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The World Bank

Report No: 21417 - ZA

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 19.5 MILLION
(USD 25 MILLION EQUIVALENT)

TO THE

REPUBLIC OF ZAMBIA

FOR A

TECHNICAL EDUCATION VOCATIONAL & ENTREPRENEURSHIP TRAINING (TEVET)
DEVELOPMENT PROGRAM SUPPORT PROJECT

May 23, 2001

Human Development 1
Country Department 2
Africa Regional Office

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 2001)

Currency Unit = Zambian Kwacha (ZMK)
ZMK 3,220 = US$1
US$1.27 = SDR 1

FISCAL YEAR

January 1 -- December 31

ABBREVIATIONS AND ACRONYMS

AG	Auditor General
BESSIP	Basic Education Subsector Investment Program
CAS	Country Assistance Strategy
CBO	Community-based organization
CD	Curriculum Developer
CDF	Comprehensive Development Framework
CIDA	Canadian International Development Agency
CSO	Central Statistical Office
DANIDA	Danish International Development Agency
DVET	Directorate of Vocational Education and Training
EBP	Equity-based Programs
ECZ	Examinations Council of Zambia
EIA	Environmental Impact Assessment
EISDU	Entrepreneurship and Informal Sector Development Unit
EMP	Environmental Management Plan
EMIS	Education Management Information System
EU	European Union
FMPC	Financial Management and Procurement Committee
FMPM	Financial Management and Procurement Manual
FMS	Financial Management System
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
GPN	General Procurement Notice
GTZ	Deutsche Gesellschaft fuer Technische Zusammenarbeit (German Technical Co-operation)
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HRD	Human Resource Development
IDA	International Development Association
IEC	Information, Education and Communication
ILO	International Labor Office
IRR	Internal Rate of Return
ITC	International Trades Center

Vice President:	Callisto Madavo
Country Manager/Director:	Yaw Ansu
Sector Manager:	Dzingai Mutumbuka
Task Team Leader:	Paud Murphy

JICA	Japan International Cooperation Agency
JSC	Joint Steering Committee
KPI	Key Performance Indicators
LCMS	Living Conditions Monitoring Study
M&E	Monitoring and Evaluation
MCDSS	Ministry of Community Development and Social Services
MoE	Ministry of Education
MoFED	Ministry of Finance and Economic Development
MoU	Memorandum of Understanding
MSTVT	Ministry of Science, Technology and Vocational Training
MYSCD	Ministry of Youth Sport and Child Development
NGO	Non-governmental organizations
NORTEC	Northern Technical College
MOR	Output Monitoring Report
NTA	National Training Authority (now TEVETA)
PAD	Project Appraisal Document
PCO	Program Coordination Office
PCT	Program Coordination Team
PFPM	Project Financial and Procurement Manual
PMR	Program Management Report
PPF	Project Preparation Facility
PRSP	Poverty Reduction Strategy Paper
PSC	Program Steering Committee
PU	Procurement Unit
QAE	Quality at Entry
SA	Special Account
SADC	Southern Africa Development Community
SME	Small and Medium Enterprises
TP	Training Provider
TDP	TEVET Development Program
TEVET	Technical Education Vocational and Entrepreneurship Training
TEVETA	Technical Education, Vocational and Entrepreneurship Training Authority
T-Test	Trades Test
TVTC	Technical and Vocational Teachers' College
VET	Vocational Education and Training
ZATP	Zambia Association of Training Providers
ZAMIM	Zambia Institute of Management

ZAMBIA
TECHNICAL EDUCATION VOCATIONAL & ENTREPRENEURSHIP TRAINING (TEVET) DEVELOPMENT PROGRAM SUPPORT PROJECT

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Annexes

ZAMBIA

Technical Education Vocational & Entrepreneurship Training (TEVET) Development Program Support Project

Project Appraisal Document

Africa Regional Office
AFTH1

Date: May 23, 2001	**Team Leader:** Patrick D. Murphy
Country Manager/Director: Yaw Ansu	**Sector Manager/Director:** Dzingai B. Mutumbuka
Project ID: P057167	**Sector(s):** EV - Vocational/Technical Education & Training
Lending Instrument: Sector Investment & Maintenance Loan (SIM)	**Theme(s):** Education
	Poverty Targeted Intervention: N

Program Financing Data

[ ] Loan **[X] Credit** **[ ] Grant** **[ ] Guarantee** **[ ] Other:**

For Loans/Credits/Others:

Amount (US$m): 25

Proposed Terms (IDA): Standard Credit

Grace period (years): 10 **Years to maturity:** 40

Commitment fee: 0 **Service charge:** 0.75%

Financing Plan (US$m): Source	**Local**	**Foreign**	**Total**
BORROWER	21.00	0.00	21.00
IDA	5.00	20.00	25.00
DANISH INTERNATIONAL DEVELOPMENT ASSISTANCE (DANIDA)	7.50	7.50	15.00
GERMAN TECHNICAL ASSISTANCE CORPORATION	1.00	0.50	1.50
MIN. OF FOREIGN AFFAIRS / MIN. OF DEV. COOP. - NETHERLANDS	5.00	9.00	14.00
OTHER SOURCES OF BORROWING COUNTRY	9.60	0.00	9.60
OTHER SOURCES (UNIDENTIFIED)	0.80	2.00	2.80
Financing Gap	5.72	0.00	5.72
Total:	55.62	39.00	94.62

Borrower: REPUBLIC OF ZAMBIA

Responsible agency: MINISTRY OF SCIENCE, TECHNOLOGY & VOCATIONAL TRAINING

Address: P.O. Box 50464, Lusaka, Zambia

Contact Person: Ms. Eva Jhala, Permanent Secretary

Tel: 260 1 252411 Fax: 260 1 252951 Email: psmstvt@zamnet.zm

Other Agency(ies):

DANIDA, Ministry of Foreign Affairs/Ministry of Development Cooperation-Netherlands, German Technical Assistance Corporation

Estimated disbursements (Bank FY/US$m):

FY	2002	2003	2004	2005	2006			

Annual	2.10	6.55	8.45	6.50	1.40			
Cumulative	2.10	8.65	17.10	23.60	25.00			

Project implementation period: FY 2002-06

Expected effectiveness date: 10/01/2001 **Expected closing date:** 06/30/2006

OCS PAD Form: Rev March, 2000

A. Project Development Objective

1. Project development objective: (see Annex 1)

Background

Following years of decline, the Zambian economy grew modestly in 1996 and 1997. However, its gross domestic product (GDP) declined by 2.9% in 1998 and grew by only 2.02 % in 1999 and by an estimated 3.47% in 2000. This was largely owing to the uncertainties around the privatization of the copper mines, limiting inward investment and donor support, and a 25% fall in the price of copper. The last group of mines has now been sold, and the economic projections for the next three years indicate an average annual growth rate of 4.5%. While copper will remain critical for export earnings and basic agriculture will be essential for subsistence for many Zambians, there are other areas of hope. High value agriculture and agro-industries, tourism and specialized services have been identified as potential growth areas, and early indications from these sectors suggest reasons to be optimistic.

An educated, well trained and flexible workforce is critical for this growth. Recently the Government of Zambia (GRZ/Government), in collaboration with internal and external stakeholders, launched a program aimed at increasing enrollment in the first nine years of basic education and improving learning outcomes, particularly among rural and disadvantaged children. The Ministry of Science, Technology and Vocational Training (MSTVT) which has responsibility for developing Technical, Vocational and Entrepreneurship Training (TEVET) has recently launched a similar reform process in order to improve the quality, cost-effectiveness and demand relevance of training. MSTVT is responsible for training policy affecting other line ministries offering training [(e.g. Schools for Continuing Education under the Ministry of Education (MoE)] as well as the private "for profit" and voluntary providers and (until January 2000) was also responsible for directly administering 23 training institutions. Currently, about 7,000 full-time and about 2,000 part-time students are being trained in Government institutions (henceforth, Government refers to the MSTVT institutions and the Schools for Continuing Education under the MoE) while approximately 15,000 more are being trained in private for-profit and voluntary-administered institutions (henceforth referred to as private institutions, or providers). In addition, some large firms provide their own training programs.

The Government has been faced with a tight budget situation which has in turn constrained its ability to fund the training system. The limited government resources have mainly been used for staff salaries, while investments in equipment and training materials have been negligible. The quality of training has been declining, and salaries continue to be inadequate, thus lowering staff morale.

Private training providers face serious constraints, such as limited access to capital, lack of capacity to compete with subsidized public providers, and higher fees to have students participate in examinations.

In terms of the public training system, thus far, there has been little involvement of employers and consequently, public-provided training is not responsive to market demand.

Recognizing these problems, Government's plans for the training sector are radical: a new training authority has been established and staffed, 21 of the 23 MSTVT institutions have been granted autonomy under the supervision of management boards, and there is commitment to establishing a level playing field for private providers. The reform process began in 1996 with Government issuing a policy document: *Technical Education, Vocational and Entrepreneurship Training (TEVET) Policy* (1996) that identified the problems facing the economy and the training institutions and formulated a broad national policy on

training. Subsequently, Government produced a strategy paper: *Strategy Paper for Technical Education and Entrepreneurship Training (TEVET) in Zambia* (1997) which provided strategies for implementing the new policy and an action plan. Government then passed these reforms into law through the Technical Education, Vocational and Entrepreneurship Training Bill, 1998. The Board of the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) was constituted in mid-1999 and the staff selected and appointed in early 2000. Management Boards for Training Institutions were established in 2000 in 21 (of 23) MSTVT training institutions and all of the staff of these institutions were provided with their termination benefits. During 2000 and 2001, Government, through MSTVT, designed the TEVET Development Program (TDP) to operationalize plans and to manage external financing for the sector.

Objectives

The program development objective is to develop a TEVET system that has the potential to improve skills for both the formal and informal sectors of the economy through creating a high-quality, sustainable, demand-driven, and equitable training system. Government is reorienting its role from being both a provider and financier of training to one in which its main roles are those of regulating, monitoring and evaluating, and providing finance for demand-driven training. Government's role will be carried out through MSTVT: TEVETA will implement policy under MSTVT and the training institutions will have greater autonomy in providing training.

The development of a *high-quality* training system requires designing quality management information systems; developing appropriate certification and examination systems; and building capacity at MSTVT, TEVETA and in the training institutions to enable these stakeholders to perform their functions effectively and be responsive to market needs.

The development of a *sustainable* training system requires a Government commitment to reform; the clear demarcation of the roles and responsibilities of the various stakeholders in the provision, financing and regulation of training; a realistic and logical program design and implementation strategy; and financial mechanisms and strategies that target successful institutions, key skills and talented students and involve all stakeholders in the design and implementation of the mechanism.

Demand responsiveness of the system will require enhanced participation by stakeholders, especially through regular consultations between employers and training institutions; and designing financing mechanisms in such a manner that providers of training are rewarded for becoming more responsive to the needs of employers in both the formal and informal sectors of the labor market.

An *equitable* training system will require the provision of financial support that increases training opportunities for female trainees and disadvantaged groups and that assists the TEVET sector in supporting the national campaign against HIV/AIDS.

2. Key performance indicators: (see Annex 1)

In support of the overall development objectives, TDP will provide support to nine components: Overall Program Management; TEVET Financing System; Organization and Management of TEVET; Training Systems, Trade Testing and Examinations; Entrepreneurship and Informal Sector Training; Human Resource Development; TEVET Information Systems; Infrastructure and Equipment; Gender, HIV/AIDS and other Cross-cutting issues.

Overall program management will be supported through the establishment of a Program Steering Committee (PSC) involving funding agencies and Government to approve annual work plans and budgets

and a Program Coordination Office (PCO) within MSTVT to prepare these plans. An annual Stakeholders Forum will also be supported.

The *TEVET financing system* will be strengthened through the establishment of a Training Fund, managed by industry, TEVETA and Government. During the life of the project the Training Fund will test and demonstrate the support for demand-driven training and demonstrate to employers the benefits to be derived from financial participation in a Training Fund.

Organization and management of TEVET will be supported through strengthening TEVETA's management, the enhancement of networking among those Government Ministries providing training, and strengthening the management capacity of training providers themselves.

The *Training systems, trade testing and examinations* component will support TEVETA's quality assurance functions, including curriculum development (in collaboration with training institutions), inspection and examinations.

Entrepreneurship and informal sector training will be supported through short-term skills upgrading and funding training for small- and medium-scale enterprises within the informal sector.

The *human resource development* component will build capacity within MSTVT, TEVETA and training providers to implement the TEVET reforms.

TEVET *information systems* will be strengthened through support for the three main actors: MSTVT, TEVETA and training providers. In addition, support will be provided to carry out labor market, tracer and attitude surveys.

Infrastructure will be refurbished and *equipment*, including training materials, provided to all training institutions meeting specific criteria. These will include the quality of current training provision as assessed by TEVETA, assessments of market demand for new courses, and developed business plans.

Gender, HIV/AIDS and other Cross-cutting issues. The impact of *HIV/AIDS* on the supply of skilled people will be assessed and a plan developed by MSTVT to join the national effort to combat the virus. Information on HIV/AIDS will be provided to all trainees through the formal curriculum and through peer group activities.

Gender equity will be supported through a plan developed and implemented following a situation analysis. Gender mainstreaming will be implemented. Gender interventions will be incorporated within each component.

Development Objectives	**Key Performance Indicators (by 2005)**
High-quality training system	Industry surveys show increased satisfaction with quality of graduates from system. Share of all training institutions inspected and registered, and courses accredited by TEVETA is at least 90%.

Sustainable training system	Training Fund in place with Government, employers and donors contributing. Employers' attitude toward contributing to TEVET improves. Total resources available for the training sector from the Borrower, the private sector and trainees increased with the Borrower's contribution constant in real terms.
Demand-driven training system	Fees from trainees constitute at least 50% of recurrent income for more than 50% of formal institutions. Industry surveys show increased satisfaction with graduates. More than 50% of training institutions receive support for courses from Training Fund. At least 70% of graduates find employment within six months of graduation.
Equitable training system	Share of TEVET graduates from poor and socially disadvantaged groups increased by 10%. Female graduates from TEVET programs increases by 25%.

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)

Document number: IDA/R99-156/1 **Date of latest CAS discussion:** 10/07/99

Based on consultations with civil society and Government's priorities as articulated in discussions within the Comprehensive Development Framework (CDF) process, the CAS has identified three strategic areas: removing constraints to sustainable, diversified growth; improving governance; and increasing access to basic services and direct poverty interventions. The CAS recognizes that policies and actions to strengthen the business environment will assist in removing constraints to growth. In this regard, strengthening the stock of knowledge and capacity-building are also vital for private sector development in Zambia. The CAS states that given Zambia's need to diversify and compete on world markets in areas other than basic commodity exports, capacity-building and knowledge generation are central to its growth prospects. This and the changing structure of Zambia's employment, have lent increased importance to investing in people in order to produce a workforce that has the flexibility to acquire new skills. The CAS proposes the preparation of a training program, which will focus on the cost-effective provision of new skills in close collaboration with all stakeholders. To support Government in facilitating the minimization of inequalities in training, TDP will finance targeted interventions for poor and disadvantaged groups and encourage greater involvement and participation of established national non-governmental organizations in skills training delivery. Another issue on which the program will support the CAS goals is that of HIV/AIDS, where the program will assist in raising awareness of HIV/AIDS through the Information, Education & Communication (IEC) campaigns for trainees in the sector.

2. Main sector issues and Government strategy:

The main goal of any training system is to produce graduates in a cost-effective and equitable manner, who are employable in the labor market. However Zambia's public training system has not been very successful

in this regard. Studies carried out in the past and interviews with entrepreneurs/employers conducted by staff and consultants over the past year, give the consistent impression that many employers are uninterested in employing graduates from existing public training institutions and would instead prefer to employ school-leavers (with good competence in reading, writing, and spoken English) and to train them on-the-job by placing them alongside experienced workers. Some of the main factors determining this view (as well as some other sectoral issues) are discussed below.

Training sector financing

Underlying all the problems with the training system is the multi-faceted issue of finance.

Adequacy of Government financing. The Government has been providing declining grants to public training institutions. Further, these institutions have often received much less than what budget allocations would make them anticipate: over the past few years, institutions have received less than half of the grants allocated to them in the annual budget. Lack of resources and the cash budget system currently in place have, in large part, contributed to a situation whereby available resources are first provided for salaries, next for grants in-aid and last for other grants including those to training institutions.

A recent study (1999) showed that -- not counting outlays on teacher salaries -- up to 90% of Government grants to the larger public training institutions was going towards student welfare, mainly to cover catering expenses.

On the other hand, there has been minimal cost-sharing. Hitherto, neither the students nor the private sector has been required to contribute to the training costs. Some employers remain unconvinced that, in the present circumstances, training institutions can provide high-quality and demand-relevant training.

Allocation of Government financing. Government financing is available only to public providers of training. Private providers, some of whom provide better quality and more relevant training in certain courses, cannot avail themselves of these resources. Public training institutions have no incentive to respond to market demand as funding decisions are not based on such responsiveness. Finance is neither targeted upon courses deemed to be in especially high demand, nor upon especially prioritized categories of trainees. Finance is tied to inputs only, and yet it does not include equipment and pedagogical materials.

Transparency of Government funding mechanism. The mechanism that Government uses to decide on funding between different providers is not linked to any performance criteria. Rather, Government's input-based grant finance of public institutions occurs in an ad-hoc manner. Industry, training providers or other stakeholders are not included in discussions about appropriate allocative priorities.

Sustainability of Government financing: Simulations have been conducted that attempt to match the realistic cost ("model cost") of providing current courses for the entire system (in both public and private institutions) and supporting current student numbers with the finances likely to be available based on the assumption that: (i) Government support for financing training will continue at current levels; (ii) student fees will be set at estimated market rates; but (iii) finance from a training levy will be insignificant over the next few years. These simulations show a *recurrent* financing gap of about USD 23 million over the next five years. If *capital/developmental* costs are included, the financing gap rises to over USD 60 million over the same time period.

Demand for skills in the labor market

Demand for skills is changing. On the labor demand side, analysis of the household and establishment surveys shows that Zambia's labor force grew rapidly in the 1990s, reaching close to four and a half

million by the end of the decade. Labor force participation rates are high, especially in the 25-64 age group (close to 85%). While employment has been growing at close to 3% through most of the 1990s, with formal sector employment growing at a slow pace, most of the incoming labor force has been absorbed into the informal sector or into unemployment. Over this time period, unemployment rose from 11% to 15%. Informal sector growth is concentrated in small-scale manufacturing, distribution and miscellaneous services; and skills needs in this sector have been increasing. Recent needs assessment studies indicate that informal sector entrepreneurs feel the skills shortage is a significant constraint on their operation.

Limited use of data on labor market demand and supply of training. Skill needs are difficult to estimate in any country. The methods used include surveys and more qualitative information from contacts between the training system and employers. Neither of these sources is used well in Zambia. In making decisions on training, little use has been made of existing information on trends in labor market demand. The capacity to analyze labor market information for use in decision making also seems to be lacking. While the Central Statistical Office (CSO) conducts surveys at household and establishment levels, planners and policy makers make little use of this information.

Supply of skills: the public training system

Government has traditionally maintained control over public training institutions through centralized decision making. However, it has not been able to finance the system adequately. As a consequence, the quality of training is poor. Apart from salaries, most expenditures go to food for the students.

The quality of training is poor. Institutions have even been unable to provide training of minimally adequate quality. Classrooms and workshops are dilapidated and ill equipped due to insufficient investment. Staff are poorly paid and motivation and productivity are low. There is no articulation of qualifications across institutions. End-of-course examinations are administered by the Examinations Council of Zambia (ECZ), and are mainly paper and pencil tests as institutions do not have the resources to provide materials for practical skills examinations.

The only quality assurance procedure in place for private providers was the registration function which was performed on payment of a fee of Zambian kwacha 77,000 to MSTVT and required an inspection visit. This inspection visit did not always take place. While the Technical Vocational Teachers' College (TVTC) in Luanshya is charged with responsibility for upgrading the pedagogical skills of instructors, the College is underfunded and poorly equipped.

Management was *centralized and provision was uncoordinated.* Until the MSTVT institutions were placed under autonomous management boards in early 2000, there were 23 institutions managed by MSTVT -- each enrolling anywhere from 30 to over 1,000 students -- providing training for about 6,000 youths. All important decisions were taken by MSTVT in Lusaka, or in the case of examinations, by ECZ. There was no meaningful local autonomy; institutions had to get approval from the center for hiring/firing staff, changing courses and curricula and for any significant expenditures. The 14 Schools for Continuing Education run by the MoE, which enroll about 1,000 individuals, face similar constraints. In addition to MSTVT and MoE, the Ministries of Agriculture, Community Development and Social Services, Tourism, and Youth Sport and Child Development also run their own training centers. There is little coordination among these institutions although many are providing the same types of training.

Public training provision is not geared to the needs of the labor market. The training system was established in the 1960s and early 1970s and has not adjusted to changes in the economic environment, including the changes caused by privatization of the mines and shedding by Government of many of its public enterprises. Many of the courses being offered in the institutes have been offered for the past thirty

years, and were designed to meet the needs of the mining sector at that time and those industries serving that sector. Evidence from tracer studies is lacking but anecdotal evidence indicates that many graduates have difficulty finding employment. Employers complain that training is not responsive to demand. According to the needs assessment survey, carried out in the mid 1990s, both formal and informal sector employers identified the lack of demand orientation and the low quality of training provided at training institutions as a major cause of skills shortage.

Supply of skills: the private training system

Private "for profit" institutions cannot compete on a level-playing field. There is comprehensive information on the size of private provision of technical and vocational training from a 1996 sectoral audit. At that time private providers accounted for 67% of the 365 institutions included in the audit, 65% of total enrollment (which was 18,258), and 62% of the 461 courses then being offered. In 2000 another survey covered a sample of 50 private institutions of different types (private for-profit, non-for-profit, and providers of in-service training). In 1996 the relations between training institutions and industry and the community had been rated as weak. This registered significant improvement according to comparison with the 2000 survey. But other conditions which had been identified as important problems in the 1996 study: limited access to capital, lack of income from fees to finance the equipment and materials, MSTVT support being confined to infrequent inspections, MSTVT registration records being poorly maintained, had not improved. It even worsened in the case of MSTVT's registration service.

A recent study (1999) comparing costs of training in public and private training institutions found that while unit costs in private training institutions were about 30% higher than those in public training institutions: this was mainly owing to higher staffing ratios and greater spending on training materials. Private "for profit" providers are increasingly competing against fee-paying training offered by staff associations in public training institutions which use the income to augment teachers' salaries. These training associations make use of the facilities, materials and equipment of the public training institution while providing minimal compensation to the institution. Their fees are significantly lower than those in private institutions. Preliminary estimates indicate that academic staff associations enroll around 4,000 students -- as compared to 6,000 Government-subsidized students.

Many non-profit providers are operating with limited resources. Church and other NGO-run courses tend to be small, to teach practical skills at basic level, and to be more targeted on poor students. They depend heavily on charitable sources for operating costs. Many can place some students in employment through their links to local small-scale industry. Where employment is not available, some NGO providers support the graduates to establish their own business. A large number seek recognition for their graduates and pay registration fees.

Other issues

While the issues below are more relevant to the public training system, they also impact on the private training system.

Applicants lack information on institutions and courses. Prospective trainees applying for admission to public training institutions in July (having received their examination results in March), are interviewed in specially designated centers but are provided with very limited information about the courses available. An applicant can indicate two choices as to type of course but cannot designate location/institution. Places are allocated in November. Very little information on course availability is offered. Applicants are not aided by any published information on course offerings, entrance prerequisites, or training outcomes.

Little interaction between employers and the training system. Interviews with a large number of employers indicate that many employers are not keen to employ graduates of the public training system. Institutions do not provide any systematic follow-up of graduates. Similarly, the lack of any systematic information on the quality of private training also does not allow employers to make informed decisions when hiring individuals from private institutions. Employers depend on impressions from personal contacts to assess institutional quality. Given the perceived poor quality of much training, employers are reluctant to contribute towards training costs.

Marginalization of disadvantaged groups in training. Zambia's past emphasis on training for formal sector employment has excluded many individuals from poor socio-economic backgrounds who have low levels of education, from entering training institutions. Public sector training interventions for the informal sector where the majority of these poor individuals are more likely and more able to participate have generally been weak, inaccessible, and of poor quality.

Gender inequities in training provision. Females, particularly those who are poor, have been marginalized from most vocational training on offer. Low socio-economic family background, culture and the gender stereo-typed tasks and occupations traditionally available to females constrain the range of training accessed by females. No strong attempts have been made in the past to overcome the traditional gender and institutional constraints on the access which females have to training.

HIV/AIDS. The high prevalence of HIV/AIDS in Zambia (19.7%) has serious consequences for the training sector. As AIDS takes its toll on the productive adult population, the skill base needed for a successful market economy is weakened. Due to HIV/AIDS there is a rising number of orphaned youths -- in year 2000 estimated to exceed 600,000 of whom 65% were aged 10-18 years. Training institutions which in the past have sought especially to serve at-risk youth are not equipped to offer much help to these rising numbers of orphans. Of course HIV/AIDS also affects the environment within training institutions, causing much suffering and placing extra burdens upon staff and students.

Government response

Many of the problems mentioned above stemmed from the lack of capacity of MSTVT to run the system effectively, monitor and evaluate training, and implement policies. Even though the system is relatively small, MSTVT's capacity has been constrained by lack of adequately qualified and motivated personnel, poor coordination with other relevant ministries and organizations, lack of linkages with the private sector (both employers as well as private providers) and by serious financial constraints. Government has recognized these problems and has for some years been fully committed to far-reaching reform. Since 1996, Government has been working with relevant internal and external stakeholders in revising its policy on vocational education and training. Government has produced policy and strategy papers and a new legislative framework was enacted in 1998. Subsequently, in mid-2000, Government formally established the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA). Two-thirds of TEVETA's Board members are from industry, trades unions or NGOs. TEVETA has a co-ordination and advisory role, providing technical assistance to all public and private training providers, and providing relevant information to employers and students about institutions. In addition, TEVETA monitors standards. Since its establishment, TEVETA has registered more than 200 institutions and has been developing criteria in order to categorize each institution into one of three categories, with Category A consisting of the most effective institutions. MSTVT retains authority for coordination of policy formulation, for monitoring and appraisal of policy implementation and for the Management and Information System.

Government has transferred the control of 21 public training institutions to autonomous Management Boards. The Boards are responsible for curriculum decisions, for ensuring the maintenance of training standards prescribed by TEVETA, for administering the affairs of the institution -- including the finances, and for providing such services as needed. Letters of appointment to the Boards were issued in early 2000. Government has also established the Technical and Vocational Teachers College (TVTC) as an autonomous institution but will continue to provide some support for its upgrading courses. All staff of the MSTVT training institutions were removed from Government payroll from January 1, 2000 and received their terminal benefits from Government during 2000. However, over a two-three year period, beginning with 2000, Government has agreed to continue to pay the salaries of all of those staff opting to continue working under the autonomous Management Boards. Once this period ends, previously public training institutions will have to compete for finance on the basis of quality, cost-effectiveness and responsiveness to demand. In short, Government is changing its role from that of a provider of training to being a financier, regulator and coordinator.

Government is committed to continue to finance training and it is also expecting the private sector to make a significant contribution towards training costs. Government initially intended to impose a training levy in 2001. Stakeholder consultations, however, indicated that this is not a feasible idea in the short-run. At a seminar organized by Government at which a World Bank paper on global experience with training levies was discussed, employers were uniformly skeptical towards Government's proposal to introduce a levy scheme, both on grounds of Government's poor past record in implementing other levy schemes as well as owing to the perceived lack of dialogue between the private sector and Government/public sector on the modalities of such a scheme. Employers expressed their antipathy towards any form of training levy unless Government would be able to demonstrate that the funds will be used in such a way that employers will benefit (through improved quality and relevance of graduates of the training system) and unless employers have a strong involvement in administration of the funds. Partly to convince employers of its serious intentions, Government has determined to establish a Training Fund and to pilot modes of financing and application. The role of the Training Fund will be critical in creating the conditions for the training system to become financially sustainable. The objective will be to test and demonstrate the demand for, and the effectiveness and efficiency of both pre-employment training as well as employer-based training supported by a Training Fund.

3. Sector issues to be addressed by the project and strategic choices:

The TDP is designed to address all of the sector issues outlined in the preceding discussion.

The solution to the problem of under-funding is to establish a financing partnership between Government, those who are trained, and employers as recipients of the trained graduates. The willingness and ability to pay will determine the funds that can be raised from recipients' contributions. However, employers are currently not willing to provide finance for the training system. Without their contribution, Government does not have the resources to reform the system so that it would become attractive for the employers to participate in financing -- thus creating a "chicken and egg" problem (see Annex 13). A Training Fund is one means of solving this dilemma. Government will establish a Training Fund to be financed initially through contributions by Government itself and from funding agencies but also, in the medium term, by employers. The Fund will establish a transparent mechanism for supporting demand-driven training and assist in creating a sustainable financing system. This mechanism will also be used to channel funds to poor and disadvantaged groups. Employers will be involved from the beginning in managing the Fund. The operation of the Fund will demonstrate to employers how their contribution, provided through a future training levy, will be used to support high-quality and demand-driven training. In addition, Government is committed to maintaining its financial support for training -- at least the current levels in terms of share of discretionary budget.

The solution to the problem of mismatch between the supply of training and the demands of the labor market is to provide institutions with the autonomy to respond to local and national demand and set their own fees. The Program will also reward those institutions providing demand-driven training: initially through a contestable fund for refurbishment and equipment and later through Training Fund support. These funds will be open to private training providers and NGOs, as well as to former publicly-managed training institutions.

The Program will also support Government's functions of management, accounting functions, and planning. The Program will also strengthen TEVETA's function of coordinating training activities, contracting out training, monitoring the standards of training institutions and providing technical assistance to training providers. A major drawback of the current system has been the lack of information on the labor market and the quality of training. The program will also build TEVETA's (and that of other relevant organization's) capacity in the collection, management and monitoring of institutional and labor market information and develop a mechanism through which this information is fed back to decision-makers. The former MSTVT-managed institutions will find it difficult particularly to cope in the new environment. Support will be provided to improve the capacity of training institutions to function within the new policy framework. Formerly MSTVT-managed institutions as well as private sector will receive support in designing and implementing business plans, in their financial management, and in developing demand-responsive curricula. In addition, the Program will provide support to established non-formal training providers (i.e. national NGOs, community-based organizations (CBOs), religious-affiliated organizations) which have a proven track record in successfully reaching and assisting disadvantaged groups to acquire skills in a cost-effective manner.

The Program will also assist institutions in changing the socio-economic and gender mix of trainees accessing pre-employment courses in former MSTVT-managed institutions and in the private "for profit" institutions. Talented but poor trainees will benefit through the Training Fund; and institutions will be supported in efforts to recruit more female trainees to a wider range of courses than in the past.

The impact of HIV/AIDS on all aspects of training will grow. What the Program aims to do is four-fold:

(a) build up data on the impact of the virus on the supply of skilled people;

(b) attempt to increase awareness of the HIV/AIDS virus through integration of HIV/AIDS information into training curriculum;

(c) encourage peer-support groups within all training institutions; and

(d) complement the national strategy for HIV/AIDS.

Finally, the Program will support GRZ's efforts to involve all stakeholders, to create partnerships with external funding agencies, and to monitor and evaluate the effectiveness of different aspects of the new system.

C. Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

TDP will assist the reforms being proposed by Government through the following nine components: (a) overall program management; (b) TEVET financing system; (c) organization and management of TEVET; (d) training systems, trade testing and examinations; (e) entrepreneurship development and informal sector training; (f) human resource development; (g) TEVET information systems; (h) infrastructure and equipment; and (i) gender, HIV/AIDS and other cross-cutting issues.

As can be seen in the Program costs table below (details in Annex 3), TDP expenditures (developmental and recurrent) during FY2002-06, will be approximately USD 94.63 million. The biggest component of the program is Infrastructure and Equipment at about 58% of total cost. The next largest item is the TEVET financing -- about 17% of total cost.

TEVET Program Costs (USD millions), **FY 2002-2006** (see footnote 1)

Component	Sector	Indicative Costs (US$M)	% of Total	Bank-financing (US$M)	% of Bank-financing
1. Overall Program Management (incl. MSTVT recurrent costs)	Vocational/Technical Education & Training	4.26	4.5	3.95	20.0
2. TEVET Financing System	Vocational/Technical Education & Training	15.30	16.2	9.43	47.7
3. Organization & Management of TEVET	Vocational/Technical Education & Training	5.39	5.7	0.00	0.0
4. Training Systems, Trade Testing & Examinations (incl. TEVETA direct costs)	Vocational/Technical Education & Training	2.15	2.3	1.30	6.6
5. Entrepreneurship Development & Informal Sector Training	Vocational/Technical Education & Training	4.38	4.6	0.00	0.0
6. Human Resource Development	Vocational/Technical Education & Training	6.37	6.7	1.50	7.6
7. TEVET Information System	Vocational/Technical Education & Training	1.14	1.2	0.80	4.0
8. Infrastructure and Equipment	Vocational/Technical Education & Training	55.14	58.3	2.57	13.0
9. Gender, HIV/AIDS & other Cross-cutting Issues	Vocational/Technical Education & Training	0.50	0.5	0.23	1.2
			0.0	0.00	0.0
			0.0	0.00	0.0
			0.0	0.00	0.0
Total Project Costs		94.63	100.0	19.78	100.0
Front-end fee		0.00	0.0	0.00	0.0
Total Financing Required		94.63	100.0	19.78	100.0

1. At the moment, USD 4.6 million of the proposed IDA credit is in reserve to be allocated across components. USD 0.59 million has been set aside for reimbursement of the Project Preparation Advance.

It should be noted that the items under recurrent costs are not separate program components *per se* but represent the operational costs of the restructured TEVET system.

Each component will contribute to the overall development objective through the following activities:

(a) Overall Program Management

This component will support the establishment of an overall PSC to approve annual work programs and budgets and receive reports on TDP implementation. The membership will comprise MSTVT, TEVETA Board Chairman and Funding Agencies. The PSC will be chaired by the Permanent Secretary. The PSC will be serviced by a PCO in the MSTVT, which will coordinate the activities of the program and prepare reports, including financial and work plans. Support will also be provided for an annual stakeholder consultation which will consider reports, annual work plans and budgets and provide advice to the PSC. The stakeholder consultation will be chaired by the Minister.

While many of the functions of the PCO can be performed by the current Directorates within MSTVT, it will be necessary to designate a Program Coordinator and may also be necessary to employ technical assistance to build capacity in the Ministry [e.g. in financial management and procurement, monitoring and evaluation (M&E)].

(b) TEVET Financing System

This component will support the design, establishment and administration of the Training Fund. The main objective of the Fund will be to test and demonstrate the demand for, and the effectiveness and efficiency of both pre-employment training as well as employer-based training. It will test output-oriented modalities of administering and disbursing funds; assess whether training can be more cost-effective and efficient when it is demand-driven and training funds are competitively awarded between public and private providers; and, through testing different modalities of private sector options for financing, demonstrate to employers the benefits that can be derived from participating in such a fund. This will provide lessons on the mechanisms through which the private sector will contribute to the financing of training in the medium-term.

The component will support the studies/consultancies necessary to determine the mode of operation, funding windows and administrative structures for the Training Fund, and will provide finances for technical assistance to run the fund in order to finance demand-driven training. Simultaneously, the component will also support capacity-building in TEVETA in order for TEVETA to be able to operate the fund within a period of 3-4 years.

(c) Organization and Management of TEVET

MSTVT is responsible for formulation, monitoring and evaluation (M&E) of national policy of TEVET while TEVETA is responsible for examinations, standards and all other quality-related issues, and training institutions are responsible for the implementation of the reforms at the ground level. This component will develop managerial capacity to coordinate the operation and financing of the system, provide support to training providers to allow them to operate effectively in a demand driven training environment, and support TEVETA in building capacity to ensure that good quality training is provided and that there is a practical national understanding of the new TEVET system among all the stakeholders.

Activities supported by this component will include strengthening TEVETA's managerial capacity through TA and consultancies; enhancement of networking capabilities of other sector Ministries offering training, through support for connectivity; strengthening of MSTVT's sector co-ordination capacity through TA and consultancies; and strengthening the managerial capacity of training providers through support from a "SWAT" team to visit colleges and assist the assessment of market-demand and the development of

business plans. This component will also support policy review and implementation, including review of the TEVET Act and sector policy. Finally, the component will support awareness raising and consultation, analyzing current data on skills availability and advising Government on shortages and new directions; and enhancement of understanding and appreciation of TEVET reforms among the general public.

(d) Training Systems, Trade Testing and Examinations

TEVETA's main roles include the regulation of training providers, monitoring standards of training provision and providing relevant information on training to employers and potential trainees. This component is designed to assist TEVETA to perform its functions more efficiently and to foster a healthy and jointly consultative relationship between TEVETA and the institutions. The component will provide assistance for curriculum development by the training institutions in concert with TEVETA and industry. The component will also assist in building the capacity of TEVETA's inspections unit to assess training facilities. The component will also support building up the capacity of TEVETA's examination unit to enable it take over the administration of examinations from ECZ. Finally, support will be provided to enable TEVETA to advise on the selection of institutions for refurbishment and equipment.

(e) Entrepreneurship Development and Informal Sector Training

Over 70% of employment in Zambia is in the informal sector. However, the training system is not geared to meet the needs of this sector. Through this component, TEVETA will provide assistance to both public and private training institutions in developing and implementing innovative approaches and ideas to training services aimed at enhancing the dynamism and economic viability of the informal sector. These approaches will include short-term skills upgrading, and funding small and medium enterprise and informal sector training through intermediate institutions. By the end of 2001, criteria will be developed to allow for the selection of a set of training institutions that will support the implementation of the new approaches and mechanisms for skills development.

While the Entrepreneurship and Informal Sector Development Unit (EISDU) in TEVETA will supervise the implementation of this component and develop their own capacity in the process, day-to-day responsibility for management and implementation will be entrusted to a team of experts with TEVETA and other ministry staff operating as counterparts. The team will have operational autonomy. The private sector and other key players will also be involved in implementation and, wherever possible, activities will be outsourced to these and other competent institutions/consultants.

(f) Human Resource Development (HRD)

Government has recognized the critical shortage of capacity within Government itself and within TEVETA and training institutions. Accordingly, Government has insisted on a separate component focused on building capacity. Each level of institution (MSTVT, TEVETA and Training Providers) will be assisted in developing decentralized, HRD plans as a part of a business plan at the level of the individual organizations. Each level of institutions will be assisted in needs-assessment and development of HRD plans. Initially, priority will be given to the needs-assessment of the TDP management (program and financial) and of the co-ordination and implementation staff (MSTVT and TEVETA) while HRD requirements of demand-responsive training institutions will be developed for each institution demonstrating a commitment to meeting training demand.

(g) TEVET Information System

The importance of M&E cannot be understated in the current environment. As Government develops its plans for the sector, as TEVETA develops its services to institutions, as institutions build up the ability to function autonomously, as the Training Fund is established, information and analysis are critical for policy-making and external financiers. This requires a system that incorporates monitoring at different

levels (MSTVT, TEVETA, institutions) and of all aspects of Program implementation (internal and external efficiency, risk management, capacity building and poverty reduction.) Accordingly, this component will support each level of institution in establishing a relevant information system for that particular level. Implementation will take place in a phased manner – in the first phase (till the end of 2002) the construction of a 'minimum requirements' system to provide indicators that measure program milestones will be completed. Based on this, in the second phase the TEVET information system will be put in place including: provision and dissemination of accurate timely information, capacity building, survey implementation, etc. While MSTVT has broad and ultimate responsibility for this component, information systems will be put in place and managed at all three levels of institutions.

(h) Infrastructure and Equipment

Most of the former MSTVT-managed institutions have not been able to maintain buildings or purchase new equipment since the 1970s. Private providers operate from rented, inappropriate-for-purpose facilities and with limited equipment. TEVETA occupies a building designed more than thirty years ago. This component will support the: (a) rehabilitation of TEVETA facilities; and (b) rehabilitation and provision of equipment and training materials to institutions that can demonstrate they are operating in a demand-driven manner. While there is a clear need for equipment, furniture, teaching materials and infrastructure in most training facilities throughout the country, the PSC will develop criteria in order to support the rehabilitation of institutions. Over time, these functions will be taken over by the Training Fund.

(i) Gender, HIV/AIDS and Other Cross-cutting Issues

The impact of HIV/AIDS on the supply of skilled people or the demand for training is not known. This component will support studies to analyze the impact of the virus on supply and demand. The component will also provide support through the funds available to support other components for training institutions to introduce information on HIV/AIDS into the curriculum for training and, with other stakeholders, to support peer-group meetings focusing on providing information and counseling on the impact of the virus. The component will also support MSTVT efforts in the national effort to combat the virus. It is expected that the bulk of the financing needed to support system-wide interventions will be available through the multi-sector HIV/AIDS program, currently under discussion with Government.

To ensure that TDP ensures equitable access to training programs, this component will assist in the development of a gender strategic plan and carry out a situation analysis of gender in TDP components and suggest how gender can be better incorporated into these components. The component will support the establishment and capacity building for focal persons on gender issues at all levels of institutions (MSTVT, TEVETA, training institutions).

Over time, other cross-cutting issues will also be developed.

Program financing

The financing table below shows that over the next five years, Government would finance about 22% of TDP expenditure, and other Zambian contributions (user fees, TEVETA, Industry) would finance another 10% of the program. Funding agencies will finance about 66% of program costs. There is a small financing gap of USD 5.73 million, which is likely to be resolved as other donors contribute to the system.

Financing of TDP Costs FY 2002-2006 (USD millions)

Program Costs	**Total**	**2001/2**	**2002/3**	**2003/4**	**2004/5**	**2005/6**
Investment	60.82	6.50	15.00	16.92	14.70	7.70

Recurrent	33.81	6.77	6.76	6.76	6.76	6.76
Total Required Financing	**94.63**	**13.27**	**21.76**	**23.68**	**21.46**	**14.46**
Expected Financing						
Zambia						
Government (GRZ)	21.00	4.20	4.20	4.20	4.20	4.20
User Fees	7.10	1.42	1.42	1.42	1.42	1.42
TEVETA	1.00	0.12	0.17	0.22	0.23	0.26
Industry	1.50				0.60	0.90
External Financing						
Bilateral Donors	33.30	5.43	9.42	9.39	6.69	2.37
IDA	25.00	2.10	6.55	8.45	6.00	1.90
Total Identified Financing	**88.90**	**13.27**	**21.76**	**23.68**	**19.14**	**11.05**
Total Financing Gap	**5.73**	**0.00**	**0.00**	**0.00**	**2.32**	**3.41**

2. Key policy and institutional reforms supported by the project:

Government of Zambia has initiated a number of key reforms. (See Annex 11 for details.) The most important are the establishment of TEVETA and the transformation of public institutions into autonomous, demand-driven and self-managed training institutions. In addition some reforms supported by the Program will include:

(a) Government financing of TDP. Government is committed to maintaining its support to the training system at least at the current level as a percent of both allocation and disbursement from Government's discretionary budget. Government has also determined to stop paying salaries directly to staff in formerly MSTVT-managed institutions. Thereafter Government appropriations to training will be applied to TDP through the Training Fund.

(b) Training fund. Government has agreed to setting up a Training Fund to test different modalities of financing training by 2002. The objective of the Training Fund will be to test and demonstrate the demand for, and the effectiveness and efficiency of both pre-employment training as well as employer-based training supported by the fund. In the short term, resources to operate the training fund will come from GRZ and funding agencies but over time industry is also expected to contribute to the fund.

(c) Appropriate legislation. Government has agreed to present appropriate legislation to Parliament by 2004, outlining how the private sector (employers) will be expected to contribute to the TEVET system. This bill will be designed and developed in collaboration with stakeholders, especially the private sector.

(d) Supporting demand-driven training institutions. Government has agreed to develop a set of objective criteria to be used to determine which institutions will receive funding from the

Program in the short-run prior to the operation of the Training Fund.

3. Benefits and target population:

Benefits

The Program has a number of benefits. First, more finance will be available for high quality training and the amount will be more predictable and its receipt more reliable. Second, the training system will be restructured to make it demand-driven, efficient and cost-effective: only those institutions that have these characteristics will continue to be funded through the Training Fund and they will be fully autonomous. As a result, the graduates of training institutions will benefit through more effective training and better access to employment. The role of Government will also change -- from financier and provider of training to that of selective financier, regulator and provider of information on training. Better M&E instruments and data will provide policymakers, employers and students with up to date information on the quality and relevance of different training programs. There will be increased access to training for poor and disadvantaged students and greater gender equity, through special targeted interventions to increase females' participation in skills training. Finally, there will be greater awareness of HIV/AIDS issues among trainees. The impact of all of these reforms will be to remove one of the main constraints to economic growth in Zambia, the availability of skilled people for critical areas of the economy.

Target population

The main target group will be trainees interested in pre-employment training and with the requisite entry skills and qualifications who will be provided access to training opportunities and experiences that are responsive to labor market needs, of good quality and likely to lead to employment. In addition, more female and poor students with the relevant skills will be targeted. Employees will benefit from better quality in-industry training and retraining.

Employers will benefit from the improved quality of those entering the workforce. They will also be more directly involved in assessing skills needs, levels and provision thereby ensuring training is relevant. Through their involvement in the management of the Training Fund and on Boards of autonomous training providers, they will have a significant input into decisions on what training gets financed. The institutions will also benefit: TEVETA will be aided in implementing its reform policies; MSTVT will be supported to oversee the Program, improve planning and guide policy; and all training institutions, public, private and NGO will be provided financial resources to enhance their overall effectiveness in providing skills training, particularly to poor and disadvantaged groups, and will have autonomy and financial resources to make decisions.

4. Institutional and implementation arrangements:

Institutional arrangements

Currently the three key institutions are MSTVT, TEVETA and training providers. MSTVT has recently been restructured to incorporate four Directorates: Vocational Education and Training, Science and Technology, Planning, and Finance. The Directorate of Science and Technology has no role in regard to TDP, while both Planning and Finance serve TDP and also Science and Technology. The Directorate of Vocational Education and Training is the key Directorate in regard to TDP.

TEVETA comprises the Director General and three main Directorates: Training Standards, Development, and Finance and Administration. The Directorate for Training Standards has responsibility for inspection and registration, the Directorate for Development responsibility for liaison with training providers and for supporting management, while the Directorate for Finance and Administration will eventually service the Training Fund.

Former MSTVT-managed training institutions have a Principal supported by a Director of Training and a Director of Administration, reporting to a Management Board appointed by the Minister. However, each training institution is now free to make its own internal arrangements as advised by the Management Boards.

The TEVET Act of 1998 defines the functions to be performed by TEVETA, MSTVT, and the institutions.

(a) The functions of MSTVT include: making and monitoring sector policy; drafting and legislating legal statutes for the training sector; budgetary facilitation; and establishment and closure of training institutions and their management boards.

(b) The functions of TEVETA include: advisory assistance to sector stakeholders; regulatory authority; and administrative support in specified areas.

(c) The functions of the Management Boards of Autonomous (ex-MSTVT managed) Training Institutions include: training provision; development of cost recovery tools like tuition fees; developing curricula; hiring and firing staff; and observing policy and regulations.

The functions listed in the Act are specific, and there are few major duplications or areas of confusion. Two possible exceptions include: the role of MSTVT in policy adherence and TEVETA in training standards; and the roles of TEVETA and training providers in curriculum development. Practical accommodations are in place for each of these: currently, MSTVT monitors policy implementation through TEVETA's inspectorate, and the national curricula are being developed by TEVETA (in consultation with stakeholders) while the local curricula are being developed by training providers (also in consultation with stakeholders and with TEVETA to ensure recognition.)

Implementation arrangements

The Program will establish two oversight committees - a Stakeholders' Forum and a PSC. The Stakeholders' Forum will meet annually and its membership will include all stakeholders - trainees, private and public providers, TEVETA, NGOs etc. The Forum will be chaired by the Minister. The Forum will provide a venue to evaluate progress on implementation of TDP. The Forum will receive and discuss annual work programs and budgets for the training sector as well as reports on implementation, and will make recommendations to the PSC. The PSC will meet at least semi-annually with one of the meetings preceded by the Stakeholders' Forum. The PSC will be chaired by the Permanent Secretary, MSTVT, and will receive, discuss, alter, in the light of Forum comments, and approve annual work programs and budgets. The Forum and PSC will be supported by a PCO within the Directorate of Vocational Education and Training of MSTVT. The functions will include: preparing annual work plans; preparing financial and management reports; disbursing funds to implementing agencies; and organizing the PSC and Forum meetings. While many of these functions will be performed by current staff of MSTVT [financial reports will be prepared by the Directorate of Finance, procurement reports by the Procurement Unit (PU) and monitoring and evaluation within the Directorate of Planning)], it will be necessary to designate a Program Coordinator and may also be necessary to employ technical assistance to build up capacity within MSTVT.

Implementation of TEVET will be the main responsibility of TEVETA and the training providers, including industry. TEVETA will operate as an independent agency with its statutory authority and will present budgets and work plans to the PSC for consideration and approval. In addition, TEVETA will provide quarterly and annual progress and financial reports to the PSC. When TEVETA is procurement accredited by the Zambia National Tender Board, it will carry out its own procurement. Individual training providers have responsibility for providing training and are supported currently through finance for salaries

of contract staff provided by Government and Recurrent Development Grants which are both inadequate and unreliable. When the Training Fund is established, funds for training will be provided through the Fund. The Fund will be located within TEVETA with a good deal of external support in its design and initial functioning.

Financial management

Under the supervision of the Program Coordinator within MSTVT, the Finance Manager will be responsible for ensuring that financial management and reporting procedures will be acceptable to Government, the World Bank and other Cooperating Partners.

The principal objective of the TDP's Financial Management System (FMS) will be to support management in their deployment of limited resources with the purpose of ensuring economy, efficiency and effectiveness in the delivery of outputs required to achieve desired outcomes, that will serve the needs of the people of Zambia. Specifically, the FMS must be capable of producing timely, understandable, relevant and reliable financial information that will enable management to plan, implement, monitor and appraise the Program's overall progress towards the achievement of its objectives.

For the TDP to deliver on the aforementioned objectives, its FMS will be developed in accordance with the Financial Management Action Plan presented in Annex 14. Salient features of the Action Plan include:

(a) the retention of a Financial Management consultant to advise on the selection and installation of the Program's FMS (using an integrated accounts package), to prepare the Program's Financial Management and Procurement Manual (FMPM) and to train staff in the operation of the system;

(b) the establishment of a representative Financial Management and Procurement Committee;

(c) the recruitment of an internationally qualified Finance Manager and Financial Advisor;

(d) the availability of relevant qualified and experienced support staff;

(e) capacity building;

(f) the establishment of a Fixed Assets Register and a Contracts Register;

(g) separate Special and Kwacha Accounts will be operated and these will be reconciled monthly;

(h) quarterly reporting of financial information;

(i) cash flow management including variance analysis; and

(j) Program activities will be periodically reviewed by the Internal Audit Department (MOFED) and an annual external audit will be undertaken on terms of reference acceptable to the Bank.

By credit effectiveness, the TDP will have in place an FMS that provides reasonable assurance it can generate accurate and timely information as required by the Bank for PMR-based disbursements, i.e., the Program Management Report. Thus, in the short-term, existing disbursement procedures, as outlined in the Bank's Disbursement Handbook, will be followed i.e., Direct Payment, Reimbursement and Special Commitments. The successful implementation of the Program's FMS under the supervision of the Finance Manager should facilitate the conversion to PMR-based disbursements within 18 months of credit effectiveness. In that regard, a financial management review of the Program will be undertaken by a World Bank Financial Management specialist within 12 months of credit effectiveness to assess progress and, if necessary, to provide assistance to enable MSTVT achieve this objective.

Likely utilization of the Credit

IDA support is intended to assist the achievements of all the TDP objectives, and the Development Credit Agreement (DCA) is drafted in such a way as to enable IDA funds to be devoted to any of the components. In order to reserve some of the IDA Credit to be used flexibly to meet needs for which the Government will be seeking grant aid, not all of which may materialize, only USD 19.78 million (79%) of the Credit was allocated at Negotiations to specific categories of new expenditure, with USD 4.63 million (19%) reserved in the Unallocated Category and USD 0.59 million to be devoted to refunding the Project Preparation Facility (PPF) Advance. Initially, funds provided by the Credit are likely to be used mainly for the TDP Program Management, TEVET Financing and Infrastructure and Equipment.

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

Some alternatives that were considered but rejected were:

(a) *A sector-wide approach or a traditional project?* Zambia's current training system produces graduates of poor quality, and the system is not cost-effective, sustainable or equitable. Recognizing these problems, Government has launched an ambitious program of reform. One mode for the Bank to support this reform would be through a project focused on targeted components. This would have the advantage of ensuring that resources support the achievement of key component objectives. The disadvantage of such an approach is that it would remove ownership from Government and increase the risk of disagreements with its bilateral donors. While support for a program also has risks (Government capacity is limited and critical component objectives may thus not be achieved), Government and funding agencies consider that bringing together Government and all major partners and stakeholders under a common sector policy framework and medium term investment program will help to utilize resources cost-effectively, rationalize sector targets, and promote Government capacity and leadership.

(b) *Maintaining the financing status quo.* Continuing the chronic under-funding will lead to the decline of the already poor quality of the training institutions. Over time, the non-replacement of depreciated capital and overuse of existing capital equipment will lower the capacity of each training institution. Given the competing claims on scarce public funds, the long run may witness the closing of institutions before they can demonstrate their ability to provide training, in a cost effective manner, under a market-oriented system. Furthermore, maintaining the status quo would not enhance the situation regarding private providers. Overall, this would also have an adverse impact on the economy as the demand for skills will increase as growth picks up but the supply side would not be able to respond effectively.

(c) *Supporting the institution of a training levy vs. financing a training fund?* Government has committed itself to the instituting a training levy to ensure that the private sector makes a significant contribution towards training costs. However, employers are resistant. Furthermore, international experience shows that some prerequisites for implementing a levy scheme are not in place in Zambia. For example, for the successful implementation of a levy scheme, it is crucial that an effective administrative setup be in place both to collect and disburse the levy. Presently, this may be difficult in the Zambian context. In addition, these schemes can have the effect of subsidizing mainly the larger firms while also taxing the smaller ones. Given that at least 80 percent of employment is concentrated in small and medium-sized enterprises in Zambia, the levy could have the adverse impact of dampening their growth.

Hence, TDP is establishing a Training Fund which will demonstrate how to establish transparent accountable modalities for administering finance and include the private sector in the administrative

mechanisms. The Training Fund will test different modalities of administering and disbursing funds in the first two years. Through testing different modalities of private sector options for financing, employers will recognize the benefits that can be derived from participating in and contributing to such a Fund, which will be crucial for the long-term sustainability of the Fund and the training system.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Bank-financed			
Consolidate education services, provide facilities for secondary schools	Third Education Project (closed: 1983)	U	S
Support administrative structure, increase supply of middle & advanced level business graduates	Fourth Education project (closed: 1983)	U	S
Expand educational access in rural areas / Introduce junior secondary schools	Fifth Education Project (closed: 1988)	U	U
Arrest decline in quality, improve access & strengthen management	Education Rehabilitation Project (closed: 1998)	S	S
Poverty reduction, community initiatives / Education component rehabilitates & expands primary/secondary schools, skills development	Social Recovery Project (closed: 1998)	HS	S
Poverty Reduction, community initiatives / Education component: primary school rehabilitation & expansion; skills development	Second Social Recovery Project (closed: 2000)	S	S
Increase access, particularly for children of poor / Improve quality of basic education	Basic Education Subsector Investment Program (active)	HS	S
Create sustainable public service through building capacity of public services managers & establishing basic conditions	Public Service Capacity Building Project (active)	S	S

Community driven education infrastructure & services	Zambia Social Investment Fund (active)	S	S
Other development agencies			
Danish International Development Agency (DANIDA)	Support for establishment of TEVETA and for institutional autonomy in two institutions. Future support planned for Applied Research, TEVETA, TVTC and Training Fund		
Netherlands	Support for non-formal sector through Entrepreneurship Development Centres (and planned for Training Fund)		
Deutsche Gesellschaft fuer Technische Zusammenarbeit (GTZ)	Support for skills training in informal sector		
EU	Skills training and capacity building		
JICA	Support for Lusaka Vocational Training Centre		
Ireland Aid	Support for Accountancy Department of Evelyn Hone College		
FINNIDA	Capacity building for competency-based modular training		
Canadian International Development Agency (CIDA)	Provision of tools to private training institutions		
Department for International Development (DfID)	Support for competency-based modular training for construction industry		

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

As is clear from the table, a good deal of externally-supported work is underway in the training sector. The work on the Education Sector Investment Program (ESIP) has already involved most of the external financing agencies supporting education and training in Zambia. While levels and detailed implementation modalities remain to be finalized, external financing agencies are committed to the TDP and supportive of the process. The Danish International Development Agency (DANIDA), the Netherlands Embassy and Deutsche Gesellschaft fuer Technische Zusammenarbeit (GTZ) jointly appraised the Program, together

with IDA and each is committed to assisting Zambia in the reform of its training system. While DANIDA and GTZ will provide most of their support to particular components, finance from IDA and the Netherlands Embassy can be used to support any of the components. All agencies have agreed to participate in the semi-annual reviews (PSC meetings) and to target support within TDP.

3. Lessons learned and reflected in the project design:

Some lessons from the experience of previous projects in Zambia include:

(a) *Coordination of external support.* TDP will provide a vehicle for coordination of views on policy, and external assistance, and is being prepared by a team of Government officials, with regular periodic feedback from representatives of external funding agencies. As discussed, these agencies are committed to supporting Government's efforts and have agreed to work within TDP guidelines and to support TDP components. However, lessons from sector programs in education include the importance of clearly differentiating Bank and individual donor contributions and developing an agreed process for donor coordination. Accordingly, GRZ has provided information on likely usage of the IDA credit.

(b) *Need for broad understanding of the policy framework.* Based on the experience of other sector reform programs, the following are important for success: (i) within Government, there should be sufficient discussion between the political leadership and the technical staff, to ensure that both parties' understanding of the policy and reforms is similar; (ii) there should be adequate dissemination of the reforms; (iii) there should be appropriate technical expertise on the donor's side; and (iv) partnership between Government and donors needs constant dialogue. The political leadership of TDP has worked closely with officials throughout the design stage and IEC is an important aspect of TDP. The Program management and coordination arrangements have been designed to ensure regular dialogue.

(c) *Support for institutional autonomy.* An institutional analysis was conducted as part of project preparation. Institutional capacity building should be an important aspect of any vocational training program. In Zambia, MSTVT and TEVETA capacity to implement is weak. Hence a good deal of attention is being paid within TDP to capacity building in planning and financial management. Within training institutions themselves, TDP will build capacity to develop good business plans and to assess and plan for demand-driven training. In the longer term, successful decentralization to Management Boards will remove day to day decision-taking from the Ministry, allowing officials to concentrate on monitoring and system regulation.

Some other lessons learned from implementation of Bank projects worldwide and reflected in the current project include:

(a) *Inclusion of program beneficiaries at an early stage.* Encouraging better involvement and consultation with stakeholders at all project stages builds broad-based consensus, thereby improving project performance. This process is important as it promotes ownership among the stakeholders and enhances transparency and the likelihood of sustainability. TDP is being designed keeping this process in mind -- Government has involved the private sector, donors and institutions in the design of the Program and all will continue to play important roles during Program implementation.

(b) *Improving the quality of monitoring and evaluation.* Better information to employers and prospective trainees about the availability and effectiveness of vocational programs promotes relevance and cost-effectiveness among providers. Emphasis is being placed in TDP on

developing Government capacity to monitor and evaluate the training system.

(c) *Promoting skills development among the poor and disadvantaged groups.* Consistent with the social objectives of the reform process, TDP will support the development of a pro-poor financing strategy that targets direct support to poor and disadvantaged groups and that will support the development of training programs focused on the informal sector.

4. Indications of borrower commitment and ownership:

As stated earlier, Government signaled its commitment to a thorough reform of the sector by passing into law the Technical Education, Vocational and Entrepreneurship Training Bill, 1998, and enabling the act through a Statutory Instrument in late 1998. Government then established TEVETA and placed individual public training institutions under the control of management boards. Government's commitment is underlined by the decision to downsize MSTVT and to move staff of training institutions from Government service. All staff have now received their terminal benefits and while Government is continuing to pay salaries to contracted staff, this will cease in 2-3 years. In addition Government has closely involved the private sector in assisting with the design of the reforms and in the conceptualization of the training fund and is committed to helping the private providers of training through access to the fund. Government has further committed itself to maintaining financial support for the training sector as a share of the discretionary budget. Finally, Government is establishing an annual stakeholders consultative forum, involving all stakeholders, and a PSC with representation from the funding agencies.

5. Value added of Bank support in this project:

The experience which the World Bank has gained in many countries through participation in sector-wide approaches should be of particular relevance to Government's management and implementation of the TDP. Education sector programs in Lesotho, Mozambique, Uganda and Ethiopia include vocational and technical training within their purview. In Zambia, Bank experience with sector programs in agriculture, health, basic education and roads have lessons to offer Government and funding agencies.

In regards to TEVET, the World Bank published its policy paper on vocational and technical education and training in 1991. This laid out approaches that assist policymakers as they design strategies to ensure that skills needed by the economy are being developed. The paper was based on the extensive experience that the Bank had acquired over previous decades regarding investments in skills. The Bank has also acquired considerable experience supporting training authorities and developing training funds in the Middle East, Latin America and Africa. These experiences will assist TDP implementation.

Also, in 2000, the Bank, in collaboration with the International Labor Office (ILO) conducted an in-depth study of skills development in nineteen countries, including Zambia. This study distills lessons from experience of these countries and suggests ingredients of success in vocational education and training reform. This study finds that a prerequisite for successful reformers has been the political will to reform -- this is currently being demonstrated by Government in Zambia. Some of the other main lessons of this study are being implemented in this project:

(a) the importance of the role of Government in facilitating information on vocational education and training;

(b) ensuring competition between public and private providers in the delivery of training; and

(c) changing the role of Government from training provider to selective financier, regulator and monitor.

In addition, as part of developing the Program, the Bank has worked with Government in organizing two symposia where worldwide experiences with training reform and training levies respectively have been presented by the Bank and discussed. Both these symposia have drawn together the main stakeholders in the training system and exposed them to recent innovations and thinking worldwide on various issues pertaining to training. Subsequently, two workshops were organized by Bank and DANIDA consultants to brief employers and Government on international experiences with design and implementation of Training Funds.

E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (see Annex 4):

● Cost benefit NPV=US$0.55 million; ERR = 17 % (see Annex 4)

○ Cost effectiveness

○ Other (specify)

The most recent CAS emphasizes knowledge generation as central to Zambia's growth prospects as it diversifies and begins to compete on world markets. Both formal sector and informal sector employers have indicated that a major bottleneck to improving efficiency and productivity is lack of skilled workers. Employers also feel that training, especially that provided in public sector training institutions is not relevant to their needs. While Government has traditionally maintained tight control over public training institutions through centralized decision making, it has not been able to finance the training system adequately. At the same time, while private providers are burgeoning (both for-profit and not-for-profit), they lack access to capital, are competing with public providers, and the support they have been receiving from MSTVT is limited to poorly maintained registration records and infrequent inspections.

The program attempts to remove these constraints and make the system more demand-driven, equitable and cost-effective. The program is expected to:

(a) improve the likelihood of employment;

(b) lead to greater participation of the private sector in the financing of training;

(c) reduce costs of training through competition among public and private providers of training;

(d) assist in leveling the playing field between private and public training providers; and

(e) demonstrate the effectiveness of a Training Fund approach to the financing of training and develop effective administrative and disbursement modalities for the fund in the Zambian context.

While adequate data and information regarding the nature of the program impact are not available for undertaking a precise cost-effectiveness analysis, it is possible to produce a set of cost-benefit analyses based on assumptions, from within a realistic range, concerning economic growth and improvements in the training system's internal and external efficiency. Such analysis shows that the expected value of the rate of return is 17%. In a low-case scenario, where the program significantly under-performs, the rate of return is expected to be around 7%. However, in a best case scenario, the rate of return could be as high as 29%. Over the life of the program, several indicators will be developed within the monitoring and evaluation system to measure cost-effectiveness.

2. Financial (see Annex 4 and Annex 5):

NPV=US$ 5.5 million; FRR = % (see Annex 4)

A simulation exercise attempting to match the realistic cost ("model cost") of providing current courses for the entire system (in both public and private institutions) on the one hand, and supporting current student

numbers, on the other hand, with the finances likely to be available shows that there will be a significant shortfall in funds required to operate an efficient system. This model utilizes Government estimates of finance available and estimates of student fees based on the realistic cost of training. The model excludes the high costs of providing accommodation and food to students. It also assumes that contributions from employers will not be significant over the next few years. While Government is expected to maintain funding for TEVET at least at the present level (as a proportion of discretionary budget) over the next five years, these simulations show a financing gap of over USD 60 million over the next five years (for recurrent and capital costs).

This analysis shows that until the private sector begins contributing to training costs and training fees are introduced to help recoup costs from those who are able to pay, donors may have a significant role to play in supporting the TEVETA system. This Program is aimed at bridging this financial gap.

In the short-run (over the next five years), donors will primarily assist Government in bridging this gap. Over the same period, as the quality and demand-relevance of training are enhanced, the contribution from student fees is expected to rise. Simultaneously, the training fund is expected to demonstrate to employers the benefits that they can derive from contributing to such a fund. Hence over time, contributions from employers are expected to increase. Thus, as donor contributions to the sector begin to phase out -- student fees and employer contributions are expected to rise and cover any financing gap in recurrent costs.

Fiscal Impact:

One of the aims of the project is to set up a self-sustaining financing system for demand-driven training. As IDA and other donors phase out their financing of the sector, industry contribution to the system and revenues raised from fees are expected to increase and close the financing gap.

3. Technical:

The most challenging technical task is the design of the Training Fund. A team of international consultants supported by DANIDA and the World Bank has worked with Government and key stakeholders. Their recommendations on location, management and funding "windows" are being considered by Government.

A second critical issue is the design of the criteria for funding new courses/rehabilitation in demand-relevant institutions, especially in the short-term, while the Training Fund is being set up. These criteria have been drawn up and are being discussed with Government. Modalities for ensuring that institutions can be financed using these criteria are being developed.

A third important technical issue is the provision of support to training institutions in terms of business plan development, assessment of local labor market needs, and reorientation to the reform process. Experiences in other countries demonstrate that capacity building will be critical. The Program will support institutions through providing them access to "swat" teams which will visit them and assist with the assessment of market-demand and the development of business plans.

4. Institutional:

4.1 Executing agencies:

MSTVT is Government ministry responsible for training in Zambia. MSTVT will oversee the implementation of the TDP. Government has established TEVETA to oversee training and to monitor standards. TEVETA will have a critical role in improving the quality of training delivered and in informing

potential trainees of course availability. Finally, each training institution now has responsibility for assessing training needs and managing their affairs to ensure that they can deliver good quality, demand-driven training.

4.2 Project management:

Oversight of all aspects of training in Zambia is the responsibility of the Permanent Secretary, Ministry of Science Technology and Vocational Training. The Permanent Secretary will be supported by a specially appointed PCO headed by the TDP Program Coordination Office (PCO) and comprising TDP component managers. Financial management and procurement are being administered through specially-designated staff within the Program Coordination Team (PCT). Guidance on overall implementation will be provided by a PSC comprising representatives of Government, employers, training providers and external financing agencies. All aspects of training quality, regulation of institutions and examinations will be handled by TEVETA. Delivery of training will be the direct responsibility of the training institutions, monitored by TEVETA. Financial support for work on M&E will be provided through MSTVT.

4.3 Procurement issues:

In the past, all procurement was carried out by the Procurement Department within MSTVT. The assessment of procurement capacity rated the unit as fair to satisfactory, except in planning. However, the overall risk rating was high because the department had limited experience with Bank procedures. For TDP, it is envisaged that this department will be augmented to plan and guide all procurement funded by the Program. In particular, it is envisaged that technical assistance and training will be provided. The department has already developed the Procurement manual for TDP. Much of the actual procurement process will be conducted by TEVETA and the training institutions themselves. Funds will be provided to training institutions to support new training programs. Purchases utilizing these funds will be carried out by institutions themselves in accordance with the Procurement manual and training will be provided by the Procurement Department within MSTVT.

4.4 Financial management issues:

While a Special Accounts Section will manage the finances of TDP and maintain records and accounts, disburse funds and provide reports, it is envisaged that some finance will be provided directly for training institutions themselves to administer. These are legally established entities and are currently maintaining Bank accounts and providing reports. The TDP Financial Management Operations and Procedures Manual will spell out how the funds will be transferred and the basis for accountability and reporting.

5. Environmental: Environmental Category: C (Not Required)

5.1 Summarize the steps undertaken for environmental assessment and EMP preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

The majority of investments to be financed under the Project focus on skills training and capacity building. Only a limited number of works are envisaged from which no adverse environmental effects are expected. On the contrary, the Project may indirectly generate positive effects through the Cross-cutting Issues component. Under this component, in fact, GRZ intends to conduct an EIA and to introduce, where possible, environmental awareness elements in the curricula of most programs by 2003.

5.2 What are the main features of the EMP and are they adequate?

5.3 For Category A and B projects, timeline and status of EA:

Date of receipt of final draft:

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

6. Social:

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

Many disadvantaged individuals, including the poor, females and unemployed youths between the ages of 15-24 years lack access to training. TDP proposes to finance training interventions that are more socially-responsive and equitable. A social assessment was carried out as part of Program preparation with the purpose of informing the process of how to make training interventions more socially-responsive and equitable. The assessment focused on identifying the poor and disadvantaged groups in training, including their needs, practices, and preferences and the barriers that have excluded them from participating in order to determine what the TDP must do to effectively reach these groups to meet their needs in training and increase their productivity. It also investigated means through which this group could be assisted.

The assessment showed that the social risks associated with TDP can be mitigated through transparent program implementation, mechanisms for continuous social assessment and impact monitoring, and innovative skills training. To ensure that the poor and disadvantaged group are served, TDP will include support for training geared to the needs of the informal sector as well as special measures to give students from poor backgrounds access to high-quality training opportunities.

6.2 Participatory Approach: How are key stakeholders participating in the project?

Key stakeholders have been involved in the development of TDP and will remain involved during program implementation.

Stakeholders	Preparation	Implementation
Employers (formal sector/ informal sector)	Through workshops, employers were consulted on TDP by MSTVT and their views taken into account. Their views on Training Fund and training levy have been reflected in program design	Private sector is represented on TEVETA Board and on Management Boards of former MSTVT-managed institutions. It will also be involved in the design and management of Training Fund. Finally, it will participate in the annual Stakeholders' Forum.
Training Providers (public/private for profit/NGO)	Have been consulted and views solicited on main impediments to providing high quality and demand-driven training. Interventions to assist training providers have been developed taking these views into account	Will be regularly consulted in developing and updating criteria to choose demand-driven training providers. Involved/assisted in implementation of TDP -- especially M&E and capacity building components of program. ZATP (and member providers) will participate in annual Stakeholders Forum.

MSTVT/ Other Ministries	Designed and developed the TDP	Will have main role in policy review and overall TDP management. Will prepare annual work plans and budgets and implement Monitoring and Evaluation.
TEVETA	Close consultations on design of TDP and views reflected in TDP	Will have main role in implementing TDP as monitoring and regulating agency. Chairman will be on PSC.
Students	Consulted informally through visits to training institutions	Will participate in annual Stakeholders Forum. Will benefit from all components of program. M&E component will be designed to ensure information on courses, fees and internal and external efficiency indicators of institutions will be provided in a more effective manner.

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

Consultations are systematically being carried out with non-Governmental organizations, including other members of civil society as part of the overall preparation process to identify areas for collaboration during the implementation phase, including the institutional/administrative arrangements and operational mechanisms that will be required. The participation of NGOs and other civil society organizations involved in training, is particularly important to the process of developing targeted interventions in support of training opportunity for the poor and other disadvantaged groups. These stakeholders will assist in:

(a) conducting outreach and promotional activities aimed at mobilizing greater participation of poor and disadvantaged groups in training;

(b) the development of appropriate and equitable targeting mechanisms for training; and

(c) providing skills training, while also participating in the monitoring of outcomes.

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

A social assessment, including relevant studies on NGO/private training providers, has been completed. The assessment shows that the social risks associated with TDP can be mitigated through transparent Program implementation in which mechanisms for continuous social assessment and social impact monitoring are put in place and innovative skills training interventions are developed in order to improve the participation of poor and disadvantaged groups.

6.5 How will the project monitor performance in terms of social development outcomes?

The Program will monitor the access of poor and disadvantaged groups to training.

7. Safeguard Policies:

7.1 Do any of the following safeguard policies apply to the project?

Policy	Applicability
Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)	○ Yes ● No
Natural habitats (OP 4.04, BP 4.04, GP 4.04)	○ Yes ● No
Forestry (OP 4.36, GP 4.36)	○ Yes ● No
Pest Management (OP 4.09)	○ Yes ● No
Cultural Property (OPN 11.03)	○ Yes ● No
Indigenous Peoples (OD 4.20)	○ Yes ● No

Involuntary Resettlement (OD 4.30)	○ Yes ● No
Safety of Dams (OP 4.37, BP 4.37)	○ Yes ● No
Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)	○ Yes ● No
Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)	○ Yes ● No

7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

The Program will comply with all applicable Bank policies.

F. Sustainability and Risks

1. Sustainability:

Resources available for training have been inadequate and sustainability will depend critically on Government's ability to involve employers, trainees and Government itself in the financing of a demand-driven system. TDP is addressing this by clearly specifying a continued role for Government in the financing of training, increasing cost-sharing from the trainees, and developing mechanisms to demonstrate to the employers the benefits of contributing to the training fund. In the short-term, Government, bilateral donor, and IDA finance will be provided to support training initiatives through the Training Fund and the employers will be involved in managing the fund. This will ensure that the mechanisms for allocation and utilization of funds are transparent and efficient. As the Training Fund gains credibility, Government and employers will finalize their discussion of the modality for contributions. As employer financing increases, IDA funding will be gradually withdrawn.

2. Critical Risks (reflecting the failure of critical assumptions found in the fourth column of Annex 1):

Risk	Risk Rating	Risk Mitigation Measure
From Outputs to Objective		
Government does not maintain financial support to the training sub-sector.	N	Government's Statement of Sector Policy clarifies its role in the financing of the sector in the medium to long-term.
Inadequate dissemination of the reform process to stakeholders.	M	Dissemination activities/seminars occur on a regular basis, especially during early stages of the Program.
Employers unwilling to participate in Training Fund.	M	In collaboration with employers, the Program will identify and finance a limited number of sectoral pilot projects in order to assist in demonstrating the viability and importance of employers contribution to the fund. Furthermore, projects financed through Training Fund will be responsive to demand.
Private providers are not able to access funds.	M	Financing mechanism including Training Fund being designed to enable private providers to access funds
From Components to Outputs		

MSTVT, TEVETA and training institution are not adequately skilled to implement and monitor the reform process.	S	Technical assistance will be provided to MSTVT in order to strengthen its capacity. TEVETA will also be assisted in executing its functions through TA support, staff development, provision of equipment and hardware. Training institutions will be supported through a "SWAT team" and training at TVTC
Interventions do not target the poor/disadvantaged.	M	Government will be assisted in developing mechanisms/criteria to identify and target the poor/disadvantaged.
Training Fund is not put in place.	M	Government has committed to the establishment of the Training Fund. Assistance is being provided to make decisions in developing criteria on funding formula and allocation mechanisms and criteria under which industry/occupational sector-based training programs will be supported.
Overall Risk Rating	M	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N(Negligible or Low Risk)

3. Possible Controversial Aspects:

Government has committed itself to the reform process, including withdrawal from direct training provision, and demonstrated its willingness to take tough decisions through the downsizing of MSTVT and the termination of Government contracts for staff of training institutions. However, it has to face the difficult decision of what to do when some of the former MSTVT-managed institutions fail to establish themselves as autonomous training providers. The ability to withstand political pressure to intervene and "save" these institutions by providing additional finance or supporting salaries will be the key challenge in moving towards a demand-driven, high quality sustainable training system.

Another controversial aspect is the industry's reaction to a training levy. Segments of the private sector remain firmly opposed to the levy, as they feel that this is an additional tax burden on them and that they will not be able to benefit from contributing this levy. A challenge for Government will be to use the training fund to demonstrate to private employers, the benefits of participating in and contributing to the training system (whether through a levy or some other means).

G. Main Credit Conditions

1. Effectiveness Condition

(a) The Borrower has adopted the Program Implementation Plan and Program Operations Manual in form and substance acceptable to the association.

(b) The Borrower has appointed the members of the Program Coordination Team (PCT), the Program Coordinator and the Finance Manager on terms and conditions acceptable to the Association; the Borrower has furnished to the Association terms of reference, satisfactory to the Association, for the employment of at least one procurement specialist.

(c) The Borrower has established an accounting and financial system satisfactory to the Association.

2. **Other** [classify according to covenant types used in the Legal Agreements.]

Disbursement conditions

(a) In regard to Grants for Subprojects MSTVT has established criteria satisfactory to IDA for allocating funds for training and training support services.

(b) In regard to Bursaries MSTVT has established criteria satisfactory to IDA for allocating funds for Bursaries.

H. Readiness for Implementation

☐ 1. a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
☒ 1. b) Not applicable.

☒ 2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.
☒ 3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.
☒ 4. The following items are lacking and are discussed under loan conditions (Section G):

At appraisal, the Association reviewed the:

(a) draft Program Implementation Plan

(b) draft Program Operations Manual

(c) Program financial information system

(d) work plans for program components

I. Compliance with Bank Policies

☒ 1. This project complies with all applicable Bank policies.
☐ 2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.

Patrick D. Murphy **Team Leader**	Dzingai B. Mutumbuka **Sector Manager/Director**	Yaw Ansu **Country Manager/Director**

Annex 1: Project Design Summary

ZAMBIA: Technical Education Vocational & Entrepreneurship Training (TEVET) Development Program Support Project

Hierarchy of Objectives	Key Performance Indicators	Monitoring & Evaluation	Critical Assumptions
Sector-related CAS Goal: Removing constraints to sustainable diversified growth and improving socio-economic productivity	**Sector Indicators:** 1. Increased average earnings of TEVET system graduates (incl. women and disadvantaged), either employed or self-employed by 2008 2. Increased GDP 3. Increased business start-ups 4. Improved productivity of SMEs/ informal sector	**Sector/ country reports:** 1. Tracer study reports 2. GRZ Economic statistics 3. Industry surveys 4. GRZ economic bulletins	**(from Goal to Bank Mission)** Government implements Poverty Reduction Strategy (PRSP) and maintains commitment to privatization
Project Development Objective: Skilled human resources produced for Fformal and informal sectors by a demand driven TEVET system that is sustainable and promotes equity	**Outcome / Impact Indicators:** 1. Of the TEVET graduates during 2004 and 2005 who gain employment, at least 70% do so with a time lag of less than 6 months from course completion 2. During 2004 & 2005 increased number of job vacancies filled by TEVET graduates 3. 60% of industries surveyed annually express satisfaction with quality of human resource produced 4. At least 50% of the formal training institutions meet 50% of their budgets from own resources by Jan 2005 5. More than 50% of training institutions receive support for courses from Training Fund 6. 60% of a sample of clients of self employed graduates are satisfied with goods/services	**Project reports:** 1. Tracer studies, compared with 2000 baseline study 2. Tracer study reports and Labor Market surveys 3. Service delivery surveys of industry 4. Institutions Financial Records 5. M&E reports 6. Client Surveys	**(from Objective to Goal)** 1. Graduates access better paid jobs because of their new skills 2. Employed graduates remain working in Zambia 3. Other complementary projects are meeting targets 4. Climate for industrial development remains positive

	7. Share of TEVET graduates from the socio-economically disadvantaged groups increased by 10%	7. Tracer study reports	
	8. Female graduates from non traditional TEVET programs increased by 25%	8. Tracer Study reports	
	9. Employability of TEVET graduates is better than a control group of similar non-trainees	9. Tracer Study reports	
	10. Share of courses approved by TEVETA rises to 90%	10. TEVETA reports	
	11. Total resources (from Borrower, private sector, trainees) available for TEVET increased, with Borrower's contribution constant in real terms	11. TEVETA and Training Fund management reports	
Output from each Component:	**Output Indicators:**	**Project reports:**	**(from Outputs to Objective)**
1. Program preconditions / activities completed	1. Program ready to start on 2 July 2001 with preconditions described in document "Pre-Conditions" already achieved	1. Pre-Conditions document	Continued political backing for demand-driven training
2. TDP Program Management System established and operational	2.1 Program Steering Committee (PSC) in place & operational by July 2001	2. PMT progress reports	Graduates are pro-active in seeking jobs in Zambia
	2.2 Program Financial Management System established by February 2002		Economic growth is achieving GRZ predictions of least 4% p.a
	2.3 Program Management Team established. & fully operational by October 2001		Population growth remains stable (currently 3.1% p.a.)
	2.4 Preparing Annual Work Plans (AWP), Budget and Status reports		Policies developed are approved by Cabinet

3. TEVET Financing System established (Training Fund)	3.1 TEVET Fund established and operational by September 2002. Available training funds accessible to providers with good business plan. 3.2 Mechanisms for cost sharing schemes established by December 2004 3.3 Legislation on Training Levy passed by 2004 3.4 Bursary Scheme setup & in use by 2003	3.1 Guidelines & procedures documents. Annual reports on administration and disbursement of funds, including analysis of fund recipients by institutional type. 3.2 Guidelines documents 3.3 Levy Bill 3.4 Recipient agreements	TEVET Fund guidelines are tranparent and easily accessible
4. Organization & Management of the TEVET System strengthened	4.1 Stakeholders' consultation conducted annually through to 2005 4.2 First review of TEVET Act accomplished by 2002 4.3 Policy Monitoring & Evaluation System established & in use by 2001 4.4 Understanding and appreciation of TEVET enhanced by September 2003 4.5 MSTVT reviews Sector Policy every three years 4.6 Managerial capacity of TEVETA strengthened by December 2002 4.7 MSTVT's Sector coordination capacity strengthened by December 2002 4.8 Networking capacity of sector ministries enhanced by June 2002 4.9 Managerial capacity of training providers strengthened by December 2002. Twinning arrangements in place. Registered training institutions accessing funds produce annual business plans.	4.1 DVET report of meeting 4.2 Review document 4.3 M&E reports 4.4 Awareness program reports 4.5 Policy review report 4.6 Managerial capacity report 4.7 Coordination capacity report 4.8 Networking capacity report 4.9 Managerial capacity report	Political stability is maintained TPs/ Instructors are willing and able to use the new curricula Bursary scheme is administered equitably MIS used by TPs & Industry TPs & Institutions accept the importance of cross-cutting issues in TEVET TPs accept and promote entrepreneurship training programs

5. Training Systems, Trade Testing, Examinations, Apprenticeships, Inspections Registrations & Accreditation Systems Improved	5.1 Examinations Examiners appointed and trained by December 2003 New Assessment System developed by March 2004.	5.1 Examiners list. Revised syllabi & continuous assessment documents.	
	5.2 Curriculum Development: 63 Course Programs used by training providers revised by Dec. 2002, 10 new demand driven course syllabi produced by July 2003, 30 Curricula evaluated by July 2003, 73 Programs certified and accredited by regional (SADC) and international bodies by 2002, 200 Institutional CDs trained by July 2003.	5.2 Program reviews. Syllabi documents. Evaluation reports. Certification & accreditation documents.	
	5.3 Apprenticeship: Legal Framework for apprenticeship amended by June 2003, 3000 apprenticeship contracts through 30 participating companies by December 2003, 200 Master Craftsmen trained in teaching skills by July 2003. Establish contacts with regional, International bodies dealing with Apprenticeship Training by November 2001.	5.3 Framework document. Apprenticeship contracts. Training document. Contacts list.	
	5.4 Trade Test: New Trade Test Regulations and Standards established by 2002. New Trade Test Level System established by 2002.	5.4 Trade Test regulations document. Trade Test procedures document	
	5.5 Distance Vocational Training: DVT Regulations prepared by 2002 DVT System established by 2002	5.5 DVT regulations document. M&E reports.	
	5.6 Employment Based Training: Employment based training strengthened by 2002	5.6 M&E reports. Consultative list.	
	5.7 Inspections, Registrations and Accreditations. Local and foreign consultation system/linkages established by 2001. 200 Institutions accredited by July 2003. 300 TEVET Institutions inspected and registered yearly from 200 (at least 90% of total by 2005). 300 TEVET Institutions categorized and reviewed annually.	5.7 Accreditation documents. Registration documents. Review documents.	

6. Entrepeneurship and Technical Skills Training System for the informal sector developed and promoted.	6.1 60% of TEVETA registered Training Providers have introduced components of Entrepreneurship training by 2004	6.1 Course documents	
	6.2 A system for easily accessible market driven training delivery established and operational by 2003	6.2 Pilot report. Marketing report.	
	6.3 Networking among support service providers developed and marketed by 2003	6.3 Guidelines documents & pilot schemes review	
	6.4 TEVET graduates opting for self employment are referred to relevant service providers		
7. Comprehensive & sustainable HRD of TEVET developed & implemented.	7.1 Staff development needs assessment carried out in at least 50% of registered institutions and HRD plan which is gender sensitive developed and operational by December 2002. Staff development programs based on needs assessment on offer nationally.	7.1. HRD plan and M&E reports	
	7.2 750 trainers updated & upgraded in technical courses & pedagogical skills by April 2004	7.2 M&E reports	
	7.3 Training of Trainers program focused on continuous professional development institutionalized in 3 Training Institutions by 2002	7.3 Evaluation reports	

8. Effective and efficient MIS developed & installed.	8.1 Conceptual Framework for TEVET MIS developed and adopted by stakeholders by 2001	8.1 Consultancy contracts Workshop reports	
	8.2 Phase 1 MIS operated and maintained at TEVET Ministries, TEVETA, and 20 training providers by 2002	8.2 Status reviews	
	8.3 Phase 2 TEVET MIS operated and maintained at 30 Training Provider Sites by July 2003	8.3 Status reviews	
	8.4 MIS tracer reports of graduates (incl. Women & disadvantaged) produced in 2004 and 2005. Studies conducted to examine internal efficiency of TEVET system.	8.4 Tracer reports. TEVET system internal efficiency studies.	
. Physical Infrastructure for Training and Support Services upgraded.	9.1 Physical infrastructure requirements involving rehabilitation, refurbishment and construction for TEVET System analyzed and prioritized in a plan by December 2001	9.1 Contract for consulting engineer. Prioritization plan.	
	9.2 Prioritized areas for rehabilitation and construction completed by December 2005	9.2 M&E reports	
	9.3 Prioritized areas for refurbishment including acquisition of tools, equipment, books and training aids completed by 2005	9.3 M&E reports	
	9.4 Preventative Maintenance System developed and in use by June 2004	9.4 Maintenance schedules	

10. Gender, HIV/AIDS and other Cross Cutting Issues program developed & implemented	10.1 Strategy developed for gender mainstreaming. Strategy developed to counteract negative effect of HIV/AIDS on supply of skills. Issues of a cross-cutting nature (eg Environmental Protection, Occupational Health, HIV \ AIDS) are where possible included in the curricula of most Programs by 2003.	10.1 M&E reports	
	10.2 Public Training facilities and infrastructure provided & accessed by both sexes & by disabled 2005	10.2 Guidelines documents	
	10.3 Awareness on cross cutting issues conducted by December 2004	10.3 Awareness program reports	
	10.4 Crossing cutting issues incorporated into TEVET planning by December 2004	10.4 Implementation report andGuidelines documents	
	10.5 Counseling in Cross Cutting Issues conducted by December 2004	10.5 Counseling reports	
	10.6 Environment Impact Assessment (EIA) conducted by 2001.	10.6 EIA document	
	10.7 Develop and Implement Assessment Program for Women, Poor, Rural and Disabled by December 2004.Higher proportion of poor and disadvantaged trainees in the system.	10.7 M&E reports	
	10.8 Targeted Equity Based Programs (EBP) implemented By December 2004	10.8 Implementation report	
Project Components / Sub-components:	**Inputs: (budget for each component)**	**Project reports:**	**(from Components to Outputs)**
1. TDP Program Management (including MSTVT recurrent costs)	$ 4.26	TDP Financial Mgmt reports Program Supervision Reports	Continued Govt support for a demand driven training system
2. TEVET Financing System established (Training Fund)	$ 15.3	TEVETA Annual Report	Recurrent funding is available and timely (GRZ & MoFED). Private sector accepts a training levy & the administrative arrangements
3. TEVET management.	$5.39	TEVETA Annual Report	Staff who are identified for institutional strengthening are available for training

4. Training Systems, Trade Testing and Examinations (including TEVETA direct costs).	$ 2.15	TEVETA Annual Report	Sufficiently qualified CDs are available.
5. Entrepeneurship development and Informal Sector training.	$ 4.38	EISDU Report	Qualified staff are available or can be trained to instruct in new or upgraded courses
6. Human Resource Development.	$ 6.37	PCO Report	TPs and industry accept TDP changes
7. Management Information System.	$ 1.14	PCO Report and TEVETA Report	Information for MIS is readily made available
8. Physical infrastructure.	$ 55.14	PCO Report	Donor funding is available and timely
9. HIV/AIDS and Cross-Cutting issues.	$ 0.5	PCO Report	Line ministries accept implementation arrangements & decisions
Total Program Support	$ 94.63		

Annex 2: Detailed Project Description

ZAMBIA: Technical Education Vocational & Entrepreneurship Training (TEVET) Development Program Support Project

Background

Recognizing the many problems facing the training sector, the Government issued a policy document: Technical Education, Vocational and Entrepreneurship Training (TEVET) Policy (1996) that identified the problems facing the economy and the training institutions and formulated a broad national policy on training. Subsequently, the Government produced a strategy paper: *Strategy Paper for Technical Education and Entrepreneurship Training (TEVET) in Zambia* (1997) which provided strategies for implementing the new policy and an action plan. The Government then passed these reforms into law through the *Technical Education, Vocational and Entrepreneurship Training Bill,* 1998. The Board of the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) was constituted in mid-1999 and the staff selected and appointed in early 2000. Government divested itself of 21 (of a total of 23) MSTVT training institutions early in 2000 and established Management Boards to run these institutions.

Objectives and process

The principal objective of the TDP is to develop a high quality, sustainable, demand driven, and equitable training system for Zambia. The objective will be achieved through supporting the new institutions and modalities established by Government. The Program development objective is to develop a TEVET system that has the potential to improve skills for both the formal and informal sectors of the economy through creating a high-quality, sustainable, demand-driven, and equitable training system. Government is reorienting its role from being both a provider and financier of training to a system in which its main roles are those of regulating, monitoring and evaluating and the provision of financing for demand-driven training.

Government finance for training is inadequate but cannot be sustained at higher levels than are currently available. Government plans to maintain its commitment to training and allow institutions to charge economic fees for some courses. In addition, Government plans to levy industry to support training. However, industry is reluctant to provide support to the sector in the current circumstances. Accordingly, Government is seeking finance from a group of external and internal financing partners, including the World Bank, DANIDA, the Netherlands Government and GTZ. These will provide support for many of Government's proposed actions.

The World Bank is providing assistance to support the Government's program, which consists of the following components: (a) Overall Program management; (b) TEVET Financing System; (c) Organization and Management of TEVET; (d) Training Systems, Trade Testing and Examinations; (e) Entrepreneurship Development and Informal Sector Training; (f) Human Resource Development (g) TEVET Information Systems; (h) Infrastructure and Equipment; (i) Gender, HIV/AIDS and other Cross-cutting Issues.

By Component:

Project Component 1 - US$4.26 million

Overall Program Management

The overall responsibility for implementing the TEVET Development Program (TDP) lies with the Ministry of Science Technology and Vocational Training (MSTVT). The main objective of the Overall Program Management component is to support efficient and effective program management as well as monitoring the implementation of TDP at all levels of the system.

This component will support the establishment of a Program Steering Committee (PSC) to oversee the administration of TDP. The PSC will have representatives from MSTVT, the TEVETA Board, employers, workers and donor organizations. The functions of the PSC will be, inter alia, to assess and approve annual work plans and budgets and to convene an annual stakeholders forum. The PSC will meet twice each year. A Program Coordination Team (PCT) will comprise the Permanent Secretary, MSTVT, the Director-General TEVETA and the component coordinators for each of the TDP components. The functions of the PCT will include supervising TDP implementation.

The PSC and PCT are supported through a PCO located within MSTVT. The office will be led by a Program Coordinator and staffed by financial, procurement, and monitoring and evaluation (M&E) specialists. The PCO will consolidate work plans, prepare financial and management reports, disburse funds and arrange procurements.

Project Component 2 - US$15.30 million

TEVET Financing System

Current situation. The Training Fund is expected to address the three major problems with government financing of the current training system:

Inadequacy. Government has been providing declining grants to public training institutes over the recent past. Not counting salaries, 90% of government grants are going towards student welfare – mainly catering expenses. Further, there is very little cost-sharing with the students or with the private sector.

Inappropriateness. Financing is available only to public providers of training; and institutions have no incentive to respond to market demand as funding decisions are not based on demand-responsiveness. Nor is financing targeted on certain prioritized courses or categories of trainees. Finance is not provided for training equipment and teaching materials.

Non-transparency. Mechanisms used to decide on funding between different providers are not linked to any performance criteria or on whether institutions are responding to demand. In decisions on allocative priorities, the discussions involve neither industry, training providers, nor other stakeholders.

Objective. The main objective of this component is to establish a TEVET Fund that will finance training in a manner that supports demand-led training in Zambia. The TEVET Fund will consist of a number of " recurrent" funding windows, including a pre-employment and apprenticeship window, an SME / informal sector training window and possibly an in-service training window. An Investment funding window will also be established to fund the capital and human resource upgrading costs of the new TEVET system. Initially, the GRZ and donors will be the main contributors to the Fund and learners will pay fees. Given private sector resistance to a training levy, the Ministry has provided an extended period to consult the private sector and investigate alternative options for industry to contribute to the Fund, including the feasibility of introducing a training levy.

Intervention and implementation. Fund implementation will begin with establishment of the Pre-employment and Investment Funding Windows. The design and establishment of the other funding windows will follow. MSTVT will propose the restructuring of the TEVETA Board, a management contract to govern the relationship between the MSTVT and TEVETA, and a constitution to govern the conduct of the TEVETA Board and to govern the GRZ's direct funding of TEVETA's operational costs. These decisions can be implemented parallel to process of establishing the Fund. The priority is to begin disbursing funds for training from the Pre-employment funding window. Accordingly, Fund establishment

will begin in July 2001. First disbursements are scheduled for March 2003. A user fee policy and guidelines should be available by November 2002. Two investigations are proposed to inform the decision on the mechanism for industry to contribute to the Fund. The first focuses on funding options other than a levy, while the second will investigate the feasibility of a training levy. The private sector will be directly involved in this process through a Consultative Committee. The studies will be undertaken during 2001, debated, and "reasonable" consensus between government and the private sector will be reached by mid-2002. This will allow the time to design the funding mechanism, receive the necessary approval within Government and to establish the mechanism in 2004.

MSTVT is ultimately responsible for all money in the Fund. TEVETA, through its Board and Office, will be responsible for establishing and managing the Fund. Initially training institutions will be the only direct recipients of funds from the Pre-employment funding window, but the range of recipients will be extended once other funding windows are established. The ultimate beneficiaries of the Fund will be learners who may be pre-employed, unemployed, under-employed, self-employed and employees. Two separate consulting firms will be appointed to establish and to manage Fund operations in TEVETA for a defined period of time. To ensure that there is TEVETA staff capacity eventually to run the Fund independently, a small core of Fund staff will be appointed before establishment begins. Once the second consulting firm has stabilized Fund operations, it will assist TEVETA with the recruitment of the balance of the TEVETA Fund staff and with the development of their capacity. It is envisaged that the consultants will hand over operations to this staff in 2005. An external evaluator will be appointed to review the work of the two consulting firms.

Success measurement. Performance indicators include:

(a) Analyzing training agency expenditure and a range of training costs to monitor efficiency levels

(b) Number and type of institutions supported by the Training Fund (number)

(c) Employer satisfaction with the Training Fund.

Project Component 3 - US$ 5.39 million

Organization and Management of TEVET

Current situation. Inadequacies in the current vocational education and training system are well understood and adequately documented. TEVETA was established following Enactment of the TEVET Bill in 1998 and the Authority appointed a chief executive and senior staff early in 1999. TEVETA has rapidly developed and is now beginning to make a visible impact on the system. The profile of the new TEVET system must be enhanced and tangible changes must quickly become visible at institutional level. The lack of managerial and infrastructural management capacity in training providers presents a very serious risk to delivery of quality training.

Objective. The objectives of this component are to develop a national awareness of the new TEVET system, to review overall policy, implement new policies and to build capacity in the appropriate line ministries, TEVETA and the training providers.

Intervention and implementation. TEVETA will publish a quarterly Newsletter beginning in the third quarter of 2001. It will also mount a national publicity campaign utilizing such media as print and radio and will host public meetings at strategic sites throughout the country. In addition, stakeholders consultations will be conducted annually. The outcomes of these will be reported to PSC for action as appropriate. The TEVET Authority considers that the Act needs to be amended, particularly in the area of the balance of the Authority's membership. It will set up a committee to examine this in 2001. Several

other Government Ministries provide training in institutions which are or will be registered by TEVETA. Networking between MSTVT as the lead ministry in TEVET and the other providing Ministries will be developed utilizing the Management Development Division in the Cabinet Office. Furthermore, a short term contestable fund will be designed to develop infrastructural development in a small number of institutions, works arising from this will begin in early 2002. In addition, a two man consultancy team (SWAT team) will work with providers and their management boards to assist them in the development of business/strategic plans. This would last for about two years. Providers have begun to organize themselves into an Association (ZATP). This organization has published a draft constitution. ZATP will be supported as the providers' voice with Government and TEVETA.

Success measurement. Performance indicators include:

(a) Number of institutions assisted through contestable funds

(b) Number of institutions assisted in the preparation of business plans

(c) Number of institutions with viable business plans

(d) Enhanced role of ZATP.

Project Component 4 - US$2.15 million

Training Systems, Trade Testing and Examinations

Current situation. This is a vital component in that it is at the qualitative heart of the entire TEVET system. TEVETA is unambiguously responsible for regulation of and quality assurance for the total training provision. Since its establishment in 1998, TEVETA has accomplished much in its short lifespan. It has overhauled institutional registration from a largely nominal operation to a rigorous inspection process. It has defined progression paths up to technician/technologist level. It has established methodologies for grading institutions into quality categories; and it has mapped out for itself an aggressive work program which will impose on it very significant burdens if it is to reach its stated objectives. There is at present a lack of clarity as to how the various grades of craft qualification will relate to each other.

Objective. The objective of this component is to develop TEVETA's and the training institutions' capacity to reach their stated objectives, to create a healthy consultative dialogue between TEVETA and registered institutions, and to provide teacher training/development initiatives in support of the new TEVET system.

Intervention and implementation. Institutions will be assessed for registration and inspection reports will be issued. They will be accredited to offer specified courses. A gazette of registered institutions will be promulgated. Curricula will be developed, syllabi reviewed and specialists will be trained in all these activities, both at central and local level. Apprenticeship will be reintroduced, overseas accreditation will be sought for some qualifications and a distance vocational training activity will be initiated. Various models of teacher training will be designed and offered both at selected institutions and at the Luanshya Vocational Teacher Training Centre, with DANIDA support. The examination function will appropriately be moved in its totality from ECZ to TEVETA. This component is concerned with quality enhancement and assurance.

Success measurement. Performance indicators include:

(a) Numbers of institutions accredited and registered

(b) Success in curricula development

(c) Improvements in teacher training.

Project Component 5 - US$4.38 million

Entrepreneurship Development and Informal Sector Training

Current situation. The training system has, in the past, ignored entrepreneurial skills since the system was designed to meet the needs of the formal sector as perceived in the late sixties. The TEVET policy provides for the incorporation of entrepreneurship training in the curriculum in order to prepare the trainees for both wage employment and self-employment.

Objective. The objective of this component is to assist training providers in designing and offering skills-training programs targeting the informal sector operators, and to incorporate entrepreneurship training in TEVET in order to improve the quality of the goods and services of the sector.

Intervention and implementation. TEVETA will conduct national sensitization of providers through provincial seminars, electronic and print media, develop training materials/packages based on TEVETA curricula, train additional trainers in entrepreneurship and orient trainers to new training materials/packages. The capacity for Micro and Small Enterprise skills training will be developed through curriculum and training materials; in-service workshops for selected trainers/instructors; introduction of courses for instructors who wish to specialize in entrepreneurship training; and research, publications and consultancies in the field of entrepreneurship. Furthermore, the Program will support the establishment of Entrepreneurship Development Centers (EDCs) in 7 provinces by 2005.

While TEVETA will supervise the implementation of this component and develop their own capacity in the process, day-to-day responsibility for management and implementation will be entrusted to a team of seasoned experts including international consultants, with TEVETA and other ministry staff operating as counterparts. The team will have operational autonomy. The private sector and other key players will also be involved in implementation and, wherever possible, activities will be outsourced to these and other competent institutions/consultants.

Success measurement. Performance indicators include:

(a) 7 EDC's established by 2005

(b) Capacity for entrepreneurship training and informal sector training enhanced.

Project Component 6 - US$6.37 million

Human Resource Development

Current situation. The declining resources for training have had a negative effect on capacity throughout the TEVET system over the past few decades. The Government has recognized the critical shortage of capacity within the government itself and within TEVETA and training institutions.

Objective. This component aims at building the human resources capacity in the training sector. The government intends to develop and implement a gender sensitive comprehensive human resource development strategy for TEVET to enable staff in the sector cope with the demands of a market responsive training system.

Intervention and implementation. Each level of institution (MSTVT, TEVETA and Training Providers) will be assisted in developing decentralized Human Resource Development (HRD) plans as a part of a business-plan at the level of the individual organizations. Each level of institutions will be assisted in needs-assessment and in developing HRD plans. Initially, priority will be given to the needs-assessment of the TDP management (program and financial) and of the co-ordination and implementation staff (MSTVT

and TEVETA) while HRD requirements of demand-responsive training institutions will be developed for each institution which demonstrate a commitment to meeting training demand. Local and foreign institutions capable of upgrading staff capacity of TEVET managers and administrators will be identified and engaged to execute the training programs. It is anticipated that 200 managerial and administrative staff will be trained by December 2003 and 750 trainers will be updated and upgraded in technical courses and pedagogical skills by April 2004.

Success measurement. Performance indicators include:

(a) Needs-assessment for MSTVT and TEVETA completed by end 2001

(b) HRD plan for MSTVT and TEVETA completed by September 2002

(c) Needs-assessment and HRD plans for selected Training-Providers implemented by 2004.

Project Component 7 - US$1.14 million

TEVET Information Systems

Current situation. Currently, little information is being collected on the labor market and training providers or graduates, and what is being collected is not analyzed. There does not exist any monitoring and evaluation system that incorporates monitoring at different levels and of different scope (for example, economy wide, institutions, MSTVT and TEVETA level) which can measure aspects of program effectiveness (internal efficiency or cost effectiveness, external efficiency, risk management, capacity building, poverty reduction, alleviation of market failures and imperfections).

Objective. The Program will support the development of an information system which will play several roles: gathering, validating, analyzing and disseminating data and information on the labor market and TEVET system; providing key inputs for decision making in training institutions and firms, and producing a set of indicators to monitor progress in implementation and TDP's socioeconomic impact. This will require a system that incorporates monitoring at different levels (MSTVT, TEVETA, institutions) and of all aspects of Program implementation (internal and external efficiency, risk management, capacity building and poverty reduction).

Intervention and implementation. This component will support each level of institution in establishing a relevant information system for that particular level. Implementation will take place in a phased manner – in the first phase (till the end of 2002) the construction of a 'minimum requirements' system will be completed in order to provide indicators that measure Program milestones. Based on this, the second phase of the TEVET information system will include: provision and dissemination of accurate and timely information, capacity building, survey implementation, etc.. While MSTVT has broad and ultimate responsibility for this component, information systems will be put in place and managed at all three levels of institutions.

The sub-components of the information system include: (a) monitoring implementation milestones; (b) M & E system; (c) MIS; (d) mobilizing stakeholder participation; (e) developing tools development to support other components; and (f) evaluation of TEVET information system.

The system provides M & E indicators for all stages of the Program, over the life of the Bank support and beyond. The stages in the design and implementation of the Program are as follows:

(a) conception and design of M & E system, complying with best practices from Quality at Entry (QAE) reviews. This stage includes work done by the co-financiers at and before the Joint

Appraisal (Jan. 2001), and preparatory work by all stakeholders and the GRZ (June 2001);

(b) tracking achievement of progress milestones in implementation of all Program components in the first year of the program (2001-2002);

(c) monitoring and evaluating the implementation of the Program, in conformity with best practices at project supervision reviews (2001-2006); and

(d) developing key performance indicators (KPI) to measure (i) internal efficiency & input indicators, (ii) output indicators, and (iii) impact & outcome indicators (2001-2006).

While the first set will be activity specific, the second and third will be broad based. Apart from providing inputs for M & E, the KPI will assist stakeholders in program implementation. The output/outcome KPI will be reported at annual or semi-annual intervals, and may be changed/modified by the Program Steering Committee (PSC) or by Bank supervision missions. The KPI are to be developed in consultation with co-financiers and stakeholders.

Success measurement. Performance indicators include:

(a) Obtaining all information needs, systems design (hardware and software) and construct survey instruments by December 2001

(b) Preparing first Monitoring and Evaluation report by June 2002

(c) Holding stakeholder review of the TEVET Information System by July 2002

(d) Reviewing progress regularly in PSC and PSO meetings.

Project Component 8 - US$55.14 million

Infrastructure and Equipment

Current situation. Due to lack of capital investments in the training sector, buildings and infrastructure services have deteriorated, while appropriate equipment and tools are missing or available only in insufficient quantities. The lack of proper tools and teaching materials in most institutions has been recognized as one of the reasons why training at present is inadequate.

Objective. The objective of this component is to provide the means to improve and extend the TEVET learning and teaching environment (equipment and facilities) as part of the overall development objective of creating a high quality training system in order to improve the skills for both the formal and non formal sections of the economy and to establish a Physical Asset Management System for future planning and maintenance purposes.

Intervention and implementation. An accelerated program for the first half of the TDP will assist approximately 40% of the existing training providers with tools and teaching materials to provide the opportunity for institutions to improve quality of instruction, extend training course programs and to prepare institutions for operating in a competitive environment. The TEVET Authority will rehabilitate their building to create an efficient working environment. In the second half of the TDP, when the mechanisms for appraising business plans have been established, support to positively appraised training institutions will receive support for the realization of their training plans -- with funds for rehabilitation, new construction, equipment and technical assistance. A Physical Asset Management System will be developed and established for planning and maintenance purposes in those institutions receiving funds for rehabilitation and equipment.

A specialized Procurement Unit (PU) will be established as part of the TDP responsible for procuring goods, works and services. The Unit will (a) assist training institutions to properly specify requirements, (b) in the appraisal of requests and proposals from the institutions, and (c) procure the goods for institutions which are unable or not allowed to procure.

With external assistance, the TEVETA and the PU will prepare a proposal for approval by the PSC, which will define the criteria, type of assistance, and the procedures for the accelerated program component. TEVETA will inspect the institutions and institutions which meet the criteria and which are allowed to apply for this program component. TEVETA will assist training providers to prepare training plans, while the PU will assist with technical documentation. The TEVETA/PU appraisal committee will appraise and approve the plan and the PU will set the procedure for tendering, procurement and payments.

TEVETA building rehabilitation. The PU will hire a consultancy firm to prepare the plans, cost estimates and tender documents for the rehabilitation or new construction of the TEVETA office building. The tender process will be according to GRZ/WB regulations; and a contractor will execute the works, supervised by a consultant engineering company.

Main physical infrastructure and equipment program component. Rehabilitation and new construction programs can be awarded to training institutions whose business plans have been appraised positively. The training institutions are responsible for specifying courses, equipment and rehabilitation and/or new construction requirements. The PU will assist the institutions with updated relevant specifications and costs for the equipment component and the training institutes can make a request to the PU to hire an architect/consulting-engineering firm to prepare sketch plans and cost estimates for the construction works. TEVETA/PU appraisal committee will appraise the plan proposals and the PU will set the tender, procurement and payment procedures. The Consultant (hired by the Institute and paid for by PU-tri-party contract) will prepare the tender documents for approval by the PU, while contractors will execute the works supervised by consulting engineers.

Physical asset management system. The PU will hire a consultant to develop proposals for a physical asset management system at institution level. The proposals will be prepared in close collaboration with the relevant departments of TEVETA (management and capacity building) and with the PU. The system will be part of the overall management plan of the institution and enables the institution to manage assets and plan annual and long-term operational costs (e.g. electricity, water, repairs, maintenance and replacements) and set fee levels accordingly.

Success measurement. Performance indicators include:

(a) Initial phase: (i) first plans prepared by training institutions approved before month 7; (ii) first contracts for procurement of tools signed with training institutions before month 9; (iii) 50% of the initial budget allocated before month 12 and 100% by month 18; (iv) first tools and teaching materials supplied before month 12; (v) 50% tools and teaching materials supplied before month 18; and (vi) 100% by month 24.

(b) Main phase: (i) 100% of funds allocated; (ii) first phase training institutions completed (infrastructure and procurement of equipment); (iii) 80% of the assisted training institutions maintain physical asset management system; (iv) first phase training provided in physical asset management. The timelines for all these milestones will be specified by late 2001.

Project Component 9 - US$0.50 million

Gender, HIV/AIDS and Other Cross-cutting Issues

Current situation. The TEVET Development Program should take account of the impact of the pandemic on the supply of and demand for skilled workers. The 10,000 or so young people participating annually in training programs need information and education about prevention of HIV and care for those suffering from AIDS. MSTVT has appointed a HIV/AIDS focal point and TEVETA will shortly do the same.

With respect to gender, many girls and women in Zambia have been excluded from most skills training opportunities.

Objective. A major objective is to support the national effort to combat HIV/AIDS through better information and peer group support. A subsidiary objective is to assist training institutions to develop HIV/AIDS contingency plans.

With regards to gender, TEVET policy states that skills training will be an instrument for the minimization of inequalities among people. This component aims to mainstream gender issues in decisions about training.

Intervention and implementation. The component will support studies to analyze the impact of the virus on supply and demand of skilled labor. The component will also provide support for training institutions to introduce information on HIV/AIDS into the curriculum. In cooperation with stakeholders, it will support peer-group meetings which provide information and counseling. The component will also support MSTVT's part in the national effort to combat the virus. It is expected that the bulk of the finance needed to support system-wide interventions will be available through the multi-sector HIV/AIDS program, currently under discussion with Government.

This component will also assist in the development of a strategic plan for improved gender equity, and will carry out a situation analysis of TDP components and suggest how gender can be better incorporated into these components. The component will support the establishment and capacity building for gender focal persons at all levels of institutions (MSTVT, TEVETA, training institutions). This component will also assist in the establishment of a Gender Issues Steering Committee, involving key stakeholders.

Success measurement. Performance indicators include:

(a) development of comprehensive workplan on HIV/AIDS

(b) curriculum revised to reflect HIV/AIDS education

(c) development of comprehensive strategic plan on gender

(d) focal points on gender appointed

(e) steering committee on gender appointed

(f) more gender balance in enrollments.

Annex 3: Estimated Project Costs

ZAMBIA: Technical Education Vocational & Entrepreneurship Training (TEVET) Development Program Support Project

Project Cost By Component	Local US $million	Foreign US $million	Total US $million
1. Overall Program Management (incl. MSTVT recurrent costs)	4.26	0.00	4.26
2. TEVET Financing System	15.30	0.00	15.30
3. Organization and Management of TEVET	5.39	0.00	5.39
4. Training Systems, Trade Testing & Examinations (incl. TEVET direct costs)	2.15		2.15
5. Entrepreneurship Development & Informal Sector Training	4.38		4.38
6. Human Resource Development	6.37		6.37
7. TEVET Information Systems	1.14		1.14
8. Infrastructure & Equipment	55.14	0.00	55.14
9. Gender, HIV/AIDS and Other Cross-cutting Issues	0.50	0.00	0.50
Total Baseline Cost	94.63	0.00	94.63
Physical Contingencies	0.00	0.00	0.00
Price Contingencies	0.00	0.00	0.00
Total Project Costs	94.63	0.00	94.63
Total Financing Required	94.63	0.00	94.63

Project Cost By Category	Local US $million	Foreign US $million	Total US $million
1. Goods	0.00	2.28	2.28
2. Works	0.00	1.00	1.00
3. Consultant Services and Audit Fees	2.00	0.00	2.00
4. Training Grants	0.80	8.70	9.50
5. Staff Development and other Training Costs	2.00	0.00	2.00
6. Bursaries	1.00	0.00	1.00
7. Operating Costs	2.00	0.00	2.00
8. Unallocated (see footnote 1)	0.00	4.63	4.63
9. Refunding of PPF		0.59	0.59
Total Project Costs	7.80	17.20	25.00
Total Financing Required	7.80	17.20	25.00

Note: At this stage only the use of the IDA credit can be meaningfully allocated by category. The local vs. foreign breakdown is very tentative in the second table and impossible to attempt in the first, until more information on other donors' allocations by category is available.

1/ Will probably be mostly used for non-training components -- M&E, capacity building and technical assistance.

Bank's share of cost and the effect of taxes and duties

The Bank's cost sharing ratio. The percentage of the total project cost excluding taxes and duties, is 100% for the project but less for the costs of the larger sector program. The latter includes cost sharing by the government, the private sector, and other donors. The financial summary in Annex 5 provides numbers for the larger program and shows how the program becomes self-financing at the end of the implementation period.

No taxes are imposed at the stage at which goods, works, and services of domestic and foreign origin are being acquired by the project.

[1] Identifiable taxes and duties are 0 (US$m) and the total project cost, net of taxes, is 94.62 (US$m). Therefore, the project cost sharing ratio is 26.42% of total project cost net of taxes.

Annex 4: Cost Benefit Analysis Summary

ZAMBIA: Technical Education Vocational & Entrepreneurship Training (TEVET) Development Program Support Project

1. Background

[This analysis is based on a background paper which is available in the project documents.]
TDP is the Government's Program to reform its vocational education and training system. The first five years are envisioned as a first phase of a long-term Program of capacity building, policy development, and financing of the VET system that would lead to a system which is responsive to demand & to private sector plans, cost-effective, and equitable.

The most recent CAS states that given Zambia's need to diversify and compete on world markets in areas other than basic commodity exports, capacity-building and knowledge generation are central to its growth prospects. The shrinkage in the "traditional" formal employment sector (mining and public service sectors), has also lent increased importance to investing in people and to developing a system that will produce a workforce with skills relevant to the sectors in which the demand for skilled labor is likely to expand. Training providers and regulators need to respond quickly to changes in skill demand, and the system must impart to trainees entrepreneurial zeal as well as "trainability", in addition to the specific skills taught. The CAS proposes the preparation of a Training Sub-sector Investment Program, which will focus on the cost-effective provision of new skills in close collaboration with all stakeholders.

Government has recognized that serious problems exist in Zambia's public training provision and in the regulation of the sector and has been fully committed to a process of far reaching reform. In line with the reforms being proposed, Government has asked the Bank's assistance in implementing TDP. In this section, we provide an economic rationale underlying the Bank's support for this reform. We start by providing a synopsis of the labor market, examining the supply of skills and the imbalances in demand and supply. This will be followed by an analysis of the returns to training and some cost-benefit analysis (incorporating uncertainty and reporting under different risk scenarios) for the Bank's support for the Program.

2. Demand and supply of skills

(a) The labor market

Most of this section is based on an analysis of the 1993 and 1996 Living Conditions Measurement Survey (LCMS). Such an exercise was also carried out in 1998 -- however, the quality of the data is poor, and hence we have not included those results in this section.

Zambia's population is currently around 10 million and is growing by up to 300,000 per annum. However, about 200,000 of this annual increase is related to the child population (aged under 12 years). Growth in the working-age population is running at about 100,000. This growth is almost entirely concentrated among young adults aged 20-39 years.

Labor-force participation and growth

Apart from these demographics, the main influence on labor force growth is the participation rate. Participation is high -- generally over 85% -- in all age groups between 25 and 64 years. The rate for 20-24 year-olds, and in the over-65 population, is over 70%. In terms of trend, participation has been stable among the over-25s, but has risen significantly among teen-agers and, to a lesser extent, among those aged 20-25. This rising youth labor force participation is mirrored in falling school enrollment rates.

This combination of demographic and participation trends means that the labor force is currently growing annually by over 150,000, or about 4%. Some recent years have seen higher increases than this. Table 1 shows how the age-structure of the labor force evolved between 1993 and 1996.

Table 1: Population and labor force by age

	Population '000		Participation %		Labor Force '000	
Age/Year	**1993**	**1996**	**1993**	**1996**	**1993**	**1996**
<12	3077	3664	N/A	N/A	N/A	N/A
12-19	1823	1791	28%	34%	510	609
20-39	2295	2714	80%	82%	1844	2227
40+	1283	1347	86%	85%	1097	1151
Total	**8460**	**9516**	**41%**	**42%**	**3452**	**3987**

The bulk of the increase is concentrated in the 20-39 age-range (accounting for almost 80% of an increase of 500,000 between 1993 and 1996). This reflects both the underlying demographics and the slight increase in participation at age 20-24. The teenage labor force has also grown significantly, despite the static population in this age-range. The numbers in the labor force aged 40 years and over are broadly stable.

Education levels in the labor force

Direct data on the educational profile of the labor force have not been published for recent years. However, the 1996 LCMS does contain these data in respect of the overall out-of-school population. Given that aggregate labor force participation is so high, this is likely to be a good guide to education levels in the labor force, particularly for those in the 20-64 age range. A summary of the data is in Table 2 below.

Table 2: Out-of-school population by educational attainment, 1996

	Educational Level Attained					
Age	**None**	**Grade 1-4**	**Grade 5-7**	**Grade 8-9**	**Grade 10-12**	**>Grade 12**
12-20	18%	26%	41%	12%	3%	0%
21-30	9%	14%	40%	20%	15%	3%
31-45	12%	15%	36%	10%	22%	6%
46-59	31%	28%	23%	7%	7%	4%
60+	51%	31%	14%	2%	1%	1%
Total	*18%*	*20%*	*35%*	*13%*	*12%*	*3%*

Overall, almost 40% of the adult population has no education beyond Grade 4. About one-third has completed primary education only. Secondary level was the highest level attended by some 25%; and only 3% had some post-secondary education.

Employment and unemployment

Unemployment in 1996 is estimated at about 15%, suggesting that employment stood at approximately 3.6 million and unemployment at 0.7 million. Employment has been growing by over 100,000 annually, but this has been insufficient to absorb the increase in the labor force. While unemployment rose til the mid 1990s, anecdotal evidence from the late 1990s suggests that the economic growth experienced has generated sufficient additional employment to lead to a stabilization of the unemployment rates.

Table 3 gives an indication of how unemployment and employment trends have affected those in different age groups. Teenage employment has been stagnant, leading to a sharp increase in unemployment in this age-group. Virtually all of the increase in employment has been concentrated among young adults aged 20-39 years. Even here, the unemployment rate rose somewhat. In absolute terms this group accounted for half of the rise in unemployment. In the older age groups unemployment rose slightly but remained at low levels.

Table 3: Employment and unemployment

	Employment '000		**Unemployment '000**		**Unemployment Rate**	
Age/Year	**1993**	**1996**	**1993**	**1996**	**1993**	**1996**
12-19	367	365	143	244	28%	40%
20-39	1622	1896	222	331	12%	15%
40+	1075	1113	22	38	2%	3%
Total	3064	3374	387	612	11%	15%

Structure of employment by industry and occupation

Agriculture dominates the employment structure, although there has been some diversification away from the sector in recent years, with its share in total employment falling from 75% in 1993 to 67% in 1996 (Table 4). This reflected static agricultural employment in the context of an increase in the economy-wide total. Mining has also been in decline, both in relative and absolute terms. However, even in these sectors, there have been significant success stories over the past few years -- e.g., commercial farming, horticulture, emerald mining, other semi-precious stones.

The largest compensating increase has come in the distribution sector, where employment grew by more than half between 1993 and 1996. This may not all relate to pure distribution *per se,* as many of the informal vending operations likely to be included in this grouping appear to be engaged in production as well as sale of agricultural produce, craft products or value-added services. Employment in manufacturing rose by one-third and in community social and personal services by one quarter. Current trends indicate that these sectors are expected to remain the main engines of growth in employment in forthcoming years.

Table 4: Employment by industry group

Interest group	1993		1996	
	'000	%	'000	%
Agriculture	2267	74%	2260	67%
Mining	92	3%	67	2%
Manufacturing	123	4%	169	5%
Utilities	10	0%	10	0%
Construction	31	1%	34	1%
Distribution, hotels etc.	282	9%	439	13%
Transport/communications	61	2%	67	2%
Finance etc.	31	1%	34	1%
Community, social, personal	245	8%	304	9%
Total	3064	100%	3372	100%

More detailed data indicate that rural industry and services employment rose from about 110,000 to 290,000 over this period, while the urban equivalent rose from 740,000 to 820,000. Rural non-agricultural activities accounted for 12% of employment in 1996 as against 5% in 1993. While the estimates for smaller non-agricultural industry groups may be unreliable, the data remain suggestive of significant diversification of rural employment over the period.

Changing sectoral patterns are reflected in change in the occupational structure of employment. The relevant data are in Table 5. The bulk of the increase in employment was concentrated in sales, service and production occupations. Although the production occupations were the slowest-growing of these, their growth was more rapid than that of the manufacturing and mining sectors combined. This again suggests that at least some production activity is being recorded in "distribution" in the industry-group data.

Table 5: Employment by occupation group

Occupation	1993		1996	
	'000	%	'000	%
Administrative/managerial	31	1%	34	1%
Professional and technical	153	5%	169	5%
Clerical	61	2%	67	2%
Service	123	4%	202	6%
Sales	153	5%	304	9%
Production/related	245	8%	337	10%
Agricultural/other	2298	75%	2260	67%
Total	3064	100%	3372	100%

(b) Supply of skills

This issue has been dealt with extensively in the main text of the PAD. To summarize, while Government has traditionally maintained tight control over public training institutions through centralized decision making, it has not been able to finance the training system adequately. Furthermore, Government funding is not allocated appropriately; and the funding mechanism that Government uses to fund institutions is not transparent. The quality of training is poor in these institutions and most non-salary expenditures go into maintenance of student welfare. Not surprisingly, training provided in the public institutions is rarely geared to the needs of the labor market.

At the same time, private "for profit" institutions are not competing on a level-playing field. MSTVT provides limited support services other than registration and infrequent inspections. Furthermore, non-profit providers are not being supported by Government. These courses tend to be small, practically-oriented, and targeted towards poor students. Many have close links to small-scale industry in the area and are able to find employment for some students; however, Government provides almost no assistance to such institutions.

(c) Demand-supply mismatches

In a survey carried out in the mid 1990's in seven provinces, a sample of 100 large-scale and 100 small-scale establishments from both urban and rural areas were asked questions on (among others) employment in various skill categories, reasons for any existing vacancies, skill shortages and the reasons underlying such shortages. The analysis sheds some interesting light on the imbalances between the demand for skills and the supply of skills.

In the formal sector, both large-scale and small-scale enterprises indicated that due to skill shortages, positions were occupied by individuals without the necessary qualification. In response to a question about satisfaction with the skill level of their workers -- over 45% of enterprises indicated dissatisfaction. Large-scale employers felt that skills were most in short supply in high-level technical, sales/accounting and craft occupations while small-scale entrepreneurs felt that the skills they needed most were in

managerial, accounting and basic administrative occupations. Employers felt that some of the main causes for skill shortages were: inability of the firm to make sufficient investment in training, poor quality of training centers and lack of responsiveness of training centers to labor market demand.

For informal sector employers, the single bottleneck most frequently mentioned to improving efficiency was lack of worker skills (Table 6). Employers feel that their most likely training needs include some basic technical skills as well as some business education.

Table 6: Major bottlenecks in operations

Problem	% of sample
Combination of factors	99.2
Skill of workers	93.2
Fees and taxes	92.7
Regulations	92.1
Access to credit	84.3
Finding markets	84.3
Cost of credit	83.0

It is also instructive to see that employers feel that the public training system is not responding to their needs. In the same study, over 50% of large-scale employers and 60% of small-scale employers stated that they had no formal contacts with the public training system. When asked how training institutes could change to become more responsive to their needs (Table 7), large-scale employers indicated strongly that they desired closer interaction of training providers with labor market needs (92%), improved training quality (88%) and different types of courses (79%). Small scale employers displayed somewhat similar preferences, though to a lesser extent.

Table 7: Changes institutions should make to become more responsive (% of firms)

Change needed	Large-scale employers	Small-scale employers
Interact more closely w/ employers to know needs	92	75
Improve quality of training	88	65
Offer different types of courses	79	37
Introduce evening classes	58	39
Increase the number of trainees	42	23

(d) Private returns to training

Regression analysis of the 1996 LCMS data -- to determine the influence of education and training on earnings -- shows that the returns to one more year's grade attainment in secondary school, is less than the

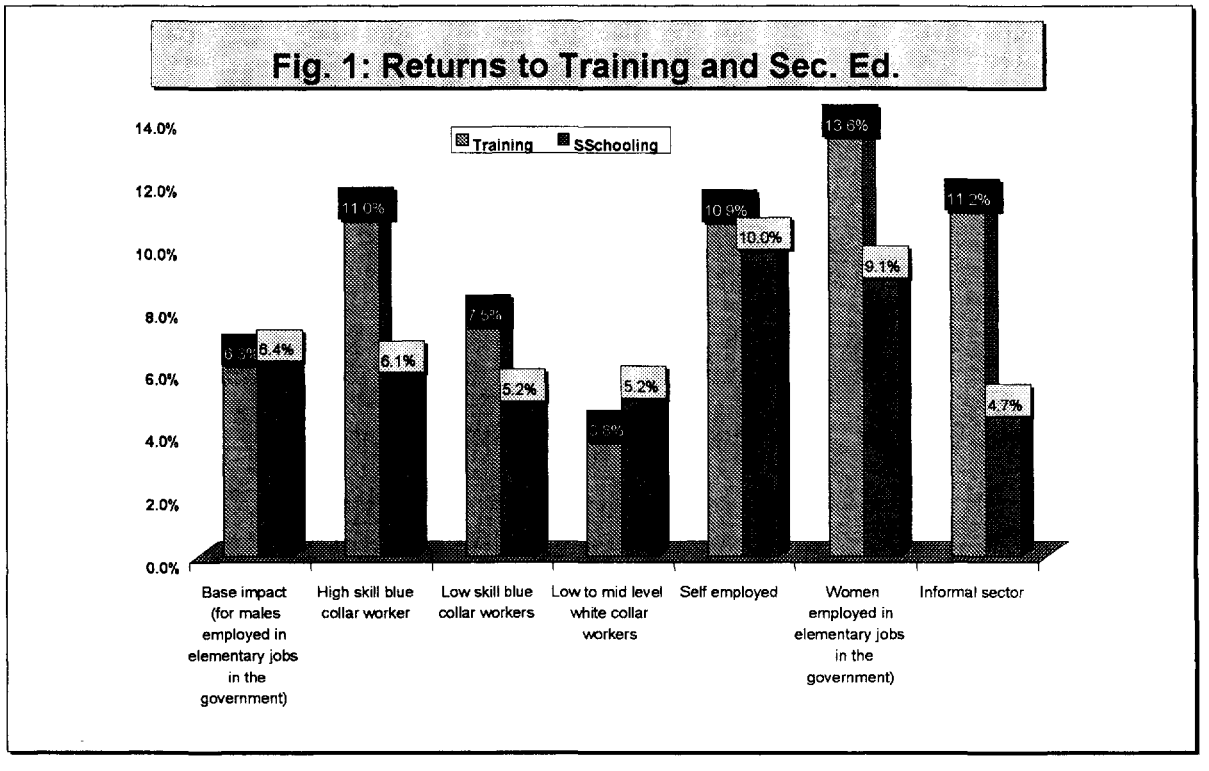
returns to one more year of training -- for persons in occupations where training is a relevant factor in wage determination. The returns to both, formal education and training, are significantly high (Figure 1).

While formal education has slightly higher returns for workers in low and middle levels of white collar occupations (clerks, associates, etc.), vocational training has higher returns for workers in blue collar lower skill jobs (crafts and trades), and for those in blue collar high skill jobs (technicians, machine operators and kindred). These three segments of the labor market correspond (roughly) to the three types of training:

(a) diploma level courses in fields like accounting taught at, e.g., institutes like Evelyn Hone and ZAMIM;

(b) technician certificates in fields like metal fabrication and heavy machine operation taught at, for example, institutions such as NORTEC and ITC; and

(c) trade and craft certificates in fields like carpentry and tailoring offered at most NGO training providers and the trades training institutes.



Several caveats accompany these results: The probability of finding employment is low for trainees of vocational institutes. So, these returns are measuring the returns conditional on finding a job. Further, the returns measured here are private returns "conditional on employment". While the social returns will be lower, it is not possible to measure them as the data do not allow us to distinguish between individuals trained in public and private institutions, nor to identify trainees who dropped out or are unemployed or under-employed.

In the Zambian context, macroeconomic trends may impinge on the realized rates of return. The analysis was done on data from 1996 -- a time when the economy had been shrinking. During times of recession, the calculated returns may be an underestimation of what the returns would be at present, when the economy has resumed positive growth and is expected to grow at 4-5% annually over the next few years.

3. Rationale for intervention in the training subsector

The training sector in Zambia suffers from several market failures or imperfections that make its capacity to respond to the needs of a diversifying and growing economy suspect. This section discusses market failure and other arguments which justify intervention in the training sub-sector.

(a) Market failures

Private providers are not competing on a level playing field. Private providers account for about 70% of the institutions and total enrollment. However they face problems such as limited access to capital, inadequacy of the competitively determined fees to finance the necessary equipment and instructional materials. MSTVT support is limited to poorly maintained registration records and infrequent inspections. Private "for profit" providers are increasingly competing against academic staff associations that have started up in public training institutions -- these act as "for profit" centers for the staff of the institutions -- with student fees being used to augment teacher's salaries. These academic associations are subsidized by the public institutions through the use made of the facilities, materials and equipment of the public training institution while providing minimal compensation to the institution in return. Church and other NGO-run courses, which tend to be small, practically-oriented, and very targeted towards poor students/informal sector operators receive amost no support from Government. To alleviate these problems, the Program is going to develop a financing mechanism which will encourage demand-driven training provided through public and private training institutions. This mechanism will also be used to channel funds to poor and disadvantaged groups.

Market failures and distortions in labor market information availability. Reliable indicators of skill needs are difficult to estimate in any country. Methods of estimation normally include surveys and formal/informal contacts between the training system and employers. Neither of these sources is used well in Zambia; and decision-takers make little use of information on trends in labor market demand in order to modify the VET system in response to this demand. The capacity to analyze the information on market demands and on skill supply in order to make decisions seems to be lacking. The Program will build capacity in the collection, management and monitoring of institutional and labor market related information and develop a mechanism through which this information is fed back to stakeholders.

(b) Externalities from Program (within the context of a changing economy)

Ability of sectors to plan with greater confidence and to work on long-term business plans. Supply driven training is a legacy of the old system. Apart from making training demand-driven, the Program will allow firms and sectors to plan with greater confidence, as the training sector becomes responsive to their skill needs. Firms can plan to adopt advanced production techniques or new technologies and maybe even diversify to a new product line. In order to accomplish this, the Program will finance a limited number of pilot projects in sectors (or through sector associations) that have already initiated innovative training projects or are considering such initiatives. This will provide an opportunity to test alternative ways of incorporating private sector led initiatives directly into the TEVET strategy and shed light on possible alternative ways in which the private sector can contribute to the costs of training.

Spillover impacts from training into increased labor productivity, especially in the growth sectors. Zambia's Comprehensive Development Framework (CDF) foresees the diversification of the economy into sectors like tourism, agriculture (including commercial farming), and services. It identifies "lagging" skill levels as a constraint to sectoral growth. The Program will facilitate the training of labor in skills demanded by the growing sectors. The addition of workers trained in skills relevant to the growing sectors will have a spillover effect. This effect will be larger for training in skills that are "broad yet technical" and in sectors that are diversifying into sub-sectors that require similar skills. A good example is commercial rose farming, a sector whose earnings have gone up four fold in a half decade. If workers are

trained in skills relevant to rose farming, then, in the near future, they will be available to work and provide on-the-job-training in other commercial farming sectors.

Improved institutional capacity of ministries, training providers, industry groups. Poor institutional capacity has been a major barrier to improving the training system. Therefore strengthening the capacity of MSTVT as well as TEVETA to perform their functions in an effective manner will be one of the significant goals of the Program. This will be accomplished through assisting MSTVT to strengthen its planning function, including data collection and analysis. However, an important outcome will also be the support that relevant Government agencies and stakeholders in the collection, management, monitoring and analysis of labor market and other training-related information.

HIV/AIDS. The impact of the virus on Zambia's productive adult population is serious, with the country losing a significant portion of its present and future professional skill base that is needed for the successful development of a market economy oriented to the private sector. While the Program's intervention on this issue will be relatively small – mainly IEC – it can have an important impact in assisting the development of an overall IEC strategy to combat HIV/AIDS through information provided to students/trainees in educational institutions.

(c) The "strategic sector" argument

The productivity spillovers and the strategic objectives identified by CAS raise the issue of using a " strategic sector" argument for justifying investments on training in certain skills and trades. However, the strategic sector argument is based on a supply-side decision-making perspective, whilst the Program uses a demand-driven approach. Under the Program we can expect "high-growth" sectors to be assisted more than other sectors because providers of training will be responding to a greater market demand for skills in the high-growth sectors.

4. Justification for the Program

(a) Rationale for Bank involvement in the sector

This has been dealt with in the main body of the PAD in the section on Program rationale.

(b) Intended Program benefits

It is clear from the discussion in the PAD that the training system is not effective in responding to the needs of employers (Section on Program Development and Strategic Context). To summarize, the system is severely resource constrained, produces graduates whose skills are not needed by employers; and Government lacks the capacity to make significant systemic changes. Government has embarked on a major Program of reform and is working closely with relevant internal and external stakeholders and is in the process of developing and implementing TDP.

The private sector has welcomed these changes and a greater involvement in the VET system. However, based on past experiences, employers are skeptical about the prospect of reform and resistant to plans that they contribute financially to a new training system.

The proposed IDA Credit will help Government with its reform Program. The Program will assist in strengthening the capacity of MSTVT and other relevant agencies in the area of policy development. It will strengthen TEVETA's and other relevant agencies' capacity to perform regulatory functions and in their provision of information. The Program will also assist training institutions in capacity development, design and implementation of business plans, assistance with accounting systems and financial management and in liaising with industry to develop short-term and long-term courses which are relevant to labor demand. Private providers of training who wish to avail themselves of these services will also be supported through

this credit. These reforms, both at the level of authorities and institutions, are likely to ensure improvements in both the internal and external efficiency of the system.

A crucial aspect of the Program is a Training Fund. This Fund will be targeted at pre-employment trainees, in-service trainees including apprenticeship type schemes, and training for the disadvantaged. The objective of the pilot will be to test the demand for, and the effectiveness and efficiency of both pre-employment training as well as employer-based training supported by a Training Fund. It will test whether training can be more cost-effective and efficient when it is demand-driven, and public training funds are competitively awarded between public, NGO and private providers.

It will also test whether incentives given to private providers allow them to compete on a level playing field with public providers, and demonstrate to employers the benefits that they can derive from participating in such a Fund.

Further, the Fund will be used to channel funds to poor and disadvantaged groups.

Overall it is expected that the Program will:

(i) improve the impact on employment of public investment in training;

(ii) assist in removing constraints to private sector planning, investment and growth;

(iii) assist in leveling the playing field between private and public training providers;

(iv) improve efficiency of resource use in the sector;

(v) lead to greater participation of the private sector in the training system -- system design, funding mechanisms, and, once the private sector has been convinced of the effectiveness of the reforms and the Training Fund, raise funds from for financing training

(vi) demonstrate the effectiveness of a Training Fund approach to the financing of training and develop effective administrative and disbursement modalities for the Fund in the Zambian context (such knowledge can be used by the private credit market to extend loans to the VET sector once the credit sector has developed sufficiently);

(vii) make the provision of training more equitable; and

(viii) improve and expand the information base, strengthen policy making and improve public/private collaboration in the design and management of training.

(c) Alternatives to the Program and reasons for rejection

This is discussed in more detail in the PAD under the section "Alternatives to the Project and Reasons for Rejection".

(d) Risk and sustainability issues

The risks can be broadly classified as: risk of low internal efficiency, risk of low external efficiency, and the risk of failure to maintain financial sustainability.

TDP has built-in features that enable a wide range and ease of "automatic" risk management and reduction:

(i) Market based incentives provide in-built flexibility whereby unpredictable changes will be met by appropriate responses.

(ii) Implementation conditions will serve as pre-requisites for disbursement of funds. For example,

the training fund will not disburse funds to an applicant until the applicant's financial management system is modernized and transparent.

(iii) The performance indicators include "a stick" to ensure that stakeholders do not deviate in their practices from their responsibilities to TDP.

These measures go a long way in reducing the risk factors.

Financial and fiscal sustainability of system post-TDP. These issues are discussed in detail in Annex 5.

(e) Poverty impact

Data currently available from the LCMS or from the institutions do not allow us to present a clear picture of how well the poor/disadvantaged (including female trainees) are reached through the existing training programs. It is anticipated that through the Program, targeted bursary support will be provided to increase the participation of poor and disadvantaged groups. The monitoring and evaluation instrument will allow us to get a better idea of how well the Program will target the poor.

(f) Cost-effectiveness

A traditional cost-effectiveness parameter like "cost per student" cannot be used in this case because: (i) given that training is provided in an inefficient manner under the present system, the unit cost of training within a future efficient system cannot be estimated using the cost of training under the status quo. The input to output relations will change significantly. (ii) The system is expected to change qualitatively -- more relevant courses, new certifications, new areas of training, etc. Such changes imply that the output and the outcome of the Program will change.

Instead, several indicators will be developed within the monitoring and evaluation system to measure cost-effectiveness and internal efficiency (the internal efficiency of various modes of training, and of individual institutions, etc.) This information could potentially be used to re-allocate resources, modify guidelines for fund disbursement, and other cost effectiveness measures.

(g) Cost-benefit analysis

While the Bank is financing TDP with other stakeholders, in this section we attempt to estimate the benefits which can be attributed to the Bank's input into the process. While this is, by necessity, a somewhat rough analysis, our data allows us to calculate benefits by sector, socioeconomic background and by other characteristics. It also provides estimates of the variability of these benefits, and, modeling over a cost-benefit framework, allows us to estimate the internal rate of return and net present value.

The model is based on basic financial accounting principles with the simulation overlay for incorporating uncertainty. All data in the model are based on the most reliable sources: the LCMS surveys, the unit cost study of VET institutions by Afro Development Services, the addendum/corrections to that study based on mission work, Bank-Fund macroeconomic projections and the records of the Ministry of Finance and MSTVT.

We have tried to make the cost-benefit model as fine a depiction of economic reality as is possible with available data. The main problem in cost benefit analysis is the use of ex ante estimations for future projections. We were careful in not confusing the making of a prudent, empiricism-based assumptions with wishful thinking. Our aim is to show that the "reservation" IRR is reached under credible and low risk scenarios even though we make conservative assumptions on benefits and exclude the non-quantifiable ones. At the end of this annex, we report on the results of the cost-benefit analysis under different risk scenarios -- both positive and negative deviations from our base assumptions about the internal efficiency of the training system and the state of the economy.

Benefit and cost assumptions

The size of the system. We assume that the total capacity of the system does not change -- the total number of students in the system overall remains at around 15,000. The proportion of students at the diploma, technician, and crafts level is 0.2, 0.4, and 0.4. We assume that these proportions do not change.

Annual cost per student. The training cost estimates are based on analysis of expenditure and budget data from individual institutions, MSTVT and Ministry of Finance. The average "model" cost of training a representative student is K2.45 million per annum. This was calculated based on data provided by institutions. The most difficult data source was that on unit costs. The data were incomplete for some institutions in either or both of two ways: the institution did not report an expenditure spending in a certain category in a given year or/and they did not provide the accounts of all training and economic activities of the institution. By interviewing institution heads, accounting staff, and ministry level accounting staff, we were able to form a much clearer picture of the institutions whose data were not reliable. We also obtained particulars on "informal" training activities, training under different ministries, so that a "costing" model could be constructed for running a training institution efficiently. The per student unit cost varies significantly between institutions reflecting different course provisions, staff/student ratios and other reasons. These unit costs lie in the range Kwacha 2m to Kwacha 10m with a system mean of Kwacha 2.4m (ignoring boarding and lodging).

Relation between training fund, other Program components, and the benefits attributable to each. For ease of computation, we assume that there are two kinds of trainees – those that receive the full benefits of the Training Fund, and those that do not benefit directly from the Fund but who benefit from improvements in the system in general – through improvements in TEVETA, MSTVT, information availability, institutional capacity building, etc. The total number benefiting from the Fund is imputed as being equal to the total resources available for the Fund divided by a "model" unit cost. The total number benefiting from the Program includes all trainees in the system. The trainees who are not directly assisted by the Fund will benefit from the system-wide benefits engendered by TSIP.

The only feasible method to quantify benefits is to use the projected benefits to trainees. Apart from trainees, the other direct beneficiaries of the Program are the employers. Indirect benefits may accrue to the economy and to Government. However, we have not quantified these benefits in the model. We assume that improved training will lead to an increase in the productivity of workers. Some of these assumptions include:

Improvement in quality of training and the examination system. At present, the pass rates for training certification examinations are low. Data from the Examination Council of Zambia provide some estimates of these rates-- 60% for diplomas, 50% for technician level certificates and -- a much better -- 90% for trade certifications. Based on the data on the pass rates of students in currently well performing institutions (both public and private), we assume that, for those students directly affected by the training fund, the pass rates will increase to 90%, 90% and 95%, respectively, by the end of the Program. In terms of those students who do not benefit directly, pass rates are expected to rise to the above levels -- but do so gradually over a 10 year period.

Increase in employment probability. This is a consequence of the lack of market-relevance of training provided through the system is that the employment rates of graduates is very low – at about 40% (within six months after completion of Program). All components of TDP will contribute to improving the rate of employment. We assume that by the end of the Program, graduates assisted by the fund will have enhanced their employment probabilities to 70%. Similarly, those not directly assisted by the Fund will also be more likely to be employed. However, their probability of finding employment will rise more slowly -- to 70%

over a 10 year period. As almost no institutions in Zambia follow trainees up after they have graduated, these numbers are based on estimates provided to the mission by institutions that are supposed to have a successful record in placing their graduates. They usually report employment in excess of 80%.

Growth in real wages. The LCMS allows us to compute wage differentials between trainees (at various levels) and the next lowest level of education - secondary school (see Table 8). It also allows us to compute the average returns to an additional year of experience -- 1.7%.

Table 8: Wage differentials (all numbers in real 1999 Kwacha)

Level	Wage Differential
Diploma level	813,400
Technician level	581,800
Trade and craft certificate level	265,200

Expected post training earning span. Based on current demographic trends, with a life expectancy of around 50 years in Zambia, we assume an expected earnings span of 27 years.

Declining impact over time. While the impact will last beyond the Program lifetime, it is assumed to decline steadily after the completion of the Program. The system-wide impacts attributable to the Program will also decline as the system's capacity and quality become self-sustaining. We capture this declining impact using a "depreciation factor". The use of such a factor lends a conservative tilt to our financial estimation because the discounted value of positive impacts in the future decline rapidly with an assumed 10% discount rate.

Uncertainty. As the IRR is likely to be sensitive to uncertainty in parameters, uncertainty has been incorporated into the model through the empirically derived distribution form for these parameters. The distribution of some parameters was obtained from raw data. If the distribution did not have a better fit with other distribution types, we assumed a normal distribution. For estimated parameters -- like a coefficient from a regression or correlation or a wage differential from an ANOVA -- the estimated standard errors were used to specify the nature of uncertainty.

Summary of results

Results of the cost-benefit analysis. Based on the assumptions specified above, the present value of the stream of benefits from the Program is shown in figure 3. The model predicts an Internal Rate of Return for the Program of 17%.

As specified above, uncertainty has also been incorporated into various parameters in the model to estimate their impact on the rate of return. The chart below provides us with the result of this analysis based on 100,000 simulations. It predicts a rate of return that is centered around 17% and that the 90% confidence interval of the IRR lies between 9% and 27%. Alternatively, there is only about a 11% likelihood (see Figure 4) that the rate of return for the Program will be less than 10%.

Figure 3: Distribution of expected rate of return

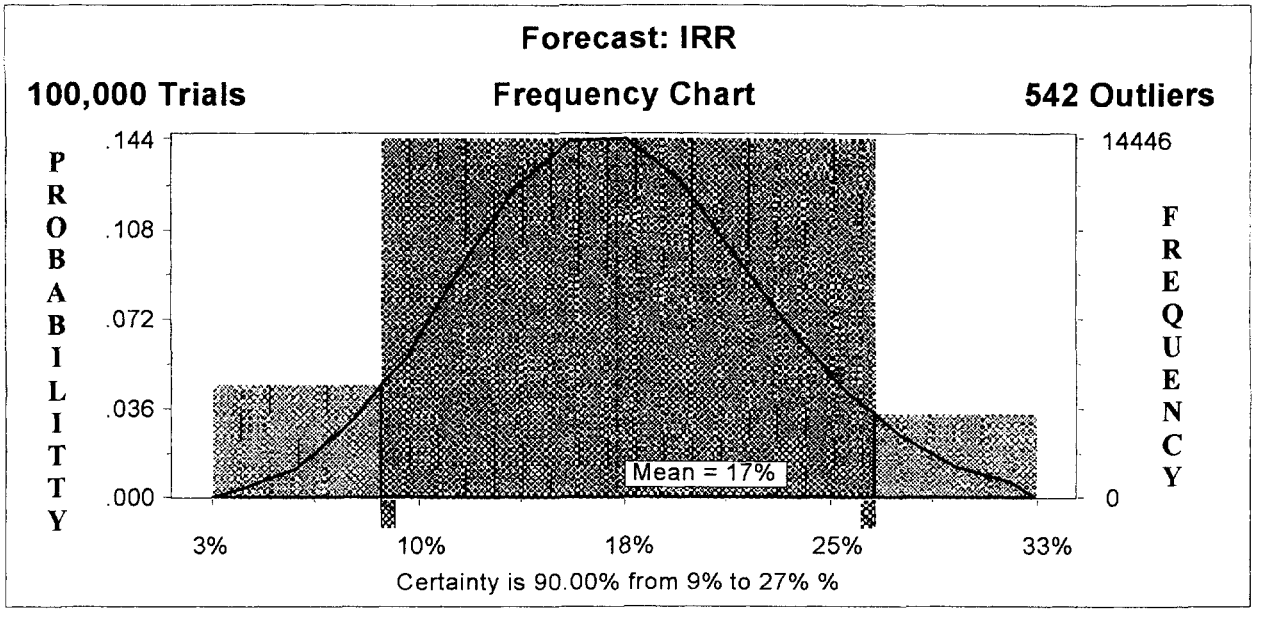
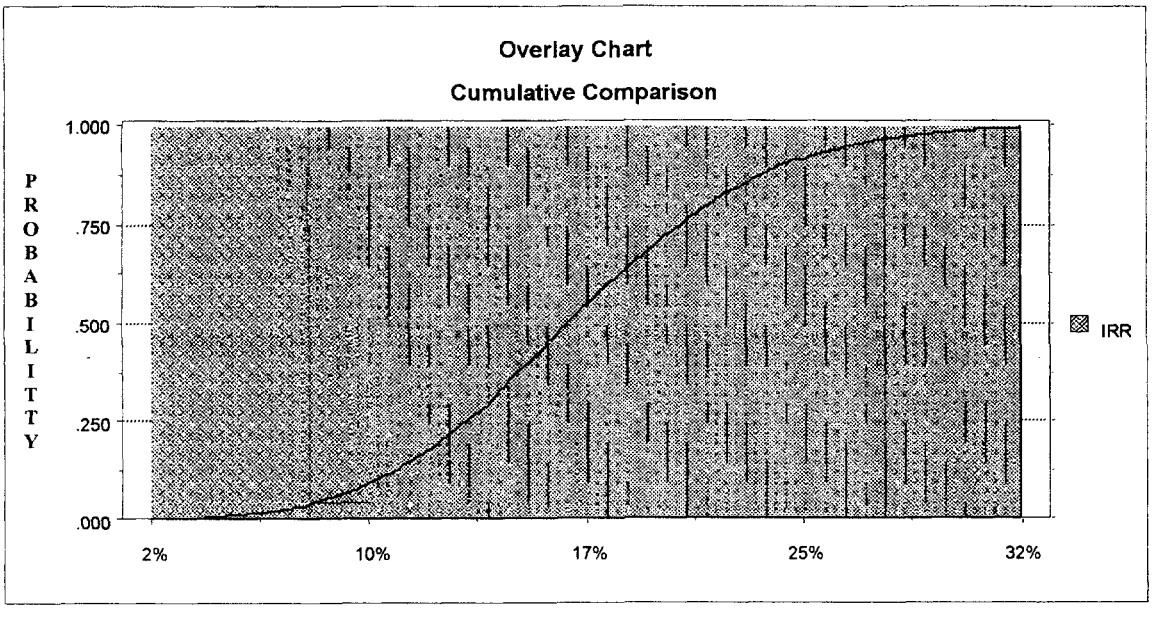


Figure 4: Cumulative distribution of expected rate of return



Risk scenarios and feasibility of Program
We also aimed at estimating the rate of return using different scenarios -- a "high" scenario and a "low" scenario. Under the "low" scenario we attempted to estimate rates of return if the system did not achieved the desired level of internal efficiency (e.g. pass rates improve only marginally) or the desired level of external efficiency (e.g. improvements in employment rates and productivity are marginal). Alternatively, under the "high" scenario, we assumed significant gains in either internal or external efficiency are assumed -- real GDP growth, pass rate levels, and probability of finding employment post-training are at levels that respectively correspond to a healthy economy, efficient training system, and, to robust demand for trained labor.

Low external efficiency is a risk that can only be partly be managed by the Program. This is because the demand for skilled and trained workers depends on the national and sectoral economic conditions. So, while institutions can produce graduates in response to perceived labor demands, if the economy is not growing, the trainees may be less likely to be employed, or, if they do find employment, it will not be at wages commensurate with the increase in the quality and relevance of training. Table 9 presents the mean IRR under different risk scenarios.

Table 9a: IRR under different scenarios of external and internal efficiency (assuming base case scenario for internal efficiency)

	Low	**Base Case**	**High**
External Efficiency	14	17	19
Internal Efficiency	9	17	25

Table 9b: IRR under the worst case (low internal and external efficiency) and best case scenario (low internal and external efficiency)

		External Efficiency	
		Low	*High*
Internal Efficiency	*Low*	7	
	High		29

These results show that even in a case where the Program significantly under-performs – low impact in terms of increasing pass rates and low impact in increasing the relevance of the training provided to labor market demand then the IRR will be 7%. However, in a best case scenario, the IRR could be as high as 29%.

5. Conclusions
Our analysis shows that, under a "base case" scenario, the IRR will be around 17%. Simulations done incorporating uncertainty in the model, conclude that the IRR will lie between 9% and 27% (a 90% confidence interval) and that the probability that the IRR is below 10% is quite small (below 11%).

Summary of Benefits and Costs:
see above

Main Assumptions:
see above

Sensitivity analysis / Switching values of critical items:
see above

Annex 5: Financial Summary

ZAMBIA: Technical Education Vocational & Entrepreneurship Training (TEVET) Development Program Support Project

Years Ending 2008

	IMPLEMENTATION PERIOD						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Total Financing Required							
Project Costs							
Investment Costs	6.5	15.0	16.9	14.7	7.7	3.5	3.0
Recurrent Costs	6.8	6.8	6.8	6.8	6.8	6.7	6.7
Total Project Costs	13.3	21.8	23.7	21.5	14.5	10.2	9.7
Total Financing	13.3	21.8	23.7	21.5	14.5	10.2	9.7
Financing							
IBRD/IDA	2.1	6.5	8.5	6.0	1.9	0.0	0.0
Government	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Central	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Provincial	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Co-financiers	5.4	9.4	9.4	6.7	2.4	1.7	0.9
User Fees/Beneficiaries	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Others	0.1	0.2	0.2	0.9	1.2	2.9	3.2
Total Project Financing	13.2	21.7	23.7	19.2	11.1	10.2	9.7

Main assumptions:

From 2002-2006 (year 5) IDA funds will be used. By 2008 (year 7) we expect the program to become independent of IDA support.

Note: \The category "other" represents industrial contribution as well as TEVETA's contribution to the system (see section 2d below). Also, in the above matrix, some co-financiers are not directly participating in TDP (e.g., EU, British Council) but they are funding other initiatives in the training sector and hence their contributions have been included.
\In the first two years the discrepancy between total cost and identified financing is due to rounding.

1. Costs

(a) Investment costs

These include the setup and developmental costs associated with the components in the program -- TDP management, training fund, TEVET management and human resources development, training systems development, TEVET information system, entrepreneurship development, infrastructure and equipment, HIV/AIDS, gender and other cross-cutting issues.

The major investment costs during the program will be on infrastructure and equipment. After the end of the first phase of TDP, some investment costs will result from continuing investment in infrastructure and equipment, as well as for human capital development.

(b) Recurrent costs

A significant proportion of the recurrent costs is associated with the running of training institutions. There will also be recurrent costs associated with running MSTVT operations (relevant to the area of training) as well as recurrent costs associated with TEVETA. Most of these recurrent costs will in the long-run be disbursed through the Training Fund to institutions which can demonstrate that they are providing training

that is responsive to market needs and in a way that is cost-effective. Prior to the establishment of the Training Fund, institutions will also be able to access funds for setting up new courses/modifying existing courses – provided they meet certain criteria developed in the program. Recurrent costs will also be associated with information systems, HIV/AIDS and other cross-cutting components, as well as bursaries for ensuring that the poor can access training programs.

2. Financing

(a) Government

Government has committed itself to continue supporting the TEVET system at least at the current level as a percent of both allocation and disbursement from Government's discretionary budget – 0.8%. At current levels, this is approximately equivalent to $4 million (in disbursements). While growth is expected to lead to an increase in Government's discretionary budget and hence to an increase in the contribution of Government to the TEVET system, we have conservatively assumed that Government's contribution remains at the same level over the near future.

(b) User fees/beneficiaries

This is mainly in the form of student fees which institutions charge. With the transition to autonomy, public institutions have raised their fees in order to be able to meet operating expenses. This also includes income that institutions make from their production units. We again make the conservative assumption that the revenue from fees will not increase in real terms over the next few years, even though individuals will be willing to pay more for training with the system becoming more demand-driven and responsive to labor market needs.

(c) Co-financiers

Various co-financiers have agreed to support Government's TDP. In addition to IDA, DANIDA has committed USD 15 million over the five years of the Program, the Netherlands has committed USD 14 million over the next five years and GTZ has committed USD 1.5 million over the next three years. Most of these funds will be used to finance both developmental as well as recurrent costs. British Council, EU and JICA are also some of the donors who have expressed an interest in TDP without yet committed any funds to this purpose. However, they are supporting initiatives in training in Zambia and hence their contributions have been included in the matrix above.

There is a significant likelihood that these (and other) donors will continue to finance the sector, albeit on a much small scale, after the five year TDP process is complete.

(d) Others

TEVETA will be raising funds from its activities and these will flow into the TDP. In addition, and much more importantly, towards the end of the Program, employers will start contributing towards the financing of the system. The modalities of this assistance will be worked out through lessons learned from the experience of the training fund. Another possibility that is under discussion with employers is that Government may levy a payroll tax on employers to raise finances for the training fund, and hence TEVET, from 2004 onwards.

3. Financial sustainability

(a) Financial performance within the sector

One of the aims of the Program is to set up a self-sustaining financing system for demand-driven training. Historically, the financial performance within the sector has had weaknesses. The public training institutions have suffered from internal efficiency, poor financial performance, and, a lack of quality financial management. Private provision has been constrained by several features (discussed in Annex 4), with a resulting shortage of credit availability.

(b) Program's capacity for self-financing beyond the loan closing date
As we can see from the table above, as IDA and other donors phase out their financing of the sector, industry contribution to the system is expected to increase and close the financing gap (we should also expect an increase in direct Government contributions and revenues raised from fees).

(c) ***Evaluating a financial "steady state" for the system***
The capacity building and full development and utilization of Program facilities should be completed during the implementation period. The institutions and stakeholders in the system have the capacity to monitor and evaluate changes in the financing requirements of the system, avenues to voice their opinion, and tools to engender changes in the system, and, thereby, the financial requirements.

4. Financial summary of revenue earning Program entities
Not applicable.

Annex 6: Procurement and Disbursement Arrangements

ZAMBIA: Technical Education Vocational & Entrepreneurship Training (TEVET) Development Program Support Project

Procurement

Applicability of the procedures described in this annex. This annex describes the agreed procurement procedures for works, goods, services, grants and operating costs to be financed from the IDA Credit, as a minimum. A draft Program Financial and Procurement Manual (PFPM) has been developed by MSTVT and will be finalized by effectiveness. Bank staff comments on it, including suggestions for elaboration of the manual have been provided. Comments from other cooperating partners are also being solicited by MSTVT.

While the procedures set out in the PFPM, and reflected in this Annex, would, at a minimum, be utilized for activities financed from the IDA Credit, it is intended that the Manual should be either directly suitable for, or adaptable to, support provided by other cooperating partners.

Procurement for project preparation. Studies undertaken during preparation work for the project were financed under the PPF. Contracts were awarded based on IDA guidelines for the use of consultants. The summary of proposed procurement arrangements is presented in Table A.

Procurement under the Project. It is not possible to determine the exact mix of goods, works and services to be procured under the Project as a whole at this stage due to: (a) the beneficiary agencies' needs not having been defined so far, and (b) because the nature of requirements under the Training Fund will emerge based on proposals formulated by the training institutions at the relevant time. For this reason an expenditure category called "Training" was added to the traditional ones. Goods, works and services amounts are derived from the Borrower's procurement plan for the first 18 months of the project. This is reflected in Table A below. Procurement plans will be defined each year, in advance, and agreed with IDA. This will include finalization of procurement packages and methods of procurement.

IDA finances USD 25 million, bilateral donors will finance about USD 33 million, while Government, students, industry and TEVETA will finance about USD 30 million of the cost of the program. Most of the cost of the project will involve procurement of goods, works and services (directly or through the Training category) as well as use for operating costs etc. The procurement for bilateral donors' support will be conducted according to their relevant procurement rules. However, it is anticipated that some donors may follow IDA guidelines for procurement. Further, the use of funds for each component is not fixed for each donor and flexibility will rule how these are used in practice. This explains the substantial and varied level of procurement requirements involved in the project. This has an impact on the way in which procurements support arrangements are defined under "institutional arrangements".

Guidelines governing IDA-financed procurement. IDA financed credits will be utilized for goods, works, training, consultancy, and operating costs under the project. Procurement for all IDA financed activities will be carried out in accordance with the Bank's Guidelines for Procurement under IBRD Loans and IDA Credits (January 1995 and revised in January and August 1996, September 1997, and January 1999). Consulting services by firms or individuals will be awarded in accordance with the Bank's Guidelines for Selection and Employment of Consultants by World Bank Borrowers (January 1997; Revised September 1997; Addendum Effective January 1, 1999.

Procurement methods (Table A)

Works. The civil works to be included in this project would be small and generally of rehabilitation and refurbishment type of contracts for the beneficiary learning institutions. There shall be one major civil contract for the construction of the TEVETA office block. All civil works contracts shall be procured centrally by the Procurement Unit.

Larger contracts of individual value USD 500,000 equivalent or above will be awarded on the basis of ICB. Smaller value works procurement contracts (individual value of less than USD 500,000 equivalent) will be awarded on the basis of NCB. Works estimated to cost more than USD 30,000 per contract up to an aggregate of USD 2.75 million equivalent will be procured by using national competitive bidding. Prior to initiating the procurement process under NCB, the draft NCB document shall be submitted to IDA for review and approval. The approved document shall be used for all works procurements under NCB, subject to appropriate modifications under the bid data sheet and special conditions.

Contracts for works estimated to cost USD 30,000 or less, up to an aggregate amount of USD 0.25 million equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three qualified domestic civil works contractors invited in writing to bid. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to IDA, and relevant drawings where applicable. The awards will be made to the contractors who offer the lowest price quotation for the required work, provided they demonstrate they have the experience and resources to complete the contract successfully.

Goods. To the extent possible, contracts for the large ticket items shall be grouped into packages estimated to cost USD 100,000 equivalent or more and will be procured through International Competitive Bidding (ICB). Domestic preference will be applicable.

Smaller value goods procurement contracts (individual value of less than USD 100,000) equivalent up to an aggregate amount of USD 3.28 million equivalent will be awarded on the basis of NCB. The standard bidding document for NCB will be submitted to IDA by the Procurement Unit for prior review. The approved document will form the basis of all NCB procurements under this project

Goods estimated to cost less than USD 30,000 equivalent per contract, up to an aggregate amount of USD 1.0 million equivalent may be procured through shopping procedures by soliciting at least three quotations from different suppliers, in accordance with the IDA Procurement Guidelines (Paragraph 3.5 and 3.6) and June 9, 2000 Memorandum, "Guidance on Shopping", issued by the Bank. The procedure to be adopted here is to award fixed price contracts on the basis of written solicitation issued to at least three qualified suppliers after evaluation of bids which would be received in writing

Contracts estimated to cost less than USD 50,000, up to an aggregate of USD 500,000 may be procured through United Nations Agencies (IAPSO, UNICEF, UNFPA, WHO) in accordance with the provisions of paragraph 3.9 of the Guidelines. National shopping for regular operation and maintenance will follow IDA guidelines. Procurement of goods and hiring of facilities for training purposes, such as workshops, will also be carried out through shopping procedures.

Consultant services. Consultant selection for assignments will be addressed through competition among qualified short-listed firms and individuals in which the selection will be based on Quality-and-Cost-Based Selection (QCBS) by evaluation of the quality of the proposal before comparing the cost of services to be

provided. The total cost of consultant services is estimated at USD 2.0 million equivalent. The consultancy services required would cover procurement services, training fund design, training fund management, support to training institutions, architectural services, infrastructure support, auditing and financial management.

All consulting service contracts costing more than USD 100,000 equivalent for firms will be awarded through Quality and Cost Based Selection (QCBS) method.

Shortlists for contracts estimated to cost under USD 100,000 may be comprised entirely of national consultants if a sufficient number of qualified (at least three) are available at competitive costs. However, if foreign firms have expressed interest, they will not be excluded. Contracts less than USD 100,000 each for firms, and USD 50,000 for individuals, could be contracted on the basis of CQ, and may be awarded on a single source basis only in exceptional circumstances, after adequate justification and prior review by IDA.

Training. This category comprises three subcategories: (a) training grants for subprojects; (b) staff development and other training activities, and (c) bursaries. USD 9.5 million are allocated to the subcategory training grants for training providers and TEVETA's training support services. Procurement under this subcategory will be done initially by MSTVT, TEVETA and training institutions following guidelines developed by MSTVT and agreed to by IDA. Subsequently, procurement under training grants will follow the guidelines established by the Training Fund and agreed to by IDA. Training activities for staff of MSTVT, TEVETA and training institutions totaling approximately USD 2.0 million equivalent will comprise hiring formal courses, study tours and workshops. Procurement of these will follow IDA procurement guidelines. The third subcategory, Bursaries, totals USD 1.0 million.

Table A: Project Costs by Procurement Arrangements
(US$ million equivalent)

Expenditure Category	Procurement Method[1]				Total Cost
	ICB	NCB	Other[2]	N.B.F.	
1. Works	1.00 (1.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	1.00 (1.00)
2. Goods	0.70 (0.70)	1.20 (1.20)	0.38 (0.38)	0.00 (0.00)	2.28 (2.28)
3. Services (footnote 3)	0.00 (0.00)	0.00 (0.00)	2.00 (2.00)	0.00 (0.00)	2.00 (2.00)
4. Training: **(a) Grants for Subprojects** **(b) Staff Development and other Training Costs** **(c) Bursaries**	0.00 (0.00)	7.10 (7.10)	5.40 (5.40)	0.00 (0.00)	12.50 (12.50)
5. Operating Costs	0.00 (0.00)	0.00 (0.00)	2.00 (2.00)	0.00 (0.00)	2.00 (2.00)
6. Unallocated and PPF	0.00 (0.00)	0.00 (0.00)	5.22 (5.22)	0.00 (0.00)	5.22 (5.22)
Total	1.70 (1.70)	8.30 (8.30)	15.00 (15.00)	0.00 (0.00)	25.00 (25.00)

[1/] Figures in parenthesis are the amounts to be financed by the IDA Credit. All costs include contingencies.

[2/] Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training support services, staff development activities, technical assistance services, and incremental operating costs related to managing the project. In addition it includes grants to training providers and bursaries.

3/ Consultant services (see Table A1).

4/ The term "Operating Costs" means the incremental operating costs arising under the Project on account of maintenance of vehicles, fuel, equipment, office supplies, utilities, consumables, travel and accommodation, auxiliary Project staff salaries, staff advances, medical expenses but excluding salaries of the Borrower's civil servants.

Table A1: Consultant Selection Arrangements (optional)
(US$ million equivalent)

Consultant Services Expenditure Category	Selection Method							Total Cost[1]
	QCBS	QBS	SFB	LCS	CQ	Other	N.B.F.	
A. Firms	1.14 (1.14)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.28 (0.28)	0.00 (0.00)	0.00 (0.00)	1.42 (1.42)
B. Individuals	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.29 (0.29)	0.29 (0.29)	0.00 (0.00)	0.58 (0.58)
Total	1.14 (1.14)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.57 (0.57)	0.29 (0.29)	0.00 (0.00)	2.00 (2.00)

1\ Including contingencies

Note: QCBS = Quality- and Cost-Based Selection
QBS = Quality-based Selection
SFB = Selection under a Fixed Budget
LCS = Least-Cost Selection
CQ = Selection Based on Consultants' Qualifications
Other = Selection of individual consultants (per Section V of Consultants Guidelines), Commercial Practices, etc.

N.B.F. = Not Bank-financed
Figures in parenthesis are the amounts to be financed by the Bank Credit.

Prior review thresholds (Table B)

For procurement of goods, all cases valued at USD 100,000 or more will require prior review by IDA. For Works, all cases valued at USD 250,000 or more will require prior review by IDA. In addition the first three contracts irrespective of value shall be submitted to the Association for its prior review and approval. The said contracts shall be awarded only after the said approval shall have been given.

The Bank will review the selection process for the hiring of consultants proposed by the borrower for those consultancy contracts to be awarded to firms and individuals. Prior review will not be required for contracts worth less than USD 100,000 for firms and contracts worth less than USD 50,000 for individuals. However, IDA will review: (a) all Terms of Reference of contracts, regardless of value; (b) all single-source hiring; (c) assignments of a critical nature as determined by IDA; and (d) amendments of contracts raising the contract value above the prior review thresholds.

Table B: Thresholds for Procurement Methods and Prior Review[1]

Expenditure Category	Contract Value Threshold (USD thousands)	Procurement Method	Contracts Subject to Prior Review (USD millions)
1. Works	<500,000 >500,000	NCB ICB	>250,000 >250,000
2. Goods	<100,000 >100,000	NCB ICB	>first 3 contracts >100,000

3. Services	>100,000	QCBS QBS CQ	>100,000 (firms) >50,000 (individual

1/ Thresholds generally differ by country and project. Consult OD 11.04 "Review of Procurement Documentation" and contact the Regional Procurement Adviser for guidance.

Procurement notices. The General Procurement Notice will be published in the Development Business Forum at least 60 days prior to the issue of bid documents. Specific Procurement Notices in accordance with the guidelines will be issued before shortlists with respect to consulting contracts above USD 200,000.

Procurement planning. The Procurement Planning Schedules covering goods, works and consultancy services are prepared to the extent feasible. Given that the individual proposals to be financed will be defined later (during project implementation), the major part of the procurement planning cannot be defined at this stage. For some components (Project Management), and for the first 18 months of operation, the procurement plans are defined and are included in the Project Implementation Plan (PIP) in draft final form by Board approval and in final form by credit effectiveness.

Implementation arrangements. The three key institutions involved in the project are: (a) the Ministry (MSTVT); (b) the training authority (TEVETA); and (c) the training institutions (21 are covered by this project initially). Each of them has a role in procurement.

However, the overall coordination of the program implementation will be carried out by the Program Co-ordination Office (PCO) which will include the Procurement Unit (PU).

Of the 21 former MSTVT-institutions involved in training, 3 are expected to obtain ZNTB certification for conducting procurement up to USD 4,000. Even if this threshold can be raised after enhancing their procurement capacity, these 3 institutions will depend upon the PU in MSTVT for the major part of the procurement which is of high value. The rest of the 21 institutions do not have any procurement expertise and will depend upon the PU in MSTVT to conduct all their procurement, in the first instance.

The PU shall carry out procurement of all contracts above the thresholds delegated to the institutions (thus mainly large and medium size contracts, but also smaller ones) and provide procurement support to the beneficiary training institutions and to TEVETA.

Role and responsibilities of PU. The PU shall be responsible for the overall procurement monitoring and co-ordination for the whole project.

Procurement capacity building in the training institutions and in TEVETA in order for them to carry out their own procurement is an important role for PU which will be managed through a consultant contract to be awarded within 6 months. Once the institutions have achieved the required procurement capacity to carry out the procurement then the institutions shall seek certification by ZNTB. The guidelines and procedures for certification shall be developed by the Procurement Unit in conjunction with the Zambia National Tender Board.

PU will have periodic procurement audits conducted through consultants to monitor the quality and effectiveness of the procurement at all levels in the project. These will be shared with IDA for further

corrective actions, as needed.

Preparation of the Procurement Procedures Manual is responsibility of PU. This manual is under preparation where these guidelines shall be provided. It will be completed by May 31, 2001.

Responsibility of beneficiary institutions etc. Each component manager and the beneficiary learning institution shall be responsible for identifying the procurement needs which will be submitted to the Procurement Unit for consolidation

Staffing of PU and support arrangement. The PU in MSTVT currently comprises a Procurement Director assisted by two Procurement Officers. Given the substantial workload expected, three additional procurement officers will be recruited and in position within 3 months.

As capacity is built up in the institutions, some staff from the PU may be eligible to move to TEVETA and the training institutions, if no longer needed in the PU.

PU and the institutions. The management of the procurement process for Institutions civil works, goods and consultancy assignments is the responsibility of the procurement units (where they exist ad have been certified) with oversight from the PU. However, enhancement of procurement skills of the staff in the institutions will be undertaken by PU through a consultancy contract as explained above.

The thresholds set for the institutions will be reviewed periodically in relation to the capacity garnered and revised upwards as needed, in consultation with ZNTB and IDA such that only cases above these thresholds will require prior review by PU and/or IDA.

Decentralized thresholds for procurement by institutions. The thresholds for procurements for the various institutions are presented below.

Table B1: Thresholds for Procurement at Different Levels

Procurement Level	Items	Thresholds (US Dollars)
MSTVT	Civil Works	Over 4,000
	Goods	Over 4,000
	Consultancy	Over 4,000
TEVETA	Civil Works	Up to 4,000
	Goods	Up to 4,000
	Services	Up to 4,000
Training Institutions (Selected Beneficiary Institutions)	Civil Works	Up to 4,000
	Goods	Up to 4,000
	Consultancy	Up to 4,000

Capacity Assessment and related issues. A procurement capacity assessment has revealed lack of procurement capacity at all these institutions thus the need for strengthening such capacity. The PU in the Ministry (MSTVT) has very limited experience in procurement of Bank-financed projects. Therefore, capacity building in PU also will be required in order to ensure that procurements are carried out in accordance with the Bank procurement procedures and guidelines. TEVETA and most of the beneficiary training institutions are not certified and the procurement capacity in these institutions is either very limited or non-existent. A procurement consulting firm is to be engaged to provide procurement support for coordination and monitoring (procurement review/audits) and to carry out capacity building of all the institutions. A major part of the consultancy services assignment shall be to carry out training. The procurement consulting firm shall assist the Procurement Unit in setting up procurement reporting systems and developing the certification guidelines and procedures. In addition, if needed and in consultation with IDA, the Procurement Consultancy firm will also provide services to assist the institutions to carry out procurements.

Overall procurement risk assessment: High

Risk mitigation measures. (a) Enhance staffing of PU, (b) train up PU staff and staffing institutions using a consultant firm, (c) periodic procurement audits

Frequency of procurement supervision missions proposed. One every 6 months (includes special procurement supervision for post-review/audits). In addition, the Country Office will review procurement progress every three months.

Disbursement

Allocation of credit proceeds (Table C)

Table C: Allocation of Credit Proceeds

Expenditure Category	Amount in US$million	Financing Percentage
Goods	2.28	100% of foreign expenditures 90% of local expenditures
Works	1.00	100% of foreign expenditures 90% of local expenditures
Consultant Services	2.00	100%
Training grants for subprojects	9.50	100% of amounts disbursed
Staff development & other training costs	2.00	100%
Bursaries	1.00	100% of amounts disbursed
Operating costs	2.00	90%
Refunding of PPF	0.59	100%
Unallocated	4.63	
Total Project Costs	25.00	
Total	25.00	

Allocation of credit proceeds (see Table C). The proposed IDA credit would be disbursed over a period of about five years, to be completed by June 30, 2006. The Credit closing date would be December 31, 2006 (i.e., six months after project completion date). Disbursements would be made against the categories of expenditure presented in Table C above and in accordance with guidelines set out in the World Bank's Disbursement and LACI Implementation Handbooks. Disbursement against the categories Training Grants for Subprojects and Bursaries will be made according to guidelines developed in the FMPM and under the Training Fund and agreed to by IDA.

Use of statements of expenditures (SOEs):

Disbursements would be made on the basis of Statements of Expenditure (SOEs) for contracts and purchase orders with individual values less than those requiring IDA's prior review. All applications to withdraw proceeds of the Credit will be fully documented, except for expenditures against contracts with an estimated value of: (a) USD 100,000 or less for goods and consulting firms; (b) USD 50,000 or less for individual consultants; (c) USD 250,000 or less for works; and (d) training and operating costs. Documents supporting these expenditures will be retained by the PCO and made available for review when requested by IDA supervision mission and the Program auditors. All disbursements are subject to the conditions of the DCA and procedures stated in the disbursement letter.

It is expected that appointment of the Finance Manager, establishment and development of the Program's financial management system will facilitate conversion of the Program from the traditional to the PMR-based disbursement procedures within eighteen (18) months of the Program's effectiveness. These disbursement procedures were discussed at negotiations.

Special account:

To facilitate disbursements and ensure a timely release of funds for the program activities, GRZ will

establish and maintain: (a) an SA in US dollars in a commercial bank under terms and conditions acceptable to IDA; and (b) a Project Account in kwacha also in a commercial bank acceptable to IDA for GRZ's counterpart funds, with an initial deposit of USD 70,000 equivalent. The PCO will be responsible for the management of the SA and PA.

Disbursement arrangements (90-day advance)
Due to the decentralized nature of the program, it is proposed that TEVETA and the accredited training institutions will be provided with accountable 90-day advances in US dollars. The financial capability of the Authority and the institutions will be assessed by the MSTVT with external assistance over the course of the first year of the project. The 90-day advances will be made from the SA in accordance with approved annual work plans for training and training support programs, and procedures to be documented in the FMPM and subsequently in the Training Fund procedures.

The advancees will account for the advances to the PCO on a monthly basis. Initial allocations will be USD 50,000 each. Replenishment of the advances will be based on submission of replenishment requests with appropriate supporting documents.

Auditing
The auditing arrangements are detailed in Annex 14, Financial Management Action Plan.

Annex 7: Project Processing Schedule

ZAMBIA: Technical Education Vocational & Entrepreneurship Training (TEVET) Development Program Support Project

Project Schedule	Planned	Actual
Time taken to prepare the project (months)	30	28
First Bank mission (identification)	01/01/99	05/19/99
Appraisal mission departure	01/10/2001	01/09/2001
Negotiations	03/26/2001	03/26/2001
Planned Date of Effectiveness	07/01/2001	10/01/2001

Prepared by:

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Preparation assistance:

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Annex 8: Documents in the Project File*

ZAMBIA: Technical Education Vocational & Entrepreneurship Training (TEVET) Development Program Support Project

A. Project Implementation Plan

Strategy Paper for Technical Education, Vocational & Entrepreneurship Training (TEVET) in Zambia, by VEET Task Force, September 1996

Strategy Paper for Technical Education, Vocational & Entrepreneurship Training (TEVET) in Zambia, by VEET Task Force, March 1997

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Provision of Entrepreneurship Training, Strengthen Skills Training, ESIP Secretariat, June 1997

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Project Document, Skills Training & Entrepreneurship Development, Zambia, Danida, March 1997

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TEVET Implementation Plan 2001 to 2006 (Draft), MSTVT

Proposals of ILO Mission Consultants for the Integration of Know About Business (KAB), Start Your Business (SYB) and Improve Your Business (IYB) Programmes, Gwasira, Ponde, Manu, July 1997

Debriefing Note, Sector Programme Support for TEVET Danida Pre-Appraisal, February 2000

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Report on the Logical Framework Workshop for the TDP GRZ, MSTVT, April 2000

Report on Tracer Study of DTEVT Graduates, M. Lemba and Associates, August 2000

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and September 1997, and January 1999

Guidelines: Selection and Employment of Consultants by World Bank Borrowers, January 1997, revised September 1997 and January 1999

World Bank's Disbursement Handbook

Functions & Responsibilities of Zambian Institutions Involved in Training (Public & Autonomous Providers, Draft One), Murray, Robert, October 2000

Design of a TEVET Fund, Falkov, Lindsay and Sondergaard, Karen, October 2000

Technical Education Vocation and Entrepreneurship Training, Sector (Programme Support Document), 2001-2006, DANIDA, December 2000

Sector Programme Support for Technical Education, Vocational and Entrepreneurship Training (TEVET) Component Descriptions A and B, Support for Capacity Building to TEVETA and TVTC, DANIDA, November 2000

B. Bank Staff Assessments

Constructing a Financial Model for a Feasibility Study of TEVET Development, World Bank 1999

Spreadsheet model for Estimating Returns to TDP Sensitivity and Risk Analysis, World Bank 2000

Training Levies: Rationale and Evidence from Evaluations, Dar, Amit and Murphy, Paud, May 2000

Report on Analysis of LCMS Survey, by Vijay Gupta, 1999

Report on Social Assessment: Access to training for the poor and disadvantaged sections of society, 2000

Assessment of Barriers to Training of the Poor, Bradley, Marilou and Participatory Assessment Group (PAG), October 2000

Summary of TEVET Fiscal Sustainability, Dar, Amit, 2000

Economic Analysis of TDP, World Bank, 2001

C. Other

*Including electronic files

Annex 9: Statement of Loans and Credits

ZAMBIA: Technical Education Vocational & Entrepreneurship Training (TEVET) Development Program Support Project

May-2001

Project ID	FY	Purpose	Original Amount in US$ Millions IBRD	IDA	Cancel.	Undisb.	Difference between expected and actual disbursements* Orig	Frm Rev'd
P003227	2001	RAILWAYS RESTRUCTURING PROJECT	0.00	27.00	0.00	19.35	-3.43	0.00
P050400	2000	PUB SVC CAP (PSCAP)	0.00	28.00	0.00	24.60	8.03	0.00
P039016	2000	FISC SUST.CR. I	0.00	140.00	0.00	92.89	-15.46	0.00
P063584	2000	Social Investment Fund (ZAMSIF)	0.00	64.70	0.00	56.88	-5.60	0.00
P064064	2000	MINE TOWNSHIP SERVICES PROJECT	0.00	37.70	0.00	32.33	5.48	0.00
P003249	1999	BASIC ED SEC INV PRG	0.00	40.00	0.00	24.57	20.65	10.30
P003236	1998	NATIONAL ROAD	0.00	70.00	0.00	25.65	-6.71	0.00
P035076	1998	POWER REHAB	0.00	75.00	0.00	62.34	61.89	1.60
P003253	1997	Environmental Support Program	0.00	12.80	0.00	8.73	5.96	0.00
P044324	1997	ENTERPRISE DEVELPMNT	0.00	45.00	0.00	30.71	32.47	9.13
P040642	1996	ERIPTA	0.00	23.00	0.00	3.08	4.19	0.00
P003218	1995	AGRICULTURE SECTOR I	0.00	60.00	0.00	6.83	11.33	2.15
P003239	1995	HEALTH SECTOR	0.00	56.00	5.17	15.79	25.44	0.00
P003241	1995	URBAN RESTRCT &WATER	0.00	33.00	0.00	3.05	3.43	3.03
		Total:	0.00	712.20	5.17	406.80	147.66	26.20

ZAMBIA
STATEMENT OF IFC's
Held and Disbursed Portfolio
May-2001
In Millions US Dollars

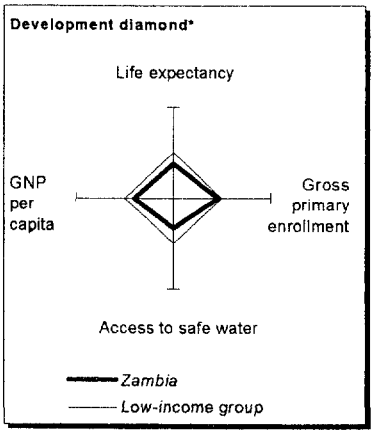
		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1998	AEF Amaka Cotton	1.30	0.00	0.00	0.00	1.30	0.00	0.00	0.00
1994	AEF Big Five Car	0.52	0.00	0.00	0.00	0.52	0.00	0.00	0.00
1998	AEF Drilltech	0.16	0.00	0.15	0.00	0.16	0.00	0.15	0.00
1999	AEF Esquire	0.41	0.00	0.00	0.00	0.41	0.00	0.00	0.00
1997	AEF JY Estates	0.89	0.00	0.00	0.00	0.89	0.00	0.00	0.00
1995	AEF Kaila Lodge	0.10	0.00	0.00	0.00	0.10	0.00	0.00	0.00
1997	AEF Pentire	0.53	0.00	0.00	0.00	0.53	0.00	0.00	0.00
2000	APC Ltd.	2.50	0.00	0.00	0.00	1.50	0.00	0.00	0.00
1972/73	Bata Shoe ZA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1997	Finance Bank	3.51	0.00	0.00	0.00	1.01	0.00	0.00	0.00
1997	IMDHZ	0.00	0.50	0.00	0.00	0.00	0.50	0.00	0.00
2000	KCM	0.00	5.20	24.80	0.00	0.00	5.20	3.70	0.00
2000	Marasa Holdings	4.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1998	Nicozam	0.00	0.30	0.00	0.00	0.00	0.30	0.00	0.00
1999/00	Zamcell	3.30	0.44	0.00	0.00	2.30	0.44	0.00	0.00
	Total Portfolio:	17.82	6.44	24.95	0.00	8.72	6.44	3.85	0.00

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic
1997	Safari Intl.	2.00	0.00	0.75	0.00
1999	AEF Kembe Estate	1.30	0.00	0.00	0.00
1999	AEF Mpelembe	0.70	0.30	0.00	0.00
2000	AEF QNet	0.34	0.00	0.08	0.00
	Total Pending Commitment:	4.34	0.30	0.83	0.00

Annex 10: Country at a Glance

ZAMBIA: Technical Education Vocational & Entrepreneurship Training (TEVET) Development Program Support Project

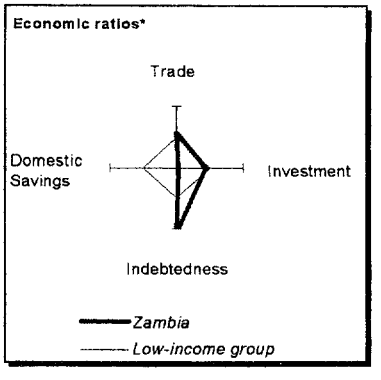
POVERTY and SOCIAL	Zambia	Sub-Saharan Africa	Low-income
1999			
Population, mid-year *(millions)*	9.9	642	2,417
GNP per capita *(Atlas method, US$)*	330	500	410
GNP *(Atlas method, US$ billions)*	3.2	321	988
Average annual growth, 1993-99			
Population *(%)*	2.5	2.6	1.9
Labor force *(%)*	2.8	2.6	2.3
Most recent estimate (latest year available, 1993-99)			
Poverty *(% of population below national poverty line)*	73	..	..
Urban population *(% of total population)*	44	34	31
Life expectancy at birth *(years)*	45	50	60
Infant mortality *(per 1,000 live births)*	114	92	77
Child malnutrition *(% of children under 5)*	27	32	43
Access to improved water source *(% of population)*	43	43	64
Illiteracy *(% of population age 15+)*	22	39	39
Gross primary enrollment *(% of school-age population)*	89	78	96
Male	92	85	102
Female	86	71	86



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

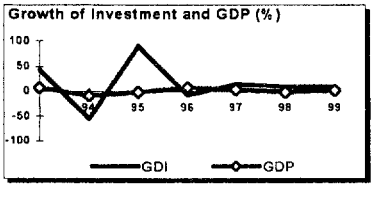
	1979	1989	1998	1999
GDP *(US$ billions)*	3.3	4.0	3.2	3.1
Gross domestic investment/GDP	14.2	10.8	16.3	17.5
Exports of goods and services/GDP	45.6	26.8	26.7	22.3
Gross domestic savings/GDP	23.2	3.8	3.9	-1.1
Gross national savings/GDP	15.0	-7.1	-3.6	-6.6
Current account balance/GDP	1.1	-5.6	-17.8	-15.8
Interest payments/GDP	2.8	1.9	2.8	5.2
Total debt/GDP	91.3	168.0	215.5	206.9
Total debt service/exports	22.1	13.6	25.8	38.1
Present value of debt/GDP	..	..	170.3	125.7
Present value of debt/exports	..	..	575.9	454.5

	1979-89	1989-99	1998	1999	1999-03
(average annual growth)					
GDP	1.1	0.2	-1.9	2.4	4.7
GNP per capita	-3.2	-1.8	-5.1	2.2	2.6
Exports of goods and services	-3.1	2.9	5.0	4.9	11.8

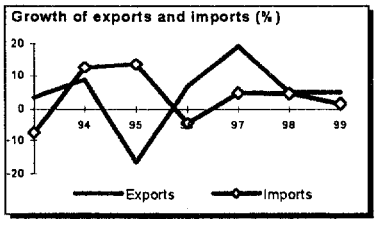


STRUCTURE of the ECONOMY

	1979	1989	1998	1999
(% of GDP)				
Agriculture	16.5	21.2	21.2	24.6
Industry	..	..	29.1	24.5
Manufacturing	..	..	13.0	12.0
Services	..	..	49.7	50.9
Private consumption	52.9	82.5	84.9	91.5
General government consumption	23.9	13.7	11.2	9.6
Imports of goods and services	36.6	33.8	39.2	40.9



	1979-89	1989-99	1998	1999
(average annual growth)				
Agriculture	3.6	3.4	1.8	13.7
Industry	..	-3.6	-11.3	-4.9
Manufacturing	..	3.3	1.8	2.8
Services	..	5.7	4.4	5.2
Private consumption	3.2	0.4	-1.3	2.6
General government consumption	-3.8	-5.5	-14.8	-15.8
Gross domestic investment	-3.6	3.3	9.3	8.7
Imports of goods and services	-2.3	1.3	4.6	1.6
Gross national product	-0.2	0.9	-2.9	4.4

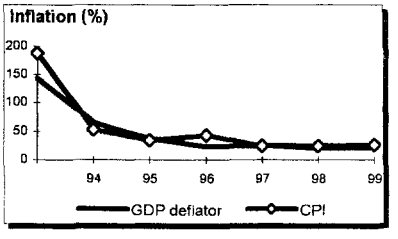


Note: 1999 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

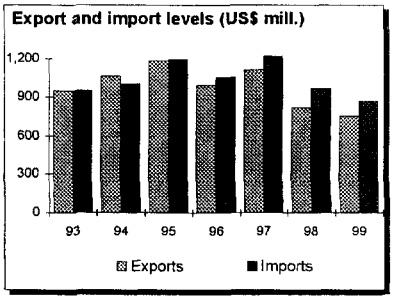
PRICES and GOVERNMENT FINANCE

	1979	1989	1998	1999
Domestic prices				
(% change)				
Consumer prices	9.7	127.7	24.4	26.8
Implicit GDP deflator	21.3	80.9	19.6	21.7
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	18.6	18.7	17.6
Current budget balance	..	-4.4	1.4	2.6
Overall surplus/deficit	..	-6.6	-9.8	-10.0



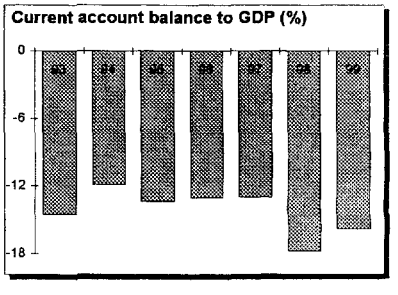
TRADE

	1979	1989	1998	1999
(US$ millions)				
Total exports (fob)	1,408	1,410	816	755
Copper	..	1,233	365	372
Cobalt	..	84	155	95
Manufactures	..	36	194	188
Total imports (cif)	756	901	971	871
Food	..	14	108	0
Fuel and energy	..	103	42	115
Capital goods	..	372	539	523
Export price index *(1995=100)*	..	92	70	69
Import price index *(1995=100)*	55	79	87	88
Terms of trade *(1995=100)*	..	116	81	79



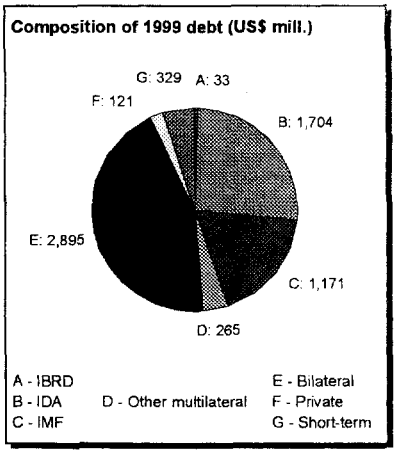
BALANCE of PAYMENTS

	1979	1989	1998	1999
(US$ millions)				
Exports of goods and services	1,523	1,493	919	842
Imports of goods and services	1,212	1,281	1,253	1,169
Resource balance	311	212	-334	-327
Net income	-169	-406	-215	-156
Net current transfers	-105	-28	-27	-16
Current account balance	37	-222	-576	-499
Financing items (net)	-146	487	365	518
Changes in net reserves	109	-265	211	-19
Memo:				
Reserves including gold *(US$ millions)*	191	123	69	50
Conversion rate *(DEC, local/US$)*	0.8	13.8	1,862.0	2,388.0



EXTERNAL DEBT and RESOURCE FLOWS

	1979	1989	1998	1999
(US$ millions)				
Total debt outstanding and disbursed	3,047	6,709	6,982	6,518
IBRD	336	501	42	33
IDA	1	253	1,562	1,704
Total debt service	340	206	247	331
IBRD	41	0	25	12
IDA	0	0	16	16
Composition of net resource flows				
Official grants	58	194	257	214
Official creditors	305	90	-54	66
Private creditors	1	11	-11	-20
Foreign direct investment	35	164	72	163
Portfolio equity	..	..	..	..
World Bank program				
Commitments	11	0	75	213
Disbursements	28	4	43	156
Principal repayments	13	0	25	13
Net flows	16	4	18	143
Interest payments	29	0	16	15
Net transfers	-13	4	2	128



Additional
Annex 11

Statement of Sector Policy

I. Background

The Zambian economy deteriorated substantially in the 1980s and has grown only slowly in the 1990s. This has seriously affected its ability to generate employment for its labour force, which is growing at over 3% per annum. This failure to generate employment opportunities has been worsened by the inability of the formal sector to absorb the increasing number of job-seekers – by 1995 the formal labour market had shrunk significantly and less than 20% of those employed were engaged in formal sector activities – and the lack of financial and institutional structures to support self-employment. However, the economic situation is improving. Economic projections for the next three years indicate an average annual growth rate of 4.5%. While copper will remain critical for export earnings and basic agriculture will be essential for subsistence for many Zambians, there are other areas of hope. High value agriculture and agro-industries, tourism and specialized services have been identified as potential growth areas, and early indications from these sectors suggest reasons to be optimistic.

An educated, well trained and flexible workforce is critical for this growth. According to current trends it is obvious that the creation of new employment opportunities cannot keep up with the demand of the growing labour market and the population growth. Therefore, a large section of the labour force- if not the majority-has to be prepared for self-employment or employment in the informal sector. This demand will be satisfied not only through incorporating Entrepreneurship Education into the TEVET system but also through offering short term training opportunities for the self-employed or entrepreneurs in basic management techniques and in expanding their technical skills.

The present training system was set up and regulated by the 1970 Technical Education and Vocational Training Act and had been designed to meet the needs of the formal sector within Zambia's then expanding economy. Currently, the Ministry of Science, Technology and Vocational Training (MSTVT) has responsibility for developing and facilitating training policy affecting other sector ministries offering training (e.g. Schools for Continuing Education under the Ministry of Education) as well as the private "for profit" and voluntary providers and (until January 2000) was also responsible for directly administering 23 training institutions. Currently, also about 7,000 full-time and about 2,000 part-time students are being trained in government institutions while approximately 15,000 more are being trained in private for profit and voluntary- administered institutions. In addition, some large firms provide their own training programs.

II. Issues Facing the Training Sector

There are many issues facing the training sector. If the current situation in the sector is allowed to persist, there is little scope for Zambia's training system to respond to the skills requirements of a growing economy. The drop in demand for formal sector skills, and thereby a perceived higher demand for skills development in the informal sector, has not led to an appropriate response in the training system – public sector institutions continue to produce technical manpower targeted at formal industries. Furthermore, faced with a tight budget constraint, the Government has not been able to fulfill its financial commitment to the public training system. This has led to the following situation:

- Staff salaries and morale are low;
- Non-salary resources are almost exclusively being spent on student welfare expenditures;
- Students contribute little to their direct training costs;

- Investments in training materials and capital are negligible;
- Quality of training is declining;
- Information on training provision is limited; and
- There is little involvement of employers in the public training system.

Consequently, publicly-provided training has not been responsive to market demand. Private training providers [including non-governmental organizations (NGO) and other not-for-profit providers] face numerous constraints such as:

- Limited access to capital;
- Competition with subsidized public providers; and
- Higher fees to have students participate in examinations.

Almost invariably, successful private providers have benefited from government or donor support in the past.

Throughout the 90s, the Government financial involvement in the training sector has been modest, oscillating around an average of 4-5% of the total envelope for education. No direct public financial support has been channeled to private providers. Even under these circumstances, there is a significant shortfall in funding. In 2000, Government allocated close to $7 million for training activities in MSTVT (inclusive of salaries for staff, operations of the Department of VET, TEVETA and the 23 training institutions). Of this amount, the Ministry received about $4.2 million- hence 60% of the allocated amount. This was consistent with the allocations over the last few years. While the 2001 budget is still under discussion, indications are that MSTVT will be allocated slightly more resources- about $7.3 million. These numbers are approximately equal to 0.8% of the Government's discretionary budget.

Other problems with the financing of the system are that the financing mechanisms leave institutions with little incentives to respond to market demand. Financing is not targeted to courses or trainees nor is it provided for pedagogical materials or equipment. In accordance with the cash budget, available resources are first provided for salaries, next for grants in-aid and last for grants, including those to training institutions. The mechanism that the government uses to decide on funding between different providers, is not linked to any performance criteria or on whether institutions are responding to demand – rather, public institutions are funded by the government on an ad-hoc basis. The process rarely involves industry, training providers or other stakeholders in discussions of appropriate allocative priorities.

Recurrent expenditures are significantly greater than revenues received from the government. Review of the late 1990s reveals that expenditures exceed government revenues by close to 125 percent during that period. This difference was mainly made up from student fees, donor contributions and income from production units.

Not only does this chronic under-funding of the public training system lead to institutions preparing graduates of poor quality and unresponsive to the needs of the labour market, it also creates an uneven playing field between the public and private providers of training. For the reform process to work efficiently, it is clear that institutions need to be funded in a more realistic manner.

Simulations have been conducted that attempt to match the realistic cost of providing current courses for the entire system and supporting current student numbers with the finances likely to be available from the Government and student fees. These simulations show a recurrent financing gap of about $23 million over the next five years. If capital/developmental costs are included, the financing gap rises to about $60 million over the same period of time.

Thus, it is clear that financing of the system is a crucial challenge. The government is committed to developing a financing mechanism that will encourage demand-driven training to be provided through public and private training institutions and financed through contributions by government, donors, students and employers. This mechanism will also be used to channel funds to poor and disadvantaged groups.

III. Government Response

To address the shortcomings of the training system, the government (in collaboration with its social and financing partners) launched an ambitious program of reform since the mid 1990s. In August 1994, the Minister of Science, Technology and Vocational Training appointed a widely representative national Task Force to review Government policy on technical education and vocational training and to propose reforms that would improve the delivery of skills training and link it to the requirements of the economy. The objectives of the reforms proposed by the task force included:

- *Promoting demand-driven and cost effective training:* Developing a training system that responds to labour market demands and the socio-economic concerns of Zambia in a cost-effective manner.
- *Stakeholder Participation:* Developing a training system that is built around a collaborative partnership between the government and other stakeholders (e.g. employers, workers, public and private training institutions, NGOs, donors and students) in regulation, financing and provision of skills training.
- *A training system that is equitable:* Developing a training system that is responsive to the issues of equity, HIV/AIDS, gender and poverty alleviation.

This led to the preparation of a new policy, known as the Technical Education, Vocational and Entrepreneurship Training (TEVET) Policy, which was developed in 1996. The TEVET policy provided for the following innovations in the skills training system:

- Incorporation of entrepreneurship and informal sector training
- Recognition of training activities conducted by NGOs, Churches, private companies, etc
- Introduction of cost-sharing principles in the provision of TEVET
- Promotion of demand-driven training
- Involvement of stakeholders in the governance of training
- Broadening of target groups to include retrenched workers, the unemployed, out of school youth, women groups, vulnerable groups, informal sector operators, workers etc.

Following the adoption of the TEVET Policy by the government, the government prepared a strategy paper in 1997 and the Zambian Parliament passed the TEVET Act in 1998. The Act provides legal framework for the establishment of the *Technical Education, Vocational an Entrepreneurship Training Authority* (TEVETA) and management boards of institutions.

IV. Strategies and Actions

The government's objective is to develop a TEVET system that has the potential to improve the skills for both the formal and informal sectors of the economy through creating a demand-driven, sustainable, high quality, and equitable training system. The government is reorienting its role from being both a provider and financier of training to a system in which its main role is that of regulating, monitoring and evaluating and the provision of selective financing for training. MSTVT will coordinate policy formulation, monitor and evaluate the system and provide financing to the system. The autonomous training institutions, along with TEVETA, will be the main bodies responsible for implementing TEVET. Autonomous institutions

will be provided financial support based on performance and their responsiveness to labour market demand. TEVETA will provide technical assistance to all public and private training providers, and provide relevant information to employers and students about institutions. In addition, TEVETA will monitor standards.

The section below highlights some of the main strategies and actions that the Government, in collaboration with donors and other stakeholders, will undertake in the medium term to deepen recent and ongoing reforms and provide a framework for donor assisted programs in the training sector. The measures encompass financing of the sector and activities undertaken under the following headings – Organization and Management of TEVET; Training Systems, Trade Testing and Examination; Entrepreneurship and Informal Sector Training; Human Resources Development; Management and Information Systems; Infrastructure and Equipment; and Cross-Cutting Issues.

(a) Financing

Government Contribution

The solution to the problem of under-funding is to establish a financing partnership between Government, employers and the recipients of training. For its part, Government is committed to giving the MSTVT training institutions a grant to pay the salaries of their staff in the short term. In the long term, MSTVT will finance TEVET through the TEVET Fund. A separate plan will be developed for Ukwimi and Kaoma TTIs, which are still directly administered by MSTVT. The Government is also committed to maintaining its support to the training system to, at least, the current level as a percent of both allocation and disbursement from Government's discretionary budget - 0.8% . The Government will also introduce appropriate legislation by 2004, which will provide for the participation of the private sector in the financing of TEVET.

Training Fund

Government intends to shift the greater portion of the burden of the cost of training to beneficiaries including industry, trainees and the informal sector.

A Training Fund is one means of implementing the policy regarding cost sharing in TEVET and the government is committed to establishing the Training Fund within the next 12 months. The objective of the Training Fund will be to test and demonstrate the demand for, and the effectiveness and efficiency of pre-employment training as well as employer-based training supported by the fund. It will test modalities of administering and disbursing funds; assess whether training can be more cost-effective and efficient when it is demand-driven and training funds are competitively awarded between public and private providers; and, through testing different modalities of private sector options for financing, demonstrate to employers the benefits that can be derived from participating in such a fund. This will provide lessons that will guide the establishment, location and future sources of finance for the fund and will also develop mechanisms through which the private sector will contribute to the financing of training in the medium-term.

(b) Organization and Management of TEVET

TEVET is offered by a number of private and public providers. The multiplicity of providers makes it necessary to have an organizational structure that can facilitate effective planning and coordination of interventions in the sector to ensure rationalization and effective utilization of resources.

The intentions in this regard include strengthening the management of TEVET at the following organizational levels:

- The policy formulation and evaluation level;
- The regulation and support services level; and
- The TEVET providers' level.

The organization and management will be strengthened through the application of modern organizational structures and management principles. This will include the development and implementation of sufficient accounting and reporting procedures.

(c) Training Systems, Trade Testing and Examinations

The current application of technical education and vocational training is based on curriculum and certification schemes developed in the 1960s. The system is characterised by centrally developed curricula and rigid institution based training, with little or no provision for flexible progression between the levels of training.

The new policy provides for the introduction of a flexible training system, accommodating different modes of training such as apprenticeship, institution-based training, distance vocational training and a hybrid of two or more of these.

Introduction of demand driven training will entail retraining and re-equipping of curriculum developers and examiners. And strengthening the linkages between TEVET clients and TEVET providers by inviting the end users of the TEVET graduates to participate in determining the contents of the curricula and the tests.

The application of up-to-date training principles and utilising the equipment and tools as are used in the economy in general, requires that the providers shall charge economic fees that will enable them to maintain sophisticated equipment and good instructors. The fees will be paid through a combination of sources such as e.g. direct student fees, contributions from training fund and supplemented by income from other activities. Although training institutions will be tempted to hike user fees immediately, the ideal thing would be for the fees to be adjusted gradually commensurate with improvements to the quality of training.

(d) Entrepreneurship and Informal Sector Training

The training system has, in the past, ignored entrepreneurial skills since the system was designed to meet the needs of the formal sector as perceived in the late sixties. With the shrinkage of the formal sector, the training system must be re-oriented to include training for self-employment.

The TEVET system requires structures and systems for the promotion of an entrepreneurship culture and training for informal sector operators. Such structures have been set up on pilot basis and experiences are presently being collected.

The TEVET policy provides for the incorporation of entrepreneurship training in the curriculum to prepare the trainees for both wage employment and self-employment.

Through the TDP, resources are being sought to assist training providers to design and offer skills-training programmes targeting the informal sector operators in order to improve the quality of the goods and services of the sector.

(e) Human Resources Development

The TEVET policy requires staff that posses the necessary technical qualifications, industrial experience, teaching competence and entrepreneurship awareness.

The intended interventions for human resource development include the following:

- Strengthening capacity of staff responsible for planning and coordinating TEVET in line ministries with training portfolios;
- Improving capacity of TEVETA staff to offer support services to training providers;
- Improving capacity of governance arrangements, e.g. management boards, trustees, advisory boards, etc.;
- Strengthening capacity of managers and administrators of training; and
- Improving the practical and professional skills of lecturers and instructors with emphasis on continuous development of the same.

The declining resources for the training sector over the years have had a negative effect on virtually all staff categories in the TEVET system. Massive HRD programmes need to be programmed and initiated and, where the existing personnel prove un-trainable, methods of replacement must be found.

(f) Infrastructure and Equipment

The existing physical infrastructure for TEVET and associated support services are characterised by extreme levels of dilapidation and resource inadequacy. This condition inhibits implementation of the TEVET policy. It is necessary to address the problem through rehabilitation of facilities, re-equipment of institutions and the provision of learning materials and other consumables.

This is a problem that affects virtually all the training providers in the country. Since it is not possible – physically, organisationally or financially – to engage in physical rehabilitation of all training facilities at once, priorities must be made and the sequence in which the rehabilitation process progresses must be determined.

The rehabilitation of infrastructure and installation of the appropriate equipment shall be coordinated with the modernisation of training programmes and the development of the professional resources and capacities of the training providers.

(g) TEVET Information System

Effective implementation of any policy calls for generation and processing of data to create appropriate information essential for quality decision-making. Currently, there is no reliable Management Information System within the sector. Therefore, an effective TEVET Management Information System will be developed and implemented.

Infrastructure related to lines of communication is of paramount importance for collection and dissemination of relevant information at all levels. Much emphasis will be put on the development of adequate and proper system appliances and the appropriate use of the TEVET Information System.

(h) Cross-cutting Issues

Crosscutting issues need to assume prominence in TEVET system. These issues include the following:

- HIV/AIDS;
- Environmental Protection;
- Occupational Health;
- Gender;
- Disabilities.

Among these issues, HIV/AIDS has been recognized as a significant cross-cutting issue. Since the effects of this pandemic are devastating in terms of capacity building, measures will be taken to reduce loss of qualified staff at all levels of the TEVET sector. This requires policy development on HIV/AIDS focusing on awareness, prevention and impact mitigation, and a measured over-production of staff at all levels. Crosscutting issues will be incorporated in the planning of TEVET interventions and key players will be made aware of the importance of these issues in order to ensure that appropriate aggressive strategies are put in place to address the issues.

The TEVET policy intends to provide equitable training provision for all, including the socially disadvantaged groups such as women and disabled persons.

To carry out the necessary programmes to implement crosscutting issues will require certain expertise and other resources not currently available in the system.

V. Conclusion

The intended reform of the training system will reap significant rewards for Zambia. The training system will become more demand-driven, efficient and cost-effective. These reforms are intended to lead to improved student outcomes in terms of graduation and employment rates through making institutions more responsive to the demands of the economy. Through the proposed reforms, training providers will be able to compete for funds on a level playing field. The government will also adapt its role from being a financier and provider of training to that of selective financier, regulator and provider of information on training.

In terms of equity, the reforms will ease access to training for poor and disadvantaged students. More emphasis will be placed on providing skills for the informal sector. These reforms will also lead to enhanced social responsiveness, through greater involvement and participation of civil society in the identification and delivery of training.

Additional
Annex 12

Functions and Responsibilities of Zambian Institutions Involved in Training (Public and Autonomous Providers)

1. Broad responsibilities of MSTVT, TEVETA and the Management Boards of autonomous (ex-MSTVT) training institutions

The TEVET (Technical education, vocational training and entrepreneurship training) Act of 1998 defines the functions to be performed by TEVETA, MSTVT and the institutions. The functions listed in the Act are specific, and there are no obvious duplications or areas of confusion, with the possible exception of the monitoring functions of MSTVT (policy adherence) and TEVETA (training standards).

(a) The functions of MSTVT

(i) Making sector policy
(ii) Drafting and legislating legal statutes for the training sector
(iii) Budgetary facilitation
(iv) Establishment and closure of training institutions and their management boards

(b) The functions of TEVETA

(i) Advisory assistance to sector stakeholders
(ii) Regulatory authority
(iii) Administrative support in specified areas

(c) The functions of the Management Boards of Autonomous (ex-MSTVT) training institutions

(i) Training provision
(ii) Development of cost recovery tools like tuition fees
(iii) Developing curricula
(iv) Hiring top level management of institutions
(v) Observing policy and regulations

2. Statutory functions of MSTVT, Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) and Management Boards

(a) TEVETA

The functions of TEVETA were *formally defined* under Part II of the TEVET Act of 1998. We quote: "To regulate, monitor and coordinate technical education, vocational and entrepreneurship training in consultation with industry, employers, workers, and other stakeholders"

(i) Advise the minister on the development of the quality of human resources in Zambia through technical education, vocational and entrepreneurship training

(ii) Regulate and advise management boards

(iii) Regulate and co-ordinate apprenticeship and trade testing facilities

(iv) Provide technical consultancy to management boards and private training institutions

(v) Promote the technical capacity of management boards

(vi) Develop the national curricula in consultation with all stakeholders

(vii) Set minimum standards and qualifications for any occupation, skill, technology or trade for

institutions in accordance with developments in industry

(viii) Provide guidelines for the developments of institutional curriculum (sic)

(ix) Approve examinations to be taken by persons attending courses at an institution established or registered under this act

(x) Regulate and conduct national examinations relating to technical education, vocational and entrepreneurship training

(xi) Charge and collect fees in respect of examinations and other services provided by the authority

(xii) Award certificates to persons who succeed in examinations set under this act

(xiii) Guide institutions in preparing rules for the recruitment of students and teachers

(xiv) Approve curricula and standards of certificates in institutions established or registered under this act

(xv) Register institutions -- Part IV ..the power to:
- a) Issue certifications or registrations if satisfied that
  - (i) The technical education, vocational and entrepreneurship training meets the standards set
  - (ii) The premises are suitable
  - (iii) There are adequate finances to maintain the institution
  - (iv) The proprietor (of a private institution) is a fit or proper person or body of persons
  - (v) The teaching staff are properly qualified
- b) Reject applications
- c) Indicate what requirements have still to be met for registration
- d) Maintain a register of institutions and *gazette* a list of registered institutions at regular intervals

(xvi) Cancel the registration of an institution established or registered under this act should cancellation be necessary

(xvii) Do all such things connected with or incidental to the functions of the authority under this act

(xviii) Appoint inspectors with respect to institutions who shall
- a) Inspect books or documents relating to training
- b) Enter any institution

The "minister" is the Minister responsible of Science, Technology and Vocational Training (MSTVT), even though TEVETA has a mandate that spans several ministries."

(b) MSTVT

The ministries' TEVET related functions were *outlined* by the Government's strategy paper for TEVET released on March 1997.

We quote from page 32:

"Under the new organization, the MSTVT will continue to be responsible for policy formulation and monitoring, and appraisal of Government projects. More specifically, the MSTVT will perform the following functions vis-à-vis technical education, vocational and entrepreneurship training:

(i) formulation and provision of policy guidelines to MSTVT institutions; NTA (NB: now TEVETA), and management boards on student selection, fees, human resource development, etc.

(ii) setting out the legal framework within which TEVET works

(iii) monitoring and evaluating TEVET policy implementation

(iv) facilitating NTA and MSTVT institutional budgeting process

(v) establishing new institutions

(vi) monitoring the maintenance of MSTVT institutional buildings and other infrastructure

(vii) appointing board members

(viii) soliciting and facilitating technical cooperation

(ix) managing information systems to facilitate the collection, storage, retrieval, processing, and dissemination of information"

The TEVET related functions of MSTVT were *formally defined* under Part V of the TEVET Act of 1998.

We paraphrase:

In consultation with the Authority, the Minister may make regulations prescribing the:

(i) manner and form in which an application for registration and renewal of registration is made

(ii) forms to be used by boards

(iii) fees for registrations and renewals

(iv) fees payable for national examinations

(v) conditions and procedures for apprentice training

(vi) classification of each institution

(vii) conditions under which the Authority may *take over the operation of an institution* whose registration has been suspended or canceled

(viii) other regulations for the better implementation of the provisions of the act.

(c) The Management Boards

The functions and responsibilities are formally defined under Part III of the TEVET Act of 1998. The Act says that, "The Minister shall in consultation with the authority (TEVETA) appoint not more than eleven members of the board (of the institution)."

Further, "A management board shall

(i) provide training in technical education, vocational and entrepreneurship training

(ii) develop curricula for the institution

(iii) ensure that standards prescribed by the authority are maintained by the institution

(iv) provide training for the staff of the institution

(v) appoint a principal who shall be the chief executive officer of the institution

(vi) administer the affairs of the institution

(vii) subject to the approval of the minister charge and collect fees for tuition, boarding and other services provided by the institution

(viii) do all such things as the management board may consider necessary to promote technical education, vocational and entrepreneurship training"

The TEVETA authority may give to the management board such general or specific directions with respect to the discharge of its functions as may be considered necessary and the management board shall give effect to such directions."

3. The relationships between institutions (TEVETA, MSTVT and training institutions)

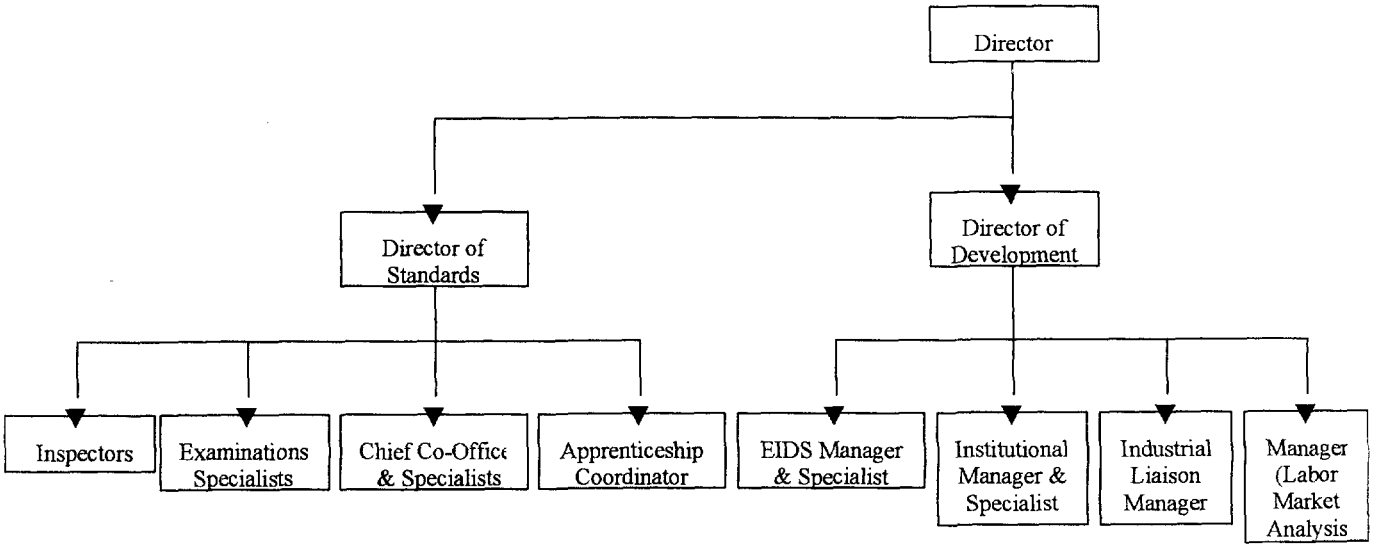
There are several hundred training institutions in Zambia, many of which are in what is termed the informal sector. The interface between MSTVT, TEVETA and the training institutions involves 21 fully autonomous training institutions plus two that are not yet fully autonomous.

Autonomous training institutions are governed by boards of directors. The directors are officially appointed (consultatively with TEVETA) by the Minister (MSTVT), and are selected so as to be representative of such stakeholders as employers, potential funding sources, community interests, etc. The boards of directors appoint the principals of the training institutions. MSTVT owns the assets of its institutions. It is in a position of line authority with respect to the boards of directors of its training institutions, in terms of reporting, monitoring and policy.

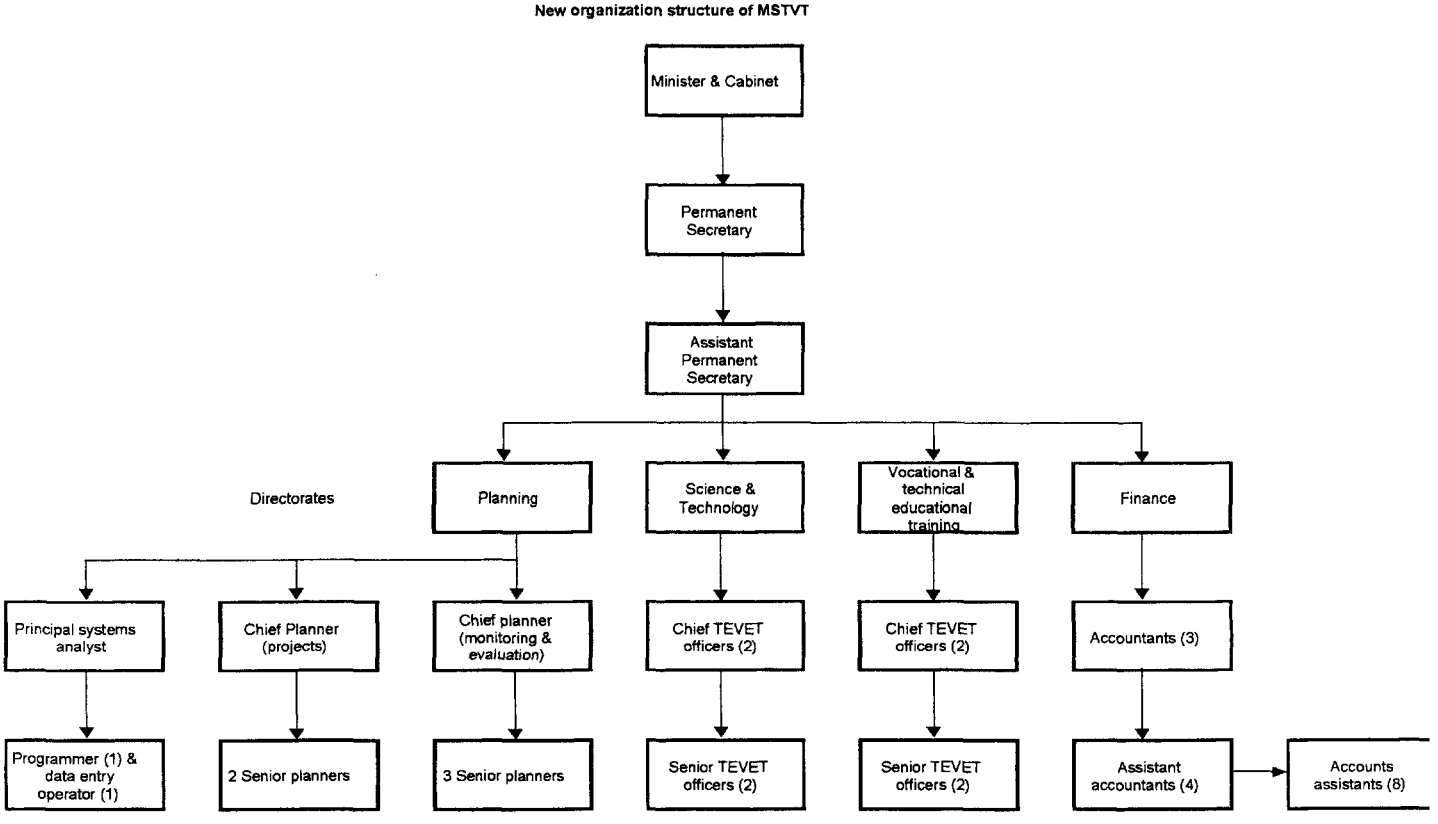
TEVETA is the responsibility of the minister, MSTVT. However, the mandate of TEVETA extends to all formal as well as informal training institutions and operations, thus cutting across other ministries. It also extends to enterprises that lie outside the direct control of Government. Although TEVETA's role is primarily advisory, its inspectorate has the powers to apply implement legal and other and procedures on institutions and individuals in areas related to training standards.

Organization chart 1: TEVETA

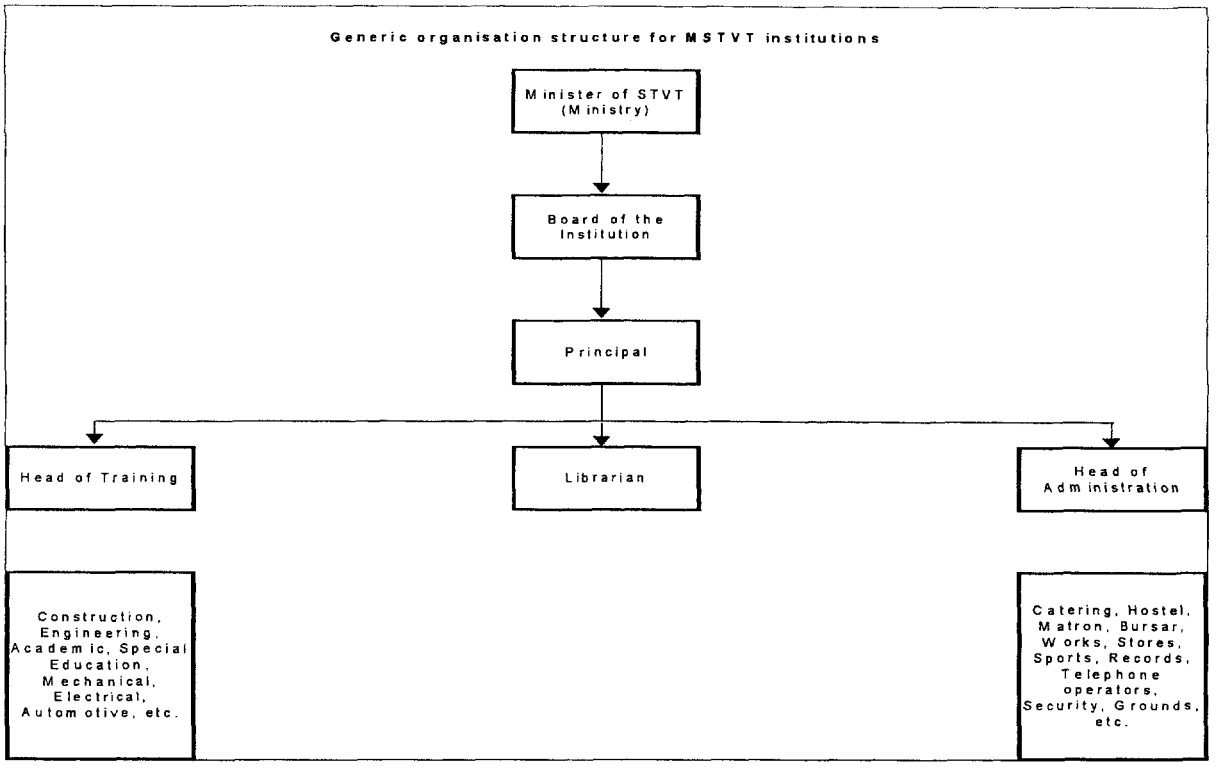
Main elements of the organization structure for TEVETA



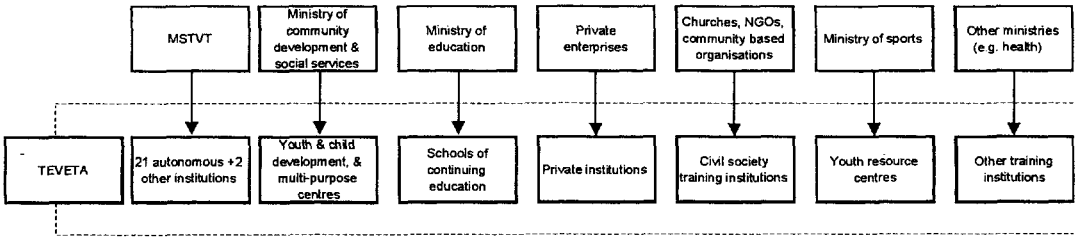
Organization chart 2: MSTVT



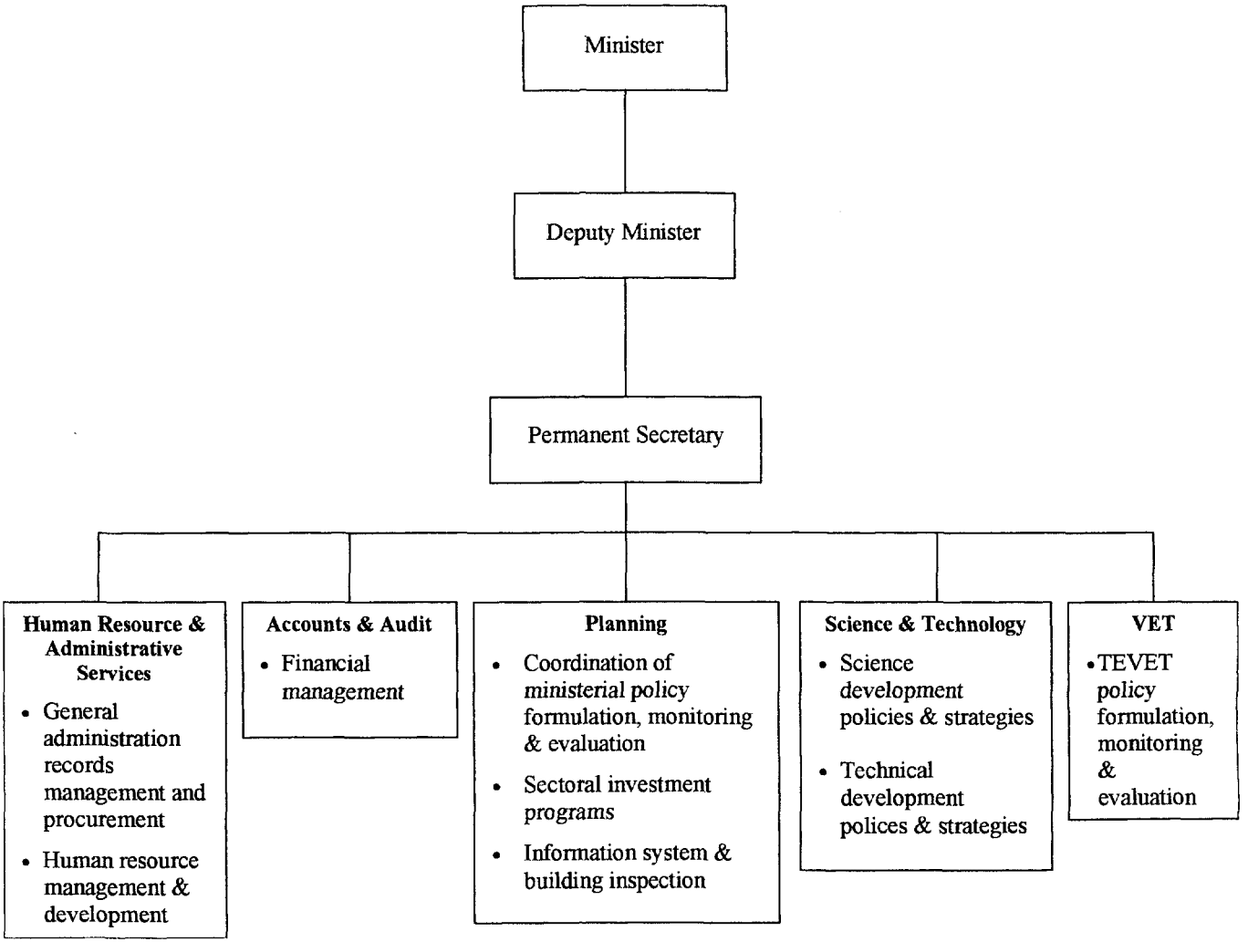
Organization chart 3: ex-MSTVT institutions



Organization chart 4: Different types of training institutions and their controlling/ management authority



Organization chart 5 Functional Structure for MSTVT



Additional
Annex 13

Training Fund Analysis: Report Summary

1. Introduction

The government of Zambia is overhauling the technical and vocational training system through the introduction of far reaching reforms. The Ministry of Science Technology and Vocational Training (MSTVT) has introduced a Technical Education, Vocational and Entrepreneurial (TEVET) Act, 1998. The Act is premised on a new training strategy based on sound vocational training governance, funding and delivery principles. The strategy aims to create a demand-led vocational training system that delivers skills required by enterprises in the formal and informal sectors of the economy and that improve the employability of school leavers, the unemployed and disadvantaged groups.

The main elements of this new demand-led training reform includes the establishment of a multi-stakeholder National Training Authority to oversee the governance of the new system, the Technical Education, Vocational and Entrepreneurship Authority (TEVETA); the intention to use labor market information and training needs analyses to improve the responsiveness of training provision to workplace skills needs; decentralization of control over MSTVT training institutions and support for the gradual "privatization" of these institutions; opening up equal private and public provider access to public training funds via a National Training Fund; a commitment to increase private sector and learner contributions to the cost of training; and the establishment of national quality assurance mechanisms to improve the quality of training delivery.

This report, compiled by a joint World Bank and DANIDA consulting Team between June and September 2000, presents a new funding strategy for training in Zambia to support the TEVET policy and strategy. The core funding proposal is the establishment of a national TEVET Fund, which will disburse funds for training to pre-employment and apprenticeship programs, to SME / informal sector operators and new entrants, as well as investment funds for the rehabilitation of training provision and the development of the capacity to implement the new TEVET policy. Various options for incorporating established private sector companies into the TEVET strategy and the funding of training are also explored.

The report is the product of extensive stakeholder consultations in Zambia. This established the context within which the TEVET Fund proposals were designed.

2. Current situation

This chapter describes the current situation facing the TEVET system in Zambia. Government remains the dominant provider of training in Zambia. The Ministry of Science Technology and Vocational Training has been the main provider of training within government, responsible for running 23 trades training institutes. A number of other Ministries, including Education, Agriculture and Tourism, also provide training.

As far as industry is concerned, large parastatals appear to invest heavily in the training of their own employers as do larger companies, but the general levels of investment in training by companies is unknown. User fees are pervasive but at low levels. The recent growth in private-for-profit providers appears to indicate a relatively high private demand for training by individual learners as well as companies. NGO providers are the most important providers of training for disadvantaged groups as well as those in informal sector operations, but the training appears to be poorly supported by government.

It is generally accepted that public sector training in Zambia has been supply driven and under-funded, resulting in poor quality and irrelevant training provision. Consequently industry has had little interest in employing graduates from the Ministry's training institutes.

The Ministry's expenditure on training is characterized by large year-on-year fluctuations as a result of the budgetary process and an inefficient mechanism for allocating funds to the trades training institutes which has been an important factor contributing to the low returns to public investment in training. Although a detailed examination of training delivery by other Ministries was not undertaken, indications are that they face similar problems.

The allocation of public funds to the informal/SME sector of the economy appears to be limited. This is clearly a serious problem where the majority of Zambians are forced to earn a living in these sectors. As discussed above, some companies are investing in the training of their employees. In addition, certain established industries have initiated collective training solutions on a voluntary basis, but beyond this there appears to be limited monetary or in-kind contributions to training by the established private sector.

3. Future challenges

This annex focuses on future challenges facing the Ministry in the implementation of the new TEVET strategy and policy, in particular factors affecting the financing of training. Some of the more important international trends drawn on include the changing role of government from provider to financier of training, which is linked to the delegation of responsibility for managing training systems to "semi-autonomous" government agencies that must account to the Ministry concerned for the training outputs government is purchasing. Increasing levels of training provider autonomy has been linked to new financial incentives to raise their accountability and performance and additional incentives are used to achieve national skills priorities and to support training for disadvantaged learners. In addition, different funding approaches are relevant to different segments of the labor market, user fees are now an accepted form of revenue to cover part of the costs of training, but need to be accompanied by mechanisms to support poor learners and fiscal incentives are widely used to encourage greater private sector investment in training.

The main domestic factors informing the design of the TEVET Fund include, the high proportion of employment in the informal and SME sectors, the severity of the fiscal constraint, the fact that training must address a range of labor market segments including the pre-employed, unemployed, under-employed and the employed. Policy decisions taken by the Ministry that informed the funding strategy include the importance of cost sharing arrangements to support training in Zambia, the principle of open access to public funds for training by public, private, NGO and other non-formal training providers, the need for the funding system to promote demand-led training, as well as Government's renewed commitment to introducing an appropriate apprenticeship system. The huge provider rehabilitation and capacity building requirement also informed the design of the Fund.

4. Conceptual framework

The core assumption made is that the Ministry faces a huge training demand alongside a severe fiscal constraint. Accordingly, the sources of funds for training need to be carefully considered and the allocation of funds prioritized. This prioritization of funds must be guided by the fact that training does not create employment, that the responsibility for funding training be appropriately apportioned between government, the private sector, learners and donors and that, in the medium term, the major portion of recurrent training costs must be funded by domestic revenue sources.

Bearing this in mind the report proposes that the Ministry confirm and attempt to increase its allocation from the general budget. One way this may be done is by exploring possibilities for re-allocating votes for training in other Ministries via the TEVET Fund. Secondly, the present debate on whether to introduce a training levy needs to be informed by an investigation into alternative ways in which the private sector can contribute to and complement public funds for, training.

Within this framework various financing sources linked to disbursement priorities across the main labor market recipients, are examined. Accepting that donor funds will be concentrated on the "capital" and, in the short term, a reasonably high level of the recurrent, costs of the strategy, the focus is on examining domestic funding sources linked to disbursement priorities. Three scenarios are examined:

The **first** involves a TEVET Fund that is sourced entirely from general government revenues,

The **second** is a training levy that substitutes for general government revenues, and

The **third** is a combination of ongoing general government revenues for training and a training levy, which is clearly the most attractive option for the training system.

In each case the degree to which the key labor market segments are addressed by domestic funding sources is examined.

The conclusion is that, should the **first or second** scenario hold, the TEVET Fund will focus on pre-employment and SME / informal sector training, with some contributions to target groups and limited contributions to the workplace experience part of apprenticeships. The TEVET Fund will not be in a position to address in-house company training, which will remain the responsibility of employers. Should the **third** scenario hold domestic revenue available for the training of disadvantaged groups and the workplace experience part of apprenticeships should increase. In addition, funds should be available for allocating subsidies or grants to employers for conducting in-house training based on certain criteria. In all three scenarios donor funds are concentrated on complementing domestic funds for the training of the pre-employed, SME and informal sector operators as well as disadvantaged groups.

The rationale for this approach is that no country can afford to dismantle its pre-employment training system. Since the Ministry has had primary responsibility for training this segment of the labor market, the new strategy and the allocation of funds must prioritize this training. Secondly, the Zambian context dictates that training for informal sector and SME operators be prioritized. Additional funds for training disadvantaged groups must also be made available. Once these labor market segments have been addressed, the sources of revenue will dictate whether the other employed and apprenticeship based training beneficiaries are able to benefit directly from the fund.

5. National TEVET fund design

Global design

The design of the TEVET Fund follows the rationale presented above. The Fund consists of two main components, an Investment Funding Window and a number of Recurrent Expenditure Funding Windows. The latter are divided into three windows, a Pre-employment Funding Window, which is further divided into Institutional Learning and Workplace Experience Apprenticeship Sub-Funding Windows, an In-Service Training Funding Window and an SME / Informal Sector Funding Window.

Detailed funding mechanisms for the Pre-employment Funding Window, both the Institutional Learning and Workplace Experience Apprenticeship Sub-Funding Windows are presented. As far as the In-Service and SME / Informal Sector Funding Windows are concerned, a broad overview of possible funding approaches are described. The In-Service Funding Window depends on the outcome of the investigation into alternative private sector contributions to the Fund, which includes the decision on whether to implement a training levy. In terms of the SME / Informal Sector Funding Window, various funding approaches need to be tested through pilot projects before permanent funding mechanisms can be adopted.

Disadvantaged groups cut across the three main labor market segments that the TEVET funding windows focus on. Accordingly, additional incentives can be added to each of the funding mechanisms in the three funding windows, in order to provide special support to these learners.

Governance

Governance of the Fund should be based on a public-private partnership, the best features of modern public service delivery modalities and run by high quality management and management systems. Proposals are presented for governing the TEVET Fund. Based on an assessment of the current situation two proposals are put forward:

The **first** is that the Fund be located outside of TEVETA, governed by a separate board and management for a period of time and then transferred back under TEVETA.

The **second**, preferred option, is that the TEVETA Board itself be restructured, the Fund be located under this new board, and the Fund be established and managed within TEVETA by specialist management consultants for a specified period of time. This option would address general weaknesses in the present TEVETA Board as well as those relating to governance of the TEVET Fund. Specifically, it is proposed that a much smaller Board be established with equal government and private sector representation. Simultaneously the Ministry should establish a TEVET Stakeholder Advisory Council to accommodate broader stakeholder consultations, in particular, formal and regular consultations with training providers.

An overview of a new TEVET Fund governance model is presented. This involves establishing performance-based governance, training management and delivery model. The model is premised on devolving authority for managing the training system to the TEVETA Board / Funding Authority and increased autonomy for training providers alongside new accountability mechanisms which govern the relationship between the Ministry, TEVETA / the Funding Authority and training providers.

Funding Window 1a -- pre-employment institutional training

The main proposal in the report is for the introduction of a "Formula-based Funding Mechanism" for pre-employment training. The formula-based funding window replaces an inefficient input-based funding mechanism used to date by the Ministry. The formula funding mechanism will focus on school leavers with a grade 12 level of educational attainment. Funds will be allocated directly to a select number of accredited training providers that offer recognized learning programs towards full or partial qualifications. These providers will be expected, over time, to increase training in support of learner entry into the SME or informal sectors.

A formula-based funding mechanism addresses both the need for more stable year-on-year funding essential for providers offering pre-employment training, since it facilitates better planning and budgeting, and contains strong performance based funding elements in support of greater accountability by providers for the training they deliver. The formula also accommodates a range of training objectives and priorities -- efficiency, effectiveness and equity -- through a single funding mechanism. While the design and establishment of the formula based mechanism is relatively complex, once established with the relevant guidelines and computer packages containing the formula, its implementation should be simpler and clearer than the present funding mechanism.

In addition, the formula funding approach involves greater reliance on market-based incentives to achieve national objectives and priorities than on labor market information and national and local planning exercises. This is important in a context of limited labor market and skills information and planning capacity weaknesses.

The funding formula consists of a subsidy and user fees component. User fees will cover a portion of the unit costs of all programs. The subsidy part comprises six elements:

The **focus** is on learning programs, i.e., the standard cost of different learning programs.

The **units of activity**, which means the specific inputs or outputs against which funding will be allocated including learner enrollments, achievement, placement and profile.

Cost-based tariffs will be used to determine the **rates** at which learning programs are funded.

Stability, which will be based on three year rolling contracts with selected providers. A certain portion of the overall allocation to a provider will be **guaranteed** for the following years in the three-year contract, subject to adequate enrollment and output performance. Towards the end of each three- year contract a full review may be undertaken to determine whether or not the Funding Authority will extend the contract.

Equity is best addressed through a fee remission mechanism, which providers can be reimbursed for if considered a priority by the Ministry.

Skills priorities identified by the Ministry can be addressed by adding a premium for these programs in the formula.

Addressing specific **disadvantaged groups** is accommodated in the learner profile part of the unit of activity discussed above.

The **allocation mechanism** linked to the funding formula is premised on institutional strategic plans and funding contracts. The Funding Authority will be expected to publish all guidelines and information required by providers to develop their strategic plans. Providers must plan their activities focusing on enrollment, achievement, placement and learner profile targets and will then use the formula, contained in a standard software package, to determine their budget. A planning review process within the Authority will follow and funding contracts drawn up for each provider. Negotiations between the Funding Authority and providers on the final allocation may be necessary and the final contract must be signed. The roles of the Ministry, Funding Authority and training providers in the planning, budgeting, reporting and evaluation process linked to the funding formula are addressed in the report.

Funding Window 1b -- workplace experience part of apprenticeships
The focus here is on specific incentives to increase workplace experience opportunities linked to the theoretical tuition part of an apprenticeship program. Since employer willingness to offer training places to learners in their workplaces is the key determinant of the success of these systems, some financial incentive for employers is important. However, the extent to which this part of apprenticeship programs is subsidized by the Fund depends on whether or not the private sector contributes directly to the TEVET Fund.

The report proposes that an "apprenticeship cash grant scheme" be used to fund training under this window. The funds will be allocated to the provider delivering the theoretical tuition and it is then incumbent upon the provider to work out payment with each employer offering workplace experience to their learners. To satisfy the employer this agreement can be structured into the apprenticeship contract. The detailed mechanism is presented in the report.

Funding Window 2 -- in-house training
As discussed above, mechanisms for disbursing funds from this window are not presented in the report, pending the outcome of an investigation into private sector contributions to the Fund.

One of the main concerns of the private sector is the poor training record of most MSTVT training institutions, which has resulted in employers ignoring the graduates of these institutions. Accordingly they are loathed to contribute directly to a fund that will simply continue allocating funds to these providers in the old way. The formula funding approach should alleviate some of these concerns. In addition, the main proposal in the report is that the Ministry encourages the main economic sectors to consider direct participation in the governance and management of sector specific training institutions. Initiatives of this kind have taken place in Horticulture, which is an excellent example of a collective training initiative by the private sector, and both the Construction and the Hospitality and Tourism sectors have initiatives underway that could be supported as pilot projects with a view to extending the approach to other sectors.

Funding Window 3 -- the SME & informal sectors

These are very diverse sectors and there are no well-developed approaches to funding training in these sectors, particularly in Zambia. A single "one-size-fits-all" approach to funding and delivering training in these sectors is not appropriate. Accordingly, this section attempts to provide an organizing framework within which new funding approaches and delivery mechanisms for the sectors can be tested. This includes defining sub-sectors within these sectors more clearly, proposing a specific focus within these sub-sectors for the Ministry and TEVET Fund, and addressing key issues that need to be taken into account when developing new funding approaches for these sectors.

More specifically the section proposes that this Funding Window be broken down into a Market / Business Oriented sub-Window and a Self-employed / "Survivalist" sub-Window. A major theme is the need to establish intermediaries that are able to plan for, manage, and disburse training funds directly to training providers operating in these sectors. The intermediaries would address the constraints facing the Funding Authority in disbursing money directly to service providers operating in these sectors, and act as network agencies that support the provision of a range of services required by SME and informal sector operations. This approach draws on current initiatives in these sectors in Zambia. Initial ideas on the disbursement modalities for this Funding Window are then explored.

6. Management & administration of the TEVET Fund

The management and administration of the TEVET Fund includes the principles of financial management and administration, the main elements of the administrative systems, human resource and equipment requirements and the parameters of the financial systems that need to be established, including their link to a management information system.

The specific financial management and administrative requirements of the various Funding Windows are then discussed. This is divided into two parts. The first focuses on an Investment Funding Window and the second on the management and administration of funds in the recurrent Funding Windows. The Investment Funding Window will support the rehabilitation of training institutions, capacity building for personnel in the Ministry, Funding Authority, trainers, training center Board members, management and administrators as well as the design and establishment of all the systems required to implement the new TEVET policy. Since Donors will be primarily responsible for funding these elements of the new policy, the design of this Window focuses on their requirements.

It is proposed that the management of recurrent training funds be dealt with under a "Training Section", comprising technical assessment and financial administration sub-sections. The general requirements for administering these funds are presented. The main problem here is the manner in which different sources of funds for recurrent training expenditures are accounted for by the Fund. Two options are presented, the first is based on a Basket Funding approach where all money is located in a single Fund bank account while the second is based on Window Funding, where a bank account is opened for each of the sources of funds. The strengths and weaknesses of each approach are addressed.

The final section addresses the specific administrative requirements for the Pre-employment Funding Window.

7. Monitoring, evaluation & conclusion

Finally, a framework to guide the development of a Monitoring & Evaluation system for the TEVET Fund and strategy, as well as a list of initial steps to begin implementing the proposals, are presented.

Additional
Annex 14

Financial Management Action Plan

1. General

The Ministry of Science Technology and Vocational Training (MSTVT) has responsibility for the oversight of all training in Zambia. MSTVT will establish a Program Steering Committee (PSC) to oversee all aspects of implementation of the TEVET Development Program (TDP). MSTVT will also establish a PCT comprising the TDP Program Coordinator and TDP Component Coordinator, including Finance and Procurement Managers. Under the supervision of the Program Coordinator, the Finance Manager will be responsible for ensuring that financial management and reporting procedures will be acceptable to the Government, the World Bank and other Cooperating Partners.

The principal objective of the TDP's financial management system (FMS) will be to support management in their deployment of limited resources with the purpose of ensuring economy, efficiency and effectiveness in the delivery of outputs required to achieve desired outcomes, that will serve the needs of the people of Zambia. Specifically, the FMS must be capable of producing timely, understandable, relevant and reliable financial information that will enable management to plan, implement, monitor and appraise the Program's overall progress towards the achievement of its objectives. For the TDP to fully deliver on those objectives, its FMS will be developed in accordance with the Financial Management Action Plan presented in **Section B** below.

2. Financial Management Action Plan

Financial Management and Procurement Committee (FMPC)

Reporting to the PSC via the Permanent Secretary of the MSTVT, a representative FMPC will be appointed to review the quarterly *Program Management Report* (PMR) comprising:

Financial Statements, as discussed below. Members of the FMPC will review and approve Quarterly and Annual Financial Statements; they will examine material variances between budget and actual figures, seeking appropriate remedial action within an agreed timeframe.

Program Progress, i.e. Output Monitoring Report (OMR). The format and details of the OMR will need to be developed. An important aspect of the OMR will be the accompanying narrative interpreting the Program's progress with agreed financial performance indicators and how costs to date relate to those planned at appraisal, and the likely effect on the Program by completion.

Procurement Management Report (including Goods, Works and Services). See Annex 6.

Staffing

An internationally qualified Finance Manager will be appointed to direct and guide the financial operations. A Financial Advisor will be appointed and relevantly qualified and experienced support staff will be available. Varying levels of staff training may be required in financial, management and government accounting; information systems and computer applications; and procedures relating to the utilization of funds (e.g. Special Accounts, SOEs, Special Commitments, Procurement, etc.). On-the-job coaching will be provided.

Accounting system/financial procedures/internal audit
A Financial Management Consultant will be retained to advise on the selection and installation of the Program's computerized FMS (using an integrated accounts package), to prepare the Program's Financial Management and Procurement Manual (FMPM) and to train staff in the operation of the system. Provision has been made in the budget for hardware and software requirements. Also, Program activities will be periodically reviewed by the Internal Audit Department, Ministry of Finance and Economic Development (MOFED).

Planning and budgeting
Counterpart Funding will be approved in line with the Government's budgetary process. The Finance Manager, in consultation with the Procurement Manager and the FMPC, will be responsible for preparing the Program's Quarterly/Annual Cash Flow Forecast in line with generally accepted accounting practice.

Government accounting -- cash Versus accruals bases
The TDP will meet the MOFED requirement for cash accounting. This requirement is not expected to change in the short to medium-term. Thus, for the foreseeable future, Program funds will be accounted for on a cash basis. In due course, the FMPC will decide whether to convert to an accruals basis of accounting for management reporting purposes (whilst maintaining a cash basis for Government reporting purposes).

Procurement of Goods, Works and Services. Procurement procedures will be documented in the FMPM. World Bank and Government procurement regulations will be observed. The Finance Manager and support staff must be conversant with those procedures, as internal control issues and the incurring of liabilities on behalf of the Program will be matters of concern to the financial management function. A Procurement Management Report, showing procurement status and contract commitments, will be prepared quarterly for consideration by the FMPC (see above).

Banking activities -- flow of funds
The TDP will maintain 3 accounts as follows:

(a) Special Account with Bank X in US Dollars/kwacha which will show:
  (i) dollar/kwacha cost of transfers to Part 1 Account with Bank X;
  (ii) dollar/kwacha cost of direct payments to suppliers;
  (iii) dollar advances (kwacha equivalent cost) from the IDA Ledger Loan Account;
  (iv) opening and closing balances

(b) Current Project Account in kwacha with Bank X to which Counterpart Funding will be deposited. Initially, an initial deposit (three months float) will be provided and, thereafter, it will be replenished monthly.

(c) IDA Ledger Loan Account (Washington) in US dollars/kwacha/SDR, which will show:
  (i) cost of transfers to Bank X
  (ii) cost of direct payments to suppliers
  (iii) opening and closing balances

All bank accounts will be reconciled monthly; identified differences will be expeditiously investigated. Control procedures will be documented in the FMPM.

TEVETA, accredited training institutions and training fund
Subject to the submission and approval of annual work programs and business plans, the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) and accredited training institutions will be provided with accountable 90 day advances in US Dollars for eligible qualifying

activities in accordance with the procedures documented in the FMPM. In due course, a Financial Management Specialist from the Bank will be consulted when administrative arrangements for the proposed Training Fund are being considered.

Withdrawals/disbursements
By credit effectiveness, the TDP will not be ready for PMR-based disbursements (World Bank's Loan Administration Change Initiative Handbook, LACI, September 1998). Thus, in the short term, existing disbursement procedures as outlined in the Bank's Disbursement Handbook will be followed, i.e. Direct Payment, Reimbursement and Special Commitments. The appointment of the Finance Manager, coupled with the establishment and development of the TDP's financial management system, should facilitate the introduction of PMR-based disbursements within 18 months of credit effectiveness.

In due course, the adoption of PMR-based disbursements (which integrates project accounting, procurement, contract management, disbursement and audit with physical progress through the Program Management Report, as summarized above) should enable the TDP to move away from voucher-by-voucher disbursement methods to quarterly disbursements to the Special Account based on the PMR.

Fixed assets/civil works/consultants
Control procedures will be documented in the FMPM. A Fixed Assets Register will be prepared, regularly updated and checked. Regarding Capital Work in Progress, controls will be established to ensure that payments are made only for certified work (including physical verification). A Contracts Register will be maintained for all contracts with consultants. A Procurement Management Report, showing procurement status and contract commitments, will be prepared quarterly for consideration by the FMPC.

Financial reporting (monthly and quarterly/annually)
Monthly cash reporting. In compliance with Government requirements, the Finance Manager will be responsible for preparing a Monthly Return to the Accountant General, MOFED.

Quarterly/annually. The Program's Financial Statements will include:

(a) *A Consolidated Statement of Sources and Uses of Funds* analyzed by Cooperating Partner i.e. IDA, Counterpart and Donor Funds;

(b) *Program Balance Sheet* as at the reporting date;

(c) *Notes* on significant accounting policies and standards adopted by management when preparing the accounts; and on any supplementary information or explanations deemed appropriate by management to enhance the presentation of a "true and fair view";

(d) *A Statement* reconciling the balances on the various Bank Accounts to the bank balances on the Statement of Sources and Applications of Funds;

(e) *SOE withdrawal schedule,* listing individual withdrawal applications relating to disbursements by the SOE Method, by reference number, date and amount;

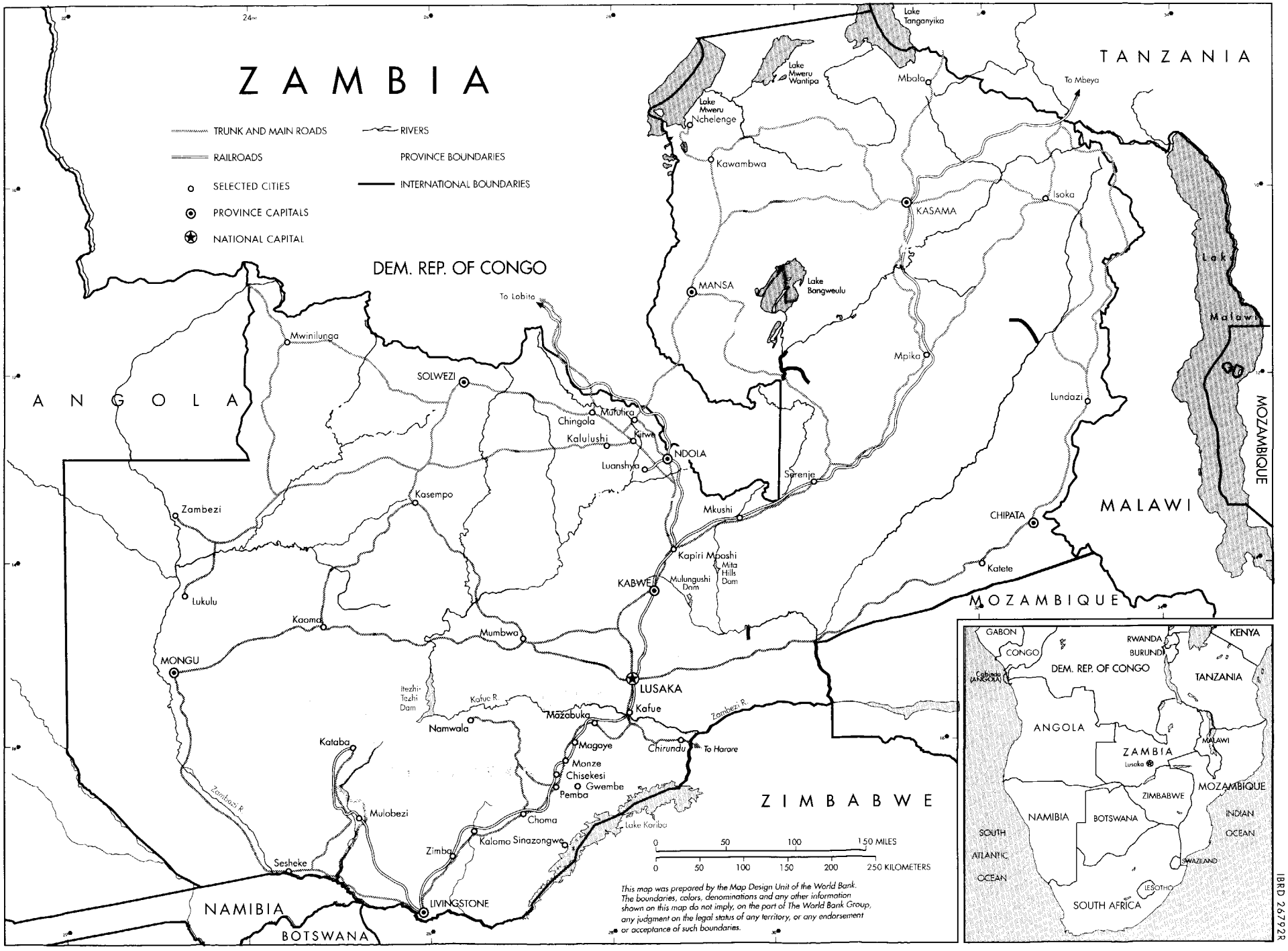
(f) *A Cash forecast* for the next two quarters.

Indicative formats for Financial Statements are outlined in a number of World Bank publications - Financial Accounting Reporting and Auditing Handbook (January 1995), The Loan Administration Change Initiative Handbook (September 1998) and the Draft Project Financial Management Manual (February 1999). In due course, the formats adopted by the FMPC will be documented in the FMPM.

External Audit

Audited financial statements will be submitted to the Bank within six months after the financial year end. In Zambia, the Office of the Auditor General (AG), as outlined in the Constitution of Zambia Act 1996, is responsible for the external auditing of all Government Funds. In practice, because of capacity constraints, the AG frequently appoints relevantly qualified, experienced and independent private sector auditors as his/her agents on approved terms of reference. In such cases, the private sector auditor reports directly to the AG who retains the overall signing responsibility for the audit opinion. Besides expressing a *primary opinion on the financial statements* in compliance with International Auditing Standards (IFAC/INTOSAI), the AG must include a separate paragraph commenting on the accuracy and propriety of expenditures withdrawn under *SOE procedures* and the extent to which these can be relied upon as a basis for loan disbursements. Regarding the *Special Account,* the AG will also be expected to form an opinion as to the degree of compliance with Bank procedures and the balance at the year-end. Additionally, the AG will be required to prepare a separate *Management Letter* giving observations and comments, and providing recommendations for improvements of accounting records, systems, controls and compliance with financial covenants.

MAP SECTION



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