SUPPORTING ECONOMIC TRANSFORMATION

BRIEFING PAPER

Skills development funds

Lessons from Asia

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Key messages

- Financing of skills development systems is best done via a skills development fund using payroll levies collected from firms and distributing them back to firms to pay for skills training of employees. But establishing a skills development fund is difficult.
- Singapore, Malaysia, and Thailand have established SDFs, with mixed success; other Asian countries (Bangladesh, Cambodia, the Philippines and Vietnam) are still in the planning stages of setting up SDFs.

Introduction

Skills development is critical for long-term productivity improvement and economic growth. To ensure it takes place in a sustainable way, a skills development *system* is essential. Financial resources are critical for this, and a key step in setting up such a system is a dedicated skills development fund (SDF).

This briefing describes the structures involved in the collection, management and distribution of SDF in Asian countries. it was prepared for Myanmar's Ministry of Labour, Immigration and Population (MOLIP) who are engaged in a policy process to create a skills development system for the country. The final report will cover wider institutional and skills support as well as the financing structures as well as implications for Myanmar.

We define these key features and summarise how each is implemented in seven Asian countries, *Cambodia, Malaysia, the Philippines, Singapore, Thailand Vietnam)* (Association for South East Asian Nation (ASEAN) members) and Bangladesh. Showing how SDFs are structured in countries similar to Myanmar can help MOLIP draw on best practice in the region.

The central idea behind an SDF is that private firms will not spend enough on training and skills development if they are left to do it themselves, and the country will not then have a capable workforce with the right skill levels.

One way to ensure the provision of skills training is for governments to collect money from firms through a payroll *levy*, and then return this money to firms if they have undertaken skills training. In most countries, firms (above a threshold size) are required to pay the levy, most commonly as a defined percentage of their payroll (for all or specified classes of employees). Firms are then able to access some or all of their levy payments to finance training for their workers. In most countries, firm levies are by far the most important source of funds for skills training. Collecting the levies from firms every month and ensuring firms can and do use the money they have paid into the SDF for training is complex and costly, meaning that any SDF needs a well-managed administration.

Scale, collection and management of a skills development fund

Scale

An SDF can be created at one of two distinct scales: (i) at national level, meaning that firms in every industry contribute to a single fund; or (ii) at sectoral, or industry-specific, level, where firms in each industry contribute to a fund that is used only for training that particular industry's workers. The sectoral scale means there are many SDFs in the country, each managed separately. But this may be a good approach if firms are much better organised in some industries than others, so that the more advanced industries can move ahead faster.

Table 1: SDF scale and collection

Country	Status of SDF	Scale	Who pays?	Key source of funds	Collection agency	SDF management	Specifications/comments
Malaysia	Operational Human Resource Development Fund, Law: Skills Development Fund Act 2004 (revised 2006)	National	Formal enterprises (small and medium-sized (SMEs) <50 employees, medium/large >50 employees)	Payroll levies, individual accounts	Ministry of Human Resources	Pemganguana Sumber Manusia Berhad (PSMB)	Employers (medium/large or with over RM2.5 million paid-up capital) payroll levy of 1%, reduced to 0.5% of payroll for SMEs (small) Penalty: Any employer who is convicted of not paying or even registering with PSMB may be fined up to an amount not exceeding RM10,000 or face imprisonment of up to a year, or both
Singapore	Operational, Law: Skills Development Levy Act, 1979 (revised 2012)	National	Formal enterprises and foreign employees[1]	Payroll tax, centrally collected	Central Provident Fund	Skills Future Singapore Agency (SSG)	For employees earning up to S$4,500, the levy rate is 0.25% of the gross monthly remuneration or S$2, whichever is greater; for employees earning above S$4,500, the levy amount is S$11.25[2] Penalty: As per regulations, each employer is obligated to pay the levy within 14 days after the month under review is completed**.** Failure to pay will attract a late payment penalty at 10% per year of the outstanding fee
Thailand	Operational, law exists Law: Skills Development Promotion Act BE 2545 (AD 2002)	National	Large private sector firms (>100 employees)	Payroll levy	Ministry of Labour and Social Welfare and remitted to Ministry of Finance	Department of Skill Development through the National Vocational Training Coordination Committee and Provincial Vocational Training Coordination Committee	Large firms contribute, not more than 1% of yearly wages paid or 480 baht per head per year for the number of untrained employees (whichever is more) Tax deduction: Tax exemption is calculated at twice as much as the actual training expenses Penalty: If the firm fails to make payment, a surcharge of 1.5% per month of the amount of contribution remaining is charged

Bangladesh	Proposed Human Resource Development Fund (in 2016)	National	No specific information on who will pay	Expected to have donor financing at the outset, no details available	Ministry of Labour and Employment	National Skills Development Council, Industry Skills Councils	National Skills Development Council Secretariat in collaboration with International Labour Organization is designing the fund.
Cambodia[3]	Proposed new SDF, specifics not yet finalised	National	Formal enterprises, National Budget	Proposed SDF does not explicitly state what type of levy system will be used or discuss in detail any of the other collection mechanisms	Ministry of Economy and Finance, Ministry of Labour and Vocational Training (MoLVT)	MoLVT, along with Council for the Development of Cambodia, with support from the National Training Board (NTB)[4]	Allocation on a results-based funding mechanism for training institutions, wherein allocation is done via measuring performance of institutions on indicators such as effectiveness of training disbursed, productivity
The Philippines[5]	Proposed SDF discussion since 1994, still no clear indication on specifics of the fund or rollout	National	Formal enterprises (SMEs, large), National Budget	Funds sourced from National Budget and donor funding Private sector funding: possible levy for enterprises to pay for in-house training and trainers apprenticeships	Department of Labour and Employment	Technical Education and Skills Development Authority (TESDA), along with other local agencies	Opposition from employers and congress to SDF, especially around the levy-grant scheme, as it was too uneconomical for firms to pay out
Vietnam[6]	Proposed, not yet operating	National	Government, formal enterprises	State budget and public subsidy: paying for recurrent expenditures, national target programmes, payroll levies	Ministry of Labour, Invalids and Social Affairs (MLIS)	MLIS, People's Committee of centrally affiliated cities and provinces, vocational education authorities in the central government	No specifics on the SDF are published

Collection

This is the key mechanism through which SDFs accumulate finance. There are four main collection mechanisms through which funds are sourced: payroll training levies; public subsidies drawn from government budget expenditure; self-financing by trainees; and donor financing. Many countries use a mix of these collection channels (ADB, 2016; UNESCO, 2018).

Governance and management

Most SDFs are statutory bodies, semi-autonomous from government, and run by their own administrative staff. SDFs usually operate under the general umbrella of the labour or the education ministry, which is represented on the SDF board. Firms are also represented on most boards, as they are usually the main source of funds via the levy. In many countries, trade unions and other stakeholders are also represented, such as skills development experts or training institutions. The effectiveness of SDF management is heavily influenced by the degree of independence from the government which is also reflected in the composition of its board: which types of stakeholder are represented and how many representatives of each type.

Distribution and expenditure

Distribution

Distribution of the SDF refers to a pre-determined allocation of SDF revenue to different target groups – new entrants to the labour force, people already employed and specific disadvantaged groups. The purpose can be linked to *pre-employment* training funds, which aim to reduce shortages of skilled workers and increase the capabilities of a new pool of workers; *enterprise training funds*, which aim to increase the productivity and competitiveness of workers already employed in firms; and *equity training* funds, targeted to provide opportunities to disadvantaged persons, women, youth and those in the informal sector.

Expenditure

Expenditure refers to the different instruments and mechanisms through which the SDF's revenue is spent on training of the different target groups, either by returning it to firms that undertake training or by spending it on supporting training for new labour force entrants or identified disadvantaged groups.

Definitions of levy expenditure processes

- *Levy-subsidy schemes* or *reimbursement schemes*: These use payroll contributions that are collected from enterprises and distributed in the form of grants to set against the cost of training. Firms are reimbursed up to a fixed percentage of their training expenditure, from the levy they have paid. This strategy has been used in Malaysia and Singapore (ADB, 2016).
- *Levy-exemption schemes* allow companies to offset the cost of the training they provide or purchase against their tax liabilities (i.e. they provide tax exemptions). It is assumed that, as firms know what their training needs are, they will spend their money on appropriate training programmes; if firms already have in-house training, they can be exempt from paying the levy.
- *Levy-grant schemes:* Countries pay out payroll tax revenues to directly subsidise firms in the form of grants, in direct relation to the amount of training they provide. These grants are paid to firms conditional on criteria met, thus firms need to develop training programmes that fit with the grant conditions (Dar et al., 2003).

Table 2: SDF distribution and expenditure

Country	Modes and instruments of disbursement	Key partners disbursed to	Purpose of disbursement/key beneficiaries	Committee members in charge of allocation	Key sectors
Malaysia	Reimbursement of training cost (up to 80%)	Registered external and local agencies, firm accounts	Enterprise training and to a small extent equity training	Manufacturing and business associations (9), government (2) and private sector (3)	Manufacturing and services (63 sectors)
Singapore	Levy-subsidy scheme through vouchers and grants	Registered government accredited training centres and institutes, firms	Enterprise training, equity training, pre-employment	Private sector led (8), government agencies (4), universities (2), trade unions (1)	Demand for knowledge-based economy skills
Thailand	Tax exemptions a form of cost-reimbursement (exemption on expenses incurred on training machines, bringing experts or trainers to train workers, free water and electric fees)	Large private enterprises	Enterprise training	Government-led (6), associations (bankers, Chamber of Commerce, industrial) (3), experts appointed by the prime minister (2), employers and employees (2)	Demand-oriented
Bangladesh	Proposed: no information available	Decentralisation of training delivery by various ministries, training institutions at the division and upazila (village) levels	Pre-employment, equity and enterprise training	No information available	Light engineering, garments, construction, informal sector, IT industry
Cambodia	Proposed: allocation on a results-based funding mechanism through grants	Proposed: training institutions, private enterprises, NGOs	Proposed: enterprise training, equity training	Proposed: still unclear	Proposed: mechanics, manufacturing, agriculture, construction, business services and ICT
The Philippines	Levy-grant scheme proposed but never took off the ground owing to bureaucratic delays	TESDA regional offices, Local Government Units, private enterprises, training institutions, NGOs	Enterprise training, equity training	Government-led (Education, Culture; Trade and Industry; Agriculture; Interior and Local Government) (5), employer/industry organisation (2), labour sector (CSOs) (3); national associations of private TVET (2)	Demand-oriented
Vietnam	Public subsidy, type of levy scheme to be used is not mentioned. Instrument: sponsorship, aid or gift	Training institutions, private enterprises (training institutes can apply to MLIS)	Enterprise training and to a small extent equity training	Vietnam Chamber of Commerce and Industry, enterprise associations, socio-professional organisations, unions	Agriculture, construction, manufacturing, services

Notes

1 The foreign worker levy rate depends on the worker's qualifications (high skilled versus basic) by source region/country. The rate also varies by ethnicity (different for Bangladeshis, Indians, Malaysians, Thais)), age and sector (construction, manufacturing, marine shipyard, services). For high-skilled workers (the quota is 10% of the total workforce) there is a monthly levy rate of SG330; for basic-skilled workers (quota 10–20% of the workforce) the monthly levy is SG650. The lower the skill, the higher the levy rate.

2 The levy collection goes into a centralised SDF and is disbursed by the SSG to employers through grants. Employers need to enrol staff in accredited training institutions. Employers need to apply for course fee funding via SkillsConnect and can claim up to 95% a training hour for staff training under the SDF.

3 The Asian Development Bank (ADB) supported previous attempts at an SDF between 1997 and 2003. The key sources of collection were public subsidy/national budget), voluntary levies (1% of contributing enterprise and donations to support in-house training through apprenticeship) and donor support (ADB, worked through a grant facility for large firms; and a Self-Employment Generation Fund microcredit facility for small firms). The key actors involved in collection were the Ministry of Economy and Finance, with support from the Ministry of Labour and Vocational Training (MoLVT). MoLVT, the Directorate General of Technical and Vocational and Education and Training (DGTVET) and specific TVET institutes carried out the key allocation and management for spending donor finances.

4 The NTB was formally constituted in 1996 in recognition by the government that a coordinated, long-term development plan was needed for TVET. The NTB has responsibility for developing Provincial Training Boards, thus propagating the decentralised planning of skills training. The NTB can approve and endorse pilot projects on innovative training modes (e.g. new technologies, etc.). The NTB gives direction to the DGTVET in MoLVT, in policy and the provision of skills development, through the directorates 40 institutions.

5 There are alternatives to SDFs. The Philippines has tried, using a programmatic approach (supporting targeted programmes). One such programme is JobStart Philippines, which was funded by the government of Canada with support from the Department of Labour and Employment (DLE). The DLE provided a public subsidy on land/facility servicing for the programme. The aim was to match job-seekers and job-providers within local communities. Registered employers were in charge of training and employment of the trainees. The funds were managed through Public Employment Service Offices within Local Government Units, thus were allocated in a decentralised way.

6 Currently, the Law on Vocational Training 2006 exists, which is funded mostly by the government (public subsidies on land, costs of construction, renting). However, public TVET institutions are limited to charging VND 120,000 (about US$5), although they are allowed to charge additionally for services. Although the private sector has to cover the cost of tuition, the state subsidises lower-income trainees. The main collection and management agencies are the Ministry of Labour, Invalids and Social Affairs (MLIS) and the General Directorate of Vocational Education and Training (DGVET).

References

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