

Session 1.4

Policy Design Issues

Governance & Financing

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Session Objectives

Part I- Governance

Participants will:

- See some complexities in organizing and managing skills development
- Learn common ways to deal with complexity



Outline- Part I- Governance

- ★ I. The Challenge of Complexity
- II. Ways to Cope

Hypothesis:

Workforce development arguably
is the *most difficult sub-sector*
to organize and manage

The Challenges

Keeping up with changing market demand

Diverse clientele

students, out of school youth,
women, workers, disabled,
unemployed

Diverse providers

public, private, company; multiple
ministries

Diverse levels

simple, semi- and skilled workers,
technicians

Diverse delivery methods

formal, non-formal, informal

Diverse training patterns

short & long term, continuous

Higher costs

have to be managed

Public Training Landscape: Diverse Providers

Skills Oriented

Ministries of:

- Education
- Labor
- Employment
- Higher Education
- Technical-Vocational Education
- National Skills Authorities

Sector Oriented

Ministries of:

- Agriculture
- Rural Development
- Industry
- Energy
- Civil works
- Telecommunication
- Transport
- Public service
- Para-statals

Target Oriented

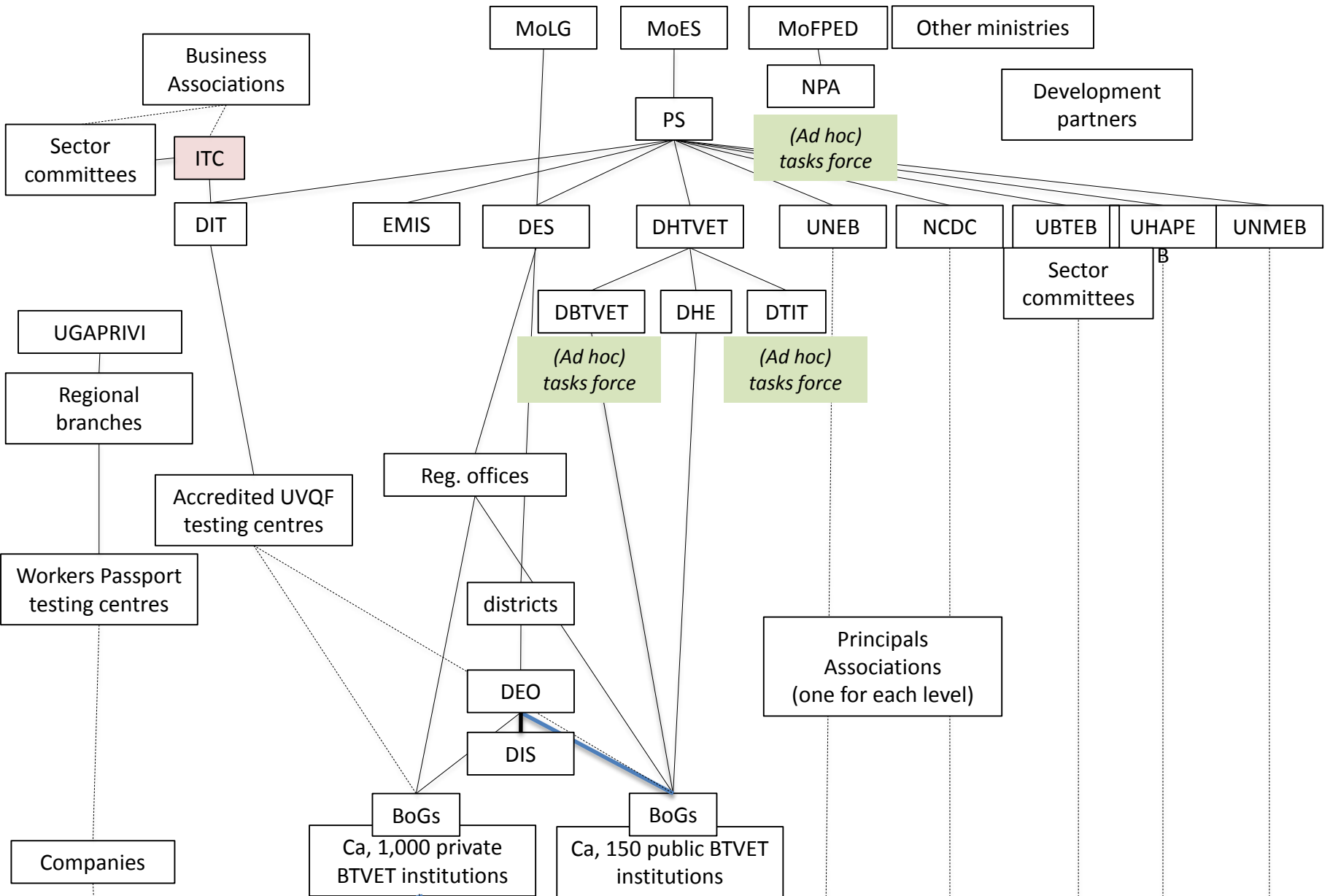
Ministries of:

- Youth Affairs
- Social Welfare
- Women

Issues in Public Governance & Management

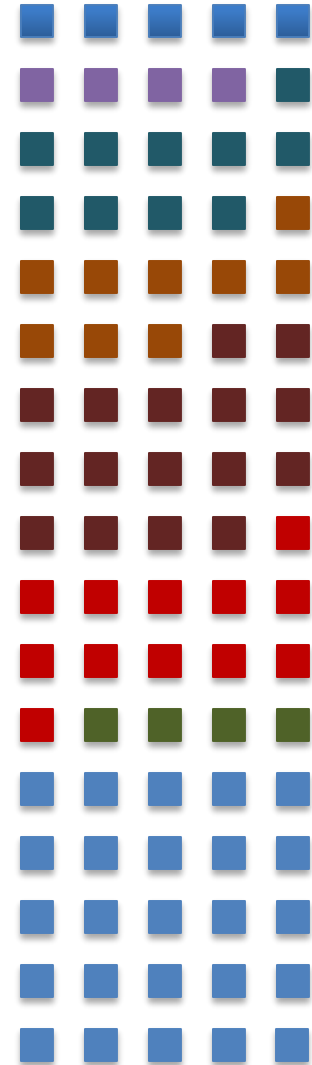
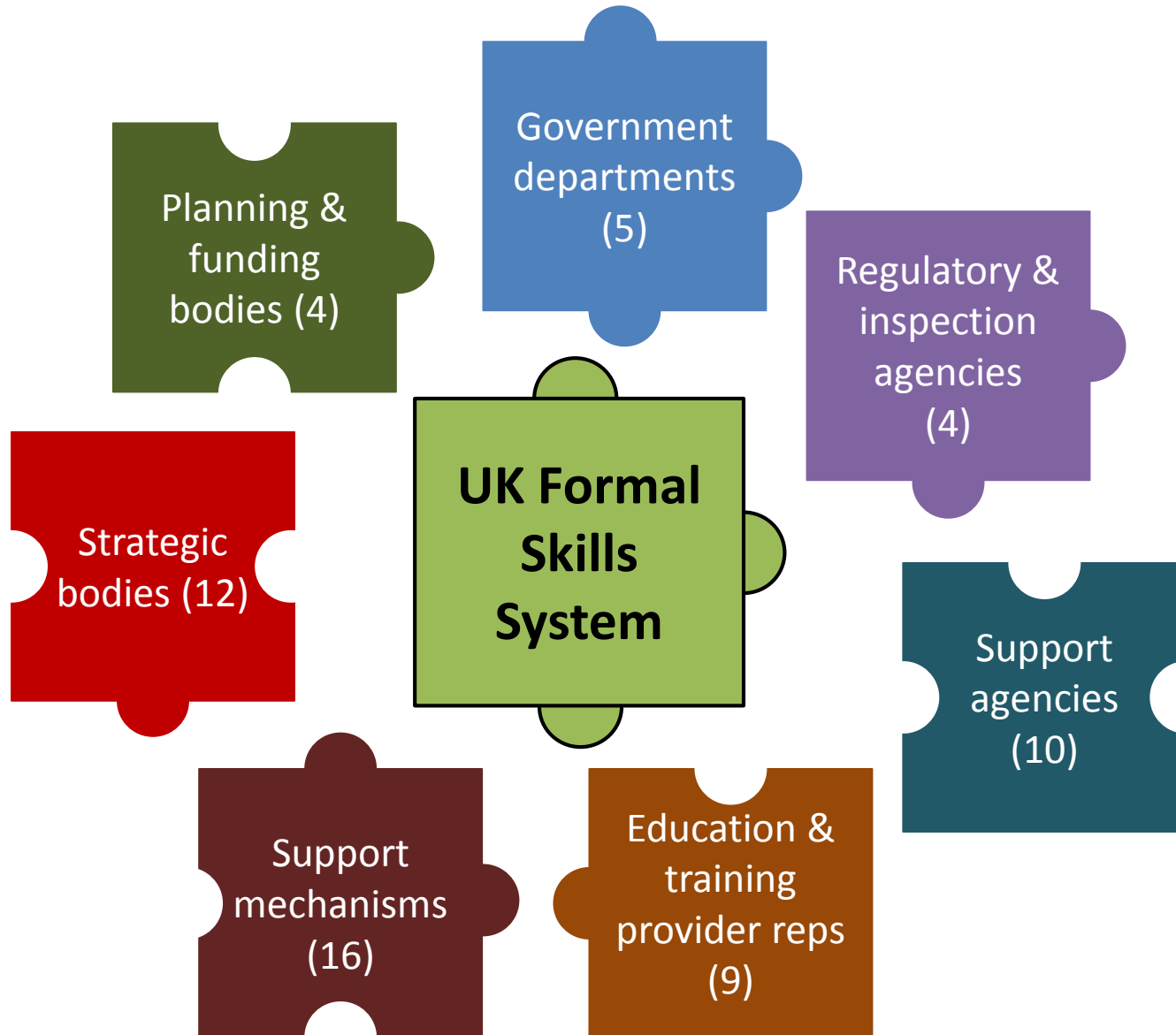
- Fragmentation **across** ministries
- Fragmentation **within** ministries

Stakeholder Landscape in Ugandan BTVET



Source: Jutta Franz et al (2011)

UK Formal Skills System



Organizational Complexity

- Increases duplication, overlap
- Raises the costs of management
- Confuses clients
- Discourages private sector involvement.
- Impedes responsiveness;
- Blocks change & reform
- Makes it more difficult to balance supply & demand

Outline- Part I- Governance

I. The Challenge of Complexity



II. Ways to Cope:

How to organize and manage the diverse stakeholders, functions and providers at the national level?

Principal ways to organize skills development nationally

1

Ministry management

2

Coordinating or advisory bodies

3

Sector skills councils

4

Workforce Development Authorities

Principal ways to organize skills development nationally

1. Ministry Governance

Typical weaknesses:

- Lack of connection to the labor market
- Lack of stakeholder participation
- Inefficiency- duplication of tasks
- Parallel qualifications systems

2. National Coordinating & Advisory Bodies

Some effective, but typical weaknesses:

- Often toothless,
- Unwieldy size,
- Meet infrequently,
- Lack of follow-through

3. Sector Skills Councils

Main functions-

- Identify skill needs
- Define Occupational standards
- Broker workplace training
- Career guidance
- Sector-specific initiatives

Incidence

- Australia – 11
- Canada – 30
- India – 12 now; aim: 30
- Netherlands – c 100
- New Zealand – 39
- South Africa- 21
- U.K. – 20

Characteristics-

- Voluntary
- Bi- or tri-partite management
- Mostly government funding, a few financed with levies

Lessons-

- Most effective when employers lead and control funding (NZ, Netherlands)

4. Workforce Development Agencies (WDAs)

Characteristics

- Semi-independent of government ministries
- Governed by tri-partite boards
- Supported by full-time secretariat
- Often include training funds financed by payroll levies.

Typical Functions

- Coordination- between training providers and employers.
- Research, policy & planning
- Technical support- curricula & teacher development
- Quality assurance- standards, assessment, certification regulation of private providers; M&E
- Financing of training
- Sometimes, training delivery

Rationale for WDAs

- Involve stakeholders, especially employers, in directing skills development– for better market links
- Flexibility & responsiveness- outside bureaucracy
- Comprehensiveness- broadens scope to all forms of skills development, not just pre-employment
- Intermediary to stimulate training markets

Effectiveness in WDAs

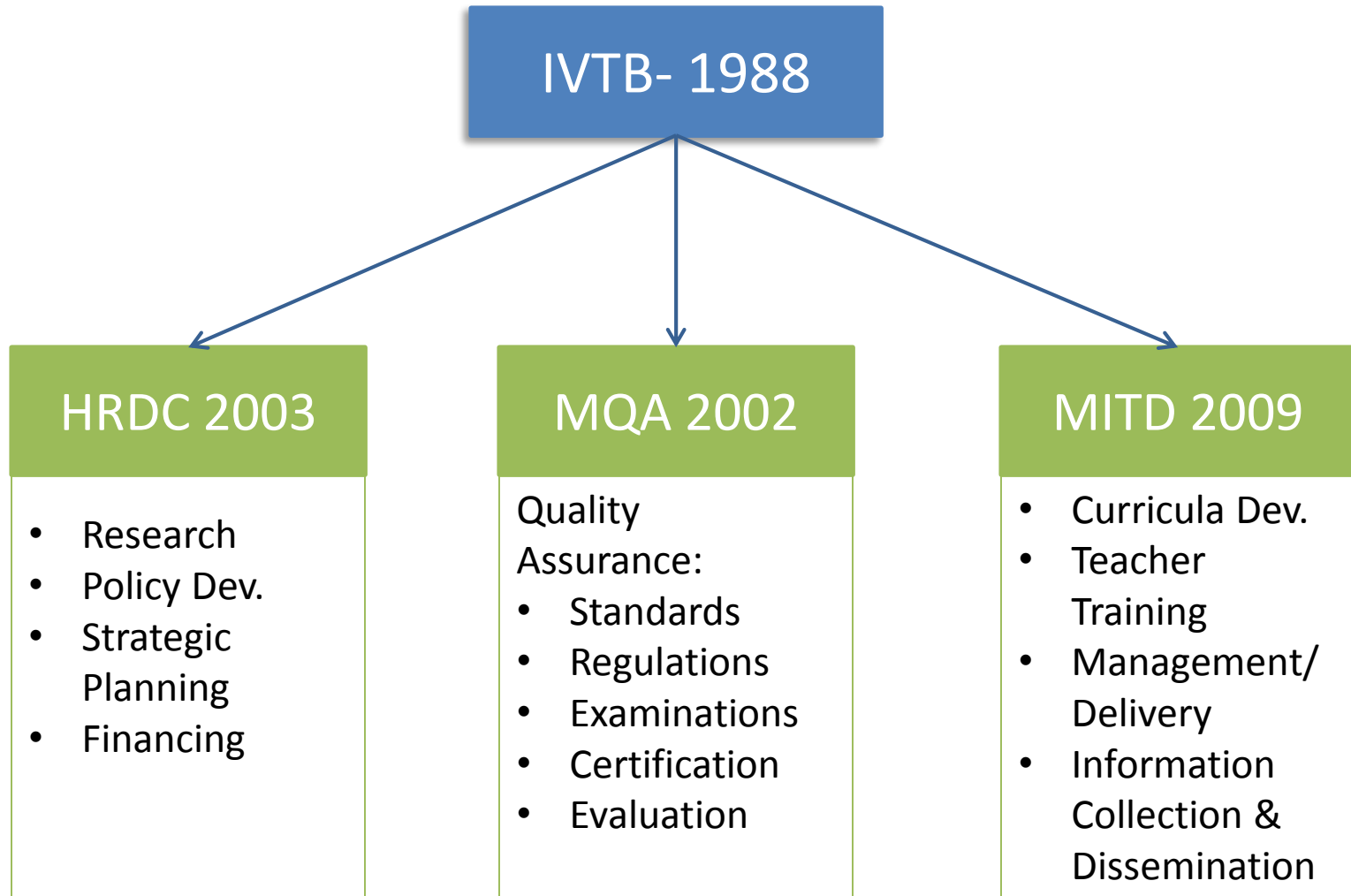
What works

- Authority- power to act.
- Balanced representation and employer involvement
- Authority combined with funding

What doesn't work

- Conflicts of interest
- Split authority
- Failure to integrate
- Sector fragmentation, duplication

Governance of WfD: Mauritius



Questions & Discussion on Governance

1. Is complexity inevitable?

2. If so, how to deal with it?

Part II- Objectives - Financing

Participants will:

- See some of the complexities of financing workforce development
- Understand the various ways of financing pre-service and in-service workforce development
- Learn about the power of various transfer mechanisms



Outline Part II- Financing WfD



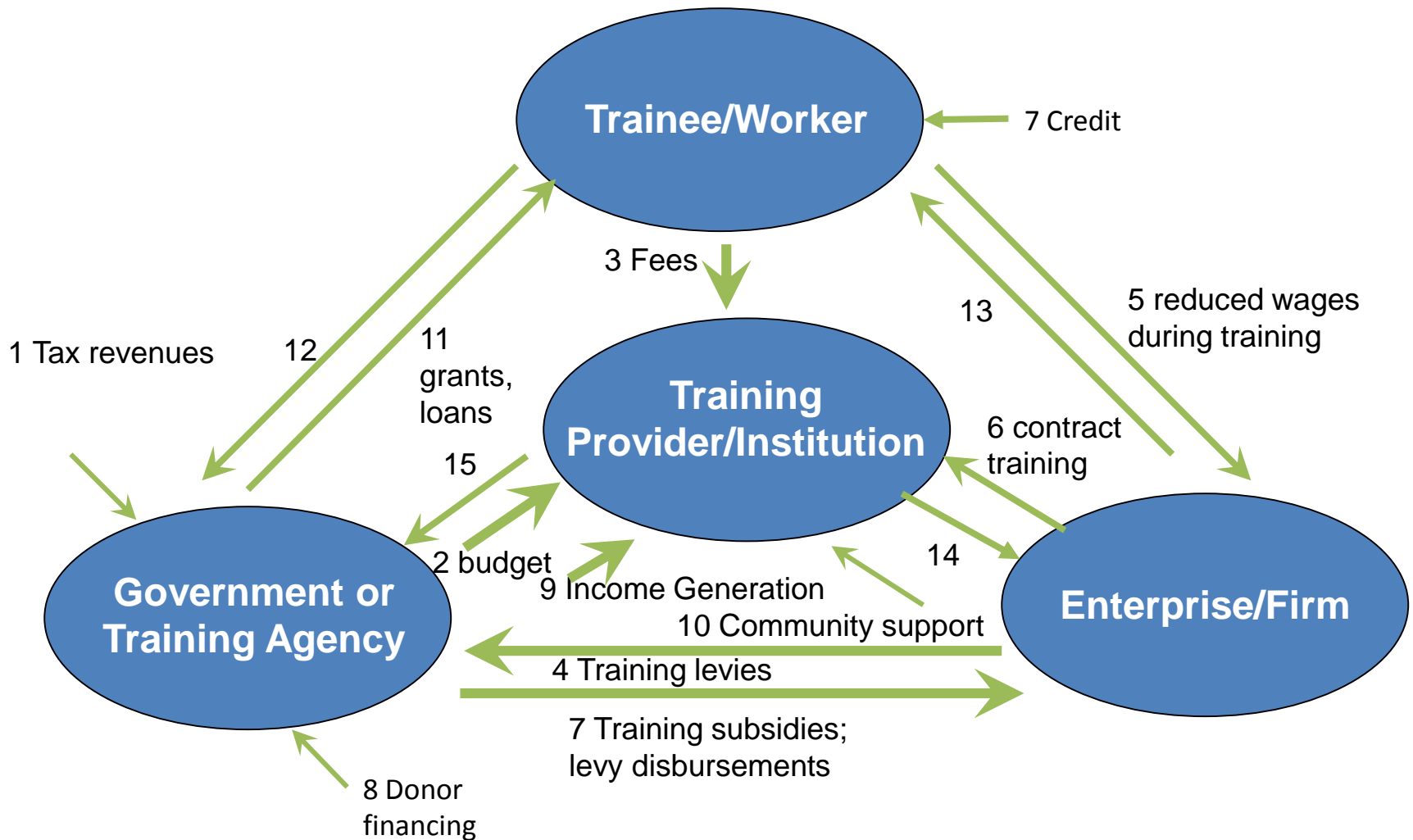
I. Overview- complexity

II. Financing pre-service WfD

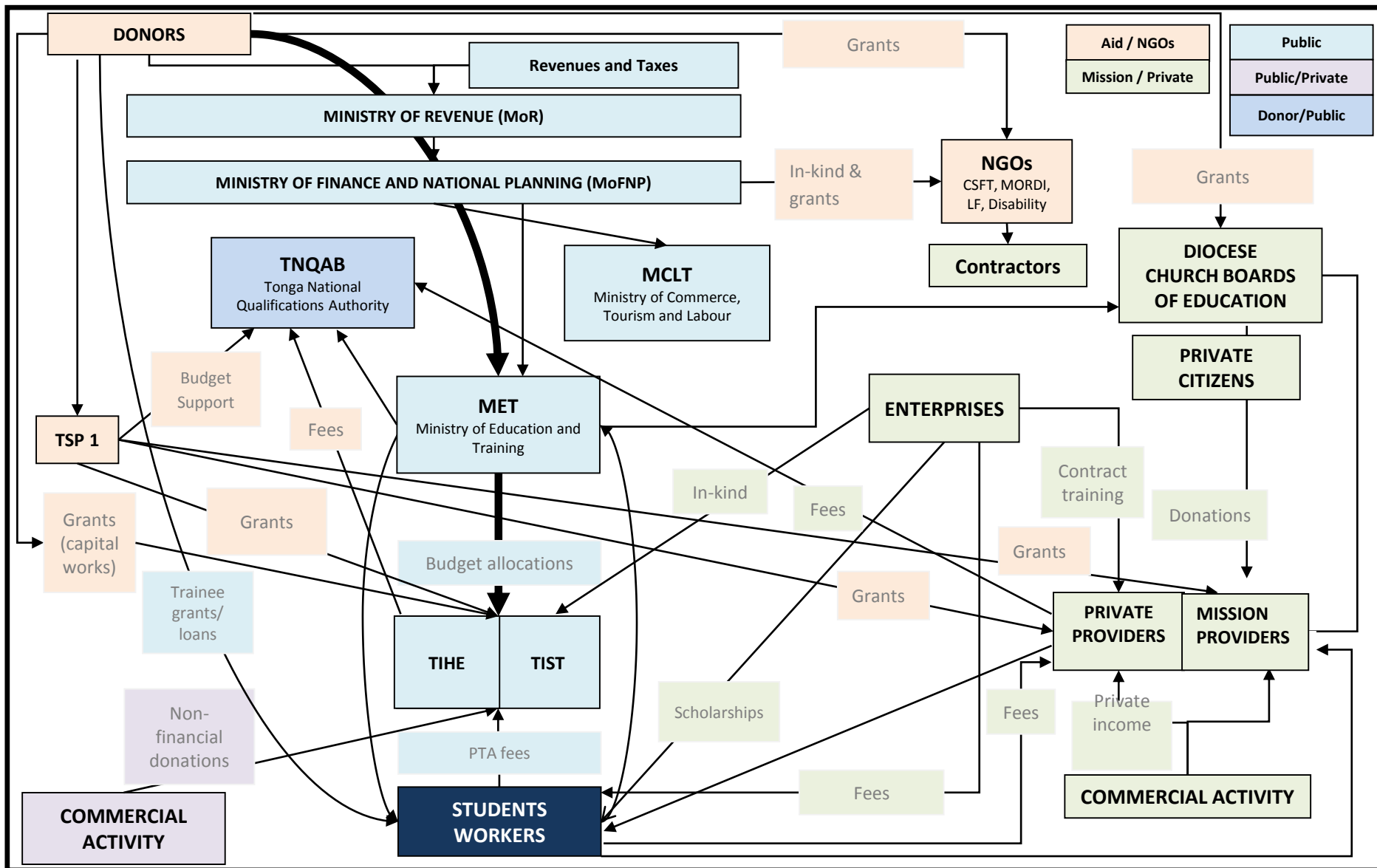
III. Financing enterprise-based training

IV. The power of transfer mechanisms

Overview: Complexity of Financial Flows in WfD



Summary diagram of TVET financing flows in Tonga



Overview: Typical Sources of Financing by Training Purpose

	Public	Private	
		Enterprise	Individual
A. PRE-EMPLOYMENT	x	(x)	x
B. IN-SERVICE			
Initial job training, apprenticeship		x	x
Updating workers		x	
Upgrading workers		x	x
C. ACTIVE LABOR MARKET PROGRAMS (ALMPs)			
Upgrading low or unskilled workers	x		
Youth transitioning to the labor market	x		
Adults transitioning between jobs	x	x	

Outline- Part II- Financing WfD

I. Overview

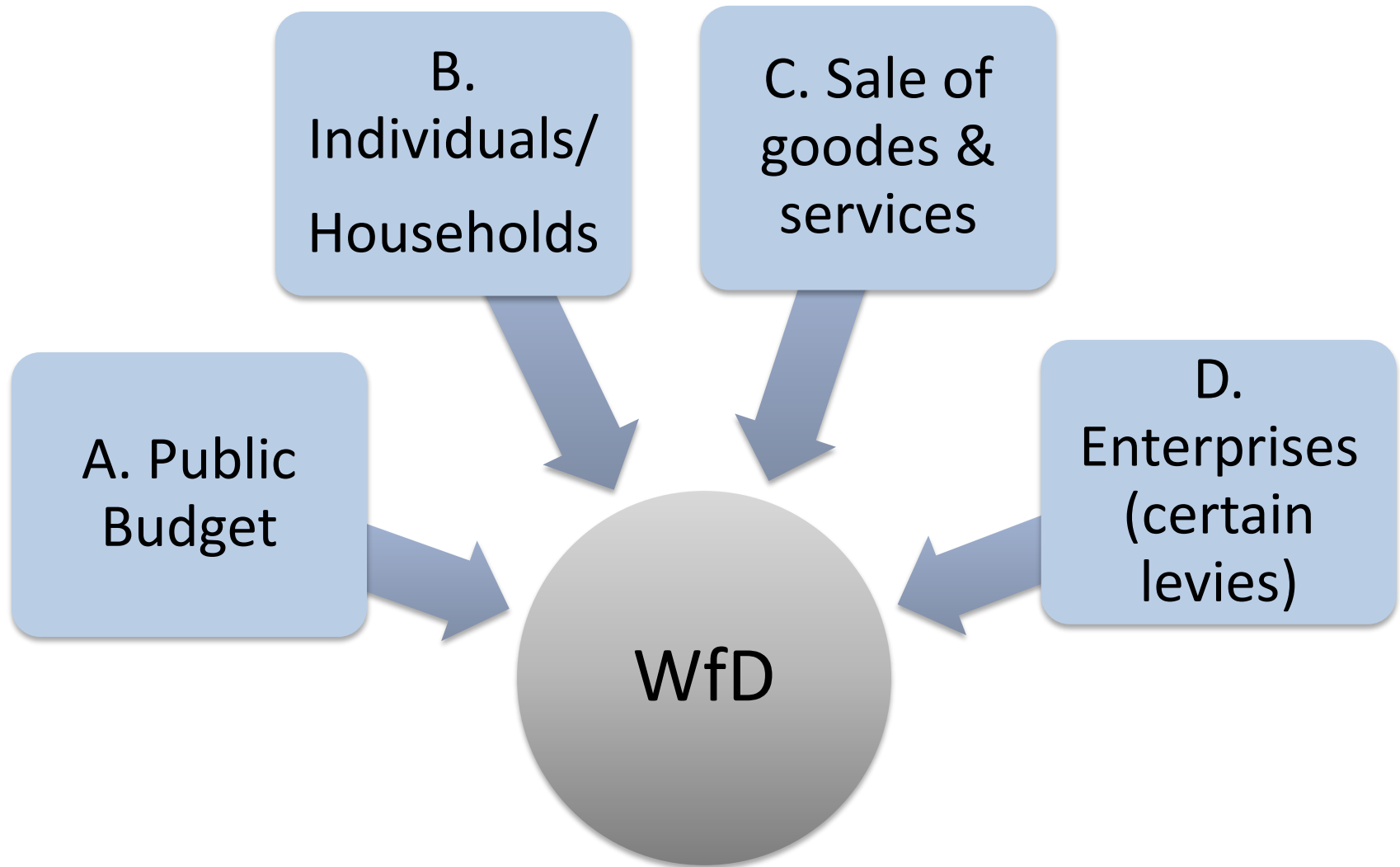


II. Financing pre-service WfD

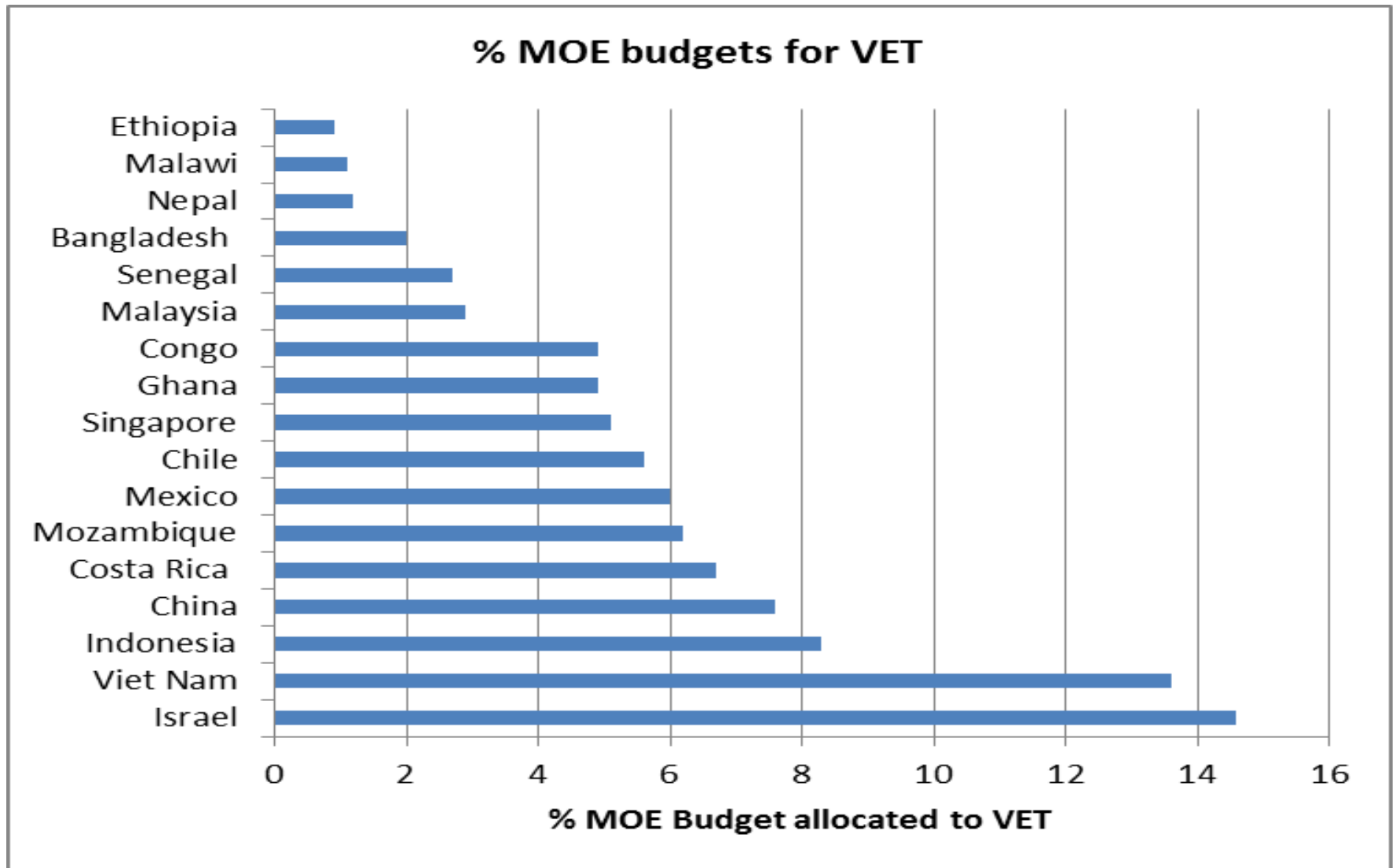
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Principal Funding Sources for Pre-service WfD



A. Government Financing & Provision



A. Government Financing & Provision

Financing justified by :

- Externalities- e.g. key skill shortages
- Market imperfections- lack of incentives to invest in training
- Equity- for underprivileged groups

Provision justified:

- When private training capacity is weak
- Where economies of scale are possible

A. GOVERNMENT FINANCING- Limitations

- Chronic underfinancing - budget reductions from recession and chronic public revenue shortfalls
- Supply-oriented- focused on using staff & facilities to produce the same outputs.
- Historical budgeting -- Typically unrelated to performance.
- Distortions - cuts on non-salary expenditures, needed investments
- Over-control - central financing may have high overhead costs and lack flexibility


B. FEE INCOME- Advantages & Disadvantages




- Helps pay training costs
- Makes training more serious for those who have to pay
- Management is more accountable to trainees for results
- Can help control excess demand

- Inequity: tends to exclude poorer trainees
- May distort program content: favoring low-cost programs
- May create tensions: fee & non-fee students in same institution

C. SALE OF GOODS AND SERVICES by Training Institutions

- 
- Uses facilities to supplement income
 - Trainees get practice in actual production
 - Can finance needed equipment & consumable supplies

- 
- Can lead to exploitation of trainees
 - Can detract from teaching
 - Can compete with local business
 - Central government may take the money

Outline Part II- Financing WfD

I. Overview

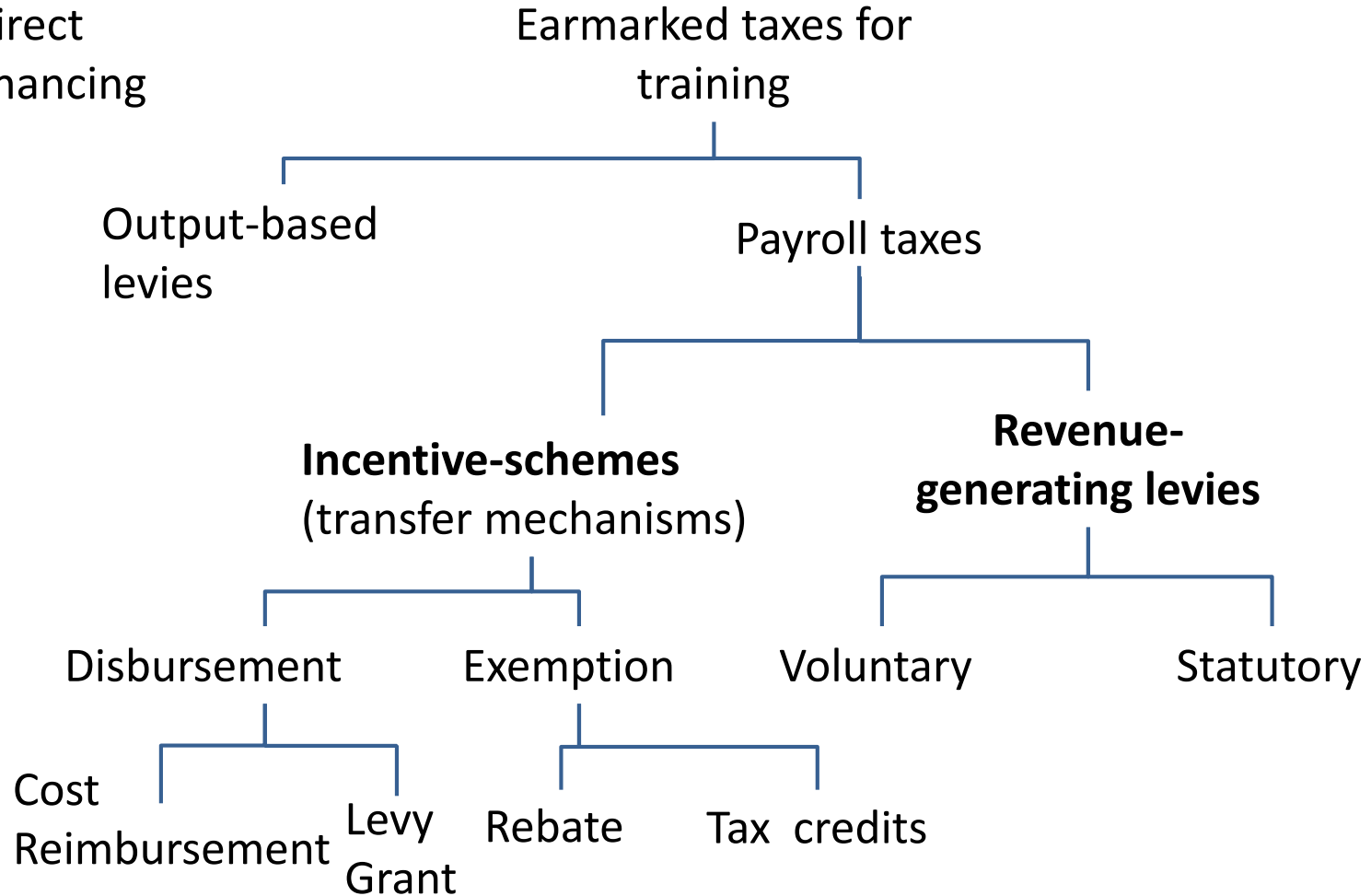
II. Financing pre-service WfD

 **III. Financing enterprise-based training**

IV. The power of transfer mechanisms

III. Types of Enterprise-based Financing

Direct financing

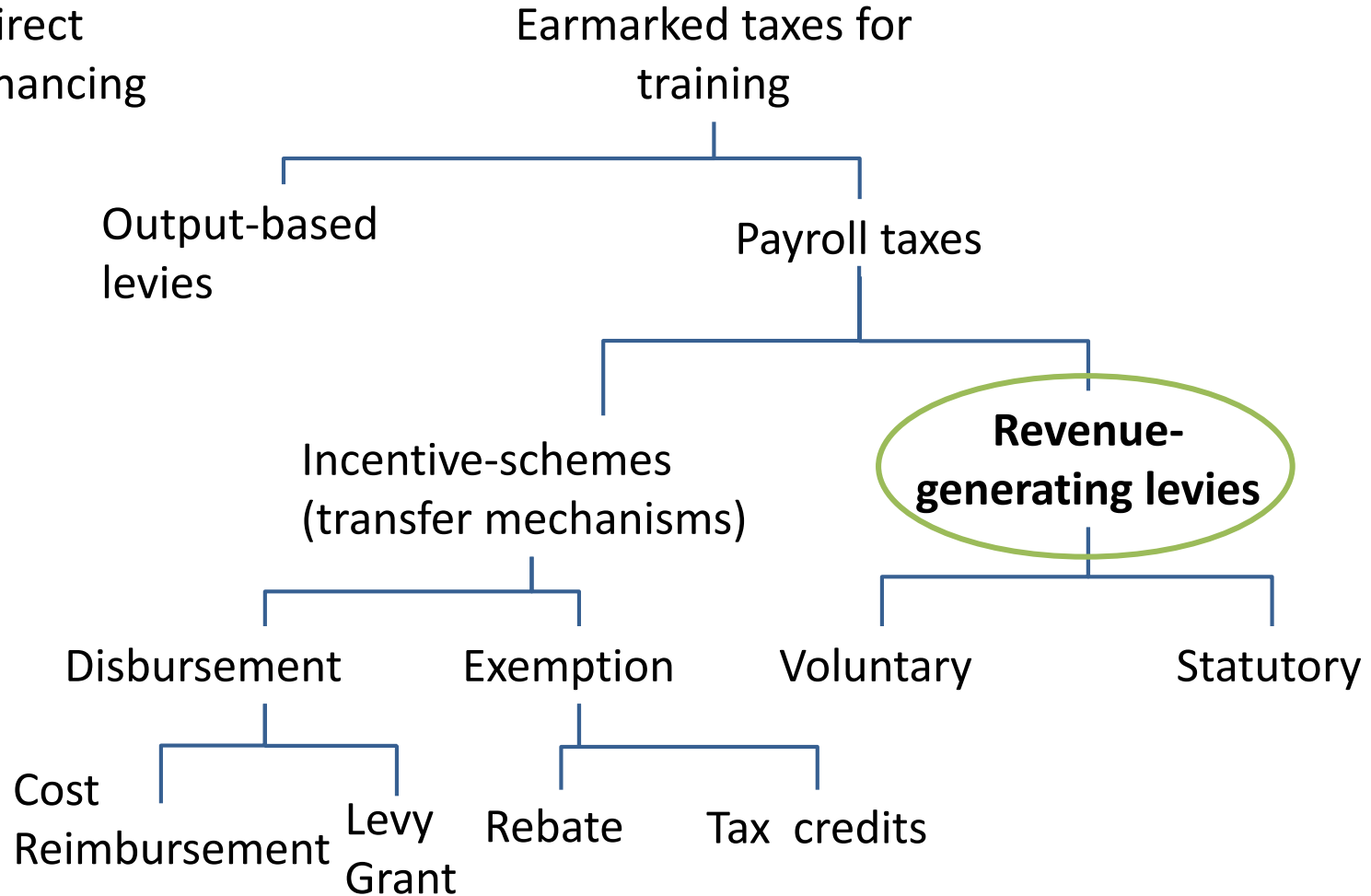


Levy-financed Enterprise Training by Region and Type

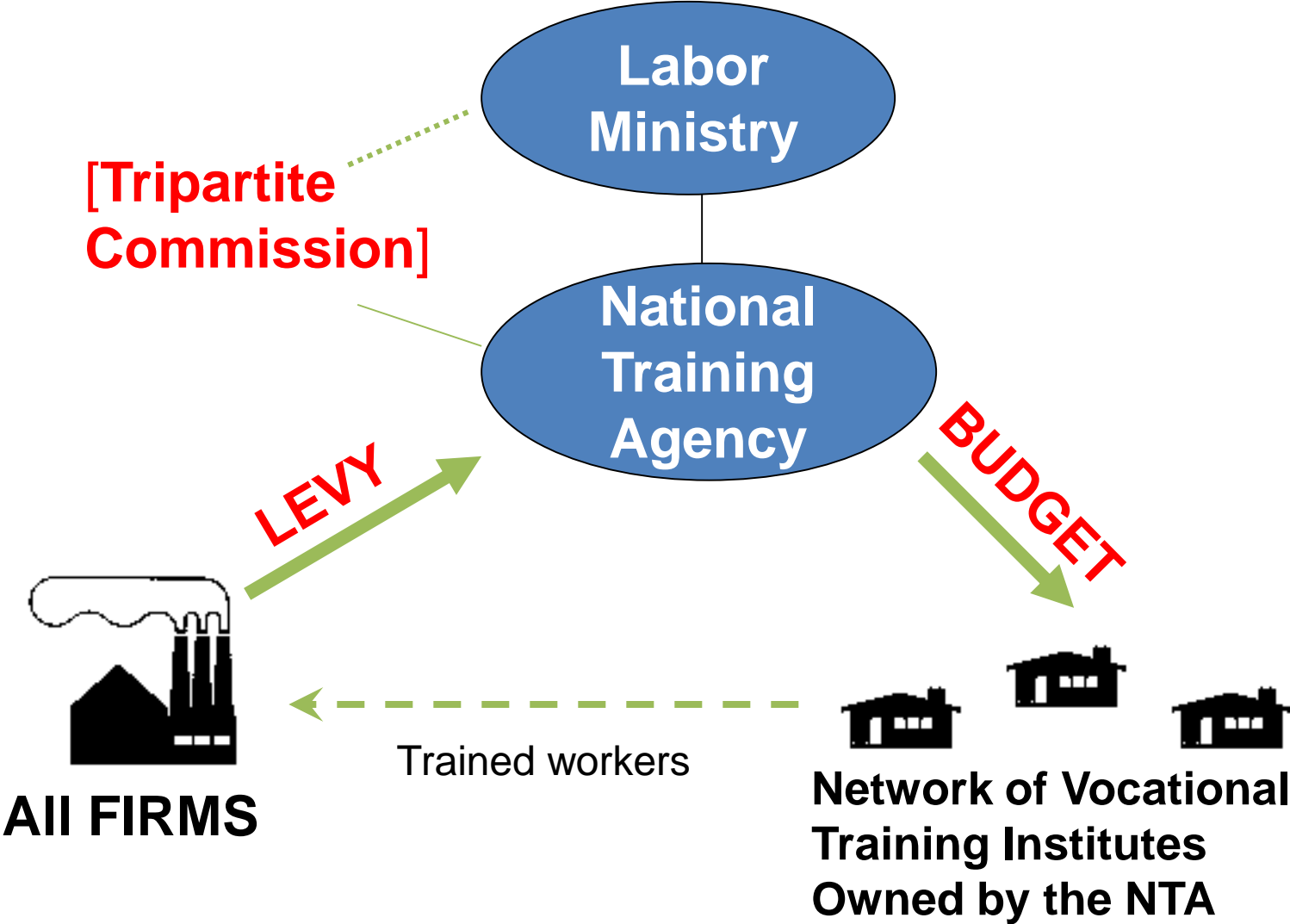
Region	Revenue Generating	Enterprise-Incentive Schemes		
		Cost-Reimbursement	Levy-Grant	Levy Exemption
LAC	16		1	6
SSA	6	2	9	4
MENA	2			2
Europe	2	1	9	
Asia	1	2	4	2
TOTAL	27	5	23	14

III. Types of Enterprise-based Financing

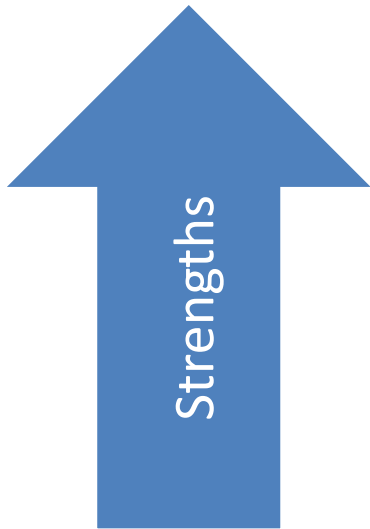
Direct financing



Revenue Generating Levies - The Latin America Model



Revenue Generating Levies



- Steady, stable source
- Access otherwise untapped resources and adds to volume of financing available
- Relatively easy to administer
- Leads to building of national training agencies and systems



- May create large bureaucracies
- Raises cost of labor and may reduce employment
- Counter incentive, or “leveling”: firms may reduce their training
- Difficulties in collection from small firms
- May tend to build monopolies on training provision, crowding out private training
- May cause government to reduce or eliminate its funding for WfD

Outline- Part II- Financing WfD

I. Overview

II. Financing pre-service WfD

III. Financing enterprise-based training



IV. The power of transfer mechanisms

Sources and Transfer Mechanisms

**Instruments to
raise revenue**



**Instruments to
transfer revenue**



Sources

Destinations

The way funds are transferred can be as important as the amounts transferred

Types of transfer mechanisms

A. Leveraging

B. Enterprise incentive schemes

C. Skills training funds

A. Funding Mechanisms for Better Public Financing

1. Stimulate training markets through:

- demand-side financing . Examples:
 - vouchers (Singapore, Chile, India),
 - conditional cash transfers (Bangladesh)
- competition for funds with level playing field for public and private providers

2. Increase performance through:

- Output-based financing i.e., “payment for results”. Examples:
 - Rural training (Nepal Employment Fund)
 - Normative financing (New Zealand)
 - Program-based budgeting (Indonesia)

B. Rationale for Better Enterprise Financing

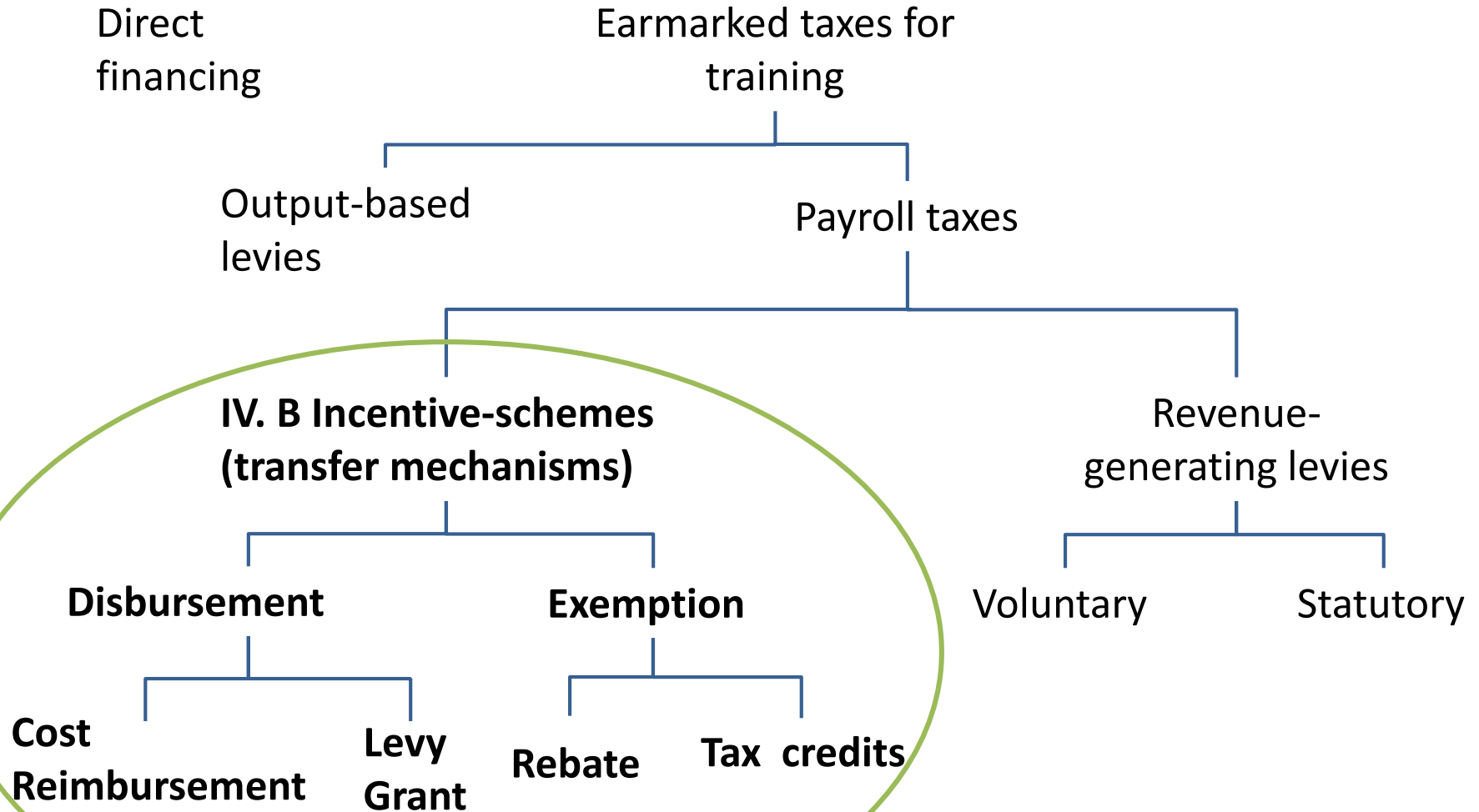
Enterprises may undertrain:

- Fear of poaching
- SMEs cannot afford the time or money for training
- Lack of information on benefits

Enterprise training is selective:

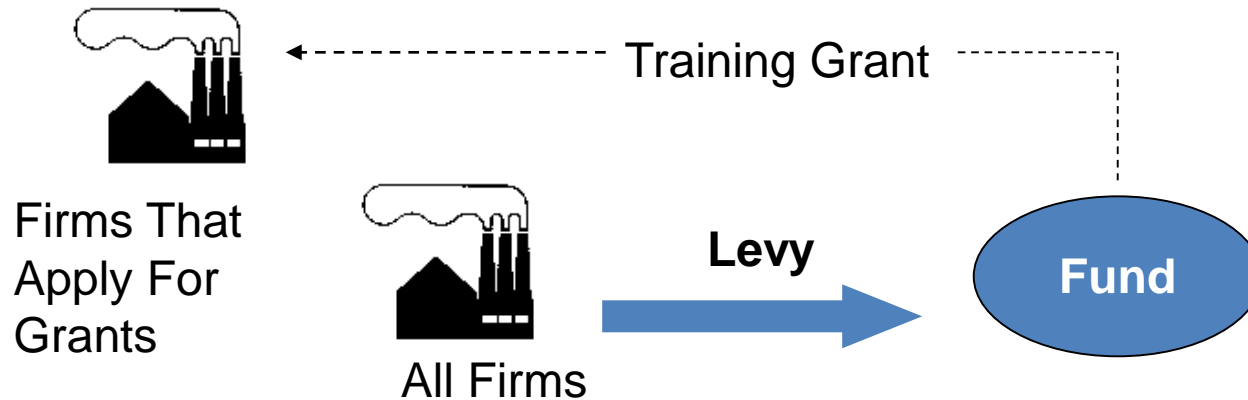
- Applies mainly to larger, foreign owned or exporting companies
- Those trained tend to be from white collar and skilled occupations and have higher levels of education

Types of Enterprise-based Financing



Levy Grant & Exception

Levy-grant Scheme



Levy-exception Scheme (train or pay)



Advantages/Risks with Enterprise Incentive Schemes



Advantages

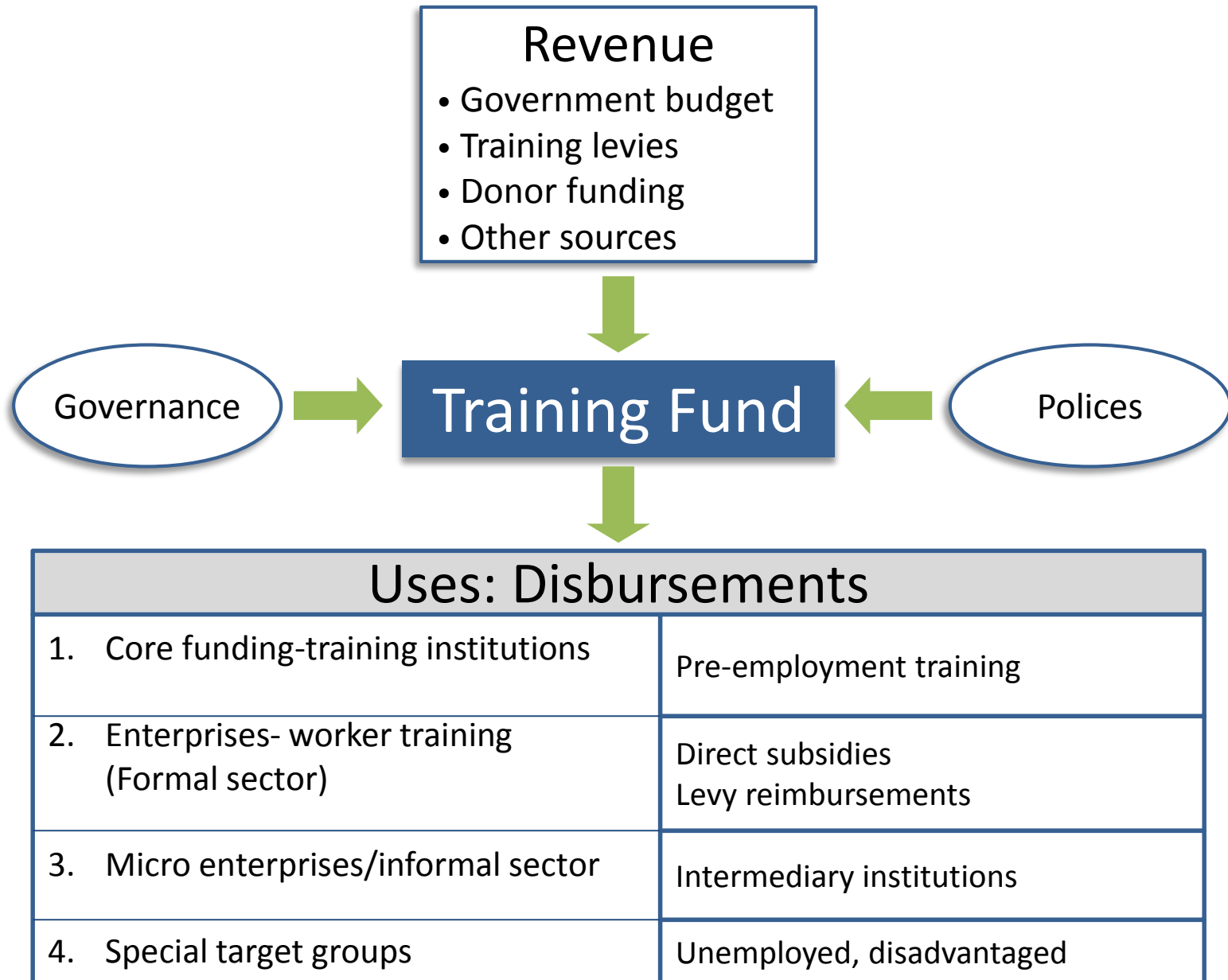
- Can lead to improved company training, through development of policies, training plans and training guidance
- Levy-grant allocates resources to priority programs
- Levy-grant can change priorities flexibly as circumstances change
- Can help develop training markets as training institutions compete for employer grants

- Small enterprises tend not to benefit
- Difficult & costly to administer
- Paperwork may deter enterprise applications; slow approval may delay training
- Deadweight loss- May reduce the cost of training artificially & encourage wasteful, irrelevant training
- May simply lead to “repackaging” rather than additional training; or may encourage piecemeal training



Risks

C. Transfer Mechanisms : Skill Training Funds



Advantages & Design Issues with Training Funds

Advantages

- Unified funding through pooling
- Stimulate grass roots innovations
- Wide coverage
- Flexibility- can finance a wide array of training arrangements and delivery methods
- Can address the informal sector in low-income countries
- Better performance through competition and accreditation of training providers.

Design Issues

- Governance- employer role
- Administrative autonomy
- Targeting
- Conflict of interest
- Sustainability
- Impact evaluation

Discussion Questions:

1. What can be done to mobilize additional resources for WfD?

2. What mechanisms can achieve greater responsiveness and effectiveness in WfD?

3. What mechanisms can stimulate more and better enterprise-based training?