GUIDANCE NOTE 4

Promoting funding for VET systems

Topic overview

This note aims at providing European Union (EU) staff with practical guidance to define objectives, engagement with national counterparts and adoption of a **realistic tailored approach to promoting vocational education and training (VET) funding systems**. A VET funding system basically consists of the four following key components:

- Mechanisms for **collecting** financial resources,
- Mechanisms for **allocation** of funds,
- Institutional structures for **management of funds** and
- Regulations of **control mechanisms**.

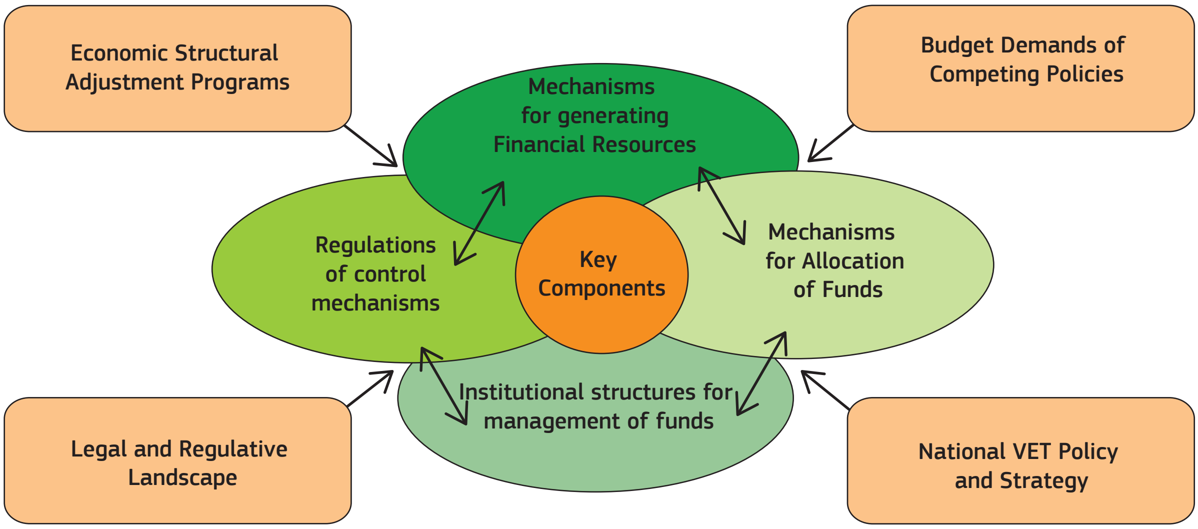
The relationship between the four components can be configured with each other through **different functional mechanisms**. For several years, a decline in public government funding for national VET systems in developing countries is largely attributable to economic structural adjustment programmes and rising budget demands of competing policies. The answer is often sought in **greater diversification of financing**, e.g. in alternative or additional sources of funding for publicly funded VET programmes. **Larger cost recovery** and **cost sharing** in the design and implementation of reformed financial systems is sought. However, public funds in most VET systems will still play a dominant role for the foreseeable future (see Figure GN4.1).

The **striving for more effective and more efficient use** of existing, scarce resources by VET providers is increasingly on the forefront. Effective institutions and clearly defined and efficient business processes within and between VET institutions, which, inter alia, contain the criteria of allocation of funds, is a prerequisite

SUMMARY OF KEY ASPECTS

- The government alone cannot finance all necessary VET courses countrywide, additional financial resources in the framework of diversified funding mechanisms need to be raised. Therefore, new funding allocation mechanisms are increasingly the focus of VET reforms.
- The aim of VET reforms is that those who benefit decisively from VET programmes must participate in the costs incurred in relation to the benefits they incur.
- There are two main dimensions of national VET funding models, namely the degree of centralisation versus decentralisation and the level of output versus performance orientation of the allocation of funds.
- The final key component in the construction of a VET funding system is the existence of a legislative and regulatory framework for the governance of VET funds. Use of funds and financial flows must be subject to constant monitoring or independent and transparent auditing processes.
- Engaging in a reform exercise of VET funding systems is not an easy task as the process generally refers to a quantitative and evidence-based review of the existing situation, which does not seem to be easily achievable in many developing countries.

FIGURE GN4.1 Key components of VET funding systems



for the functioning of these funding mechanisms. Effective funding of VET systems can only be guaranteed if the **design of all four components is taken into account**.

In particular, in a highly-corrupt environment, the implementation of these mechanisms is much more difficult or even impossible sometimes. Hence, funding mechanisms cannot be regarded as instruments for an end in themselves, but are often used to effect a contribution to the achievement of the national VET policy. Basically, the aim is that those who **benefit decisively from the VET programmes must participate in the costs incurred** in relation to the benefits they incur. Accordingly, the question of who is responsible for financing and how this should be done, is crucial for the VET funding policy, especially with regard to the design of the four central components of VET funding.

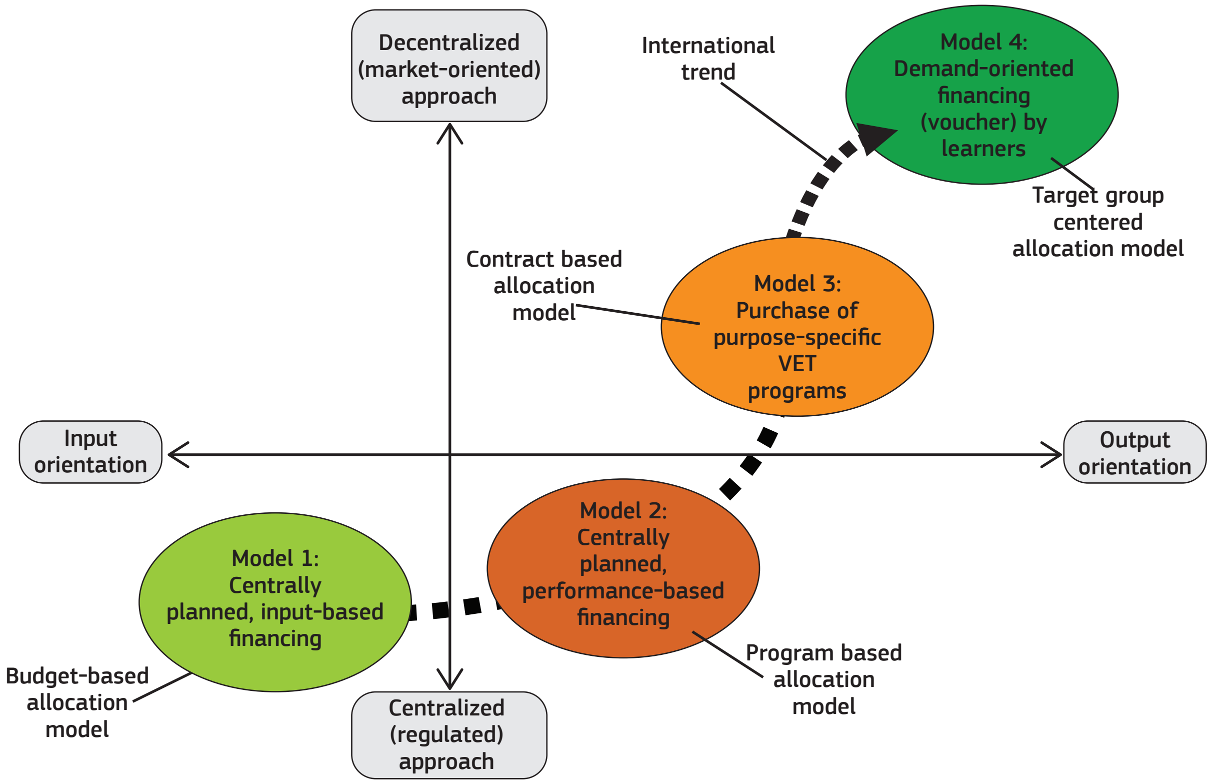
Practical questions about funding choices and tools on how to mobilise resources for VET systems serve as an entry point:

- How to increase the **State contribution**?
- How to reconcile **cost-sharing and equity**?
- How to make that the **private sector** contributes more?

Normally, government bears the brunt of financing the VET system, using funds collected from the country's taxpayers. As the government alone cannot finance all necessary VET programmes countrywide, additional financial resources in the framework of **diversified financing mechanisms** need to be raised. This can be implemented in principle separately or in combination. The national VET budgets can be increased by **introducing an additional VET levy**, which is collected from companies and organisations. As a rule, these are a legally defined percentage of usually 1-2 % determined by the employer's salary bill, which is paid to the government each month.

The mechanisms by which the government allocates funds to VET providers influence to a large extent the provision of incentives and also the behaviour of VET providers with a view to an effective and efficient use of funds. Therefore, **new allocation mechanisms are increasingly the focus of VET reforms** and will be displayed at this point briefly in their basic forms and core features. It makes sense, to categorise the two main dimensions of publicly funded VET funding models, namely the degree of centralisation versus decentralisation and the level of output versus performance orientation of the allocation of funds. On this basis a total of **four basic types of allocation mechanisms** can be distinguished (see Figure GN4.2).

FIGURE GN4.2 Variety of allocation models for VET funding



The various financial allocation mechanisms are suitable for use under the framework of development cooperation, where appropriate combinations thereof and/or mixed forms are possible. The precarious state of public finances in many developing countries makes necessary tightly controlled allocation processes. Input-based allocation models are often **supply-driven and do not cause VET provider to work efficiently**. Allocation mechanisms should therefore ensure an appropriate combination of necessary regulatory and incentive-based systems so that a VET provider remains competitive and viable in an environment of competing training markets.

In most developing countries the institutional structures of the VET funding system are mainly characterised by the **public finance management (PFM) arrangements governing them**. Often, one or more competent ministries or agencies are assigned by the National Treasury to spend the earmarked state budget for VET. The allocation of funds to the individual VET provider is then centralised and often purely input-based. The final key component in the construction of a VET funding system is the **existence of a legislative and regulatory framework** for the governance of VET funds.

The design of control mechanisms in VET funding systems is highly sensitive, particularly on issues of funding. Use of funds and **financial flows must be subject to constant monitoring or independent and transparent auditing processes**. This is especially true for the appropriate use of funds particularly from the perspective of VET levy paying companies and organisations. In publicly funded VET systems, the control mechanisms are based on the statutory provisions of the respective Public Finance Management (PFM) Law at hand.

Procedure

As earlier already outlined, the competition for public funds pushes VET stakeholders to justify the **role of the government** operating the VET system, and encourages the involvement of additional VET stakeholders with whom the costs for the VET system could be potentially shared. This **principle of the stakeholder-driven VET governance model** provides for broader input and responsibility in the VET system. However, this requires the documentation of two central aspects:

- **Evaluation of the costs**;
- **Benefits** for the various VET stakeholders.

A comparative analysis of this information would help to identify future options for sources of funding and leads to a factoring of costs and funding considerations as key parameters (see Box GN4.1) within the political decision-making process of the various policy options.

BOX GN4.1 Funding considerations as key parameters for VET financing policy

A study by the Association for the Development of Education in Africa (ADEA) and Agence Française de Développement (AFD) on financing VET concludes with a set of recommendations to public authorities and technical and financial partners that support VET funds in developing countries:

- The primary purpose of VET funds is to respond properly and effectively to the **skills needs of companies and the labour market** (continuing VET programmes and apprenticeship).
- This targeting does not **exclude the 'equity' function,** which VET funds fulfil when they develop the skills of entrepreneurs in the informal sector and support apprenticeships to promote the job prospects of young people who leave school without having acquired a minimum level of knowledge and skills.
- **The equity function must primarily be fulfilled by public authorities**, whose task is to provide skills development for groups that are the most vulnerable and excluded from education and employment.
- VET funds may, if necessary, have a remedial role, but only after having done everything **to avoid situations where remedial training is necessary.**

Source: Walther and Uhder, 2014.

STEP 1: Describe the VET system from a quantitative and financial perspective

This initial mapping exercise provides the baseline for further analysis and reasoning through an **identification of the various VET sub-sectors** (e.g. initial VET, continuous VET; apprenticeship schemes, etc.,) and relating them to the target VET policies. The assessment includes the identification of the economic and social objectives assigned to the VET system. These objectives form the reference points against which to assess the effectiveness of the VET policy. It should be possible to complete step 1 reasonably within a two-day collective workshop or similar exercise, where a national working group representing the various VET stakeholders has been created in advance. This approach implies the **official appointment of professionals** to represent the various VET institutions and services, in order to ensure the consistency, continuity and consequent effectiveness of the exercise. Ideally, the following structures should be represented or at least promptly mobilised (dependent upon the individual institutional configuration) (see Box GN4.2).

BOX GN4.2 Examples of membership in national working group

- Ministry responsible for VET (Labour, Employment or Education) — services in charge of learning courses, training of VET and trainers, human resource management, equipment and financial affairs to name a few;
- Ministry of Finance — services in charge of finance law, sector budget allocations;
- National Institute of Statistics;
- Key institutions of labour market actors expected to participate in the policymaking process, as the funding exercise is expected to inform this sector (professional entities, etc.) — not participating in all of the technical processes but to be empowered by the overall process and regularly updated.

STEP 2: Analyse costs and current funding

The second step uses the results of the mapping completed during the previous step to **retrieve and analyse the costs required by the various VET sub-sectors** and the current **funding sources**. This step allows for an understanding of the main elements associated with the current spending and an assessment of the **relevance of the cost structure** in relation to the resources. This helps to understand who currently covers theses costs. Small group work in parallel (possibly groups divided by type of the VET sub-sector is recommended in order to maximise the use of time).

STEP 3: Approach benefit assessment

This step explores the **measurable benefits** expected from the identified VET sub-sectors (see step 1). Each of these VET sub-sectors will be screened against the various dimensions of **economic and social impact**, a process that will also permit the identification of possible added value. It seems possible that tracer studies can provide important feedback, especially in terms of such elements as how many VET graduates obtain a job, the types of jobs they obtain, the level of pay they receive, and how their pay compares with that of their untrained peers.

STEP 4: Explore policy options on the basis of cost-effectiveness analysis

This step moves from the retrospective perspective of assessing existing VET sub-sectors towards a prospective approach in order to consolidate the outcomes of steps 2 and 3 through a **cost-benefit analysis that fosters the exploration of alternative policy options**. Consequently, the first task is to check the strengths and weaknesses of the various VET sub-sectors against their respective costs (see Box GN4.3).

The various policy options conceived will be adapted to produce a range of possible policy mixes, which will **constitute different scenarios**. Consolidated assessment of the various VET sub-sectors and potential combinations will provide the materials for building new VET system development scenarios (see Guidance Note 3). **Cost-effectiveness and VET relevance** should be promoted such as incentives for quality VET programmes in public and private structures; promote company training; reflect on the degree of school autonomy as well as VET financing should be closely related to other key VET policy areas. As the exercise may be considered comparatively technical and complex, the cost-benefit analysis should be completed by a small team of national and international experts. The outputs of the discussions will be formulated into a **concise policy note**, including financial estimates for the various policy options.

BOX GN4.3 Guidance questions for the formulation of policy options for VET financing

The European Training Foundation (ETF) recommends three leading priority questions to help to formulate the elements of policy options derived from a multi-criteria assessment:

- To what extent is it relevant to extend **coverage of VET services** and for what types of population?
- What **VET sub-sector** should be given a higher or lower priority in the future (with the possibility that some VET sub-sectors be discontinued, while some others may be added)?
- What **adjustments** should be considered appropriate to this or that VET sub-sectors to make service delivery more efficient?

Source: ETF, 2015.

STEP 5: Planning and budgeting of preferred scenarios

The final step works on the details of a **selected number of preferred scenarios** for future expansion or improvement of the VET system, focusing on planning and budgeting within a mid-to long-term perspective. The practical question of how to manage the VET financing chain is the guiding principal here:

- How to secure the **collection and use** of funds for VET in coherence with policy objectives?
- How to use VET financing as a vehicle to enhance the **steering capacity of government**?
- How to improve data availability, reliability and use for **VET policy decision-making**.

The aim is to **transfer VET policy decision** (or options) into a **planning and budgeting phase** in order to realistically plan and prepare for implementation.

References and further reading

EC (European Commission), 2015. 'Financing TVET: Main issues for an effective policy in Development Cooperation'. EC, Brussels.

ETF (European Training Foundation), 2015. *Cost and financing analysis in VET: Guidance note*. ETF, Turin.

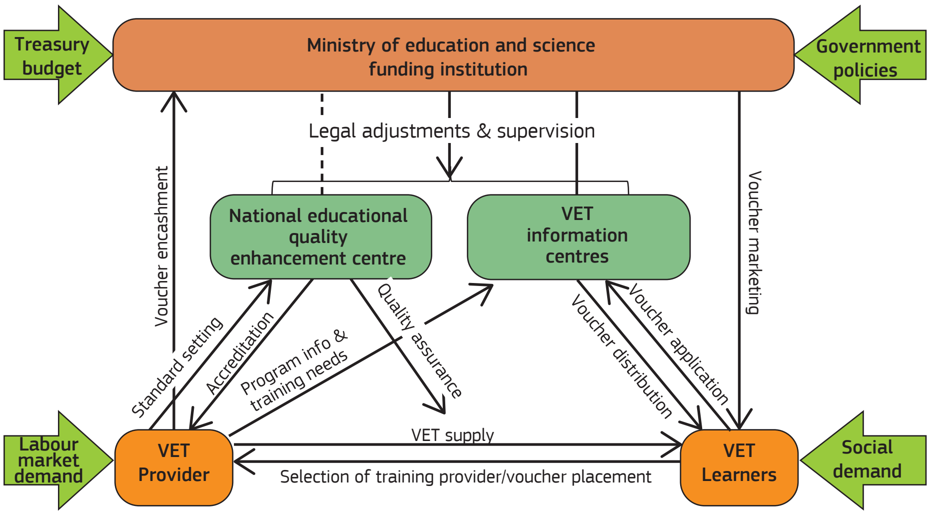
MoES of Georgia and GIZ (Ministry of Education and Science and Deutsche Gesellschaft für Internationale Zusammenarbeit), 2012. 'Report on VET Financing Policy Implementation Project'. Tbilisi.

Walther R. and Uhder C., 2014. 'The Financing of Vocational Training in Africa: Roles and Specificities of Vocational Training Funds'. Agence Française de Développement, Paris.

Case study: Learner-centred voucher disbursement VET funding approach in Georgia

CONTEXT	The Georgian government has kick-started in 2012 the **change of the VET funding paradigm** towards a learner-oriented VET voucher disbursement approach that would allow the government to **finance a learner per capita versus financing a VET provider**. The introduction of the new VET voucher system is backed by Chapter VIII (Article 35) of the Georgian Law on Professional Education (2010) mentioning that the Ministry of Education and Science (MoES) is authorised to finance VET providers by VET vouchers, calculated for one learners financial normative. Government funding for learners in VET levels I — III is provided under Government Decree N°96, 2012. It is the government and partly the self-paying students, rather than the enterprises/employers that bear the major burden in the funding of the present VET system.
CHALLENGES AND OPPORTUNITIES	During the past, the **availability of limited funds** has led to a tendency towards **underrating administrative and maintenance costs**, particularly maintenance of premises. While designing realistic cost structures, particular attention should be paid to administrative and operational costs in order to reduce requests from VET provider to the MoES for additional funds as this is **creating a high level of bureaucracy**. The assessment of realistic costs should be used as a calculation base for future VET voucher financing.

FIGURE GN4.3 Structure of learner-centred voucher funding approach



Source: MoES of Georgia and GIZ, 2012.

The new voucher-based VET funding allocation raised **consensual concerns by experts, VET providers and organisations** alike, in the sense that its non-differentiated nature and low face value is likely to affect the quality of training, particularly in the technical occupational areas, commonly requiring costlier inputs and processes such as equipment and materials. The mono VET voucher of 1 000 GEL leads to winners and losers at VET provider level. Public and private VET provider which are offering VET programmes with a high proportion of practical and material needs, are forced to reduce training content and training time significantly, since the value of the mono VET vouchers does not fully cover the cost of training. It is recommended that the present approach of the mono VET voucher should be replaced by an approach with differential and targeted VET vouchers based on realistic training costs incurred by VET programmes activities at different levels and diverse occupations.

ACTIONS TAKEN	The developed VET funding approach can be seen as a **combined voucher/grant mechanism** and is rather a mixture between a target group-centred allocation and a programme-based allocation model. It can be classified as a **specific Georgian VET funding allocation model**. The voucher participation in the levels I — III of the VET system increased dramatically in 2012, as the number of admitted learners increased by 58 % compared with the figures of 2011. Sustainability of this growing participation in the public VET system will require **predictable levels of additional public funding** and measures to improve quality of VET providers and relevance of demand-driven VET programmes. The overall institutional capacity of the VET system has expanded in quantitative terms to 120 VET providers, due to the purposeful diversification of VET provision as stipulated in the amended VET Law (2010).
LESSONS LEARNED	• The current level of financing of VET programmes through the combined voucher/grant mechanism is not on a par with the **labour market demand in terms of competitiveness and jobs**. This is particularly true for Georgia, which devotes only a small share of public expenditure on VET programmes. • The VET voucher financing model is **learner demand-driven only**. The VET learner decides which VET provider to select and what VET programme to enrol in. The VET providers looks after the quality of their teaching and their supply of VET programmes, because unattractive VET programmes will not receive a sufficient number of vouchers. • The **selection of areas and levels of VET programmes eligible for voucher financing** are not corresponding to an objective market demand and/or social criteria, since the list of priority training occupations has been decided in an administrative manner. • The indispensable 'up-skilling' of the rural population will require substantial efforts of the relevant authorities to **expand vouchers to rural areas** and relevant training and information services.

Source: MoES of Georgia and GIZ, 2012.