Engaging the Private Sector in Skills Development

Sub-theme: The post-2015 Futures of Development Goals and Development Assistance to Education and Skills

Dr Muriel Dunbar, Senior Skills Adviser, Cambridge Education
muriel.dunbar@camb-ed.com
Abstract

Demand for skills training is increasing beyond that which governments of developing countries can provide. Additional training provision, new approaches to skills acquisition and diverse sources of funds must be found. Just doing more of the same is not an option. The private sector has a crucial role to play. Interventions by global companies are often effectively facilitated by donors, governments or NGOs. Before investing in skills development employers prefer to see the benefits likely to accrue and require a favourable business environment with minimal bureaucracy. Their engagement is most effective if it starts early in the planning process and results from them being proactive.

The most effective skills development programmes include both soft skills and technical skills, off-the-job as well as on-the-job training and skills required in the informal labour market. Ideally training programmes for disadvantaged groups will include income-earning opportunities, such as apprenticeships, with formal recognition of the competences gained.

Private training providers have a valuable role to play if the quality of their provision can be assured. However, evidence that they are closer to employers than public training providers is not definitive.

There is more private finance flowing into the developing world. Levies or tax incentives are not suitable for countries which do not have a solid industrial base and sound administrative capacity, and have been found to favour large companies. Whilst voucher schemes show mixed results, there is evidence that they can work in disadvantaged communities and stimulate demand for training.
Introduction
This paper is based on research undertaken for the UK’s Department for International Development during 2012-13, following an earlier Guidance Note for DFID staff and beneficiaries on the same topic in 2010. The objective was to find potential opportunities to support private sector integration in all aspects of skills development, particularly in low-income countries. In addition, the research explored the twin issues of access to finance for skills development stakeholders; and financial support from the private sector for skills development programmes.

Background
Skills development is an issue which is currently regarded as critical by international bodies. This is exemplified by the G20 Employment and Labour Ministers Meeting in Washington DC in April 2010 where recommendations were made to prioritise education, lifelong learning, job training and skills development strategies linked to growth strategies. To have effect, these assumed a number of ‘critical elements’:

- broad availability of quality education as a foundation for future training;
- solid bridges between the world of work and training providers in order to match skills provision to the needs of enterprise;
- continuous workplace training and lifelong learning;
- anticipating and building competencies for future needs;
- ensuring broad access to training opportunities for all.

The G20 Training Strategy is based on the premise that ‘the effective utilisation of skills in the workplace both depends on, and contributes to, conditions conducive to innovation and enterprise development; effective labour market orientation and mediation services; and well-informed decisions about education and training policies.’

These elements would be enhanced by the features called for at the International Labour Conference in 2008, which include:
- seamless pathways of learning;
- development of core skills;
- development of higher-level skills;
- portability of skills;
- employability.

The principles on which the G20 and the ILO have worked accord with the findings of recent research conducted by UNESCO into policies to strengthen skills-employment linkages for marginalised young people. The research found that growing youth unemployment was the primary justification for increased investment in skills training by governments and development partners, in the context of changing technologies and skill demands. Skills development is now
perceived as essential for a country’s economic growth, as is the need to engage members of marginalised groups to add to the pool of skilled labour. This will be taken into account under Action Two ‘Enhance National Employable Skills Strategies’ of the Human Resource Development Pillar of the G20 Development Working Group. The Group is overseeing pilot projects to establish action plans through which international organisations and other agencies can co-ordinate support for implementing national strategies on skills for employment.

These principles are shared with the Global Monitoring Report (2012) which highlights concerns that ‘just when Education for All (EFA) needs a final push, there are signs that donor contributions are slowing down’. The report goes on to suggest that to compensate for stagnating donor contributions, and in addition to make more effective use of natural resource revenues, the private sector could be involved in a more coherent way, aligning its contribution more closely with the EFA goals and accompanying that with measures which ensure partnerships with government are more balanced, with clear specification of how the private sector can contribute to collective efforts.

This point has also been picked up by The World Bank Group in IFC (2011) which values increased participation by the private sector in Arab countries for 3 main reasons:

i. the public sector cannot tackle the education for employment challenge on its own;
ii. private players add unique strengths;
iii. speed and scale will be critical.

It suggests that for such participation to have an impact, 3 ‘critical enablers’ will need to be introduced:

i. rigorous standards and independent quality assurance;
ii. sustainable financing mechanisms for private provision;
iii. greater information transparency and match-making between young people, employers and education providers.

There is a strong consensus on both the need for and the preferred characteristics of a private-sector driven, re-energised, skills development effort. Recommendations contained in UNESCO (2012) foresee TVET development strategies having a broader social distribution of ownership in the future, with a focus on the state building partnerships with employers, particularly the private sector, in all its diversity.

**Research Results**

In the course of the research it became clear that the volume of recent work in this sector is considerable and supports the various assertions that a radical shift in skills development is both needed and is beginning to take place. To be successful, this shift must respond to the increasing demand for training opportunities with greater private sector involvement, better coordination, effective use of new technology and the media, and interventions with a sectoral focus. It is clear from the many examples given in the body of the report, that private sector intervention will generally not happen without facilitation by
another party, whether it be government, donor or NGO. In all cases, the greatest challenges are found in countries with unstable governments and low-growth or stagnant economies and in remote agrarian communities with little industry.

Employers are more likely to engage in skills development at any level, if the benefits of doing so are apparent, the business environment is favourable and there is minimal bureaucracy attached. Their engagement is most effective if it takes place early in the planning process and results from them being proactive.

The research clearly shows that the most effective skills development programmes include both soft skills and technical skills, off-the-job as well as on-the-job training and take skills required in the informal labour market into account. Ideally, training programmes for disadvantaged groups would include income-earning opportunities, including apprenticeships, with formal recognition of the competences gained.

Private training providers have a valuable role to play if the quality of their provision can be assured. Evidence that they are closer to employers than public training providers is not definitive.

While it is reported that there is more private finance flowing into the developing world, much more is needed to fund skills development. It is evident that these additional funds will not come entirely, or even largely, from governments. Alternative sources must be found and co-ordinated. All sources have their drawbacks, in particular those dependent on levies or tax incentives which require a solid industrial base and strong administrative capacity. Whilst voucher schemes show mixed results, there is evidence that they can work in disadvantaged communities and stimulate demand for training.

All of the measures considered in the research are dependent to some extent on high quality, reliable information reaching prospective learners in order that they can make informed choices.

**Lessons Learned**
The full research report highlights lessons from which those responsible for designing and delivering skills development through the private sector might learn. They are listed below:

1. A radical shift in approaches to skills development must include greater involvement by employers.

2. Demand is outstripping supply of skills training opportunities, the private sector is needed to fill that gap and alternative financing arrangements must be found.

3. An inclusive and comprehensive, rather than exclusive and fragmented,
approach is required for skills development.

4. Multi-national companies can increase their impact on skills development by working through their supply chains.

5. The use of new technology in skills development is still at an early stage and needs further research.

6. Skills development interventions by multi-national companies are very often facilitated by donors or international NGOs. As the International Youth Foundation (IYF) concludes in its ‘What Works’ series: ‘Few issues in the youth development arena are as clearly suited to an ISP (inter-sectoral partnering) approach as youth employment. It combines the interest of the government in a stable economy with the need of the business sector for a qualified workforce and the goals of youth-serving organisations of social inclusion and meaningful contribution for young people.

7. There is a strong sectoral focus on multi-national interventions, often through alliances of companies.

8. Employer engagement in the development and implementation of national strategies is very often difficult to achieve. The use of legislative tools alone is insufficient.

9. Skills for the informal labour market must be included in strategic planning.

10. Soft skills are as important to employers as technical skills.

11. Employer involvement in skills development is most likely to occur in a favourable business environment with minimal bureaucracy and a fully-committed government.

12. Incentive mechanisms may be required to encourage employer participation in skills development.

13. Training programmes which combine technical and soft skills have a particularly strong impact.

14. On-the-job training, with the engagement of employers, combined with off-the-job training is highly effective.

15. Employers who are proactive in reaching out to young people, offering time, skills and money, will have the most success in recruiting new talent.

16. Best results are obtained when employers are involved early in the planning of new strategies or initiatives.

17. Providing income-earning work as part of the learning experience gives learners both financial benefits and an enhanced understanding of the market.
18. Traditional apprenticeships in the informal sector are an important means for young people to access the labour market.

19. Apprenticeships in the informal sector may require some enhancement to meet formal sector skill requirements.

20. Formal recognition is required of skills learned through informal sector apprenticeships.

21. Quality of provision is a concern associated with rapid expansion of unregulated private training markets.

22. Private training providers with strong links with employers can produce good employment results.

23. Private financing of skills development is intrinsically linked to the expected return in that investment and to greater involvement by those financers in its development.

24. A dramatic increase in funding for skills development is required from diverse sources.

25. Availability of reliable information is critical if learners are to access funds for training.

26. Levy systems and tax incentives are unlikely to work well in countries where industry is not well-developed and administrative or organisational capacity is weak.

27. Levy systems and tax incentives tend to favour large companies unless mitigating measures are introduced.

28. Evidence from voucher schemes shows mixed results but includes stimulation of the private training market and increased demand from learners.

29. Student loans are high risk and work best when employment prospects of graduates are good and there is a strong likelihood of repayment.

**Key Initiatives**

From these ‘lessons learned’, eight key initiatives were developed which the research suggested as being particularly suitable for low-income countries. These are:

(i) *global inter-sectoral partnering, building on the increasing amount of private funds flowing to developing countries*
Successful global partnerships are most likely to occur in countries where the international company(ies) are already commercially active, which implies that there is a stable political environment and it is largely conflict-free. A company's involvement may be driven by its Corporate Social Responsibility policy or by commercial interests and would, preferably but not necessarily, be supported by a legislative environment within which skills development is structured.

In some instances these partnerships flourish without 3rd party assistance, but in a large number of cases they are facilitated by an aid agency (cf. SIDA, USAID) or international NGO (cf. IYF). There is therefore an established role for donors to act as an initiator, catalyst or enabler for more global partnerships to be created. This would require: identification within a country or region of the main economic growth sectors, to establish which industries will have the capacity to absorb large numbers of skilled and semi-skilled workers (cf. work being planned by IFC under the E4E programme); identification of the global companies active in these sectors who have a CSR policy (or the potential for one) and/or are experiencing skill shortages; proposals for the creation of a partnership skills development program which brings mutual benefit and has minimal bureaucracy; clear definition of the roles of each partner; and contributions from donors to influence the partnership activities towards socially disadvantaged groups. Government involvement is not required for this type of activity to be successful.

(ii) skills development programmes moving from international and national companies down through their supply chains

An extension of the above initiative would include workers and trainees in the supply chains for global companies also having access to their skills development programme, thereby allowing the benefits to percolate down to SMEs, although probably still contained within the formal sector. Again the role of donor agencies would be that of facilitator and influencer, to ensure social inclusion but to avoid the program becoming donor dependent.

Both of the above two types of initiative should require only minimal funding, as the donors’ role is one of researcher, communicator, influencer and networker and of leveraging private sector funds.

(iii) the establishment of sectoral alliances

Establishing employer sectoral alliances is also best done in countries in which there are at least one or two industry sectors which are experiencing growth and which have some medium-large companies. The alliances are also more likely to flourish if they build on an existing body which has the capacity and willingness to expand its
purpose and activities (e.g. a trade association or chamber). Specialist training providers may be members of a sectoral alliance.

Depending on the needs in-country, sectoral alliances may fulfill the role of producer of labour market intelligence (LMI), developer of occupational standards and training programmes, manager of apprenticeship training scheme, quality assurance agency, certification body, employment services agency, micro-financier and disseminator of careers information, all focused solely on a single sector. The role of donors would be initial research followed by capacity building, including a business plan for income generation and self-sustainability.

Sectoral alliances need not link to government, but if a well-functioning skills development framework is in place then they would ideally conform to it. In the absence of such a framework, sectoral alliances can develop expertise which can later be utilized by government in the creation and implementation of skills development policy and strategy. The development of a national framework could ultimately emerge from a set of inter-connected sectoral frameworks, which would be more likely to engage employers as the initiative would be market-led, driven by economic development imperatives and closely attuned to the conditions of industry.

(iv) **earn-and-learn programmes**

The desk research showed up very strongly the positive results of a variety of earn-and-learn programmes, ranging from apprenticeships through to financially sustainable schools, and education in return for work. In all of these, the combination of on-the-job learning and ability to earn a wage make them particularly suitable for young people from poor families in low-income countries and for workers wishing to transit from a declining industry to one which is growing. Government involvement is not critical, although it would be appropriate were national recognition of skills gained considered desirable, for example for helping workers transit from the informal economy to the formal.

There are a number of working models which donors can use for new programme design. Donors’ involvement would include designing and marketing the scheme, recruiting employers to it, facilitating negotiations with government if national recognition is required and capacity-building through technical assistance. Earn-and-learn programmes could be introduced and certificated by sector alliances (see (iii) above).

(v) **soft skills development**
Both employers and young people have reported that soft skills are equally, if not more, important than technical skills, leading to a higher degree of employability and trainability. They are as important in low-income countries as they are in middle- or high-income countries and as important in employment as in self-employment. Soft skills can be learned throughout the education system (cf. Government of Finland initiative in Nepal) and ideally, can be incorporated into training programmes, such as the earn-and-learn models in (iv) above.

The contribution of donors would be firstly in conducting further research into programmes which have successfully incorporated soft skills into the curriculum, followed by applying the findings of that research in the identification of soft skills for a country’s context, programme design, teacher/instructor training and design of assessment instruments and certification.

(vi) **voucher schemes**

Of the various methods of financing skills development in such a way as to support the private training provider sector, vouchers are the system which appears to be attracting most favourable attention. Vouchers have the advantage of encouraging the concept of paying for training, whilst allowing access to either public or private training provision by learners who could not normally afford to pay fees.

Vouchers could be introduced as a stand-alone measure or linked to the introduction of a national training fund (see (vii) below). Were it to be a standalone measure, employers would have little involvement, unless as potential training providers in receipt of payment by vouchers. Successful implementation of voucher schemes will depend heavily on availability of information, advice and guidance for learners, to enable them to make informed choices.

The input required by donors would, as with a fund, be largely in the set-up, contribution of funds, and technical assistance to ensure transparent and fair management of the system. To ensure long-term sustainability, plans for a voucher scheme should include an exit strategy by donors involving capacity-building and handover to a government or employer-led agency. It would therefore be highly desirable, if that prospect exists, of the long-term ‘owner’ being involved in the planning of the voucher system from the outset.

Interventions which require robust and sophisticated governance structures and thriving economies, such as levies and tax benefit systems, are not recommended.

(vii) **the establishment of national training funds**
In countries where there is inadequate state funding for skills development and either a fragmented funding situation exists and/or the government wishes to attract funds from a variety of sources, a national training fund can be established to co-ordinate and expand training provision. Such a fund needs to have a clear purpose and procedures, with annually-agreed targets and transparent management and decision-making practices. Strong involvement from the private sector, whether or not they are contributing financially to the fund, is important for its credibility and for public perception.

Initial research would be required into the most appropriate type of fund, examples of well-functioning funds, most suitable location for the fund and capacity-building for fund management and governance. Donor assistance would be required with all of these but also, in the early stages, to provide technical assistance, and in some cases to be a contributor to the fund, with the option of such a contribution being for the purpose of ensuring social inclusion.

(viii) application of low-cost technology

A number of the examples which came to light during the research involved the use of low-cost technology and very many of the companies involved in global partnerships and alliances are from the IT sector. Many of the initiatives are relatively new and their effectiveness, as yet, unknown. Before any major investment is made by donors it is recommended that there is a review of current initiatives using low-cost, new technology in order to assess what would be applicable to, and affordable for, the skills sector, either in whole or in part (recognizing the challenge of learning and demonstrating practical skills out of context).

Conclusion

Each of the 8 initiatives described above will be more or less applicable to different donors and to different beneficiary countries. All depend for their success on acceptable quality of provision being defined at the outset and then maintained. Some countries have already started down a path involving one or more of these interventions. At the same time, some governments are beginning to review their dual role of training provider and training regulator, shifting the emphasis from the former to the latter.

To support that change, governments may welcome support in defining their new role, strengthening their quality assurance systems and developing networks for disseminating independent and reliable information to learners.

The conclusion of the research is that there are workable interventions which donor agencies can support for increased, quality participation by the private
sector in skills development. In each case there are examples to draw on of successful implementation already happening, which have been reviewed and from which lessons have been learned. None of the interventions are mutually exclusive and could be introduced in tandem with each other by one or more donors. Some of the interventions require a change in the role of donor, from one of designer and financer, to one of facilitator and influencer. All interventions are applicable to low income countries and could be independent of government, albeit with the option to partner with a strengthening government in the future. These interventions allow the private sector to push ahead with development, potentially leading the way for government reforms to follow and examples of successful sector-based initiatives could educate government on the best ways for the public and private sectors to work together.

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