Intern Presentation

Skills Development Funds: Country experiences and implications for South Asia

Eunbi Song
Intern at SARD/SAHS

Supervisors: Xin Long
Economist at SARD/SAHS
Shamit Chakravarti
Senior Social Sector Specialist at SARD/SAHS

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Outline

1 Background

2 Country Experiences

3 Implications for South Asia

4 Conclusion

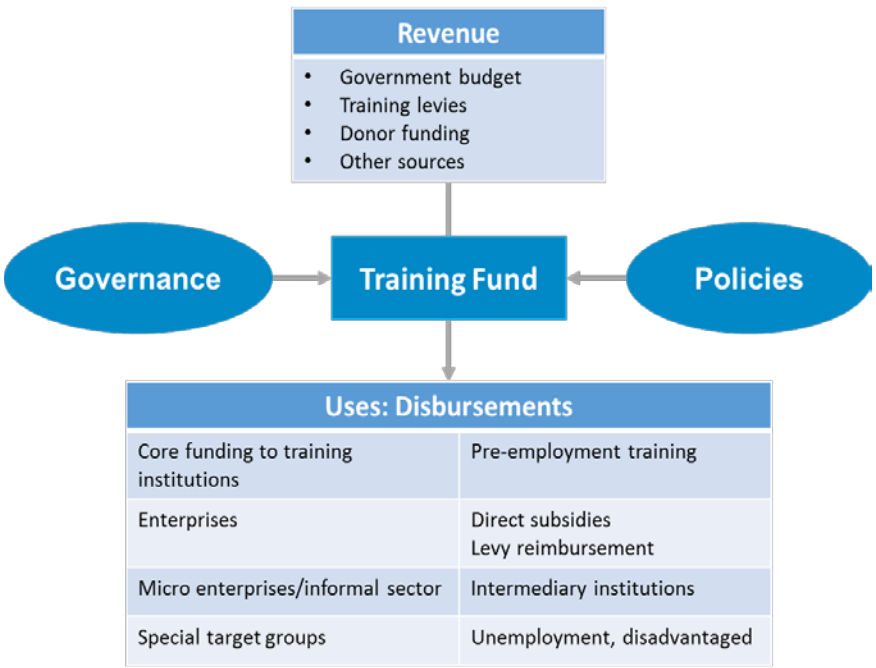
Outline

What is Skills Development Fund?

Skills Development Fund (SDF) is defined as *"a dedicated stock or flow of financing outside normal government budgetary channels for the purpose of developing productive skills for work".*

- Johanson (2009)

Mechanism of Skills Development Fund



Source: Ziderman (2003, 2016)

Typology of Skills Development Fund

Type	Main Purpose	Financing sources
Pre-employment Training Fund	Finance the expansion and delivery of initial training before employment	Payroll levy-revenue generating
Enterprise Training Fund	Provide incentive to increase in-service training of workers within enterprises	Payroll levy scheme*
Equity Training Fund	Increase opportunities for skills acquisition by disadvantaged groups not covered by enterprise schemes	Public subsidy, levy or donors

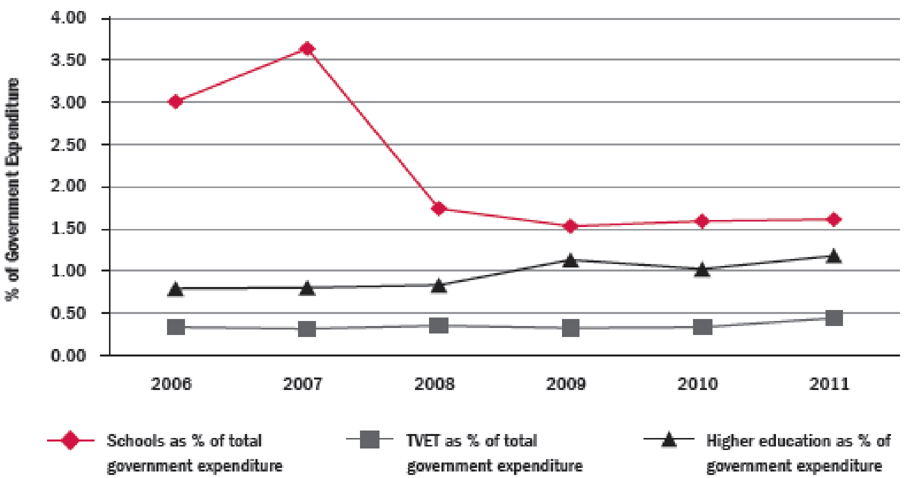
Source: Johanson (2009)

Notes: A Skills Development Fund (SDF) refers to a national training fund in the literature

Why establishing the SDFs?

Underinvested TVET sector

Public Expenditure on TVET in Sri Lanka



Source: ADB. (2014). Innovative Strategies in Technical and Vocational Education and Training (TVET) for Accelerated Human Resource Development in South Asia.

- **Nepal:** Of the government budget,
  - 0.2% on TVET vs 16-17% on education

Lack of coordination

Within the government...

- High degree of fragmentation among ministries:
  - 22 in Bangladesh
  - 10 in Nepal
  - 21 in Sri Lanka.
- Lack of capacity of the TVET apex body
  - Rigid supply responses
  - Inability to transform to demand-driven training services

B/w training institute and industry…

- Supply-driven training institutes
  - Mismatch between supply and demands for skills
  - Low quality of trainings
  - Lack of incentives for good performance

→ To unify and coordinate various sources of financing for training

→ To augment the volume of resources for training

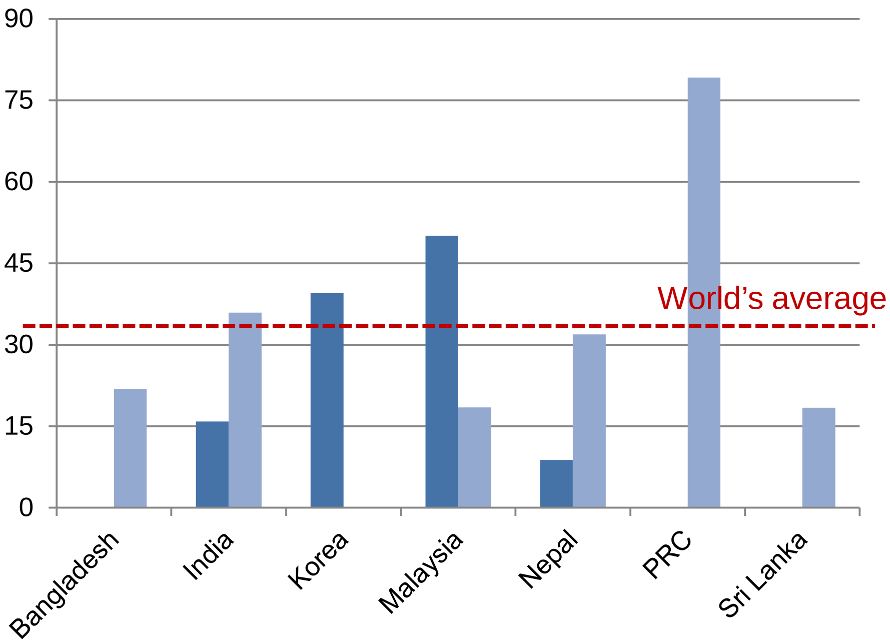
→ To improve the relevance of training in accordance with market needs

Source: Johanson (2009); ADB (2014) .

Why establishing the SDFs?

Limited private sector involvement

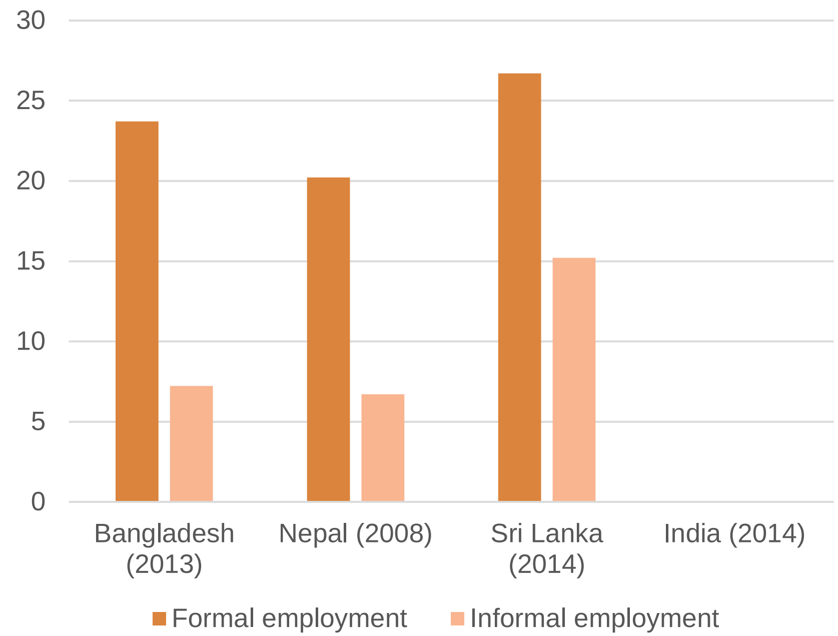
Firms offering formal training (%)



Notes: a) Bangladesh (2013); India (2006, 2014); Korea (2005); Malaysia (2007, 2015); Nepal (2009, 2013); PRC (2012); Sri Lanka (2011);
b) Korea refers to Korea, Republic of; PRC refers to People's Republic of China
Source: World Bank's Enterprise surveys

Limited access to training services

Training ever obtained in South Asia (%)



Note : Author's calculations
Sources: Labor force surveys

→ To mobilize resources and expand the training by encouraging private sector involvement
→ To provide equality of opportunity of access to training services

Source: Johanson (2009); ADB (2014) .

Economics behind establishing the SDFs

Why is TVET underinvested?

From the Supply side…

- **Externality of TVET → Free-ride problem**

General Human Capital	Severe poaching
Specific Human Capital	No poaching

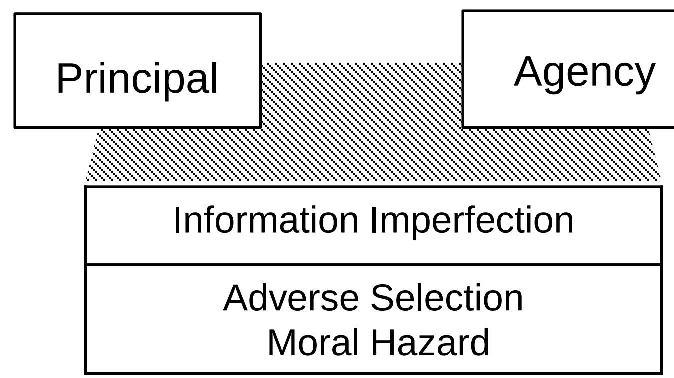
- **High cost of capacity building**
  → Justification of Government Intervention
  to achieve Economies of Scale

From the Demand side…

- **High cost of skills training**
  → Low enrollment in TVET
  - Opportunity cost of gaining income
  - Actual cost of skills training
    (i.e. training fees; transportation cost)

Why the Fund?

Principal-Agency Dilemmas



- **Funding sources vs. Governments**
  → Establishment of the Fund
- **The Fund vs. Recipients of the Fund**
  (i.e. employers/training providers)
  → Importance of Monitoring and Evaluation

Outline

1 Background

2 Country Experiences

- Malaysia: Human Resource Development Fund
- Korea, Rep. of: Vocational Training Promotion Fund
- India: National Human Development Fund
- Sri Lanka: Skills Development Fund Ltd.
- Philippines: JobStart Program

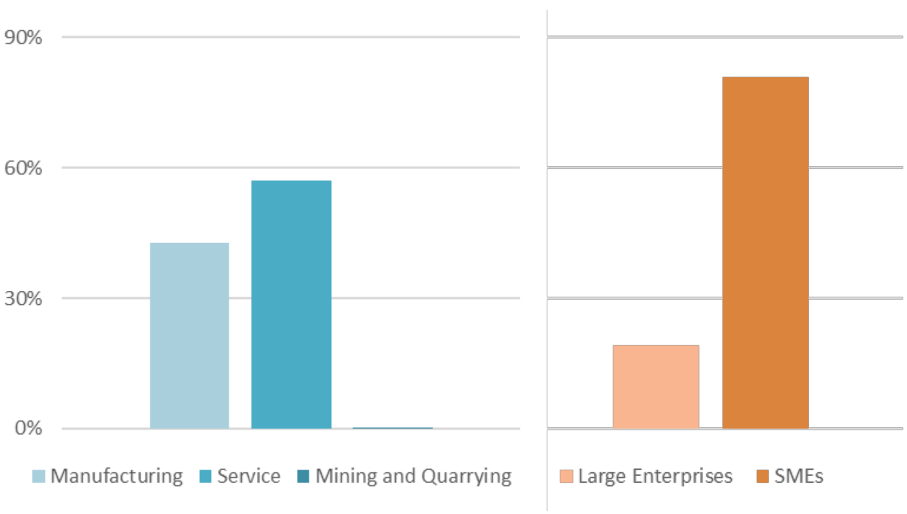
3 Implications for South Asia

4 Conclusion

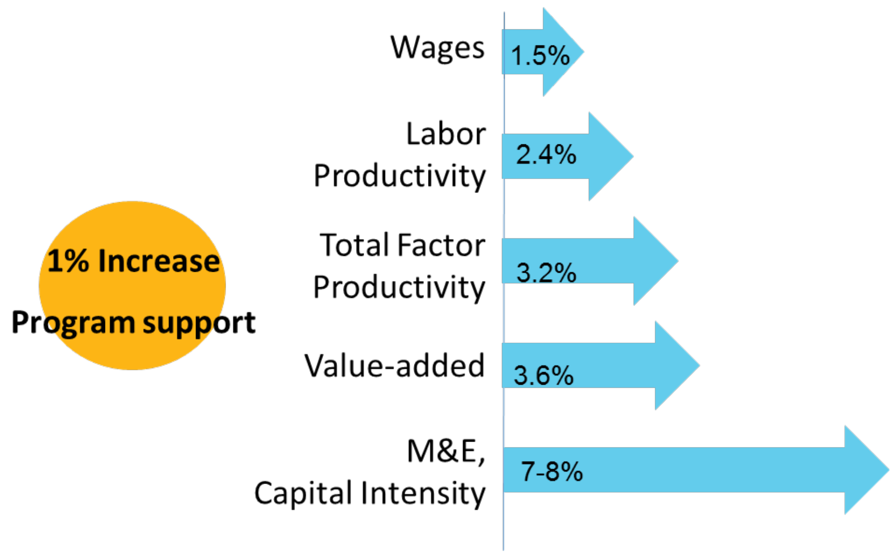
Malaysia's Human Resource Development Fund

- Established in 1993
- Aims to encourage employers to provide in-service training to their employees and increase productivity of the existing workforce
- Managed by the PSMB, an agency under the MoHR
  - The Board of PSMB: Employer representatives > Government representatives
- Delivery mechanism
  - Financing: Levy-grants scheme + Special Government Funds
  - Services offerings: 13 training schemes to fulfill various needs from the contributors

16,569 Registered Employers (~31 Dec 2016)



Impact evaluation: World Bank (2014)



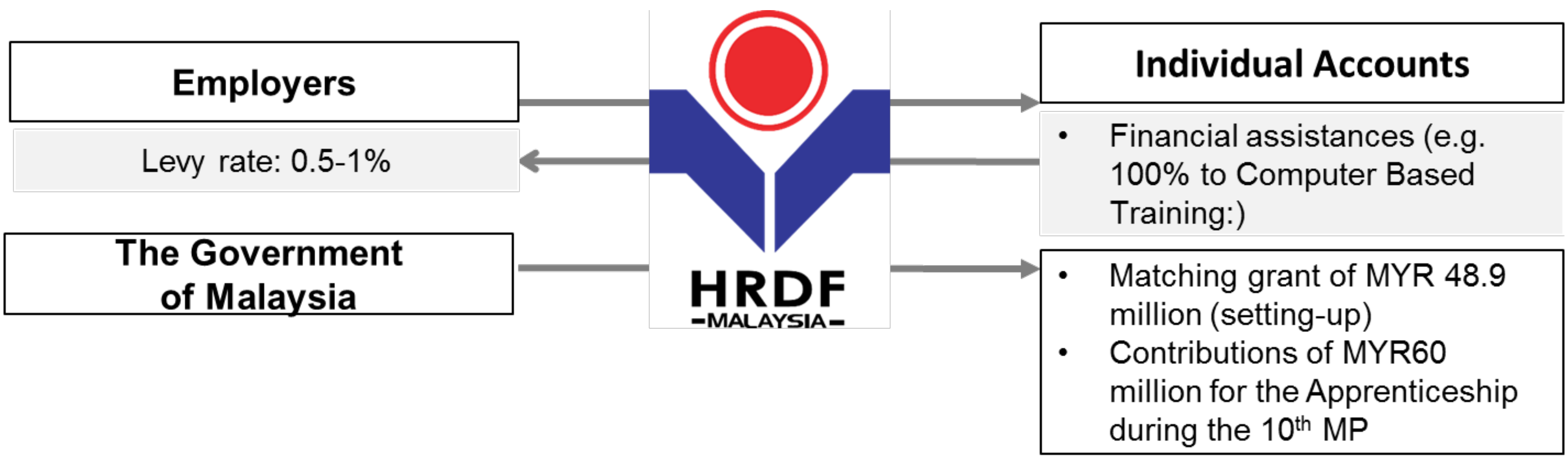
Sources: Malaysia's HRDF (http://www.hrdf.com.my); HRDF annual reports (various years); World Bank (2014). HRDF's impact evaluation

Malaysia's Human Resource Development Fund

Issue 1: Two sources of the Fund

- Payroll levies collected from the employers (with 50 employees and above)
  - Contributing enterprises' own individual accounts
- Time to time contributions from the Government to the Fund
- Each will be utilized for different purposes:
  - Employers levies solely for financing training in companies and for companies
  - Contributions from the government used for specific/identified groups

Malaysia's HRDF: Delivery Mechanism



- Increase ownership of the contributors: No cross-subsidization
- Provide equality of opportunity of access to training services

Sources: HRDF annual reports (various years); Yasushi (1998); Interviews

Malaysia's Human Resource Development Fund

Issue 2: Evolution of HRDF

	Coverage Expansion (since 1 Jan 1993)	Addition of Training Schemes
1990s	*Employers with 50 employees and above in the* ***manufacturing sector*** *(1 Jan.1993)* **.....** *Employers with 10 employees and above in* ***services sector****, namely the hotel industry, tour operating…. (1 Jan. 1995) …….* *Source: HRDF Website*	• Introduction of three training schemes to encourage enterprise-based training schemes (in 1993) • Introduction of additional schemes to support skills trainings in SMEs (in 1995/6)

2000s

Economic Sector	2010	2014
Mining and quarrying	-	2
Manufacturing	23	23
Services	**21**	**38***
Total	44	63

* Addition of high priority sub-section (i.e. Information Service)

Purpose of Training Schemes	#
Upgrade the skills, knowledge and capability of the existing workforce	7
Increase the supply of skilled workers	4*
Increase ICT training programmes	**2**
Total	13

* Includes apprenticeships; programs for housewives; new graduates

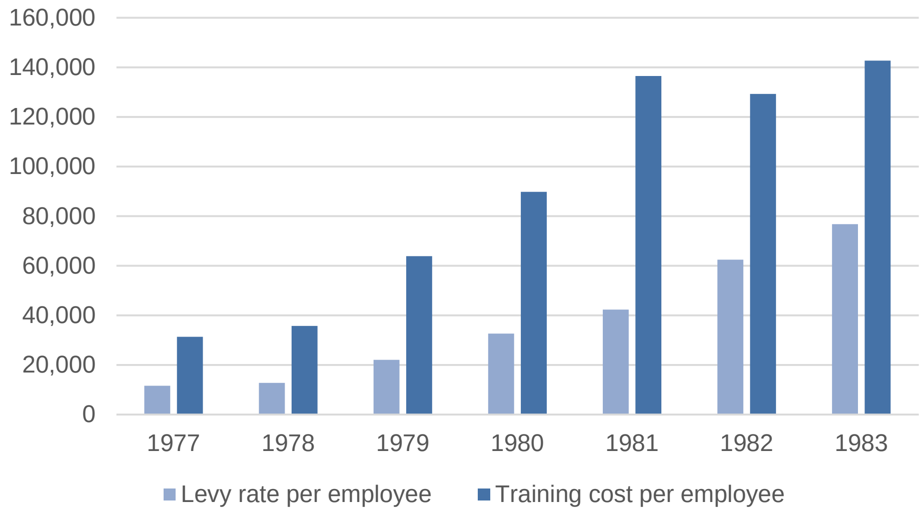
- Consistently relevant to socioeconomic conditions and national plans

Sources: HRDF annual reports (various years); Yasushi (1998); Interviews

Korea's Vocational Training Promotion Fund

- Operated between 1976 and 1997
- Aimed to strengthen employers' roles in vocational training
  - Restricted to large enterprises (i.e. more than 150 workers in 1991)
  - Private companies were enforced to offer in-plant skills training to a percentage of firms' work force, the target being based on estimate of national needs (ILO, 1994)
- Managed under the MoL
  - No representation from employers or workers on the Fund's Board
- Adopted levy-exemption scheme
  - Levies imposed to employer in case of lower result than the target set by the MoL
  - Levy rate calculated annually by the MoL individually for every firm

Levy rates and unit-cost of in-plant training (KRW)



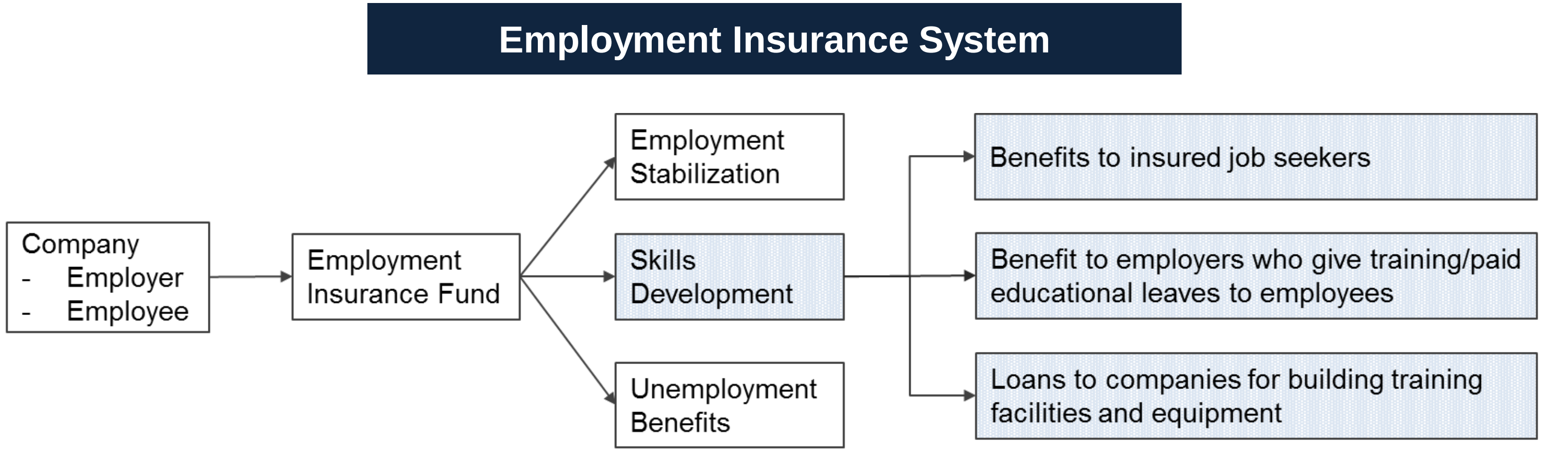
Sources: Gaskov (1994); KRIVET (2012); Korean Labour Studies (2009);

Korea's Vocational Training Promotion Fund

Issue 1 : Abolishment of the Fund

- Reasons behind abolishing the Fund in 1997
    - Employers were more willing to pay levies (in the 1990s)
        - Higher cost of conducting in-house trainings due to the increased skills level of employees, compared to levies
    - No longer an effective tool to push employers to offer in-plant skills training

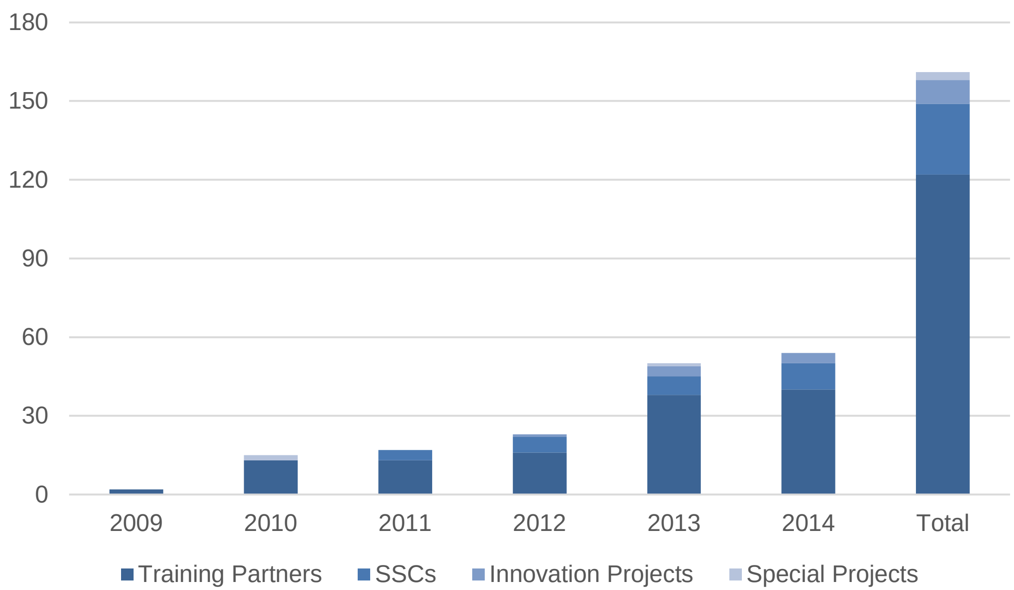
- Introduction of "Employment Insurance System"
    - Adapted to all enterprises based on the Employment Insurance Act enacted in 1995
        - Transform from levy-exemption to levy-grants
    - Skills Development as one of the three main tasks supported by the Insurance Fund



India’s National Skills Development Fund

- Officially launched in 2009
- A financial vehicle of the National Skills Development Corporation (NSDC)
  - Aims to skill 150 million people by 2022 by fostering private sector participation
  - Set up as PPP under the PM’s National Development Councils and transferred to MSDE
- Financed solely by the Government of India
- Delivery mechanism
  - Financing sources: The Government of India
  - Services offerings: Financial assistance to training providers in a form of grants/loans/equity through NSDC

Number of NSDC funded Training providers/projects

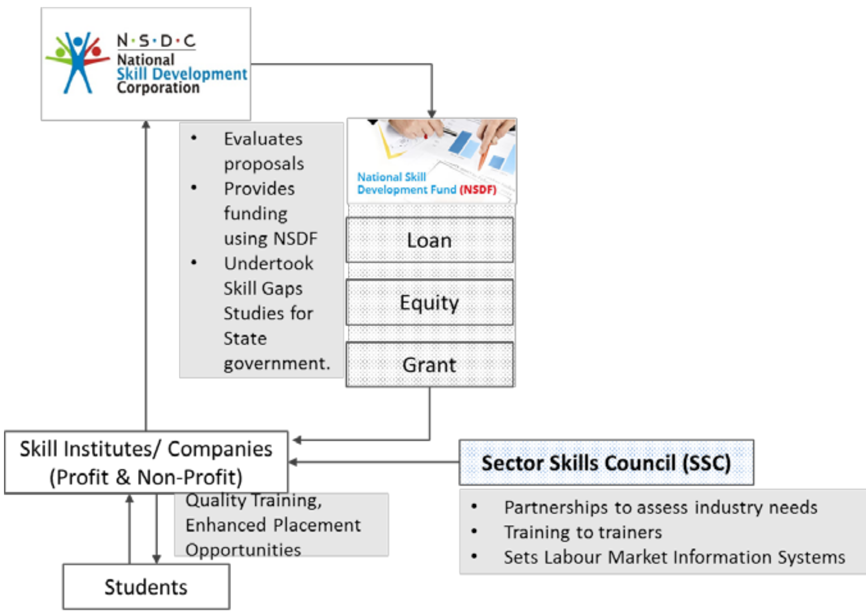


Sources: Controller (2015)

India's National Skills Development Fund

Issue 1: Capacity development

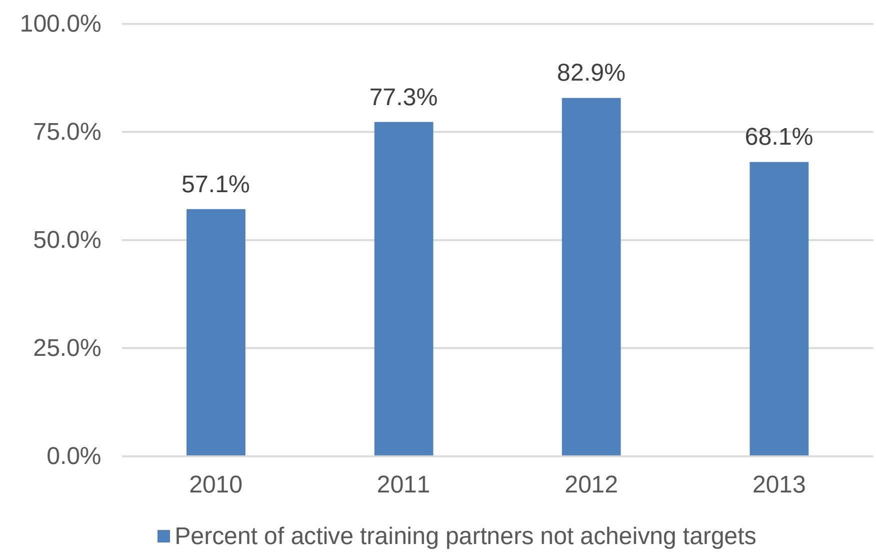
Mechanism of NSDC/NSDF



- Setting SSCs is one of the capacity development initiatives
- More initiatives to foster an ecosystem for skills development

Issue 2: Performance of training providers

Share of training providers not achieving target (%)



Note: Active training partners are those funded partners which are promoting their progress in terms of annual training and placement targets.
Source: Controller (2015)

- The targets might be over-stated
- Due diligence requirements might have not fully established at the beginning of the Fund
- Training providers might face difficulties in mobilizing trainings through partnerships with the industry.

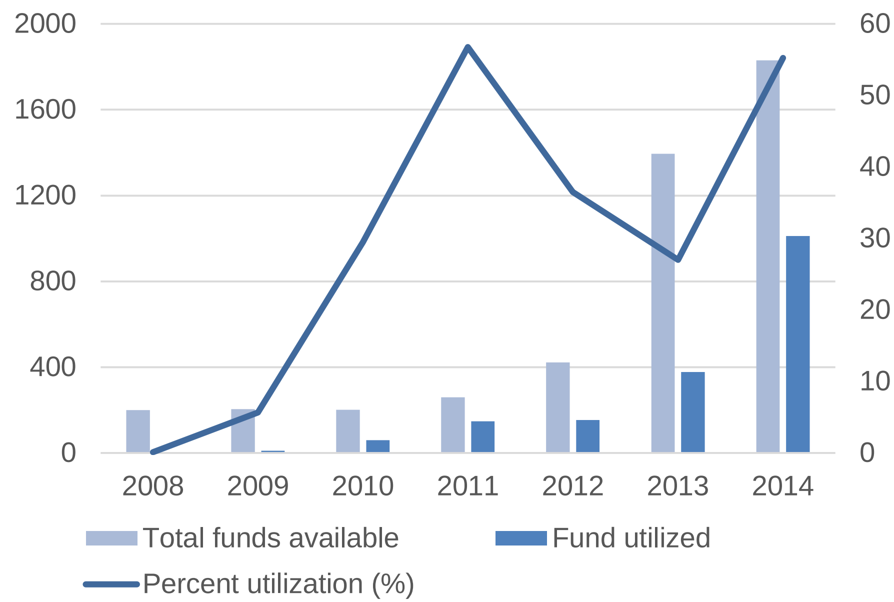
India’s National Skills Development Fund

Issue 3: Delivery mechanism

Flow of Funds from NSDF to NSDC (IDR Crore)

Year	NSDF from Government	Funds made to the NSDC
2008-09	998.10	203.00
2009-10	Nil	Nil
2010-11	Nil	Nil
2011-12	502.28	104.95
2012-13	Nil	290.90
2013-14	1,311.60	1,073.99
2014-15	488.76	690.06
Total	3,300.74	2,362.90

Status of Funds in NSDC (IDR Crore)



- Inconsistent financial contribution from the government to NSDF (May be relevant to the low utilization of the Fund)
- Low utilization rate of the funds in NSDC
- Risk of sustainability of NSDF & low efficiency in delivery mechanism in NSDC

Source: Controller (2015)

Sri Lanka's Skills Development Fund Limited

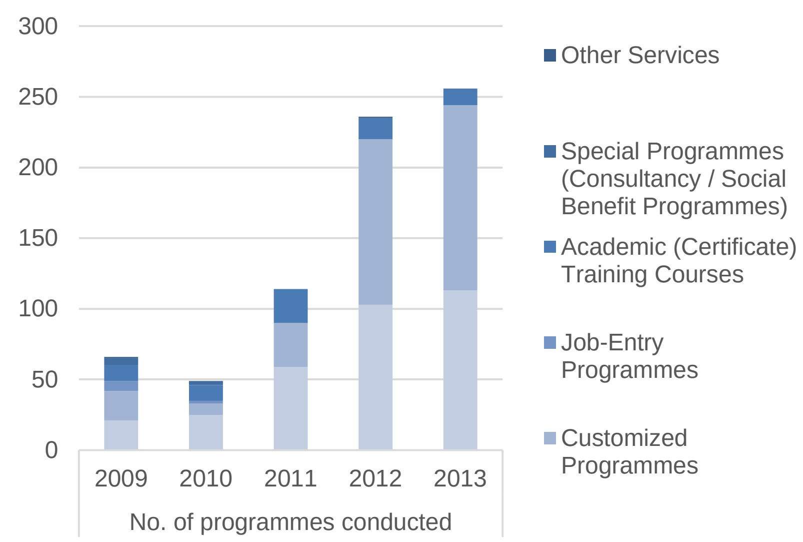
- Established in 1998 as a pilot project sponsored by ILO and UNDP
- Aims to develop and conduct training programs to enhance the knowledge and skills of the employees of the private and public sectors.
- Registered under the Ministry of Youth Affairs and Skills Development (MYASD)
- Financially provisioned and managed by the Treasury
- Delivery mechanism
    - Financing sources: Interest income & Operational income
    - Services offerings: Short-term training programs and consultancy

Issue 1: Transformation of its role

- Failed to play its role as a financial vehicle
  "….Though the Sri Lanka (SDF) was established as part of the TVEC Act to collect training levies, it has never been fully functional…" -Dundar, et al. (2014)

- ADB's proposal to establish a new skill fund turned down by the then new government
- Act now as a training provider offering trainings to MYASD agencies and industries

Number of program conducted, 2009-2013



Philippine's JobStart program

- Piloted from Jan 2014 to Aug 2015 (to be rolled-out nationally) with the support from the Government of Canada and ADB
- Aims to enhance the employability of at-risk youth to improve their integration into productive employment
- Structure: i) DOLE as executing agency; ii) Public Employment Service Offices (PESOs) as implementing agencies; and iii) employers as partners
- Services offerings: A full cycle employment facilitation services with stipends

Issue 1: Nation-wide Roll out

- Reason 1: Clear goal with a simple delivery mechanism
  - Match between local employers and local trainees
- Reason 2: Capacity development of PESOs
  - Institutionalized PESOs with adequate staffs and facilities
  - Improved the labor market information available at PESOs

Delivery Mechanism of JobStart

Sources: ADB (2014, 2016)

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1 Background

2 Country Experiences

3 Implications for South Asia

- Lessons from country experiences
- Policy implications for South Asia

4 Conclusion

Lessons from country experiences

Component	Summary of Lessons
Objectives of the Funds	• Promote skills development and productivity growth of the workforce by encouraging private sector involvement • Direct skills development in specific or a nation's priority sector • Institutionalize market-responsive TVET and foster a TVET ecosystem

Funding Modality	• Contributions from the government
	    • Limited provision
	    • Risk of the sustainability
	• Contributions from donors or developing partners
	    • Short duration
	• Levy-scheme
	    • Difficult to be adopted in countries where informal sector is prevalent
	    • Cyclic financing (whereas counter-cyclic training activities)
	• Multiples funding modalities for different purposes (i.e. Malaysia)

Private sector involvement	• Decision makers in a governing body of the Fund
	    • Maintain its relevance to the industry needs
	• Training providers
	    • Maintain the Fund's relevance to the industry needs
	    • Given that they are linked in supply chain, large enterprises have incentives to train the employees in SMEs and the informal sector.
	• Financing source
	    • Promote ownership and help increase the Fund's sustainability

Lessons from country experiences

Component	Summary of lessons
Funds recipients/ Financing instruments	• Provide living allowances/stipends to employees/trainees through intermediaries and training providers • Do not finance training beneficiaries directly (e.g. training fees) • Offer financial assistances to training providers in a form of grants, loans and equity • Provide financial assistances to employers in a form of grants
Financing instruments to the retrenched group	• Provide vouchers to the trainees • Utilize contributions from the government (e.g. Malaysia's HRDF) • Provide more grants to the employers who offer trainings to the retrenched group (e.g. Singapore's SDF)

Policy implications for South Asia

Why South Asia needs a SDF?

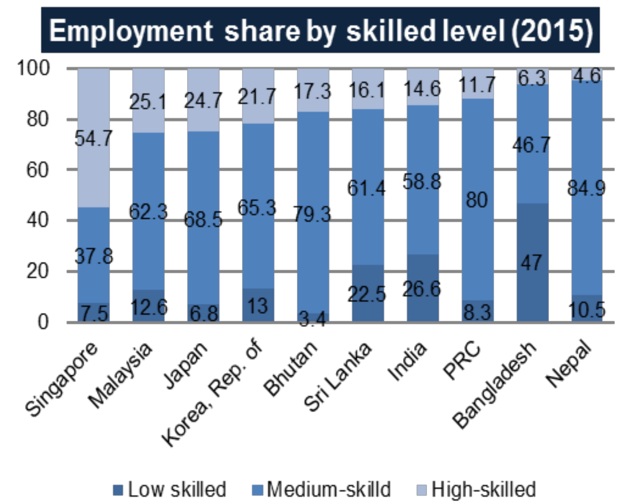
"…the shaping of National Training Funds is the results of a complex mixture of economic, social and political forces." – UNESCO (1996)

Economic Structure /Development stage

- Large share of SMEs & Prevalent informal sector
- Factor-input-led-growth stage
- Skills shortage recognized as one of the key bottlenecks for economic development/transformation

Lack of skilled labor

- Large low- and medium-skilled labors
- Large skills in informal sector (Not-yet-recognized)
- Large volume of labor entrants in the coming decades (demographic dividends to be explored)



Source: World Economic Forum (2015)..

Government's strong commitments toward skills development

- Attempted to improve their capacity for skills development
  - India created a new ministry dedicated to skills development, known as Ministry of Skills Development and Entrepreneurship.
  - Nepal and Sri Lanka have an apex body for TVET coordination.

Policy implications for South Asia

Roles of the Fund in South Asia

To promote skills development of workforce	• Reach/attract the most incentivized stakeholders in the market • Provide financial and technical assistances to stakeholders • Open coordination among stakeholders

To increase private sector participation	• Necessary to have the private sector in a governing body of the Fund
	    • Play a major role in a decision making process
	    • Enable the Fund to respond flexibly and quickly to the industry needs
	    • Ensure quality and relevance of the training programs offered by accredited training providers
	• Act as training partners of the Fund
	    • Especially helpful for SMEs and the informal sector if large enterprises can train their employees
	    • Ensure quality and relevance of the training programs
	• Financing sources (option)

To promote capacity development of TVET sector	• Ramp up the government's efforts to skills development of the nation • Incentivize public training providers to transform into market-oriented • Provide technical and financial assistances to private training providers to improve their training qualities and to pursue training programs demanding for more inputs
To monitor and evaluate how funds are utilized	• Avoid principal-agency dilemma • Need a systematic M&E based on performance to avoid conflicts of interest

Policy implications for South Asia

Programmatic approach

- Serve multiple purposes: Promoting skills development and productivity growth of workforce:
  - Introduction of market differentiation (e.g. Malaysia's HRDF) of the beneficiaries:
    - Workers and entrant laborers in high growth sector
    - Migrant workers
    - The retrenched group
- Short-term performance of the Fund: Very important as a kick-off
- Evolution of the Fund over a nation's skills level and in accordance with the national plan

Road map of the Fund over skills level (for example)

	Skills Level		
Governance	Supreme ministry for coordination (e.g. Ministry of Finance, or Prime Minister's office) Employer's associations Donors/Developing partners Associations from informal sectors	Ministry of Skills Development or Ministry of Labor and Employment Employer's associations Associations from informal sectors	Ministry of Skills Development or Ministry of Education Employer's associations Associations from informal sectors
Financing source	Government Donor/Developing partners	Government Levies from employers (optional for SMEs)	Government Levies from employers
Financing instrument	A mix of grants and loans (Dominant share of grants)	Reimbursements Grants	Grants
Service offerings	Developing capacity of TVET sector (i.e. Labor market Information Center; Occupation qualification framework) Training schemes to train, retrain and upskill existing labor in priority sectors Training schemes to recognize skills of workers in informal sector	Training schemes to train, retrain and upskill existing labor Training schemes to increase supply of skilled labor	Training schemes to train labor working in the extremely high skilled sector (i.e. space?) and to extend to less served sectors such as agriculture Training schemes to increase supply of skilled labor
Beneficiaries	The youth (NEET, secondary school students) Employees (formal and informal), oversea workers	The youth Employees	The youth (secondary and tertiary school students); Employees (formal)
Private sector participation	Training provider Decision-maker Sector association and industries (job creating manufacturing and service sectors)	Financial contributor Training provider Industries (manufacturing and service) Decision-maker	Financial contributor Training provider Industries (extend to agriculture) Decision-maker

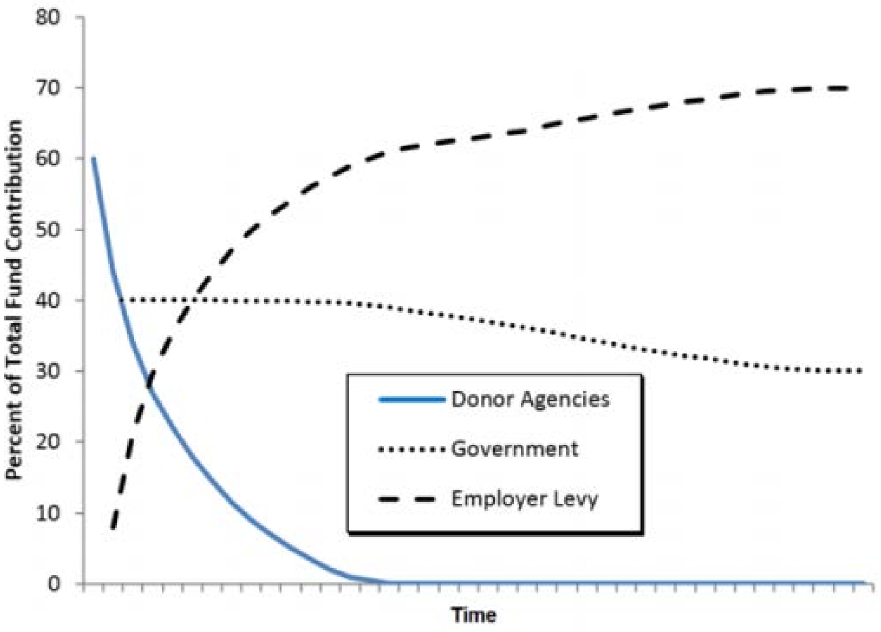
Policy implications for South Asia

Who will finance the Fund?

Adoption of Levy?

- Difficulty in adopting levy-scheme in South Asia where informal sector is prevalent
- Use contributions from the government, donors and/or developing partners as initial sources
  - Kick-off the Fund and trigger its activities
- Important to start with co-financing and selected revenue models
- Important to invite other financial sources (i.e. levies) as the Fund progresses and evolves

Evolution of the Fund: Major Funding sources



Source: Noonan (2014) Public Labor Market Training Funds. History of Education in Laos Working Paper Series 16.

Policy implications for South Asia

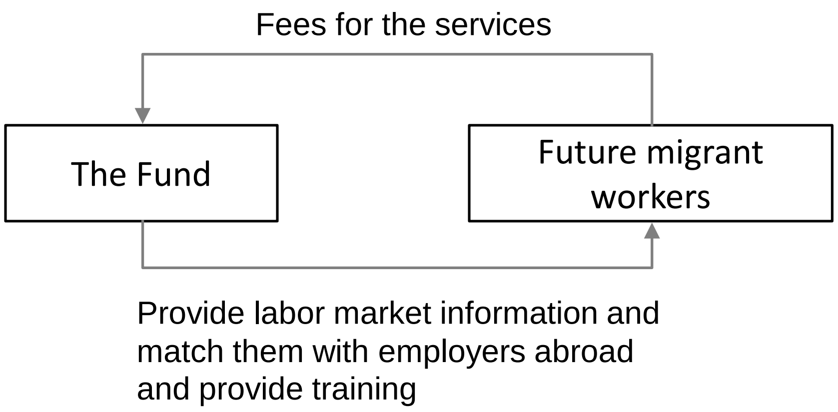
Who will finance the Fund?

Co-financing

- Co-financing from the industry
  - In-kind contributions
- Able to provide customized training programs to the trainees
  - Increase relevance and effectiveness of the trainings
- Able to expand a coverage of the Fund
  - Reach out SMEs who have limited funding for skills trainings

Revenue model (1)_Migrant workers

- Huge remittances coming in South Asian countries
- Fund's revenue model: To collect income from providing training to migrant workers through intermediaries

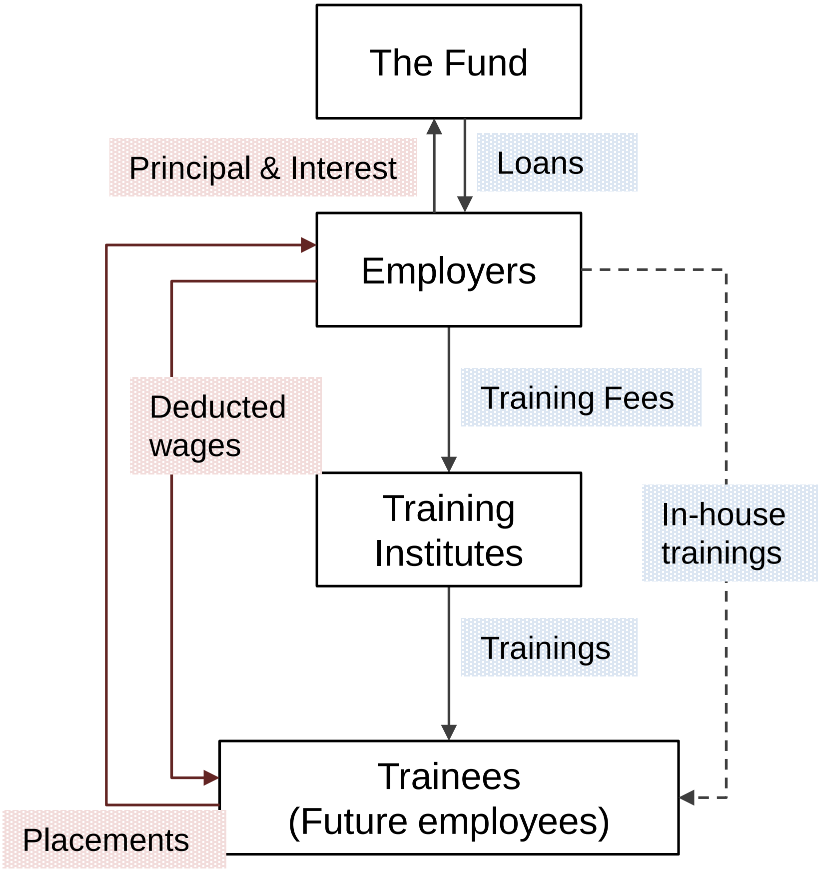


Policy implications for South Asia

Who will finance the Fund?

Revenue model (2)_Credit to Trainees

- Provide training loans to the trainees via employers and training institutes
    - Once the trainees are placed, they pay back the loans by receiving deducted wages from their employers
- Can be applied to those who like to work in high growth sectors and exporting sectors/enterprises with large job creation potential
- To attract the most motivated trainees
- To encourage sustained placement



Policy implications for South Asia

Road map of the Fund over skills level (for example)

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Q&A

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Eunbi Song
PhD Candidate in Economics
Korea University

eunbisong56@korea.ac.kr
eunbisong56@gmail.com

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ADB Life

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