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
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

- Planning & funding bodies (4)
- Government departments (5)
- Regulatory & inspection agencies (4)
- Support agencies (10)
- Strategic bodies (12)
- Support mechanisms (16)
- Education & training provider reps (9)

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
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

<table>
<thead>
<tr>
<th>1. Ministry Governance</th>
<th>2. National Coordinating &amp; Advisory Bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical weaknesses:</td>
<td>Some effective, but typical weaknesses:</td>
</tr>
<tr>
<td>• Lack of connection to the labor market</td>
<td>• Often toothless,</td>
</tr>
<tr>
<td>• Lack of stakeholder participation</td>
<td>• Unwieldy size,</td>
</tr>
<tr>
<td>• Inefficiency- duplication of tasks</td>
<td>• Meet infrequently,</td>
</tr>
<tr>
<td>• Parallel qualifications systems</td>
<td>• Lack of follow-through</td>
</tr>
</tbody>
</table>
### 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

<table>
<thead>
<tr>
<th>What works</th>
<th>What doesn’t work</th>
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<tbody>
<tr>
<td>• Authority- power to act.</td>
<td>• Conflicts of interest</td>
</tr>
<tr>
<td>• Balanced representation and employer involvement</td>
<td>• Split authority</td>
</tr>
<tr>
<td>• Authority combined with funding</td>
<td>• Failure to integrate</td>
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<tr>
<td></td>
<td>• Sector fragmentation, duplication</td>
</tr>
</tbody>
</table>
Governance of WfD: Mauritius

IVTB - 1988

HRDC 2003
- Research
- Policy Dev.
- Strategic Planning
- Financing

MQA 2002
Quality Assurance:
- Standards
- Regulations
- Examinations
- Certification
- Evaluation

MITD 2009
- Curricula Dev.
- Teacher Training
- Management/Delivery
- Information Collection & Dissemination
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

1. Overview - complexity
2. Financing pre-service WfD
3. Financing enterprise-based training
4. The power of transfer mechanisms
Overview: Complexity of Financial Flows in WfD

1. Tax revenues
2. Budget
3. Fees
4. Training levies
5. Reduced wages during training
6. Contract training
7. Credit
8. Donor financing
9. Income Generation
10. Community support
11. Grants, loans
12. Income Generation
13. Training subsidies; levy disbursements
Summary diagram of TVET financing flows in Tonga
## Overview: Typical Sources of Financing by Training Purpose

<table>
<thead>
<tr>
<th>Training Purpose</th>
<th>Public</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. PRE-EMPLOYMENT</strong></td>
<td>⊗</td>
<td>(⊗)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>⊗</td>
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<tr>
<td></td>
<td></td>
<td>⊗</td>
</tr>
<tr>
<td><strong>B. IN-SERVICE</strong></td>
<td></td>
<td>⊗</td>
</tr>
<tr>
<td>Initial job training, apprenticeship</td>
<td>⊗</td>
<td>⊗</td>
</tr>
<tr>
<td>Updating workers</td>
<td>⊗</td>
<td>⊗</td>
</tr>
<tr>
<td>Upgrading workers</td>
<td>⊗</td>
<td>⊗</td>
</tr>
<tr>
<td><strong>C. ACTIVE LABOR MARKET PROGRAMS (ALMPs)</strong></td>
<td></td>
<td>⊗</td>
</tr>
<tr>
<td>Upgrading low or unskilled workers</td>
<td>⊗</td>
<td></td>
</tr>
<tr>
<td>Youth transitioning to the labor market</td>
<td>⊗</td>
<td></td>
</tr>
<tr>
<td>Adults transitioning between jobs</td>
<td>⊗</td>
<td>⊗</td>
</tr>
</tbody>
</table>
I. Overview

II. Financing pre-service WfD

III. Financing enterprise-based training

IV. The power of transfer mechanisms
Principal Funding Sources for Pre-service WfD

A. Public Budget

B. Individuals/Households

C. Sale of goods & services

D. Enterprises (certain levies)
A. Government Financing & Provision

% MOE budgets for VET

- Ethiopia
- Malawi
- Nepal
- Bangladesh
- Senegal
- Malaysia
- Congo
- Ghana
- Singapore
- Chile
- Mexico
- Mozambique
- Costa Rica
- China
- Indonesia
- Viet Nam
- Israel

% MOE Budget allocated to VET

0  2  4  6  8  10  12  14  16
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
I. Overview

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III. Types of Enterprise-based Financing

Direct financing

Earmarked taxes for training

Output-based levies

Payroll taxes

Incentive-schemes (transfer mechanisms)

Revenue-generating levies

Disbursement

Exemption

Voluntary

Statutory

Cost Reimbursement

Levy Grant

Rebate

Tax credits
### Levy-financed Enterprise Training by Region and Type

<table>
<thead>
<tr>
<th>Region</th>
<th>Revenue Generating</th>
<th>Enterprise-Incentive Schemes</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Cost-Reimbursement</td>
</tr>
<tr>
<td>LAC</td>
<td>16</td>
<td>1</td>
</tr>
<tr>
<td>SSA</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>MENA</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Asia</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>27</td>
<td>5</td>
</tr>
</tbody>
</table>
III. Types of Enterprise-based Financing

- Direct financing
  - Output-based levies
    - Incentive-schemes (transfer mechanisms)
      - Disbursement
      - Exemption
      - Voluntary
      - Statutory
      - Cost Reimbursement
      - Levy
      - Grant
      - Rebate
      - Tax credits
  - Payroll taxes
    - Revenue-generating levies
Revenue Generating Levies - The Latin America Model

Labor Ministry

National Training Agency

[Tripartite Commission]

All FIRMS

LEVY

BUDGET

Trained workers

Network of Vocational Training Institutes Owned by the NTA
Revenue Generating Levies

**Strengths**
- 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

**Weaknesses**
- 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

Sources

Instruments to transfer revenue

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

Direct financing

Earmarked taxes for training

Output-based levies

Payroll taxes

IV. B Incentive-schemes (transfer mechanisms)

Disbursement

Exemption

Cost Reimbursement

Levy Grant

Rebate

Tax credits

Revenue-generating levies

Voluntary

Statutory
Levy Grant & Exception

Levy-grant Scheme

- Firms That Apply For Grants
- All Firms
- Training Grant

Levy

Funds

Levy-exception Scheme (train or pay)

- Training firm exempted from tax
- Non-training firm
- Levy

Funds
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

**Risks**
- 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
C. Transfer Mechanisms: Skill Training Funds

Revenue
- Government budget
- Training levies
- Donor funding
- Other sources

Governance

Training Fund

Polices

Uses: Disbursements

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<tbody>
<tr>
<td>1.</td>
<td>Core funding-training institutions</td>
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<tr>
<td>2.</td>
<td>Enterprises- worker training (Formal sector)</td>
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<tr>
<td>3.</td>
<td>Micro enterprises/informal sector</td>
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<tr>
<td>4.</td>
<td>Special target groups</td>
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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?