

STEP Research Series

- No. 5 -

**PROPOSAL FOR A NEW TRAINING FUND GOVERNANCE
ARRANGEMENT INVOLVING EMPLOYERS, WORKERS AND
OTHER STAKEHOLDERS**

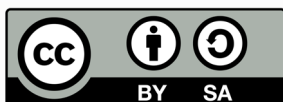
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PROPOSAL FOR A NEW TRAINING FUND GOVERNANCE ARRANGEMENT INVOLVING EMPLOYERS, WORKERS AND OTHER STAKEHOLDERS

Proposal for a New Training Fund Governance Arrangement Involving Employers, Workers and Other Stakeholders.

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Acronyms

DTVET	Department of Technical, Entrepreneurial and Vocational Education and Training
ECAM	Employers Consultative Association of Malawi
ED	Executive Director
ICT	Information and Communication Technology
LMIS	Labour Market Information System
M&E	Monitoring and Evaluation
MCCCI	Malawi Confederation of Chamber of Commerce and Industry
MDA	Ministry, Departments and Agencies
MGDS	Malawi Growth and Development Strategy
MoLYS&MD	Ministry of Labour, Youth, Sports and Manpower Development
MRA	Malawi Revenue Authority
MSE	Medium-Scale Enterprises
NCIC	National Construction Industry Council
SMSEs	Small and Medium-Scale Enterprises
STEM	Science, Technology, Engineering and Mathematics
TEVET	Technical, Entrepreneurial and Vocational Education and Training
TEVETA	Technical, Entrepreneurial and Vocational Education and Training Authority
TORs	Terms of Reference
TQF	TEVET Qualifications Framework
TTFA	TEVET Training Fund Administration

Training Fund Research

1. Background

This part of the assignment is a culmination of previous work contained in the terms of reference (TORs). The assignment started with a complete review of Malawi's Training Fund governance and management arrangements, followed by an assessment of the level of the stakeholders' awareness and satisfaction with the existing Training Fund management. This stage of the assignment proposes new Training Fund governance and management arrangements based on the findings of the previous sub-assignments. The proposal seeks to improve the governance and management of the Training Fund through rationalization of the composition of the board to bring in greater involvement of employers, workers and other stakeholders. It also sets conditions for the alignment of the Training Fund to the needs of the sector and the stakeholders in order to improve its impact on skills development.

2. Introduction

The TEVET Authority (TEVETA) was established by the TEVET Act no. 6 of 1999 and comprises the following stakeholders:

- one member nominated by the Employers Consultative Association of Malawi (ECAM), and appointed by the Minister
- one member nominated by the Malawi Chamber of Commerce and Industry (MCCCI), and appointed by the Minister
- one member nominated by the Malawi Congress of Trade Unions, and appointed by the Minister
- one member nominated by the council for non-governmental organizations that provide technical education and training, and appointed by the Minister
- one member nominated by social organizations that provide technical education and training, and appointed by the Minister
- one member nominated by technical colleges providing formal technical education and training, and appointed by the Minister
- one member representing financial intermediaries in Malawi, and appointed by the Minister
- one member representing women, appointed by the Minister
- one member representing persons with disabilities, appointed by the Minister
- one member representing young people, appointed by the Minister
- the following *ex officio* members:
 - the secretary for labour, or their designated representative
 - the secretary to the Treasury, or their designated representative
 - the secretary for Education, or their designated representative
 - the secretary for Commerce and Industry, or their designated representative.

Only two of the fourteen members (14 per cent) represent the private sector, which is the key contributor of the payroll levy.

A review of TEVETA's functions as specified in the Act shows that TEVETA is concerned with promoting the development of skills that meet the needs of the labour market at the TEVET level only. Its remit does not include other levels such as secondary and higher education, where skills and other expertise needed in the economy are also developed.

The Act allocates to TEVETA the responsibility for both the collection of the levy and the management and utilization of Training Fund resources. It also mandates TEVETA to promote training, and in some instances to provide training directly or through coordination with registered training providers. An important mandate of TEVETA is the setting of standards, approval of curricula and regulation of examinations. This directly conflicts with its role of providing training. There is therefore need to rationalize its mandate in order to remove any conflicts of interest in its operations. The *TEVET Policy* of 2013 (Malawi, 2013) addresses this challenge by allocating some of the current functions of TEVETA to other stakeholders and some line ministries.

The executive director (ED) of the Authority is responsible for the day-to-day management of the Authority and the training. Their duties include (i) the management of the different funds that comprise the Training Fund, property and business of the Authority, and (ii) the administration, organization and control of the staff of the Authority.

Stakeholders who were consulted during a review of the governance and management of the Training Fund generally agreed that changes were needed in order to make it more efficient and effective in addressing the skills challenges faced by the productive sector. The changes in management should also accommodate the changes that have occurred since the TEVET Act was promulgated in 1999. The review also found that while TEVETA had to a large extent stayed within its mandate, it has also strayed into other areas that are not strictly part of the mandate, and that there was need to align its mandate to the areas indicated in the *TEVET Policy* of 2014.

The TEVET Policy of 2014 does not address the governance of the Training Fund but it provides for new management arrangements, which allocate the training function to the Department of Technical, Entrepreneurial and Vocational Education and Training (DTVET) in the Ministry of Labour Youth, Sports and Manpower Development (MoLYS&MD) and to training providers. It specifies the role of TEVETA as a regulatory and facilitation body in the implementation of TEVET programmes and also as responsible for provision of oversight on quality assurance, assessment and certification of TEVET programmes. Aligning legislation with the *TEVET Policy* and the proposed governance and management arrangements will necessitate changes. These should include making the Training Fund more efficient and effective through greater participation of key stakeholders in the decisions on the use of Training Fund resources.

The purpose of this assignment is therefore to propose a new Training Fund governance and management structure and arrangement that has greater participation of employers and workers. This will be achieved through examining two options for new governance and management arrangements to determine their appropriateness. A best option will then be recommended with the rationale for its selection as the most appropriate.

3. Approach to developing funding options

There are three possible options for the governance and management of the Training Fund. One option is to maintain the status quo, which is untenable given the experience so far. The second option is to reduce some of TEVETA's roles and responsibilities so it focuses on mobilization and management of the Training Fund and not on its utilization, in order to address the shortcomings noted. The third option is to separate the functions of resource mobilization and management, and resource utilization. This option will entail the creation of another statutory body to take on the role of resource mobilization and management, while TEVETA continues with the role of TEVET coordination but with reforms to make it more effective than it has been so far.

In developing options for the governance and management of the Training Fund there are a number of key attributes that need to be considered and evaluated. These are discussed below.

4. Key attributes considered in the analysis of governance and management of the Training Fund

Eleven attributes were selected and used in developing the outline of an efficient and effective governance and management system for the Training Fund. These are described below with their rationale.

4.1. Composition of the board

The board is central in the approval of strategic plans, annual work plans and budgets of TEVETA, in investment of the Fund, and in appointment of staff and their conditions of service. The board is therefore central in ensuring that the mandate of the Authority is delivered. Its membership and composition are key to its effectiveness. It is important therefore to ensure that it is representative, in line with its mandate, and that key stakeholders are represented in the right numbers.

4.2. Appointment of the board members

This process of appointment of board members should be transparent and based on clear criteria that are in line with TEVETA's mandate. This is central to ensuring that selected board members have the requisite expertise for the functions and activities of the board, and are able to add value to the processes and decisions that are made on the use of the Training Fund, approval of programmes, and monitoring and evaluation (M&E) of the performance of the Training Fund. The criteria should include clear procedures which should be followed rigorously in making appointments. At best all those appointed should represent a stakeholder group and should be nominated by their constituency. The choice of board member should be based on well-defined qualification requirements, and the qualities, experience and expertise required for professional functioning as a board member. This will avoid manipulation in order to appoint individuals who are not suitable to serve on the board. Mechanisms for regular consultation between board members and their constituencies should also be set up.

4.3. Appointment of the chairperson

The chair and deputy chair of the board provide leadership in the conduct of board business. It is important therefore that people of integrity and relevant experience are appointed to these two positions. The appointment of the board chair and deputy should be transparent, following clearly laid-down procedures. The process used determines where the allegiance of the chair lies in the conduct of business. Allegiance should be to the stakeholders of the sector, and all decisions made should be for the good of the sector. If the appointment is made externally then allegiance is likely to lie with the appointers, to the detriment of the sector.

4.4. Management of the Training Fund

Good management is critical for efficient and effective use of the Training Fund. A qualified, experienced and competent ED is essential for its management. As with board members, the process of appointment should be transparent, and the decision based on the applicants' professional qualifications and relevant experience. The ED should be accountable to the ultimate appointing authority, which should be the board itself. There should be no political influence in the appointment of the ED of the Training Fund, as this will result in split allegiance.

4.5. Mandate of the Training Fund

The mandate of the Training Fund should be the most appropriate for it. It should not duplicate functions already assigned to other institutions in the sector as provided for in the TEVET Policy of 2014. It is essential that each key stakeholder has a clear mandate, with each stakeholder doing what is most suited to their position and with the expertise and facilities to carry out those functions. Allocation of functions should also avoid situations where conflicts of interest are likely to arise. Over-burdening with responsibilities results in mediocre performance to the detriment of the sector. Duplication of functions among stakeholders leads to waste of resources and reduces accountability for outputs and outcomes.

4.6. Coverage of sectors and levels

The Act is silent on the sectors, fields and levels that should be financed by the Training Fund. Currently the Fund is allocated to training in industrial fields up to Level 4 of the TEVET Qualifications Framework (TQF). However, the national economy also requires skills in other fields, and qualifications at the diploma/technician and degree levels. Currently sectors such as health and agriculture have not been addressed in spite of the fact that employers in these sectors also pay the levy.

4.7. The levy

The levy is the main source of the Training Fund. The question of who should be eligible to pay the levy is important because the level of Fund resources depends on levy compliance by eligible sectors. Important questions, therefore, are which sectors should be included and excluded from paying the levy depending on the benefits they derive from the Fund, and whether government should pay the levy or contribute to skills development through subventions to ministries, departments and agencies (MDAs) with mandates for education and training.

4.8. Training Fund management

A key consideration in the management of the Training Fund is whether the entity collecting the levy and running the Training Fund should also have responsibility for expenditure. The management arrangement can be compared with the Road Authority and the Roads Fund Administration, where there is a separation of powers between those who manage the fund and those who spend its resources. There is merit in examining whether a similar arrangement would be the most effective and efficient way of managing and administering the Training Fund. A key advantage of such an arrangement is better accountability in the use of the Training Fund resources.

4.9. Funding modality

Funding modalities relate to (i) how the resources are disbursed to stakeholders, (ii) what criteria are used for distributing the resources, (iii) how resources are used, and (iv) how the resources are accounted for. There is need to explore the best funding modalities, which should bring about more efficient and effective use of resources with greater accountability. There is also need to explore how funding criteria can best be used in leveraging policy objectives and achieving agreed priority outcomes.

4.10. Rebate system

Since the current levy is a levy-grant system which aims at promoting enterprise-based training, there is a need to design different categories of training that address the training needs of the different stakeholders, with adequate incentives to employers. Critical elements are the criteria for determining the type and level of training that qualifies for rebate, and the level of the rebate. Enterprise-based training can play an important role in the upgrading of workers' skills, especially where there are limited opportunities for workers to access training outside the workplace. It is also important in promoting life-long learning.

The current rebate system tends to benefit the big companies, and programmes that are limited to the needs of the company only and not to the sector as a whole. It also does not lead to recognized qualifications, something that would make it more attractive to workers interested in advancing themselves. This does not promote mobility of workers within the sector or facilitate re-entry of workers into the labour market after periods of retrenchment. Small and medium-scale enterprises (SMSEs) have not benefited much from the current rebate system, and this has affected the development of skills in this subsector and in turn the quality of its products. The rebate system should be designed to accommodate the needs of this important employment-creating sector.

4.11. Monitoring and evaluation

A robust M&E system is important for determining the effectiveness of the use of the resources against the vision, mission and objectives of the Training Fund and those of the recipient institutions.

Critical to this are results frameworks and indicators that are used to monitor and evaluate first, the management of the Training Fund, and second, the impact of the programmes supported from the Training Fund. Also critical in the evaluation is identification of the key players in the process.

5. Findings from previous studies under this consultancy

A review of the Training Fund Governance and Management Arrangement¹ was conducted during August and September 2017. Below are some of its key findings.

- The Training Fund was established in 2000 under the TEVET Act no. 6 of 1999. It is expected to facilitate the provision of technical education and training opportunities, through the establishment of a comprehensive, quality, sustainable, equitable and well-coordinated technical education and training system.
- Employers, a key contributor to the Training Fund, and also a key beneficiary since they employ graduates from the training system, constitute only 14 per cent of the total membership of the board. Their influence on board decisions on the use of the Fund resources and the programmes financed from the Training Fund is very low, leading to a mismatch between their needs in term of skills and what is produced by the system.
- Although the Act specifies the stakeholders to be appointed to the board it does not provide the criteria to be used in the selection of the members, which makes the process susceptible to manipulation.

There are no established mechanisms through which board members can inform their constituencies on the activities and decisions made by the board, or for stakeholders provide an input into board business.

- TEVETA is responsible for the collection of the levy, and the management and utilization of the Training Fund. There are inadequate checks and balances in the use of the Training Fund resources because of conflicts of interest arising from TEVETA's extended functions. This necessitates reforms in TEVETA. There should be a separation of functions, with resource mobilization, and the management and utilization of resources, being handled independently.

In addition to the Training Fund TEVETA maintains the Endowment Fund, Apprenticeship Credit Fund, Capital Fund, General Fund and Capital Development Fund, leaving its staff overstretched.

Training for some key sectors such as agriculture and mining, and at higher skill levels where there are identified skills gaps, such as the diploma and technician levels, is not supported by the Training Fund.

- The Training Fund in Malawi is a levy grant (or levy rebate) scheme. Its main source of revenue is a 1 per cent payroll levy paid by both private-sector employers and government.
- Current support to training institutions and programmes is not based on well-defined criteria. Decisions are often made by TEVETA without adequate consultation with the institutions. This has resulted for example in some institutions receiving equipment that does not match their needs.
- The rebate system has also not been reviewed over time to determine its effectiveness in promoting in-company training. As a result the current rebate system has not incentivized employers to engage in equipping their workers with hard skills. Most of the training offered under the Company or Organization-Specific (in-house) Training with Reimbursements of Training Costs programmes² concentrates on soft skills. There is need for a more comprehensive rebate scheme that will incentivize more employers to undertake enterprise-based training in order to upgrade the skills and competences of their workers and increase productivity.
- Some employers have indicated that they could engage in more training if the rebates were higher. Others were of the view that they could achieve more through in-house training if they were allowed to retain the levy in their companies than they are doing with the current rebate rates. To this extent the Training Fund has not been effective in meeting one of the objectives, of promoting in-company training and enhancing skills in the workplace.
- SMSEs have not benefited much from the Training Fund in spite of their need to upgrade the skills of their workers to generate higher productivity. They contribute to the levy and are the biggest source of employment. Their employment rates could be enhanced and higher productivity achieved if more training was targeted on this sector.
- The rebate system could also be strengthened to incentivize employers to train in areas identified as priority areas in the national development strategies such as the NES.
- An Awareness and Satisfaction Survey concluded in March 2017 revealed that while there was general awareness of the Training Fund among the stakeholders, they were not sufficiently aware

¹ This Review was conducted in September 2017.

² These are programmes currently offered by TEVETA under its Public/Private Sector Training Programme.

of (i) what the Fund is and what it is used for, (ii) what its products and services are, and (iii) how to access the products and services provided from the Training Fund. The majority of respondents lacked basic information about the Training Fund such as those eligible to pay the levy, and who manages the Fund.

- The TEVETA Annual Reports do not provide information on completion rates, pass rates, repetition rates and dropout rates. These are indicators of the internal efficiency of programmes. The M&E framework focuses on the outputs and not outcomes and impact, so it is not easy to determine the effectiveness and value for money of the Training Fund on the TEVET system.

The findings point to the need for a reform to the governance and management of the Training Fund to address some of the shortcomings identified in the two studies.

6. Methodology for analysis of options

The analysis of the best option for reforming the current arrangements was based on information gathered from the Review of the Training Fund Governance and Management Arrangements and the Survey on Awareness and Satisfaction with the Training Fund. This was supplemented by a literature review of training funds from different countries both in and outside the region in order to identify best practices. There was also further consultation with stakeholders.

Two revised options were developed for each attribute of the governance and management arrangements, and their merits and demerits were evaluated. Their appropriateness and suitability were also assessed. The option with the best combination of attributes was selected and recommended. The analysis of the two options is presented below. The option of maintaining the status quo is not included, since it was felt to be apparent that this would not be beneficial.

7. Option 1: Management of the Training Fund retained by TEVETA

This option is based on TEVETA retaining its current role of collecting the levy and mobilizing other resources for the Training Fund, and also managing and utilizing Fund resources, but with changes to meet the criticisms of the current arrangements.

7.1. Composition of the board

This option proposes increasing the voice of the employers on the board by adding more private-sector members, and in particular providing sectoral representation of the key growth sectors identified in the MGDS III. Selection of the members should be guided by clear criteria to ensure that they have knowledge of the skill needs of their sectors, and of their responsibilities on the board and to their constituents. This greater participation of the private sector should improve the relevance of the programmes funded.

In order to reduce costs of board operations, the option proposes reduction of the number of ex-officio members to those MDAs with a mandate in skills development, who should guide government policy in board proceedings.

The proposed board would comprise representatives of:

- employer organizations (MCCCI and ECAM)
- key priority sectors identified in MGDS III (such as energy, agriculture³, manufacturing, infrastructure, transport, tourism, and information and communications technology (ICT))
- professional organizations and institutions
- SMSEs
- training providers (including universities)
- civil society
- labour unions

³ This will entail including agriculture in the TEVET areas of focus, as seems appropriate since it is the mainstay of the economy and has the potential to create employment.

Ex-officio members will include:

- the secretary for Labour, or their designated representative
- the secretary for Education, or their designated representative

7.2. Appointment of the board members

The appointment of the board members should be transparent and without undue political influence. While appointments are the responsibility of government, selection of board members should be the responsibility of the stakeholder groups themselves based on the criteria indicated above. These should have the final say on who should represent them on the board. This should apply to all members appointed to the board; no appointments should be solely at the discretion of the minister, as is currently the case for example with representatives of women and youth.

7.3. Appointment of the chair

The appointment of the board chair should be free from external influence and should be left to the board members themselves, based on their knowledge of their colleagues. The position requires the concurrence of the minister and should also be ratified by Parliament, to increase transparency in the filling of this important position.

7.4. Management of the Training Fund

The appointment of the ED should be based on a transparent process using appropriate TORs for the position, advertisement and interviews to ensure that the most appropriate individual is selected. This selection should also be ratified by Parliament. Endorsement by Parliament will ensure that none of the laid-down procedures are breached.

7.5. Mandate of the Training Fund

The Training Fund should be used to promote skills development responsive to the needs of the labour market at all levels. There is a need to include other sectors that are critical to laying a foundation for TEVET, such as secondary TEVET and skills at the diploma/technician and degree level, where a critical need has been identified. There need to be systematic tools for identifying skills gaps in the economy, such as a labour market information system (LMIS), tracer studies, labour market surveys and labour planning surveys, and future skills forecasting.

7.6. Funding modality

Funding will be done through a series of windows that finance identified priority areas. These windows⁴ might include:

- pre-employment training (apprenticeship training)
- enterprise-based training (to include a voucher system for small companies)
- training for the informal sector
- capital budget for infrastructure and equipment for training providers
- scholarships for high-performing students, and bursaries and grants for vulnerable students
- research and development (to include resources for tracer studies)
- promotion of science, technology, engineering and maths (STEM) in the TEVET sector

TEVETA will draw up criteria and guidelines for accessing resources from these windows with agreement from the stakeholders. The criteria should include but not be limited to:

- existence of a strategic plan approved by the relevant authority or ministry
- relevance of the training programmes to identified local and national skill needs
- track record of the applying agency in delivering quality training products and services

⁴ These are just suggestions, and will need further deliberation with the stakeholders.

- proven good track record in managing financial resources
- registration and accreditation of the training institutions by TEVETA
- compliance with standards set by TEVETA and approved by a relevant authority (in the case of public institution by the relevant ministry, and of employers by the appropriate associations).

7.7. Mandate of TEVETA

The mandate of TEVETA will be, as is currently the case, to secure adequate and sustainable resources to be used for supporting an accessible and equitable quality technical education and training system, which incorporates both basic and specialized training in order to meet the human resource needs of the Malawian economy. The Fund Administration will be expected to achieve this through mobilizing adequate and sustainable financing for technical education and training, and judicious management of the resources.

TEVETA will be expected to:⁵

- Manage and administer the Training Fund and allocate resources through established windows to stakeholders operating in the TEVET sector. These will include (i) training providers both public and private, (ii) employers, (iii) informal sector associations and other players that carry out skills development.
- Ensure that the system of technical education and training is based on demand, is cost-effective and gradually decentralized to all the regions of Malawi, to ensure maximum utilization of resources and relevance of technical education and training programmes through the appropriate criteria.
- Leverage the adoption and implementation of policy initiatives using Training Fund resources.
- Prepare and publish procedures and criteria for accessing funds under each of the windows.
- Facilitate induction programmes for eligible beneficiaries on how to access and account for the resources allocated from the Training Fund.
- Monitor through financial and technical audits the use of funds disbursed to the eligible stakeholders for training.
- Organize comprehensive M&E of the programmes financed from the Training Fund.
- Prepare and publish audited annual accounts of the Training Fund.
- Establish IEC programmes to educate the public about the Training Fund.

In addition to its training management responsibilities TEVETA will also be expected to:

- monitor and review technical education and training policy
- set standards and qualifications for occupations, skills, technologies and trades in line with the needs of the labour market
- approve curricula of registered institutions providing technical education and training
- conduct registration and accreditation of TEVET training providers
- monitor and evaluate programmes and the performance of the sector
- appoint trade advisory committees and coordinate their work.

This is consistent with the TEVET Policy of 2014 which states that the 'The TEVET Authority will be a regulatory and facilitation body in the implementation of TEVET programmes. TEVETA will also be responsible for provision of oversight on quality assurance, assessment and certification of TEVET programmes.'

Training activities should be done by the Ministry and training providers, and SMSE associations and employers, which will apply for funding from the Training Fund based on clear and publicized criteria that aim at achieving national training objectives, and efficient and effective use of Training Fund resources as indicated above.

7.8. Rebate system

The rebate system will be designed to apply to different types of training that address the needs of the sector, the company irrespective of size, and the workers. Such a system should motivate employers to engage in enterprise-based training, which is essential for addressing the skills needs of the companies, their sectors

⁵ This range of functions will be reduced if Option 2 is adopted as the way forward.

and their workers. This should incentivize them to pay the levy since they will see tangible results from their contribution.

Rebate categories should take into account (i) the criticalness of the skill to be delivered to the sector, (ii) whether the training leads to a formal qualification and therefore promotes worker mobility within the sector, (iii) whether it is company-specific, (iv) whether it is in a designated or non-designated field, (v) whether the company provides trade testing facilities, and (vi) whether the skills are soft, technical or professional⁶.

Each of these categories will have different levels of rebate, with those that lead to qualifications and those that address high skill shortage areas receiving higher rebates. The rebate system should be reviewed regularly to ensure it is achieving the intended goals.

7.9. Training levy

The training levy should remain at the current 1 per cent of payroll, and the current method of funding public TEVET should continue until such time as levy collection has increased enough to be able to sustain the sector.

The Malawi Revenue Authority (MRA) should continue with the collection of the levy with the expectation that it will improve its system to increase the coverage of eligible contributors of the levy as specified in the Act.

7.10. Monitoring and evaluation

M&E will be at two levels. The first will be an internal tool to monitor implementation of TEVETA's processes and systems. The second is sector-wide M&E which will monitor an agreed set of indicators of the system, such as outcomes of the investment made from the Training Fund.

Measures and methodologies might be the number of graduates in the identified critical fields, relevance of training programmes, effectiveness of curriculum delivery, and annual conferences with stakeholders to assess the status of the sector. TEVETA will work closely with the beneficiaries of the Training Fund resources in the M&E of the programmes and of the sector.

7.11. Advantages of Option 1

- Governance and management of the Training Fund and the TEVET sector will remain under one authority, and there will not be the additional costs of creating another authority as proposed in Option 2;
- Reducing the mandate of TEVETA to fund management and leaving it with the regulatory role should make it more effective and efficient in delivering its mandate, unlike the current situation where it has an overly wide mandate.
- TEVETA already has accumulated experience in managing the Training Fund so there will be little need for building capacity in fund management.
- There will be improved impact of the resources from the Training Fund since they will be disbursed against agreed criteria, with improved accountability for their use.
- TEVETA will focus on its role of governance and regulation of the TEVETA sector and strengthening the role of the trade advisory committees, which have not functioned very well.

7.12. Disadvantages of Option 1

- TEVETA will continue to have responsibility of the Training Fund in addition to its oversight and regulatory mandate and M&E, which has the potential of creating a conflict of interest and overload of responsibilities.
- In spite of the reduction of responsibilities TEVETA would remain overburdened with some of the additional responsibilities of developing criteria for disbursement of resources, the development of the guidelines and the induction and orientation of stakeholders in these procedures.
- Approval by Parliament of key positions as indicated could lead to delays in appointments.

⁶ These are just suggestions of what could be considered; the final choice will need in-depth discussion with stakeholders.

8. Option 2: Establishment of a TEVET Training Fund Administration (TTFA)

The second option provides for the complete separation of functions between the collection and management of fund resources and the governance of the TEVET Sector. This will entail the creation of a statutory body, here called TEVET Training Fund Administration⁷ (TTFA), through an Act of Parliament, which will be responsible for the Training Fund while TEVETA retains the governance of the TEVET sector and uses resources provided from the Training Fund.

The establishment of TTFA and its structure will follow the same structure as those of other statutory corporations, comprising (i) a board which will be overall responsible for the governance and management of the Training Fund, and (ii) a management team headed by an ED. TEVETA will continue to carry out the functions indicated in Option 1, minus regulatory responsibility for the Training Fund. TEVETA will thus become a beneficiary of the Training Fund resources, as will other training providers, employers and SMEs. Through its oversight role of the TEVET sector it will play an important role of supporting TTFA in its decision-making processes and in vetting the programmes to be financed from the Training Fund.

This arrangement will reform the way the Training Fund is governed and managed, which in turn will impact on the how the TEVET Sector in Malawi is organized. It should result in better alignment of the sector to the current TEVET Policy, as revised in 2014.

Some of the attributes of the TTFA will be the same as those of Option 1. The differences are highlighted below.

8.1. Composition of the board

This option also proposes increasing the voice of the employers on the board by increasing the number of private-sector members, including sectoral representation of the key growth sectors identified in MGDS III. Selection of the members should be guided by clear criteria that ensure that members are informed about the skills needs of their sectors, and their responsibilities on the board and to their constituents. This greater participation of the private sector should improve the relevance of the programmes funded from the Training Fund.

In order to reduce costs related to board operations, *ex-officio* members representing MDAs will be limited to those central to providing advice on government policy. The board composition should have at least 50 per cent private-sector representation.

The proposed board would comprise representatives of the following:

- employer organizations (MCCCI and ECAM)
- key priority sectors identified in MGDS III (such as Energy, Agriculture⁸, Manufacturing, Infrastructure, Transport, Tourism, ICT)
- professional organizations/institutions
- SMSEs.
- training providers (including universities)
- civil society
- labour unions.

Ex-officio members will include:

- the secretary for Labour, or their designated representative
- the secretary for Education, or their designated representative.

⁷ This follows what happened with the separation of the Road Authority and the Road Fund Administration.

⁸ This will entail including agriculture in the TEVET areas of focus, which is appropriate since it is the mainstay of the economy and has the potential to create employment.

8.2. Appointment of the board members

The appointment of the board members should be transparent and without undue political influence. While appointments are the responsibility of government, selection of board members should be the responsibility of the stakeholder groups themselves based on the criteria indicated above. These should have the final say on who should represent them on the board. This should apply to all members appointed to the board; no appointments should be solely at the discretion of the minister, as is currently the case for example with the representatives of women and youth.

8.3. Appointment of the chair

The appointment of the board chair should be free from external influence and should be left to the board members themselves, based on their knowledge of their colleagues. The position requires the concurrence of the minister and should also be ratified by Parliament, to increase transparency in the filling of this important position.

8.4. Appointment of the executive director

The appointment of the ED should be based on a transparent process based on appropriate TORs for the position, advertisement and interviews to ensure that the most appropriate individual is selected. The selection should also be ratified by Parliament. Endorsement by Parliament ensures that none of the laid-down procedures of this position are breached.

8.5. Training Fund

The Training Fund should be used to promote skills development responsive to the needs of the labour market at all levels. There is need to include other sectors that are critical to laying a foundation for TEVET, such as secondary TEVET and skills at the diploma/technician and degree levels, where critical needs have been identified. There need to be systematic tools for identifying skills gaps in the economy, such as an LMIS, tracer studies, labour market surveys and labour planning surveys, and future skills forecasting.

8.6. Funding modality

Funding will be done through a series of windows that finance identified priority areas. Windows⁹ should include but not limited to:

- pre-employment training (apprenticeship training)
- enterprise-based training (to include a voucher system for SMSEs)
- training for the informal sector
- a capital budget for infrastructure and equipment for training providers
- bursaries and grants for students
- research and development (to include resources for tracer studies)
- promoting STEM in the TEVET Sector
- management and running costs of TTFA and of TEVETA.

TTFA will draw up criteria and guidelines for accessing resources from these windows with agreement from the stakeholders. The criteria should include but not be limited to:

- existence of a strategic plan and annual work plans approved by the relevant authority or ministry
- relevance of the training programmes to identified local and national skill needs
- track record of the applying agency in delivering quality training products and services
- a record of efficient and effective financial management
- accreditation/approval by TEVETA
- compliance with standards set by TEVETA and approved by a relevant authority (for public institution by the relevant ministry, and for employers by the relevant association)

⁹ These are just suggestions which will need further deliberation with the stakeholders.

8.7. Mandate of the TTFA

The mandate of TTFA will be to secure adequate and sustainable resources to be used for supporting an accessible and equitable quality technical education and training system, which incorporates both basic and specialized training in order to meet the human resource needs of the Malawian economy. TTFA will be expected to achieve this through mobilizing adequate and sustainable financing for technical education and training, and judicious management of the resources.

TTFA will be expected to:

- Manage and administer the Training Fund and allocate resources through established windows to stakeholders operating in the TEVET sector. These will include (i) TEVETA, (ii) training providers both public and private, (iii) employers, and (iv) informal sector associations and other players that carry out skills development.
- Ensure that the system of technical education and training is based on demand, is cost-effective and is gradually decentralized to all the regions of Malawi. This should ensure maximum utilization of resources and relevance of technical education and training programmes through application of the appropriate criteria.
- Leverage the adoption and implementation of policy initiatives using Training Fund resources.
- Prepare and publish procedures and criteria for accessing funds from the Training Fund under each of the windows.
- Facilitate induction programmes for eligible beneficiaries on how to access and account for the resources allocated from the Training Fund.
- Monitor through financial and technical audits the use of funds disbursed to the eligible stakeholders for training.
- Organize comprehensive M&E of the programmes financed from the Training Fund.
- Prepare and publish audited annual accounts of the Training Fund.
- Establish IEC programmes to educate the public about the Training Fund.

8.8. Rebate system

The rebate system will be designed to cover different types of training that address the needs of the sector, the company irrespective of size and the workers. Such a system should motivate employers to engage in enterprise-based training, which is essential for addressing the skills needs of the companies, their sectors and their workers. This should incentivize them to pay the levy since they will see tangible results from their contribution.

Rebate categories should take into account: (i) the criticalness of the skill to be delivered to the sector, (ii) whether the training leads to a formal qualification and therefore promotes worker mobility within the sector, (iii) whether it is company-specific, (iv) whether it is in a designated or non-designated field, (v) whether the company provides trade testing facilities, and (vi) whether the skills are soft, technical and/or professional¹⁰.

Each of these categories will have different levels of rebate, with those that lead to qualifications and those that address high skill shortage areas receiving higher rebates. The rebate system should be reviewed regularly to ensure it is achieving the intended goals.

8.9. Training levy

The training levy should remain at the current 1 per cent of payroll and the current method of funding public TEVET should continue until such time as the levy collection has increased enough to be able to sustain the sector.

MRA should continue with the collection of the levy with the expectation that it will improve its system to increase the coverage of eligible contributors of the levy as specified in the Act.

¹⁰ These are just suggestions of what could be considered; the final choice will need in-depth discussion with stakeholders.

8.10. Monitoring and evaluation

M&E will be the responsibility of TTFA, and will be at two levels. The first will be an internal tool to monitor implementation of TTFA's processes and systems. The second is sector-wide M&E which will monitor an agreed set of indicators of the outcomes of the investment made from the Training Fund. Measures and methodologies might be the number of graduates in the identified critical fields, relevance of training programmes, effectiveness of curriculum delivery, and annual conferences with stakeholders to assess the status of the status. TTFA will work closely with the beneficiaries of the Training Fund resources in M&E of the programmes and of the sector.

8.11. Advantages of Option 2

- The division of functions between TTFA and TEVETA will improve the performance of the two entities, and they will be able to focus more effectively on their core responsibilities.
- There will be better accountability of Training Fund resources as this will be the main duty of TTFA. This contrasts with the present situation when TEVETA is responsible for the two roles of resource mobilization and utilization, and there is an absence of clear criteria for awards of resources.
- M&E of the TEVET programmes will be enhanced as it will be conducted by TTFA, which will be far removed from the implementation of programmes, bringing in an element of objectivity.
- There will be greater accountability and efficiency in the use of Training Fund resources since beneficiaries will be accountable to TTFA for the funding they receive, and the funding will be provided against clearly criteria and procedures, with agreed outputs and outcome targets.
- Employers will have greater confidence in the levy because they will have a significant role in the decisions made on the utilization of Fund resources, and because of the transparent management of levy utilization, and visible and tangible benefits from the system.
- The rebate system will adequately incentivize employers to invest in the training of their employees in agreed areas, and will address the needs of all stakeholders including SMSEs and other employers. The system will be designed and managed with greater participation of the private sector, and should be periodically reviewed and adjusted in response to changing needs and trends.
- Funding will be based on needs identified by the beneficiaries themselves as indicated in their strategic plans and annual work plans, unlike the current situation where decisions on what is financed are made by TEVETA without adequate consultation with the beneficiaries. This will be part of the decentralization of the management of the TVET institutions as specified in the TEVET Policy of 2014.

8.12. Disadvantages of Option 2

- The establishment of a new authority will incur additional cost which will eat into the Training Fund resources. However the anticipated efficiency and effectiveness to be derived from the establishment of the TTFA should in the medium to long term justify the additional cost of sustaining the two statutory corporations.
- The new TTFA will need time to develop capacity both in the management of the Training Fund and in bringing beneficiaries up to speed on the procedures and guidelines for accessing Training Fund resources.
- This option brings in major changes to the TEVET sector, making its implementation difficult, especially if it is perceived as cutting jobs. Fear of loss of employment can be addressed by absorbing TEVETA staff with the requisite experience into TTFA.
- Approval by Parliament of key positions as indicated may lead to delays in appointments.

9. Conclusion

It is recommended that Option 2, which separates the fund management from its utilization, be adopted because of the merits that have been discussed in this report. It is also recommended that in the adoption of this option and the changes proposed for TEVETA in terms of reducing its responsibilities and making it focus on oversight and regulation of the TEVET sector be adopted. Given the reduced functions of TEVETA the composition of its board will have to be adjusted to make it fit the revised mandate. This should increase the efficiency and effectiveness of the Training Fund and the TEVET sector as a whole.

There will be need for some serious marketing emphasizing the advantages that will accrue to the system in terms of improved management and utilization of the Training Fund resources and of addressing the skills gap in the economy. The services of a change agent will also be required to facilitate the change in functions in TEVETA, where there is potential for resistance.

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