Improving the Responsiveness of Skills Supply with Financing Reforms

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Policy instruments to improve the matching of skills supply and demand

- Expansion of enterprise-based training
- Employer-governed training institutions, e.g. SENAI, SENAC
- Engagement of industry in setting competency standards
- Employer advisory boards for schools and centers
- Promotion of private provision
- Improved labor market information
- Decentralization of training center management
- Financing instruments that create incentives and accountability for matching skill supply and demand
Changing how skills are financed is a powerful tool for achieving better results from public expenditure

- Tax expenditures
- Performance-based budgeting in the public sector
- Vouchers and learning accounts
- Training funds and competitive procurement
- Levy-grant systems
Policy objectives for financing reforms

- Placing the end user of skills in control for better decision making
- Better targeting of beneficiaries; promoting equity and addressing market failures
- Expanding private spending on training
- Changing the performance incentives for public expenditure
- Introducing greater accountability for public expenditure
- Promoting the development of training markets with competition
Tax expenditures can promote private spending and decision making

- Tax allowances for training expenditures
- Tax exemptions for education and training services
- Tax credits for training expenditures
- Tax relief or lower rates for some classes of taxpayers who train
- Tax deferrals postponing tax payments for certain activities
Issues with the use of tax expenditures

- Ensuring quality of training purchased; recognized providers
- Eligibility of expenditures; basic education versus skill maintenance and upgrading
- Targeting of tax expenditures; production workers vs. management
- Targeting of tax expenditures; private and non-profits vs. public providers
- Coverage; tuition, travel and subsistence, course materials
- Reducing deadweight effects; large firms vs. smaller firms
Performance-based budgeting for the public sector

- Budgeting for inputs does not guarantee marketable skills
- Lack of accountability for results does not encourage good performance
- PBB seeks to replicate the incentives for public providers experienced by private providers
- PBB shifts budgeting away from inputs to outcomes, e.g. Australia, Chile, India, Indonesia, U.S.
- Budgeting focuses on strategies to achieve results in the form of performance indicators
- Requires merit-based personnel systems that reward good performance and sanction bad performance
Financing end users with vouchers and learning accounts

- Policy objectives: freedom of choice, improve provider responsiveness, create a market for training, share training costs, improved targeting of public expenditure
- Empowering the individual who has an interest in connecting with the market; Australia, Columbia, Germany, Kenya, U.S., the U.K
- A tool for equity and efficiency
- The need for market information to make good training choices
- The need for auditing and accountability
- Using individual learning accounts as a savings and cost sharing scheme
Issues in setting up Individual Learning Accounts

- Maximum government payment and level of cost sharing
- Eligibility conditions for participation
- Definition of target groups
- Approved training organizations
- Type of training eligible
- Fund management and payment transfers
- Completion incentives for providers and individuals
- Role played by guidance and employers; voluntary, compulsory
- Links with other financial support; tax expenditures, loans
Training Funds as a market intermediary

- An intermediate step to financing end users of training
- Compensating for information asymmetries in the market
- Used with levy-grant systems, but also with other sources of financing for demand-side financing, found in Africa, Middle East, Southeast Asia
- Can be used to consolidate government spending on the demand-side
- Competitive procurement of training can promote the development of training markets and improved access
- Governed with employers where levy-grants exist; sometimes part of a National Training Authority
Levy-grant systems intended to encourage enterprise training

- A levy of 1-2% on wages, sometimes sales, dedicated for spending on training
- Mitigation of the “free rider” problem where labor turnover discourages enterprise training
- Issues of deadweight and administrative cost
- Promoting labor mobility with national vs. sector levy-grant systems
- Management of levy through Training Funds
- Strategies for encouraging training by small enterprises; Singapore and Malaysia
What can be achieved with financing reforms for TVET?

- Placing the end user of skills in control for better decision making
- Better targeting of beneficiaries; promoting equity and addressing market failures
- Expanding private spending on training
- Changing the performance incentives for public expenditure
- Introducing greater accountability for public expenditure
- Promoting the development of training market with competition
Where to find more about financing reforms for TVET

The End