ZAMBIA – Technical Education, Vocational and Entrepreneurship Training Development Program Support Project– (Credit No. 3521-ZA) - Proposed Amendment to the Development Credit Agreement

1. The Government of Zambia has requested that the Development Credit Agreement (DCA) for the Technical Education, Vocational and Entrepreneurship Training Development Program be amended. This memorandum sets out the justification for the proposed amendment, and seeks the Executive Directors’ approval.

I. Initiation of a TEVET Reform Process

2. In Zambia, there are 23 public sector training institutions (Technical Colleges offering programs of up to 3 years, and Trades Training Institutes offering programs of up to 2 years) affiliated with the Ministry of Science, Technology, and Vocational Training (MSTVT). Some other ministries also have training centers offering shorter Technical Education, Vocational and Entrepreneurship Training (TEVET) courses. Most TEVET in Zambia is provided by nongovernment providers, and there are more than 200 registered TEVET institutions. Many of the public sector training institutions were originally oriented to meeting the needs of formal sector industries. During the 1990s, Zambia’s copper mining industry declined, and other industries were adversely affected by import liberalization, with consequences for formal sector employment. Employment in the informal sector has increased, raising the demand for training for self-employment.

3. A process of reconsidering the policy and institutional framework for the TEVET subsector got underway in 1994, supported by Danida. The TEVET Policy (1996) stated that the TEVET system needed to be highly responsive to employment patterns of the economy. Institutional and non-institutional training inside and outside of Government establishments would be recognized and encouraged. Toward those objectives, the organizational and management structure for TEVET would be reviewed. In order to increase and diversify sources of financing, a training fund would be established.

4. The TEVET Act of 1998 enabled the Minister for Science, Technology and Vocational Training (the Minister) to appoint Management Boards, with functions including cost recovery, for Government sponsored training institutions. It also created a Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) with the following functions, among others: (a) advise the Minister on TEVET in Zambia; (b) regulate and advise Management Boards; (c) curricula; (d) examinations; (e) trades testing (f) registration and inspection of both public and private TEVET institutions. TEVETA is headed by Director-General, who reports to a Board, a majority of whose members are drawn from the private sector, including employers. As a parastatal body, TEVETA determines the terms and conditions of service for its staff, with the approval of the Minister, in consultation with the Cabinet. This means that TEVETA pays better than the mainstream civil service. The Act also unbundled some responsibilities formerly carried out by MSTVT, but it did not describe the residual responsibilities of MSTVT, subsequent to the creation of Management Boards and TEVETA.
II. Design of the TEVET Development Program

5. In order to mobilize increased donor support, the TEVET Development Program (TDP) was prepared during 1999-2000, resulting in a Program Implementation Plan 2001-05 (PIP). The development objective of TDP is the creation of a high-quality, sustainable, demand-driven, and equitable TEVET system. Two or more monitoring indicators were identified for each of the four desired characteristics of quality, sustainability, demand-responsiveness, and equity.

6. TDP consists of the following components: (a) organization and management of TEVET; (b) training systems, trade testing, and examinations; (c) entrepreneurship and informal sector development; (d) human resource development; (e) TEVET information systems; (f) infrastructure and equipment; (g) “cross-cutting issues” (HIV/AIDS and gender); and (h) TEVET financing. As set out in the PIP, the TEVET Act would be reviewed/amended by 2002, and the TEVET Fund would be operationalized by September 2002.

7. A joint appraisal of TDP by representatives of Danida, GTZ, the Netherlands, and the World Bank took place in January 2001, resulting in a Joint Appraisal Report. EU and JICA also participated in some of the plenary meetings in Lusaka. According to its terms of reference, the Joint Appraisal would provide directions for support “through the principles of Sector Wide Approach (SWAp)”.

8. The Program design provided for Government-led procedures, such as an Annual Work Program and Budget (AWPB) process, and semi-annual Program Steering Committee meetings, modeled broadly after the ongoing basic education program of the Ministry of Education. It was recognized that cooperating partners would support TDP in various ways:

- Ongoing, targeted, “project-type” support being provided by GTZ, EU, and JICA was recognized as falling within the umbrella of TDP.

- Danida made a new commitment of “Sector Program Support” in 2001. These funds are directed to TEVETA, and to four identified TEVET training institutions in Lusaka, Livingstone, and the Copperbelt Province. The annual budget proposals for the Danish funds are approved by the Boards of the respective institutions, following submission by the respective chief executives. Thus, these funds do not flow through MSTVT.

- The funds provided by the Netherlands and by IDA are each administered by MSTVT, for purposes within the AWPB. The IDA Credit in support of TDP was approved in June 2001, and became effective in February 2002.

9. To help administer TDP, MSTVT proposed the creation of a Program Coordination Office (PCO), headed by a Program Coordinator. This was a controversial issue in the joint appraisal, with at least one funding partner considering it an unnecessary distraction. There would also be a coordinator for each component. The Joint Appraisal Report observed that “Parallel structures should not be created . . . the PCO is temporary and its functions should be taken over by the line officials of MSTVT . . . “ According to the implementing
arrangements established in the IDA’s Program Appraisal Document (PAD), the PCO would be within the Directorate of Vocational Education and Training of MSTVT”, while many functions would be performed by existing line units of MSTVT.

10. The Government’s TDP Statement of Sector Policy (April 2001) builds upon the earlier documents mentioned above. It says that “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 implementing TEVET.” Regarding financing: “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”. The TEVET Fund, to be located within TEVETA, would be innovative in two important respects: (a) It would be accessible competitively by private as well as public TEVET providers; (b) it would be “demand-driven” in the sense that demonstrated success in labor market placement would be an important criterion for courses to qualify for subsidization.

III. Implementation of the Program

11. The Program Steering Committee met for the first time in June 2001, and has continued to meet periodically thereafter. The first consolidated AWPB was approved in early 2002. The PCO was staffed beginning in January 2002 with persons on 2-year contracts, and was set up in a Government office building apart from MSTVT and TEVETA. Processes for procuring office equipment, tools, and workshop equipment, for civil works rehabilitation, and for recruiting consulting firms for various consultancies, got under way.

12. Nonetheless, during 2002-03 the external financing agencies supporting TDP became dissatisfied with the progress of the Program. Cooperating partners were concerned that the Program was underperforming in expenditure terms. In 2002, the rate of expenditure from the approved AWPB of IDA and Netherlands funds controlled by the PCO was only 13%. For the first nine months of 2003, the expenditure of IDA/Netherlands funds controlled was only 16% of the approved full-year amount. The ratio of actual expenditure to budgets under the Danida assistance was somewhat better, but still below 50%.

13. More particularly, key institutional reform activities were lagging. A planned consulting task on review of the TEVET Act was abandoned because the funding agency (a bilateral) was dissatisfied with the fairness of the procurement process that had been followed. The consultancy on establishment of the TEVET Fund lagged behind the original timetable, with a contract awarded only in June 2003.

14. Regarding the institutional framework: In countries where National Training Authorities (NTAs) such as Zambia’s TEVETA have been created, insufficient clarity in the assignment of responsibilities has often led to tensions between the NTA and the parent ministry, and donors have had this perception in Zambia. In the case of TDP, the administrative environment was further complicated by the creation of the PCO. Donors perceived that the PCO was functioning in a semi-detached manner, similarly to a Project Implementation Unit, thereby endangering the principle of TDP functions being carried out
to the maximum extent possible by the respective departments of MSTVT and TEVETA. The selection of component coordinators did not well reflect established responsibilities in MSTVT and TEVETA. The disparity in compensation between MSTVT civil servants, on the one hand, and TEVETA and the PCO, on the other hand, was reported to be demotivating contributions from MSTVT civil servants. Finally, during 2001-03 there were five different regular or acting Permanent Secretaries of MSTVT. In the view of donors, these institutional factors contributed to the lagging implementation of the Program.

15. Neither the Joint Appraisal Report, nor the IDA PAD and DCA, provide for a Midterm Review. In view of their dissatisfaction with the implementation of the Program, the funding agencies proposed in 2003 that a “Joint Review” (substantively equivalent to a Midterm Review) be carried out, and this was agreed. The Review took place in November/December 2003. The team was led by a Bank staff education specialist, and consisted of thirteen persons selected by five appointing agencies – MSTVT, TEVETA, Danida, the Netherlands Embassy, and the Bank. A draft report was presented to GRZ stakeholders in December 2003, and the Joint Review Report (JRR) was finalized in 2004.

16. Major findings of the JRR were as follows:

- Implementation progress toward component outputs has lagged seriously behind plans, for all components. Reasons included overambitious AWPBs, insufficient administrative capacity, cumbersome approval and procurement procedures, and an overoptimistic assessment of the implications of the reform process.

- “The Review finds very slow progress toward achieving the Development Objectives” of quality, sustainability, demand-responsiveness, and equity. (Note: Many of the quantitative D.O. indicators depend on setting up new M&E systems for a sample of TEVET institutions, and on the labor market experience of TEVET graduates. Consultancies had been launched by the time of the Joint Review, but had not yet yielded baseline or post-baseline data. The team’s findings on the D.O. were based on site visits and interviews with TEVET institutions, students, and employers.)

- The institutional assessment found that the TEVET Act does not provide sufficient clarity, and that the TDP administrative design was not aligned with established GRZ structures. “Reluctance to cooperate” was found.

- Domestically-resourced GRZ funding for TEVET had decreased substantially in real terms. TEVETA was heavily financially dependent on Danida, with Danida funds being 73% of TEVETA’s income in 2002. Because of weaknesses in accounting and financial reporting, the true financial condition of the MSTVT-affiliated training institutions was not very clear, but many had fallen into arrears to suppliers and other creditors, and some were “technically insolvent”. (Although the preparation/appraisal process had recognized generally that “human resource development” was needed in the TEVET sector, the financial management of beneficiary institutions had not been identified specifically as a problem then.)
17. The Review made 33 recommendations. Among them were that the PCO should be dissolved, with its staff and functions mainstreamed, some into MSTVT and others into TEVETA, and that MSTVT should prepare detailed plans for proceeding with strategically important, delayed outputs, such as revision of the TEVET Act and establishment of the TEVET Fund.

18. It was quickly agreed in principle that the PCO would be dissolved. However, the process between MSTVT and TEVETA to reach agreement on the details of mainstreaming absorbed several months, and some details of the JRR’s recommendations on mainstreaming were not accepted by GRZ. In due course, the “Joint Response of MSTVT and TEVETA to the Joint Review Report” was approved at the Program Steering Committee meeting of June 2004. Subsequently, a revised Program Operations Manual (POM) reflecting the decisions taken at the PSC meeting, and an updated Program Implementation Plan (PIP) 2002-06, were issued in July 2004.

19. In the revised POM, the following changes have been made in the administrative arrangements for the Program:

- The Program Coordination Office, and the job title “Program Coordinator”, are discontinued.
- In addition to the Program Steering Committee, a Program Technical Committee, chaired by the Permanent Secretary of MSTVT, which will meet quarterly, is described. The Program Coordination Team is chaired by the Director-General of TEVETA.
- The allocation of “component coordination” responsibilities between MSTVT and TEVETA is specified, in a manner that reflects the established responsibilities of the two agencies.
- The Department of Vocational Education and Training of MSTVT will support the coordination of the Program.

20. Since then, there have been ongoing discussions between the Bank staff and GRZ, concerning amendment of the DCA to reflect the changes agreed in June 2004, and to introduce into the DCA dated covenants for initial disbursements from the TEVET Fund, and on revision of the TEVET Act. It has been necessary for MSTVT to consult with the Ministry of Finance and the Ministry of Justice on these latter points. In early January 2005, the Bank received a letter from GRZ communicating that the Cabinet had, in December 2004, approved the establishment of the TEVET Fund which will have three recurrent-cost funding Windows and one investment funding Window:

- Window 1 will be for pre-employment training, mainly of school-leavers, in formal training institutions.
- Window 2 will subsidize in-service training in formal sector firms. Although Window 2 funding on a large scale would be made available to firms only after the planned Training Levy has been introduced, it will be pilot-tested with funds provided by donors.
- Window 3 will subsidize training for Small and Medium Enterprises (SMEs) and the informal sector.
- Window 4 will support the "investment" needs (civil works, equipment, and human resource development) of TEVET training institutions.

All four Windows will be introduced during 2005. Also, the TEVET Act will be revised during 2005.

21. By June 2004, the programs of assistance in the TEVET sector of EU, GTZ, and JICA had all been completed, without being renewed. Thus, at this time, the remaining cooperating partners participating in the TDP policy and institutional dialogue are Danida, the Netherlands, and the Bank. Among these three, only Danida and the Bank are actively disbursing at this time. The Netherlands has suspended its disbursements, in view of disappointment with the implementation of TDP. Danida's Sector Program Support comes to an end in October 2006.

22. At this time, SDR 9.2 million (US$ 6.4 million equivalent) has been disbursed from the IDA Credit of SDR 25.0 million (US$ 29.1 million equivalent). Thus, the Credit is 33% disbursed. The category with the greatest disbursement (US$ 4.4 million) has been Goods, such as tools, workshop equipment, computers, and other office equipment. Audit covenants have been observed consistently. GRZ has expressed interest in extension of the Closing Date of December 31, 2006, by one year, to which the Bank staff have responded that this could be considered in 2006 in the event of sustained improvement in implementation performance.

IV. Proposed Amendment

23. The development objectives will not be affected by the proposed amendment. It is proposed to amend the DCA substantially, to provide for the changes to the implementing arrangements, and to reflect in the Project description that the training fund (TEVET Fund) established under the second component is indicated to support training programs and TVET investments as outlined in paragraph 20 above. It is therefore proposed to amend the appropriate provisions of the Project Description under Schedule 2 to the DCA, as well as Program Implementation under Schedule 4.

24. Program Implementation Arrangements. The amendments to Schedule 4 will reflect the dissolution of the PCO and the mainstreaming of functions into MSTVT and TEVETA, as well as to note the agreed dates for covenants relating to the revision of the TEVET Act, and for initial disbursements from Windows 1 and 3 (for which design is most advanced) of the TEVET Fund, and to indicate that the procedures, terms and conditions for implementation of the training programs are contained in the TEVET Fund Operations Manual. The reporting and monitoring provisions under Schedule 4 will also be amended to outline additional information relating to financial management and audit of the MSTVT-affiliated TEVET institutions that would specifically need to be contained in the annual reports submitted to IDA.
25. **Withdrawal of Proceeds:** It is proposed to amend Schedule 1 to reallocate the proceeds of the Credit within categories. The proposed reallocation is an increase of SDR 2,020,000 (10% of the value of the Credit) in the Goods category, offset by reductions in the PPF Refund category and the Unallocated category. A table with proposed new allocations under the respective corresponding categories of disbursement is shown in the Attachment.

26. It is also proposed to amend Schedule 1 to raise the percentages of disbursement to 100% for all categories. The Government’s request is based on the approved country financing parameters for Zambia. There have been no difficulties experienced in Government counterpart contribution for specific activities financed from the Credit. However, there are issues of insufficient availability of GRZ funding for TTI (para. 16 above), and prospectively for TEVETA (para. 28 below). Reduction of counterpart funding requirements would helpfully free up GRZ fiscal resources for other worthwhile purposes within the TEVET sector. There is adequate financing within the Credit to complete the Project activities in the absence of Government’s contribution.

V. Justification and Risks

27. Despite the delays that have occurred, the development objectives of improving the quality of the TEVET system, and making it more sustainable, demand-responsive, and equitable, remain achievable. During the 14 months since the Joint Review, there has been sustained dialogue between GRZ and the remaining cooperating partners supporting TDP, concerning the weaknesses in program implementation, and how to address them. The proposed amendment reflects the results of this dialogue. The improved alignment between TDP administrative arrangements, and the established structures of MSTVT and TEVETA, provides possibility for improved implementation. Given the importance for TDP of establishment of the TEVET Fund and revision of the TEVET Act, it is important that the legal document should indicate dated covenants for these steps.

28. Of the seven specific risks identified in the Program Appraisal Document, five were evaluated as Modest, one as Substantial, and one as Negligible, with an Overall Risk rating was “Modest”. In the perspective of subsequent experience, these risk ratings were too low. In the course of supervision, the Overall Risk rating has been increased to “Substantial”. As described in the Country Assistance Strategy (March 2004), public sector management in Zambia has been chronically weak. To carry out a reform program in this environment is a challenge. GRZ will need to take advantage of the opportunity of revision of the TEVET Act to clarify the roles of various actors in the sector, especially the relative responsibilities of MSTVT and TEVETA. The most recent problem to emerge is a financing gap for TEVETA in 2005 and beyond, as planned progressive reductions in Danida support are not being compensated by increased GRZ funding of TEVETA (as had been agreed between GRZ and Danida earlier). Possible measures, on both the income and expenditure sides, to address the TEVETA financing gap are being discussed between GRZ and cooperating partners. Even after the amendment, TDP remains a substantially risky operation.
29. In the absence of the proposed amendment, it would be difficult to justify continuation of Bank support for TDP. The amendment provides a framework, including milestones for key institutional measures, within which it would be justified to allow GRZ more time to achieve results in the TEVET sector.
## Proposed New Allocations

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Civil Works</td>
<td>780,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods:</td>
<td>3,800,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Consultants’ services:</td>
<td>1,560,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Training</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Grants for Training Programs</td>
<td>7,390,000</td>
<td>100% of the amounts disbursed</td>
</tr>
<tr>
<td>(b) Staff development and other training costs</td>
<td>1,560,000</td>
<td>100%</td>
</tr>
<tr>
<td>(c) Bursaries</td>
<td>780,000</td>
<td>100% of the amounts disbursed</td>
</tr>
<tr>
<td>(5) Operating Costs</td>
<td>1,560,000</td>
<td>100%</td>
</tr>
<tr>
<td>(6) Refinancing of Project Preparation Advance</td>
<td>201,476</td>
<td>Amount due pursuant to Section 2.02(b) of this Agreement</td>
</tr>
<tr>
<td>(7) Unallocated</td>
<td>1,868,524</td>
<td></td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>19,500,000</strong></td>
<td></td>
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</tbody>
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Revisions are proposed in three categories: (a) The allocation for Goods will increase from SDR 1,780,000 originally, to SDR 3,800,000; (b) The allocation for refinancing of the Project Preparation Facility Advance will be reduced from SDR 460,000 originally, to SDR 201,476 (the amount actually disbursed for this purpose); (c) The allocation in the Unallocated category will be reduced from SDR 3,630,000 originally to SDR 1,868,524. The allocations in all other categories remain unchanged.