

**KWPF**  
KOREA-WORLD BANK  
PARTNERSHIP FACILITY

**FINANCING TVET IN THE EAST ASIA  
AND PACIFIC REGION  
Summary Report**

**Current Status, Challenges and Opportunities**

By

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## Introduction

The East Asia and Pacific (EAP)<sup>1</sup> region is very diverse and there is a wide range in the extent to which firms across these countries identify the education level of their workforce as being a major constraint. However, developing skills, including vocational and technical skills, and enhancing employability are clear strategic objectives in the EAP region. Countries in the region face strong pressures to expand their technical and vocational education and training (TVET) systems and enhance their quality, while also facing spending pressures on basic and higher education. As this demand increases, the need for sustainable financing for TVET becomes more urgent; this is not only about ensuring that sufficient and predictable revenue streams exist to fund training programs, but perhaps just as importantly about how financing mechanisms themselves can be strongly linked to achieving policy objectives of making TVET systems more accessible, equitable, efficient, demand-driven, responsive and relevant.

This brief aims to address the following key questions with regard to TVET financing in EAP:

1. What is TVET financing?
2. Where does TVET funding come from?
3. How are TVET funds spent?
4. How are TVET funds currently allocated?
5. What role can TVET financing play in achieving TVET and national policy objectives?
6. How can countries create the right environment for TVET financing?

### What is TVET Financing? A Framework

TVET is broadly defined to include formal, informal, non-formal, as well as work based pre-service and in-service programs. TVET provision is often fragmented amongst a complex system of government agencies, industries and providers. To begin to understand the system, it is important to first have a good grasp of a country or region's TVET governance, agencies, and the programs offered.

The financial resources allocated or spent on all TVET programs reflect the country or region's priorities and, when combined with outcomes, the system's efficiency, as well as its policy priorities and trade-offs. Many countries must reconcile the fact that public and private resources are limited with the need to spread these resources over many levels and programs. Hence, achieving the best use of resources while maintaining a sustainable budget is a key

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<sup>1</sup> The EAP Region here refers to: Cambodia, China, Indonesia, Korea, Lao PDR, Malaysia, Mongolia, Myanmar, Pacific Islands, Papua New Guinea, Philippines, Singapore, Thailand, Timor-Leste and Vietnam.



policy issue. As a consequence, the policy debate is increasingly focused on raising the level of financing through diversification, and on enhancing efficiency while maintaining equity. Diversification is achieved mainly by involving enterprises, individuals and other innovative sources of funding (philanthropic sources, sponsors, etc.), and through public–private partnerships (PPP). The formal apprenticeship system represents a PPP in which different actors play their own roles in the financing mechanisms. The system works through interaction between public institutions (central, regional or local), which contribute to financing the school-based element of the training, and the enterprises that contribute to financing the company-based component.

At the same time, financing policies and mechanisms must ensure that efficiency and equity complement each other. This entails ensuring that further developments of TVET systems meet the needs of the excluded, in particular early school-leavers, low-skilled individuals, migrants, individuals with disabilities and those who are unemployed.

It is important for TVET financing to distinguish between sources of funds and how these funds are allocated and subsequently used. In other words, the distinction should be made between resource mobilization, resource allocation and resource utilization. Table 1 provides an example of the sources of funds for TVET by program.

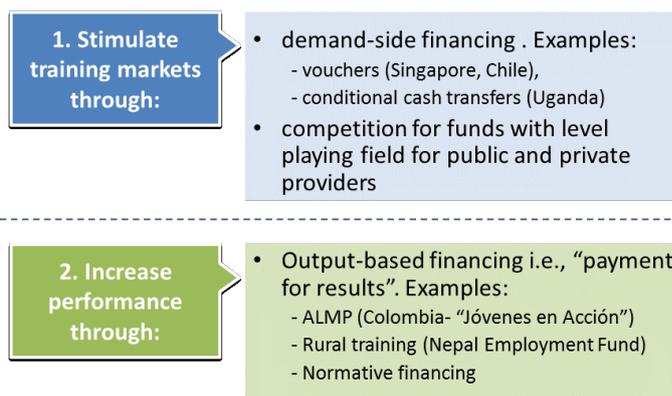
**Table 1: An Example of Sources of funds for TVET**

	Public	Private	
		Enterprise	Individual
A. PRE-EMPLOYMENT	x		x
B. IN-SERVICE			
Initial job training, apprenticeship		x	x
Updating workers		x	
Upgrading workers		x	x
C. ACTIVE LABOR MARKET PROGRAMS (ALMPs)			
Upgrading low or unskilled workers	x		
Youth transitioning to the labor market	x		
Adults transitioning between jobs	x	x	

Resource allocation mechanisms for the various institutions involved in the TVET system should be studied. Specific financing mechanisms tend to be more or less effective in inducing specific policy objectives. Countries may determine a menu of financing options that are most suited for achieving its own policy agenda. Figure 1 illustrates a few examples of financing mechanisms and their policy objectives.



**Figure 1: Financing Mechanisms and Objectives**



The utilization of resources depends on the administrative system and government regulations under which TVET institutions operate. The overall governance structure has an impact on the effectiveness of available resources. The policy issue here is to what extent the system that is in place provides incentives and flexibility for TVET institutions, companies, communities and individuals to use their (often limited) resources in the most efficient and effective way.

Finally, information on the impact of TVET policies and programs on the labour market outcomes of participants in various TVET programs is very important for decision-makers. Budgetary constraints mean that public and private interventions and expenditures must be more strongly defended and justified, and their beneficiaries increasingly need to be more accurately targeted in line with skills demands in the labour market.

### **Where Does EAP’s TVET Funding Come From?**

TVET funding typically comes from three main sources: government budgets, student fees, and the private sector. In addition, other sources might include employee contributions, private donations, income generating activities and external assistance (e.g. Official Development Assistance (ODA) and official loans). Funding portfolios of TVET providers across countries and provision types varies, but in general for the majority of public TVET providers in EAP, government funding is the most significant source of funds overall; while student fees are the most significant source of funds for private providers. Meanwhile, training for employees in private firms is almost entirely paid for by that firm.



Across EAP, TVET resources are mobilized differently between private and public providers. In Fiji, Papua New Guinea and the Solomon Islands, the majority of funding for private TVET providers comes from student fees; while in Samoa private TVET providers receive the bulk of their funding from NGOs and the church, and in Tonga, Catholic church private TVET providers receive the bulk of their funds from public grants (Palmer, 2015a). In Mongolia public vocational schools, almost all (95%) funding comes from government budgetary allocations. In the Philippines, public TVET providers such as TESDA (Technical Education and Skills Development Authority) training centers and TESDA-administered schools mobilize almost 95% of their resources from TESDA.

### **Government Funding via Grants and Direct Payments**

In most EAP countries, government funding is the most significant source of funds for public TVET providers. Indeed, in China (Xinjiang Province) ‘the government treats private providers equally with public institutions in terms of... government training contracts, financial subsidies, and student grants’ (World Bank, 2014). In addition to China, private TVET providers in several other EAP countries are in receipt of public funding, including those in Fiji, PNG, Samoa, Solomon Islands, Tonga, and the Philippines (Palmer, 2015a, ILO, 2016).

### ***Official Development Assistance***

Reliance upon ODA for TVET, most of which is grants in-aid, varies considerably among EAP countries; there is a marked difference between the comparatively low level of dependence across most East Asian countries (with the exception, perhaps, of Cambodia, Lao PDR, Myanmar and Timor Leste), and the much higher levels in some of the Pacific Island Countries (PICs). In the PICs, for example, ODA is estimated to provide about 17% of funding in various forms, excluding Australia’s support of the Australia-Pacific Technical College (APTC).

Between 2002-2014, ODA to vocational training<sup>2</sup> in EAP increased overall by 133%, from US\$53 million in 2002 to US\$124 million in 2014.<sup>3</sup> East Asia has significantly more ODA flows than the Pacific. Over the period 2002/3-2013/14,<sup>4</sup> there were increases in ODA disbursements to vocational training in Cambodia: US\$ 1.3m to US\$ 9.5m (+631%); China: US\$ 19m to US\$ 27.1m (+43%); Lao PDR: US\$ 1.2m to US\$ 14.7m (+1,125%); Mongolia:

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<sup>2</sup> ‘Vocational training’ as defined by the DAC’s Creditor Reporting Service (CRS) code 11330, which covers both formal and informal pre-tertiary TVET (OECD, 2014a: 2). There are great methodological challenges to looking at ODA to TVET via the DAC CRS (cf. King and Palmer, 2011; Palmer, 2015c).

<sup>3</sup> The financial data in this review refers to disbursements, rather than commitments, as the former provide a more accurate reflection of the resources actually transferred from donors to recipients in a given year (UNESCO, 2011).

<sup>4</sup> Two year average disbursements 2002-03 and 2013-14.



US\$ 0.3m to US\$ 9.7m (+3,133%); Myanmar: US\$ 0.1m to US\$ 9.1m (+9,000%); Timor Leste: US\$ 0.3m to US\$ 3.4m (+1,033%); and Vietnam: US\$ 8.5m to US\$ 18.6m (+119%). Moving forward, in Lao PDR, ODA will make up approximately one quarter of the budget from 2016-2020 (Leuang, 2016). These figures indicate significant reliance on external funds to achieve national objectives.

Nevertheless, some EAP countries have seen significant decreases in ODA disbursements to vocational training, namely Indonesia: US\$ 21m to US\$ 14m (-33%); Malaysia: US\$ 3.3m to US\$ 0.3m (-91%); and Thailand: US\$ 2m to US\$ 0.7m (-65%). For these three countries, ODA has become less significant in achieving national TVET goals.<sup>5</sup>

### **TVET Funding from Private Resources**

Funding for TVET from private resources can come in the form of student fees, enterprise financing, private training provision by institutions, faith-based and NGO donations, and the sale of goods and services.

#### ***Student Fees***

In EAP, most public and private TVET providers appear to levy fees, but their contribution to overall provider revenue varies considerably between and within countries, and according to the type of provider. For example, in the PICs, student tuition fees are the second-largest source of funding for TVET public and private providers (excluding the Australia-Pacific Technical College), providing an estimated 35% of recurrent funding for participating countries as a whole (Palmer, 2015a). In China, student fees (2014) accounted for a low share of revenue (8%) for secondary vocational schools, and about 32% for tertiary TVET providers (Yang, 2016). In Mongolia's public vocational schools, only 1-2% of funding comes from student fees. In the Philippines, student fees for public pre-tertiary TVET providers make up between approximately 0.5-5% of funding, but comprise almost 70% among for-profit private TVET providers.

#### ***Enterprise / Industry***

Funding for TVET from formal sector private enterprise and industry can take several forms, including: private firm contribution to formal institution-based TVET provision (either in cash or in-kind); private sector funded training funds; and, the firm-financed training for own employees (either in-house or outsourced). In addition to formal sector firms' contributions,

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<sup>5</sup> Certain types of official sector transactions are not regarded by the OECD-DAC as ODA as they do not meet the ODA criteria, and are therefore excluded from ODA tables. These are classified by the OECD as 'Other Official Flows' (OOF). OOF does not represent a major source of finance for TVET in any EAP country. In fact the only two countries currently with OOF flows for vocational training are China and Indonesia. In both cases, these represent loan agreements with the Asian Development Bank.

private enterprises operating in the informal economy across EAP are also themselves providers, and self-funders, of training for their employees, though most of such training is informal and on-the-job.<sup>6</sup>

Overall, financial cooperation between private enterprise and formal TVET institutes are not significant in most EAP countries, as noted in several studies. For example, in China ‘the contribution of enterprises remains insignificant’ (ADB, 2009), and involvement of firms in public TVET provision is low (Yang, 2016). In Xinjiang Province, ‘businesses... are not partners in funding the [TVET] system’ (World Bank, 2014). In Lao PDR there is limited involvement of the private sector in formal TVET provision (KfW, 2015). In Malaysia, ‘the public sector’s engagement with industry remains superficial’ (World Bank, 2013a). In Vietnam, ‘the involvement of enterprises in vocational training is still weak’ (Nhan and Yen, 2016: 12).

While collaboration between private enterprise and formal TVET institutes does exist in some EAP countries, it appears to be limited. For example, in China, students in upper secondary vocational schools are required to spend a third of their course interning in enterprises (Mehrotra et al., 2013). In addition, a school-enterprise cooperation system is being set up whereby schools and enterprises collaborate to design and deliver skills training (Han, 2016). In Indonesia, a dual training system exists that involves partnership between vocational training centers and industry. In Malaysia, ‘employers participate in curriculum development as well as the offer of internships and industrial training’ (World Bank, 2013a). In addition, an apprenticeship scheme exists that involves a combination of theory training in vocational training centers and practical training within the firms of sponsoring employers; however, the outreach is relatively small – only 3,815 apprentices were trained under the 10<sup>th</sup> Malaysia Plan (Gobilee, 2016), involving about 1 in 10 TVET institutes (Chau Leong, 2016; personal communication 24.05.16). Another point of industry-TVET institute collaboration in Malaysia is the dual training system, which involves 70-80% of training in partner enterprises and 20-30% in TVET institutes; though outreach is limited (Chau Leong, 2016; and personal communication 24.05.16).

In the Philippines, ‘companies... fund apprenticeships and short courses, as well as give allowances to dual training system students’ (ILO, 2016: 163). The dual training system involves 60% of training time being spent in industry and 40% in vocational schools (Urdaneta, 2016). The Philippines also offers tax incentives to encourage enterprise participation in TESDA-accredited apprenticeship or dual training and an agreed waiver for enterprises to pay trainees 75% of the minimum wage (Urdaneta, 2016). Meanwhile vocational training centers are incentivized through an allowance to import training equipment and materials tax and duty-free. In Thailand, dual vocational education is

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<sup>6</sup> As discussed at the Second ASEAN+3 Forum on Dual Learning System and TVET Financing, May 23-24, Seoul, Korea.



becoming more of a government focus and involves 60% of training time in partner enterprises and 40% in vocational colleges. Companies are offered tax incentives to participate (Tongliemnak, 2016).

### ***Private Sector Funded Training Funds***

In EAP there are eight countries with private enterprise financed training funds: China, Fiji, Korea, Malaysia, Mongolia, Papua New Guinea, Singapore and Thailand), and there are an additional four EAP countries that are planning to, or have proposals to, set up such training funds (including Indonesia, Lao PDR, Myanmar and Vietnam. Most of the existing training funds are resourced by an enterprise levy (except China).

### ***Firm-financed Training for Own Employees***

Formal enterprises in the EAP countries also represent an important component of supply in training markets (ADB, 2004), and directly finance training activities, including through enterprise-based training (in-house professional development, apprenticeships), or paying the fees of external providers. Formal training by firms in the EAP region overall is very common, averaging 40.2% - which is close to the high income OECD country average of 44.6% and well above the world average (35.3%).

While the EAP regional average is high, there are huge intra-regional differences with regard to the percentage of firms offering training. At one end of the spectrum are countries like China, Samoa, Thailand, Cambodia, Fiji and Mongolia where over 60-80% of formal firms offer training – much higher than the regional average of about 40%, and the world average of about 35%. In fact, China, Samoa and Thailand have the three highest rates of firms offering formal training in the world. It appears that 1996 Vocational Education Law may be the reason for such apparently very high levels of training within formal firms (of all sizes) in China. Some comment that this law empowers provincial governments and that enterprises train for fear of incurring financial penalties or negative publicity (Mehrotra et al., 2013); the extent to which employers also train as they believe it is beneficial to their firm is not known. In contrast to perhaps all other EAP countries, the majority of all TVET in Korea is enterprise funded and takes place after employees are hired as opposed to most other EAP countries where most training tends to be pre-employment; in 2014 over 85% of the 3.7 million TVET trainees that year were employees. Such training of employees in Korea takes place both within enterprises (in 40% of firms) or in TVET providers selected by enterprises (Lee, 2016).

At the other end of the scale are countries like Indonesia, Tonga, Myanmar, Vietnam, Lao PDR and the Philippines that have levels of firm training below the world average; Indonesia, in particular, stands out as having a very low percentage of firms (8%) offering formal training overall.

In all EAP countries for which there are data, the percentage of firms offering formal training is highest among large firms (100+ employees). In general small firms have the lowest



incidence of formal training offerings across all countries. This is a similar pattern globally. Countries like China, Samoa and Cambodia have relatively high proportions of firms offering training regardless of size, whereas countries like Indonesia, Myanmar, Lao PDR, the Philippines, Korea, Malaysia and Thailand tend to have very significantly higher incidences of training among large and medium firms compared to small firms.

### **Training for Informal Sector Enterprises**

International experience shows that the smallest enterprises, especially those operating in the informal economy, are the least likely or least able to be able to provide their own training or to invest in it. Meanwhile, it is known that informal economies in many – but not all – EAP countries are larger than formal economies. As a percentage of non-agricultural employment, informal employment in East and South East Asia (excluding China) is 65% - almost identical to that of Sub-Saharan Africa (66%). In China, 33% of non-agricultural employment is informal employment (Vanek et al., 2014). The sheer scale of the informal economy in many EAP countries, combined with what is known about informal training in other regions, suggests that in many EAP countries informal on-the-job training and learning is taking place. More research on this would be very useful.

### **Faith-based and NGO Donations**

Direct funding from churches, mosques, other faith-based organizations and NGOs appears to be a relatively insignificant source of funding for the majority of TVET providers across EAP. There are exceptions to this generalization of course. In some of the PICs churches have played an essential role in establishing TVET providers, and in Papua New Guinea, Samoa and Tonga private TVET providers receive some of (3-4%) their funding from churches (Palmer, 2015a).

### **How are TVET Funds Spent?**

The bulk of recurrent expenditure among most TVET providers in the EAP region goes to staff salaries and other overhead costs. In one study of seven PICs, four had recurrent expenditure (salaries, operating costs and overheads) of between 80-90% of total annual expenditure on TVET (Palmer, 2015a). In Mongolia, almost 70% of the total expenditures of public vocational schools are on staff salaries, bonuses, social insurance contributions and other allowances (World Bank, 2016b). In Myanmar, teacher salaries represent the main current expenditure item of TVET institutions under the Department of Technical and Vocational Education (CESR, 2013). In the Philippines, the bulk (71%) of all expenditure regarding public TVET providers relates to personnel expenses - salaries and wages, various allowances, bonus, and social security contributions (Péano et al., 2008).

With the majority of expenditure on salaries and running costs, little is left for staff development, training materials, buildings and equipment. In the Philippines, among public TVET providers, capital expenditure was only about 6% in 2002 (World Bank, 2016a). In Myanmar, it is noted that ‘capital budgets for facilities, equipment and teaching materials are



unfortunately constrained’ (CESR, 2013: 18). In Fiji, there was no capital expenditure recorded among private providers in 2012 (Maglen et al., 2014). In Kiribati, there is very little or no funding available for professional development of staff, material costs or new equipment (Majumdar and Teairo, 2014).

### **TVET Expenditure and Equity**

A fundamental aspect of a successful TVET system is the access it provides to trainees from a wide range of social backgrounds, ages and geographic areas. All EAP countries are likely to exhibit some degree of inequitable access to TVET, mainly related to gender, geography and disability – though the severity of this varies and needs more research.<sup>7</sup>

Most PICs have various forms of financial assistance schemes aimed at mitigating disadvantage. For example, Fiji offers many small-scale scholarships for the disadvantaged, including for people with disabilities and for indigenous Fijians (Maglen et al., 2014). Kiribati has intake quotas from each island in both the Fisheries Training Centre and Marine Training Centre (Majumdar and Teairo, 2014). The Solomon Islands introduced a blanket fee subsidy at the Solomon Islands National University in 2013, essentially supporting all students (Bateman et al., 2014a).

In the Philippines, TESDA has major financial support schemes (all voucher operated) that have been set up to address equity and access, including:

- *Private Education Student Financial Assistance (PESFA)* - For high school graduates from poor families enrolled at private TVET institutions with TESDA-registered programs. Assistance covers full training cost, student allowance and book allowance. Over the period 2011-2015, there were on average 26,800 PESFA scholars a year. The budget for this form of student assistance in 2016 is PHP 200m (US\$ 4.3m), meaning that the cost per student in 2016 is approximately PHP 7,460 (US\$ 160).
- *Training for work scholarship* – Targeted to out-of-school youth and adults, assistance covers full training cost and either income support for displaced workers (at half the daily minimum wage per training day), or training support for others. Over the period 2011-2015, there were on average 204,000 TWSP scholars a year. The budget for these scholarships in 2016 is PHP 2 billion (US\$ 43m), meaning that the cost per student in 2016 is approximately PHP 9,800 (US\$ 210).
- *Special Training for Employment Program* - A community-based training program that addresses the specific skills needs of the communities and promotes employment, particularly through entrepreneurial, self-employment and service-oriented activities. Assistance covers full training cost, starter toolkits and training allowance.

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<sup>7</sup> See Palmer (2015a) for a summary of the situation in the Pacific Island Countries.



In China, institutions that serve vulnerable groups (such as rural and ethnic minority students) received targeted support from special government funds (World Bank, 2014). Furthermore, the government provides tuition subsidies to all vocational school students, with tuition free training at the upper secondary level (Kuczera and Field, 2010).

### **Expenditure (In)efficiencies: What Unit Costs Tell Us**

Unit costs can illustrate inefficiencies in TVET systems. High unit costs might signal inefficient use of resources, or the higher costs to reach certain groups. Differences between cost per student and cost per graduate for some courses indicate inefficiencies related to course completion: the narrower the difference, the more likely that providers achieving high course completion rates. For example, in Tonga the Institute of Higher Education (2011/12) had a 7-fold difference between cost per student and cost per graduate, indicating low completion levels.

### **How are TVET Funds Currently Allocated?**

The diversity, and sometimes fragmentation, of TVET systems results in a fragmented approach to TVET financing in EAP. In many of the region's countries, the TVET system remains quite fragmented with multiple government ministries on the one hand, and private training market, firm-based enterprise training and donor-funded ventures on the other. These, and other, sources of TVET funding are allocated to multiple TVET providers via various financing mechanisms. Where countries have fragmented TVET systems, with weak TVET governance and coordination arrangements, they inevitably have fragmented TVET financing arrangements.

### **Direct Public Payments to TVET Institutions**

In EAP, historical allocation and input-based funding approaches are the dominant modes of direct public operating grant payment to providers, and the ways these function in EAP serve to reinforce a supply-driven training model. In other words, 'most public funds are transferred and spent without regard for performance. Good performance reaps no reward, and poor performance suffers no penalty' (ADB, 2014a: 50). For example: In Mongolia, an input-based funding formula is used, based on a fixed cost per student (ILO, 2016). In Myanmar, budget for operations, wages and maintenance of the government funded Industrial Training Centre in Mandalay 'are submitted once a year based on last year expenditure' (CESR, 2013). Similarly, the budget for the Centre for Skill Training is 'decided upon by the Ministry... [with] basically no difference in the budget allocations from year to year' (ibid: 36). In at least three PICs (Kiribati, Vanuatu and Tonga), most TVET providers are provided with baseline funding based on historical trends (cf. Palmer, 2015a).



Indeed, there is little evidence of output-based financing mechanisms being used in EAP – e.g. little attention is paid in financial planning or budgeting discussions to course completion rates, unit costs, graduate outcomes or employer satisfaction. For example, in Lao PDR, ‘outcome- or demand-oriented [financing] mechanisms are rare’ (KfW, 2015: 4). In Malaysia, there is no ‘evidence that funding and other inputs [are] linked to targets to be achieved’ (World Bank, 2013a). In Mongolia, the ‘lack of result-based financing negatively affect[s] quality of TVET’ (World Bank, 2016b).

Nonetheless, there are some examples of how public funds are being used to award performance and encourage innovation. For example, in China (Xinjiang Province), ‘exemplary training institutes and schools are praised and receive bonuses’ and in Korea, public funding of training programs is increasingly tied to performance and training providers that develop new curricula related to strategic emerging technologies (World Bank, 2014; World Bank, 2013b).

Financial system barriers inhibit flexibility, expansion and sustainability at provider level. Many EAP countries appear not to have devolved much financial authority to managers of public training institutions; decisions on spending are centralized, and most providers are unable to retain revenue from tuition or fee for service at the institution. For example, in China ‘the majority of revenue generated by training institutions is required to be submitted to the Ministry of Education’, and providers are only allowed to keep part of this revenue (World Bank, 2014).

Scholarships and stipends to study TVET exist in many EAP countries. While they have some equity benefits, some lack alignment with labor market needs, and can come with high actual and opportunity costs. In the PICs, scholarships, funded by governments as well as donors, play a key role in improving access for individuals from disadvantaged backgrounds to study at home, in the Pacific region, in Australia or New Zealand or another country. The criteria for such scholarship allocation varies from targeting high-academic achievers (e.g. Samoa, Kiribati), to outer Island residence (Kiribati), to people with disabilities and indigenous people (Fiji), to gender (Tonga), to no targeting at all (Solomon Islands, constituency scholarships) (Palmer, 2015a).

Where stipends are targeted there may be unintended consequences for other needy groups that do not fit such criteria. For example, in Mongolia every student under 25 years old enrolled in public or private TVET providers receives a monthly stipend; this age-targeting excludes older individuals who return to TVET later in life (e.g. ex-military personnel) (ILO, 2016).

## **What Role Can TVET Financing Play in Achieving TVET and National Policy Objectives?**



TVET financing plays an important role in leveraging TVET reform in desired directions. All EAP countries have their own objectives and should consider a mix of financing mechanisms to help achieve these objectives within the country's enabling environment for TVET financing. Evidence presented in this report supports the following recommendations for EAP countries to consider:

- a) **Use Resources More Efficiently.** Strategies to achieve this include: Avoid displacing private funding with public funding, rationalize funding (including via incentives or with oversight bodies), encourage an integrated training market, and align financial incentives with desired effects through results-based financing. Also, at the national level the establishment of a national training fund, or a national skills development fund, can also encourage the development of an integrated market.
- b) **Raise Relevance.** This can be accomplished by restructuring public provision of TVET so that public providers have more autonomy, Government encouragement of expansion of private provision of TVET, and align TVET scholarships to labor market needs – for example by increasing the number of TVET scholarships that are linked to labor market needs.
- c) **Increase Quality.** Ways to do this include a) creating more reliable funding streams for expenditures related to the quality of TVET (e.g. more predictable flows for expenditures such as the development of occupational standards, training packages, curriculum and teacher training); and b) using competitive funds to stimulate innovation and quality improvements (Horne et al., 2014; ADB, 2014a: 44). Ideally, both public and private TVET institutions should be able to compete for funds.
- d) **Expand Access.** Increased public funding of TVET is an obvious way to increase access and private provision is a powerful way to increase access among those able to afford it. Finally, input-based financing mechanisms with the provider allowed to retain tuition fees - can provide powerful incentives to increase enrolment.
- e) **Promote Equity.** A number of things can be done to promote equity in TVET financing across EAP – among them: a) improving access to and completion of a quality basic education will help make access to post-secondary TVET programs more equitable; b) allocating funds directly to students rather than institutions is more likely to be effective in increasing participation; and c) enhancing targeting to disadvantaged students to help them “catch up” through better targeted scholarships and fee waivers, provision of student loans for TVET and offering work/study options.
- f) **Mobilize Non-State Resources.** Non-State resources for TVET can be found by stimulating private investment in TVET – through incentivizing private enterprises to train their own workers and contribute to overall reform efforts, encouraging PPPs and the expansion of private provision. Means of incentivizing private enterprises to train their own workers include enterprise financed training funds, tax incentives and education, education and training leave in companies, training vouchers for companies



and payback clauses to encourage enterprise-financed employee training. Incentivizing private enterprises to contribute to overall TVET reform efforts involves stimulating in-kind private sector resources, tapping into private sector corporate social responsibility towards TVET and creating private investment in TVET capital projects.

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