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# **The role of the private sector in vocational skills development**

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## 1 The need to involve the private sector in vocational skills development

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Today, most countries aim to organise vocational skills development (VSD) so that it better matches labour market needs. Such an approach is supposed to ensure that training is provided in relevant economic sectors or vocational fields (*quantitative match*) and that it meets the expectations of employers and/or costumers (*qualitative match*). In many contexts, such an approach to VSD still requires a break with the past, since VSD has hitherto been organised by public authorities with only limited consideration of actual labour market needs.

An important solution to more labour market-oriented VSD lies in a stronger involvement of the private sector in its planning, organising and co-financing. Therefore, most effective VSD programmes and systems build on partnerships between the private and the public sector that aim to achieve overarching public goals (i.e. better access to employment and income and increased competitiveness of the national economy; education of citizens and human beings) in a way that also draws on the contribution of individual firms and other private economic actors (SDC, 2013).

### **Box 1: Who is the private sector?**

The private sector comprises privately owned economic entities (e.g. enterprises of varying size) that, in market economies, are the key drivers of economic growth and job creation. In countries with large informal economies, the private sector looks different from that in highly industrialised countries. Particularly in rural areas, subsistence economic activities and small-scale production units play a crucial role, making it difficult to actually talk about a private sector in the classical sense. However, in many economies, subsistence farmers and small workshops are the most important economic actors; since they play a key role in local labour markets, they should be closely involved in any VSD programme that is oriented towards such economic sectors.

As outlined in Box 1, the classical conceptualisation of the 'private sector', referring to a particular type of economic activity with limited geographical application, should be expanded to incorporate the heterogeneous economic activities of private actors in different contexts across the globe, and VSD interventions should be tailored to the specific needs of these various contexts and sectors. This adaptive approach to private sector involvement in VSD must include the identification and, if needed, support of critical representatives of the private sector. Particularly in the formal industry, private sector interests are often represented by sometimes very powerful,

sector-specific and cross-sectorial industry associations. In contrast, the informal sector (including agriculture) is often less well organised, making it more difficult for VSD projects to identify key representatives from the private sector.

## 2 Forms of private sector involvement in VSD

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The private sector's involvement in VSD can take different forms, depending on its functional role in the planning and organisation of VSD:

- Function 1: Private sector as provider of expertise
- Function 2: Private sector as co-financer
- Function 3: Private sector as host of training processes
- Function 4: Private sector as decision-maker

These functions are briefly outlined below:

### ***Function 1: Private sector as provider of expertise***

Many forms of private sector involvement in VSD are based on inviting private sector representatives to participate as experts who are familiar with the skills needs of a specific economic sector. This approach often helps, not only to technically improve VSD, but also to publicly demonstrate that employers support VSD, adding to its overall image and reputation. The private sector provides expertise in several different ways:

*Participation in the governance of VSD:* At the national level, many countries have established commissions (e.g. skills councils, national vocational education commissions, sector committees) that include private sector representatives who provide general advice on how to organise the VSD system, which trades to focus on, or how to organise specific training programmes.

#### **Box 2: Curriculum development in the Albanian VSD system**

For almost two decades, SDC has supported the improvement of the Albanian vocational education and training system. Curriculum development has been a key aspect of this support from the very beginning. Traditionally, VET curricula in Albania were mainly designed by the administration, with very little involvement of the private sector, leading to training contents that lacked in relevance and credibility. Therefore, the AlbVET project used the DACUM (Develop a Curriculum) approach (Norton, 1997, 2011) to ensure that representatives from sectors as diverse as IT, construction, bakery and hospitality were bringing in their expertise to develop occupational profiles. These were the key inputs for the design of VSD curricula that were more in line with the needs of the labour market.

*Participation in curriculum development:* One of the traditionally most important ways to involve the private sector is to make employers or firm representatives participate in the definition of skill standards and in curriculum development. This helps to improve the relevance of training (see also Box 2).

*Participation in training:* Probably one of the most effective forms of private sector participation in VSD is when artisans or workers conduct training, even if the training is organised outside workshops or firms. These persons are aware of the skills that are required for young people to succeed in the labour market. This on-the-job training

also strongly contributes to the socialisation of the trainees within the world of work, which is important for finding a job after the training ends.

*Further forms of using private sector expertise:* At the sub-national level, entrepreneurs and employers are often involved in providing advice on specific VSD programmes or training centres in various fields, including planning infrastructure and selecting instructors.

## **Function 2: Private sector as co-financer**

In many VSD systems, policy-makers have started to involve employers as co-financers of vocational education and training. The most important models in this regard are training funds that are financed with the help of compulsory levies paid by companies, some of which focus on specific economic sectors. This model, however, often depends on strong state authorities to enforce the respective laws or on strong, trustworthy sectorial associations with a capacity to manage such funds. Private firms initially tend to oppose the introduction of such levies, but can be motivated to accept them when they have a say in how the funds are used (see also function 4

### **Box 3: The Mali Training Fund**

With initial support from the World Bank, in the 1990s the Malian government established the Mali Training Fund (*Fonds d'Appui à la Formation Professionnelle et à l'Apprentissage*, FAFPA). Thanks to a payroll levy (now 2 per cent), the FAFPA funds can be used for different kinds of training activities, which are designed and implemented with the active participation of the private sector. VSD projects by SDC and GIZ have cooperated with this fund and have thus added to its legitimacy and sustainability (SDC, 2014a).

below), and/or when they see that the funds are used to benefit their own business. Training funds clearly have the potential to increase the private sector's financial contribution to VSD (Johanson, 2009). However, they can also lead to an increasingly passive attitude of the private sector towards VSD, as firms can argue that they cannot be expected to get involved in VSD, as they are paying a levy. Furthermore, funds can, if they are not managed well, also lead to corruption.

In most countries, however, co-financing of VSD by the private sector does not rely too heavily on compulsory levies, but rather on in-kind contributions. The most prominent form of this type of co-financing is the provision of on-the-job training (see also function 3 below). As on-the-job training entails considerable financial investments (e.g. costs for trainer, infrastructure, consumables), many workshops or firms are reluctant to get involved in this regard, particularly if they experience that trained employees are being poached by rival firms. The contribution of expertise (see function 1 above) is a further, very common form of co-financing that is also linked to smaller financial risks, compared to provision of on-the-job training. In any event, the establishment of sustainable, non-compulsory forms of co-financing of VSD by the private sector requires that entrepreneurs see a pay-off from their investment.

## **Function 3: Private sector as host of training processes**

Training processes in the workplace can be highly effective, particularly if they are combined with

### **Box 4: SDC's support to dual apprenticeships**

Given its own experience of VSD in Switzerland, SDC has a long history of providing support to forms of VSD that combine on-the-job training with formal schooling. One such example is a training project in Burkina Faso, where local artisans are offering apprenticeships to mainly unemployed youths and early school leavers who, at the same time, are improving their basic literacy and numeracy skills at schools in the non-formal education sector (SDC, 2014b).

A further example is SDC's support to the Centre of Excellence in Leather (COEL) in Dhaka (Bangladesh). Here, trainees first undergo several weeks of centre-based training, and then enter the shoemaking factories as apprentices. During the entire period, the trainees earn a trainee salary that is mainly covered by the companies (COEL, 2015).

school- or centre-based instruction (Cree & Macaulay, 2000). For this reason, internships that foster the transfer of theory to practice during structured training programmes have become a very important means to increase the relevance of VSD. On-the-job learning is sometimes guided by official curricula. However, firms or workshops tend to be sceptical towards prescriptions from outsiders on how firm-based training should be executed. Internships (or apprenticeships as they are often called in this context) that take place after structured training can also be important, as they can be a direct gateway into the labour market.

It is important to remember that the private sector – be it workshops in the informal sector or large companies – hosts training processes in most countries. However, development cooperation can help to enrich such training processes and to create incentives for firms to invest more in training. In some cases, development cooperation may even contribute to converting informal apprenticeships into a sector-based or even national formal apprenticeship system.

#### ***Function 4: Private sector as decision-maker***

##### **Box 5: Three examples of models of support to private training providers**

As many governments lack the capacity to greatly expand VSD opportunities, some donors have launched projects that provide initial business support to private training providers, e.g. the British Department for International Development (DFID) (Dunbar, 2013). In many cases, these providers are owned by entrepreneurs from those economic sectors that their training centres are supposed to cater to, which makes it more likely that VSD is oriented towards labour market needs. One such project is currently being implemented in Bangladesh (DFID, 2014). Another project has been implemented by Swisscontact in Albania, where a voucher system was introduced under the Increasing Skills Development Opportunities Project (ISDO). Along with the introduction of vouchers, the project invested a great deal in developing private training providers, which are still operating today, having been without any financial support for years (Maurer & Wieckenberg, 2011). A third example is the Employment Fund project in Nepal and its predecessor, the F-Skill-project. Here, donors set up an impact-oriented financing mechanism for short courses offered by private training providers. The project led to the successful creation of a large number of training providers across the country.

Finally, yet importantly, one way of involving entrepreneurs in VSD is to devolve decision-making power to the private sector, for instance when it comes to selecting students or recruiting trainers. This makes it more likely that the skills of the graduates will meet the expectations of the world of work. In order to make sure private sector interests are in line with the training programme's development objectives (e.g. in terms of reaching a specific target group), it is important to jointly define the criteria on the basis of which decisions are being taken. The most extreme form of devolving decision-making power to the private sector is to support training centres that are owned by the private sector (e.g. through matching grants or voucher schemes). Again, such support needs to be based on clearly defined criteria.

### 3 Challenges and mitigation strategies

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*Adapting traditions:* In countries with a tradition of supply-driven VSD, a closer involvement of the private sector in VSD is a complex goal to achieve: curricula are often outdated and mainly focus on theory; teachers and instructors lack thorough practical experience in the economic sector concerned, and there is no (or only limited) formal/informal exchange between VSD providers and employers. Particularly during the planning phase of VSD projects, it is therefore important to acknowledge that the tradition of supply-driven VSD cannot be changed overnight, and that small-scale innovations can be effective ways to better involve the private sector in the medium and long term.

#### **Box 6: The Caplab experience in Peru**

Caplab is considered to be one of the most important of SDC's VSD projects completed in Latin America. Providing training for textile processing, metalworking, carpentry and food production, the project has always aimed to involve the private sector. However, as the Peruvian VSD system has traditionally been strongly supply-driven and insufficiently oriented towards the needs of the labour market, the project only gradually involved the private sector in activities that did not overburden the entrepreneurs. Initially, the companies helped the project to design training contents and material and provided jobs to many of the trained youths. (Caplab, 2015). Later, many firms offered internship positions of several weeks to both trainees and instructors.

*Lack of an organised private sector:* Particularly in rural areas, there is often no organised private sector with which VSD programmes could formally interact. However, small-scale economic activities, e.g. by artisans or farmers, are always embedded in a local social context with its organisational structures, such as village associations or municipal bodies. Involving such existing local organisations in planning and implementation is therefore critical for many VSD programmes. However, in order to create impact beyond the immediate project context, it can be important to support the development of new associations at the

regional or national level, which then represent the interests of local stakeholders at the higher levels of VSD policy and planning.

*Economic interests of entrepreneurs:* While VSD programmes funded by official development assistance focus, in the end, mainly on poverty reduction, enterprises necessarily focus on their own economic profit. Also, as they almost always operate in a highly volatile business environment, they tend to have a shorter-term perspective. Any VSD programme that aims to closely involve the private sector therefore needs to create awareness among workshops and firms that participation in VSD will help to increase their competitiveness. This implies that the private sector's perspectives and motivations are taken into consideration from the start, i.e. at the planning and design stage. Furthermore, it can also be important to create incentives that allow entrepreneurs to directly profit from their investment in training. Such incentives may consist of assets that remain after the phasing-out of VSD programmes, such as qualified personnel, improved training processes or upgraded machinery/infrastructure. Since, however, the creation of awareness and effective incentives at the level of individual workshops and firms requires time and role models and success stories, it is equally important to convince associations and critical representatives of specific sectors and trades that investment in VSD is important for the overall development of those parts of the economy that they represent.

*Poaching strategies of rival firms:* Apprenticeships in enterprises, either combined with school-based training or stand-alone, are an effective way of developing vocational skills and of integrating trainees into the labour market over the long term. However, supporting in-firm training only pays off if the trainee either is already very productive during the traineeship, or stays on after training (Dionisius et al., 2009, p. 20). The latter mostly happens only when the salary for trained personnel and other aspects of labour conditions are sufficiently attractive to prevent rival firms from poaching the trained employees. To reduce such disincentives with respect to investment in training, training funds (see function 3 above) can be used to partly or entirely cover training salaries.

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