United Nations Educational, Scientific and Cultural Organization

UNEVOC International Centre for Technical and Vocational Education and Training

Diversifying the sources of funding for TVET

Mobilizing the means to achieve the 2030 Agenda for Sustainable Development

Virtual conference on the UNESCO-UNEVOC TV*e*T Forum from 16 to 22 January, 2017
Moderated by Christine Uhder

Introduction: Why is the topic of TVET funding important?

Technical and vocational education and training (TVET) is considered a powerful tool to prepare youth for the labour market and provide lifelong learning opportunities to adults. It plays a strategic role in the achievement of the 2030 Agenda for Sustainable Development.

In particular, **Sustainable Development Goal 4 on Education** calls on Members States to "ensure inclusive and quality education for all and promote lifelong learning". It notably targets, among other things, "equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university" (SDG 4.3) and a "substantial increase in the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship" (SDG 4.4). This vision of TVET supports the transition towards inclusive and sustainable societies and economies, but also requires TVET systems to transform and adapt to remain relevant.

The World Bank's World Development Report entitled "Jobs" (2013), as well as demographic changes, provides a number of insights on the challenges facing training systems in the near future. This includes:

- **Demographic change**: in the next 15 years, the global population is expected to increase by more than one billion people, reaching 8.5 billion in 2030 and 9.7 billion in 2050. This implies a considerable increase in the training offer;

- **Changes in the labour market:** today's labour market is characterized by a high share of self-employment and informal employment (formal salaried jobs only representing half of the jobs available worldwide), gender inequalities (less than 50% of women occupying a job worldwide, against almost 80% of men), urbanization (54% of the world population lives in urban areas) and rapid digitization of the economy, bringing significant changes in the skills required on the labour market. These developments will have an impact on the type of TVET offered. For example, it implies a paradigm shift, as underlined by the European Commission (**2012**), to take into account not only school-based approaches to TVET, but also "non-formal programmes which may be delivered in the workplace" and who "do not lead to formal qualifications and encompasses training in the informal economy".

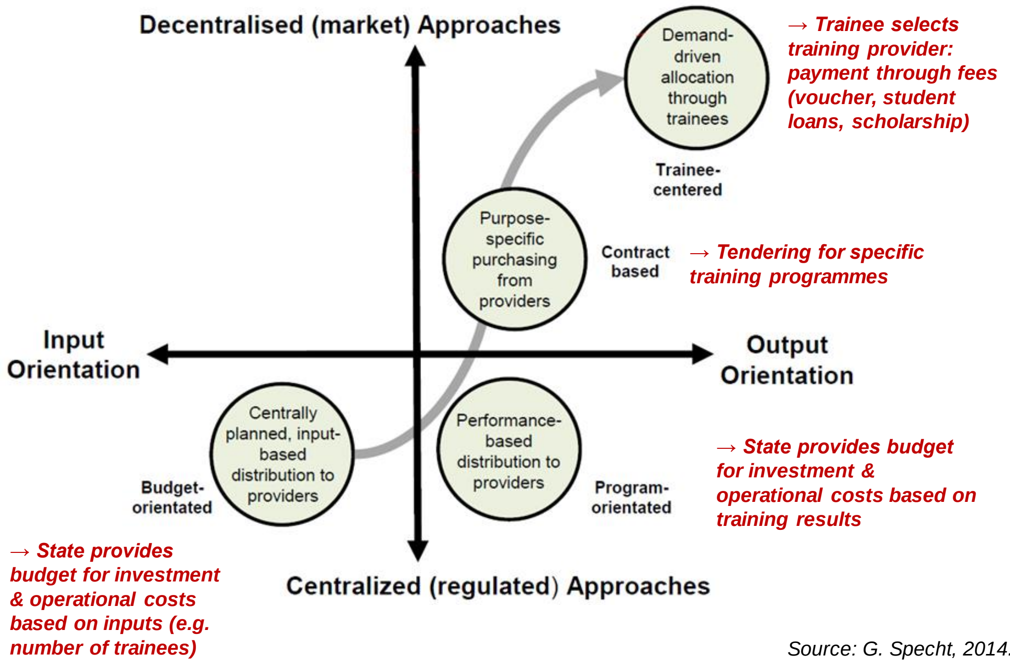
For TVET systems to adapt to these and other developments and contribute to the achievement of the global sustainable development agenda, the financing of TVET systems is of key importance.

Existing approaches to increase TVET funding

Various strategies have been adopted to increase funding in TVET. These include:

Cost-efficient use of public resources through output-based approaches

One strategy adopted is to implement **output-based funding approaches** to ensure a cost-efficient use of available resources. States are gradually moving away from budget-oriented funding (where budget is based on inputs e.g. number of trainees, utilities, teachers' wages, cost of material) to adopt funding approaches that take into account quality and relevance of training. These approaches are synthetized in the diagram hereunder:



Source: G. Specht, 2014.

Diversifying funding sources

Other strategies focus on complementing resources by mobilizing other stakeholders:

1. **Families and individuals** by introducing or increasing training fees, sometimes by privatizing the training offer;
2. **Training centres** by raising their autonomy and encouraging them to develop income generating activities;
3. **Industry** by implementing apprenticeship or alternance-based training (where part of the cost of training is shifted on companies) but also by introducing training or apprenticeship taxes and levies. There are several approaches in this regard:

- **"Train or pay"** where only those companies that do not provide training (up to a certain number of their workers or a certain number of hours) have to pay a tax, generally calculated on payroll; and
- **Training or apprenticeship levy** commonly imposed on companies' payroll (less often on contracts or production) whose percentage may vary according to the size and/or sector of the company. The introduction of such levies is often concomitant with the setting-up of a **training fund**, a specific body which provides a secured channel for the management of the training levy, often distinct from State. Such training funds define and manage training schemes with the aim to promote skills development according to the needs of the economy, and these training schemes are specifically suited to meet the constraints and needs of specific targets (SMEs, youth, women, unemployed, innovative industries, etc.).

There are various types of training these training funds can finance:

Type of training	Aim of training
Pre-employment training	Increase the supply of qualified workers according to the skills needs of companies
Continuing training	Increase the productivity and competitiveness of firms by raising the skills of their workers
Equity training	Specifically target disadvantaged groups (informal workers, unemployed, youth, etc.) that are not covered by enterprise training schemes

Training funds can be:

Type of training fund	Approach
Inter-sectoral training fund	Levies are pooled from various sectors, mutualized at the national level and reinvested in the economy according to national policies and priorities *(e.g. Malaysia, Singapore, Sub-Saharan Africa)*
Sectoral training funds	Levy is raised on the companies of a specific sector and reinvested in the development of competencies of that sector *(e.g. South-Africa)*
Employment insurance fund	Training fund coupled with unemployment insurance system *(e.g. South Korea)*

Main questions for discussion

These trends and analyses raise a number of questions that this virtual conference will address:

- **What are the main advantages and risks of output-based funding strategies? How should output-based systems be designed to function appropriately?**

  As mentioned above, there are various approaches to improve the cost-efficiency of public resources; funding training providers based on performance indicators, allocating resources on a contract base, or funding training providers through State-supported vouchers and loans (in this approach, it is no longer the training offer that is funded but the training demand).

According to your experience, what are the main advantages and risks of such approaches and what would be your recommendations for a smooth and efficient implementation of increasingly market-driven funding systems?

- **How can training providers be supported in developing income generating activities? What are the advantages and risks involved? Should these activities be regulated, and if yes, how?**

  Training providers are increasingly pushed to develop income generating activities to complement their resources. By doing this, they develop their relations with companies, deepen their understanding of training needs and provide opportunities to their students to gain practical experience. There are nevertheless risks involved (unfair competition with local enterprises, diversion in the use of training equipment for commercial purposes etc.). The virtual conference aims to investigate how income generating activities can properly be implemented and regulated.

- **How can the tax / levy imposed on companies be managed and used efficiently? More generally, what are the possible approaches to support lifelong learning strategies?**

  Tax or levy-systems are introduced to mobilize companies in the funding of TVET. The management and the use of such levies raise fundamental questions – how should training funds be designed to function appropriately? Should the levy raised on companies be used to finance company-based training only (apprenticeship, continuing training of workers etc.) or should it also be used to finance other schemes (training of unemployed, of informal workers, out-of-school youth, public training provision)?

  How can these resources be used strategically (e.g. to support national economic development priorities, emerging priority sectors, sustainable development practices in companies)? Are there approaches to mitigate the possible distortions generated by training levies (e.g. levies raise the cost of labor, leading employers to either reduce the number of workers they employ or compensate by paying lower wages; detrimental effect for small size enterprises)? Besides tax and training levies, what are the possible approaches to effectively support lifelong learning strategies?

- **Besides the implementation of training levies, are there other convincing approaches to mobilize funding for skills development?**

  Some countries have introduced additional, innovative mechanisms to complement the resources available for skills development, such as the national education tax in South Korea, implemented to improve the educational environment, collected as a form of surtax on existing taxes like property and automobile taxes. In Brazil, SENAR has implemented a 2.5% tax on the sales of agricultural products. These approaches are less well known and documented.

Are there other approaches to mobilize funding that you would like to share and what are the lessons that you draw from them?

Throughout the virtual conference will also share experiences from a comparative study on the financing of TVET in South-East Asia (French Development Agency and UNESCO) and in Sub-Saharan Africa (French Development Agency, Association for the Development of Education in Africa, Gret[1]).

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About the moderator

Christine Uhder

Christine Uhder is a Project Manager at the GRET and specializes in vocational training, professional integration and business development services to SMEs. Christine has 8 years-experience as an international consultant and project manager in Sub-Saharan Africa and South-East Asia regions. Through her work, she ensures the design, implementation and monitoring of large scale development projects and conducts research on the topic of financing TVET in Sub-Saharan Africa, South-East Asia and Latin America, with the aim to analyze and compare strategies implemented to ensure a cost-efficient use of resources, mobilize the private sector in funding TVET, and design financing systems that support lifelong learning and sustainable societies.

[1] *Groupe de recherche et d'échanges technologiques* (GRET), a French organization with 40 years of experience in international development work. http://www.gret.org/