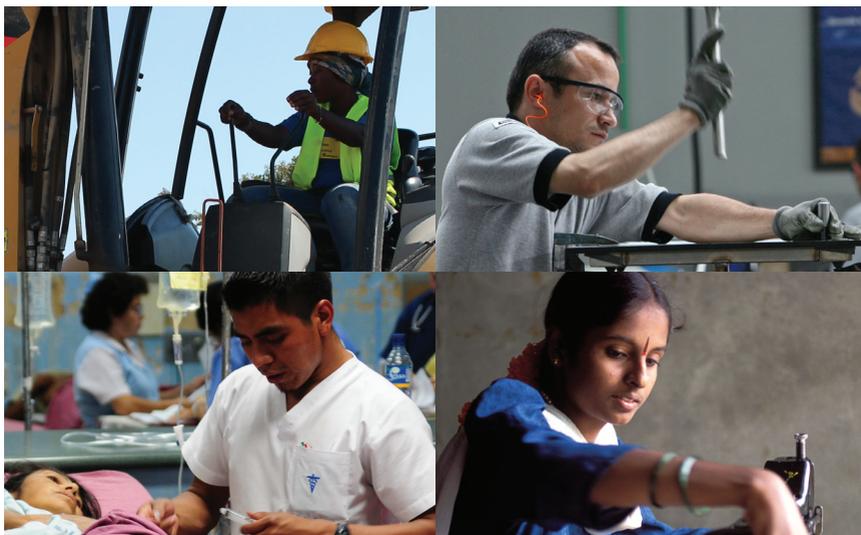


SKILLS AND JOBS

Lessons Learned and Options for Collaboration

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WORLD BANK GROUP
Jobs

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The accumulation of human capital through the acquisition of knowledge and skills is recognized as central for economic development.

More-educated workers not only have better employment opportunities, they earn more and have more stable and rewarding jobs. They are also more adaptable and mobile. Workers who acquire more skills make other workers and capital more productive and, within the firm, they facilitate the adaptation, adoption, and ultimately invention of new technologies. This is crucial for economic diversification, productivity growth, and ultimately raising the living standards of living of the population.

In the developing world, however, the majority of the labor force has very low levels of education. Even those with higher degrees might not have acquired the skills necessary to succeed in the labor market—particularly high-level analytical and interactive skills. Middle to high-income countries have the best indicators and yet the average number of years of schooling is only 8.5—primary plus some years of secondary education. At the same time, employers frequently complain that workers’ lack of skills is a constraint to their business.

This mismatch between the skills individuals have and those which are needed appears pervasive across countries. In India, for instance, 50% of university graduates obtain a diploma in arts, far exceeding employer demands. In Tunisia, more than 50% of university graduates are in jobs that do not use the skills they acquired in university. In Cambodia, employers also complain about skill mismatches, especially among out of school youth. More recent evidence from Lebanon shows that 40% of wage earners and the self-employed are in occupations that do not use their skills.

The situation is further complicated by the diversity of skills that seem to matter. Indeed, recent empirical analyses show that success in the labor market does not only depend on the acquisition of job-relevant or occupation-specific skills. Cognitive and socio-emotional skills, in part acquired in early childhood and during basic and secondary schooling, are also important determinants of employment dynamics and earnings later in life.

A pattern that seems to emerge is that as economies develop and diversify the demand for higher-level cognitive skills increases relative to the demands for manual job-specific skills.

Yet, the few studies looking at the distribution of cognitive and non-cognitive skills in the labor force in developing countries suggest that certain vulnerable groups, such as the unemployed and first time job seekers tend to have low cognitive scores or lack the socio-emotional skills that predict success as a self-employed worker or entrepreneur.

This note discusses the types of interventions that can be considered to improve the skills of those who are already in the labor force; either working or looking for jobs. Clearly, any strategy aimed at finding solutions to the skills problem needs to start with creating conditions for adequate early childhood development, laying a strong foundation in basic and secondary education, and improving tertiary education. These policies, however are outside the scope of the note.

The structure of the note is as follows. First, it examines the different types of market failures, and subsequently reviews the role that governments have played in training systems around the world. Finally it offers a set of proposals for reforming and improving these systems to improve labor market outcomes.

WHAT IS WRONG WITH THE DEMAND AND THE PROVISION OF TRAINING?

An important question is why the private sector—both workers and employers—is not able to address their training/skills needs and solve the problems discussed above. In many cases, private sector arrangements without government interventions or support have worked well. But in general, there are a number of problems that affect workers and employers and that can lead to an underinvestment in training and in the misalignment between supply and demand for skills. These usually involved imperfections in labor and capital markets, coordination failures, as well as decision making problems.¹

Imperfections in Labor Markets

In perfectly competitive labor markets there would not be a need for government intervention. Employees would have incentives to invest in their training and acquire skills that were in demand, knowing they would receive fair

remuneration for those investments (since there are many employers demanding these skills). Governments would simply need to make sure that individuals had the means to finance these investments.

But perfectly competitive labor markets are more likely to be the exception than the rule for many reasons. These include barriers to entry that limit the number of firms competing for given skills; workers not having sufficient information about where the jobs are and/or not being able to move to where they are; or employers not having sufficient information about the skills that workers have. In labor markets that are not perfectly competitive both firms and employees can underinvest in training. Firms underinvest because they cannot fully appropriate the returns to investment in training, since employees can be poached by other firms; employees underinvest because they would not receive fair remuneration for their higher productivity. The higher the bargaining power of employers the lower the investment in training by employees.

Imperfections in Capital Markets

Financial institutions usually have little information about the impacts of training on productivity, earnings, and the creditworthiness of individuals and employers. They may therefore be reluctant to finance worker training, particularly for low-income individuals with little or no credit history. This may lead to underinvestment in training. The implication is that governments may need to address these credit constraints through different instruments such as guarantees, student loans, and better information for financial institutions.

Coordination Failures

Often, the success of a given investment depends on the coordinated actions of various agents. At the high end of the skills spectrum, innovation externalities may occur when workers do not invest enough in training because there are not enough jobs for highly qualified professionals. But the reason there are not more of these jobs is that there are not enough qualified professionals in the first place. Economies may thus end up in a low-level equilibrium where firms do not innovate enough and do not pay high

enough wages, and workers do not invest in training because of a low skill premia.

Decision Making Failures

Even with perfect labor and capital markets and no coordination failures, individuals might not make the right decisions when it comes to investments in training. The main reasons are lack of information (knowledge), limited cognitive capacity to process complex problems, and psychological factors that make it difficult to commit to a given decision. For example, quite often individuals have inaccurate information on returns to training that may lead to under- or over-investment. Individuals also often lack reliable information on the quality of training providers and future employment prospects, and may invest in the wrong training. Even with the necessary information, investments in training and career choices are complex problems and individuals may not always make the right choice. Finally, high discount rates or the lack of non-cognitive skills that predict success in school (such as discipline and perseverance) can lead many individuals to procrastinate and fail to get enough education.

¹ Almeida, Rita; Behrman, Jere; Robalino, David. 2012. *The Right Skills for the Job? Rethinking Training Policies for Workers*. Washington, DC: World Bank

WHAT HAVE GOVERNMENTS DONE?

Individuals who are leaving formal, general schooling or who are already in the labor market can have access to a variety of training programs. Although these have been designed for different target groups, they can be broadly categorized into two groups:

- In-house, firm-based, or on the job training (OJT);
- Institutions-based training programs such as pre-employment technical and vocational trainings (TVET) and training-related active labor market programs (ALMP).

FIRMS-BASED/ON-THE-JOB TRAINING

A substantial amount of a person's lifetime human capital is accumulated after individuals leave formal schooling and while on the job. In the United States, for instance, more than half of the lifetime human capital is accumulated through post-schooling investments that take place on the job. The evidence reviewed shows that there is a strong and positive correlation between the incidence of job training at the worker or firm level and higher productivity. At the worker level, several country studies for the developing world suggest wage returns to workers may be as high as 20 percent per training episode. At the firm level, the incidence of job training is linked to higher firm productivity, a more schooled workforce, and more frequent technology adoption.

Nevertheless, the incidence of OJT in the developing world is still quite low, with only a small share of formal firms engaging in training. The important question then is why some firms do not train. Research shows that firms can be

classified into two groups. A first group of firms does not invest in training simply because their expected rate of return is smaller than the return on other investments. A second group of firms may have profitable expected returns to investments in OJT but cannot realize these due to market failures: liquidity constraints; high worker turnover—in part due to poaching; and/or lack of adequate information about the benefits of training.

Governments have put in place policies to try to increase the training provided by firms: training funds, tax incentives and grants, pay-back clauses and apprenticeships, as well as technical assistance. It is important to note that although several programs have been introduced and modified to promote OJT across many countries, few evaluations of those programs are available.

Tax incentives and grants

The most popular instrument in developing countries for providing subsidies is training funds. Although most of these funds are based on payroll levies, in practice, they may take various forms.

- Under a levy-grant mechanism all firms pay taxes and those that train, receive grants. The Mauritius's Enterprise Training Fund, for instance, has some features of this mechanism.
- In cost-reimbursement schemes all firms pay taxes and finance their training but then can be reimbursed for incurred expenses (this can impose a high administrative burden on the training fund). In practice, however, the reimbursement is often set below the levy paid to cover administration costs. For example, in the Nigerian Industrial Training Fund, firms qualify for not more than 60 percent of the levy paid, and in practice less than 15 percent of firms apply for reimbursement for training costs.

- Finally, in levy-exemption schemes, only those firms that do not train pay taxes. One good example is Côte d'Ivoire's Fonds de Développement de la Formation Professionnelle.

The overall effects of the three types of levy are nonetheless similar: the tax provides incentives for firms to train because firms that train pay lower net training taxes (the training tax net of the transfer to cover the cost of the training). Interestingly, and in spite of evidence that smaller firms are more affected by credit constraints, this is rarely incorporated into the design of the training funds. **However, nothing in this system ensures that the resulting training is efficient.** For instance, firms might simply organize training to reduce the tax burden and larger firms might be better at playing the system and getting their money back than small firms. In the end, the distribution of taxes and subsidies across firms (some firms will pay more than they receive and others will pay less) can be highly nontransparent and be delinked from firm- or sector-specific market failures that need to be addressed.²

Payback clauses and apprenticeships

There can be enforceable institutional arrangements that create adequate incentives for employers and individuals to invest in skill development. Payback clauses and apprenticeship contracts are the most popular arrangements, with the former being most common in middle-high-income countries and OECD countries as they are more difficult to enforce.

A payback clause is a type of labor clause specifying that the worker is required to stay with the firm providing the training for a minimum length of time. Otherwise, the worker will have to pay back the costs of job training. Because workers are required to stay with the training firm, employers can pay lower wages to recover

the training costs and can benefit from improved productivity without the risk of losing workers to other firms. Because these instruments require good governance and effective legal enforcement mechanisms, they have been preferred by high- or middle-income countries. In the German company Deutsche Bahn for example, employees have the opportunity to participate in training, on a voluntary basis. After the completion of the training program, there is a contractual retention of 18 months at maximum and Deutsche Bahn can demand reimbursement of the amount expended on training in whole or in part, depending on the circumstances of the individual case.³

The apprenticeship contract is probably the most widely used instrument to promote OJT across the developing and developed world. An apprenticeship is defined as a period during which individuals and firms engage in a working relationship, firms benefit from low-wage workers (usually early in their careers), and individuals have the opportunity to receive firm-specific training. This arrangement is very popular and useful for promoting the transition from school to work because it gives youth the opportunity to develop skills that are directly relevant to the labor market after completing their formal studies. During the apprenticeship period, wages are usually set below the market rate with an expectation that they will rise afterward. Therefore, the apprenticeship usually promotes the sharing of training costs between firms and workers (by underpaying workers during training). Because the implementation is relatively easy, financing and regulations are flexible, and the curriculum can be customized, the apprenticeship is popular even among micro and informal sector firms. However, the weak educational base of informal sector workers (or the trainers), the lack of quality standards for training, and the limited potential for scaling up have been acknowledged as

the main difficulties with apprenticeship. Good implementation may require enforcing both an adequate length of training and certification systems, as well as improved access to new technology.

An example of a well-defined and established apprenticeship program with good regulation is found in Germany. As a part of a dual-education structure that distinguishes vocational and academic training, German

apprenticeship plays a critical role in vocational training. It combines school-based and on-the-job training, follows a standardized curriculum and well-monitored quality standard, and incorporates private education (see box below). Adopting the long-standing traditions of German apprenticeship will not guarantee successful program implementation, but lessons from the German program, including its structure and principle, would be useful in promoting private OJT.

THE GERMAN APPRENTICESHIP PROGRAM

The best-known institutional arrangement for addressing the contractibility problem between employers and employees is the apprenticeship. The best examples are found in countries with a long tradition of apprenticeships and where this tradition works as an enforcement mechanism. This is the case in some African countries and in some European countries, in particular Germany.

Traditionally, apprenticeships have two components—the contract and the certification. Governments usually support the apprenticeships through a subsidy to the individual or firm and the contract is a private agreement between apprentice and the firm. The training content is usually designed by the firm but the governments ensure its quality and relevance. Apprenticeship programs can have both classroom and workplace training. Apprentices benefit from the training and acquire a certification at the end of their training programs. Employers benefit from the lower cost of labor during the apprenticeship period and can screen potential future employees.

An example of such system in the German apprenticeship program, a dual system based on classroom training in vocational institutions and training in the workplace. The structure of the program, in terms of transparency and quality, curriculum, content and time structure of the training are regulated by the Federal Institute for Training and other national committees.

Apprentices' wages are lower than productivity but after training, they typically grow higher. The evidence shows that apprentices, especially in large firms, increase their employability. However, the post-training retention rates for firms are low as apprentices get general skills that can be applied in other firms than the one which trained them. In addition, training costs are far from negligible. The strongest constraint in the transferability of such programs is that they require a strong institutional framework, in particular a clear legal framework.

² UIS and UNEVOS, 2007, "Participation in formal technical and vocational education and training programmes worldwide: an initial statistical study". Montreal.

³ Cedefop, 2012. "Payback clauses in Europe: supporting company investment in training"

Technical assistance

Institutional solutions to reach small enterprises have also been developed to help SMEs in training developments. Small firms are more likely than large ones to be unaware of the benefits of training and of the existing programs aiming at fostering training investment.

A few developing countries have used intermediary organizations to help SMEs implement training programs. A good example is South Korea's effort to support SMEs through an intervention that attempts to overcome large fixed costs and create economies of scale in training provision. In Korea, SMEs often did not take advantage of training funds for which they already paid levies probably because of limited capacity to administer and finance training. In recognition of this, the Korean government encouraged SMEs in similar sectors and regions to form a consortium so that they could collaborate in providing training. Later the program vertically expanded; now the consortium includes large firms, and SMEs can achieve synergy with their large partners in acquiring and maintaining skills. Even though this represents an innovative effort to promote training, it can provide only limited evidence on its effectiveness because detailed data collection and rigorous evaluation was not incorporated.

Mexico's Integrated Quality and Modernization program, or CIMO, is a comprehensive strategy to support SMEs by addressing not only specific training but also overall competency, including research and development, technology adoption, and managerial skills. CIMO was established in 1987 and has been particularly successful. By 2000 it was helping 80,000 enterprises each year with a package of training

and industrial extension services and training 200,000 employees. More than 300 business associations were participating in CIMO in 2000, up from 72 when it started. In addition, CIMO's M&E effort distinguishes it from other programs. CIMO administered data collection in such a way as to gather panel data over time. A great deal of effort to construct data over time has provided the policy makers with useful information on how the intervention has evolved and worked.

INSTITUTION-BASED TRAINING PROGRAMS

There are many training programs offered by institutions. These are targeted at both those who are leaving school and before employment and for those who are currently in employment. These include pre-employment technical and vocational trainings (TVET) and training-related active labor market programs (ALMP).

TVET Programs

Pre-employment TVET continues to garner the interest of developed and developing countries alike as a critical pathway toward gainful employment. Although most of these funds are based on payroll levies, in practice, they may take various forms. With the objective of imparting readily applicable, job-relevant skills, it focuses mainly on young people nearing the end of their initial formal schooling and entering the labor market. The surge in basic education graduates worldwide, as well as TVET's perceived role in fostering East Asia's industrialization, has further increased the attention on TVET in recent years. Nonetheless, developing countries face many issues in the provision of job-relevant TVET. The challenges range from

the lack of quality program offerings and industry experienced instructors, few industry partnerships, and lack of adequate resources to offer access to high quality workshops and equipment. Moreover, there is limited training provision to promote productive employment in the agricultural and informal sectors.

The lack of data and the diversity of TVET programs suggest caution in drawing firm conclusions about the impact of TVET on labor market outcomes. The returns to investment in TVET vary widely across systems and over time, suggesting that the performance of pre-employment TVET is context-specific. Among OECD countries there is some evidence that, on average, the employability of students graduating from TVET and from general tracks are similar but students graduating from general tracks tend to earn higher wages. However, isolating the effect of TVET is difficult as student characteristics, some of them unobservable, influence both the likelihood of selection into TVET and the level of labor earnings. Students following the TVET track typically have lower test scores and come from less favorable parental and family backgrounds than their peers in the general track. Findings from survey data on labor market outcomes associated with TVET for developing countries are also mixed and inconclusive. They illustrate that while returns to pre-employment TVET can indeed be positive, they are not consistently greater or worse than those associated with general education.

Fostering the economic relevance of TVET programs is perhaps the most important policy challenge confronting pre-employment training systems. These mismatches between skills supply and demand often create a paradoxical situation in some countries: high rates of unemployment among the graduates of training programs alongside complaints of skills bottlenecks by employers. Low-income countries, in particular, face further challenges due to small, underdeveloped modern industries and a lack of funds for sustainable training programs.

The successful experiences of the Republic of Korea, Taiwan, China, and Singapore are exceptional and illustrate how economies can overcome these difficulties by having effective governance arrangements and explicitly incorporating demand-driven TVET into their national industrialization policies. For example, the Demand-led pre-Employment TVET for Economic Growth in Singapore owes its success to the skills development schemes sponsored by the Singapore's Economic Development Board during the agency's first decade (see below). This identified the source of demand for higher-level skills and aligned the training curricula with the skills to be developed. Building partnerships with large private sector companies such as Tata Group, this system succeeded in providing people with the right skills to join the labor market.

DEMAND-LEAD PRE-EMPLOYMENT TVET FOR ECONOMIC GROWTH IN SINGAPORE

Singapore's pre-employment TVET system is widely known for its quality, owing much to the skills development schemes sponsored by Singapore's Economic Development Board (EDB) during the agency's first decade.

Facing an inauspicious start (failure of the training-production workshops and retraining schemes), the EDB decided to partner with leading international firms with proven training systems in order to learn the training business from them, train their requirements and adapt the methods for local needs.

EDB's first training partner was Tata Group, a large Indian conglomerate. It led to the creation of the Tata-Government Training Center to supply workers for Tata's engineering plant in Singapore. The Singapore Government provided the land and buildings, contributed 70% of the center's operating costs and paid the stipends of the trainees. Trainees were committed to work with EDB or any company directed by the agency for 5 years. Twice as many people as Tata required were trained in order that the rest of the graduates not recruited by Tata would be an asset to attract other engineering firms to Singapore, contributing to the growth of an industry cluster.

Training-related active labor market programs (ALMPs)

Not all workers have access to TVET or OJT, and thus many countries have developed parallel training programs for the more vulnerable workers. These ALMPs target a wide range of individuals with different needs: unskilled and low-skilled workers who dropped out of the education system usually before having completed secondary school; youths transiting from school to work; skilled workers in transition between jobs.

There are many designs under these types of programs. It is useful to distinguish between programs that offer technical skills training

only and other multiple service programs that include training as one of a number of interventions—OJT, subsidies, counseling, etc. In general, most training-related active labor market programs are short, with a typical duration of 4–6 months. The short duration of the programs suggests that at best they might be expected to have relatively modest effects on the participants comparable, perhaps to the impact of an additional year of formal schooling.⁴ In many cases, governments are the direct providers of training. Programs that are managed by the public sector suffer from weak incentives to reach out to the private providers and often also lack the administrative capacity to do so.

⁴ Card et al (2010), "Active Labor Market Policy Evaluations: A meta-analysis"

Some of the most successful programs consist of comprehensive-multi-service approaches.

These programs involve some combination of training (i.e., job and/or life-skills training), job search assistance, entrepreneurial services, and a range of other social and employment-related support services. Usually provided by qualified private firms, NGOs or public institutions, they provide training and other services on a competitive basis. International experience suggests that core components to make these programs successful are the incentives put in

place to connect beneficiaries to OJT. Most of the comprehensive programs have been taking place in Latin America (Jovenes programs—see below) and have produced positive results in terms of jobs placement and employment benefits. The downside of these programs is that per capita costs can be high, on the order of US\$600—US\$2,000, and, although cost-benefit analysis for some programs have yielded attractive rates of returns, governments facing tight budgetary constraints might be able to only afford them at a small scale.

JOVENES PROGRAMS

Jovenes Programs refer to a series of programs that have been implemented in Latin America since 1991, aimed at improving youth employability and human capital. Targeted at disadvantaged young workers, they combine training and work experience as well as life skills, job search assistance, counseling and information. This model began in Chile and was subsequently replicated in Venezuela, Argentina, Paraguay, Peru, Colombia, Panama and the Dominican Republic.

Financial incentives are given to both trainees and employers to ensure both sides participate. Training is provided on a competitive basis by private sector firms, while training institutions coordinate courses and internships. This ensures the skills taught in the program fit with the needs of the productive sector.

Evidence shows that these programs contribute to an increased employment probability and increased earning of participants upon graduation, compared to their control group. For example, women's employment probability has increased by 10% thanks to Proyecto Joven in Argentina, while monthly earnings also increased by 10%. On average, labor market impacts of these programs are higher for women and younger beneficiaries than for men and older cohorts.

Despite all the different programs that have been launched, it is unclear whether these have had any real impact on overall labor market outcomes. A forthcoming paper by Kluge et al. (2015)⁵ has looked at the labor market impact of various kinds of interventions to improve the labor market outcomes of youth, among them training programs. Using data from both developed and developing countries, the meta-analysis shows that only small share (around one third) of skill training programs have a positive and significant impact on labor market outcomes.

There are, however, several factors that have been consistently associated with success of various programs—the most important being giving incentives to providers to respond to the needs of employers and job seekers.

Excessive centralization in program administration should be avoided by giving local labor offices the flexibility to manage their programs, and by outsourcing implementation to public and private companies through contracts that reward performance. The latter should meet clearly defined standards regarding the qualifications of staff, particularly for counselors, and follow protocols for methods to assess competencies and aptitudes, provide career advice, and identify training needs. There is also growing evidence that a combination of technical training with soft skills and OJT components leads to better results than classroom training alone, especially for disadvantaged youth and adults. This model is essentially what some European countries are doing, including Germany and the United Kingdom.

However, rigorous impact evaluations as well as continuous monitoring of programs are still lacking in many developing countries. A strong conclusion from the review is the need for major improvements in the quality of evidence available for ALMPs. The absence of rigorous evaluations almost certainly leads to an overestimation of program impacts by policy-makers. Properly evaluated programs are less likely to lead to positive assessments of impact and effectiveness than judgments based on non-scientific methodologies. In the absence of such evaluations, then, policy-makers are likely to overestimate the benefit of their interventions and, as a result, allocate resources inefficiently. This is a particular concern in developing countries where resources are scarce and evaluations are uncommon.

⁵ Kluge et al. (2015), “Interventions to Improve the Labour Market Outcomes of Youth: A Systemic Review of Training, Entrepreneurship Promotion, Employment Services, and Subsidized Employment Interventions”

THE POLICY AGENDA

Skills development programs are an important part of the jobs agenda, but they are very unlikely to be successful if other interventions are not in place. Jobs strategies within a country usually involve policy interventions to create jobs, increase the productivity of jobs, and facilitate access to jobs. These strategies require multi-sector interventions—macro-economic policies, improvement in business regulations, investments in infrastructure, and better labor policies. Having a regional and sectoral focus in the design of these strategies is also important.⁶ Skills development programs therefore need to be coordinated with these interventions to have a meaningful impact.

Before continuing to develop and expand the current skills development interventions, there is a need to better understand the market failures. In that view, there are three important aspects to the skills and jobs agenda that need to receive more attention: firms; contestable markets; financing. Some suggestions in terms of priority interventions are presented below.

Constraints to firms' investments in training could be addressed in several innovative ways:

- **Advise firms' management on the productivity benefits of training.** While many existing programs focus on alleviating financial constraints, one of the key ways of fostering firms' investment in training is to make sure that managers are aware of the positive impact of training on firms' productivity. They could also be advised on what programs and incentives exist for investments in training

such as subsidies or tax incentives. Even more, these advisory services would increase the knowledge of managers on both the need for and benefits of OJT and any potential training programs they might implement. These services could also be integrated with any existing nonfinancial support services for small and medium enterprises. In this way, the firms would benefit from an integrated approach to technical assistance. This would promote competency, information and knowledge sharing. Technical assistance could take the form of business consulting to promote firm productivity, including strategies related to technology adoption, human resource management and skills development. A complete technical assistance would help them to improve the complementarities between their workforce and other factors of production.

- **Increase firms' access to credit tied to training investments.** There is room for policies to provide and improve financial support to firms, in particular by increasing their access to credit geared towards training investments. This is because firms may face liquidity constraints that prevent them from investing in training. Currently, the most popular way to provide subsidies to firms is through training funds, particularly those based on payroll taxes. Most international experience shows that this type of incentive is focused on larger firms, for which the returns of training are arguably higher—even without any public intervention. Another way to increase firms' access to credit is via matching grants, where government subsidies match the firms' resources.

⁶ Concept Note for the World Bank's work on "Jobs Diagnostics and Strategies: Lessons from their Design and Implementation in 20 Countries"

- **Design and test mechanisms to allocate partial subsidies to incentivize training, especially for generic transferable skills.** Countries could consider moving away from pay-roll taxes for training and tax-exemptions, and instead focus on the design of matching grants financed through general revenues. Grants would be targeted to firms with growth potential, such as young innovative start-ups, rather than focusing only on firm size. Other firm characteristics that could be used as proxies for targeting include the firm's sector of activity, the frequency of it adopts technology, or the gaps between wages and productivity. Firms usually have higher incentives to provide their workers with training for job and firm specific skills. Generic skills training, such as communication and presentation skills or problem-solving, however, are less likely to be provided by firms, as there is a higher risk of trained workers leaving the firm and applying these newly acquired generic skills in other firms. Therefore specific subsidies to generic skills could be designed in order to reduce the risk taken by firms in investing in this kind of training.
- Finally, **encourage public-private partnerships.** These are an efficient way of sharing risks and costs between governments and firms. The example of Vale, a Brazilian company, shows a successful public-private partnership. Vale's training program identifies the skills the corporation needs and helps local educational partners develop specific courses to train an appropriately qualified workforce. The program offers two curricula at the university level and at the technical apprentice level. The first curriculum educates engineers and geologists, in partnerships with universities. The technical apprentice level targets young people who are finishing school and provides them with the technical education, partnering with local education institutions.

Institution-based training programs could benefit from having more contestable markets for training provision. This can be achieved in the following ways:

- **Level the playing field for private training providers.** To level the playing field for private companies, the laws and institutions should favor the presence of both public and private providers of training. This would foster competition and innovation in training programs. In many countries, training providers are often public, and they are paid based on inputs or outputs (such as the number of people trained) rather than on their performance or outcomes (such as the number of people who got jobs after training). Having both public and private companies would increase competition and potentially training quality.
- **Make information publicly available on the quality and performance of training providers.** In addition, clear and detailed information on the quality and the performance of different providers would keep the best training providers in the market and force others out. For instance, in Australia, Job Services Australia (formerly called Jobs Network) is a network of competitively selected for-profit and not-for-profit organizations delivering employment services to job seekers, paid for by the government. Each organization is responsible for providing job seekers with personalized services such as job search and training. The network has a star rating system, assigning stars to agencies according to their level of performance. The benefits of this system are two-fold: first, it increases competition across agencies, incentivizing them to provide better employment services; and second, it provides job seekers with the necessary information of each agency's performance. While competition between private and public training agencies has been

implemented over the last decades in OECD countries, in developing countries it is more recent.

- **Pay for results.** Increasing information on the performance of training providers can go hand in hand with performance-based payments of training providers. In Lebanon, for example, the New Entrants to Work Program (NEW) selects NGO and private training agencies on a competitive basis, and rewards them based on their performance. Indeed, it might be a way of incentivizing training providers to increase the quality of their training programs through contracts that reimburse based on outcomes of the training such as job placements and the sustainability of the jobs acquired.
- **Put in place clear and transparent criteria for the eligibility of training providers.** The experience of countries such as Australia, which introduced a fully contestable market for VET in 2012, shows that when contestability is introduced into a training market, it must be done alongside strong regulatory mechanisms. Importantly, there need to accurate and readily available quality signals. This enables students and employers to make informed decisions about their choice of provider. Any delays in implementation of both sufficient regulatory and transparency mechanisms can lead to subpar training providers taking advantage of a lack of scrutiny and public financing. Clear and transparent eligibility criteria for training providers need to be in place and an independent assessment of whether these criteria are met should be periodically conducted.

- Finally, **develop public goods such as new models and approaches to teach socio-emotional skills.** While there is growing evidence on the importance of these skills for labor market success, there are big knowledge gaps on what are cost-effective approaches to develop these skills among the young adult population. Most of the existing interventions have been tried for children and teens still in the education system. There is a need to develop effective approaches that are more suitable for delivery through labor market training programs.

Both firm- and institution-based training programs could benefit from innovative financing mechanisms. Indeed, both individuals and firms often lack the necessary funding to invest in training. In addition, given the rising need for skills training in many countries, government financing might not be sufficient to cover everyone who needs training. Consequently, there is a need for alternative financing arrangements that rely more on costs and risk sharing with the private sector and the individuals themselves.

- **Social bonds** might be used to finance investments and service delivery. Initially introduced in the United Kingdom at the beginning of the 2000s, the social impact bond model makes outcome payers such as governments, foundations or corporations contract with private sector intermediaries to obtain social services. Outcome payers can pay providers entirely or almost entirely upon completion of performance targets and can refuse to pay if minimal targets have not been reached.

In this model, commercial or philanthropic investors provide upfront, unrestricted capital and receive returns if improvements in outcomes are achieved. The intermediary uses these funds to finance service providers. This has several benefits: it shifts the investment risks from taxpayers to private investors and it also reduces the fiscal constraints as the funding does not come from tax based public expenditures. In addition, the performance-based structure of the program incentivizes service providers to increase the quality of their services.

- **Individual training accounts (ITA)** have been used in the United States, for instance, to provide job seekers with vouchers they can use to get training by eligible training providers.

ITAs give individuals the freedom to choose the training providers that match their requirements. In some ITA models, individuals can also consult counselors, who help them choose the training providers but who cannot choose for them. In the future, individual training accounts could benefit from more cost-sharing between the government and individuals, by incentivizing individuals to pay for a part of their training. This means they would become more selective about the type of training they undertook and training providers they used. This could be modelled after individual development accounts (IDA). These are matched savings accounts for low-income people, which can be used to purchase a home, to start a small business, or further education or job training.⁷

⁷ There are more than 500 such savings schemes in the United States

THE TRAINING POLICY AGENDA

REDUCE FIRMS' CONSTRAINTS



- ▶ Advisory services to management
- ▶ Access to credit (matching grants)
- ▶ Target subsidies at generic skills training
- ▶ PPP – public private partnerships

IMPLEMENT CONTESTABLE MARKETS

- ▶ Level playing field for private firms
- ▶ Information on quality and performance of training providers
- ▶ Performance-based payment
- ▶ Objective criteria for the selection of training institutions



FINANCING MECHANISMS



- ▶ Social Bonds
- ▶ Individual Training Accounts

WHAT CAN WE DO NEXT?

Going forward, there are several opportunities to improve training policies to ensure that the current and future workforce have the skills needed in the labor market:

- **First, more collaboration with the private sector is needed.** Experience from training programs around the world shows that engaging the private sector is key to ensuring that training is relevant to the needs of employers. However, the private sector can play a much bigger role in designing, financing, and implementing training programs in order to increase their impact. Public-private partnerships have already been successful and could be encouraged further.
- **Second, in following with the adage “what gets measured gets the attention, and gets done”,** there is a need to continue improving the measurement of skills gaps—ie, which skills are demanded by employers and to what extent these are possessed or not by workers. Without these measures, policy interventions will be guided in the dark. Through the STEP Skills Measurement Program, the Bank, in collaboration with the OECD and prominent academics, has been pioneering efforts across the developing world to measure and analyze the role of cognitive, socio-emotional and technical skills for labor market success.⁸ These surveys, consisting of an employer and a household surveys,

have now been implemented and analyzed in about 20 countries across the World since 2010. Emerging evidence from these surveys have already inspired innovations in educational and training programs in countries like Peru and Vietnam where governments are undertaking major reforms to strengthen the teaching of these skills from basic education to building closer partnerships with the enterprise sector in post-secondary, labor training and OJT programs.

- **Finally, piloting and evaluating innovative approaches is key to workforce development.** As shown above, there are several innovative ways to increase the efficiency and effectiveness of training programs. Whether it is innovating with the way subsidies are targeted or introducing performance-based payments for training or approaches to teach socio-emotional skills, starting with small proto-types that are potentially scalable is a more prudent and efficient approach than introducing untested approaches system wide. Thus, it is a priority to invest in monitoring and evaluation to rigorously analyze results and estimate the costs and benefits of interventions. As a result, it would be possible to determine whether interventions have sufficiently large gains to compensate for their costs, which is key to knowing that resources are being well spent.

⁸ <http://microdata.worldbank.org/index.php/catalog/step/about>

