

Innovative approaches to



promoting vocational training and employment.

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## Introduction

It is generally acknowledged that vocational training must be demand-driven and that it cannot have a relevant employment impact unless it is placed in the context of an integrated strategy for economic and employment development. Accordingly, under the BMZ strategy entitled "Vocational training and the labour market in development cooperation" effective employment promotion comprises three dimensions:

1. improving the employment prospects of the workforce through professional qualification (supply side of the job market),
2. creating jobs by promoting the private sector, which includes financial system development (demand side of the job market), and
3. effective mediation between supply and demand, which is called "matching".

Although the general conditions for vocational training in the partner countries differ greatly as a function of the country's development stage, training systems often exhibit similar weaknesses. These weaknesses are both quantitative and qualitative in nature. Very many partner countries neither have adequate training capacities nor is their existing offer of vocational training sufficiently aligned with demand or the job market.

## The need for reform on the system level

The problems of many vocational training systems can be summarised as follows (selection):

- Vocational training programmes are inadequately adapted to the job market because teaching staff have little practical experience and vocational training facilities do not have enough technical equipment;
- Lack of adequate advancement opportunities for skilled professionals already in employment and for vocational teachers;
- Lack of examination and certification system based on professional standards;
- Insufficient concepts and training offers to prepare learners for employment in the informal sector.

As a result of existing political pressure, many partner countries place their first priority on enlarging the capacities of their vocational schools and training centres. However, in order to effectively increase the employment and income opportunities of their graduates, fundamental prerequisites must be created in the context of comprehensive reforms of existing vocational training systems (selection):

- Extensive participation by the business sector in planning and implementing vocational training and examinations;
- Improved practical training and professional advancement of teachers;
- Introduction of an examination and certification system based on professional skills;



In addition, the following factors are important for aligning the vocational training system with the job market:

- Improving technical equipment required for training;
- Enhancing the practical relevance of training, cooperation with businesses and promotion of employment-relevant skills outside the formal system;
- Diversification of the training programme for employees and self-employed workers in the modern sector and in the informal sector;
- Reform of relevant laws and regulations, the establishment of regulatory bodies - that are independent from politics if possible - with the participation of the business sector;
- Ongoing analysis of the job market and addition of business development and employment development instruments to the vocational training offers;
- Development and introduction of sustainable financing models.

We recommend conducting a comprehensive sector analysis prior to planning any FC project to develop vocational training in order to assure that the reform elements mentioned above are either already implemented or their implementation is at least scheduled - for instance under an integrated DC approach with participation by TC and FC.

## The approaches in detail

This paper discusses the following approaches that might be considered for FC activities:

1. Promotion of vocational training institutes by criteria
2. Promotion of selected institutes or "competence centres"
3. Training funds
4. Voucher programmes
5. Training loans/student loans
6. Indirect financing of vocational training by way of other priorities

Below is a brief summary of the approaches including their goals, activities, features and preconditions for implementation. The presentation is very brief; details are contained in the main section.

### (1) Promotion of vocational training institutes by criteria

Following the multilevel approach proposed by the BMZ, system reforms should be supported at the political level through a broad-based promotion of vocational training institutes.

#### Project features:

- Institute-specific promotion contingent on criteria
- Open programme approach: multilevel selection procedure in competition



- Preparation of development/business plans for each institute as a central planning basis
- Minor amount of preliminary work prior to project appraisal by shifting the institute-specific analysis and planning to the implementation phase
- Synchronous planning and implementation of investments (FC), advanced training/consulting (TC or FC consultant) and counterpart contributions
- Targeted promotion of specific vocational areas or training forms is possible (focus)
- Embedding the approach into a system reform would be reasonable but project can also be implemented if system reform is delayed.

The criteria-based selection ensures that the necessary preconditions on the institutional level that would justify promotion under FC are met. Support should be given particularly to those training institutes that offer relevant training, that is, training that can be considered to be in line with demand and of satisfactory quality.

The most important eligibility criteria for promotion are:

- Relevance of training for the job market, practical relevance and imparting of skills required in the work process;
- Minimum qualifications of teaching and management staff
- Appropriate legal status, organisational structure and efficiency
- Financial stability of operating institution

## **(2) Promotion of selected institutes or "competence centres"**

Under certain circumstances it may make sense to promote a specific choice of vocational training institutes. Usually these are an individual Institute or a handful of institutes chosen in advance which (are to) perform a special function in the vocational training system. Examples of such institutions would be:

- Institutes for basic and advanced training of vocational teachers
- Examination and certification centres
- Vocational training institutes for special professions; using more sophisticated technology where appropriate
- Technology centres, universities of cooperative education
- So-called "competence centres"

### Project features:

- Institute-specific promotion
- Selection of institute prior to implementation
- Usually high investment volume and extensive TC support of selected institute
- Lower general impact and comparatively higher sustainability risk



These projects require extensive planning through a feasibility study in which the following issues must be clarified or ascertained prior to project appraisal: demonstrated demand for the training offered, function of institute in the vocational training system, financial sustainability, organisational structure, availability of adequately skilled personnel.

### **(3) Training funds**

Especially at the World Bank training funds are considered a forward-looking instrument which is useful for designing basic and advanced training systems in accordance with demand and placing the financing of vocational training on a secure footing. They are usually coupled with a training levy to be paid by enterprises, where the donor contribution can be used for piloting or start-up financing. They usually presuppose a fundamental restructuring of the financing system for vocational training.



#### Project features:

- Instrument for (re)financing of vocational training
- Lever for demand-oriented design and expansion of vocational training offers (empirically proven)
- Lever for market development of initial and advanced training providers
- Incentive system for enterprises to expand their own in-house training
- Specialisation/focusing through so-called funding windows

Vocational training funds can be established with different objectives: either for the purpose of fundamentally reforming the national system for vocational training finance (national outreach) or for the purpose of targeting specific regions, sectors or training forms (outreach limited to specific regions or sectors). As a result, the scope of technical cooperation required will differ from case to case.

#### Prerequisites:

- Clear mandate (objective)
- Reliable revenues
- Autonomy / governance (state budget planning has no access)
- Stakeholder ownership
- Funds are used within the mandate exclusively to meet national training needs
- Promotion of market development
- No operation of own training institutes (conflict-of-interest)
- Flexible financing instruments, transparency and decision making
- Directly target group-related unbureaucratic programme design
- Periodic and thorough evaluation

Even if these preconditions are met the fund places high demands on programme design and organisation of the executing agency to limit the complexity of the funding windows and the associated administrative

hurdles, particularly for small training providers/enterprises, and to ensure that funds flow as intended.

#### (4) Voucher programmes

In connection with vocational training finance, vouchers are instruments for effectively subsidising the use of training programmes or enterprise-related services. Vouchers are a *demand-oriented instrument* and represent an alternative to traditional supply-oriented models (institute-related promotion).



##### Project features:

- Vouchers give users/the target group the freedom to choose the services they wish to buy and the source (promotion of the demand side).
- Lever for market development on the supply side
- Vouchers are usually subsidies with varying contributions from the target group; thus they are not a revolving mechanism
- Can be coupled with a loan component as a general rule
- High risk of abuse, so they require a high monitoring effort and administrative costs

Voucher programmes also may pursue varying objectives: either to permanently subsidise services or public goods that have a political priority for certain target groups (vouchers as a long-term instrument) or the development of service markets (temporary instrument).

#### (5) Training loans/student loans

Training loans are usually introduced on the basic assumption of high training costs and tuition fees, generally making it possible to reduce government subsidies for vocational training (cost-sharing approach). In this context training loans should contribute to mitigating social disparities and giving underprivileged target groups access to education and training.



##### Project features:

- Training loans also give users/the target group the freedom to choose the services they wish to buy and the source (promotion of the demand side).
- Loans in small amounts with long maturities ( $\neq$  consumer loans) with limited credit quality of the target group
- Limited possibilities of collateralisation (exceptional case: waiver of salary as guarantee)
- Risk of low repayment rate
- High costs, particularly through subsidised interests, grace period, waiver of repayments, defaults, administrative costs

Particularly because of the often low cost recovery rate of training loans it is being debated whether direct subsidies would not be a more appropriate and efficient instrument for promoting underprivileged target

groups. The degree of cost recovery is therefore an important parameter for deciding on whether to pursue the loan approach.

### **(6) Indirect promotion of vocational training by way of other priorities**

In addition to the above project approaches, other FC projects that do not form part of the priority of vocational training and the job market may also contribute to promoting vocational training and/or employment, such as

- Financial sector projects for the promotion of micro, small and medium-sized enterprises with significant employment effects, and
- Projects aimed at promoting social/economic infrastructure under which the transfer of employment-relevant skills can be initiated (such as rural/urban water supply, renewable energies, road construction, urban development/social fund).

With a view to projects that finance social/economic infrastructure we encourage exploring the possibility of transferring vocational skills in the planning of such projects. In this case a training component would be implemented within the framework of construction measures; this, however, places high demands on the consultant. In complex projects that are heavily intertwined with the system level and in which, accordingly, the need for coordination is high, there is a risk of overloading the project.



### **The role of PBA, with special consideration of sector budget aid**

The "Programme-Based Approach" (PBA) has not quite established itself in Germany's cooperation in the education sector - with the exception of the Sector Wide Approach (SWAp). The PBAs taken in the education sector usually involve basic education and the vast majority of them are *basket financings*. A specific prerequisite for using budget financing in the vocational training sector is a consistent policy aimed at implementing vocational training reforms. An important indicator for this would be the existence of an independent vocational training agency. The following general rule applies: the criteria applied to classical development cooperation in vocational training also apply in particular to the possibilities of sector budget financing.



#### Preconditions include:

- a minimum of functioning structures
- no shifting of funds to other sectors
- good governance.

Because of these criteria a great number of partner countries (still) do not qualify for sector budget financing. The bottom line is that first a SWAp and then a combination of classical development cooperation and programme-based approach will be applied, with the focus initially being placed on development cooperation and only gradually shifting to a PBA.

The following approaches might be conceivable for sector budget financing:

### 1. Investments that relate to the system level in a special way

- Initial and further training of teachers
- Development of professional standards and examination/certification guidelines (FC/TC)
- Classical financial cooperation projects to supplement the PBA measures on the system level on the implementation level

### 2. Investments on the system and implementation level

- Sector budget financing on the system and implementation level
- Demand-oriented financial instruments as supplements

### 3. Capital endowment of vocational training funds

- Up-front or start-up financing of a vocational training fund
- Demand-oriented instruments as supplements

Where the pre-requisites for a PBA are not sufficiently met in the vocational training sector it might be reasonable to start with budget financing in adjacent sectors such as secondary education or business development while conventional DC projects continue to be applied in the vocational training sector.

## **Core messages**

We can summarise the following core messages as follows:

1. Vocational training system reforms cannot achieve a broad impact if they are not accompanied by
  - a) massive parallel investment in capacity expansion of vocational training institutes and
  - a) efficient mechanisms for financing vocational training.
2. The aim should therefore be to pursue joint development cooperation programmes that follow the principle of systemic multilevel approach. Coordinated FC and TC modules (in a stricter and broader sense) ensure the "monolithic development cooperation" which the BMZ demands.
3. As TC does not have the necessary funds at its disposal, an important responsibility will devolve on FC in order to
  - a) enable employment-relevant vocational training to be offered to broad sectors of the population, and
  - b) contribute to the sustainable financing of vocational training and, thus, to overcoming the chronic underfinancing of the sector by testing and introducing suitable approaches.
4. However, extensive FC investment in the vocational training sector does not make sense unless decisive reform steps are introduced on the system level or already successfully implemented.



5. Particularly positive effects can be achieved if FC projects in vocational training are engineered in such a way that they may act as a catalyst for independent further development of the sector. A catalyst function of this sort can be achieved if projects
  - a) require vocational training to be geared to the needs of the economy,
  - b) enhance the involvement of the private sector in vocational training,
  - c) promote enterprises' in-house training and
  - d) stimulate the development of the market for initial and advanced training.
  
6. Choosing the appropriate FC instruments to promote vocational training (including PBA) essentially depends on the stage of the vocational training reform and the efficiency of the public administration as well as the project executing agency. There are no regional preferences for any individual instruments. All approaches described have already proven their effectiveness in diverse country contexts.

## Conclusion

As in other sectors as well, the specific set of instruments of FC can make a significant contribution to the reform of vocational training systems, thus gaining a profile of its own in the vocational training sector. This, however, requires

- FC to clearly adopt specific sector guidelines
- FC to be effectively expanded to include "new" instruments (hitherto not used or applied only sporadically), and
- FC and TC to be closely coordinated and effectively intertwined with a view to defined reform objectives.

What is a novelty in a certain respect is, first of all, the claim formulated by Financial Cooperation that it intends to contribute to extensive system reforms with suitable instruments in the vocational training and employment sector in the future as well. Therefore, with regard to the effective intertwining and coordination of FC and TC contributions, the actual innovative element of the approaches described here consists in the joint objective of putting in place vocational training reforms that are oriented to the job market.

## Recommendations

Based on the comparison of the approaches described above we formulate the following general recommendations:

- Financial Cooperation should prioritise the financing of vocational training funds. On a lesser scale this can be done alone but for a countrywide outreach it should be done in association with other



donors. Under certain conditions start-up financing of vocational training funds can also be done by way of sector budget aid.

- Simultaneously, financing vocational training institutes in accordance with needs and efficiency criteria is highly recommendable in general. However, the criteria approach described in this paper, the associated competition and priority support for non-governmental training providers should be declared general principles of Financial Cooperation.
- The promotion of selected institutes with special functions is only recommendable if the market analysis and feasibility study suggest that demand for the services provided and, thus, the institute's own financing over the medium term are secured. In addition, implications of the system reform must be reviewed thoroughly.
- The promotion of voucher programmes and/or student loans as instruments of demand-based financing both have the benefit that they strengthen the target group's own responsibility and, in this way, can stimulate the development of relevant markets for higher qualifications. Both instruments can be established both with a regional/sectoral focus and with a national outreach. The broader the programmes are, the higher the risk is and the more complex their administration.

Generally, the desired employment impacts cannot be achieved unless the improved vocational training provided is complemented by increased demand for labour as a result of economic development. The necessary prerequisites of an enabling environment include political and macroeconomic stability, the protection of property and the rule of law, an economic order based on competition, low corruption, access to capital and the availability of investment incentives. We therefore expressly point out the great importance of economic-policy advice as well as financial system development and private sector promotion as complementary focal areas of sustainable economic development.