chile is probably the best example in the developing world. Enterprises can claim a tax credit of up to one percent of the gross wages for expenditures in training workers. The justification for this state subsidy is externalities, benefits that the firm does not receive. In 2002, more than 110,000 enterprises trained 846,900 workers, or 16 per cent of the employed labor force. The total investment by enterprises in training amounted to about US \$ 170 million, of which about 85 per cent was funded out of the tax allowance. (Martinez, 20??) Other countries have abandoned tax credits as a means to stimulate enterprise training, including Brazil which terminated tax credits without evaluation (Gaskov 1994).

The next chapter discusses an alternative to enterprise training funds – equity oriented funds.

## **V. EQUITY TRAINING FUNDS**

### **5.1 Overview**

Equity-oriented training funds aim at increasing opportunities for low-income and disadvantaged groups to raise their income by acquiring productive skills. They are intended to reach people who cannot benefit normally from levy-financed schemes, i.e. those outside employment in the formal sector who do not have the opportunity for in-service upgrading of skills. The objectives of such funds are to train specified target beneficiaries, e.g. unemployed, women, youth, informal sector. They often include subsidiary objectives of stimulating competition and training markets, and reducing unit training costs. The number and distribution of equity training funds could not be determined in this review, but coverage is likely concentrated in low income countries and disadvantaged segments of middle-income countries. Equity-oriented training funds can be financed through levy proceeds or government budgets, but for the most part are financed by international donors in low income countries. The modus operandi involves disbursements either through pre-determined funding windows or applications by training providers. Some evaluations have been done of outcomes and impact, but this is not generally the rule.

Countries that lack a large formal sector with generally lower levels of income and administrative capacity may not be good candidates for payroll-financed training levies and their associated training funds. Moreover, formal sector enterprises may resist the diversion of the levies that they pay for training people in the informal sector, even though it encompasses the great majority of workers. As an alternative, governments and donors have set up and financed equity-oriented training funds in several countries. These funds focus on training for the informal sector and for disadvantaged groups, e.g. the unemployed and youth.

## 5.2 Government and Levy-financed Equity Funds

Equity-oriented training funds can be financed by governments and through payroll levies. Good examples are the National Training Fund (FONCAP) of Chile (Box 10) and the National Skills Fund (NSF) of South Africa (Box 10).

### **Box 10. FONCAP- Chile (Fondo Nacional de Capacitacion) – The National Training Fund**

FONCAP, established in 1997, funds public training programs managed by the National Training and Employment Service (SENCE). It receives annual budgetary allocations for this purpose from the government. FONCAP targets low income workers not covered by enterprise programs, such as young workers entering the labor market without qualifications, unemployed or under-employed adults. These programs are implemented through tenders and bidding by registered training providers, of which there are over one thousand.

In 2002 FONCAP financed a total of about 45,000 participants in the following twelve training programs (with number of participants noted in parentheses): apprenticeship subsidies for youth (1, 530); training subsidies for micro and small enterprises (3360); trade training for low income youth (1350); short courses for those without qualifications (10,000); micro-enterprise management for women (100); training for those in military and security services (4,280); Chile Barrio- trained 10,650 people in low income settlements; individual training scholarships (2,520); youth job retraining (920); “Programa Chile Califica”- co-financed by the World Bank – to articulate continuous training with formal education.

In particular, training for small enterprises is encouraged through about 20 non-profit intermediaries (OTICs) that organize and contract training for groups of small enterprises.

Source: Summarized from Martinez 2007.

### **Box 11. The National Skills Fund (NSF) of South Africa**

Twenty percent of the training payroll levy on formal sector enterprises is sent directly to the NSF and eighty percent goes to sectoral training authorities (Box 2.7) The purpose of the National Skills Fund is to finance projects arising out of the National Skills Development Strategy. The NSDS calls for 85 percent of the training programs to benefit blacks, 54 percent women and four percent the disabled. The NSF has ten funding windows, but three fourths of the funds are allocated to two programs – social development initiatives and critical skills. Just under half of the expenditures by the NSF is directed at social development initiatives, including training the unemployed and adult basic education and training for the disadvantaged. About one fourth of expenditures go for training in critical skills for youth. The NSF has well developed procedures ensure that competent proposals are endorsed and funded. The NSF has been substantial progress towards its quantitative targets: Between 2006-2008 it achieved 72 percent of its 2010 target of 450,000 unemployed trained, 60 percent of its 2010 target of 100,000 persons completing adult basic education, and 116 percent of its 2010 target of 125,000 provided initial work-based training. However, NSF is faced with several basic constraints and issues:

The NSF is able to spend only half the levy resources it receives. Factors responsible include lack of contractor capacity, lack of staff resources in NSF. The NSF does not evaluate its results adequately. It is surprising that a fund that is expected to spend R900 million in 2008/09 have never been the subject of a major evaluation. (The only monitoring is against NSDS targets.) It is not clear at present whether NSF is providing value for money, i.e. whether the skills development it finances is effective at the prevailing costs. Still, its provision of training opportunities to disadvantaged groups is impressive.

Source: Department of Labor, South Africa: NSF Annual Report 2008, NSDS2 Implementation Report,

### **5.3 Donor-financed Equity Training Funds**

Most equity-oriented training funds tend to be financed by donors. The sections below reviews information about the functioning of training funds supported by three different sets of donors: (1) a 2002 review by the World Bank of training funds in Sub-Saharan Africa, (2) a 2006 review for France Cooperation of three donor-financed West-

African training funds, and (3) examples of two training funds supported by the Asian Development Bank.

### 5.3.1 *World Bank-financed Training Funds in Sub-Saharan Africa – A 2002 Review*<sup>7</sup>

In 1993 the World Bank recommended consideration for establishment of training funds as a source of targeted financial assistance to employers and training institutions “to increase flexibility in responding to periodic training needs...”<sup>8</sup> Nine World Bank-financed projects during the 1990s created or supported training funds of various types to finance training provision in high priority areas.<sup>9</sup> The purported advantage of these funds was an ability to finance specific, targeted training based on surveys of needs or proposals by beneficiaries. The funds typically also sought to engender competition among training providers by making all institutions, public, private and NGO, that met minimum standards eligible to receive funds. The underlying aim was to change incentives for existing training institutions and stimulate a supply response to market forces. In addition to augmenting resources for training, funds can also make it possible to involve employers in control of funds to which they have contributed.

Experiences were generally positive with these training funds in reaching stated objectives and outputs. The Madagascar project successfully provided training both to the formal and informal sectors. The Cote d’Ivoire project helped unify two levies under the FDFP. Two main institutional factors accounted for the success of the FDFP, namely: (1) its autonomous structure, and (2) the direct transfer of the payroll taxes from the Treasury to the training agency. The FDFP even cross-subsidized training for the informal sector, i.e. allocated funds raised from levies on the formal private sector firms to finance informal sector training. This was highly unusual at the time. The cross

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<sup>7</sup> Source: Johanson, Richard K. 2002. “Sub-Sahara África (SSA): Regional Response to Bank TVET Policy in the 1990s.” Part I: Main Report, AFTH4, the World Bank.

<sup>8</sup> Middleton, John and Adrian Ziderman and Arvil V. Adams. 1993. *Skills for Productivity: Vocational Education and Training in Developing Countries*. World Bank and Oxford University Press, 69.

<sup>9</sup> The World Bank-financed projects covered were: Benin (FODEFCA), Cape Verde Basic Education and Training (Training Support Fund), Comoros (Vocational Training Fund) Cote d’Ivoire Labor Force Training Support Project (FDFP), Mali (Vocational Training Support Fund), Mauritius, Mauritania (Institutional Support Fund and the Training Support Fund), Madagascar (DNFTP), Togo (National Training Fund).



subsidization by FDFP amounted to about 18-20% of the allocations for training (and were not World Bank financed).

The training fund in Mauritius also appeared to be successful in achieving its objectives and targets, benefiting from a growing economy. The economy was so buoyant that reserves accumulated in the fund. The levy percentage was eventually reduced. The performance of the Fund reportedly could have been improved if the appraisal criteria for sub-projects have been more well developed. The smaller training funds in the Cape Verde projects also appeared to be functioning successfully.

The Training Support Fund in Mauritania was successful in financing training activities initiated by micro-enterprises.<sup>10</sup> More than 130 proposals, generated by groups of workers and cooperatives, were financed. The results reportedly enabled the beneficiary micro-enterprises to become more productive. The demand-driven nature of initiatives supported by the TSF, facilitated by participation of microenterprises in the design of the program, reportedly was easily implemented and had substantial impact. Still, the TSF was able to use only three fourths of available funds because of initial lack of clarity in procedures for accessing the financing.

Several observations can be made about these Bank-financed equity-oriented training funds.

1. Financial sustainability depends not only on a steady and secure source of financing, but also how the funds are received (directly from the Treasury seems the best alternative, as in Cote d'Ivoire, but is frequently challenged.) An endowment may be another way to ensure steady and secure funding.
2. Management and financial autonomy seem to be essential requirements for effectiveness. Both of these characteristics apply to FDFP in Cote d'Ivoire. In

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<sup>10</sup> The Mauritania project also included another fund that was not successful. The Institutional Support Fund was intended to finance the development and delivery of training courses by TVET institutions in response to employer requests, in effect extending the range of services provided by the institutions. At project completion only a dozen projects had been financed and only one fourth of available funds was disbursed. Factors responsible include (a) delays in legally enabling the institutions to use the funds, (b) a restrictive operational manual and a complicated evaluation process, and (c) insufficient public awareness of the fund's existence.

Madagascar, the structure of the CNFTP as a semi-autonomous body contributed greatly to its ultimate effectiveness.

3. Balance seems to be important in the governance structure of a Fund. Governance in FDFP was balanced between government, employers and workers. This mix was highly effective. It prevented one party from dominating and distorting the operations of the Fund. The opposite was true in the Togo project, where the Minister of VET had too powerful an influence in Fund operations.
4. Linking training funds with training councils seems to be a good marriage. The presence of funds can make an advisory council more effective, and the overall council can help target the use of funds better. This combination worked well particularly in Madagascar.
5. Clear, straightforward (i.e. not overly complex) procedures for approval of fund allocations are essential, as shown in the Madagascar and Mauritania cases.
6. The funds were successful in providing training for those in the informal sector, but the impact of the training was not rigorously evaluated (except for the tracer study in Cote d'Ivoire).
7. Competition for funds can help stimulate a training market in some cases and help reduce unit costs of training.

### **Box 12. Cote d'Ivoire Case- The Vocational Training Development Fund (FDFP)**

The Project financed an extension of the activities of an existing Vocational Training Development Fund (FDFP) into new fields, namely: training for small firms and the informal sector. The Fund financed subprojects submitted by sponsors (individuals, firms or organizations) for defined beneficiaries, e.g., female entrepreneurs, micro-enterprises and small formal sector enterprises. Training advisers of the Fund worked with sponsors to design or refine the training program. Training was provided through pre-approved public or private training institutions on the basis of competitive bids.

The main problems experienced in implementation were (1) a slow start in gearing up for training activities because of the time required to inform potential beneficiaries and training providers throughout the country, (2) inability for the Fund to assure quality simultaneously with building training volume, (3) inappropriate approval procedures for small subprojects in the Fund.

The main achievements were: (1) training that responded to the needs of the target population. Some 700 training projects were financed benefiting 71,000 people, of whom half were women; (2) geographical dispersion of training –85% of the training took place outside Abidjan; (3) reductions in training costs can be attributed to competition and standardization of training modules; (3) private providers won three fourths of the training contracts through competition; (4) the Fund now practices competition in most of its financing, something new; (5) an increased appreciation for the needs of the informal sector by members of the Fund board. In fact, the Fund has started to cross-subsidize informal sector training by 18-20% of its budget drawn from a training levy on enterprises in the formal sector.

Some lessons were: Program effectiveness and sustainability depend on two main factors: (a) quality of the Training Fund organization, leadership and staff – these were strong in this case; and (b) financial autonomy of the executing agency – also strong in this case. It is critical to have adequate autonomy in two dimensions: management and finance. Both were present in the Ivory Coast project. The tax department collected the payroll taxes and paid them directly into the treasury from which the Fund would automatically get its resources. Moreover, the equally divided control in the Board among employers, unions and government prevented the government from dominating (and distorting) the operations of the Fund.

Other findings include: reaching the poorest populations requires adequate efforts at outreach, including appropriate dissemination of information, field presence, and NGO involvement. It is also important to invest in supervision close to the field. Assistance was typically needed to convert a training request for informal sector training into an acceptable training sub-project – designing the training objectives and specifications, addressing beneficiaries' needs. The design of quality assurance for training outcomes may include establishment of clear standards for outputs and simple competency-based testing. Non-training factors are important for good outcomes, not only training. Lack of other complementary inputs (water, credit, equipment, markets) tended to limit the impact on beneficiaries. This suggests the need to link subprojects better with microfinance and marketing. Competition led to some dramatic changes in management attitudes in public training institutions. They became much more entrepreneurial, able to diversify funding sources and better attuned to skills needed in the labor market.

Source: Annex 5.1

### 5.3.2 *French Cooperation – A Review of Three West African Countries*

Governments in three West African countries collaborated with international financial institutions to develop three training funds in the late 1990s and early 2000s. These include the Support Fund for Vocational Training and Apprenticeship (FAFPA) of Burkina Faso (starting in 2003), the Promotion of Employment and Vocational Training Fund, the FAFPA of Mali (1997), and the Fund for the Development of Vocational Training and Apprenticeship (FODEFCA) of Benin (1999). The Malian and Benin Funds received support from IDA and French Cooperation from 1996-2001 and 2000-2004, respectively. The Burkinabe fund was supported by technical assistance from Austria, Switzerland, GTZ and French Cooperation.

Existing technical education was considered to be too academic in these countries and disconnected from economic realities. The creation of the funds sought a double break from this traditional pattern: (i) moving from a supply-based approach dominated by technical education to a demand-based approach driven by employers' needs, and (ii) promoting a vocational training market through the implementation of transparent procedures for invitations to tender.

The three funds had the following characteristics in common: i) they were funded indirectly by payroll levies through the government budget, i.e. formal enterprises paid the levies to government and the ministries of finance were expected to finance the funds through the government budget, ii) training was provided for both the formal and informal sectors. (iii) the funds supported dual-type apprenticeship actions ("alternance", or, part of the training given within training centers and part on-the-job training).

The main findings and outcomes were as follows:

1. The funds played an important role in pooling funds from various sources.
2. The funds were successful in articulating the skill requirements of employers.
3. The funds financed considerable training for target beneficiaries especially in the informal sector. About 21,000 persons were given informal sector training in Mali over the project period, and 5200 in modern sector occupations. In Benin, 11,000 were trained in agricultural occupations, almost 7,000 in non-agricultural informal

sector occupations, 2,900 in modern sector jobs and 1,500 dual apprentices. However, targets for female beneficiaries were only about half achieved.

4. The tripartite nature of governance varied considerably. In general, the public sector dominated. Governance was weakened by the lack of real employers in Mali and lack of unions in Burkina Faso.
5. Application of rigid procedures made it impossible to use available funds fully. This underscores the need to simplify administrative and financial procedures, especially for micro and small businesses.
6. Ministries of finance transferred only a small part of the levy revenue it received from enterprises to the Funds, confiscating the balance for other government expenditures.
7. Formal sector employers supported payment of the levies for informal sector training.
8. Changing to a demand-oriented system required a movement away from a “catalog” of training courses to tailor making courses for employers and workers. In practice this was limited by lack of available expertise in adapting training content and the low demand for training on the part of artisans.
9. Demand for training turned out to be too weak to stimulate a training market. The availability of financing attracted mainly the training providers that did not need specific equipment or permanent instructors; e.g. trainers in management and computing. The failure of invitations to tender demonstrated an inability to stimulate a consistent supply response. This failure was not only the result of complex procedures. There was no predictable, sufficiently large demand for training to justify investment and risk-taking by potential training providers. A training market cannot be decreed by imposing procedures, albeit simplified ones. A training market will only develop as effective training demand grows (Walther and Gauron 2006, Annex 5.2).

### *5.3.3 Asian Development Bank-financed Projects in Asia*

The Asian Development Bank has financed several projects that included training funds, and several new ones have just started (Maldives, Bangladesh.) Two of them -- Papua New Guinea and Cambodia-- are explained below.

#### **Papua New Guinea (PNG)**

The project in PNG was based on extensive analysis of training requirements in the informal sector for self-employment and income generation. It also included extensive analysis of public and non-government training provision, including a categorization and evaluation of the strengths and weaknesses of different types of providers. It concluded that the potential existed on which to build a training market. It also focused on ways to overcome the commonly-known limits to sustainability of a training fund. Considerable thought was given to making the training fund sustainable by mobilizing additional resources from government and non-government sources, and by establishing a trust fund for continuous financing of priority training. See Box 13 below.

### **Box 13. Training Fund for Sustainable Skills Development in Papua New Guinea**

The ADB-funded Employment-Oriented Skills Development Project in Papua New Guinea (PNG, 1999) established a donor-government training fund (The Skills Development Trust Fund) to provide a permanent source of financial support to informal sector training. The Fund was registered as a juridical person to ensure legal and political independence. The training providers were selected on a competitive basis and included public vocational centers, churches, nongovernment organizations, and private training providers. Training needs analysis was included in proposal preparation, as well as post-training support and guidance. Performance conditions were also established. Satisfactory results were a precondition for subsequent training contracts: winning training providers were required to provide evidence of post-training employment.

The Fund's capital (about K50 million including loan proceeds of about US\$15 million equivalent) was invested and managed by an experienced professional. The accrued interest from the invested capital was used to co-finance short-term employment-oriented skills training. As long as the annual interest generated by the fund was equal to, or greater than, the annual expenditure on skills training, sustainability could be assured.

The Fund was slow in starting because of requirements for special legislative and bureaucratic measures, and the need for individual provinces to contribute first to the fund's capital before qualifying for its resources. The first disbursements took nearly three years after the project began. The Skills Development Trust Fund awarded 420 training contracts with 8,210 participants comprising 2,620 male youth and 5,590 females. Contracts were awarded after reviewing: (i) the quality of training proposals, including the program delivery capacity of trainers; (ii) the viability of funding under the project accounts; and (iii) the distribution of skills-training courses. By the end of 2007, the Fund had benefited more than 10,000 people, 40% of them women. About 75% of participants found self- or wage employment within 1 year of completing their training programs.

Additional benefits: (1) The Fund became a catalyst for mobilizing additional resources for informal sector training. It increased the financial commitment to skills training in the provincial level through the required provincial contributions. Moreover, as the fund covered only a part of the total training costs, both providers and participants contributed to the cost of programs, resulting in a degree of broad-based ownership not normally associated with project-financed skills training activities. (2) The Fund also stimulated development of local training markets where it operated through competitive bidding for training contracts open to all qualified training providers, public, NGO and private. By the end of the project about one hundred different training providers had accessed fund resources.

Sources: Annex 5.3, ADB 2004, ADB, 2008 *Skilling the Pacific*, ADB 2008 Project Completion Report.

## **Cambodia -- National Training Fund (NTF) (Annex 5.4)**

The Asian Development Bank (ADB) supported the establishment of a National Training Fund under its *Basic Skills Project* (completed in 2003.)<sup>11</sup> The National Training Fund (NTF) was envisaged as mechanism to finance training from both Government and non-Government funds over the medium and long-term. The NTF served as a means for providing Project-financed support for demand-oriented training, such as training programs relevant to employment needs and in accordance with the training policy and strategy of the National Training Board (NTB). In the longer term, the NTF was expected to evolve into the main mechanism for funding of employment-related training, including enterprise-based training. It aimed at becoming an instrument for providing incentives to training institutions, enterprises, and the private sector to upgrade and extend their provision of training.

The NTF included two financing facilities<sup>12</sup>: (i) The Training Grant Fund (TGF), a grant facility for training providers contracted to do training for certain group of trainees in certain skill areas; and (ii) The Self-employment Generation Fund (SEGF), a micro-credit loan facility for small entrepreneurs in both urban and rural areas.

The Training Grant Fund trained a total of 13,100 beneficiaries from 24 provinces/cities in 53 skill areas at a cost of \$1.9 million, or an average of \$147 per trainee. The TGF beneficiaries comprised the poorest people (38.1%), school leavers (25.2%), orphans (15.1%), widows (9.9%), crippled demobilized soldiers (6.3%), and handicapped (5.5%). Half of the beneficiaries were women. Based on a tracer study on training outcomes, the average employment rate among graduates was 66 percent, including 75 percent for women and just 59 percent for men. Categorized by type of

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<sup>11</sup> Sources: ADB. Project Documents:

- August 1995. RRP: Cambodia *Basic Skills Project*. RRP:CAM 27411.
- Project Completion Report (PCR): 2003. *Basic Skills Project* (Cambodia) (Loan 1368-CAM[SF]), N.181-03, 4 August.
- 9 September 2005. Project Performance Audit Report (PPAR): *Basic Skills Project* (Cambodia). Operations Evaluation Department. IN.253-05.

<sup>12</sup> The project included a third fund, the Innovative Skills Investment Assistance Fund (ISIAF), a loan facility for private training providers offering innovative training to their own target clientele for a fee. The ISIAF trained almost 12,000 trainees but was discontinued because of default by one of the sub-contractors. The money was eventually recovered.



beneficiaries, the employment rate ranged from a low of 55 percent among school leavers to full employment among demobilized soldiers. An estimated 80 percent of those who found employment did so in the informal sector. The average income of those who found employment ranged from \$32-\$73 per month. This may not seem like much, but when benchmarked against the \$25 per month average salary of public servants, the impact of TGF was significant on the income of beneficiaries. The TGF had no cost recovery. Training fees could not be charged because the beneficiaries were very poor and had to be provided assistance in transportation and food during the training period. But, in terms of employment generation, the TGF was efficient, requiring only an average investment of \$222 per employed beneficiary.

The Self-employment Generation Fund (SEGF) was a micro-credit program patterned after the Grameen Bank of Bangladesh. Loan amounts generally ranged from \$200–\$3,000. By December 2002 the SEGF, through the provincial training centers, had disbursed \$1.4 million (including re-lending) to 5,650 members in 1,750 groups in 15 provinces; 65% were women. The SEGF beneficiaries engaged in a wide variety of micro-enterprises such as algae and seaweed growing, bamboo basket making, animal raising, food processing, hairdressing, motorbike repair, onion growing, television and radio service and repair, silk weaving, masonry, stone carving, worm raising. Selection of eligible businesses was preceded by a training and employment needs assessment (TENA) conducted by the provincial training centers, and by rudimentary feasibility studies. The high collection rates (around 92 percent) indicated that the SEGF businesses were doing well. The average income from such businesses ranged from \$400 to \$900 per annum, a significant amount, especially in the countryside.

The experience of the two NTF programs, the TGF and SEGF, was encouraging. Their impacts on the poor were direct, concrete, and substantial, and with relatively small investments. The TGF proved to be an efficient way to empower the poor by providing employable skills, either for wage or self-employment. The SEGF provided concrete opportunities for TGF graduates to apply acquired skills for self-employment. However, the operations of both programs would need to be scaled up to reach more target beneficiaries.

The National Training Fund continued to operate using government funds (program budget) after closure of the Project. The procedures for competitive award of contracts, and use of unit costs for pricing the training are still in use. Thus, the institutional development gains from the project appear to be sustained. There were several limitations, however. The use of low unit costs in the competition for contracts effectively excluded private training providers. Only government institutions and NGOs that have already sunk costs in teacher salaries could afford to compete. Some adjustments need to be made to provide incentives for private providers to compete. Red tape makes it difficult to spend fully the government program budget allocated to the NTF. As a result some of the intended programs could not be financed.

### **Achievements and limitations of equity-oriented training funds**

Based on the foregoing cases and analysis, several advantages and limitations can be identified of training funds. First, they appear often to be successful in reaching their objectives of training for the informal sector. It is less clear about the quality of training imparted, but the few tracer studies available (Cote d'Ivoire and Cambodia), the economic impacts can be considerable. Second, they appear to be successful in pooling different types of resources for spending on a unified set of priorities. In some cases this has led to mobilization of additional resources for training (e.g. PNG). Third, Fund procedures can lead to efficiencies in the use of resources (e.g. Cote d'Ivoire, the use of unit cost parameters in Cambodia and PNG). Fourth, the availability of funds on a competitive basis can help stimulate a training market in some cases (Cote d'Ivoire, PNG). In addition, accreditation of training providers presumably had a positive impact on training quality. Fifth, employer representatives can agree on cross-subsidization of informal sector training, and some even see the benefits as they use informal sector enterprises for sub-contracts. (Cote d'Ivoire, West African cases). The most basic challenge for donor-financed training funds is sustainability – how to continue operations beyond the life of the project when relying on limited government financing. The PNG case shows an innovative means to address the problem – the use of a trust fund with interest earned earmarked for training finance

The limitations of training funds are also evident from these cases. Just by introducing competitive procedures does not, by itself, create training markets. Such training markets apparently did not occur in other West African countries (Mali, Benin and Burkina Faso), in part because the base of training providers was too narrow. Underutilization of available funds points to the need for efficient procedures adapted to the capacities of potential providers and beneficiaries (West Africa, Cambodia, PNG). The decision-making structures in PNG and Cambodia appear to have been overly complicated.

Evidence of impact evaluation in equity-oriented training funds is, again, patchy. Two of the training funds – Cote d’Ivoire and Cambodia -- incorporated extensive tracer studies. The Cambodia study related impact to costs in the form of cost per employed beneficiary. However, the final evaluation of the other donor-financed equity funds merely enumerated the outputs. The levy-financed equity fund in South Africa, NSF, has conducted no evaluations of impact beyond target achievement since its creation in 2000. This points to a lack of rigor in evaluation.

Table 5.1 summarizes the advantages and limitations of equity-oriented training funds:

**Table 6. Achievements and Limitations of Equity Training Funds**

<b>Strengths</b>	<b>Weaknesses/Risks</b>
Can stimulate grass roots (training institutions, enterprises) interest and innovation in upgrading training programs	Risk spreading funds too thinly so that recipients lack a critical mass of financing
Can unify various sources of funding for training	Can be hijacked by certain interest groups
Can benefit a wide range of training providers	May divert resources for non-training purposes
Can finance a wide array of training arrangements and delivery methods (long, short, institution or enterprise-based); Guidelines can be adapted to new priorities.	Can fail to be sustained when external donor financing ends.
Can allocate funds in line with national policies and priorities.	May not include sufficient stakeholders in governance, e.g.Mali.
Can address the needs of training for the informal sector in low-income countries	May not disburse available funds because of cumbersome procedures
Can enhance system performance through accreditation of training providers and competition for funds.	Lack of rigorous evaluation
Can raise incomes of those in the informal sector	

Sources: Adapted from Ziderman 2003 and Johanson, ADB 2009.

The next chapter poses key questions and draws some lessons of good practice in the design of the three main types of training funds.

## **VI. KEY QUESTIONS AND GOOD PRACTICE IN TRAINING FUNDS**

Some concerns tend to be common across all three types of training funds. Others are specific to levy or equity funds.

### **6.1 Common Concerns**

#### *6.1.1 Governance*

In levy-based funds countries that allocate a leading role to employers tend to be successful – e.g. Brazil, Singapore. However, balanced, tripartite governance (employers, unions, government) can also be successful – as in Cote d’Ivoire. However, over-control by government can have deleterious results (e.g., Togo). In Hungary employers felt that government exerted excessive control over funds and limited their effectiveness (Dar, et. al., 2003) Allowing employers to have a major -- if not majority -- say on fund allocations can go a long way to gaining their support for the levy. This is done in Brazil, where the employers control the allocation of training levies, and also largely in Singapore. The matter of governance and oversight is equally important in equity training funds. An example of good practice was the CNFTP in Madagascar on which ten of the 12 members represented employers. Where funds aim at assisting workers in the informal sector, representation by informal sector associations is appropriate.

#### *6.1.2 Allocations*

Who decides on the allocation of money to beneficiaries, and based on what criteria? What role will employers and workers play in allocating the funds? Their participation is crucial for success. -- Advice: if possible, give employers a strong, even majority, voice in allocations of funds they provide to ensure relevance (Madagascar CNFTP).

### 6.1.3 *Administrative Autonomy, Capacity and Efficiency*

Administrative capacity is essential. Most successful levy-financed training funds in Latin America and elsewhere have a high degree of administrative independence. Administrative efficiency is required to reduce red tape and ease access to funds by deserving firms. The Singapore SDF, French levy-exemption scheme and the Malaysian levy-reimbursement schemes exemplify well administered programs (Gasskov 1994 in Dar et. al. 2003) Transparency in decision-making is also important, as practiced in the Singapore SDF and Chile's FONCAP.

### 6.1.4 *Competition*

The levy systems in France and Cote d'Ivoire actively encourage competition among training providers and development of training markets. Chile's FONCAP, an equity fund, finances training only through competitive bids from among one thousand registered and pre-approved training providers. Competition for funds was incorporated into several donor-financed equity training funds. Those that fostered competition among training providers tended to help stimulate training markets (PNG). In Cote d'Ivoire private training providers garnered the lion's share of the contracts awarded under competitive bidding (Annex 5.1). Competition also led to lower unit training costs in Cote d'Ivoire and PNG. However, in Cambodia unit costs for training were set so low they effectively eliminated private providers. Without a sufficiently wide spectrum of training providers, attempts at competition did not succeed (i.e. bids failed) in Burkina Faso, Mali and Benin.

### 6.1.5 *Support for Small Enterprises*

Both enterprise funds and equity funds attempted partly to assist small enterprises. Small enterprises operate under tight constraints that militate against participation in training, e.g. cash flow problems, inability to release workers for training, lack of knowledge and expertise about training. Malaysia and Singapore (Box 2.3) exemplify good practice in tailoring services to small enterprises through vouchers (to relieve problems of cash flow), technical assistance to assess needs and design programs, making deliver flexible to avoid time constraints felt by small enterprises and simplification of administrative procedures. Chile's FONCAP uses intermediaries to organize and contract

training for groups of small enterprises, something they would not have capacity to do by themselves. Several equity training funds were able to provide skills to people working in the informal sector (Cote d'Ivoire, Cambodia, PNG.)

#### *6.1.6 Evaluation of Outcomes and Impact*

Few training funds went beyond enumeration of outputs (e.g. persons trained) to analyze impact (e.g. employment, worker productivity) and impact (e.g. increased individual incomes or company profits). Two donor-supported equity funds did this – Cote d'Ivoire and Cambodia – but only Cambodia compared the impact to training costs. Clearly, more and better evaluation is needed on the performance of training funds.

## **6.2 Levy-financed Training Funds**

Levy schemes have had a positive impact on quantity of in-service training of workers. At least quantitatively, training levies achieved their objective of increasing the incidence of enterprise-based training. (Brazil, Singapore, Malaysia, South Africa). However, the benefits of levy-financed training funds were not evenly distributed. They tended to mirror the incidence of enterprise-based training in general. Larger firms benefit disproportionately. Smaller firms rarely participated for reasons explained above. “Small and mid-sized employers have rarely benefited from payroll levies in any country for which we have available evidence.” (Dar, et. al.2003) Some levy funds accumulated significant surpluses (Zimbabwe, Colombia) which led in part to significant overstaffing (Nigeria Industrial Training Fund.) Revenue-generating funds that gave preferential financing to their own training institutions tended to crowd out other training providers (Kenya, Department of Industrial Training; Tanzania.) Other funds suffered under excessive government control (Hungary, Togo), or excessive red tape (Korea, in Gasskov 1994).

The following list synthesizes good practices in the design and operation of levy-financed training funds<sup>13</sup>.

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<sup>13</sup> Source: Much of this is adapted from Ziderman 2003.

### *6.2.1 Appropriateness*

Avoid premature introduction of payroll levies. Payroll levies may not be appropriate in low income countries where the industrial base is limited and levy-income generating capacity is weak. Therefore a primary requirement is a sufficient number of formal sector enterprises with sufficient income to generate revenue. In low-income countries the industrial base may be too narrow, or the majority of enterprises located in the informal sector so as to preclude payroll levies

### *6.2.2 Employer Buy-in*

Employer-buy-in for levy schemes is crucial. Extensive consultations and consensus with employers is essential on the need and benefits before introducing a levy scheme. Enterprises often see as an additional tax that they will recoup by lowering wages of the workers. Employers need to be consulted early and thoroughly – something that was not done in Tanzania and for which the levy scheme still lacks employer support.

### *6.2.3 Conflict of Interest*

Funds that give preference to institutions they own (Tanzania, Kenya, formerly in Mauritius) have an inherent conflict of interest. Giving preference to a funding agency's own institutions can crowd out other (private, NGO) training providers. In Kenya and Tanzania, with the levy going to support training institutions owned by the training authority, non-governmental providers of craft training tend to be neglected. (Adams and Fretwell, 1997 in Dar, et. al., 2003). This is also a tendency in Brazil where SENAI operates its own network of training institutions. (Annex 3.1) There are exceptions to this rule, however, as in TPAF of Fiji which produces excellent training in its own institutions (ADB 2008). Generally, however, training agencies and funds should avoid a direct training role, as does Chile's SENCE.

### *6.2.4 Cross-subsidization*

What share of the fund, if any, should be devoted to “cross-subsidization”, e.g. training for those in the informal sector, or for small enterprises that have not contributed? Cross-subsidization allows funds to be channeled to priorities outside the

immediate collection area. Colombia (SENA), Cote d'Ivoire, and Burkina Faso, Mali, Benin all permitted funds raised from formal sector enterprises to be spent on training of workers in the informal sector. In South Africa cross subsidization is built into the levy design: 20 percent of levy proceeds are allocated to the National Skills Fund for equalizing access to skills.

#### *6.2.5 Global versus Sectoral Coverage*

A standard, national payroll levy is preferred to a sectoral levy for its greater ability to permit funds to be allocated where training needs are greatest. On the other hand, keeping funds in the sector where they were collected can increase the sense of ownership of training. Brazil has relatively few sectoral training funds (five) compared with the highly fragmented system of 23 sectoral authorities in South Africa, many of which may not be viable in size. Sectoral levies are more common in Europe (Annex 2.2), particularly in the UK, Denmark and the Netherlands – but most of these are the result of collective bargaining and sufficient administrative capacity exists to operate them. On balance, national levies are preferable in developing countries as they foster an integrated, national approach to skills development and require comparatively less administrative capacity than sectoral funds.

#### *6.2.6 Periodically Revised Levy Rate*

Experiences in Latin America (Venezuela) and Africa (Zimbabwe, Mauritius) show that a rate too high may lead to surpluses and lavish bureaucracies. The lesson, therefore, is to adjust the rate periodically to ensure that the training is neither underfunded nor leads to surpluses. In Mauritius the rate was lowered when surpluses emerged.

#### *6.2.7 Levy Collection*

Use effective agents. How to collect the funds efficiently without costing more in administrative expenses than the levy collects – integrating the levy collection with collection of taxes (South Africa) or social security often works; separate collection by a training agency usually does not (Kenya, Tanzania).



### 6.2.8 *Security of Levy Proceeds*

Avoid diversion to other purposes, including treasury confiscation. Levy funds should not be used for other government expenses, as has happened in the past in Costa Rica, Cote d'Ivoire briefly, The Gambia and Togo (Box 2.1). Funds should be earmarked to be used only for training purposes, avoiding extraneous activities.

### 6.2.9 *Types of Levies*

Which work best, and under what circumstances? Pre-employment funds supported by revenue-generation schemes should be seen as an initial means to establish national training institutions, to be augmented later by more cost-effective systems such as employer training incentives. All three types of in-service (enterprise incentive) schemes require administrative capacity and to an extent impose barriers to access by firms. Levy-grant mechanisms have the advantage of being able to address national priorities directly. Cost-reimbursement schemes can impose a high administrative burden on the training fund. Levy-exemption may have the disadvantage of a “leveling effect,” i.e. firms that would otherwise have invested more in training tend to reduce their effort to that required by law. More evaluation is needed to determine the relative cost-effectiveness of the different types of levies.

## **6.3 Equity Training Funds**

Equity-oriented training funds can be an effective alternative to levy-financed funds in low-income countries where levy financing may not be feasible. Three cases presented (Cote d'Ivoire, PNG and Cambodia) demonstrated that donor-financed training funds can provide income-generating and income-increasing skills to vulnerable groups in the informal sector. They also stimulated competition among providers and achieved efficiencies by reducing unit costs of training.

Not as much evidence is available to provide examples of good practice for equity training funds. Still, equity-oriented training funds need to be designed to answer the following questions:

### *6.3.1 Targeting*

The whole point of equity funds is to provide training services to disadvantaged groups. These groups are often dispersed in rural areas and not part of organized production. The cases in Cote d'Ivoire, PNG and Cambodia illustrate the importance of information campaigns and decentralized fund operations in reaching rural populations. In particular, employers in the informal sector often do not see the value of training in improving profits. Information campaigns are one means to change this view. The fund secretariat in Cote d'Ivoire had to be reorganized by adding a unit to deal with informal sector sub-projects.

### *6.3.2 Fund Allocations*

Will funds be allocated to pre-determined quotas for funding “windows”, or open-ended in response to applications? How many windows can be serviced effectively? Will stakeholders be able to generate their own proposals? Proliferation of windows and sub-windows should be avoided– (South Africa’s NSF has nine main funding windows and nine sub-windows – too many to administer effectively; Chile’s FONCAP had twelve programs of widely varying size.)

### *6.3.3 Eligibility to Receive Funds*

Will Private Training Institutions Be Eligible To Receive Funds – Both Non-Profit and For-Profit? If so, on what terms? (Chile exemplifies good practice in using competition among pre-approved private training providers. Cote d'Ivoire, Cambodia and PNG also financed training through private trainers.

### *6.3.4 How Will Quality Be Ensured in the Delivery of Training?*

In some cases (e.g. Chile FONCAP) training providers are pre-screened and have to meet minimum criteria to be able to receive funds. Development of training packages also helps to ensure standard content that meet quality requirements (as was done in Cote d'Ivoire and PNG). However, few funds require testing for competencies acquired as a result of the training.

### *6.3.5 How Will the Use of Funds Be Accounted for and Audited In Specific Sub-Projects and Contracts?*

This can become complex when numerous training providers win contracts. Proper accounting and auditing of sub-project funds must be designed before disbursements start. South Africa initially had trouble with venal practices in several of its SETAs.

### *6.3.6 Complementary Inputs*

In both Cote d'Ivoire and PNG lack of other necessary inputs (water, micro-credit and marketing) limited the impact on beneficiaries. Good practice would ensure the availability of such complementary inputs.

### *6.3.7 Sustainability*

How will the funds be replenished? This is a crucial question for donor-financed funds. Donors can build the financing platform, but there needs to be a permanent source of financing for the Fund, e.g. government revenues, payroll tax or annuity. The PNG case is instructive on establishing a trust fund for training (Box 5.3).

## **6.4 Unanswered Questions: An Agenda for Future Research**

This review has uncovered mainly anecdotal, descriptive evidence of what training funds have done. Evaluation of training funds is patchy. The level of rigor in evaluating training funds appears to be relatively low. Most evaluations were simple enumerations of outputs against targets without controls to judge the net impact. No examples were found of carefully designed quasi- or random experimental studies. Therefore several basic questions remain unanswered, such as whether one type of fund is more effective in achieving objectives than another type; whether incentive-based levies actually stimulate more enterprise-based training than without the levy; the extent to which training costs have been lowered and private training markets have been stimulated. More rigorous and systematic evaluation is needed of training funds of their impact. Monitoring and evaluation of training funds may be one of the most effective ways for governments, employers and workers to foster the development of relevant and cost-effective training systems (Dar et. al. 2003).

In view of the vast amounts spent through training funds and the unanswered questions, it would make sense for researchers to undertake a more intensive review of selected country cases. Such research could analyze in depth the role played by different types of funds in improving the performance and outcomes of training offered by public and private providers. This study would look for evidence of how funds improve training market outcomes by (i) opening the market to training and competition, (ii) making public and private providers eligible for fund financing, (iii) engaging employers in governance, (iv) strengthening the link between training and market demand, (v) establishing quality standards and incentives, (vi) formulas that finance accredited providers, (vii) expanding access to skills by targeting financing for disadvantaged groups, (viii) serving as a means to coordinate public expenditure on skills development and (ix) ensuring fund use to meet strategic national and local goals for skills development. For each of the three main types of funds, the review would select several countries for further study of its governance and organizational structure, rules and procedures governing disbursement of training support, strategies for promoting enterprise training (especially by smaller enterprises) and reaching disadvantaged and under-served labor market groups, characteristics of beneficiaries (firms by employment size, trainees by gender, rural-urban residence, income status), and results from evaluation studies of the fund's performance and outcomes, if available. The country studies would add depth and further insight into lessons of good practice in the design and operation of training funds (Adams 2008b).

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**Annex 2.1 Statement to the National Assembly by Ministry of Labor, Republic of South Africa, on introduction of the bill on training levies, 3 March 1999**

“There are eight points I wish to make regarding the case for a national skills levy in South Africa:

First, a general case can be made that there are large training externalities across the economy currently. A skills levy will establish collusive training behaviour across all sectors of the economy, fostering the complementarities between education/training and innovation, technological and workplace change.

Second, the premium that firms are placing on skilled personnel appears to be leading to high labour turnover. To the extent that this is true it will have a strong disincentive effect on training. The levy ensures that all companies make a basic contribution towards training in their sector. If they choose not to utilise their funds to undertake their own training, they will at least have made their fair contribution to skills formation.

Third, the primary purpose of the levy is to raise the base of training in the country, and to improve the quality of this training. Small and medium sized companies will be encouraged to begin training and to develop a sustainable training capability, while larger companies will be encouraged to systematise the training they do and to target more of their training at the upgrading of personnel at the lower end of the occupational structure. The control of levy funds by employers and unions raises the accountability and relevance of training done under these schemes. Individual employers will have direct access to their levy contributions through grants, which reimburse them for the costs of their own training. This link provides a direct incentive for companies to invest in the training of their workforce.

Fourth, part of the funds will be used to finance learnerships in order to meet entry-level skills needs on a sector wide basis, and improve opportunities for our youth to access workplace experience, thereby improving their employability.

Fifth, whether enterprise or learnership education and training, the levy provides an instrument for locating these funds in the hands of industry, thereby increasing the alignment of education and training provision to the needs of industry.

Sixth, the levy will provide the resources for transforming the existing, and establishing new training infrastructure. This training infrastructure is critical to overcoming the information and resource constraints facing small and medium companies, to comply with the levy, access grants and undertake appropriate training programmes. It will also contribute towards the establishment of national qualifications framework (NQF) capacity within industry.

Seventh, the levy will contribute towards worker Adult Basic Education (ABE) programmes. Employers generally view this as government's responsibility, but we are all aware of the legacy that apartheid education has left us with.

Eighth, the design of this levy will strengthen the existing voluntary schemes, by improving compliance and improving the efficiency of collection. It will also expand the coverage of training to sectors of the economy where there has been little or no training, and to occupational groups that have previously been neglected.”

Source: Minister of Labour, Membathisi Mdladlana: The Skills Development Levies Bill, National Assembly, 3 March 1999.

## Annex 2.2 Levy-financed Training Funds by Region and Type

Region/Country	Organi- zation	Levy Rate	Type				
			Revenue- Generating	Incentive Schemes			
				Cost Reimb	Levy Grant	Levy Rebate/ Exempt- ion.	
<b>LATIN AMERICA AND CARIBBEAN</b>							
1	BARBADOS	TVET Council/ NTF	1% - half each by employers, employees			✓	
2	BOLIVIA	INFOCAL	1%- voluntary	n.a.			
3a	BRAZIL	SENAI	1%	✓			
3b	“ “	SENAC	1%	✓			
3c	“ “	SENAR	Value of prod.	✓			
3d	“ “	SENAT	1.5%	✓			
4	COLOMBIA	SENA	2%	✓			
5	COSTA RICA	INA	1.5%	✓			
6	DOMINICAN REPUBLIC	INFOTEP	1%	✓			
7	ECUADOR	SECAP	0.5%	✓			
8	EL SALVADOR	INSAFORP	1%	✓			
9	GUATEMALA	INTECAP	0.98%	✓			
10	HONDURAS	INFOP	1%	✓			
11	JAMAICA	Heart Trust /NTA	3%	✓			✓
12	NICARAGUA	INATEC	2%	✓			
13	PANAMA	INADEH	15% of soc. Sec. fund	n.a.			
14	PARAGUAY	SNPP	1%	✓			
15a	PERU	SENCICO	0.0025 of spending on labor, materials	n.a.			
15b	“ “	SENATI	0.75%	✓			
16	URUGUAY	CONET	0.25%	n.a.			
17	VENEZUELA	INCES	2%	✓			
<b>SUB-SAHARAN AFRICA</b>							
1	BENIN	FODEFCA	2%			✓	
2	BURKINA FASO	FAFPA	4%*				
3	BOTSWANA	BOTA	0.2% of turnover, new			✓	
4	COTE D'IVOIRE	FD FP	0.4% + 1.2%			✓	✓
5	The GAMBIA	NTA	0.25% on company turnover- replaced by			✓	

Region/Country	Organization	Levy Rate	Type				
			Revenue-Generating	Incentive Schemes			
				Cost Reimb	Levy Grant	Levy Rebate/Exemption.	
			fixed payment				
6	KENYA	NITC	Sectoral		✓		
7	MALAWI	TEVETA	1%			✓	✓
8	MALI	FAFPA	0.5%	✓			
9	MAURITIUS	HRDC/NTF	1%	✓			✓
10	NAMIBIA	NTF	1%, new			✓	✓
11	NIGERIA	ITF	1.25%	✓	✓		
12	SENEGAL	ONFP	3%	✓			
13	SOUTH AFRICA	NSF + 23 sectoral funds (SETAs)	1%			✓	✓
14	TANZANIA	VETA	2%	✓			
15	TOGO		1%			✓	
16	ZAIRE		1%	✓			
17	ZIMBABWE	ZIMDEF	1%			✓	✓
<b>MIDDLE EAST, NORTH AFRICA</b>							
1	ALGERIA	FNAC	0.5%				✓
2	BAHRAIN		1-3%	✓			
3	EGYPT	N.A.	2003 Law- 1% company profits				
4	JORDAN	TVET Support Fund	1% company profits tax				✓
5	MOROCCO	OFPT	1.6%				✓
6	TUNISIA	FOPROFA	2%	✓			
7	TURKEY	N.A.	N.A.				✓
<b>EUROPE</b>							
1	BELGIUM	11 Sector Training Funds	0.1-0.6%			✓	
2	CYPRUS	HRDA	0.5%			✓	
3	DENMARK	10-15 STFs	Fixed amt. per worker; 0.23% in state sector			✓	
4	FRANCE	OPCA	1.5%				✓
5	GREECE	LAEK	0.45%			✓	
6	HUNGARY	DTF	1.5%	✓			
7	ITALY	14 sectoral VT funds	0.3%			✓	
8	IRELAND	NTF	0.7%	✓			✓

Region/Country		Organi- zation	Levy Rate	Type			
				Revenue- Generating	Incentive Schemes		
					Cost Reimb	Levy Grant	Levy Rebate/ Exempt- ion.
9	NETHERLANDS	89 sectoral training funds (O&O)	Ave. 0.67%, up to 2.5%		✓	✓	
10	POLAND	n.a.	1% in 2008			n.a.	
11	SLOVENIA	n.a.	1% -craft sector			n.a.	
12	SPAIN	FORCEM	0.6-1.0%			✓	
13	SWEDEN	TSL	n.a.			✓	
14	U.K.	25 sector skills councils (SSCs) under SSDA	0.5%-2.5%			✓	
ASIA & PACIFIC							
1	FIJI	TPAF		✓	✓		
2	KOREA	Dis-continued	0.5%?				✓
3	MALAYSIA	HRDF	1.0%, with 0.5% for small businesses (optional)		✓		✓
4	MARSHALL ISLANDS	NTF Under NTC	Levy on foreign workers			✓	
5	NEW ZEALAND	n.a.	Varies by sector			✓	
6	SINGAPORE	SDF	1% on wages of workers earning less than S\$2000/month			✓	
7	TAIWAN (CHINA)	Dis-continued				✓	

Note: \* Of which only part is allocated for training. In addition, some sources refer to training levies used at one time in Hong Kong, Argentina, Germany (voluntary), Haiti, Mauritania, Mexico (production-financed training levy in construction), and Iceland but information was not sufficient to include them.

Sources: Latin America and Caribbean: CINTERFOR vocational training map; Africa: AfDB/OECD 2008, and Ziderman 2003; Europe: CEDEFOP 2008; ETF 2006. Other sources: Dar et. al. 2003; Galhardi 2002.

### Annex 3.1 SENAI and the “S” Training Corporations in Brazil<sup>14</sup>

**Table 1- Training Corporations in Brazil**

<b>Organization</b>	<b>Representing</b>	<b>Year Created</b>	<b>Financing</b>
SENAI	Industry	1942	A “general” levy of 1 percent of monthly payroll, and an “additional” levy of 0.5 percent on industries with more than 500 employees.
SENAC	Commerce	1946	1% of payroll (“hoja de pago) of all commercial and service sector enterprises
SENAR	Agriculture	1980s	2.5 % tax on the sale of agricultural products
SENAT	Land transport	1993	1 % on land transport firms, including self employed (“trabajadores autonomos”) owners of taxis and trucks
SEBRAE	Technical assistance for micro and small enterprises	1980s	0.3 percent payroll levy on all sectors
SESCOOP	Urban cooperatives	1999	

Source: Created from information in Leite, p.90-91; and ILO/CINTERFOR.

Brazil pioneered the establishment of autonomous institutions responsible for the training of the manpower required by the economy. Funded by payroll taxes and developed as distinct from the school system, this model was conceived as one of the instruments needed to face the challenges of industrialization (Atchoarena 2006).

All are privately managed and financed through levies. The “S” organizations are administered by the National Federations of Employers (Industry, Commerce, Agriculture and Transport); these corporations are private associations with the exception of SENAR which has a tripartite board involving employees' representatives. For most of the “Ss”, the levies are collected by the National Security Service (INSS) for a 1 percent administrative fee on the amounts collected. Both SENAI and SENAC operate exemption tax schemes or agreements that allow enterprises to operate their own training institutions or programs. Government subsidies complement the budget.

<sup>14</sup> Sources: Leite, “Financiamiento de la formación profesional en América Latina y el Caribe. Un estudio comparativo de buenas prácticas” Chapter III , “El Mercado de la Formación Profesional en Brasil,” CINTERFOR; ADB 1997 “Skills Promotion Funds,” Chapter III – Revenue Generating Schemes; Atchoarena 2006; and <SENAI.org>.

The “S” organizations invest approximately US\$2.5 billion per annum in skills training, (Leite, 94) SENAC and SENAI have endeavored to charge fees for its training courses since the 1980s, but this source of income amounts to no more than 30 percent and 10 percent, respectively, of their annual budgets.

SENAI, SENAR and SENAC run 1,500 units or schools with an overall enrolment of 3.7 million. The “S” organizations offer mainly short term training – about 80 percent of the enrollment is concentrated in courses of 20-80 hours. In addition, they offer training at the secondary level and SENAI and SENAC have started offering post-secondary education and training. (Leite, 69-70). In practice, the major Brazilian VTIs operate as training cooperatives. Rather than actually buying training services, Brazilian enterprises receive free training and upgrading courses in return for their contributions. In addition, Brazil has significantly expanded an incentive system, known as a co-financing agreement, to support the growth of enterprise-based training. The co-financing agreement is a private contract between VTI and an enterprise concerning payroll levy. Instead of paying the levy in full to the Government and obtaining training from VTI employers establish direct relationships with VTIs for that proportion of the levy to be spent on enterprise-based training.

## **SENAI**

SENAI is the National Industrial Training Service. SENAI's mission is :” "To contribute to the strengthening of the industry and the full sustainable development of the country, promoting the education for work, citizenship, technical and technological assistance and the production and dissemination of information, adaptation, generation and dissemination of technology". (<SENAI.br>)

SENAI structure -- The SENAI is organized in a federal system with one national department and 27 regional departments, which are administrated by the National Confederation of the Industry-NCI. SENAI is governed by employers through the National Confederation of Industry. The SENAI adopted a regional structure, partly due to the size of the country and its federal nature. The National Council, headed by the President of the National Confederation of Industry, comprises representatives of various



industrial sectors, as well as those of fisheries, transportation and communications, officials from both the Ministries of Education and of Labor and the Presidents of the Regional Councils. The National Department is mainly in charge of providing overall normative guidance, technical assistance and co-ordination. The Regional Councils have a pattern of membership similar to the one adopted at the national level. They are the executive arms of SENAI and operate the vocational training centers as well as provide training and related services to the enterprises. Workers' organizations are not represented in the SENAI management bodies. (Atchoarena)

Distribution of revenues. SENAI's central administration absorbs 1 per cent of funds raised to cover related costs and further retains 15 per cent of the general contribution for its running expenditures, as well as the product of the additional tax. The balance of the general contribution (85 per cent) is transferred to the regional bodies. The retention of funds at the central level enables SENAI to perform a redistributive function by allocating supplementary resources to disadvantaged regions, such as the Northeast, or to support priority programs.

Failure of tax rebates. In 1975, the revenue-raising scheme was complemented by a tax-rebate incentive. This arrangement provided training enterprises with the possibility of deducting, within an upper limit, twice the amount of their training bill from their income tax. The tax rebate was subject to the prior approval of the enterprise's training plans. Such an option reflected a Government strategy to boost in-company training, in view of improving labour productivity. However, it was suspended in 1990 for an indefinite period, within the framework of broader orthodox fiscal measures. A careful analysis showed that only 1 per cent of the taxable companies took advantage of this device. The heaviness of the procedure for approval was sometimes identified as an obstacle to the system. The fiscal incentive was, in fact, taken up by the large companies from São Paulo, which used it to further consolidate their training policies. The impact on other industrial sectors and states remained limited. Therefore, the tax-rebate facility did contribute to an expansion of the training effort, but in a way that further increased the training gap between regions and categories of enterprises. (Atchoarena)

Company training agreements. The effort to promote company training led SENAI to sign specific financing agreements with large enterprises. The co-financing agreements, conceived as an alternative way of developing enterprise-based training, have shown rather positive results, as indicated by a rapid increase in the number of contracts. However, this trend has also confirmed a bias towards large firms. Major agreements are signed with companies having their own training centre. The participation of smaller companies remains marginal. Since the 1990s, however, the expansion of company training agreements has slowed considerably, and are now mostly concentrated in the Sao Paulo area.

Scope and Achievements. The SENAI's training infrastructure embraces a great diversity of elements, including over 500 various types of vocational training centers, more than 200 mobile training units and several personnel development centers. Many of these institutions are joint ventures operated in co-operation with industry. Major training activities combine in-centre pre-employment vocational training, an apprenticeship scheme and continuing vocational education, including company-based programs. This diversified training structure and strategy has allowed SENAI to train, since 1942, more than 10 million people. The institution is responsible for the training of 2.8 million people per year, the administration of a network of 726 operational units and 30 million enrolling in more than 58 years. (SENAI.br)

Apprenticeship, managed by SENAI, constitutes another financing modality of training. It is compulsory for enterprises to employ, and enroll, in SENAI centers, a number of 14 to 18 year-old apprentices ranging from an equivalent of 5 per cent to 15 per cent of their ordinary workforce. During the first half of their training, apprentices receive half the minimum wage. This income increases to two-thirds of the base salary for the second part of the learning period and uses the revenues of a payroll tax to provide training to 2.8 million professionals per year in its own captive training centers.

### Strengths and Weaknesses

The Brazilian levy system has been operational and successful for over fifty years and has fulfilled its major goal of strengthening national training institutions. The payroll tax

has obviously contributed to the development of a strong training system, focusing on long-term training programs. The Brazilian system demonstrated a strong capacity, in a changing labor market, to diversify its sources of income as well as its provision of services to firms. This flexibility and the close links established with enterprises are certainly the result of an appropriate mixture of institutional and financial arrangements.

One of SENAI's major assets is its close relationship to industry and its needs. Such a close linkage is largely due to the financial participation of the employers and to the design of the governing bodies of the system. The Brazilian revenue-generating levy scheme offers several important advantages over similar schemes in other countries. It provides funds for private VET institutions thus reducing the gap between training supply and demand with positive implications for the cost-effectiveness of financing. Secondly, the levy now bypasses the government budget and goes directly to the training corporations. As a result, the monetary value of the levy is protected against inflation and the financial flexibility of training institutions is improved.

Administrative independence, a hybrid status combining private ownership and public mission, a management structure, including industrial and governmental representatives, probably accounted for most of SENAI's achievements.

SENAI's main weaknesses center on lack of competition, bias towards large companies and inadequate incentives for enterprise-based training.

1. The expansion of SENAI's network of training institutions is sometimes said to have generated a quasi-monopoly or, at least, given it a dominant position, which has impaired the development of a competitive training market. SENAI and SENAC have monopolized the training market and, through their levy-based financing, have bound most enterprises to their brand of centrally developed, standardized training programs which provide few opportunities for shop-floor worker training.
2. The allocation mechanisms have not been able to operate a redistribution of funds in a manner which significantly reduces the disparities of access between the various regions, between the size of the enterprise, and between the category of worker.  
(Atchoarena)

3. The major deficiency of revenue-generating levies - their inability to provide incentives for employer training - is very apparent in Brazil. Neither SENAI nor SENAC have new incentives to offer to the steadily increasing number of industrial enterprises providing financing to workers.
4. In addition, many enterprises pay the levy but are not concerned with either receiving training services or with signing a training agreement. The number of agreements is still very small and local markets do not send strong signals to employers to train and, in general, employers show little concern for training. (ADB, Chapter III.)

Finally, the non representation of labor interests might resist the evolution of social forces and the trend towards further democratization.

### **Annex 3.2 Hungary- Vocational Training Fund**

In Hungary enterprises make a contribution to the funding of initial vocational education and training (VET) in the school system and the provision of continuing vocational training (CVT) for employees through a tax of 1.5% of wage costs. The tax levied on enterprises finances the Development and Training Sub-fund of the Labor Market Fund. The tax is referred to as the 'vocational training contribution'. Up to one-third of the tax (0.2% until 1999, 0.5% now) can be spent by companies on CVT for their own employees, but only on training programs included in the National Vocational Qualification Register. This condition is fulfilled through prior agreement given by the County Training Committee. Up to 75% of the tax can be contributed directly to vocational schools, for the organization of practical training for students, or to cover the costs of training in money or in kind, or by providing direct financing. Since 2001, direct support can also be given to higher education institutions. The remainder is paid into the Vocational Training Fund, which has a decentralized and a centralized component.

The decentralized component is devolved to the level of municipalities on a student per capita basis and may be used at the discretion of the municipalities within a framework of eligible measures drawn up by the Minister of Education on the advice of the National Vocational and Training Council (NVTC). The centralized component is used on the authority of the Minister of Education following advice from the NVTC:

- to pay for practical training places offered to initial VET students by enterprises and to support the Chamber of Commerce in its overview of the training. Funds are distributed on the basis of applications by enterprises providing practical training for VET school students, verified by a direct contract with a vocational school or mediated through the Chamber of Commerce;
- for the procurement of expensive equipment requested by a vocational or secondary vocational school;
- to contribute to the Leonardo da Vinci program and other national and international VET programs;
- to support the work of the National Institute for Vocational Education (NIVE).

The vocational training contribution has increased considerably since the beginning of the

1990s, growing from HUF 9.4 billion in 1991 to 15 billion in 1995, 30.6 billion in 1998, 36 billion in 1999, 43.3 billion in 2000 and 47.6 billion in 2001. As part of this, the Vocational Training Fund increased from a share of about 20% of the total contribution up to 1996 to about 30% from 1997, while direct subsidies to schools increased most strongly from about 25% in 1991 to 40% in 1997 and more than 50% since 1998. The contribution to 'corporate training' decreased drastically and regularly from more than 50% in 1991 to 39.3% in 1995, 29% in 1997, 18.6% in 1998, 16.1% in 1999 and 13.6% in 2000, while the threshold for this contribution to CVT increased from 0.2% to 0.5% in 1999.

In 2000 the vocational training contribution amounted to an estimated HUF 43.3 billion (€73 million). The contribution from the Development and Training Fund to initial VET was estimated to be approximately €150 million or 0.3% of GDP, i.e. nearly one-third of the total estimated expenditure on initial VET. Therefore, only €23 million were available for CVT for their employees, 13.6% compared to a theoretical one-third.

One reason for this could be the recent introduction of the reference to the National Vocational Qualification Register as a condition for accepting the funding of training

courses. Another explanation is probably that Hungarian companies are traditionally involved in initial education and training (it should be noticed that when the Vocational Training Fund was introduced before 1990, its purpose was to support schools, not CVT). Finally, the vast majority of Hungarian companies are small or very small (only 2% of them employ more than 300 people) and therefore they do not use this facility, as the money available could not cover their real training needs.

Source: Sum, I. and Tóth, A., *Financing vocational training outside the school*, Hungarian Ministry of Education, 1999 in European Training Foundation 2006.

However, employers felt that government exercised too strong control over the Fund and limited its effectiveness. A survey on the degree of influence of the various stakeholders on the allocations from the VTF found (on a scale of 0-100) the government had the strongest influence (87) as compared to employers associations (32) and trade unions (21). (Martin Godfrey in Gill et al.).

## **Annex 4.1 Training Funds in South Africa – A Dual Approach<sup>15</sup>**

In South Africa there is no training fund identified in the form of an institution in charge of the overall management of vocational training financing. Instead, 23 sectoral training funds exist and one national skills fund.

### **Overall Steering of the Financing System**

The Minister of Labor is responsible for policy on vocational training and is advised by the National Skills Authority (NSA) The NSA is comprised of public authorities, social partners, regional authorities and various public interest associations. Its main functions are to advise the Minister for Labor on skills development strategy and policy and on the regulation and allocation of resources. The NSA is in charge of relations with the SETAs (Sector Education and Training Authorities) in implementation of the national strategic plan from a sectoral point of view. Finally, NSA assesses the implementation of national strategic plans. The NSA plays an exclusive role of advisor. Public authorities control the entire decision-making process albeit with open dialogue with all social partners.

### **Payroll Levy**

Financing of vocational training, excluding basic training, is based on a levy-grant scheme. This mechanism was established by a 1999 bill and constitutes a permanent system of resources for financing all training actions targeted by the skills development scheme. This mechanism, enacted into law in 1999, involves a compulsory payment by employers of one percent of payroll. Employers with an annual payroll below R500,000 per year are exempt from the levy. Public-service employers in the national or provincial sphere of government, religious and charitable institutions, and national or provincial public entities whose expenditure is paid directly or indirectly from public funds voted by Parliament are also exempt. Non-governmental organizations (NGOs), community-based organizations (CBOs) and community-based cooperatives are also exempt from the levy. The National Skills Development Strategy 2005-2010 however, obliges national and

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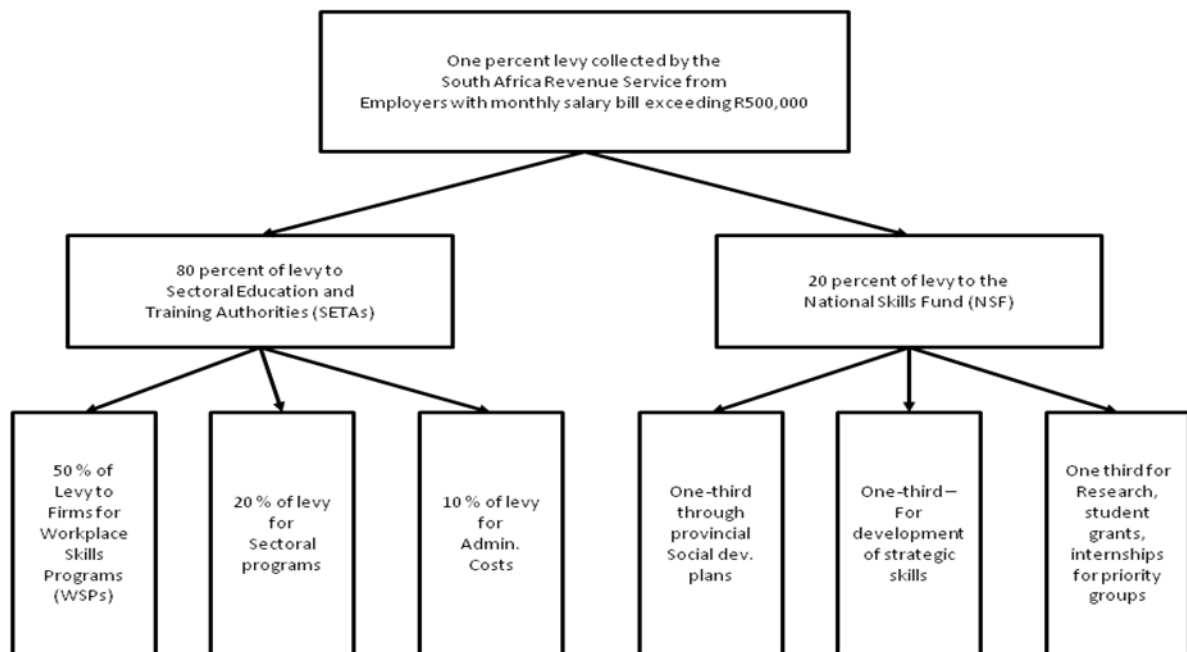
<sup>15</sup> Based on Waltham and Gauron.

provincial government departments to devote one percent of their payroll budgets to training as of March 2010. The levy is paid monthly as part of tax contributions to the South African Revenue Service. The annual amount of the levy amounts to R3.4 billion [update].

### Distribution of the Levy between a National Fund and Sectoral Funds

The payroll levy is distributed as follows: 20 percent to the National Skills Fund (NSF) and 80 percent to the 23 Sector Education and Training Authorities (SETAs). The SETAs allocate half of the levy proceeds to set objectives and 20 percent to discretionary objectives that comply with the sectoral and national priorities.

**Diagram 1- Allocation of the Payroll Levy**



Source: Adapted from Waltham, 2.1.3.

### National Skills Fund (NSF)

The Skills Development Act of 1998 stipulates the following objectives for the NSF: “Funds in the NSF may be used only to fund: 1. Projects identified in the National Skills



Development Strategy (NSDS) as national priorities. 2. Other projects related to the achievement of the purposes of the Skills Development Act as the Director-General may determine. One of the key national priorities identified for the NSF is to reduce unemployment and underemployment through supporting social development initiatives. Another is to respond to the lack of skills in critical fields or sectors. Undergirding the activities of the NSF is equitable access to skills development among the disadvantaged black population, women and handicapped persons.

The funds collected go through the employment administration channels and are distributed in relation to the objectives determined for training by a five-year National Skills Development Strategy (NSDS). The first strategy covered the 2001-2005 and the second 2005-2010/ One third of the fund's resources goes through the channels of provincial social development plans, one third is allocated to the development of strategic skills and the rest could either finance training research projects, student grants or companies employing workers as part of their new investments.

The "funding windows" for the second NSDS are as follows:<sup>16</sup>

- Social Development Initiatives including the Expanded Public Works Program (EPWP)
- Adult Basic Education and Training
- Critical Skills Support
- Provisioning Support
- Industry Support
- Informal Sector Support
- Constituency Capacity Building and Advocacy
- Special Projects
- Promotion of the NSDS
- Research
- Supplementary support for disability
- Promotion of excellence
- Discretionary and Innovation Projects

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<sup>16</sup> Source: Department of Labor, "National Skills Fund," n.d.

## **Sector Education and Training Authorities (SETAS)**

Set up in 1998, the SETAs are sectoral organizations present within 23 sectoral branches (finance, banking, textile industry, chemistry, agriculture, etc.). Each is run by a management board made up of employers' representatives and workers' representatives on a 50/50 basis. The board is responsible for defining the strategic approach of the sector, controlling its activities, informing its members of the activities implemented and making all the decisions in the interest of developing priority skills for the sector. The SETAs are required to draw up annual development plans for their sectors.

SETAs receive 80 percent of the total levy. The grants allocated to them are distributed as follows:

- 50 percent are grants to enterprises, “Workplace Skills Grants”, based on applications including annual Workplace Skills Plans (WSPs). The WSPs are structured mainly on the implementation of learnerships or work-based education and training programs, as well as an assessment of accomplishments under previous annual plans. The SETAs have no freedom of decision in this field and simply check the conformity of applications and justifications presented by the businesses. In addition, SETAs, as part of the responsibilities determined for them in the implementation of the National Skills Development Strategy, identify the critical skills of the sector, train specialists in sectoral training, integrate job seekers into new jobs, raise the level of skills among adults with little or no training. The SETAs can access NSF funds for these different actions.
- 10 percent of the grants are used to finance SETAs’ personnel and internal running. The performance of SETAs was assessed following completion of the first National Skills Development Strategy 2001-2005. Performance varied according to SETA and according to their management and technical expertise.  
[add detail]

## **Dual Role of the Funds**

### **Qualification Objectives**

Training courses carried out by the NSF or the SETAs aim at the national qualifications and or certification system operated by the "South African Qualifications Authority" (SAQA). It was thus planned that at least 70% of all workers participating in training courses financed by the funds would reach level 1 of the national qualification system by March 2005.

### **Strategic Development Objectives**

Financing of both the NSF and the SETAs is in keeping with the National Skills Development Strategy (NSDS). An initial strategy for 2001-2005 had set the objectives of training a minimum of 15% of workers and giving 75% of large businesses and 40% of medium-sized businesses access to the 0.5% rebate of the levy. A new 2005-2010 strategy retains the same objectives but sets new ceilings: 80% of large businesses, 60% of medium-sized businesses and 40% of small businesses should be able to receive finance and 70% of the 450,000 job seekers in need of training should in fact be able to obtain work. It states at the same time that the training programs to be implemented should be based on an equity policy in the field of employment and for this it should aim to include 85% of black people, 54% of women and 4% of people with disabilities among its participants.

**Annex 5.1 Cote d'Ivoire<sup>17</sup>: Labor Force Training Support Project<sup>18</sup>**  
**\$17.0 million, Cr. No. 26370; Effective 6/22/1995**  
**Closing Date: Original: 2/28/1999; Actual: June 30, 2001**

**Component: Improvement of the Vocational Training Development Fund** (Total cost \$15.4 million, including contingencies).

**Background and Problems To Be Addressed:** Since 1959 Cote d'Ivoire has financed skill development for the modern sector through a tax levy system. However, several problems and inefficiencies occurred. Resource allocation tended to shift toward formal technical training institutions. Employers complained that the training increasingly was irrelevant to their needs. Administrative costs were high. Revenues from the levy were kept by the government and not transferred to the Fund during periods of financial constraint. Above all, small firms and persons working in the informal sector had little access to the training.

In 1991 the Government reformed the system and set up the "Fonds de Developpement de la Formation Professionnelle", (FDFP), or the Vocational Training Development Fund (hereinafter referred to as 'the Fund'. It is financed by a tax levy (1.6% of payroll, of which 0.6% is directly managed by firms) that generates about \$18 million per year. The revenue from the levy is transferred directly from the Revenue Services, thereby giving the Fund financial autonomy and a stable source of income. The Fund is managed relatively independently of government by a Board with equal representation of employers, employees and the government.

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<sup>17</sup> Acronyms used in this case are: FDFP= Vocational Training Fund; MTR = mid-term review of implementation; SAR = staff appraisal report

<sup>18</sup> This case study is based on the Staff Appraisal Report No. 12850-IVC, "Labor Force Training Support Project," May 27, 1994, the Mid-Term Review dated February 26, 1998, "Cote d'Ivoire: A Demand-Driven Skills Development Scheme to Benefit the Poor," no date, the Project Status Report of 6/5/00 and information exchanges with Mr. Rachidi Radji , the Task Team Leader, and Jean Ette, *et. al.*, "Impact economique de la Composante Formulation du PAFPA: Rapport Final," July 1999.

**Objectives:** The project aims at “greater labor force productivity and mobility through technical and basic skills training, with special emphasis on the needs of small informal sector and women’s enterprises.” (SAR, summary, p. i).

**Means:** The project finances a time-slice of the on-going program of the Vocational Training Development Fund (FDFP) and its expansion to include new client groups. The assistance is divided into two parts: Training, Retraining and Apprenticeship (79% of total costs \$15.4 million, including contingencies) and Training Outreach Support (6% of total project costs including contingencies).

Under the ‘Training’ sub-component, the project adds financing to the Fund to expand its support to neglected target groups. These include (a) workers in small formal sector enterprises that have been slow in developing training for their workers; (b) micro-enterprises in the informal sector; (c) women entrepreneurs; (d) displaced workers and (e) support for initial job insertion through apprenticeships. The main target populations have become women entrepreneurs in the informal sector, professional organizations, NGOs and cooperatives and youth associations.

The ‘Outreach’ sub-component includes assistance for consultants, operating costs and incremental Fund staff to expand its activities in informing the public, sponsors and beneficiaries about the objectives and operations of the Fund. The aim is to help extend the Fund’s work outside its usual client group (formal sector enterprises) and geographic coverage (Abidjan)

**Modus Operandi:** The Training Fund (FDFP) had a long tradition of awarding contracts before the start of the training project. Under the training project pre-qualification has been undertaken among potential training providers according to FDFP procedures. Prequalification involved visits by staff to applicants and assessment of their training capabilities. Prequalification was granted according to areas of training competence, i.e. a training provider may prove qualified in delivering training in livestock but not in other fields. Prequalified training providers became a pool from which competitive bids could be drawn.

Training sub-projects are designed according to the following procedure: As a result of FDFP's outreach and sensitization, a sponsor (Mayors, NGO, company) would send a training proposal to the FDFP. Depending on the nature of the sponsor, these proposals typically were no more than an idea, e.g. village entrepreneurs needed training in accounting and marketing. Training advisers for the FDFP would then work with the sponsor along with representatives of the beneficiaries group when these are already organized to develop the idea into a design of a training program. Each subproject is assessed on "the value of its training content, its cost-effectiveness compared to established 'norms', its priority with respect to indicative gender and age criteria and the legitimacy of the sponsor and the credibility of the training institution." (SAR, p.16) An operations manual has been developed with these criteria and procedures for their application to ensure transparency. Award of training contracts is being done through competition from pre-qualified training providers. The proposed training program is then sent to three to six prequalified training providers. Several would submit bids to carry out the training program, and these bids would be evaluated competitively by FDFP staff. Contracts would be awarded to the best bid. The process of generating training proposals started slowly because it depended on the 'outreach' function, or marketing of the availability of training funds.

In terms of cost recovery, trainees initially made no direct payments for the training, but were expected to absorb the indirect costs (transportation, lodging, opportunity costs, etc.) At the MTR cost recovery was increased. Beneficiaries group thereafter had to cover 10-15% of the costs in kind or cash.

Supervision of training programs involved the following steps. (1) "Reunion de lancement:" Before training commences a meeting is convened by the regional office of the Training Fund including the sponsor, the trainees representative and training provider. Agreement is reached on an action plan and timetable for delivery of the training. (2) Mid-term meeting. A meeting of the same parties is convened at about the mid-point of the training in the field where the training is taking place. The purpose is to review progress against the action plan and timetable, identify problems and work out solutions. (3) At the end of the training a meeting is organized by the designer of the training

program to assess the results. In addition, the Fund has controllers who check randomly from regional offices to ensure that the intended training is actually taking place for the specified target groups. Training advisers also can hire technical experts on a contract basis to make checks on quality.

### **Implementation Problems**

The project involved training for the informal sector, something the FDFP had not done before. Consequently the demand for such training had to be stimulated and promoted. This “marketing” of the training funds took time, especially outside Abidjan and caused delays at the start of implementation.

The TF existed before the training project, but its focus was on the formal sector of the economy. Its prevailing procedures for processing sub-projects in the formal sector were inappropriate when applied to small sub-projects in the informal sector. All training programs had to be approved by the Board of Directors and it only met infrequently. Eventually – to speed project processing -- the Board delegated to the Executive Secretary approvals of 10 million CFA, subsequently raised to 15 million CFA (equivalent at present to \$25,000). No changes were needed in the composition of the Board, which had equal representations by unions, government and employers, but , the secretariat of the TF had to be reorganized. It had been set up to service the modern sector and tax paying enterprises. No explicit unit existed for small and medium enterprises (“non-cotizan”) that were not tax paying.

The quality control scheme had to be improved as implementation progressed. The Training Fund was not able to increase training delivery and simultaneously ensure quality. Training packages were standardized under the project, and if necessary project proposals were subjected to review by outside experts. These measures, plus prequalification, helped ensure reasonable ‘quality at entry’ for the training programs. No rigorous checks were established on the quality of training outputs, i.e. competencies acquired. However, the results of the beneficiary assessment have, however, showed that the trainees felt that the training did contribute to improve their competencies (see below)

During the MTR a detailed action plan was prepared to increase the quality, impact and efficiency of project results. These included (a) increasing the impact on beneficiaries through better risk analysis (i.e. taking into account the need for complementary inputs) and reinforcement of monitoring and evaluation; (b) improving project procedures by increasing delegation of sub-project processing, testing of alternative approaches in designing subprojects and better selection of training providers through better information dissemination; (c) sustaining demand for training through information campaigns, and (d) further efforts to control and lower training costs and increase cost-sharing with beneficiaries/sponsors.

### **Outcomes and Impact**

The mid-term review focused only on beneficiary assessment as a proxy for evaluation, i.e. whether participants thought the training was good or bad. After the MTR a thorough impact evaluation was launched, including control groups.

The Mid-term Review in 1998 “underscored that the project’s training activities had responded to the needs of the beneficiaries. This had resulted, in general, in an improvement in the level of their skills. Although the evaluation work done in the course of the MTR did not allow for a sound assessment of the project’s economic impact, there was evidence in the case of some training that the trainee’s conditions had improved or would soon improve. A total of 137 training subprojects was processed and benefited about 21,000 people, of whom 48% are women. Training in the fields of agriculture and livestock remains the most demanded (37%) and the majority of the beneficiaries corresponded to priority target groups (informal sector and poor people.) (MTR, Form 590, p.4) According to the beneficiary assessment findings, a great majority of the beneficiaries (92%) expressed their satisfaction regarding the quality of the training received and its positive impact on their technical competence. However, only 58% felt that their ultimate objective and expectation, that is to increase revenue and find a job, had been achieved.” (MRT, covering note, p.2) It was also noted that “the lack and or the insufficient availability of other necessary resources and inputs (e.g., water, credit) tended to limit the project’s impact on the beneficiaries.



The volume of training provided under the project has increased substantially, from 21,000 persons training in 1998 to 71,000 by the end of 2000, including the execution of 700 training subprojects.(PSR, 1/4/01)

A major impact evaluation<sup>19</sup> was conducted in 1999. It found overall that the training had a positive impact on incomes of the participants in some fields. It also found that the impact varied by field of training and location. Training of craftsmen – those already in occupations such as electronics repair and tailoring – has achieved the greatest impact. Electronic repair participants saw their incomes increase from an average of 74.2 units to 100.0 units, whereas the incomes of non-beneficiaries actually decreased over the same period from 65.3 units to 57.6 units. Tailors also increased their incomes, from 126.4 units to 192.3 units. The outcomes were less positive in training for rural occupations such as agriculture and livestock. It became clear that training must be complemented by inputs such as water, microfinance and marketing. The impact evaluation concluded that training should be complemented by assistance for materials or financing of the enterprises, that technical training should be complemented by training in management of micro enterprises, and that successful participants should obtain certification (“attestation de stage”) for the training they have received to help them in the market place.

Another economic evaluation published in 2005<sup>20</sup> also showed positive results in some sectors and for some groups. The study found positive economic impacts for some, but not all groups, as a result of training received. Positive results were recorded for women, the agricultural and electronics sectors, firms employing 1-3 individuals and firms with 10 or more employees. In part, the “positive” economic effect was avoidance of loss of income suffered by other workers during a period of economic downturn.

Other project achievements pertain to geographical distribution of training and training costs. Before the MTR the bulk of the training, about 40% of the total, took place in

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<sup>19</sup> Jean Ette, *et. al.*, “Impact Economique de la Composante Formation du PAFPA: Rapport Final”, Centre d’Etudes Prospectives et Appliquees sur les Politiques Social et les Systemes de Securite Social (CEPRASS), July 1999

<sup>20</sup> Verner, Dorte and Mette Verner. 2005. “Economic Impacts of Professional Training in the Informal Sector: The Case of the Labor Force Training Program in Cote d’Ivoire.” Policy Research Working Paper 3668, World Bank, Washington, D.C.

Abidjan. In 1998 and 1999 this proportion was reduced to 20% and about 15%, showing a better regional distribution of beneficiaries.

The unit costs of training also declined. Before the MTR, the average cost per trainee was \$383 and this steadily declined to \$300 in 1998 and \$260 in 1999. Beneficiary or sponsor contributions also increased from 5% to 10% over the same period. Two factors account for the substantial reduction in costs: (1) standardization of training packages; this clarified the extent of training services required, and (2) competition among training providers. However, no attempts were made under the project to compare costs with benefits or effects. The manager's note stated that "the costs and benefits of the training ... must be better analyzed in order to refine financing policies." (PSR, 6/5/00, p.3)

It was feared at the outset that, under competition, publicly subsidized training institutions would have a clear price advantage over private providers in the bidding process. However, as it turned out, public providers won only about one fourth of the training contracts. The competitive process has infused a new style of management within training institutions, both public and private. The focus now is on responding to a market. Managers of training institutions are learning to fight for funds, rather than sit back passively and wait for them. They have become organized to sell themselves. Managers of technical lycees are talking like entrepreneurs. Also, the project has helped introduce real competition among private training providers on the basis of reduced price. The private sector is also diversifying its service offerings. Some training providers have established small regional units outside Abidjan. This creates a dynamic to improve quality.

One indirect effect of the project is an increased understanding by Board members of the needs of the informal sector. They are now willing to put tax money into the informal sector – as shown in the allocation of 2 billion CFA in 1999 and 2.5 billion in 2000 (or 18-20% of total allocations from the Fund.) This cross subsidization (i.e. using funds raised from enterprises in the formal sector to finance training in the informal sector) augurs well for sustainability of training for the informal sector within the Fund.

The Training Fund had no tradition to use competition among training providers in the award of contracts. Collusion had been common between training providers and beneficiaries. Now, the Fund management is convinced about the benefits of competition and increasingly applies competition in the award of its routine training funds.

## **Annex 5.2 Donor-financed Training Funds in West Africa<sup>21</sup>**

Governments in three West African countries collaborated with international financial institutions to develop three training funds in the late 1990s and early 2000s. These include the Support Fund for Vocational Training and Apprenticeship (FAFPA) of Burkina Faso (starting in 2003), the promotion of employment and vocational training, the FAFPA of Mali (1997), and the Fund for the Development of Vocational Training and Apprenticeship (FODEFCA) of Benin (1999).

The Malian and Benin Funds received support from the World Bank and French Cooperation from 1996-2001 and 2000-2004, respectively. The Burkinabe fund was supported by technical assistance from Austria, Switzerland, GTZ and French Cooperation.

In terms of a development approach, the three funds differentiate themselves through four characteristics: i) all three of them are funded by the budget from the State who receives the tax paid by the modern sector and partially transforms it into an annual contribution, ii) they establish a de facto solidarity between the formal and informal sectors, iii) they intervene directly or indirectly in the implementation of dual-type apprenticeship actions or mechanisms with certain players from the informal sector and iv) they act under the joint or separate influence of international technical and financial assistance providers and national authorities.

Each fund is a public autonomous organization with mixed management. The Management Committee for the Benin FODEFCA is comprised of 12 officials, equally divided among government, employers and union representatives. The Burkina

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<sup>21</sup> Source: Walther and Gauron (2006).

Management Committee has nine members, including four state officials and five representing employers. The Malian Management Board is comprised of 12 members, including seven representing “users”, one from FAFPA and four public officials.

In theory, financing of FAFPAs and of the FODEFCA comes from the reallocation of part of the vocational training tax received by the State up to a certain percentage of payroll and the contribution of training beneficiaries (between 10% and 25% of the cost of training). In practice, the governments substituted the repayment of part of the tax due to the funds, with a State subsidy of a lower amount than that which should have been paid. Furthermore, financial support from the World Bank called for a progressive increase in the use of national resources from 314 million CFA Francs in 2000, to 963 million CFA Francs in Mali and from 162 million CFA Francs to 457 CFA Francs in Benin.

During the 2000 – 2005 available resources were not used fully: in Benin for example, the usage rate was less than 85% for the entire period and it was lower than 80% in 2005. Mali suffered from delays on the Public Treasury's side in reallocating the income collected to the funds. In addition to the problems of long waiting periods linked to application procedures and invitations to tender on the one hand, and the difficulties sometimes encountered by beneficiaries (who may have taken out credit) in paying their contribution on the other hand, the usage rate also reflects the limits of training availability. The end of World Bank support meant a significant reduction in resources for both the FAFPA (Mali) and the FODEFCA.

Functions. The three Funds were intended to be one-stop offices with transparent procedures intended to promote a vocational training market. Their mission was to (a) receive and manage resources intended for continuing training and apprenticeship, (b) finance vocational training for the currently employed workforce, (c) finance studies aimed at building a coherent training policy, (d) promote continuing training and apprenticeship through information, (e) help employers in the formal and informal sectors to define their training needs and prepare training plans and programs, and (f) help support and upgrade training providers.

In response to technical education that was considered to be too academic and whose contents were disconnected from economic realities, the creation of the funds sought a double break from the previous situation: (i) moving from a supply-based approach dominated by technical education to a demand-based approach driven by employers' needs, and (ii) promoting a vocational training market through the implementation of transparent procedures for invitations to tender and if need be, by prohibiting public establishments from responding under the pretext that their State finance distorts competition.

### **Training Providers**

In the Sub-Saharan African countries that were supported and financed by the World Bank, the selection and contracting procedures implemented aimed to ensure the transparency of the choice of successful tenders and to encourage the creation of a market of continuing education through a competitive offer. They were based on three provisions:

- An application for finance presented by a legally declared promoter (craftsmen's or company association) and backed by an expert or a training counselor who helps to formulate the request.
- The fund's organization of an invitation to tender to which at least three service providers must respond. In the case where there are less than three responses, the market cannot be attributed and the invitation to tender must be re-launched.
- After three failures, a single tendering procedure can be implemented.
- An accreditation procedure for training bodies.

### **Beneficiaries**

The projects had multiple target groups. Bank projects focused on the informal sector, young early school leavers and disadvantaged groups. However, the technical assistance provided by Swisscontact in Benin and Mali and Swisscontact and Austrian Cooperation in Burkina Faso focuses mainly on training for apprentices and craftspeople in the form of dual-type apprenticeships (practical and theory). As a result, the delivery of training in terms of participants favored the informal sector (at lower unit costs), but the amounts spent were mainly on modern sector training. For example, in Mali the cost for in-

service training courses averaged about 130,000 CFA Francs, and for apprenticeship training from 340,000 CFA Francs to 554,000 CFA Francs. In 2004 2230 people were trained for the informal sector compared with only 520 for the modern sector. In Benin a total of 22,350 people had been trained by 2005, slightly more than the revised objective. Most people were trained for the informal sector, about 17,400 people compared with 2,900 for the modern sector and 1,500 in apprenticeship. The target for female beneficiaries, 60 percent of the total, was seriously underachieved – the percentage of female beneficiaries was just under 30 percent.

### **Implementation**

The Funds played a central role in promoting vocational training by pooling funds and making demands effective (explicit.) However, the results have only partly met the original expectations: The training market has not really developed, except in some tertiary professions that need very little in the way of equipment and permanent instructors. The demand for training, which is formulated with great difficulty, is sometimes held up by application procedures defined by the World Bank in exchange for its support.

Insecurity of levy proceeds. The existence of a “vocational training” levy created without any relation to it and with a high rate, is the first cause of difficulty in Sub-Saharan Africa. Its collection is in fact looked after by the tax offices to finance the State budget. Allocating all or part of the levy to the existing fund would mean depriving it of part of the expected resources. Up until now the Ministers of Finance have been against recognizing that part of the tax collected (equivalent to the tax on wages provided for by the texts creating the funds) could be automatically paid to them. In all countries, the Minister of Finance preferred to grant a subsidy that is supposed to represent the amount of the tax due. It is the Minister who eventually decides the amounts of resources allocated to the funds. In reality, the contribution is always less than this amount: in Mali, the payment is the equivalent of 0.5% of payroll and is completed by an additional subsidy. In Benin and in Burkina Faso, the contribution is totally disconnected from any relationship with a percentage of payroll.

Cross-subsidization. The second difficulty in Sub-Saharan Africa is linked to the fact that, while the modern sector is the only contributor, the handicraft sector is the main beneficiary of the resources collected. However, this was not a major issue, as government and employers voiced “solidarity” with transfers to the informal sector. In Mali and Burkina Faso, certain players even defended this solidarity on the grounds that the formal sector sub-contracts many of its activities to the informal sector and in this way makes a substantial profit out of it. However, the issue is expected to become more important in future as the financial requirements increase for expanding the dual apprenticeship system for the modern sector.

Representation by the social partners. Governance- The study observed that the tripartite nature of governance varied considerably among the three Funds. In general, governance was dominated by the public sector and was weakened by the nature of the stakeholder representation. In only Benin was representation equal among government, employers and unions. In Mali employers were represented by a civil servant and unions were absent.

Lack of technical expertise in design of training proposals. This hinders the transition from “off the shelf” training courses to those adapted to employer and client needs.

Creation of a training market. In Mali and Benin, the invitation to tender procedure implemented on the basis of World Bank recommendations, in fact turned out to be little adapted to the realities of these countries. The obligation of carrying out three invitations to tender before being able to proceed to single tendering led to excessively long response times. Added to these delays were those linked to the inadequacies of a large number of offers that did not comply with the rules laid out and to the gathering of necessary funds to cover the beneficiaries’ contributions. In some cases, these delays were more than two years. It was undoubtedly illusory to think that the existence of invitations to tender alone would suffice to create a training market. The potential demand in Sub-Saharan African countries is largely insufficient to allow the creation of a sufficient number of bodies and to allow for at least three responses in all cases. Furthermore, the exclusion of public establishments (as requested initially by the World Bank) under the pretext that they distort competition, made supply even rarer, especially in the branches that require a

minimum amount of equipment. Where the World Bank intervened (Benin, Mali) it had to reconsider its ostracism concerning public establishments.

Demand-driven training. Reality turned out to be obstinate regarding this approach. Demand turned out to be too weak and insufficiently solvent to be predictable and to allow training bodies to invest in instructors and equipment to create a training market. The market stimulated a concentration of rare investments in the training segments that do not need specific equipment or permanent instructors; mainly management and computing. Elsewhere, the failure of invitations to tender demonstrated fully the impossibility of seeing a market emerge just from procedures intended to create it, and even more so the illusory nature of excluding public establishments, which had to be reintroduced to the stakes. It would however be wrong to attribute this failure uniquely to the complexity of procedures implemented by the World Bank. As long as there is no solvent demand of sufficient volume to justify the presence of several operators and offer prospects justifying risk-taking, and therefore investment, there will not be a market. It cannot be decreed by imposing procedures, albeit simplified ones. It will only grow as solvent training demand grows. We are not there yet.

### **Recommendations<sup>22</sup>**

1. In view of many competing interests, it is essential to clarify objectives.
2. Ensure financial autonomy – both in receipt of funds and their disposition. The Funds at present do not have real control over their resources. Without control of resources by the funds' managers, it would be impossible to define a veritable training strategy in their own fields. In Sub-Saharan Africa where “vocational training” quasi-taxes existed before the funds were created, it is desirable that the fraction which is allocated to them be clearly identified and directly collected, for example simultaneously to social welfare contributions.
3. Adapt procedures to the capacities of micro and small businesses. It is absolutely necessary that the funds envisage (with or without their support) the development of allocation procedures that are in relation with the real contribution capacities of

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<sup>22</sup> Source: Walther and Gauron (2006).



players who need financial support the most in order to move away from the survival mentality and enter the realm of development.

4. Need to stimulate training demand. It was logical that the funds begin with the most simple: financing training by addressing training bodies already carrying out training. The actual move from a supply-based to a demand-based approach implies leaving this framework and the financing of pre-formatted training courses in favor of building appropriate responses for applicants' needs. Up until now, this approach came up against two obstacles: the scarcity of expertise in training engineering and the low demand for training (which makes the drafting of specific responses costly).

**Annex 5.3 Papua New Guinea: Employment-Oriented Skills Development Project  
(ADB Project, October 1999)**

**Problems To Be Addressed**

- The vast majority of the population is in the informal sector and mostly engaged in subsistence agriculture (estimated at 75-90 percent of the labor force.). The urban informal sector is estimated to account for less than 10 percent of all employment.
- Low availability of vocational training. Current output of 56,000 school leavers vs. annual intake capacity of 7,000 into VTCs.
- Non-government training providers account for a major proportion of current enrollments, but non-formal training opportunities are limited.
- Outcomes of formal vocational training (after 2-3 years) has little relevance to future employment. (22)
- Outcomes of VTCs in terms of acquisition of knowledge and skills are of questionable quality.
- Inadequate resourcing of vocational education in terms of facilities, equipment and maintenance, as well as upgrading management and instructor skills. Only 0.7 percent of central government expenditure in education was allocated to VET, which confirms the status of VET as the 'poor relation' of the education sector. (4)
- Teacher guides and student texts and workbooks either are not yet or are poorly developed. Both curricula and entry requirements lack flexibility, making it difficult for VTCs to adapt to meet specific local needs for skills.
- Lack of recognition of many vocational center outcomes.
- Inadequate record keeping on graduates and absence of basic management information on inputs and outputs (e.g. costs per student).

**Goal:** Realize the income earning potential of un- and under-employed population in rural and urban areas.

**Purpose** Increase the availability of quality non-formal competency based skills training and the possibilities for application of the detailed skills in wage and self-employment.

**Components**

A. Legal and policy framework: Put in place a legal and policy framework conducive to skills development, provision and application for wage and self-employment.

1. Develop and implement national and provincial skills development plans and overall non-formal education policies – addressing such topics as national/provincial coordination, role of NGOs, liaising with private sector, financing and cost recovery.
2. Establishment of a coordinating mechanism for non-formal skills training involving all stakeholders
3. Establishment of linkages with national skills standards
4. Reduction in regulatory impediments to informal sector development

B. Building the institutional capacity of training providers.

1. Establishment of a Skills Training Resources Unit

- Do research on and develop CBT for 14 prioritized areas in the informal sector; and collect curriculum materials for short term, modular CBT
- Advise training providers on training methods, delivery modalities, testing and certification and sources for training equipment.

2. Improvement of the human resource competencies of training providers

- Management training for public and private training officials, training of training programs in pedagogy/andragogy and entrepreneurship – with 10-20% cost recovery.
- Training in preparing training proposals and conducting training needs analysis.

C. Establishment of a sustainable financing mechanism – the Skills Development Trust Fund. The Fund will finance contracts for training providers to offer short-term vocational and entrepreneurial training. The Fund will be registered to ensure institutional and political autonomy. It consists of a (1) a national board of trustees to approve guidelines and policies, (2) a national secretariat to do the day to day non-financial administration, (3) provincial secretariats to promote and assess training proposals and monitor and evaluate results, (4) a provincial committee to review training proposals and award training contracts.

### **Financing**

- Cost recovery of 20% (by training provider) and 10% by trainees.
- To ensure financial sustainability of the Fund, the Fund will spend only a maximum of 10 percent of the capital base each year plus annual returns on the endowment. The capital base will be replenished (14).
- The Fund will accept contributions from the private sector, aid agencies and government, in addition to ADB funds.
- Just under half the net project proceeds (US\$15m/32.5m) is for financing training through the Fund.

### **Special Features**

- Comprehensive approach, involving policy development, institutional capacity building and training delivery.
- Extensive analysis and attention to non-government training provision. Training will be provided not only by government VTCs, but also by church organizations, NGOs and private training providers.
- Cost recover and attention to financial sustainability
- Use of a trust fund to allocate financing for informal-sector training programs
- Focus on short term training only
- Selection and award of training contracts will be on a competitive basis.

- Performance requirements: Satisfactory results are a precondition for subsequent training contracts: winning training providers required to provide evidence of post-training employment
- Training needs analysis included in proposal preparation
- Attention to post training support included in training contracts

**Assessment:** From the project documentation, this appears to be a highly innovative, appropriately targeted and well designed project that makes use of all training capacity (government and non-government.)<sup>23</sup>

#### A. Strengths

1. Comprehensive approach
2. Attention to regulatory and other impediments to informal sector development
3. Project focuses on main employment – self-employment in the informal sector.
4. Use of quasi-market mechanisms to improve cost-effectiveness of training, e.g. competition, performance
5. Attention to post-training requirements for success
6. Use of flexible fund mechanism, including analysis of essential requirements for success, that should permit flexible allocation of funds to priority projects among multiple target groups
7. Considerable attention to cost-recovery and financial sustainability

#### B. Possible Weaknesses

1. No apparent analysis of why coordination mechanisms have failed in the past, and how current proposals address the reasons for those failures.
2. Entrepreneurship development ought to be taught by entrepreneurs, not bureaucrats, civil servants or pedagogy specialists. No evidence that is the case here.

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<sup>23</sup> Source: ADB (2004).

3. Complex structure for SDTF, and now clear what professional/administrative support will be required for the national and provincial secretariats/committees, and how this capacity will be developed or provided. For example, how will evaluation of results be done on multiple (400+) training contracts, and be fed into improvement of new training contracts?
4. A project of this kind requires substantial investment in rigorous and systematic evaluation of results of the training for informal sector. Is enough support being provided for this purpose?
5. Training for the informal sector can make an impact on poverty in areas where income generation is possible, but will do little or nothing to prepare the country for skills-based growth. What is being done to reform the rigid skills training system for wage employment, e.g. to reform the VTIs?

## **Annex 5.4 Cambodia National Training Fund**

The Asian Development Bank (ADB) supported the establishment of a National Training Fund under its *Basic Skills Project* (completed in 2003.)<sup>24</sup>

### **National Training Fund**

**Objectives.** The National Training Fund (NTF) was envisaged as a medium and long-term mechanism for the financing of training from both Government and non-Government funds. Initially, the NTF served as a means for providing Project-financed support for demand-oriented training, such as training programs relevant to employment needs and in accordance with the training policy and strategy of the National Training Board (NTB). In the longer term, the NTF was expected to evolve into the main mechanism for funding of employment-related training, including enterprise-based training. It aimed at becoming an instrument for providing incentives to training institutions, enterprises, and the private sector to upgrade and extend their provision of training.

The NTF was established in December 1997. All of 1998 was spent identifying and designing the programs, developing systems and procedures, and training of staff. The NTB eventually developed and approved three financing facilities:

- (i) The **Training Grant Fund (TGF)**, a grant facility for training providers contracted to do training for certain group of trainees in certain skill areas;
- (ii) The **Innovative Skills Investment Assistance Fund (ISIAF)**, a loan facility for private training providers offering innovative training to their own target clientele for a fee;
- (iii) The **Self-employment Generation Fund (SEGF)**, a micro-credit loan facility for small entrepreneurs in both urban and rural areas.

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<sup>24</sup> Sources: ADB. Project Documents:

- August 1995. RRP: Cambodia *Basic Skills Project*. RRP:CAM 27411.
- Project Completion Report: 2003. *Basic Skills Project* (Cambodia) (Loan 1368-CAM[SF]), N.181-03, 4 August.
- 9 September 2005. Project Performance Audit Report: *Basic Skills Project* (Cambodia). Operations Evaluation Department. IN.253-05.

## **Training Fund Accomplishments**

**Training Grant Fund.** Altogether, for the 8 phases, the TGF trained 13,100 beneficiaries from 24 provinces/cities in 53 skill areas at a cost of \$1.9 million, or an average of \$147 per trainee. The TGF beneficiaries comprised the poorest people (38.1%), school leavers (25.2%), orphans (15.1%), widows (9.9%), crippled demobilized soldiers (6.3%), and handicapped (5.5%). About 50.3% of the beneficiaries were women. Based on a tracer study on training outcomes, the average employment rate among graduates was 66%. The employment rate among women was 75 percent, significantly higher than that of men, which averaged only 58%. Categorized by type of beneficiaries, the employment rate ranged from a low of 54.7% among school leavers to full employment among demobilized soldiers. Rough estimate of the provincial training centers indicated that among those who found employment, only about 20% were wage-employed while about 80% were self-employed. The average income of those who found employment ranged from \$32-\$73 per month. When benchmarked against the \$25 per month average salary of public servants, the impact of TGF on the income of beneficiaries was significant. The TGF had no cost recovery. Training fees could not be charged because the beneficiaries were very poor and even had to be provided assistance in transportation and food during the training period. But, in terms of employment generation, the TGF was efficient, requiring only an average investment of \$222 per employed beneficiary (PCR, Appendix III).

According to the Ministry of Labor and Vocational Training, one of the main achievements of the NTF was that it made grants to providers based on *unit costs*, moving towards an output or performance base. The MOF had trouble initially accepting this, but eventually did.

**Innovative Skills Investment Assistance Fund (ISIAF).** The ISIAF disbursed \$300,000 to five training providers in 1999 and 2000. The ISIAF financed about 11,600 trainees. No tracer study was conducted on outcome of the training. The ISIAF was discontinued, and its fund allocation transferred to the SEGF, because one borrower defaulted. The money was eventually recovered from the guarantor (Ibid.)



**Self-employment Generation Fund (SEGF).** The Self-employment Generation Fund (SEGF) was a micro-credit program with approach and features similar to that of the Grameen Bank of Bangladesh. Beneficiaries were selected from poor families in a community, and were grouped into three to five members. Each member was required to have an existing or a proposed business to engage in. One requirement for eligibility to borrow from SEGF was that at least one member of the group must have graduated from TGF training. Each group had a leader, a collector, and a treasurer. All members were solitarily liable for the loans of other group members. Loan amounts generally ranged from \$200–\$3,000. By December 2002 the SEGF, through the provincial training centers, had disbursed \$1.4 million (including re-lending) to 5,650 members in 1,750 groups in 15 provinces; 65% were women. The SEGF beneficiaries engaged in a wide variety of micro-enterprises such as algae and seaweed growing, bamboo basket making, animal raising, food processing, hairdressing, motorbike repair, onion growing, television and radio service and repair, silk weaving, masonry, stone carving, worm raising. Selection of eligible businesses was preceded by a training and employment needs assessment (TENA) conducted by the provincial training centers, and by rudimentary feasibility studies. The high collection rates (around 92 percent) indicated that the SEGF businesses were doing well. The average income from such businesses ranged from \$400 to \$900 per annum, a significant amount, especially in the countryside (Ibid. and PPAR).

**PCR conclusion and recommendations on the NTF:** The experience of the NTF programs, the TGF and SEGF, was encouraging. Their impacts on the poor were direct, concrete, and substantial, and with relatively small investments. The TGF proved to be an efficient way to empower the poor by providing employable skills, either for wage or self-employment. The SEGF provided concrete opportunities for TGF graduates to apply acquired skills for self-employment. The systems, processes, and structures that the two programs put in place could be used for future fund operations. There was a need to upscale the operations of both programs to reach out to more target beneficiaries. This would require additional investments.

Recommendations of the PCR and PPAR: (1) The TGF had no cost recovery mechanism, so it could be sustained only if there is a stable source of income to support

the training contract grants. For this kind of operation, a Trust Fund (the Fund) would be most appropriate. The Fund's principal should be large enough to generate sufficient earnings to support the desired amount of training every year. Therefore, consideration should be given to establishing a trust fund for the TGF with a principal amount of \$15-\$20 million. (2) Conduct TENA regularly. (3) Conduct tracer study on training outcomes. (4) Provide additional seed capital for the SEGF.

### **Sustainability of the Training Fund**

The National Training Fund continued to operate using government funds (program budget) after closure of the Basic Skills Training Project. The procedures for competitive award of contracts, and use of unit costs for pricing the training are still in use. Thus, the institutional development gains from the project appear to be sustained.

There are several limitations however. The use of low unit costs in the competition for contracts effectively excludes private training providers. Only government institutions and NGOs that have already sunk costs in teacher salaries can afford to compete. Some adjustments need to be made to provide incentives for private providers to compete.

Reportedly red tape makes it difficult to spend fully the government program budget allocated to the NTF. As a result some of the intended programs could not be financed. Whether this is a problem with start up of a new budgeting system, or reflects a deeper structural impediment, needs to be investigated and the way cleared for full use of NTF government funds.

Clearly there is a need for mobilizing non-government resources for TVET. A proposal has been put to the National Training Board on for establishing a one percent levy on payrolls for the purpose of both enterprise training and a general training fund. However, the proposal was not accepted because of objections by private sector representatives on the Board. One employer association indicated that businesses would accept the levy provided it were administered for the benefit of enterprises and in a transparent manner.

Source: Richard Johanson. 2008. "TVET in Cambodia: An Initial Sub-sector Assessment," draft, November, Asian Development Bank.

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### Summary Findings

This review identifies over sixty countries that have—or had—pre-employment and enterprise training funds. The characteristics, advantages and limitations of each are presented as well as key design questions and examples of good practice. National training funds are an increasingly common vehicle for financing training. The review presents a typology of three main types of training funds by purpose: pre-employment training funds, enterprise training funds and equity training funds. The review points to a lack of rigorous evaluation of the impact of training funds on the skills and employability of the workforce in developing countries.

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