HEART

HEALTH & EDUCATION ADVICE AND RESOURCE TEAM

# ENGAGING THE PRIVATE SECTOR IN SKILLS DEVELOPMENT

## Final

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This assessment is being carried out by HEART (Health & Education Advice and Resource Team) a consortium of 8 Partners: Oxford Policy Management , CFBT, IDS (Institute of Development Studies), HERA, FHI360, Ipact, University of Leeds and LSTM (Liverpool School of Tropical medicine) supported by DFID. This report was managed by Oxford Policy Management.

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# Executive summary

The objective of this report is to provide an understanding of the role of the private sector in skills development, both as employers and as skills providers. The aim of the research was to find potential opportunities to support private sector integration in all aspects of skills development, particularly in low-income countries. In addition, the research explored the twin issues of access to finance for skills development stakeholders; and financial support from the private sector for skills development programmes.

In the course of the research a number of key issues emerged. Firstly, the volume of recent work in this sector is considerable and supports the various assertions that a radical shift in skills development is both needed and is beginning to take place. To be successful, this shift must respond to the increasing demand for training opportunities with greater private sector involvement, better co-ordination, effective use of new technology and the media, and interventions with a sectoral focus. It is clear from the many examples given in the body of the report, that private sector intervention will generally not happen without facilitation by another party, whether it be government, donor or NGO. Employers are more likely to engage in skills development at any level, if the benefits of doing so are apparent, the business environment is favourable and there is minimal bureaucracy attached. Their engagement is most effective if it takes place early in the planning process and results from them being proactive.

The research clearly shows that the most effective skills development programmes include both soft skills and technical skills, off-the-job as well as on-the-job training and take skills required in the informal labour market into account. Ideally, training programmes for disadvantaged groups would include income-earning opportunities, including apprenticeships, with formal recognition of the competences gained.

Private training providers have a valuable role to play if the quality of their provision can be assured. Evidence that they are closer to employers than public training providers is not definitive.

While it is reported that there is more private finance flowing into the developing world, much more is needed to fund skills development. It is evident that these additional funds will not come entirely, or even largely, from governments. Alternative sources must be found and co-ordinated. All sources have their drawbacks, in particular those dependent on levies or tax incentives which require a solid industrial base and strong administrative capacity. Whilst voucher schemes show mixed results, there is evidence that they can work in disadvantaged communities and stimulate demand for training.

All of the measures considered in the research are dependent to some extent on high quality, reliable information reaching prospective learners in order that they can make informed choices.

Following a description of current policies and associated literature in Section 1, Sections 2 and 3 outline how different parts of the private sector currently get involved in skills development. Specifically, it focuses on multi-national companies, national companies, local industry and private training providers. By drawing on a wide variety of examples it identifies various types of private sector intervention and evaluations of their strengths and weaknesses. In all cases, the greatest challenges are found in countries with unstable governments and low-growth or stagnant economies and in remote agrarian communities with little industry. However, there are positive examples, both at national and local levels of successful interventions which can provide models for further expansion.

Section 4 addresses the issues of finance of skills development, looking in particular at the various methods of raising money from the private sector and how the private sector can support learners financially while they are non-productive or partially productive. It takes into account whether financing systems are suitable for low-income countries with a weak industrial base and few employers above the tax threshold.

Section 5 draws on the preceding research to identify 8 areas in which there is evidence that private sector involvement has been successful or has a strong potential for success. These are:

i. global partnerships;
ii. skills development programmes moving down companies' supply chains;
iii. sectoral alliances;
iv. earn-and-learn programmes;
v. soft skills development;
vi. voucher schemes;
vii. national training funds;
viii. application of low-cost technology.

The supporting environment required for each is described and an indication given of the role which donor agencies could play in facilitating each intervention.

Section 6 concludes that, even in low-income countries with little industrial base there are opportunities for private sector engagement facilitated by donor agencies, who may require to become catalysts and influencers, rather than their traditional role of financers and designers.

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# Abbreviations

| | |
|---|---|
| ADB | Asian Development Bank |
| AEO | African Economic Outlook |
| CIDA | Canadian International Development Agency |
| DANIDA | Danish International Development Agency |
| DFID | Department for International Development |
| ELIG | European Learning Industry Group |
| ELSA | Education and Livelihood Skills Alliance |
| EU | European Union |
| EWN | Empowering Women of Nepal |
| GSMA | Groupe Speciale Mobile Association |
| HRD | Human Resource Development |
| ICT | Information and Communications Technology |
| IFC | International Finance Corporation |
| ILO | Iternational Labour Organisation |
| ISP | Inter-Sectoral Partnering |
| IT | Information Technology |
| IYF | International Youth Foundation |
| MPO | Monthly Payment Order |
| MSMEs | Micro, Small and Medium-sized Enterprises |
| MTC | Management & Training Corporation |
| NGO | Non-Governmental Organisations |
| NQF | National Qualifications Framework |
| NSDC | National Skills Development Corporation |
| ODI | Overseas Development Institute |
| OECD | Organisation for Economic Co-operation and Development |
| PPP | Public – Private Partnership |
| SDC | Swiss Development Corporation |
| SEEP | Small Enterprise Education and Promotion |
| SIDA | Swedish International Development Agency |

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| SIEF | Spanish Impact Evaluation Fund |
| SIMBA | Skills and Innovation for Micro-Banking in Africa |
| SMEs | Small and Medium-sized Enterprises |
| SSC | Sector Skills Council |
| TVET | Technical and Vocational Education and Training |
| UNIDO | United Nations Industrial Development Organisation |
| UNDP | United Nations Development Programme |
| UNESCO | United Nations Educational, Scientific and Cultural Organisation |
| USAID | United States Agency for International Development |
| VET | Vocational Education and Training |
| WBI | World Bank Institute |
| WfD | Workforce Development |

# Definitions

**Foundation skills**: The ability to read, write and use numbers, to handle information, express ideas and opinions, make decisions and solve problems, as family members, workers, citizens and lifelong learners. (Adult Literacy and Numeracy in Scotland 2001)

**Learning Accounts**: An individual savings process supported by the State, generally either by tax reductions or increased interest payments. Various models exist. (Individual Learning Accounts, CEDEFOP, 2009)

**National Qualification Framework**: An instrument for the development, classification and recognition of skills, knowledge and competencies along a continuum of agreed levels. It is a way of structuring existing and new qualifications, which are defined by learning outcomes, i.e. clear statements of what the learner must know or be able to do whether learned in a classroom, on-the-job, or less formally. The Qualifications Framework indicates the comparability of different qualifications and how one can progress from one level to another, within and across occupations or industrial sectors. (Tuck, R. An Introductory Guide to National Qualifications Frameworks (2007) ILO)

**Public-Private Partnerships**: A voluntary alliance amongst various actors from different sectors whereby they agree to work together to reach a common goal or fulfil a specific need that involves shared risks, responsibilities and competencies. (World Economic Forum, 2005)

“Although there are many forms of PPPs, including partnerships where private organizations support the education sector through philanthropic activities and high- engagement ventures, this study examines PPPs in which the government guides policy and provides financing while the private sector delivers education services to students. In particular, governments contract out private providers to supply a specified service of a defined quantity and quality at an agreed price for a specific period of time. These contracts contain rewards and sanctions for nonperformance and include situations in which the private sector shares the financial risk in the delivery of public services.” (The Role and Impact of Public-Private Partnerships in Education, World Bank, 2009)

**Transferable skills**: Those skills that are central to occupational competence in all sectors and at all levels and include project management, leadership, communication, working in teams and problem solving. (A Curriculum Model for Transferable Skills Development, Department for Education and Employment, 1997)

**Technical and Vocational Education**: The study of technologies and related sciences as well as the acquisition of practical skills and knowledge relating to occupations in various sectors of economic and social life. (Terminology of Technical and Vocational Education, revised edition 1984, UNESCO)

**Second Chance Opportunities**: Non-traditional access routes to education and training opportunities for adults.

**Sector Skills Councils**: Independent, employer-led organisations designed to build a skills system that is driven by employer demand and to create the conditions for increased employer investment in skills which will drive enterprise and create jobs and sustainable economic growth. (UK Commission for Employment and Skills)

**Value Chain Approach**: The value chain approach seeks to address systemic constraints in order to enable an industry to exploit end market opportunities. This requires a project to not simply replicate interventions that improve transactions, but to address related but distinct system problems such as the need for new services, standards, advocacy, formal and informal rules and skills development. (Microlinks, 2012)

# 1 Introduction

This report provides information on the various roles which the private sector plays, either unilaterally, or in partnership with governments and donors, in equipping workers with the skills required in the local, national or international labour markets. Its purpose is to provide examples of, and analysis and recommendations on, the ways in which the private sector may be encouraged to increase its level of engagement and to contribute to an improvement in quality of skills development provision. The private sector is taken to mean both employers, who may be acting in a purely commercial capacity or who may be fulfilling a corporate social responsibility policy, and private, for-profit, training providers. This note looks in particular at the creation and sustainability of public/private partnerships (PPPs) and how these can be optimised and rolled out in order to increase the quantity and improve the quality of demand-driven, industry-relevant skills development. It therefore provides examples and draws conclusions from private sector initiatives which are already being implemented.

Skills development is an issue which is currently regarded as critical by international bodies. This is exemplified by the G20 Employment and Labour Ministers Meeting in Washington DC in April 2010 where recommendations were made to prioritise education, lifelong learning, job training and skills development strategies linked to growth strategies. To have effect, these assumed a number of 'critical elements':

- broad availability of quality education as a foundation for future training;
- solid bridges between the world of work and training providers in order to match skills provision to the needs of enterprise;
- continuous workplace training and lifelong learning;
- anticipating and building competencies for future needs;
- ensuring broad access to training opportunities for all.

The G20 Training Strategy is based on the premise that 'the effective utilisation of skills in the workplace both depends on, and contributes to, conditions conducive to innovation and enterprise development; effective labour market orientation and mediation services; and well-informed decisions about education and training policies.'

These elements would be enhanced by the features called for at the International Labour Conference in 2008, which include:

- seamless pathways of learning;
- development of core skills;
- development of higher-level skills;
- portability of skills;
- employability.

The principles on which the G20 and the ILO have worked accord with the findings of recent research conducted by UNESCO into policies to strengthen skills-employment linkages for marginalised young people (Engel, 2012). The research found that growing youth unemployment was the primary justification for increased investment in skills training by governments and development partners, in the context of changing technologies and skill demands. Skills development is now perceived as essential for a country's economic growth, as is the need to engage members of marginalised groups to add to the pool of skilled labour. This will be taken into account under Action Two 'Enhance National Employable Skills Strategies' of the Human Resource Development Pillar of the G20 Development Working Group in which pilots are being conducted to establish action plans through which international organisations and other agencies can co-ordinate support for implementing national strategies on skills for employment. At the time of the May 2012 Progress Report, Bangladesh, Benin and Malawi were participating, with Haiti having expressed interest in doing so.[1]

These principles are shared with the Global Monitoring Report (2012) which highlights concerns that 'just when Education for All (EFA) needs a final push, there are signs that donor contributions are slowing down'. The report goes on to suggest that to compensate for stagnating donor contributions, and in addition to more effective use of natural resource revenues, the private sector could be involved in a more coherent way, aligning its contribution more closely with the EFA goals and accompanying that with measures which ensure partnerships with government are more balanced, with clear specification of how the private sector can contribute to collective efforts.

This point has also been picked up by The World Bank Group in IFC (2011) which values increased participation by the private sector in Arab countries for 3 main reasons:

i. the public sector cannot tackle the education for employment challenge on its own;
ii. private players add unique strengths;
iii. speed and scale will be critical.

It suggests that for such participation to have an impact, 3 'critical enablers' will need to be introduced:

i. rigorous standards and independent quality assurance;
ii. sustainable financing mechanisms for private provision;
iii. greater information transparency and match-making between young people, employers and education providers.

These sources quoted above indicate a strong consensus on both the need for and the preferred characteristics of a private-sector driven, re-energised, skills development effort.

Recommendations contained in UNESCO (2012) foresee TVET development strategies having a broader social distribution of ownership in the future, with a focus on the state building partnerships with employers, particularly the private sector, in all its diversity.

[1] G20 Development Working Group, Human Resource Development Pillar, Progress Report: ILO, OECD, UNESCO and the World Bank, 3-5 May 2012, Los Cabos.

# 2 Background Information

It is now generally recognised that, in order to be effective, skills development strategies must at the very least take account of, but preferably involve, the private sector. The principal purpose of skills development, for both social and economic reasons, is to help people to gain marketable skills and then support them in finding decent employment in which they can utilise these skills. To do so requires an in-depth knowledge of the labour market, whether at local, national or international level and the ability to translate that knowledge into training programmes which will attract unskilled, or under-skilled, job-seekers.

Millennium Development Goals post-2015 states that there is 'increasing consensus' that the private sector has to be more involved in the design and/or implementation of any new development goals and yet has been largely excluded from discussions on these matters, Lucci (2012). The Third International Congress on TVET in Shanghai in May 2012 reported that 'Scaling up existing models of TVET provision to include more young people and adults is not the solution it also involves a paradigm shift that includes the active involvement of relevant actors, such as industry.' The rising demand for skills training adds an urgency to these statements if the potential benefits of today's demographic dividend in many developing countries are to be realised. As the McKinsey Global Institute reports in its 2012 publication *Africa at Work*, 'the private sector is the only long-term solution to creating stable jobs, raising living standards and reducing poverty.'

In some cases businesses will act unilaterally by providing training opportunities to their staff and others. More often, they will act in partnership either with other businesses or with the state and often with the support of donors, and so we have the growth of public-private partnerships.

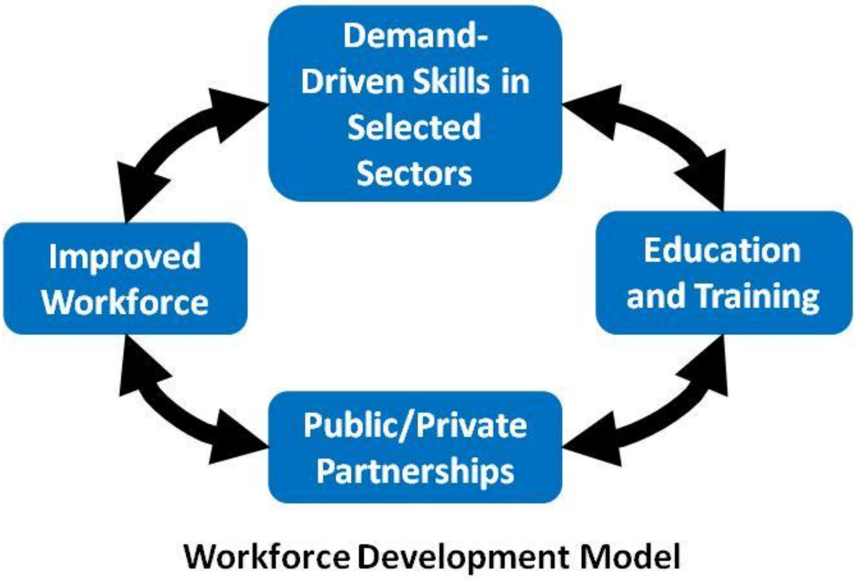
## 2.1 Public-Private Partnerships (PPPs)

The World Economic Forum (2005) defines a public-private partnership as a 'voluntary alliance amongst various actors from different sectors whereby they agree to work together to reach a common goal or fulfil a specific need that involves shared risks, responsibilities and competencies.' Their increasing use in recent years as a development mechanism is attributed to three reasons: (i) there has been a massive increase in private money flowing to developing countries; (ii) the globalisation of the world economy; and (iii) governments in the developing world needing assistance in managing and spending aid well. (USAID, 2009)

In the education sector in the past, PPPs were most commonly associated with infrastructure projects in which private finance was accessed to build public facilities. In these circumstances the private sector has been, if not the driving force, then at least a willing partner, as the financial rewards were clear. More recently, the term has been used to describe industry/education partnerships, which usually involve the use of public money to purchase training services from the private sector in order to enlarge the volume of skills development provision beyond that which state facilities can provide. In such cases, the private party is contracted to undertake a previously public function. In these circumstances, the benefits to both parties are also clear. But industry/education PPPs can involve more strategic activities such as the identification of occupational standards, governance of training institutions and development of training programmes. In these circumstances, the public sector is generally the driving force with the private sector often less willing to engage when the benefits to it are not immediately recognisable or are too distant. However, in the reference document on supporting more effective partnership for development, World Bank (2011b), developing workforce skills is specifically mentioned as one of the areas in which the private sector has a role to play.

So, as will be shown below, industry/education PPPs do not follow a single model but come in many shapes. In the context of skills development the term PPP is used as shorthand for a range of public policies, funding systems and curriculum frameworks that have as a shared goal to tighten the level of communication among educators and employers. (Hawley, undated) This is exemplified in the Workforce Development strategy adopted by the USAID Jordan Economic Development Program (SABEQ) which focused on developing policies, systems and partnerships that link education, training and skill development programmes with the labour force demands of the private sector, as illustrated below.

**Figure 1 Workforce Development Model**




Source: Public-Private Partnerships: lessons learned (USAID/Jordan, January 2009)

Increasing numbers of young people complete basic education, the number of young people entering the workforce is rising due to demographics in many developing countries, and the demand for skilled workers in an increasingly globalised world is growing. And so the costs to a government of providing skills development for all who could benefit from it become prohibitive. This view was confirmed by the Third International Congress on TVET which reported '….resource constraints remain a real challenge in the face of rising demand.' Alternative financing mechanisms require to be found, both for raising and disbursing funds. Here again the private sector has a role to play, as we will see in Section 4 below.

Meanwhile the G20 2012 Progress report comments on a number of steps which are being taken to encourage greater involvement by industry, including:

- establishment by the World Bank Institute (WBI) of regional PPP practitioners networks. In Asia, the Asian Development Bank (ADB) and the Ministry of Strategy & Finance of the Government of Korea and the Korean Development Institute are collaborating with WBI on the development of the Asia PPP network;

- implementation by the multilateral development banks of the recommendations of the G20 Development Working Groups to strengthen the above networks and to incentivise staff to engage in PPP transactions and develop regional projects;

- efforts by international organisations to seek synergies between the HRD and the Private Investment and Job Creation Pillars of the G20 Seoul Multi-Year Action Plan;

- development by ILO and partners of a Knowledge Sharing Platform to collect and share information from a variety of sources, including the private sector (launched December 2012);

- development and field-testing by the Interagency Working Group of an indicator framework whose purpose is to attract responsible private investment that generates more value-added and creates more jobs.

The private sector also plays a major role in the 'holistic' or 'comprehensive' approaches of the European Training Foundation (ETF) and the International Finance Corporation (IFC) of the World Bank Group. In the first of these, the ETF's Torino Process has developed an analytical framework to guide evidence-based analysis of vocational education and training policies in each of its partner countries. The framework encompasses the five broad areas of: policy vision, economic competitiveness, social demand and social inclusion, internal quality and efficiency, and governance and financing. Under each of these headings, key questions, indicators and sources of quantitative and qualitative evidence are proposed, to guide analysts in their annual reviews. (ETF 2012)

Similarly, the IFC reports that the main emerging consensus on strategies to foster youth employment is the adoption of a comprehensive approach:

A comprehensive approach refers to an inclusive strategy to tackle unemployment with participation of multiple and complementary interventions rather than isolated ones. This system would require coordination and participation from relevant stakeholders including the private sector, public sector, international organizations, nongovernmental organizations working with youth or the unemployed, etc.

This strategy's success requires a favorable investment climate and macro-economic environment. It is fundamental to reinforce general education, while emphasizing the importance of secondary and post-secondary classroom education complemented with on-the-job training, and with an easy transition to the job market. Addition of job placement and job searching counseling components can help the transition from school to work. Technology is important to guarantee that students finish school with a higher level of skills. Data collection, monitoring, and evaluation are key to redesigning these programs as needed. Finally, this system should also engage with the informal sector or vulnerable employees by helping these jobs become more productive. Incentives to formalize should accompany the system that targets vulnerable employment.

Source: IFC Jobs Study: Assessing Private Sector Contributions to Job Creation and Poverty Reduction (2013)

The above approaches have resonance with that taken by UNESCO in its *TVET Report* (in press) which considers TVET through three inter-related lenses – economic, equity and transformative – as a means of reviewing and developing TVET policies and bringing TVET policy options and combinations into focus. It states that policy areas have to be linked and the combination depends heavily on the national context.

**Key Lessons Learned**

1. A radical shift in approaches to skills development must include greater involvement by employers.

2. Demand is outstripping supply of skills training opportunities, the private sector is needed to fill that gap and alternative financing arrangements must be found.

3. An inclusive and comprehensive, rather than exclusive and fragmented, approach is required for skills development.

# 3 Models of Private Sector Engagement

We know from the ILO G20 Training Strategy (2012a) that full involvement of social partners is considered essential for its success and that skills development at the workplace and along value chains is recommended[2]. Below, we look at the different ways in which industry is responding to that need

## 3.1 Global Inter-Sectoral Partnering (ISP) in skills development

This term refers to the joint efforts of global corporations, international institutions, government entities and civil society organisations. The involvement of global corporations may be for commercial reasons (providing skilled labour for their factories; improving the quality and efficiency of their value chains), as a result of their corporate social responsibility policy, such as Unilever and Vodafone, or as part of their public relations efforts (Nike in the aftermath of the 2001 revelation of human rights abuses in the factories of its Indonesian suppliers).

In writing for the Overseas Development Insitute, Lucci (2012) explains that the importance of multi-national corporations is more than just the fact that they transcend national boundaries. They also have the potential to have significant impact through their supply chains, have a high public profile and are therefore in a good position to diffuse best practice and promote good standards. This is despite the fact that they represent a small share of total business and jobs in developing countries and particularly in least developed ones. But, if used strategically, they can offer an important source of capital, skills and knowledge.

The International Youth Foundation (IYF) is a leading proponent of global inter-sectoral partnering in the field of skills development. It works with companies such as Cisco, Gap, Kellogg, Lucent Technologies, Microsoft, Nike, Nokia and Shell to create and implement tailored aid programmes which meet each company's corporate objectives. This has led to:

- support from Lucent Technologies for education and learning programmes in 16 countries throughout Asia, Africa, Europe and Latin America;
- Nike, Gap and the World Bank working together to improve life prospects and conditions for factory workers in five south-east Asian countries; this is in addition to the work Nike is doing with DFID to develop a programme to support access to economic assets for adolescent girls;
- support from Microsoft to incorporate IT into the daily lives of young people in Russia, Poland, S. Africa and the Philippines;
- CISCO contributing funds, expertise and equipment to create national networks of IT training centres in India, Mexico, Palestine and S. Africa (in addition to the work of the Cisco Networking Academy which has 10,000 academies in 165 countries).
- Nokia working to enhance the life skills and leadership skills of young people in several countries including Brazil, China and Mexico.

[2] The value chain approach seeks to address systemic constraints in order to enable an industry to exploit end market opportunities. This requires a project to not simply replicate interventions that improve transactions, but to address related but distinct system problems such as the need for new services, standards, advocacy, formal and informal rules and skills development. (Microlinks, 2012)

IYF considers that the key ingredients which contribute to effective global corporate philanthropy with a long-term, strategic impact include: (i) in-depth knowledge of local needs and on-the-ground local expertise; (ii) holistic and preventive approaches, rather than just targeting symptoms; (iii) the involvement of company employees as volunteers; (iv) monitoring the impact of donations; and (v) sharing lessons learned.

Many of the above companies are active in the field of new technology and can use it to aid the delivery of skills training. This is particularly evident in programmes such as GSMA mLearning which explores the use of mobile technology. The DFID-funded Janala English In Action project utilises mobile technology in the teaching of English language

BBC Janala is part of English in Action (EiA), an initiative designed to raise the language skills of 25 million people in Bangladesh by 2017. Since its launch in 2009, BBC Janala has transformed the mobile phone into a low-cost educational device offering hundreds of 3-minute audio lessons and SMS quizzes through people's handsets. The goal is to contribute to the economic growth of Bangladesh by encouraging English language as a tool to improve people's livelihoods. With over 95 million mobile phones in Bangladesh access to a handset is available to over two-thirds of the adult population, including poorer communities and is increasing rapidly.

Mourshed *et al* (2012) also found that young people consider on-line or distance learning to be as effective as traditional formats and suggest that 'Given that economics is a major factor in limiting access to post-secondary education, scaling up distance learning could be a cost-effective way to provide more educational opportunities'. But older technology can also be effectively applied:

India's IL&FS Skills has managed to distribute standardized content at a low cost and in rural areas where broadband connections are not the norm. Videotaped skill-based modules are used extensively in the classroom to provide students with step-by-step instructions on how to complete specific tasks - how to install a CPU in the motherboard of a computer, say, or how to sew a specific stitch. While there is a human trainer present in every classroom to answer questions and monitor practical work, the lesson content is delivered entirely through these video modules. In this manner, IL&FS can make sure that every one of its 100,000 trainees in 2012, at every one of its 350+ locations spread across India, learned the same content, regardless of the aptitude of the trainers and without sophisticated technological infrastructure. (Mourshed et al)

USAID has been very active in the field of creating global alliances with a heavy focus on workforce development (WfD). In its Global Development Alliance Guide for Workforce Development (2009) it explains that 'alliances are often formed around efforts to improve the competitiveness of a cluster of firms or an entire industry by upgrading the skills of its workers. These kinds of partnerships can link to national economic strategies and/or significant donor-funded programs, and frequently benefit from strong government and private sector support. Sometimes, the government and private sector actors form a secretariat, steering committee or other formal intermediary that will manage alliance activities and ensure sustainability.' The Guide provides numerous examples of successful partnerships, including:

- The Global Sustainable Tourism Alliance, which is active in several countries, carrying out workforce development training for guides, hotel staff and others involved in the tourism industry.

- Indonesia's Alliance for Insurance Education was designed with input from global insurance leaders and the largest association of Indonesian insurance and re-insurance companies. The partnership trained local professionals on applying international insurance standards to the Indonesian market.

- The Education & Employment Alliance in the Philippines supported by Chevron through the contribution of funding for training material and support for small engine repair training in Mindanao. In Indonesia, after the 2004 tsunami, Chevron partnered with USAID to design and build Aceh Polytechnic offering training in skills identified by local businesses as ongoing needs.

- Royal Dutch Shell runs its Live Wire program in 7 states of the Niger Delta, encouraging young people to consider entrepreneurship and delivering training in welding, sewing, auto-mechanics, electrical work, hairdressing and other skills that are in demand in the local area.

In recent years the Swedish International Development Agency (SIDA) has become amongst the most active of the bilateral donors in encouraging PPPs between multi-nationals and training providers in developing countries:

- In Iraq it is working with UNIDO and SCANIA to improve employability in the logistics, manufacturing and industrial maintenance of heavy machinery sectors.

- In Bangladesh it is planning to work with UNDP and the clothing retailer H&M to strengthen the capacity of 12 selected Technical Training Colleges within the textile industry.

- In Ethiopia, it is awaiting a decision on a PPP regarding a training academy in heavy-duty equipment and commercial vehicles, in partnership with Selam Technical Academy and Volvo, with UNIDO as the implementation partner.

- In Cambodia it is also creating partnerships at national level to build capacity for the governance and delivery of skills development programmes, particularly in the tourism and garment sectors.

What is notable in the above examples is how many of them focus on one or two specific sectors.

**Figure 2 What Private Sector Partners Can Offer:**

| | |
|---|---|
| The private sector can add value to a Workforce Development partnership in many ways. In addition to cash, consider the following types of in-kind contributions that the private sector may be able to provide: | • Participation on alliance steering committee, secretariat or other intermediary<br>• Internships/apprenticeships/learnerships*<br>• Mentoring/job shadowing/career advice<br>• Technology/equipment<br>• Classroom space/meeting space<br>• Staff time and expertise<br>• Business connections/networks<br>• Competition program for entrepreneurs, business plans, or innovations<br>• Loan guarantee for entrepreneurs<br>• M&E systems or implementation<br>• Jobs skills needs assessment or market assessment, including capacity to train NGOs or other actors to undertake such work<br>• Design or implementation of a social marketing campaign (to reach vulnerable / out-of-school groups, etc.)<br><br>* Learnerships are programs for educators in which they leave the classroom and spend time in businesses in order to learn first-hand what work skills are needed by employers and what the work environment is like for new employees. |

Source: Building Alliance Series: Workforce Development, USAID, 2009

Annex A provides a checklist of 12 items from the same document, on the identification of relevant private sector partners.

While the above companies have chosen to focus most or all of their development activities through a facilitating body such as IYF, SIDA or USAID, others have taken different approaches:

**Ayodje, Lagos, Nigeria**

I started my catering and hospitality business in 2007 to make a meal of "Moin-Moin" (local bean cake). My first clients were limited to family and friends. We hawked our product from one client to another. We didn't have a clear strategy and what we sold was not commensurate with the effort we were putting in. We found that we couldn't make enough money just selling "Moin-Moin" so we also started catering for small events. Our two main challenges were location and cash-flow.

Through *10,000 Women* I realized that not everyone could be my client, so I began choosing my clients. A key lesson for me is that being predictable in terms of quality and service delivery increased our brand equity and ability to negotiate better payment terms with our clients.

We have experienced tremendous growth after attending *10,000 Women*. We have increased our client base and now focus on high net worth customers who pay in advance. From a humble beginning of 20 guests per order we now regularly serve 750 guests per order, often 3 times a day. Since graduation, monthly turnover has increased more than tenfold. When I started, I was the only staff. Now I have ten permanent staff, including an accountant, and we also hire up to 60 temporary workers from time to time depending on the orders we have.

Giving back to the community is important to me and we now offer free meals to prisoners once a month.

My future goal is to continue our expansion and make the 'No Leftover' brand a household name.

Source: Catalyzing Growth in the Women-Run SMEs: Evaluating the Goldman Sachs *10,000 Women* Initiative (undated)

- In 2008 Goldman Sachs launched its global $100m, 5-year *10,000 Women* project to help grow local economies and bring about greater shared prosperity by providing 10,000 underserved women entrepreneurs with business and management skills training, access to mentors and networks and links to capital. The women selected for the programme enrol in customized certificate courses ranging from 5 weeks to 6 months. Topics covered include marketing, accounting, writing business plans and accessing capital. The programme operates in 42 countries in partnership with over 80 academic and NGO institutions. Goldman Sachs' rationale for this programme is based on the premise that investing in education for women has a significant multiplier effect, leading to more productive workers, healthier and better-educated families, and ultimately to more prosperous communities.

- In 2011 the Groupe Speciale Mobile Association (GSMA), with a membership of over 800 of the world's mobile phone operators, joined with The Mastercard Foundation to undertake research into how mobile technology can help with education and learning for young people in developing countries. It focussed in particular on young people outside the scope of traditional schooling and explored how mobile technology could be used to connect them to employers and help to improve their job readiness skills. (GSMA 2012)

- The European Learning Industry Group (ELIG), an affiliation of members representing the European learning and educational publishing, technology and service industry as well as public and private education and learning institutions, carried out research in 2008 in collaboration with the European Training Foundation. This research explored the use of new technologies to address skills needs in the ICT industry in northern Africa, concluding that PPPs should be promoted and that future ICT-learning solutions need to better address the overall learning environment including cultural characteristics and languages. (European Training Foundation, 2009)

- Some multi-nationals, such as American Express, Dell, Holiday Inn and Xerox have chosen to allow MTC (Management & Training Corporation) to operate training facilities on their premises as a means of promoting industry-specific training and a demand-driven workforce. (MTC, 2009)

- Save the Children Fund Sweden-Denmark has the support of European multi-nationals, such as IKEA, in its Work To Learn projects.

- In Morocco, where SMEs represent 95% of all companies, Renault worked with the Ministry of Industry to create a training programme for all of its SME suppliers, working with the Institute for Training Automotive Professionals to do so.

As the International Youth Foundation (IYF) concludes in its 'What Works' series:

'Few issues in the youth development arena are as clearly suited to an ISP (inter-sectoral partnering) approach as youth employment. It combines the interest of the government in a stable economy with the need of the business sector for a qualified workforce and the goals of youth-serving organisations of social inclusion and meaningful contribution for young people.

However, the IYF goes on to warn that there may be 'times when ISP may be more effort than the effect is worth, others when it may be destined to fail due to external factors, and still others where the approach itself may be harmful to the stated development goal.' In particular it warns against disproportionately high transaction costs, and incompatibility of goals and conflict of interest issues between institutions charged with serving the public good and those in the private sector (citing the tobacco industry as an example).

Warnings are also issued in reflections by USAID on its EQUIP3 project: 'However, working through a consortium of local and international, public and private sector actors increases the complexity of managing the program. In the Philippines, the complex alliance structures resulted in multiple layers of management among the various partners and sub-partners that led to inefficiencies and lack of clear reporting on work accomplishments and challenges.' (EQUIP3, undated).

**Key Lessons Learned**

1. Multi-national companies can increase their impact on skills development by working through their supply chains.

2. The use of new technology in skills development is still at an early stage and needs further research.

3. Skills development interventions by multi-national companies are very often facilitated by donors or international NGOs.

4. There is a strong sectoral focus on multi-national interventions, often through alliances of companies.

## 3.2 Partnering on national strategies in Skills Development

The potential roles of national and local businesses do have points in common with the multi-nationals, in that they too can provide expertise, funding and equipment for skills development. However, in addition to those, there are now plans being drawn up and implemented in many countries for businesses to play a role in strategy development, governance and design of the skills development system. The strategy paper on lifelong learning prepared by employers' representatives for the G20 emphasized the importance of employers' contributions to skills development policies across the following areas: providing training; matching education and training to the needs of the labour market; encouraging and supporting lifelong learning; and maintaining the relevance of education and training through continuous evaluation and system improvements.[3]

The move to involve employers has in many cases been stimulated by the introduction of National Qualification Frameworks based on occupational standards and competence-based curricula, and the creation of Sector Skills Councils. In order for these initiatives to be successful and for a demand-led skills development system to be established, employer involvement is critical. However, as we see below, results of efforts to engage employers in this kind of development have been mixed.

In her comprehensive study of National Qualification Frameworks in 16 countries (Allais, 2010), Allais found that in almost every case the frameworks were seen as a way of ensuring that employers are involved in qualifications design, thus ensuring that qualifications are of the right standard: 'In all the countries in the study there is an explicit argument that ensuring that industry representatives drive the process of specifying learning outcomes, competencies, or occupational standards through a qualifications framework will ensure that qualifications are relevant and of high quality.' Although the report is able to cite some positive examples of employer engagement with framework development, it also reports 'serious difficulties' in some countries with employers being described as 'passive' or unwilling to be involved, lacking expertise and knowledge in the specific fields and unable to articulate what skills and knowledge they require now and in the future:

> '….. But all the case studies show that involvement of industry has been problematic…….. NQFs in many cases (particularly where there is a strong outcomes or competency-based focus) are claimed to be industry-led policies. This may be a problematic expectation, as industry appears reluctant to lead. Where industry does participate it is often not at the desired level (e.g. human resource personnel instead of technical experts), and in many instances, the process of developing the standards is subcontracted out to consultants. For example in Lithuania, where workplace-based assessment is officially conducted by the Chamber of Industry, the technical vocational education and training schools argue that in fact much of the work is delegated to them anyway. The Chamber mainly plays a role in organizing and co-ordinating.'
>
> Allais, S. (2010) The Implementation and Impact of National Qualifications Frameworks: Report of a study in 16 countries, ILO

The knowledge that these doubts exist has not discouraged ILO from making a key component of its work the facilitation of employer and worker leadership in developing competency standards, and instituting related monitoring mechanisms, at the same time as undertaking more extensive reviews of employers', workers' and training authorities' experience. (ILO, 2012a)

[3] (IOE and Business and Industry Advisory Committee to the OECD (BIAC), Lifelong learning strategy, paper prepared for G20 meeting, Johannesburg, March 2010.)

In a different project, problems are apparent in DANIDA's work on the social sector support programme in Bhutan where the Department of Occupational Standards is attempting to introduce national occupational skill standards. This requires strong participation from employers, but in a highly fragmented labour market it has proved difficult to establish technical sector committees with active employer involvement. Only 4 have been established so far.

India has forged ahead with the use of PPPs in a variety of ways. In the context of national strategy, these have included the creation of the National Skills Development Corporation (NSDC), which is 51% industry-owned and 49% government. NSDC is actively promoting the involvement of employers through the establishment of Sector Skills Councils, and providing seed money to develop occupational standards and competence-based curricula. However, employers have had to be cajoled and persuaded to participate and the initiative is strongly underpinned by support from a number of donors, principally the EU and, increasingly, the ADB. Some progress is now being made but it is unclear whether these bodies are sustainable once the seed money is no longer available.

In 2008 the British Council collaborated with the Government of Nepal to involve employers in the establishment of Sector Skills Councils as a step towards creating a national qualifications framework. The construction sector was chosen as a pilot. The initiative failed due to an unwillingness of employers to commit time to it.

The experience of a body such as NSDC in India supports the view (Oleynikova, 2007) that the use of legislative tools to build partnerships is a necessary but not sufficient action for government to increase employer involvement in VET. It is critical that employers understand the benefits to their enterprises of creating a demand-led system. The results of a survey of 1,373 business leaders in 5 African countries showed that only 12% of them considered a lack of workers with appropriate skills and work experience to be a major obstacle to business growth, although that lack became more evident amongst larger firms in more developed countries. These views persist despite the fact that Africa has particularly underdeveloped vocational programmes and the shortage of skilled workers is evident in construction projects such as the Bonga oil field in Nigerian waters where welders, fitters and scaffolders have had to be brought in from the Philippines and UK due to local shortages. (McKinsey Global Institute, 2012)

These results are reinforced (African Economic Outlook, 2012) by the perception by young people in Africa that a lack of demand for labour is the biggest obstacle to youth employment: 'Education and skills mismatches, attitudes by young people and employers and labour regulations are important challenges too, but country experts and business consider them less pressing……….. In better off countries, labour regulations and the skill level of the workforce become more important, but are still trumped by finance and infrastructure.' With availability of skilled workers perceived as a lesser problem, the motivation of employers to invest time and money in improving the supply is inevitably reduced. Perhaps as a result, African Economic Outlook (AEO) experts 'consider programmes to promote youth employment to be dysfunctional in 21 countries and well-developed only in Morocco' (which has an action plan for skills development through to 2020) with the 'extreme paucity of employment data' being a major contributory factor. However examples do exist, such as Mali, where the private sector is now routinely involved with the Ministry of Employment in the design of programmes and the quantification of training needs for the 'dual' system. (Kingombe, 2012). The AEO report concludes that the informal and rural sectors will play an important role for young people seeking work but advises that in order for their potential to be fulfilled, a number of actions are required:

i. education systems must become more comprehensive and linked to the labour market, so that secondary school graduates have both the academic and practical skills which small businesses or self-employment require;

ii. informal apprenticeship training must be recognised as this is the route to becoming skilled which most young people follow and is one in which the mainstream TVET system currently has little or no role.
iii. guidance for young people on jobs and the labour market must be available at all stages of the education system;
iv. government policies must recognise and nurture the entrepreneurial talent which exists in the informal labour market.

In Eastern Europe, where there has been a higher level of engagement by employers in development and implementation of skills strategies, 40% of the region's private sector employers in middle-income countries believe that low skills in the workforce are a constraint on economic growth. (International Youth Foundation, 2012) What employers in Eastern Europe did have in common with their counterparts in small businesses in Africa was a belief that life skills, or soft skills, are of particular value. These include critical thinking, problem solving, respect for colleagues etc.; skills not traditionally addressed by the curricula of either Africa or central and eastern European schools. Soft skills have also been an important component of EQUIP3's work readiness curriculum in Rwanda where the curriculum was developed in response to interviews and assessment activities with the private sector as well as with young people. Rwandan employers confirmed the need for soft skills. As a result it has contained elements such as: task-oriented leadership, communication, team conflict mitigation, quality service, good work behaviour, decision-making, accountability and customer care. Employers and young people in the USAID-funded Education for Employment Alliance Program, rated life skills training higher than technical training.

The above findings are borne out in a survey conducted for the CURASSE (Curriculum, Assessment and Examination Reform) programme in Uganda in 2012, in which 140 employers were asked what competences they were looking for in new, school-leaver recruits. Their responses clustered into three groups:

a) time management, trainability, team player, task-oriented and oral/written communication;

b) organisational skills, creativity, literacy and numeracy;

c) managerial, entrepreneurial, ICT and investigative skills.

(CURASSE Labour Market Survey, 2012)

But employers prefer a strong business environment to act as an incentive for their involvement in the development of skills strategies which may lead to enterprise and job creation. The negative impact of a weak business environment is evident in East Timor, Mindanao, Somalia, Philippines and Haiti. Economic volatility and vulnerability discourage investment in long-term strategies. (Equip3, undated) Thus the development and strengthening of Korea, Ireland and Malaysia's vocational education systems happened at a time when each country's economy was growing rapidly. (Hawley, undated)

Progress on designing and implementing skills development strategies also depend on governments welcoming involvement by employers and being prepared to relinquish, at least in part, the central role they have played in supply-driven systems. Excessive bureaucracy and the slow pace at which governments have worked to develop occupational standards and qualification frameworks has often been a cause of frustration in the private sector and discouraged its involvement. Repetitive 'consultations' which do not lead to action can de-motivate and lead to employers withdrawing their co-operation.

UNESCO's Shanghai Consensus, following the Third Congress on TVET in May 2012, is clear on what requires to be done, including the need to:

- Develop frameworks and incentive mechanisms to promote the active involvement of relevant stakeholders in planning, governance, curriculum, qualifications development and assessment, as well as school-enterprise co-operation and workplace learning.
- Create as appropriate approaches and frameworks that involve representatives of enterprises, workers, learners and civil society, including young people.
- Diversify sources of funding by involving all stakeholders, in particular through the use of appropriate incentive mechanisms.

The challenge is to develop strategies to put these principles into action in countries where the environment for successful engagement of industry does not exist.

**Key Lessons Learned**

1. Employer engagement in the development and implementation of national strategies is very often difficult to achieve. The use of legislative tools alone is insufficient.
2. Skills for the informal labour market must be included in strategic planning.
3. Soft skills are as important to employers as technical skills.
4. Employer involvement in skills development is most likely to occur in a favourable business environment with minimal bureaucracy and a fully-committed government.
5. Incentive mechanisms may be required to encourage employer participation in skills development.

## 3.3 Partnering for implementation of Skills Development

In situations where the environment is not right for employers to willingly engage with developing national strategy on skills development, they can nevertheless engage in a variety of ways, most often at local level, in implementing skill development programmes. This type of activity can include involvement in the governance of institutions, providing opportunities for instructor training and up-skilling, contributing towards the development of training programmes and learning materials, providing access to specialised equipment, offering on-the-job training and work experience to students, collaborating on the provision of vocational guidance and information and quality assuring the teaching and assessment of learners in training institutes. These types of involvement are available to large and small employers from both the formal and informal sectors to be taken up according to each one's capacity. They are dependent more on the willingness and skill of employers and TVET institution management to collaborate, rather than on political will and the state of the economy. Also, the results of these types of collaboration are more likely to bear fruit in the short to medium-term and therefore the benefits to all parties are more easily identifiable.

The need and the benefits of this type of involvement are evident in a review of training programmes in 90 countries (Fares and Puerto, 2009) which found that programmes which combine on-the-job and in-class training, as well as a combination of soft-skills and technical skills, can have a significant positive impact on employment and earnings of programme participants. This confirmed the findings of the 2008 edition of the Africa Economic Outlook which focussed on Technical Skills Development. It showed that a deeper involvement by employers in the provision of in-service training has significant potential to increase the relevance as well as the cost-effectiveness of training systems. '…..

programmes offered by the private sector, such as on-the-job training or internships, allow both firms and workers to obtain information on the other side of the market and eliminate constraints on information asymmetry problems, such as the unidentified quality of workers from the employers' side, and unknown sorts of skills required from the workers's side.' (Attanasio *et al*, 2009) Unfortunately, in Africa at Work (2012), McKinsey Global Institute reports that while businesses accept responsibility for management training, they consider that improving quality of education is the responsibility of government.

In a further report by McKinsey Centre for Government (Mourshed *et al* 2012) it is stated that, following a survey of youth, education providers and employers in 9 countries, it was found that those employers which are successful in getting the talent they require are those which reach out regularly to education providers and youth, offering them time, skills and money. These employers are also more likely to offer training to their employees, both internally and through external providers. They are most likely to provide this training through a programme co-ordinated within their industry. Furthermore, they reached out to young people by using new media, working with youth-oriented organisations and even pre-hiring trainees.

The report goes on to say that amongst all of the successful programmes which it reviewed, there were two features which were consistently present: (i) 'education providers and employers actively step into one another's worlds: employers might help to design curricula and offer their employees as faculty, for example, while education providers may have students spend half their time on a job site and secure them hiring guarantees'; (ii) 'employers and education providers work with their students early and intensely. Instead of three distinct intersections occurring in a linear sequence (enrolment leads to skills, which lead to a job), the education to employment journey is treated as a continuum in which employers commit to hire youth before they are enrolled in a programme to build their skills.'

However, the authors of the report note that the problem is that there is little incentive for stakeholders to pursue such innovations and, as a result, 'excellence is very much the exception'.

In Morocco, SMEs make up 93% of all registered businesses, 46% of the workforce and 38% of GDP. In 2005, the government's Emergence Programme named the automotive industry as one of the 7 priority sectors designated to boost Morocco's competitiveness in exports, increase GDP by US$7billion and create more than 220,000 jobs. To develop the supplier base for the automotive industry, the government encouraged Renault to set up a plant in Morocco and established the Institute for Training Automotive Professionals in 2011. The government provided the initial capital investment while Renault developed the curriculum and trained the faculty. The Moroccan government will subsidise operating costs until 2014; after that date, the industry will pay. The programme will train Renault's 6,000 employees until 2014; after which point it plans to expand its target to the 30,000 employees of Renault's 125 or so SME suppliers.

(Source: Mourshed et al, 2012)

Further useful guidance on the steps to be taken to develop a successful PPP at local level, are given by Al-Wedyan *et al* (2009) in a review of the PPP established by Consolidated Contractors Company/Morganti Group Inc. (the largest construction company in Jordan), Al-Balqa' Applied University and Al-Husan University College, with the support of the USAID Jordan Economic Development Program. The partnership was developed as part of CCC/Morganti's corporate responsibility initiative to help them to address its labour force needs from Jordan and in the region. The steps to creating the PPP are given in Annex B. The guidance concludes that the PPP has created a cycle of engagements that help: 1) to assure training institutions that they are meeting the demands of the industry/private sector; 2) to engage the private sector with training institutions; 3) to expand the impact of donor funds; and 4) to institutionalise the partnership for sustainability and continued benefits over time.

Even with donor support, engaging the private sector in PPPs is not always successful as the Dutch Government experienced in its Learn4Work programme in which it aimed to improve the access to and quality and relevance of TVET in Ethiopia, Ghana, Kenya, Uganda and Rwanda. It proved difficult to attract the private sector, which resulted in it not being an integral part of the programme. Subsequently, five strategies were used to overcome this problem:

**Strategies to promote co-operation with the private sector**

- make local private sector demand the leading priority;
- apply a sector focus to ensure a more explicit link with the private sector;
- create multiple financing modalities;
- open multiple calls for proposals;
- install a community of practice of Dutch private partners to stimulate learning.

Lessons learned from the experience include the need to recognise each other's roles and interests and the importance of a clear intervention logic. The Dutch experience also highlights that government subsidy of PPPs must not distort the market.

The contribution by the private sector also became an issue in the Swiss Development Corporation's *Participatory Market Chain Approach* in Bosnia Herzegovina where training providers tended to dominate the partnerships, which then became supply-driven, and employers were under-represented due to time constraints. This suggests that, even where the opportunity for engagement is presented, the private sector can be reluctant to participate, whether due to suspicion of government's motives, cost, and time and resource availability. This reluctance exists even in a context in which an inadequately educated workforce is cited by employers as a major obstacle to companies' ability to grow (IFC 2013). Training can often be identified as a cost rather than a benefit for firms, especially for those with high employee turnover or those which are uncertain about the returns from training provision. It is therefore important to provide evidence-based information on the benefits from training and innovation programs. One of the potential causes for under-investment in training could be that some entrepreneurs lack commitment or enthusiasm to manage or grow their business. They may have become entrepreneurs through necessity rather than choice. (Banerjee *et al* 2011) The reasons which lead to low employer involvement in training delivery may also lead to their lack of participation in national skills development policy-making and strategy.

In USAID's EQUIP3 project (EQUIP3, undated), which was entirely donor-funded initially, sustainable alliances involving the private sector have been able to be created because of:

- strong links and working relationships with government structures;
- geographical base in and familiarity with the area;
- community acceptance of quality of programs and services;
- links with local service providers.

One of the alliances which best demonstrates this is the Education and Livelihood Skills Alliance (ELSA):

Launched in 2004 with support from the U.S. Agency for International Development (USAID), ELSA is one of the lead implementing initiatives of the Education Quality and Access for Learning and Livelihood Skills (EQuALLS2). The project provides learning and employment opportunities for at-risk children and youth living in the Autonomous Region of Muslim Mindanao and Central Mindanao in the Philippines. Comprised of 5 international and Philippine NGOs, the Alliance engages local communities to improve the educational outcomes of in-school and out-of-school children and youth. Among its activities, ELSA builds and repairs school classrooms and community learning centers; strengthens the pedagogical competencies of teachers; enables out-of-school youth to access alternative, accredited learning programs; provides job opportunities for out-of-school youth; and promotes youth civic engagement and peace building. ELSA has allowed for leveraging of each partner's own network of partners which have in turn brought added-value to the project in terms of job placements, funds and in-kind resources, as well as buy-in from local government. As a result, ELSA is now a US$18 million program. Amongst its achievements during 2008-11 has been providing access to basic education and livelihood skills training for 30,000 out-of-school youth.

Source: http://www.iyfnet.org/ELSA

Reflecting on its experience, USAID concludes that deliberate and early private sector engagement is an essential component to youth employment programs as well as a critical contributor to programme sustainability. It warns: 'However, there continues to be a learning curve among most development organisations in engaging businesses and employers effectively. The private sector has been at the table in most EQUIP3 programs, but how central their role has been has varied. This has been due in part to the economically remote contexts in which EQUIP3 programs have been implemented, where often there has been little formal businesses or employers to engage.' The project addressed this issue in Somalia through working with the private sector to foster business councils to place disadvantaged young people in internships and jobs in a context where the private sector and employed are hugely challenged by instability.

Even in countries where skills development is managed by a strong central authority, such as Korea, which leaves little latitude for vocational schools to engage with businesses about the core outcomes of schooling, the fundamental reorientation of Korea's system to a National Qualifications Framework has led to substantial engagement by firms and business associations in the training of workers. (Hawley, undated)

Research by the McKinsey Group would support the emphasis given to life skills in the previous section. It has found that young people are generally hired based on their capability and character, and then employers fund them to be trained by a training provider. This approach is exemplified by the Americana Group which collaborated in 2006 with Egypt's Ministry of Higher Education and the Al Mattaria Technical Institute for Tourism & Hotels, to create and fund programmes dedicated to training and qualifying candidates for the quick service industry. All programmes follow an 'earn and learn' principle where students work and earn wages as they gain practical experience during their studies. Americana pays for all tuition, in addition to student wages. Graduates of the programme (approximately 1500 p.a.) are given employment within the Americana Group.

Similarly, South Africa's 'Go for Gold' programme prepares disadvantaged young people for jobs in the construction and engineering industries. The programme begins in lower secondary school and participating companies sponsor those students who are most promising for their post-secondary training. The programme has had a 100% secondary school pass rate since 2002 and an average of

45% of students graduate with a post-secondary qualification in construction, building or carpentry, as compared to the national average of 10%.

The concept demonstrated by the Americana project, of providing income-earning work as part of a learning experience, follows the same principles as those adopted in The SEEP Programme sponsored by USAID. It promotes the idea of training programmes being part of the market system, finding, reading and responding to signals from the broad economic market. This includes not only signals about product supply and demand but also the job skills demanded by employers. Its experience demonstrates that youth training programmes can stay effective and market-driven by being active participants in the market.

Pioneering the Financially Sustainable School Model* the programme integrates the teaching of traditional high school subjects and technical skills with the running of 17 small-scale-on-campus rural enterprises. Student- and teacher-operated enterprises teach farming, tourism, marketing and management skills by selling agricultural products that are produced on the school's farm, and by providing services in demand in rural areas, such as a small hotel and conference centre in the school grounds and a road-side store. The income generated by these enterprises covers all of the school's operating costs, including depreciation, allowing it to educate poor students at virtually no cost to their families and without government subsidies or long-term reliance on donors. This learning-by-doing approach enables students to develop technical, entrepreneurial, financial and leadership skills. (Kehler, 2009)

Source: http://www.teachamantofish.org.uk/flagship-school

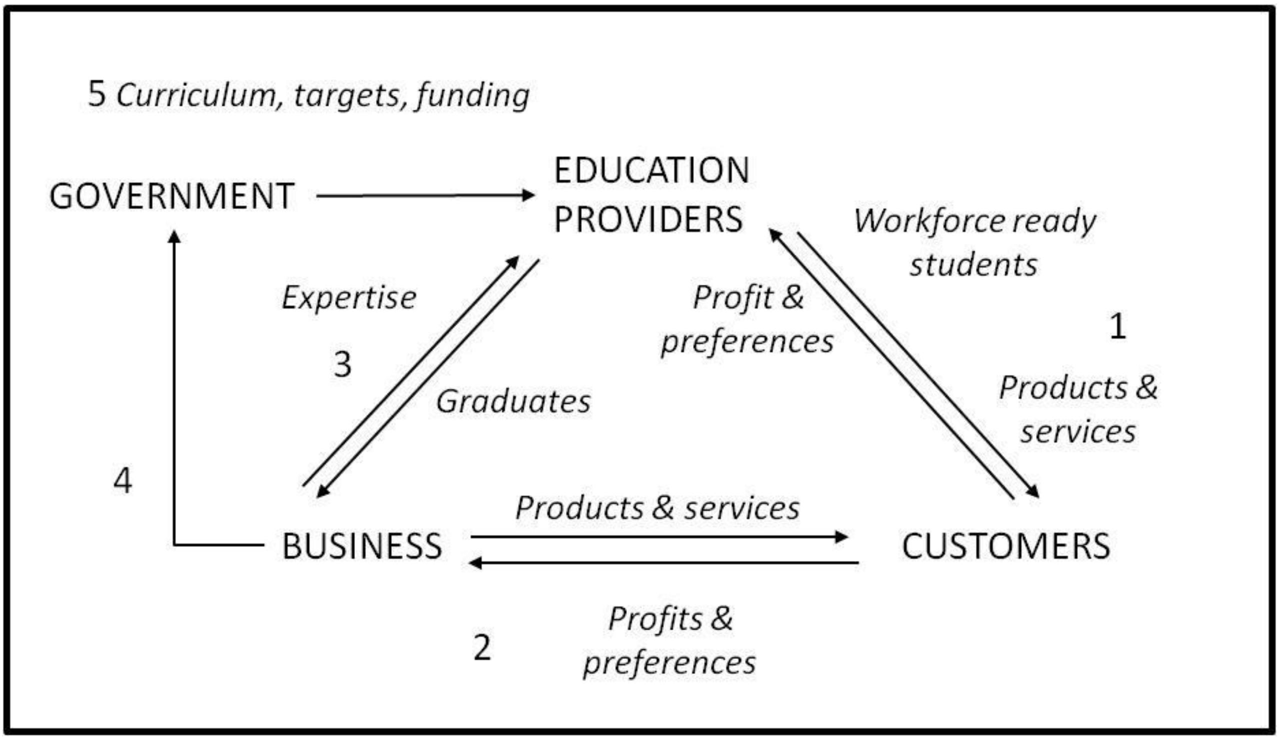
*The above is the case in Paraguay where a social enterprise, Fundacion Paraguaya, runs the San Francisco Agricultural School, a boarding high school and farm for 150 young people aged 15-19

A similar approach has been adopted by the Three Sisters Trekking Company in Nepal, which works with the NGO Empowering Women of Nepal (EWN) to help young rural women into employment. EWN provides training in soft skills, English language and preparation for work as trekking guides, and the Three Sisters Trekking Company employs the trainees on a paid apprenticeship programme.

The above approach is not without its difficulties, as Kehler acknowledges. Keeping programmes current and aligned with market demand is the major challenge. Market demand may change between the time a programme is first designed and when graduates finally enter the labour market. It can also be difficult to find teachers and programme designers who themselves have business training and experience. Donor support in the early years can undermine the imperative to be commercially successful at a scale and to the quality which is demanded by the market.

One approach to keeping programmes aligned with the market is proposed by Teach a Man to Fish in its Market Feedback Loop. This proposes creating a structure in which training providers are obliged, by virtue of also being providers of products and services to offer these at a quality and price acceptable to the market. This allows education and training providers to more directly understand workplace needs because they receive the same daily feedback signals from the market as the business community. Ziderman (2002) acknowledges the advantages of combining training and production but cautions on the potential for neglect of the training function and income being diverted away from the training institution.) The relationships between the stakeholders is illustrated below:

**Figure 3: The Market Feedback Loop**




Source: Teach a Man to Fish: The Market Feedback Loop: Re-thinking the system, harnessing the power of the market

What seems to be generally accepted by those involved in skills development programmes is the need for a comprehensive approach rather than isolated interventions, with those which are implemented in an economic growth environment having most success. In addressing youth unemployment, experience has shown that post-training support needs to be tailored to the unique needs of youth. Access to capital, linkages to community in-kind resources, and guidance on how to navigate regulations for business start-ups were of most importance. (EQUIP3, undated)

Factors contributing to better labour market outcomes for youth include participation of the private sector in skills building, monitoring and follow up of individual program participants, and a combination of complementary interventions, such as training with job search and placement assistance. Programs that combine smoothing the transition from school to work with work-based skills development appear to be most effective for youth employment and earning. However, its applicability to developing countries with a large informal sector and rural areas is limited. In low or no-growth environments in which there are no jobs, wage subsidies, skills training and job search will matter very little to getting a job. In rural low-income areas, where most youth are active in agriculture and non-farm employment or self-employment in the informal sector, stimulating the market for the growth of farms, non-farm household enterprises and rural agri-businesses is essential.

Source: World Bank (2012) An Evaluation of World Bank and IFC Support for Youth Employment Programs

IFC (2013) suggests that clusters of companies, such as can be found in urban areas, special economic zones or multiple suppliers or distributors linked to a value chain, can facilitate knowledge-sharing and provision of specialised training.

In Angel-Urdinola *et al* (2010), focussing on N. Africa, the urgent need for PPPs is acknowledged at the national and at the local level, as it was found that active labour market programmes are often delinked from employers and the public sector fails to provide regulatory frameworks within which private financiers can operate. To achieve well-functioning partnerships it suggests:

i. establishment of a co-ordinating body that facilitates interaction and knowledge exchange between training providers and the private sector;
ii. designing provider contracts based on performance and intermediation (i.e. pay bonuses for the achievement of high employment rates);
iii. expanding programs that offer apprenticeships and on-the-job training.

Apprenticeships, in both the formal and informal sector are often regarded as an effective way of encouraging and benefiting from private sector involvement. In Europe, formal apprenticeship schemes, combined to a varying extent with part-time schooling, have had a positive impact on employment for young men and on earnings for young women. Schemes in which employers provide apprentices with proper mentoring and supervision, and high-quality training on- and off-the-job bring about the best results. There is also evidence that European countries with a strong apprenticeship system have a lower ratio of youth unemployment to adult unemployment and have a larger proportion of young people employed in skilled occupations and in high-wage sectors. (ILO, 2012b)

The same document goes on to question whether apprenticeships in developing countries can achieve similar successes, when the formal wage sector is small, institutions are weak, the majority of youth work in the informal sector, formal TVET is an option for only a small minority of young people and informal apprenticeship continues to be the largest provider of skills for young people.

**Key Lessons Learned**

1. Training programmes which combine technical and soft skills have a particularly strong impact.

2. On-the-job training, with the engagement of employers, combined with off-the-job training is highly effective.

3. Employers who are proactive in reaching out to young people, offering time, skills and money, will have the most success in recruiting new talent.

4. Best results are obtained when employers are involved early in the planning of new strategies or initiatives.

5. Providing income-earning work as part of the learning experience gives learners both financial benefits and an enhanced understanding of the market.

## 3.4 Informal Apprenticeships

In Benin, as part of the efforts to adapt to the country's new economic and urbanisation demands, provincial governments have concluded agreements with local business associations to organise practical, end-of-apprenticeship assessments jointly, twice per year. Assessment Committees are composed of representatives from government, business associations and parents' associations. The names of successful candidates are broadcast on local radio.

The Ghana National Tailors and Dressmaking Association conducts a national, practical skills test for graduated apprentices twice a year in around 50 centres throughout the country. Since 2000, around 65,000 apprentices have been tested. Certification allows membership of the Association, is used to obtain permits and licences from District Assemblies and is accepted for acquiring visas under the American Lottery Scheme. Students from the formal training centre are increasingly taking the test in order to enhance their employability.

Source: Hofmann, C. (2011), Upgrading Informal Apprenticeship – Challenges and Achievements, ILO

In Africa in general, and West and Central Africa in particular, traditional apprenticeships are by far the most important source of skills training. Estimates suggest that up to 70% of urban informal sector workers in Africa have been trained through the traditional apprenticeship system. In Ghana in 2002, the Statistical Service found 207,000 young people registered as apprentices while just over 50,000 were enrolled by public and private training providers. The flexibility of apprenticeships in combining work and learning, their affordability and self-financing, their connection with future employment and their generally lower entry standards make them attractive as a source of skills to disadvantaged youth. Unfortunately, they can be of undetermined quality and lack recognition by employers at large. Examples are given below of where these drawbacks have been overcome.

**Bridging the gap between formal and informal apprenticeships**

West African countries, such as Benin, Mali, Senegal and Togo, are restructuring TVET systems to incorporate apprenticeships, including certification mechanisms. They are developing dual apprenticeship systems, where the craft enterprises which take on apprentices share responsibility for training. In parallel, some regulatory instruments have been developed to meet policy objectives and the specific arrangements for apprenticeship, such as the types of contracts and the rules governing vocational qualifications.

In Latin America, where there is a high rate of informality in the labour market, countries have adopted measures, including contractual arrangements, to support a transition from informal to formal employment relationships. Among these, legislation enacted in Peru in 2005 provides for five different training arrangements, including a ""youth job training agreement"" for 16—23 year-old workers who have not completed their schooling, allowing them to demonstrate their skills in a real work situation during periods ranging from six to 24 months, and a ""learning contract"" for 14—24 year-old workers, supervised by an authorized training centre and partly carried out in manufacturing plants of companies.

Sources: ILO: Upgrading informal apprenticeship. A resource guide for Africa (Geneva, 2012); ILO: Trabajo decente y juventud en América Latina (Lima, 2010).

In all four countries which are researched in Engel (2012), (Bangladesh, Jordan, Sierra Leone and Ethiopia) the role of informal training (for example, through apprenticeships), and its integration into broader skills development strategies are regarded as important. This is generally both a recognition of the reality of skills training in low-income countries, which generally happens outside the formal system, and is part of broader efforts to make education and skills training more inclusive and accessible to the poor and to members of marginalised groups. But the quality of informal apprenticeships does not always produce workers with the level of skill required by employers in the formal sector. In Ghana, the government is co-operating with GIZ to implement the Ghana Skills Development Initiative, a project under the Council for Technical and Vocational Education and Training (COTVET). The objective is to improve the quality of traditional apprenticeships in selected trades, overcoming some of the existing structural deficiencies. These include: a lack of co-ordination and standardization of the training; and difficulties in coping with, or sourcing, technological upgrades and developments. The project will link MSMEs in the informal sector with public and private training providers who will be supported to offer complementary needs-based training courses for Master Craftspersons and Apprentices.[4]

Many people working in the informal sector are highly skilled, whether through apprenticeships or other forms of experiential learning, but have no related qualifications which would ease their entry into the formal sector. Recognition of Prior Learning (RPL) is one way of gaining recognised qualifications for workers in the informal sector. It has been introduced in a number of countries in recent years as a means of offering a more inclusive and efficient route into skills training or better jobs for people whose skills have not been formally recognised. ‘It has, however, often proved a difficult concept to implement in practice, calling for a strong supportive regulatory environment, clear communication of its benefits to stakeholders, a strongly collaborative approach, flexible delivery, robust quality assurance mechanisms, strong support for learners, and guarantees of reliability, transparency and consistency, among other requirements. International experiences show that stimulating learner demand, managing time and resource constraints, keeping costs under control, ensuring consistency, language issues, and establishing parity of esteem with other forms of assessment have all caused difficulties in implementing RPL.’ (Sims *et al)*

In the catering industry, a new RPL initiative is being introduced through a global partnership between the World Association of Chefs Societies and City & Guilds in which personal electronic accounts will be used to submit evidence of experiential learning and seek certification. It is too early to assess the scheme but, if it proves successful, the methodology may be able to be applied in other sectors and also adapted to local, country-specific needs.

Meanwhile in Europe, the Council of the European Union has published a Recommendation which requires all member states to establish arrangements by 2018 which allow the linking of non-formal and informal learning to national qualification frameworks. This is the first time that informal learning has been granted such high profile recognition.

**Key Lessons Learned**

1. Traditional apprenticeships in the informal sector are an important means for young people to access the labour market.

2. Apprenticeships in the informal sector may require some enhancement to meet formal sector skill requirements.

3. Formal recognition is required of skills learned through informal sector apprenticeships.

## 3.5 Involving private sector training providers

In recognition that state provision alone will not satisfy the increasing demand of learners for vocational skills, many governments are encouraging a growth in provision by private sector training providers. However, issues of quality and sustainability can undermine the benefits of introducing training institutions which are more market-driven (Dunbar, 2010).

[4] http://www.cotvet.org/new/downloads/GSDI-Flyer.pdf

In some cases the impact is neutral. For example, the DFID Punjab Economic Opportunities Programme showed that private training providers are having no greater success than public ones in penetrating the market for training and most people are acquiring skills informally, often from family members. However, the majority of those who did access formal training through public or formal private training providers rate them as useful or very useful compared to those inheriting skills or acquiring them through informal means. Indeed there was an 82% satisfaction rate by graduates of private training providers compared with 78%, 72% and 68% of public, family and informal training respectively. However, poor people, and particularly women, were very often excluded from training opportunities because they lacked the academic entrance qualifications. If completion of primary education is a requirement by both public and private providers then this would exclude over 35% of males and 60% of females from poor households. (Cheema, undated)

In other cases, the inclusion of private training providers has a positive impact. For example, in the case of the DANIDA social sector support project in Bhutan, it was private training providers who took the initiative for change, in the form of improved institutional governance, obliging the state technical training institutions to follow. But this is in contrast to the situation in India where private industrial training institutes increased in number from fewer than 2000 in 2007 to 6,500 in 2010. This extremely rapid increase was a result of the Government of India's Skill Development Initiative in the 11th Five Year Plan. The quantitative expansion was not well regulated and the private institutions were often poorly managed, leading to doubts about the quality of provision. (Mehrotra, 2011)

In cases such as the Employment Fund in Nepal, funded by the World Bank, SDC and DFID, and also the ADB's Skills for Employment Programme in Nepal, there are concerns that donor stimulation of the private training provider market may not be sustainable, with providers being established in response to availability of donor money, but closing again when the funds are no longer available. While this may be acceptable if the main objective is to increase the number of training places in order to address a temporary weakness in the market, it is not a good result if the objective is to establish robust and market-responsive private providers who will increase the volume of training provision indefinitely.

China Vocational Training Holdings (CVTH) is the largest training institute for China's automotive industry; it has a 60% market share nationally and up to 80% in key provinces. CVTH is an example of a provider that promises job placements and matches graduates to jobs. Its Department for Employment cultivates and maintains relationships with about 1,800 employers, which provide internship placements as well as "promises to hire." CVTH maintains a database of employers with details such as the size of the company, demand requirements (how many workers they need, type of worker required), and location and updates these details on a monthly basis. Prior to graduation, CVTH surveys students on their ideal job placement (for example, location, type of work, type of factory) and matches the students' preference on the basis of this information. CVTH also provides post-graduation support to students for a year in the event that students find they are not happy with their initial placement. Three months after graduation, the employment rate is 80 percent, and CVTH records suggest that those who have yet to secure a job typically go on to pursue further education or have changed industries.

(Source: Mourshed et al 2012)

The latter is the objective of the Bangladesh Government's use of state funding to subsidise government-approved private training providers through so-called Monthly Payment Orders (MPOs). This has the effect of creating two tiers of private training providers, with those in receipt of MPOs being constrained in their managerial independence. (Engel, 2012)

Guidance on effectively engaging private training providers can be found in CIDA's Skills for Employment Guidelines (2011). A further useful model for deployment of private training providers to meet government targets is the DFID-funded project on Skills and Innovation for Micro-Banking in Africa (SIMBA) in which grants are provided to financial service providers to procure capacity building services from regional commercial suppliers.

**Key Lessons Learned**

1. Quality of provision is a concern associated with rapid expansion of unregulated private training markets.

2. Private training providers with strong links with employers can produce good employment results.

# 4 Financing Skills Development

A look at the funding of TVET quickly shows up the contradiction between the emphasis on skills and the limited funding which governments are willing to commit to it. (Kingombe, 2012) In Atchoarena (2009), it is suggested that the debate on TVET financing typically revolves around two key questions:

a. who pays for skills development?
b. what mechanisms can be put in place to finance skills development? What works best, in particular as far as spending public money is concerned?

If an economic rationale were to be applied, then those who benefit from training should pay for it. 'In many countries, pre-employment training, initial training and institution-based training are still considered to be a responsibility of the government, while financing continuing training and education is left to social partners.' (Atchoarena, 2009) However, with the demand for training now outstripping the resources available in many countries, employers are being viewed as an additional funding source (as they have been in developed countries for many years). Increasing employers' contribution may not just be financially motivated however, but may encourage the overall involvement of employers in steering and delivering mechanisms for training. 'Hence, financing skills development is very much linked to the issues of responsiveness to markets needs, and to the adaptation and relevance of training.' (Atchoarena, 2009) Furthermore it is suggested that 'private resources can strengthen a results-oriented outcome by encouraging greater competition in the sector and increasing students' stake in the end result of their education'. (Sondergaard *et al*, 2012) The likelihood of education and training being financed by private sources can be assumed to correlate with a country's economic development as both employers and learners anticipate a return on the investment; for the latter in the form of high job security, high pay and low expectation of unemployment. (Dohmen, 2001)

In the Summary and Recommendations of the UNESCO Future Seminar on Innovative Financing for Education, TVET was identified as a specific target for consideration but the report admits that few estimates exist as to the funding gap for education investments in that sub-sector. (UNESCO, 2010) This forms the basis of a recommendation that 'Attempts should be made to estimate the private financing that goes into TVET (both private formal providers and enterprise-based training, formal and informal). (King, 2011) UNESCO is however very clear that for all young people and adults to benefit from TVET, there will need to be a 'dramatic increase' in the funds available, particularly given the likely shift in the near future towards the lifelong dimension of TVET funding. (UNESCO, 2012)

Ziderman (2002), writing for the World Bank, suggests that there are 15 finance-related issues that impact on reaching the main training policy objective of facilitating the development of effective, efficient, competitive, flexible, and responsive (demand-driven) training systems to meet national economic and social needs, and the needs of individuals. These are listed in the table below:

**Table 1: Training Finance: The Emerging Policy Consensus**

| | Role of training finance in meeting policy objective | Explanation |
|---|---|---|
| 1 | Redefined government role | Redefinition of government role (diminished, but still critical), entailing reduced public budgetary support for formal sector institutional training. |
| 2 | Funding diversification | Diminished government financing role is to be accompanied by a diversification of sources of financing, greater cost recovery and cost sharing. |
| 3 | Cost sharing | Moves towards increased cost sharing, with higher, more realistic training fees (with scholarships for the needy) and perhaps state-backed student/trainee loans. |
| 4 | Training Levies | Funding diversification measures to include training levies on enterprises. |
| 5 | Income generation | Funding diversification measures also include income generation by public training institutions. |
| 6 | Decentralisation | Income generation objectives would be furthered through decentralization of control over public sector providers and greater institutional autonomy. |
| 7 | Private Sector | Government to encourage private sector provision of training. |
| 8 | Funding public training institutions | Replace arbitrary, ad hoc funding arrangements by objective formula funding related to inputs, outputs and outcomes. Consider case for subsidy of selected private training institutions. |
| 9 | Trainee/consumer choice | More voice is to be accorded to trainee/consumer choice; vouchers may help develop the demand side of the market where subsidy needs to be retained. |
| 10 | Levy-grant | Levy-grant mechanisms to be introduced where formal sector enterprises under-train. |
| 11 | Training funds | National training funds to be developed, to take a broader and longer term view of training expenditures in a national context. |
| 12 | Training authorities | Where institutionally possible, fully-fledged, autonomous national training authorities to be established. |
| 13 | Stakeholders | Increased participation of stakeholders (especially employers) in national training policy formation and execution. |
| 14 | Disadvantaged groups | Continuing and enhanced government role in skills development as an integral part of a package of measures to assist disadvantaged groups. |
| 15 | Informal sector | Central attention to be paid to largely neglected training needs of small micro enterprises and informal sector producers. |

Ziderman's recommendations that governments should encourage more private sector provision of training and that national training funds should be developed are already being implemented in some countries. A number of mechanisms exist for raising funds from the private sector towards the cost of skills development and these generally form a national training fund which is a source of financing, outside normal government budgetary channels, dedicated to developing productive work skills. (Johanson, 2009) In his Review of National Training Funds, Johanson identifies three main types by purpose: pre-employment training funds, enterprise training funds and equity training funds. Most training funds are financed by levies on enterprises but may also be based on public subsidies or donor financing. An example of the latter is the competitive, results-based Employment Fund operating in Nepal, which receives donations from SDC, the World Bank and DFID. Having been managed successfully for a number of years by Helvetas Swiss Interco-operation, the Fund is about to be transferred to the Ministry of Education for long-term sustainability and the creation of a single basket for skills development. In countries with high levels of corruption, such a Fund is vulnerable to political and cultural pressures. However, there are considerable advantages of such mechanisms: equitable and objective criteria for funding allocation; promotion of demand-driven training; lower costs resulting from competition; equitable treatment of public and private training providers. (Ziderman, 2002). It is therefore worthwhile considering how corrupt practices can be prevented from undermining a Training Fund. Appropriate steps would include:

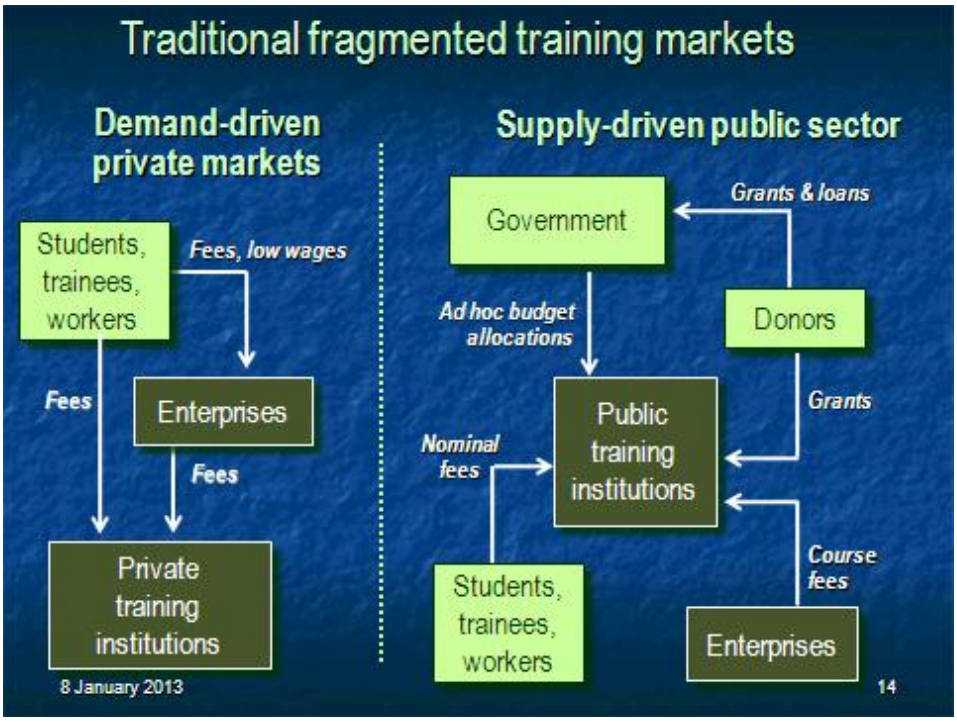
- recruiting independently and competitively, especially to key posts; Fund Manager should be a chartered accountant;
- strengthening private sector representation on the Board;
- introducing mechanisms for training providers to air grievances publicly;
- publishing targets, budgets and results;
- ensuring contracts are fair and detail how and when payments will be made;
- having independent internal and external auditors;
- avoiding large contracts.

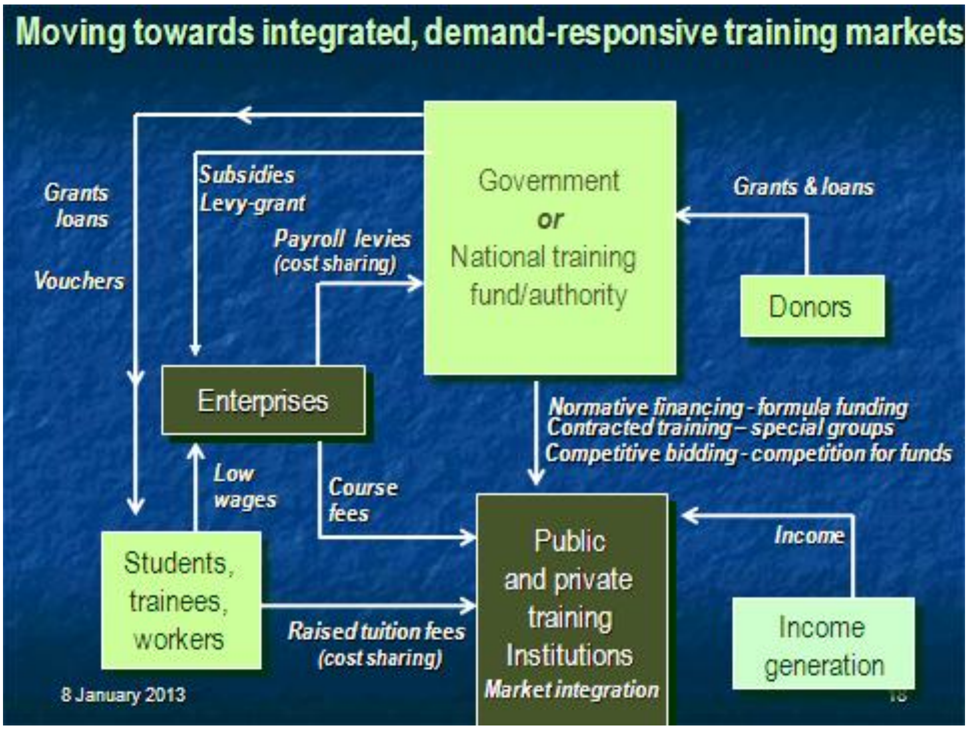
Source: interview with Deputy Team Leader of Employment Fund, Nepal, November 2012

While financial contributions from businesses and trainees can be justified by the advantages they gain from skills development, Walther *et al* (2006) argue that it cannot be left entirely to them, as it would be excessively costly, and the state must provide budgetary finance. In doing so, the state should reconsider the role of technical education, which often consumes large amounts of money despite, or because of, inefficient practices. Walther *et al* also point to the inequitable practice which is prevalent of charging students for technical education when their peers in general education and higher education are receiving free, or highly subsidised, tuition.

While acknowledging the difficulties in raising money from the private sector for skills development and encouraging its use, Sondergaard *et al* are unequivocal in their view that ‘private investments lie at the heart of adult education and training in most countries’ but suggest that government’s role is to ‘create an enabling environment through careful regulation that facilitates the flow of information and ensures educational quality’. Employers and workers in developing economies may not be fully aware of the productivity returns from training due to lack of information about the type and area of training, as well as a lack of managerial skills in SMEs. Survey data from Europe and Central Asia confirm a positive correlation between the incidence of training and the availability of information, with the information barrier particularly acute for less-educated workers. (Sondergaard *et al*, 2012)

Ziderman, in a presentation at the ILO Training Centre, 2012, envisaged a move away from what he refers to as traditional, fragmented training markets, towards an integrated, demand-responsive training markets, as shown in the following diagrams;




The latter diagram, while showing the government or national training authority as the hub of the system, envisages a range of funding sources, including from the private sector. The following sections consider the most prevalent of these.

## 4.1 Levies

Payroll training levies are principally used to raise funds. They operate in both large and small countries. However, their success depends on a sufficiently wide economic base in the formal sector and reasonable administrative capacity. Johanson (2009) notes that:

'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 organise training services and simplification of administrative approvals………… 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.'

Adams (2008) confirms that levy-grant schemes tend to favour larger enterprises and the training of more highly-educated and skilled workers in these enterprises. Malaysia and Singapore are exceptions to this. Both countries recognised the low participation of small enterprises in their levy-grant funds and addressed the problem in a number of ways: a) providing subsidies for conducting training needs assessments; b) pre-approved training courses not requiring costly application and justification; c) the use of excess training capacity of large enterprises by smaller firms; and d) the awarding of training vouchers to enterprises with less than 50 employees. But, in the past, Malaysia has struggled with the situation that quite a number of firms pay the levy but do not claim for reimbursement. (Dohman, 2001) This can result in an accumulation of funds in a Training Fund with low disbursement rates as happened in the past in South Africa's Industry Training Boards. However, it can also allow for cross-subsidising of training from formal sector employers to the informal sector. (Ziderman, 2002)

Skills training levies are not normally used to fund vocational education at the secondary level. There is a basic assumption that government should pay for those educational benefits that confer social benefit (like vocational education) and firms are expected to cover the cost of training that improves productivity directly. (Hawley, undated)

Johanson (2009) concludes 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 organisational capacity is weak for levy collection and administration'. Indeed such weaknesses would not be compatible with the European Union's requirements for an effective financing and budgeting system, as outlined in Annex C. Dohman (2001) also poses the question whether a contribution to the levy scheme is really paid for out firms' profits or is shifted to purchases via higher prices or to workers by reduced wages. The literature suggests the latter. See Annex D for a summary of the advantages and limitations of using payroll taxes to finance TVET.

In Hungary enterprises make a contribution to the funding of initial vocational education and training in the school system and the provision of continuing vocational training 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 Labour Market Fund. The tax is referred to as the 'vocational training contribution'. Up to one-third of the tax can be spent by companies on CVT for their own employees, but only on training programmes included in the National Vocational Qualification Register. Up to 75% of the tax can be contributed directly to vocational schools, for the organisation of practical training for students, or to cover the costs of training in money or in kind, or by providing direct financing.

Source: Masson, J-R. (2005) Financing Vocational Education and Training in the EU New Member States and Candidate Countries, ETF

The Korean Government has supported the development of large enterprise-led training consortia in response to the low take-up of payroll tax-funded training grants by SMEs. Large enterprises have developed training consortia in response to skilled labour shortages and low-quality partner organizations and suppliers. The consortia – which have had very high participation rates – can capitalize on training resources that already exist in large enterprises, benefitting from higher-quality inputs and more efficient relationships with partners. They receive some direct subsidies and also benefit from a higher uptake of existing training grants.

Source: Sondergaard *et al* (2012) Skills Not Just Diplomas, World Bank

## 4.2 Tax Incentives

Tax reductions or tax rebates provide an incentive for firms to bear the costs of training by a reduction of the net-costs of training. (Dohmen, 2001) As with levies, tax-based systems are inclined to favour large companies, who often require little additional incentive to train - the shortfall in training being generally in small and medium-sized enterprises. This was the case with Malaysia's "Double Deduction Incentive for Training' Scheme which allowed a tax deduction if firms enrolled their workers on approved training courses. Also in Tunisia and S. Africa, tax rebate procedures favour large businesses with a good knowledge of the administrative procedures and competent staff to apply them. In a donor context it is strongly recommended that the procedures developed are commensurate with the capacity of MSMEs to access them. (Walther, 2006)

In the informal sector, small enterprises may not earn sufficient income to pay taxes or may avoid taxes altogether by not being registered, therefore tax incentives will have no impact. The same would apply to tax credits which are targeted to selected enterprises in return for agreed training and employment actions. Where the credit can be refunded to the enterprise in the absence of a tax liability, this may serve as an added incentive for training and even registration of the enterprise, but may still not be sufficient to prompt small enterprises in the informal sector to train.

Tax deduction schemes have been implemented in some countries in Europe and Central Asia, particularly in the EU10 group of countries and Russia and have proved to be a useful first step in stimulating demand for training. (Sondergaard *et al*, 2012) However, 'deadweight loss' may occur when individuals and firms take advantage of tax deductions even when they would have undertaken training without them. As a result, several OECD countries employ more complex, multi-level tax deduction systems that target financial incentives to those firms and individuals who face barriers to training. Unfortunately this can lead to increased administrative costs, invites manipulation by firms and makes the system more difficult to use, as the Government of the Netherlands discovered when it experimented with targeted tax deductions; later abolishing them as they were ineffective and too complex.

Ziderman (2002) makes a strong case against the use of company income tax concessions, namely:

i. they require a well-developed and broadly-based system of corporate taxation;
ii. the cost burden of the scheme falls largely on public budgets;
iii. few firms earn sufficient profits to benefit from tax exemption;
iv. some firms may benefit without increasing their training effort.

## 4.3 Scholarships and Donations

The Government of Ethiopia's strategy for the funding of skills development, to which it has allocated substantial funds, includes encouraging employers to contribute through scholarships and the donation of equipment at the same time as the contribution through student fees is expected to rise considerably. (Engel, 2012)

## 4.4 Vouchers

A number of countries and projects have experimented with the use of vouchers, in an attempt to create a demand-driven skills system, putting the decision on which providers will receive funding into the hands of students.

> Tax-funded education vouchers have been tried in some countries, including Chile, Colombia, Bangladesh, Guatemala, Belize and Lesotho, some states in the US, Poland, the UK and Sweden. They allow a learner (or learner's parent) to choose where to spend public funding for education and training. West (1996) suggests that vouchers systems: support consumer choice in education; enable people to 'shape their own destinies'; promote competition between providers; and enable private provision to enter the publicly-funded education market. The evidence on vouchers systems is mixed. In a summary of the literature the International Initiative for Impact Evaluation (3ie) (2010) found that there was a small but inconclusive body of evidence suggesting that voucher schemes 'improved performance' in schools, however the same schemes were also found to increase social segregation and inequality.
>
> Source: City & Guilds (2012) Learner First: International approaches in policy and practice

A past example of a voucher scheme was the Technical and Vocational Vouchers Program supported by the World Bank in Kenya for young adults, which set out to evaluate demand for vocational training and the impact of training on job seekers. World Bank (2011) reports: 'The evaluation showed that offering young adults vouchers that cover program costs does encourage young adults to enrol, and that those who can use the voucher for a private training program are more likely to sign up and stay in school. The results of the study are in line with research done in Latin America……. vouchers for vocational schools – especially when private sector schools are included – can be an effective way to give job seekers employable skills.'

The findings of the Kenya project include:

- Participants who received an unrestricted voucher – one that could be used for either a public or private training programme – were more likely to enrol and less likely to drop-out of a programme than those who received the restricted (public institution-only) voucher.

- The 10 percentage point enrolment gap may be explained partly by the greater choice of schools available to holders of an unrestricted voucher.

- Regardless of the type of voucher, participants who had not completed secondary school were less likely to drop out than those who had.

In an independent report on the same project for the Spanish Impact Evaluation Fund (SIEF) Phase II, Hicks *et al* (2011) came to similar conclusions.

In Pakistan, the Punjab Economic Opportunities Programme also introduced a voucher disbursement scheme for improving uptake of skills training. The results of the first round show that uptake was low (5%) in the general population and even lower in the target population (asset poor, women, less-educated etc.). Further analysis of this showed that the low uptake was not due to lack of demand but rather to socio-economic factors such as distance from the training provider, low stipend allowance, low household wealth, and the limited number of courses offering trainees' preferred skills. Uptake was further constrained for women by household factors such as large number of dependents, small household size, or labour force participation by other household members. Constraints were then addressed through: increased stipends, provision of local training and reliable transportation, and the deployment of social mobilisers. (Cheema *et al*, undated)

Similar to vouchers, Learning Accounts provide a mechanism for funding to flow from the source(s) to the provider. They have been tried in a number of European countries as well as the U.S. and Canada. In an evaluation of Learning Accounts it was found (CEDEFOP, 2009) that those systems which utilised voucher or account-type schemes were more effective than cash-based accounts which proved vulnerable to fraud and exploitation by poor quality providers. Ziderman (2002) also points out that voucher schemes have been found to promote trainee choice and may help to develop a willingness to pay for training.

Looking to the future, vouchers to support skills development are an important part of the Malawian Government's National Export Strategy 2013-2018 which was launched on 14th December 2012. Amongst its 4 priority areas is 'investment in developing competencies, skills and knowledge'. The strategy proposes to introduce a skills training, market-based voucher scheme and to maximise financial sustainability through the ability of benefiters to pay. It will seek champions of the vouchers scheme and 'secure financers if deemed feasible'. This will be done in parallel with an increased government budget for TVET with the specific objective to ensure equal funds among urban and rural schools. It also pledges to pay the full 1% TVET levy (US$1.5m) from 2012/13 onwards. The rationale behind inclusion of skills in an export strategy is 'because these are the foundations of Malawi's productive base and its export capacity, while also being critical if the development goals of the MGDSII are to be achieved.' It has a commitment to give priority to the poor, farmers, youth, women and other vulnerable groups.

## 4.5 Student Loans

India provides two examples of measures to support students from poor families to take out loans to cover the costs of acquiring marketable skills. In the first of these Pratham, a provider experimenting with ways to increase post-secondary access for the poorest youth, has introduced a programme called 'Learn Now, Pay Later'. Students pay 30% of tuition fees during the duration of their course and the remainder in instalments after they have secured a job and started earning. Approximately 1,000 students have participated in the programme since it was introduced in July 2011, and steady repayment from graduates is reported to be in progress. In its sister programme, 'Education for Education', Pratham provides skills training to young people who volunteer in its tutoring and mentoring programmes for primary-school children. Since April 2011, 60,000 young people across 17 states have been trained in digital literacy skills. Following positive feedback from the participants, Pratham expanded this training in 2012 to include business planning, English language and social skills. (Mourshed *et al*, 2012)

The second example in India are the plans currently being developed by the HRD Ministry for two credit guarantee funds for study loans which aim to provide banks with a cushion to offer what are considered to be relatively high-risk debts. The fund will provide default guarantees to banks in case a student fails to repay a loan. This measure is considered necessary, given that Indian banks had a high volume of education loans outstanding in September 2012 and an annual growth rate of 35% of loans in this sector. In addition, a slowdown in the Indian economy has meant that employment prospects for new entrants to the job market have been damaged, making it more difficult for graduates to service any loan they have taken out to support themselves during their education. Although there are more than 2.4m student loan accounts with different banks in India, this figure represents only around 10% of the total number of students eligible. Banks have been reluctant to lend as the education sector is perceived by them as having a large amount of non-performing assets.

The credit guarantee funds are expected to have a very positive impact in particular for students on vocational courses. (Report by Livemint, 22/11/12)

In sub-Saharan Africa, Opportunity International has introduced its Education Finance Initiative, which includes tertiary and TVET school fee loans designed to bridge cash flow gaps of the working poor and to prevent student dropout at critical times in a student's educational life. By its own measurements, using impact metrics, OI concludes that its loans are having 'a real and measurable impact on school quality ratings, school sustainability, student access to education through increased enrolment and improved student:teacher ratios.' (Opportunity International 2012)

Key Lessons Learned

1. Private financing of skills development is intrinsically linked to the expected return in that investment and to greater involvement by those financers in its development.

2. A dramatic increase in funding for skills development is required from diverse sources.

3. Availability of reliable information is critical if learners are to access funds for training.

4. Levy systems and tax incentives are unlikely to work well in countries where industry is not well-developed and administrative or organisational capacity is weak.

5. Levy systems and tax incentives tend to favour large companies unless mitigating measures are introduced.

6. Evidence from voucher schemes shows mixed results but includes stimulation of the private training market and increased demand from learners.

7. Student loans are high risk and work best when employment prospects of graduates are good and there is a strong likelihood of repayment.

# 5 Key Initiatives

In assessing the information given above, the case for utilizing the strengths and the resources of the private sector in skills development is evident and does not need to be repeated. However, with a low-income country (LIC) context in mind there are a number of initiatives which show up as having had particular success. These are:

i. global intersectoral partnering, building on the increasing amount of private funds flowing to developing countries;

ii. skills development programmes moving from international and national companies down through their supply chains;

iii. the establishment of sectoral alliances;

iv. earn-and-learn programmes;

v. soft skills development;

vi. voucher schemes;

vii. the establishment of national training funds;

viii. application of low-cost technology

Interventions which require robust and sophisticated governance structures (which are unlikely to be found in low-income countries) and thriving economies are not recommended e.g. levies and tax benefit systems and national qualification frameworks.

Taking each of the 8 in turn, the following paragraphs outline the environment in which these could flourish and what donors' role might be in assisting them in doing so.

i. Successful global partnerships are most likely to occur in countries where the international company(ies) are already commercially active, which implies that there is a stable political environment and it is largely conflict-free. A company's involvement may be driven by its CSR policy or by commercial interests and would, preferably but not necessarily, be supported by a legislative environment within which skills development is structured. In some instances these partnerships flourish without 3rd party assistance, but in a large number of cases they are facilitated by an aid agency (cf. SIDA, USAID) or international NGO (cf. IYF). There is therefore an established role for donors to act as an initiator, catalyst or enabler for more global partnerships to be created. This would require: identification within a country or region of the main economic growth sectors, to establish which industries will have the capacity to absorb large numbers of skilled and semi-skilled workers (cf. work being planned by IFC under the E4E programme); identification of the global companies active in these sectors who have a CSR policy (or the potential for one) and/or are experiencing skill shortages; proposals for the creation of a partnership skills development program which brings mutual benefit and has minimal bureaucracy; clear definition of the roles of each partner; contributions from donors to influence the partnership activities towards socially disadvantaged groups. Government involvement is not required for this type of activity to be successful.

ii. An extension of the above initiative would include workers and trainees in the supply chain for the global companies also having access to the skills development programme, thereby allowing the benefits to percolate down to SMEs, although probably still contained within the formal sector. Again the role of donor agencies would be that of facilitator and influencer, to ensure social inclusion but to avoid the program becoming donor dependent.

Both of these two types of initiative should require only minimal funding, as the donors' role is one of researcher, communicator, influencer and networker and of leveraging private sector funds.

iii. Establishing employer sectoral alliances is also best done in countries in which there are at least one or two industry sectors which are experiencing growth and which have some medium-large companies. The alliances are also more likely to flourish if they build on an existing body which has the capacity and willingness to expand its purpose and activities (e.g. a trade association or chamber). Specialist training providers may be members of a sectoral alliance. Depending on the needs in-country, sectoral alliances may fulfil the role of producer of labour market intelligence (LMI), developer of occupational standards and training programmes, manager of apprenticeship training scheme, quality assurance agency, certification body, employment services agency, micro-financier and disseminator of careers information, all focused solely on a single sector. The role of donors would be initial research followed by capacity building, including a business plan for income generation and self-sustainability. Sectoral alliances need not link to government, but if a well-functioning skills development framework is in place then they would ideally conform to it. In the absence of such a framework, sectoral alliances can develop expertise which can later be utilized by government in the creation and implementation of skills development policy and strategy. The development of a national framework could ultimately emerge from a set of inter-connected sectoral frameworks, which would be more likely to engage employers as the initiative would be market-led, driven by economic development imperatives and closely attuned to the conditions of industry.

iv. The desk research has shown up very strongly the positive results of a variety of earn-and-learn programmes, ranging from apprenticeships through to financially sustainable schools, and education in return for work. In all of these, the combination of on-the-job learning and ability to earn a wage make them particularly suitable for young people from poor families in low-income countries and for workers wishing to transit from a declining industry to one which is growing. Government involvement is not critical, although it would be appropriate were national recognition of skills gained considered desirable, for example for helping workers transit from the informal economy to the formal. There are a number of working models which donors can use for new programme design. Donors' involvement would include designing and marketing the scheme, recruiting employers to it, facilitating negotiations with government if national recognition is required and capacity-building through technical assistance. Earn-and-learn programmes could be introduced and certificated by sector alliances (see (iii) above).

v. In several of the examples given in the preceding text, the importance of soft skills has been emphasized. Both employers and young people have reported that they are equally, if not more, important than technical skills, leading to a higher degree of employability and trainability. They are as important in low-income countries as they are in middle- or high-income countries and as important in employment as in self-employment. Soft skills can be learned throughout the education system (cf. Government of Finland initiative in Nepal) and ideally, can be incorporated into training programmes, such as the earn-and-learn models in (iv) above. The contribution of donors would be firstly in conducting further research into programmes which have successfully incorporated soft skills into the curriculum, followed by applying the findings of that research in the identification of soft skills for a country's context, programme design, teacher/instructor training and design of assessment instruments and certification.

vi. Of the various methods of financing skills development in such a way as to support the private training provider sector, vouchers are the system which appears to be attracting most favourable attention. Vouchers have the advantage of encouraging the concept of paying for training, whilst allowing access to either public or private training provision by learners who could not normally afford to pay fees. Vouchers could be introduced as a stand-alone measure or linked to the introduction of a national training fund (see (vii) below). Were it to be a stand-alone measure, employers would have little involvement, unless as potential training providers in receipt of payment by vouchers. Successful implementation of voucher schemes will depend heavily on availability of information, advice and guidance for learners, to enable them to make informed choices. The input required by donors would, as with a fund, be largely in the set-up, contribution of funds, and technical assistance to ensure transparent and fair management of the system. To ensure long-term sustainability, plans for a voucher scheme should include an exit strategy by donors involving capacity-building and handover to a government or employer-led agency. It would therefore be highly desirable, if that prospect exists, of the long-term ‘owner’ being involved in the planning of the voucher system from the outset.

vii. In countries where there is inadequate state funding for skills development and either a fragmented funding situation exists and/or the government wishes to attract funds from a variety of sources, a national training fund can be established to co-ordinate and expand training provision. Such a fund needs to have a clear purpose and procedures, with annually-agreed targets and transparent management and decision-making practices. Strong involvement from the private sector, whether or not they are contributing financially to the fund, is important for its credibility and for public perception. Initial research would be required into the most appropriate type of fund, examples of well-functioning funds, most suitable location for the fund and capacity-building for fund management and governance. Donor assistance would be required with all of these but also, in the early stages, to provide technical assistance, and in some cases to be a contributor to the fund, with the option of such a contribution being for the purpose of ensuring social inclusion

viii. A number of examples given in the preceding text involve the use of low-cost technology and very many of the companies involved in global partnerships and alliances are from the IT sector. Many of the initiatives are relatively new and their effectiveness, as yet, unknown. Before any major investment is made by donors it is recommended that there is a review of current initiatives using low-cost, new technology in order to assess what would be applicable to, and affordable for, the skills sector, either in whole or in part (recognizing the challenge of learning and demonstrating practical skills out of context).

Each of the 8 initiatives described above will be more or less applicable to different donors and to different beneficiary countries. All depend for their success on acceptable quality of provision being defined at the outset and then maintained. Some countries have already started down a path involving one or more of these interventions. At the same time, some governments are beginning to review their dual role of training provider and training regulator, shifting the emphasis from the former to the latter. To support that change, governments may welcome support in defining their new role, strengthening their quality assurance systems and developing networks for disseminating independent and reliable information to learners.

# 6 Conclusion

The eight key initiatives described above lead to the conclusion that there are workable interventions which donor agencies can support for increased, quality participation by the private sector in skills development. In each case there are examples to draw on of successful implementation already happening, which have been reviewed and from which lessons have been learnt. None of the interventions are mutually exclusive and could be introduced in tandem with each other by one or more donors.

Some of the interventions require a change in the role of donor, from one of designer and financer, to one of facilitator and influencer.

All interventions are applicable to low income countries and could be independent of government, albeit with the option to partner with a strengthening government in the future. These interventions allow the private sector to push ahead with development, potentially leading the way for government reforms to follow and examples of successful sector-based initiatives could educate government on the best ways for the public and private sectors to work together.

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## Annex A Extract from USAID's Building Alliance Series: Workforce Development, June 2009

# FINDING GOOD PARTNERS

Once you've considered possible models and industry sectors, there are many ways to identify relevant private sector actors and other stakeholders. In addition to resources available on the GDA website, you can use the following list of questions to identify potential partners. USAID implementing partners often know the answers to many of these questions, and you may want to work through this list with them:

1. What private sector stakeholders are facing worker shortages or insufficient skills in existing or new-entry employees? Which companies are seeking to expand operations into new products or new locations? Are there companies seeking exposure for their philanthropic actions or access to the government?

2. Are there producer or business associations that have insight into industry trends and needs?

3. Do you have robust and current information on local consumer trends?

4. What is the status and capacity of local vocational training institutions? Have they been previously approached by the private sector or are they currently collaborating? Are there opportunities for partnering?

5. Which private sector stakeholders would benefit from improved linkages with higher education resources, and is there possibility for collaboration?

6. Who are the most valuable / strategic actors? Which companies have already shown an interest or invested in workforce development? Do any companies have their own private foundations that are dedicated to social investments?

7. Who are the national, regional, district/local and municipal political leaders who can act as "champions" for the goals of the partnership's program? What associations exist that bring together government leaders (association of mayors, city councils, etc.) or link government with private sector and citizens?

8 Would international institutions (like the International Labor Organization) or NGOs (like Business for Social Responsibility or the UN's Global Compact) have information on private sector partners that are interested or involved in workforce development issues in your country or region?

9 Are there microfinance institutions that could provide information on what skills are needed by local entrepreneurs and MSMEs?

10 Is there are successful WfD alliance in the region that addresses market demand or similar market conditions that also exist in your country? If so, can the program be adapted to the local economy?

11 Are there existing local and national workforce development intermediaries that bring the private sector together with education and training providers?

12 Consider diaspora communities. Are there companies created by diaspora that might be interested in investing in home-country enterprises or training programs?

# Annex B Checklist for Implementation of a Public-Private Partnership for Workforce Development

Source: Al-Wedyan *et al* (2009)

**PHASE I: CHOOSE THE PARTNERS**

- Identify an economic sector with substantial labor force demands and interest in developing new training options.
- Identify key players in the sector and propose collaboration with a training partner.
- Approach prospective training partner(s).
- Review the match between labor force demands of the private sector partner and the existing labor supply produced by the training partner(s).
- Identify assets and limitations of programs provided by the training partner.
- Agree on desirability of forming a PPP to meet the objectives of all partners.

**PHASE II: FORM THE PARTNERSHIP**

- Review options and select the most feasible and productive ones.
- Develop curriculum plan and responsibilities for implementation.
- Identify staffing needs and sources of instructors.
- Secure space and equipment.
- Set enrolment and graduation targets and develop a recruitment plan.
- Prepare a budget that identifies start-up costs and ongoing operation costs. Identify sources of revenue.
- Develop a plan for program monitoring and an evaluation strategy.
- Develop a public relations plan.
- Establish roles and responsibilities of the partners.
- Create and sign a Memorandum of Understanding amongst the partners.

**PHASE III: MAINTAIN THE PARTNERSHIP**

- Respect the common and different short-term and long-term objectives of partners.
- Identify champions from all partners who will maintain commitment and flexibility needed to help the program flourish.
- Be prepared for staff turnover and transitions at the partner organizations so that new participants can join easily and productively.

**PHASE IV: MONITOR AND MODIFY THE PARTNERSHIP**

- Hold regular review sessions to review changes in environmental/external factors and progress of program components.
- Modify the program as needed. Flexibility to meet changing demands in the labor market is critical for sustainability.

**PHASE V: REPLICATION**

- Explore additional training programs for existing partners.
- Explore options in other business sectors.
- Explore public policy implementation of principles of public-private partnerships.

# Annex C Financing Vocational Education and Training

According to EU criteria, a system for financing and budgeting should fulfil the following 13 system requirements:

1. fit within the budgeting cycle of the government;
2. correspond with the policy and management cycle of the ministry of education;
3. acknowledge the self-initiatives of a VET school;
4. be sufficiently flexible to adapt to new developments and needs;
5. incorporate multi-funding resources;
6. stimulate VET schools to attract co-financing from the labour market;
7. value labour-market-oriented certificates;
8. give sufficient steering capacity to the ministry of education;
9. provide stability with adequate financial means for VET schools;
10. stimulate the efficient use of financial means;
11. be simple and transparent;
12. avoid possibilities for deliberate misuse;
13. have controllable development costs.

Source: Parkes, D. (2007) Financing Vocational Education and Training: Priorities and mechanisms in south-eastern Europe, ETF

# Annex D Benefits and Limits of the Use of Payroll Taxes to Finance TVET

Advantages

- Training funds are a powerful tool to expand training provision.
- Training funds can stimulate employers' investments in training and skills development.
- Training funds contribute to the establishment of a market for training when resources can also be allocated to private providers, which lead to a competition between public and private providers.

Limitations

- Fund management, including the accumulation of surpluses and the diversion of funds, sometimes causes problems.
- The system cannot operate on a sustained basis without sufficient support from the business community.
- Formal sector employers are often resistant to supporting skills development in the informal sector, i.e. to cross-subsidize skills development in the informal sector.
- The long-term sustainability of training funds in low-income countries remains an open question.

Source: Atchoarena, D. (2009) The Economics and Financing of TVET, IIEP