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Funding Mechanisms for Financing Vocational Training: An Analytical Framework

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ABSTRACT

Funding Mechanisms for Financing Vocational Training: An Analytical Framework*

The paper provides an account of innovative financing mechanisms which have been adopted in many national training systems. These mechanisms aim at correcting shortcomings of conventional training finance systems in order to better meet labor market needs, improve both the quality and relevance of training provision and to contain training costs. Directions of change include a greater diversification of funding sources for skills development (including cost sharing and training levies, mainly based on company payrolls), budgeting public training centres through objective funding formulas, encouraging more and higher quality enterprise training, the development of private training markets, increased competition between public and private training providers and the establishment of independent national training funds. Autonomous national training authorities, with broad powers and sizeable stakeholder representation, can be effective in both coordinating and steering national training systems.

JEL Classification: I22, J08, J24

Keywords: demand-driven training, funding training institutions, individual learning accounts, Levy-Grant Schemes, national training authorities, payroll levies, private training provision, training finance, training funds, training subsidies, training taxes

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* This paper draws extensively on Ziderman (2003 and 2010), providing both an update and broadened regional coverage.

Introduction

Vocational training is a vital component of the drive to enhance productivity, stimulate economic development and competitiveness, to reduce the incidence of unemployment and to lift disadvantaged groups out of poverty. However, training provision in many countries is underfinanced and fragmented and, as a consequence, fails to meet the skill needs of the economy and of society as a whole. A central theme of this paper is that the system of training finance (and, in particular, its constituent financing mechanisms) has a twofold purpose. Not only does it supply funding for the various elements of the national training system but, if appropriated fashioned and executed, can play a central role in leading to a more efficient, competitive, market oriented national training system. Thus the paper emphasizes the central role that financing strategies can (and should) play in enhancing the effectiveness and efficiency of training systems, through incentives, greater competition amongst training providers and the integration of private and public provision

This paper is addressed not only to an academic audience, but also to policy makers and practitioners of vocational training, who must deal with the adaption of the national training system to meet national and social needs, in the face of ongoing technological change, globalization and increased international competition.

In Section 2 that follows, a schematic presentation is provided of training-finance flows in conventional, fragmented training markets. This section provides a setting for the need to move away from traditional financing systems towards innovative financing mechanisms that are increasingly being adopted in national training systems worldwide. These moves aim both at correcting shortcomings of conventional training finance systems in terms of better meeting labor market needs and containing training costs and also to meet the national challenges of competition, technological change and globalization.

Five directions of change are discussed, respectively in Sections 3 to 6. A major direction of change is to be seen in moves to diversify funding sources for skills development. These include firstly, enhanced cost sharing through training levies on enterprise and, secondly, the introduction or increase of tuition fees for trainees; these two developments are discussed in Section 3. A third development is the encouragement, by suitable incentives, of more and higher quality training by companies (Section 4). Fourthly, moves to improve the efficacy of the training provided by training institutions are strongly in evidence: these include the increasing adoption of objective formula funding for public institutions, the development of private training markets and increased competition between public and private training providers (Section 5). Section 6 focusses on a relatively new type of financing mechanism: the national training fund, which in many countries operates within a broader remit as a national training authority. The advantages and risks of these institutional mechanisms will be discussed

The concluding Section 7 summarizes the discussion. It does so through the presentation of a schematic account of finance flows that integrates these innovative financing mechanisms within a unified system, with the aim of facilitating the desired development of integrated, competitive, demand-driven training markets

There is relatively little discussion in this paper of the financing of vocational education provided within the secondary schooling system. While vocational education is a major component of TVET (vocational education and training) in many countries, the central financing issues relating to vocational education are common to the schooling system generally (with some exceptions, notably TVET provided at secondary schools in Latin American countries and financed from national training funds – see below).

2 Finance flows in conventional, fragmented training markets

This section provides a schematic overview of conventional training markets where the major financing interactions between funding sources and training providers are presented. The focus is on training finance as a system, albeit one that is excessively fragmented. While this conventional financing framework is still in place in many countries and partially reformed in others, it will be argued that it has become increasingly outmoded, necessitating reform of traditional funding mechanisms and the introduction of new, innovative ones.

Referring to Figure 1, it is noted that training may be provided through private training markets either by firms or in proprietary training institutions; it may also be provided within the public sector at public training institutions. Institutions that provide training are indicated by the shaded boxes. The training market is fragmented into two distinctly differing sectors – private and public.

The major training providers in the private sector are enterprises and proprietary training institutions. The private training sector is market-driven, non-subsidized and (usually) competitive. Firms (in both the informal economy and in formal employment) provide training to trainees/workers in their employ; payment is usually made implicitly by the employee/trainee, in the form of low, below-productivity wage levels. Individuals enroll in pre-employment courses at private training institutions, for full fees; training fees for continuing training may be borne partially by formal sector employers.

In parallel, public training systems have usually been established; they constitute the leading supplier of structured, pre-employment training, frequently dominating the market as a provider of formal sector training. Public sector training institutions are, predominantly, financed from Government budgetary allocations. Where fees are current, they are set at purely nominal levels and often accrue to the government rather than remaining with institutions; thus there is little incentive for public training institutions to develop market-demanded courses that could generate fee income. In addition, firms may enroll their workers for continuing training courses, provided at full cost but more usually at subsidized fee levels. Because budget allocations to public training providers are usually unrelated to objective, outcome measures - such as success in placing trainees in productive employment - there is little incentive for institutional training providers to align training courses offered, with the needs of the labor market. Linkages between public training centers and formal sector employers remain poor; training provision is dominantly supply-driven. Moreover, training centers do not develop training programs focusing on the particular needs of informal sector employment nor do they cater well for the special needs of minority and disadvantaged groups.

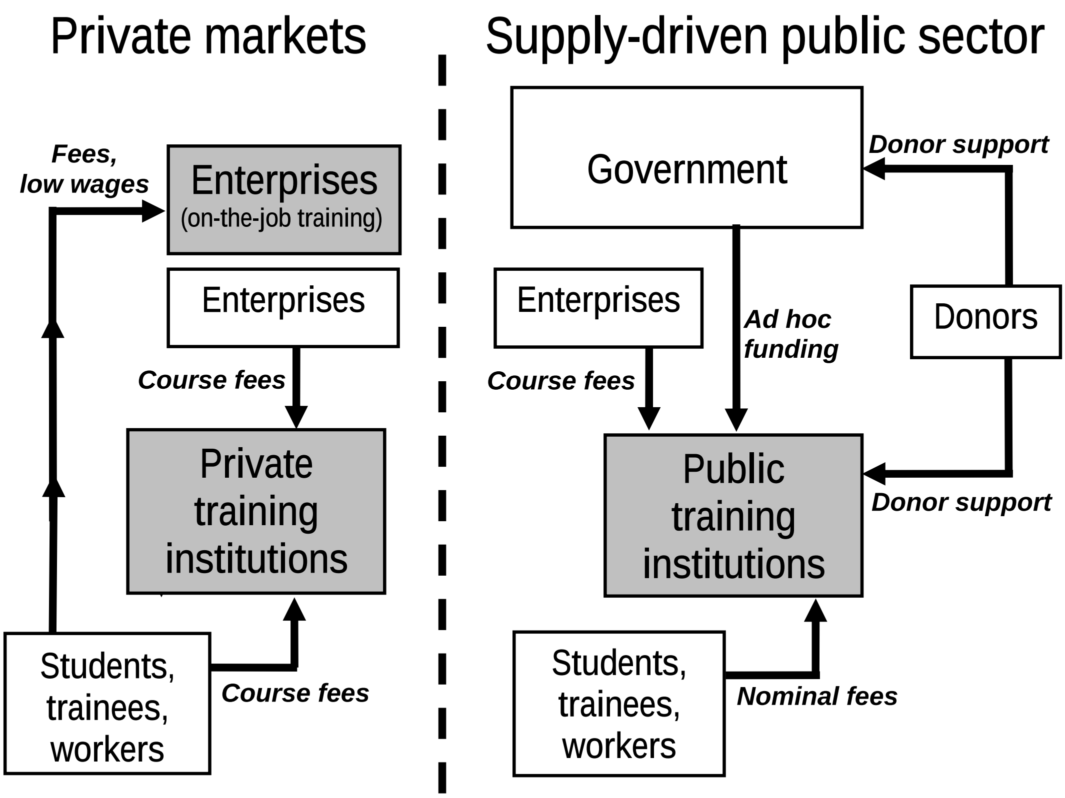

Figure 1. Finance flows: fragmented training markets

Note: Shaded boxes represent training providers
Black arrows indicate funding flows

A number of emerging trends have rendered this conventional financing framework increasingly outmoded. Ongoing technological change, structural adjustment policies, new and changing patterns of trade and competition, and globalization have combined in many countries to create the need for a much more flexible and responsive training system than has been manifest in more protected regimes in the past. An increasing problem in many training systems is a tendency to market failure, with firms under-training in transferable skills, both in terms of the amount of training provided and its quality. The consequent shortages of well-trained, skilled workers in the formal sector, may stunt productivity growth, competitiveness and industrial development.

This conventional financing framework has become inadequate to meet society's skill development needs. Public training provision remains essentially supply-driven. It is not subject to the discipline of competition with other training providers; nor are guidance mechanisms in place to match the skills supplied by public training institutions with the skill needs of the market. And the system is fragmented; in particular, private training institutions do not operate within the same financing framework as public sector training providers.

In many national training systems a strong trend away from these traditional forms of training finance and provision is now in evidence. The driving force behind these moves has been the increased intervention of the state in training markets; paradoxically, this process has involved a retreat by the state in the financing of training. Increasing pressures on government budgets in general, and on public training budgets in particular, has lead to a search for additional or alternative sources of funding for training. In addition to the need to tap non-government sources of funding, governments have intervened more strongly in training markets in order to counter shortcomings of conventional private training markets, in particular the tendency for enterprises to under-train. These developments are discussed in the four sections that follow.

3 Resource mobilization: augmenting funding for training

A central feature common to virtually all training systems is the pressing need to augment the total amount of funding for public sector training, in the light of a paucity of government funding - in part the result of increasing calls on government funding from competing sectors and the adoption of structural adjustment policies in many developing countries. The response is greater funding diversification: seeking alternative or additional funding for public training from other sources**.** Funding diversification can take various forms; in particular, five different avenues may be pursued, separately or in combination.

3.1 Augmentation of public funds for training

Public sector funds available for the support of training institutions via subventions may be augmented from other sources.

3.1.1. Cost sharing: earmarked training levies

Earmarked training levies are usually levied on the payrolls of enterprises (but see Box 3). They have emerged as the most widely adopted complementary or alternative measure to central government budgetary allocations for training. Such revenue generation schemes (where levy proceeds are used to finance training provided by public sector institutions) should be distinguished from levy-grant schemes (aimed at encouraging training investment by firms themselves); the latter are discussed in Section 4 below. Payroll levies of this type were first introduced in Brazil in the 1940s, spread widely to other countries in Latin America and the Caribbean and have been adopted by training systems in many other countries (Tanzania and Fiji are more recent examples). Levies are usually set at between 1% and 2 % of the total wages bill of the enterprise; proceeds are used mainly to support public training provision, with the emphasis on initial training at formal public training institutions. Training levies can constitute a stable and protected source of funding for national training provision.

Revenue generating payroll levy schemes of this type are largely used to finance skills provision at public training institutions, that is relevant (directly or indirectly) to the needs of the companies that pay the levy. In this sense, payroll levy schemes may be regarded as a form of cost sharing, with a major beneficiary of the training provision (the employers) being required to share in its costs.

The expectation that levy income would complement existing government financing, thus providing an additional source of funding, has not been realized always in practice, and levy income has displaced government subventions for training. There are also notable cases of the opposite tendency, where 'earmarked' training levies are absorbed into general government revenues or specific non-training projects, rather than being used for the financing of public training.

Table 1 provides a summary of advantages and risks of payroll levies for funding augmentation. A fuller treatment of payroll levies is provided in Whalley and Ziderman (1990) and in Ziderman (2009).

Table 2 Payroll Levies: Advantages and Limitations

Advantages	***Limitations***
Diversifies the revenue base for financing training, by mobilizing additional revenues Can provide a stable and protected source of funding for national training provision; this is particularly important in the context of national budgetary instability Can be viewed "benefit taxation" if earmarked for training Can serve as a vehicle for cross subsidization of training , especially from the formal to the informal sector, when collected from formal sector employees	Given their particular training needs, many firms, particularly small ones, do not benefit from the institutional training funded by levies; this breeds resentment, opposition and compromises the status of training levies as "benefit taxation" Earmarked taxation does not conform well with the principles of sound public finance and weaken attempts to unify the national tax system Under fiscal pressure, government may incorporate training levy proceeds into general public tax revenues Levy proceeds may be diverted to non-training uses Payroll levies may constitute an over-sheltered source of funding, leading to unspent surpluses, inefficiencies and top-heavy bureaucracies Payroll levies raise the cost of labor to the employer, possibly discouraging employment Employers may shift the incidence of the levy on to workers in the form of lowered wages; in this case, workers would bear the burden of the tax

3.1.2 Development partner support

Governments in developing countries may turn to multilateral and bilateral donor institutions to provide funding, either to the government or directly to individual training institutions; in some country settings, donor funding may play a central role in both initiating and building training capacities. Donor aid should be seen as additional to, rather than replacing, the public funding of training institutions

There are two major risks that should be recognized in donor funding, even given the undoubted benefits this may offer. The first is sustainability. It should be recognized that donor funding will not continue over the longer term and continuity of the training effort thus funded will need to assured by funding provision from public budgets after donor funding ceases; unfortunately, this is often not, this is often not the case.

A second risk arises from bilateral donor support. Some donor counties may see the need to export their own national training system to an aid-recipient country; but such international institutional borrowing may not always be appropriate, given possible differences in cultural norms, institutional settings and organizational capabilities.

3. 2 Augmenting income of training institutions

3.2.1 Cost sharing through tuition fees

The weight of training finance falling on public funds may be lightened through the imposition, or raising the level of user fees to trainees or students enrolled in training courses at public training institutions. Unlike revenue-augmenting training levies on employers (discussed above), this form of cost sharing is with the trainees themselves - also major beneficiaries of training. Whereas fund augmentation results in a larger funding pool, cost sharing though raised tuition fees aims at reducing the public-sector burden of funding individual training institutions. These measures allow a reduction in public subsidies for training or the provision of more or better training services with given levels of public support.

A central issue in fee policy is whether a regime of standard, national-wide compulsory fees should be instituted or whether freedom should be accorded to individual training institutions to fix the level of fees, overall and with fee differentiation by type of training course. Institutional autonomy in the setting of fees represents the more desirable approach; it will encourage training providers to develop a more dynamic, even aggressive, approach to exploiting the potential of the local market environment. In this way institutional fee policy becomes more than a device for cost recovery and cost sharing; in providing a mechanism for varying fee levels across courses and client groups. It serves as a tool for moving the training system towards an environment characterized by open, demand-oriented training. However, the voluntary setting of user fees may not be feasible in otherwise centralized training systems; standard, compulsory fee setting is generally acceptable as a second-best measure for reducing pressures on public budgets.

The positive financial benefits from greater cost recovery through raised tuition fees need to be examined alongside the potentially adverse effects on equity. There is a clear trade-off here. Higher, realistic fees will exclude from training those who are unable to pay; fees set at comfortably low levels will fail to make a sizeable contribution to cost recovery. In particular, negative impacts on the access to training opportunities of the poor, minorities, rural populations and other disadvantaged groups are likely to ensue. This risk points to the widely recognized need to introduce targeted subsidies directed to these at-risk groups, in the form of scholarships, reduced fees or to offer subsidized loans. Training loans have been introduced in a number of countries but usually for technical and vocational education courses of study at the tertiary level (Thailand, Australia); they have been employed in some Western countries for training courses (the United Kingdom and Poland), but only on a limited scale.

3.2.2 Income from production and services

Income generated from the sale of production and service activities of trainees can constitute a useful form of additional institutional income. Income may be derived as a byproduct of the training process itself. But it is possible, more purposefully, to utilize available skills and facilities to produce output for sale in the local market; indeed, exposure to local markets may lead to more relevant, market oriented training. Here the issue is one of maintaining a healthy balance between these two activities. As more weight is given to instruction, the income potential from production declines; alternatively, quality of training will suffer as emphasis is placed on production rather than instruction. Training institutions may also generate income from the sale of services, including the renting out of underused facilities and providing consulting services to local enterprises.

3.3 Private training provision

The growth of private training institutions (with trainees paying full costs) provides a pathway for expanding the national training system without heavy commitments of public funds. Indeed, the encouragement by government of private training institutions development, through subsidies and non-monetary means, may represent an effective way of both generating additional funding for training and, in parallel, reducing the call on public funds. Thus reduced public training provision could be possible (and concomitant budgetary reductions) with the reduction in public training supply made up by compensating expansion of private training institutions. In many countries, private training provision may be encouraged if government action can loosen various constraints that hold back the development of private training institutions. These include:.

- Financial constraints: To offset a lack of capital resources, especially for high cost industrial and technical courses, governments may offer development loans or subsidies, particularly in strategic skill areas, to assist these firms in their start-up phases
- Rigid fees policy: Imposed tuition fee ceilings, while aimed at protecting trainees from exploitive activities by private training institution ns, may too rigidly limit

the ability of these institutions to enter new training markets, especially those with high investment and recurrent costs.

- Excessive regulation of private institutions: Private training institutions are unlikely to flourish in an overly strict regulatory environment. Regulation and enforcement should be sparing; while sufficiently robust to counter dishonest practices and low quality training, they should be designed to encourage private training institutions to operate fairly and efficiently within a facilitating, regulatory environment.
- Information gaps: Without reliable information, consumers are unable to make wise and informed choices. Information on both the quality and stability of private training institutions is often lacking; this may be provided by government in the form of updated information on the relevance of courses to labor market demands and job opportunities.

These various approaches to resource mobilization are illustrated in Figure 2. The first four approaches act directly in bringing in additional revenues to the training sector while the fifth affects training budgets only indirectly. Of the methods of direct funding augmentation, the first two increase the size of the funding pool available for distribution to training institutions but there is no immediate effect on the income of individual training institutions.

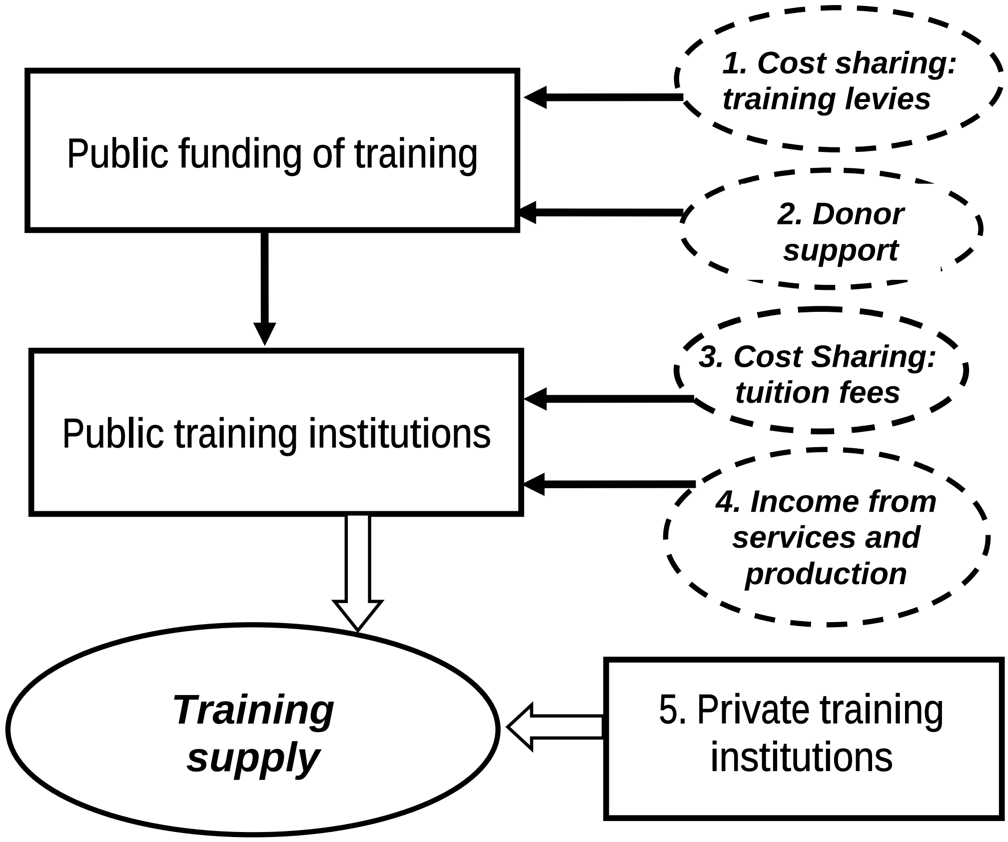

Figure 2. Funding mobilization: alternative sources

Note: Black arrows represent funding flows

Advantages and risks of these five approaches are presented, in summary form, in Table 2. Diversification options are not alternatives and all five avenues are often explored simultaneously.

Table 2 Mechanisms for funding augmentation: advantages and risks

Mechanism	Income accrues to	Advantages	Risks
1. Funding augmentation: cost sharing through training levies	Public sector/training fund	Diversifies revenue base, by mobilizing additional revenues Can provide stable and protected funding for national training provision	Small companies tend not to benefit from skills provision Earmarked taxes weaken budgetary unity Government may use levy for other purposes Source of income may be over-sheltered, leading to unspent surpluses, top heavy bureaucracies, inefficiencies Raises cost of labour, possibly discouraging employment
2. Funding augmentation: donor support	Public sector/training fund	Provides an opportunity to build up training capabilities	Often will not be sustainable after donor funding ceases May not aid private training sector
3. Cost-sharing: tuition fees	Training providers	Training becomes more cost-effective as training providers vie to attract trainees Training is more demand oriented	Imposes hardship on disadvantaged students, depending on scholarship policy Income may not remain with the institution
4. Income generation: income from production, Services	Training providers	May lead to training outcomes more closely geared to market needs ?	Neglect of training function may lower quality and supply of training Resources diverted from training to production Income may not remain with provider
5. Encouragement of private training provision	No income: public sector budgetary savings	Subsidies may be very cost-effective: facilitates training system expansion without major provision of public funds	Concentration on low-cost, high demand courses, leaving public sector providers with more costly, technical courses

3.4 Co-financing

Traditionally, training institutions have been financed mainly from a single funding source. Formal training in public institutions has been funded mainly by the state, formal training by private providers and training on-the-job by companies and workers. A central feature of modern training systems is the considerable extent of co-partnership in the financing of training: most types of training are financed by a number of funding sources. As we have noted, given an increasing parsimony of public-sector budgets, co-financing of training is becoming more the norm, as funding agents seek additional funding partners. In parallel, training providers look to sources of income, additional to current public financial support. As discussed in Section 6, in many countries funding from different sources are merged into national training funds.

4 Encouraging enterprise training

A second major reason for government intervention in conventional training markets is a corrective one: to encourage formal sector enterprises to provide more and better training. Governments subsidize enterprise training, either directly from central government budget appropriations or, less usually but increasingly, from specially designated training funds, also financed (fully or in part) by government (see below). But tight public budgets may limit the government's ability to subsidize enterprise training from public funds.

4.1 Levy-grant schemes

Levy-grant schemes, usually based on payroll levies, have provided governments in many countries with an alternative mechanism for promoting company training. Unlike the "revenue-generating" rationale for payroll levies discussed above (in Section 4) – where the revenues from training levies are earmarked to finance public sector training institutions – levy-grant schemes are directed towards training provided by enterprises. Table 3 shows the distribution of these two types of levy scheme across regions; revenue-raising schemes are dominant in South America, while levy-grant schemes are more typical of other regions.

While many variants are found in terms of actual practice, the common feature of levy-grant schemes is the provision of incentives for firms to invest in more and better in-service training. Thus payroll levies are often linked to reimbursement mechanisms, whereby firms receive payments related to the amount of designated forms of training they provide. Firms are encouraged to invest more in the skills development of its work force, be it in the sphere of training on-the-job (setting up or extending and improving existing company training) or by sending workers to train externally. The need for government intervention, via the introduction of levy-grant arrangements, arises because of shortcomings in the amount and/or quality of enterprise training.

Table 3. Main purpose of levy schemes, by region

Region	Country with training levies	Main purpose	
		Revenue generating Schemes	Levy-grant (enterprise incentive) schemes
Latin America, Central America & Caribbean	17	16	1
Sub-Saharan Africa	17	6	11
Europe	14	2	12
Middle East & North Africa	6	2	4
Asia & Pacific	7	1	6
Total	61	27	34

Source: Johanson (2009)

Levy-grant schemes are in place worldwide. They are to be found in industrial countries (such as France and New Zealand), transitional economies (Hungary) and in developing countries such as in Africa (Zimbabwe and South Africa) and Asia (Malaysia and Singapore). While there are numerous variants, a three-fold classification of levy-grant schemes (Gasskov, 1994) has been widely adopted**:**

Cost reimbursement: Firms receive pays grants on a cost-incurred basis, for certain designated forms of training (both on and off-the-job). The purpose of such schemes is often misunderstood, particularly among employers; the scheme aims not at reimbursement of the levy as such but rather reimbursement of training expenditures incurred (to encourage firms to train more or better). Thus a training expenditure reimbursement ceiling (for firms that train to acceptable standards) is usually set, up to a given percentage of the levy paid. Cost reimbursement schemes have operated in the Netherlands, Malaysia and in Nigeria.

Cost redistribution: Designed in particular to deal with the ill-effects on training supply of the poaching of skilled workers by non-training firms, a cost redistribution scheme redistributes the burden of training expenditures amongst enterprises away from companies who do not train, towards those who do. Training companies may receive grants in excess of the amount of levy paid, providing strong incentives for firms to train. Such arrangements have been adopted in New Zealand and the Republic of Ireland.

Levy-exemption: This is usually employed as part of a broader cost reimbursement scheme. Levy-exemption allows firms, adequately meeting their training needs, to withdraw from the levy-grant system or at least to benefit from reduced levy assessments. A major advantage is freeing firms from the bureaucratic fatigues of levy payment and subsequent grant claim - potential cash flow problems are avoided. This mechanism is found more typically in industrialized economies (such as France); the Cote d'Ivoire scheme constitutes an example of levy exemption arrangements in a developing country.

Cost redistribution is the most prevalent approach adopted by countries with levy-grant schemes.

Box 1 Payroll levy schemes with mixed objectives: county examples

Countries may seek dual objectives from payroll levy schemes which, in practice, may incorporate elements of both funding generation and disbursement.

The Mauritius scheme is an example of a dual-objective scheme. While about half of levy proceeds has been assigned, traditionally, to support public training institutions, some 25 percent has been reimbursed back to firms, a proportion that has risen subsequently to about 40 percent. In some Latin American countries (Colombia, Peru and Paraguay constitute examples) national training authorities funded by payroll levies, have broadened their traditional role as training providers, to encompass the promotion and guidance of training activities in outside enterprises.

Some levy-grant schemes display elements of revenue generation activities. In both the Cote d'Ivoire and South African levy-grant schemes, part of levy income is designated for the financing of national training activities that are usually regarded as the concern of government. In Cote d'Ivoire, some 30 percent of levy proceeds (net of tax obligations retained by firms) has been assigned for financing training proposals submitted by NGOs, local communities and informal sector groups (allocations to the latter has risen to some 20 percent of allocations for training). In South Africa 20 percent of the revenues from the skills development levies on company payrolls are credited to the National Skills Fund for across-sector strategic training initiatives and for the training of disadvantaged groups, activities which are generally funded from central government budgets.

Some payroll-levy systems have introduced cost sharing between employer and worker: in Romania, payment of the 2.5 payroll levy is split between employers (2%) and workers (0.5%). While national payroll levies, based on a standard levy, are the best known, and most widespread, form of training levy, a number of countries have preferred to employ other forms of training levies. Thus nation-wide training levies may not be based on payrolls. The national training fund, established in 2008 in Jordan, was funded through a 1% tax on net company profits; this funding source was replaced the following year by work permit fees from migrant workers. Training levies in Egypt are based on company profits, in Botswana on company turnover and a fixed sum per worker in Denmark.

Training levies may also be sector-specific. In South Africa, a common 1% payroll level is in place but allocation and management of levy proceeds is controlled by tripartite Sector Education and Training Authorities (SETAs). Sector-level training levies may be based, as appropriate, on value of turnover, output, value of contracts or employment, rather than on company payrolls. Many European countries employ sectoral rather than national levies, including Belgium, Italy and the Netherlands. About 100 sectoral training and development funds are in place in the Netherlands, financed by payroll levies, agreed between social partners at sectoral level (these range mostly between 0,5% and 1%). The main advantage of sectoral levies is that they offer a means of tailoring the levy format or disbursements to the specific characteristics and needs of the sector in question. The disadvantage of sectoral levies is their narrow focus obviating an integrated, national approach to the finance and planning of skills development. Thus most countries have preferred to employ standard, national-level levy schemes, based on enterprise payrolls

Table 4 Issues in Levy Scheme Design and Implementation

Issue	Commentary
Levy rate	Levy rates to be subject by law to periodic review to avoid accumulation of surpluses
National or sectoral levy rates	Levies, where feasible, could vary across sector and industry to reflect differing skill composition of the labour force and training needs
Sectoral coverage	Levy coverage should be as wide as possible across economic sectors and to include public enterprises, NGOs etc.
Company size	Very small firms should be exempt from levy payment, on both efficiency and equity grounds
Levy collection	Should levy collection be placed in the hands of effective agents, rather than self-collection by the funding organization?
Security of levy proceeds	Special attention should be given to guarding levy revenues from raiding by the government (especially where tax authorities act as the collection agent), by placing in special, closed accounts
Stake-holder buy-in	Stakeholders (employers and unions) should be involved in payroll levy policy formation and execution
Avoidance of premature introduction of payroll levies	Payroll levies may be inappropriate where levy-income generating capacity is weak - either because of the limited size of the formal sector or administrative/organizational difficulties of levy collection

Firms may come to regard the scheme as “just another tax”. For these reasons, stakeholder ownership in the operation of levy-grant schemes – particularly with regard to disbursement policy – should be assured by employer representation on levy-grant scheme management boards.

We have noted the usual classification of national payroll levy schemes into two distinct groups, reflecting very different underlying objectives: revenue generation schemes (where levy proceeds are used to finance training provided by public sector institutions) and levy-grant schemes (aimed at encouraging training investment by firms themselves). However, this traditional dichotomy is becoming somewhat outdated as evolving levy schemes begin to take on a broader range of tasks (Box 1); this is particularly the case in the context of the development of national training funds and training authorities.

Table 4 summarizes a number of crucial issues in payroll levy scheme design and implementation. Failure to pay due attention to these issues has compromised the successful operation of payroll levy schemes in a number of countries.

4.2 Alternative forms of training subsidy

Training incentives may be justified where firms under-train. Apart from training cost reimbursement that is part of a levy-grant system (as discussed above), direct subsidies may be provided out of public funds to encourage enterprise training. Or indirect subsidies may be offered for firms that train, through concessions on company tax obligations. The generally successful and extant scheme in Chile provides an example of the use of company tax credits as an incentive device for enterprise training. However, there are a number of (lesser-known) examples; these generally have proved to be unsuccessful.

Brazil and South Africa constitute notable instances of failed and phased out tax concession schemes. The Mauritius scheme is unusual in that it operates in tandem with a levy grant scheme; Malaysia also operated both schemes in parallel, but with differing levels of success (see Box 2).

The response to direct and indirect subsidy schemes may be low, if they are insufficiently focused to catch the attention of senior management. But in the case of levy-grant schemes, 'involvement' is assured automatically by the compulsory payment of the levy. The disadvantages of tax concession schemes have often militated against their adoption: they require a well-developed and broadly based system of corporate taxation, often lacking in developing countries and responsiveness of firms may be low where few firms earn sufficient profits to benefit from tax exemptions.

Increasingly, financing schemes are being put in place in various developing countries (Kenya, Ghana, for example) to deal with the needs of micro-enterprises and informal sector firms; but these tend to be based on subsidy (usually from government and donors) rather than on levy-grant approaches.

Box 2 Tax incentive and levy-rebate schemes in Malaysia

Two training incentive schemes have been implemented to encourage Malaysian firms to enhance their training efforts: the Double Deduction Incentive for Training (DDIT) tax incentive scheme and the Human Resource Development Fund (HRDF) levy-rebate scheme.

Under the DDIT scheme, firms may deduct twice their approved training expenditures from gross income for computing tax obligations. The scheme has been largely used by large export-oriented, multinational companies (notably in the electric and electronic sectors) - companies that would train substantially even in the absence of the subsidy scheme. Otherwise, take-up of the scheme has been low amongst the majority of firms (reaching only a few percent) - particularly of small firms focused on the domestic market have used the scheme

The HRDF was established in 1992 with a matching grant from government. The objectives are "to facilitate and encourage employers in the private sector to systematically retrain and upgrade the skills of the workforce in line with their business plans and national development." Unlike the DDIT, the HRDF is not a subsidy scheme. A payroll levy of 1% for employers with ≥ 50 employees (or, 0.5% for small enterprises wishing to participate) is used for reimbursement of firms' approved training expenses up to the limit of their levy payments for the year. Depending on their training needs, firms can choose flexibly from among several programmes:

- approved training courses provided by registered external institutions
- ad hoc in-plant or external training from non-approved institutions
- annual training programmes

Administrative burdens on firms are reduced by automatic approval of courses under the first programme, by using registered training institutions as collection agents of the HRDF Council, and by giving firms with well-developed training plans the option of filing under the annual programme. In recent years, HRDF reimbursements to firms constituted over 70 percent of levy income. The HRDF also provides firms with grants for developing training plans, organizes regional courses on training needs assessments, and administers a variety of programmes targeting small enterprises. Critical success factors are:

- active employer involvement in the work of the Council and its operating committees
- minimal bureaucracy
- dissemination of information on the importance of human resource development for raising productivity and competitiveness

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These three subsidy regimes suffer from common weaknesses; these are summarized in Table 5.

Table 5 Weakness in incentive mechanisms for encouraging enterprise training

Weakness	Explanation	Policy directions
Windfalls	Eligible training might have been provided by the firm in the absence of the incentive scheme	Revoke subsidy if windfalls are widespread
Training distortions	May bias training towards more formal and externally-provided training, away from informal training on-the-job	Redesign training eligibility criteria to avoid distortions
Repackaging Effect	"The adaption and documentation of existing training provision to comply with eligibility requirements….' (Docherty and Tan, 1991)	Improve inspection methods
High costs of inspection	The central costs of inspection and monitoring, to counter abuse, may be high	Raise sanctions and monitor enterprises on a sample basis
Administrative costs on the firm	Considerable cost to the enterprise of establishing eligibility band compliance (including paperwork, record-keeping)	Avoid cumbersome administrative procedures and onerous eligibility criteria

Levy-grant systems have some clear advantages over the two alternative incentive systems, direct government subsidy payments and concessions on enterprise tax obligations (Table 6). A major advantage of levy-grant systems is that they do not draw on public funds, a point of some importance in times of parsimonious government budgets; in addition, they can lead to a more systematic, structured approach to training, rather than a more *ad hoc* one. The central lacunae in training under-provision is not only that amount of training provided is too low, but rather that it is often piecemeal and not sufficiently well integrated.

Table 6 Alternative mechanisms for encouraging enterprise training: strengths and weaknesses

Mechanism	Strengths	Weaknesses
General training subsidies (grants)	None	Cost burden falls on public budgets (increased expenditures)
Levy-grant systems	Costs do not fall on public budgets: met by firms (or, with incidence shifting, by workers) Can facilitate a more systematic structured approach to enterprise training	Requires sufficient organizational and administrative capacity Tendency towards reduced effectiveness, over time
Company tax concessions	None	Requires well-developed , broad-based system of corporate taxation Reduced public revenues Responsiveness of companies low if few companies earn sufficient profits to benefit from tax exemptions

4.3 Subsidizing apprenticeship training

In many countries, formal apprenticeship training is a key method of skills development for the formal sector. Apprenticeship usually relies on a co-partnership between formal institutional training provided in training centres and training on-the-job. The former is usually financed by the state, while the costs of the job-related component (training costs and apprenticeship wages) are borne by the employer. Apprentices also share in the costs of the work-related component through the receipt of wages that are lower than market levels; state support for the work component, in the form of subsidizing the wages of apprentices, is also prevalent in many systems.

But good quality, effective apprenticeship training on-the-job is expensive; in many countries the formal employment sector is loath either to take on a sufficient number of apprentices to meet the skill needs of the economy or to provide training of the necessary quality. Two forms of corrective state intervention may be adopted. One approach - as evidenced in the case of France and Algeria – is to introduce an apprenticeship training levy to finance the apprenticeship training system. More widely practiced is the provision of financial support for apprenticeship training in the form of subsidizing the wages (allowances) of apprentices.

Box 3 Co-financing of apprenticeship training: Germany and Denmark

Both Germany and Denmark operate well-established, quality dual system apprenticeship schemes but co-finance them very differently.

In Germany, employers contribute three-quarters of the total costs, while the rest is borne about equally by the Federal Government and the Länder (financing school-based instruction) and by the Federal Employment Services. However, a sizeable part of employers' contribution (a third to a half) is offset by the value of apprentices' output.

Denmark finances its apprenticeship system largely through costs borne by public and private enterprises and through levy refunds from the Employers' Reimbursement Scheme. All employers (both public and private) contribute to the Fund on the basis of the number of full-time employees; refunds are made to employers hiring apprentices, so they do not have to bear most of the cost of training. Thus apprenticeship training is co-financed by government contributions to the Fund, by all employers (particularly those not taking on apprentices) and by the apprentices themselves (through lower wages).

Apprentice wage subsidies may be provided within the context of a wider regime of government training subsidies or they may constitute part of a levy-grant scheme – as in the cases of Jordan, Jamaica, Malawi, South Africa. Apprenticeship wage subsidies may be provided in different ways, over the whole apprenticeship period (as is generally the case) or confined to the earlier years of apprenticeship (as in Zimbabwe), where the net value of apprenticeship output may be low or even negative. Such wage subsidies can be a useful tool, positively influencing the quantity of initial training provided by companies. However, for this to be the case, some preconditions must be present:

- The subsidy design should not permit employers to exploit the availability of wage subsidies to gain access to cheap labour
- The elasticity of supply of apprenticeship spaces must not be low; otherwise the desired supply response of an increased apprenticeship intake will not materialize

Box 4 Skills poaching and the role of payback clauses

Do firms undertrain? Do they invest too little in the training of workers in transferable skills? The possibility that trained workers will be poached away by non-training firms may act as a disincentive to providing training in general, transferable skills. A major uncertainty facing any firm contemplating an investment in training is that the trained worker will not remain long enough for the firm to recoup its investment. A number of approaches are available for dealing with this potential weakness in training provision..

The seminal work by Gary Becker (1975) argued that this eventuality can be avoided, in principle, if the workers themselves pay for the training, either though low wages during training or by overt payment. The provision of general skills through the traditional apprenticeship constitutes a case in point. Also, it was noted above that a major objective of levy-grant schemes, and notably the cost redistribution variant, is to provide incentives for firms to train, by redistributing the burden of financing training away from firms that train towards those that do not .

A relatively new regulatory instrument for dealing with this problem is to be found in Payback Clauses. As defined by CEDEFOP (2009), payback clauses are "a set of legal provisions regulating the relationships between employers and employees on the allocation of training costs of employees deciding voluntarily to discontinue the employment relationship with the employer who invested in their training". Payback clauses more usually relate to individuals, where the worker reimburses all or part of the training costs expended by the employer. They may relate also to firms that hire (poach) trained workers; these firms must reimburse all or part of the previous employers' training investment. The 2009 CEDEFOP study of newer EU member states identified payback clauses in place in eleven of the twelve states surveyed.

5 Funding allocation to public training institutions

The allocation amongst institutional training providers of the total government budget for training (or of the national training fund, as discussed below in Section 5), is a major component of the training financing system in most countries. However, and particularly in developing countries, a clearly formulated, objective disbursement policy is often lacking. In many countries, arbitrary, *ad hoc* institutional core funding arrangements are in place. We include under *ad hoc* funding such practices as incremental funding (based on institutional allocations of the previous year), political influence, interest group pressure and or the negotiating skills of the institutional actors. A much needed reform is the move from *ad hoc* funding to their gradual replacement by objective funding formulae. Such moves are important because the mechanism through which government transfers funds to training institutions has an important effect on the way in which this funding is used and on institutional behavior more generally. An inherent shortcoming in *ad hoc* transfer mechanisms is that they promote low internal efficiency of training institutions and a strengthening of supply-driven training provision. An important task of funding disbursement policies is to provide an appropriate mix of regulation and incentives to ensure that public training can hold its own in an environment of competitive training markets.

5.1 Formula funding options, related to inputs, outputs and outcomes

Input-based funding: The most common approach to input funding is to multiply enrollments by a parameter of unit costs; formulas may be enriched to take account of the differing cost of various training courses. Two inherent problems are associated with input funding: it provides little incentive to improved efficiency and, because it promotes a training environment divorced from employment needs, it may lead to a training system that is out of kilter with the realities of the labour market.

Output-based funding: Outputs may be measured in absolute terms (often defined as the number of course completions) but may also relate to the speed with which outputs are produced (to minimize cost-enhancing repetition). Output based funding encourages internal efficiency in the training process but does not encourage lead to a greater demand-driven orientation of training.

Labour market outcomes: Funding related to training outcomes is based on the success of the training provider in meeting labour market needs; this may be measured by the percentage of course completers placed in jobs and by the speed with which they are absorbed into employment. However, outcome orientated funding, while leading to better performance, may result in funding instability, since funding will be subject to the vagaries of economic activity

Both output and labour market outcome measures may lead to “creaming”, whereby providers screen out less promising candidates in order to maximize measured performance. This may be countered by quotas or by giving greater weight in the reward structure to outputs drawn from disadvantaged population, who are likely to be excluded through creaming.

Training quality: Institutions are rewarded for providing training at required levels of training quality

Composite formulas: Formula funding will be most effective where broadened to include a number of constituent elements, including institutional inputs (for institutional funding stability), outputs (internal efficiency), outcomes (external efficiency), training quality and the enrolment of special groups (see below). The weight applied to each element in the funding formula would reflect the relative importance of each element, in terms of the overall objectives of the training programme in question.

Contract funding: This approach may be adopted for financing the training of more specific target groups, such as those with special needs or from the informal sector.

Funding is made available on the basis of contracts between the funding body and the training institution

Competitive bidding: Based on competitive tender which is open to private as well as public training institutions, the bidding process can both integrate training markets and provide a more cost-conscious competitive environment , in which private providers compete on equal terms with public training institutions. In line with this approach, donor agencies would offer support to government ministries only, not to individual training institutions.

The reader is referred to Table 7, which summarizes funding options.

Table 7 Funding Mechanisms for Institutional Training

<table>
<tr><th colspan="3">Type of mechanism</th><th>Description</th></tr>
<tr><td rowspan="8">Direct Allocation Mechanisms</td><td colspan="2">Ad hoc funding</td><td>Institutional funding based on previous year allocations, political influence, interest group pressure</td></tr>
<tr><td rowspan="5">Normative formula funding</td><td>Institutional inputs</td><td>Typically based on size of trainee enrollment times a parameter of unit costs</td></tr>
<tr><td>Performance related - training outputs</td><td>Based on numbers completing training</td></tr>
<tr><td>Performance related - training outcomes</td><td>Based on placement in employment: meeting labour market needs</td></tr>
<tr><td>Performance related - training quality</td><td>Based on success in certification examinations; on-site inspection</td></tr>
<tr><td>Composite formulas</td><td></td></tr>
<tr><td colspan="2">Contract funding</td><td>Institutions contracted to provide for enrollment of special target groups</td></tr>
<tr><td colspan="2">Competitive tendering</td><td>Unifying training markets: tendering open to private and public providers</td></tr>
<tr><td>Indirect allocation</td><td colspan="2">Trainee-based funding</td><td>Vouchers/entitlements, particularly for continuing training and lifelong learning</td></tr>
</table>

Vouchers (or, “entitlements”): Instead of budgetary allocations being made directly to training providers, students/trainees would meet tuition fees charged by training institutions, wholly or in part, through vouchers of entitlement to training courses. Vouchers, like grants, do not lighten the financing burden falling on the funding body; the cost of training is still borne by government. Cost recovery is not part of a voucher scheme. This form of “demand-side” financing promotes competition amongst training providers (both public and private), wider trainee choice and training that is closer to market needs. Voucher financing (or similar instruments) have been used mainly for continuing training (England and Wales, France), training for the unemployed (Austria and France) and individual training accounts (Malta, Scotland). Perhaps the best known vouchers scheme is the Jua Kali scheme in Kenya; however, the scheme is aimed at providing support for training to micro and small enterprises, rather than to individual workers.

Box 5 Individual Learning Accounts

The introduction of Individual Learning Accounts (ILAs) in many countries (often still on a trail basis) may be seen as part of the shift away from direct government funding of training providers to a form of demand-based training in which incentives are provided for workers to choose training options over the working life. While ILA schemes may take many forms, two are of particular interest: ILA-based saving schemes and voucher entitlements to training.

Under ILA-based saving schemes, individuals save on a regular basis towards payment for periodic training or retaining over the working life. The incentive for participation in these schemes is a matching contribution by government as well as tax concessions on sums saved. While such schemes are unlikely to be attractive to lower skilled (and lower earning) groups, the ILA scheme in the US is a matched savings scheme focusing on low income families.

Voucher-type ILAs provide entitlement to access approved training courses at zero or reduced cost. Such schemes are operated in Austria, Belgium and Scotland. The highly successful Scottish ILA 200 scheme, introduced in 2004, is directed towards low income individuals and provides up to £200 annually towards tuition fees for a wide range of courses (that need not lead to a formal qualification). ILA 100, introduced the following year, is available to individuals not eligible for ILA 200 and provides up to £100 a year towards tuition fees of a more limited range of courses, which must lead to formal qualifications. Currently, some 60,000 individuals avail themselves of the schemes, the vast majority through ILA 200.

A novel scheme, introduced in France in 2004, aims at providing workers with access to training over their working life. Under the Individual Right to Training scheme (IRT), employees are entitled to request 20 hours of annual training from employers; this can be accumulated up to a maximum of 120 hours over a six year period. Training may be during or outside working hours: in the latter case, employees continue to receive 50 percent of their net wage. Although the employee takes the initiative in requesting rights under the IRT, employers (who fund the training) may refuse employee applications. The scheme has proved less to be less successful that expected: the access rate of employees to IRT is under 7% (with only some 20 average hours of training, in total) and less that 30 percent of firms use the scheme.

6 A central role for National Training Funds

One outcome of the introduction and spread of earmarked training levies has been the development of a relatively new type of financing mechanism: the national training fund. An extensive account is provided by Johanson (2009). Training funds usually constitute both the depository of collected training levies and also the mechanism for their distribution. Government budgetary allocations may supplement levy income to the Fund, or represent its major income source; donor support is important in some cases. The intention is to provide a sheltered funding source for national training development, including the financing of public sector training, the provision of incentives for enterprise training and meeting the skill needs of special groups.

Most national training funds are statutory, quasi-autonomous bodies. They usually function under the general umbrella of a government ministry and, more immediately, of management councils with varying degrees of stakeholder representation. Training funds usually operate outside normal government budgetary channels; thus they are more readily accessed and may be utilized more flexibly than would be the case normally with direct government financed training programs. However, operating as they do under varying degrees of autonomy from government control, a Fund's freedom of manoeuvre may be constrained. Thus in cases where the degree of independence from ministry control is limited, the Funds may often emerge as conservative, reactive bodies, rather than adopting a proactive, independent stance in fund policy and management.

Whatever the given objectives and organization of the fund, successful outcomes are unlikely to be forthcoming unless six key conditions are satisfied, as outlined in Table 8.

Table 8 Key conditions for Training Fund success

Key condition	**Justification**
Stakeholder ownership	Foster ownership through substantial board representation of major shareholders, particularly employer groups where training levies are in place
Autonomy and control	Secure decision making autonomy of management board and its control over budget allocations
Security of income	Ensure adequate, sustainable and stable training fund incomes, from diversified sources
Activities (and disbursements) for national training needs only	Ensure targeting of training fund policies and disbursements according to defined national training needs and avoidance of extraneous activities
Avoidance of role of training provider	Limit subsidies and preferential treatment to training centres if run (and n financed) by a training fund, lest they distort training markets and inhibit movement towards an open, competitive training system
Decision making transparency	Keep decision making processes (especially fund allocation) open and transparent

Major risks in training fund operation relate to the financial integrity of the fund and to fund sustainability over the longer term

Training funds may be insecure; this may be the case where the responsible minister is able to transfer funds to non-training uses or where training levy proceeds remain with the treasury and used for general budgetary expenditures. The continuity of training fund operation may be at risk, notably in developing countries, particularly where training funds have been launched by donors and are funded, in the main, externally. As with the demise of the Togo training fund, over generous external support for national training funds, without the planned complementary development of domestic funding, will result ultimately in moribund training funds and empty coffers.

Particular attention should be paid, in the enabling legislation establishing the fund and to both fund institutional design and implementation, to the need to ensure the security and sustainability of training fund income.

Box 6 Governance of National Training Funds: a critical role for stakeholders

Governance varies considerably across national training funds; yet the efficacy of a training fund will depend on the framework of governance and control within which it functions. Most training funds are, formally, managed by governing boards with stakeholder representation (and are usually tripartite – government, employers and unions). In practice, though, control may rest with the responsible Minister. Or, because of low representation, the voice of employers may be weak; this could cause conflict, especially when fund income in derived mainly from employer-based training levies.

A distinguishing characteristic of the highly successful Skills Development Fund (SDF) in Singapore is the strong role assigned to employers: seven of the fifteen members of the Singapore Workforce Development Authority – the agency that controls the SDF – represent employers (including the Chair and Vice-Chair of the Authority) and there are four government and three worker representatives. Strong employer representation appears to have been a major factor in enabling the fund to work towards its objective of economic restructuring in Singapore. In contrast, only two of the eleven members of the Vocational Education and Training Authority (VETA) management board in Tanzania are employer representatives; the dominance of government representation has not served the funding system well.

Social dialogue between the main stakeholders in the stages leading to the establishment of training funds may be critical both to stakeholder buy-in and to active and positive participation. But even this process may not lead to a satisfactory outcome. A case in point is the social dialogue that ensued prior to the finance and governance reform of the training system in South Africa. Discussions within NEDLAC (the National Economic Development and Labour Council - a tripartite forum for reaching consensus on national economic issues) on the structure and mission of the new National Skills Authority (NSA) did not lead to an agreed outcome. The government then moved forward in setting up the new NSA, but with an advisory role only, to the minister; it thereby denied employer and union stakeholders any central role in the governance and direction of the new national training system. However, a stronger, more effective role was assigned to employer representatives on the 25 sectoral councils (SETAs).

6.1 Sectoral Training Funds

Sectoral (industry-based) training funds offer an alternative to the national, centralized, funding model discussed thus far. In some countries sectoral training funds, based on training levies, have been introduced in one or two sectors only, particularly in the absence of a national training system able to cater for the needs of a strong and growing economic sector. In Namibia, prior to the introduction of a national payroll levy supporting the new National Training Authority, a sectoral levy was in place in the fishing industry, based on fish catch.

National systems of sectoral funding are better known. A national system of sectoral funds offers the advantages of flexibility and the ability to focus more directly on the particular, often differing, sectoral training needs. They may be more acceptable to employers because of a greater industry-specific orientation, less bureaucracy and greater sense of 'ownership'. But the model has not been widely adopted. In South Africa, a relatively new system of sectoral authorities (SETA's), under the aegis of a mainly advisory National Skills Authority, is financed by a common, across-sector payroll levy. There are five well-established sectoral training funds in Brazil. National systems of sectoral levies are more common in Europe, where they are often set up voluntarily by stakeholders as part of sectoral collective bargaining (CEDEFOP, 2008). There are eleven sectoral funds in Belgium, fourteen in Italy and about a hundred in the Netherlands.

The main arguments against sectoral funds are that they may duplicate training efforts, fail to develop common core skills that are transferable across industries and are not readily adapted to regional needs. On balance, national training funds are preferable in developing countries as they foster an integrated, national approach to skills development The development of training funds in particular sectors might be appropriate in those country settings where financing mechanisms are in their infancy and are being developed on a piecemeal basis.

6.2 From Training Funds to National Training Authorities

Training funds are centrally concerned with the financing of training provision. In many countries national funds are "upgraded" to perform a far wider rang of activities. Designated as national training agencies or authorities (NTAs), though frequently retaining the title "training fund", these bodies are often charged with the central role of responsibility for national skills development. In addition to managing the system of enterprise training subsidies and, where levy-grant systems are in place, levy reimbursements, they may be charged with responsibilities for developing national training policies and standards, planning the national training system, accreditation of institutions and generating and disseminating relevant labor market information

NTAs may be attached, with varying degrees of autonomy, to a government department (usually the Ministry of Labour as with the Barbados TVET Council or, less frequently, under the Ministry of Education as in Jamaica's HEART Trust NTA) but they would operate more effectively as largely autonomous bodies forming a buffer between government and the training system. They are usually run by boards representing the training system's major stakeholders. While most NTAs receive general government funding, a large number are financed solely or in addition, by payroll levies. NTAs may be better placed than environmentally-constrained government departments to operate payment mechanisms for training institutions in ways which promote efficiency and competitiveness in training markets.

Box 7 National training fund: disbursement windows

Definition: An institutional framework that unifies and augments sources of funding for training (Government budget, training levies, donors, other) and allocates funds in line with national (economic and social) policies and priorities.

Disbursement policy: Funding allocation (size and definition of disbursement "windows") to reflect the needs of the training system as a whole and to depend on priorities agreed through stakeholder representation.

	Typical disbursement windows				
	1	2	3	4	5
Type of training	Pre-employment training	Apprentice training, Industrial attachment	Continuing in-service training	Micro-enterprises, Informal Sector	Needs of special groups: unemployed, minorities
Objective	Institutional core funding	Encourage provision of apprenticeships	Raise amount and quality of continuing training	Raise amount and quality of training	Purchase of services from training institutions
Recipient	Training institutions	Employers	Employers	Specialized agencies, Training institutions	Training institutions
Mechanism	Institutional funding Formula	Subsidies, levy reimbursement	Subsidies, levy reimbursement	Training contracts, Competitive bidding	Training contracts, Competitive bidding

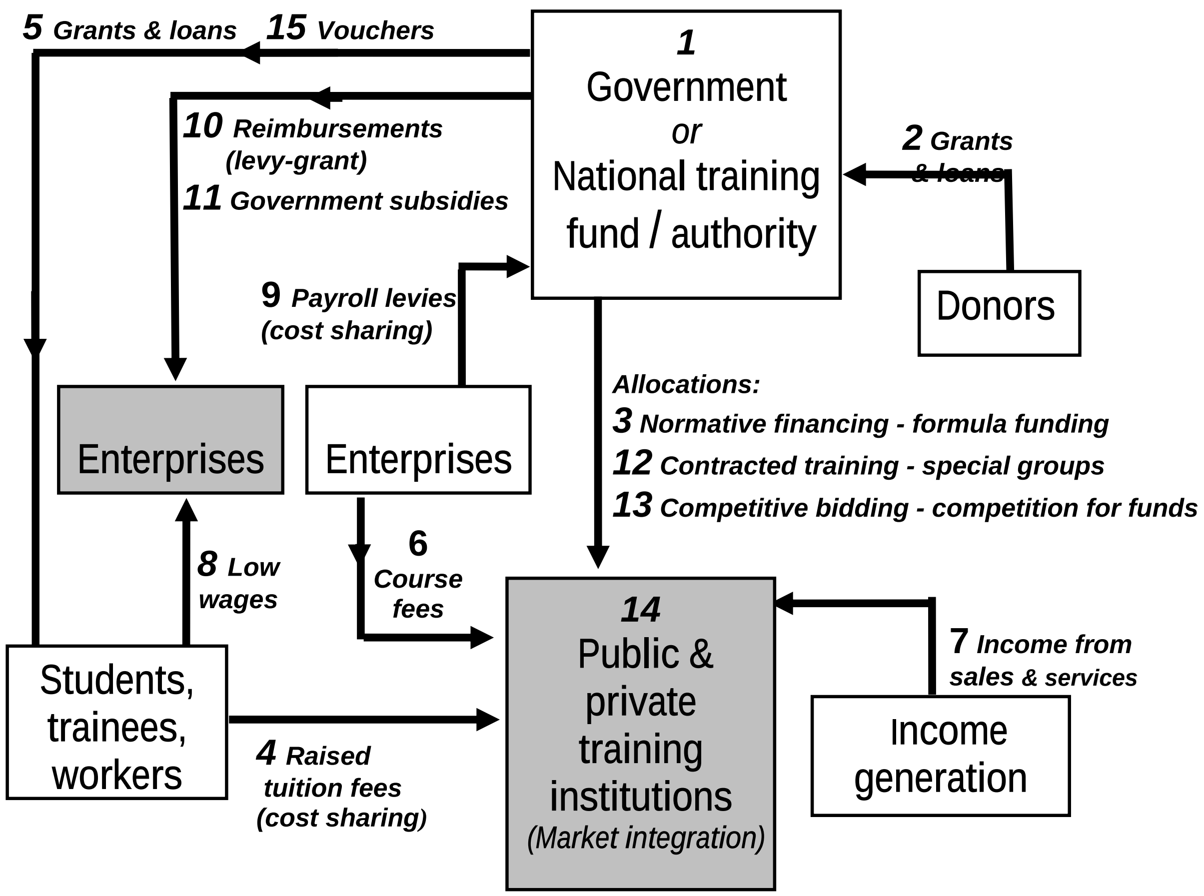
7 Moving towards integrated, competitive, demand-driven training markets

Most industrialized economies have adopted some or all of the financing mechanisms surveyed in the previous section; strong moves to reform the training financing system in this direction are evident in many developing and transition economies. But the value of these reforms lies in their adoption in combination, as an integrated system, rather than piecemeal. The financing flows, in such an integrated framework, are set out in schematic form in Figure 3.

Government funding of training institutions is made either direct or via a national training fund (or NTA), as shown in 1. Where available, donor funding is supplied centrally to the government or training fund and not to individual institutions (2). Core financing of public training institutions is based on objective formula funding (3). Greater cost sharing is introduced in public training institutions, through augmented course fees closer towards competitive levels (4); this is facilitated by the availability of selective scholarships for the poor or student/trainee loans (5). Additional income for public training institutions derives from fee payments for tailor-made courses for firms (6) and from income generation activities (7). On-the-job training within firms is partially financed by workers through low wages (8). Payroll levies on firms may be used, to either augment national funding for training (9) or may constitute part of a levy-grant scheme to encourage enterprises to train more (10). Alternatively, government subsidies may be used to augment enterprise training (11). Contract financing of designated government programs (such as for the unemployed) are made available to both public and private and training institutions (12); competitive bidding for funds (13) would further enhance market integration of public and private training providers on a competitive basis (14).

While the adoption of individual innovative funding mechanisms, even on a piecemeal basis, has importance, the central policy aim should be to introduce them as a comprehensive, integrated system. The policy objective of training finance is to encourage and facilitate the transformation of fragmented, inefficient training systems (with underfunded, supply-driven public provision) into an integrated competitive, demand-oriented training system.

Figure 3. Integrated, demand-responsive training markets



Note: Black arrows represent funding flows
Training providers are indicated by the shaded boxes

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