

Labor Market Policies Core Course

TRAINING POLICIES FOR FIRMS, SMES, AND THE SELF-EMPLOYED

Skills Development & Training Policy

April 29, 2002

SESSION OBJECTIVES

1. MENU OF TRAINING POLICIES FOR DIFFERENT GROUPS

formal and informal sectors, large firms & MSMEs

2. IN DESIGN & IMPLEMENTATION

identify skill needs and constraints

do evaluations and adjust policies

3. HIGHLIGHT INTERNATIONAL EXAMPLES

what works, for which group, why

DESIGNING TRAINING POLICIES

Enterprise surveys to identify skill needs and constraints

Accumulating cross-national evidence:

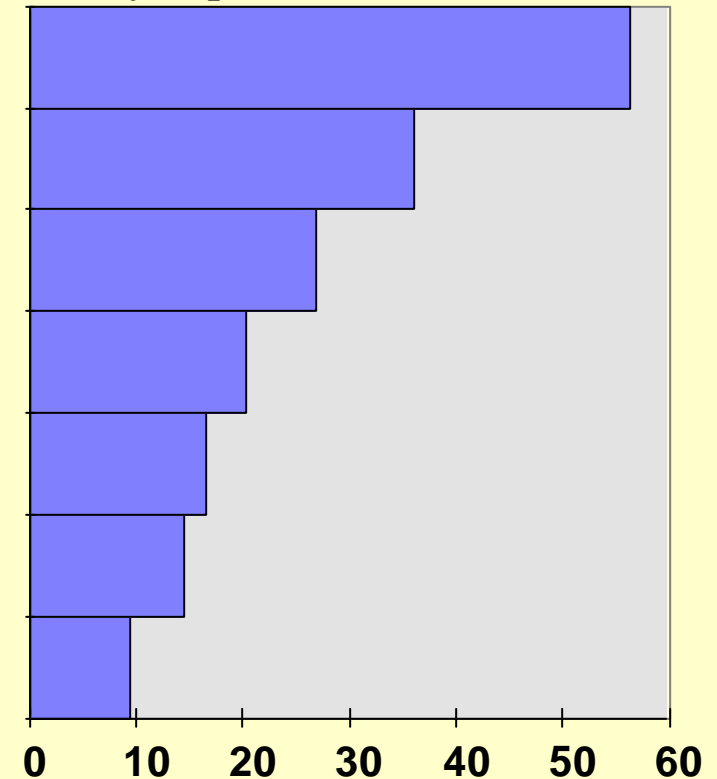
- ❑ Manufacturing enterprise surveys in Malaysia, Thailand, Indonesia, Colombia, Mexico, Guatemala, Nicaragua, El Salvador, Kenya in the 1990s
- ❑ Manufacturing and service enterprises in Latin America, Africa and East Asia by World Business Environment Survey (WBES) in 2000

Some Insights from Malaysia

REASONS FOR NOT TRAINING:

- Mature technology--don't need it
- High labor turnover--training costly
- Lack knowledge how to train
- Limited funds for training
- Can easily hire skilled workers
- Skills from school are adequate
- Skeptical about benefits of training

% ranking reason as important or very important constraint



Source: 1995 Malaysia Industrial Training and Productivity Survey

Evidence on Training Constraints

- **Mature technology** among top 3 reasons for no training, for all firm sizes, formal or informal sector
- **In Asia**, labor turnover, lack knowledge of training also key training constraints
- **In Latin America**, skilled workers readily hired and high labor turnover ranked as key reasons
- **In Kenya and Indonesia**, funding for training, lack training know-how ranked among the top constraints
- **MSMEs** rank funding, lack knowledge of training, and skepticism of benefits as key constraints; not larger firms and MNCs

Implications of Evidence

- **Technology and skills** – Importance of coordinating technology, education & training policies, and improving the business environment
- **Enterprises/workers are heterogeneous** – large firms, SMEs share common constraints, but informal sector MSMEs have unique training needs and constraints requiring different solutions
- **Ample justification for public role** – externalities, imperfect information, poorly functioning financial markets, thin training markets, poverty, exclusion.

Typology of Training Policies

➤ FORMAL SECTOR POLICIES

- Training payroll levies to support public provision of training
- Tax incentives for employers to train
- Training levy-rebate, levy-grant, levy exemption for employers

➤ INFORMAL SECTOR AND SME POLICIES

- Public sector training/TA programs for MSMEs
- Matching grants/training vouchers for informal sector entrepreneurs

➤ POLICIES FOR VULNERABLE & POOR GROUPS

- Publicly funded but private sector delivered training for disadvantaged youth
- Grass-roots Management Training for poor and illiterate entrepreneurs, principally women

Revenue Raising Training Levies

Payroll levy to support public VET mainly for pre-employment and some in-service training

- Most common in Latin America – e.g. Brazil (SENAI), Colombia (SENA), Peru (SENATI), Guatemala (INTECAP)
- Promoted development of strong VTIs, high quality training for workers
- Recently, become too supply-driven, bureaucratic, unresponsive to new skill needs
- **REFORMS:** return part of levies for employer training, partial VTI funding for incentives to be responsive, open training markets to private sector providers

Tax Incentives for Training

Allows firms to deduct allowable training expenditures (or multiple) from income

- Brazil, Malaysia, Pakistan, and Chile have used tax incentives to promote training with mixed experiences
- Tax incentives expanded numbers of workers trained, but take-up uneven, mostly by large firms and MNCs
- Subsidizes training firms, doing little for MSMEs (lacking info, scale) and informal sector (outside system)
- Now only Chile, Brazil focusing on public sector training and Malaysia switched to a training levy-rebate policy

Training Levy-Rebates

Allows partial reimbursements for training expenditures from firm's levy account

- Used in Kenya, Nigeria, and Malaysia
- **Example:** Malaysia's HRDF with a 1% payroll levy for firms with over 50 employees
- **Highlights:** flexible schemes, info dissemination & rapid approvals of proposals, group training for SMEs
- **Evidence:** HRDF induced training among medium firms, increased productivity, fostered dynamic training market
- **Problems:** non-compliance remains an issue, still not reaching many MSMEs

Training Levy Exemption

Allows firms to reduce payroll levy obligations by amount of training provided or purchased

- Used in France, Australia and Korea, though the latter 2 countries have ended, or are considering replacing policy
- **Advantage:** eliminate burden of paying levies up-front, funds used flexibly to pay for in-service training
- **In practice:** abuse problems (repackaging, degenerate into a revenue-raising policy)
- **Lessons from Korea:** setting excessive training criteria and onerous reporting requirements can lead firms to pay penalty rather than train

Training Levy-Grants

National or sectoral levies used to fund grants to employers providing training

- Previously used in UK's ITBs, in use in Singapore
- Levies redistribute funds from firms that under-invest in training to those that do
- **Successful Example:** Singapore's Skills Development Fund (SDF). Adapted to changing skill needs -- from low skilled workers to core skills, training plans, SMEs, IT training, strategic skills
- **Key Ingredients:** requires government capability, strong partnerships with private sector

SMEs & Informal Sector Policies

Traditional training policies not well suited

- Poorly developed or non-existent training markets
- Existing programs inappropriate, not well known
- Incentives inoperative because they do not make (report) profits, and are exempt from levy payment
- High transaction costs/trainee of meeting requirements
- Little demand for training because many use mature technology and rudimentary tools
- Credit constrained to finance training

Mexico's CIMO Program

Integrated training and technical assistance for micro, small and medium enterprises

- Proactive delivery by regionally-dispersed offices located in chambers of commerce throughout Mexico
- Promoters provide initial diagnostic of MSME, then tailor training & technical assistance to firms' needs
- CIMO grown — in the first 6 months of 2000, provided training to 200,000 workers in 80,000 enterprises
- **Evaluations:** adoption of QC and HR practices, reduced defects and job turnover, raised productivity growth, promoted local training markets

Cote d'Ivoire Informal Sector Training

Redirect levy resources to MSMEs, informal sector, women entrepreneurs, & youth

- Decentralizing training resources outside capital (Abijan)
- Basic technical training tailored to informal skill needs
- Tripartite management of training fund
- Training projects based on proposals from sponsoring mayors, NGOs, associations, and cooperatives
- Transparent rules on bidding/award of contracts
- Pre-qualified public/private institutions compete to develop and deliver training

Cote d'Ivoire Highlights

- **Highlights.** Since reform (1991), trainees increased from several thousand to nearly 30,000 in 1999
- **Training.** Majority outside capital, 1/2 beneficiaries from associations and coops, 1/3 heads or employees of SMEs, gender balance, training demand greatest in agriculture, followed by crafts and services
- **Program.** Declining unit training costs, increased cost sharing by sponsors and associations
- **Impact Evaluations.**
 - Net gains over time in productivity for electronics, no net gains for tailoring since productivity rose for both groups
 - Widening productivity gap in agriculture group, reflecting lack of complementary inputs, tools, seed & fertilizer
 - Econometric analysis confirms gains for electronics, and for women in agriculture

Training Vouchers

Training vouchers give microenterprises a subsidy to exercise choice over training

- Used in Paraguay, Ecuador, Peru, Indonesia, Kenya
- **Objectives** – deliver demand-driven training to microenterprises, promote development of sustainable training markets for the informal sector
- **Addresses Information Problem.**
 - On demand side, problem of gauging benefits of training before taking it so sub-optimal training investments
 - On supply side, providers have no incentive to develop and deliver training without payments, because of renegeing
 - Voucher programs, coupled with certification of providers and a information system, diminish risk on both sides

Kenya Voucher Program

Pilot voucher program to provide Kenyan Jua Kali with training, technology, and BDS services to improve skills and productivity

- Targeted Jua Kali (“hot sun” in Kiswahili) sector of micro enterprises run by women (1-10 workers) and small firms with 11-50 workers; 62% beneficiaries are women
- Vouchers at 10-30% face value for micro-enterprises, 30-50% for small firms
- Builds on indigenous apprenticeship system of training by master craftsmen (85% vouchers), and seeks to foster technology & consulting market (15% of vouchers)
- Allocation agents (NGOs, Jua Kali associations, providers) act as bridge between enterprises and providers

Training for Disadvantaged Youth

A cautionary tale of contracting out youth training in 3 Latin American countries

- Chile Joven (Chile), Proyecto Joven (Argentina) and PLANFOR (Brazil)
- JOVEN programs contracted out to authorized training operators – identifying demand, course development and classroom delivery followed by internship in firms
- PLANFOR contracted out courses to existing VET institutions
- **Impact evaluations:**
 - JOVEN - good targeting of disadvantaged youth, and good employment outcomes, BUT high cost & substandard training
 - PLANFOR - solid training at low cost BUT no discernible impact on employment.

Training for the Poor

Grassroots management training for poor and illiterate entrepreneurs, principally women, to manage groups, business more profitably

- Participatory training, tailored to local needs, and proactively delivered by NGOs and trainers
- Training – HR, financial & project management, production & marketing – taught in local languages, using proverbs, songs, drawings, and role-playing
- Follow-up technical support, networking, and assistance with credit and marketing training
- **Examples:** GMT implemented in Peru, Guatemala, Nicaragua, Ecuador, Jamaica, Uganda, Mauritania, Angola, Senegal, Ethiopia, Tunisia, Morocco, India

Evaluation of GMT in India

- Women's Enterprise Management Training Outreach Program (WEMTOP) targeting poor village women in East and West Rajasthan, Orissa and Bihar states
- Survey of 430 GMT and matched non-GMT women
- GMT associated with increased income and net profits separate from the impacts of other correlates, including access to credit (largest effects)
- Among those with access to credit, GMT associated with 5 % higher net profit as a fraction of household income
- GMT impact greater for women in poverty; net change in profits (34 % of HH income) higher for GMT women in poverty as compared to better-off GMT women (17 %)

Concluding Remarks

- Firms and small enterprises are very different, face different constraints in different country setting, and require different policy instruments
- Identify constraints and reflect these in design and delivery of training and complementary services
- Institutions matter and policies that work in one country may not be effective in another
- Importance of monitoring & impact evaluation
- Speakers in subsequent parallel sessions will go into greater depth on some of these issues