

# »» Innovative TVET Financing in Lao PDR

Results from a Fact Finding Study

Presentation in the Group Session “TVET Finance and Funding”

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**KFW**

## »» Presentation Outline

- 1 Background and Objectives of the Study
- 2 Key Findings from Situation Analysis
- 3 Proposed Model: Cooperative Training Fund
- 4 Next Steps



## »» Background and Objectives of the Study

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### Challenges of sustainable TVET Financing

#### Fund Generation

- › Government budget as the main funding source often not sufficient
- › Limited involvement of private sector
- › Limited ability to pay by TVET students

#### Fund Budgeting and Administration

- › Real training costs widely unknown
- › Public budgets not based on real costs
- › Inefficient institutional structures

#### Fund Allocation

- › Outcome- or demand-oriented mechanisms rare
- › Allocation processes intransparent

## »» Background and objectives of the study

### Guiding Question & Objective

- › How can innovative, demand-oriented **TVET financing approaches** promote high-quality vocational education?
  
- › Develop a **Financing Instrument** to
  - › increase quality of TVET through integration of **practical/ enterprise-based training** into TVET, in particular **Dual Cooperative Training**
  - › foster **demand-oriented** fund allocation mechanisms

## »» Background and objectives of the study

Positive framework conditions for establishment of TVET financing model

- › **Dual Cooperative Training** is supposed to be implemented as **one of the key pillars** of TVET according to the new TVET Law
- › With the **National Training Council (NTC)**, a national governing body for TVET is in place (although its capacity needs to be further strengthened)
- › A levy-funded **National TVET and Skills Development Fund (NTSDF)** is envisaged as per Labour Law and the new TVET Law





## »» Key Findings from Situation Analysis

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Involvement of companies in TVET limited, but for diverse reasons

Large Enterprises	SMEs	Micro Enterprises
<ul style="list-style-type: none"><li>› &gt;100 employees; 2% of enterprises</li><li>› High and increasing demand for qualified labour</li><li>› High willingness and ability to invest in TVET (financing no constraint)</li><li>› Cooperations with TVET institutes are rare</li></ul>	<ul style="list-style-type: none"><li>› 5 – 99 employees; 75% of enterprises</li><li>› Great employment potential</li><li>› Limited involvement in TVET, considered costly</li><li>› Qualified labour and investment into productive capacities needed in context of AEC</li></ul>	<ul style="list-style-type: none"><li>› 1 – 4 employees; 23% of enterprises</li><li>› Limited potential to absorb additional labour</li><li>› On-the-job training</li><li>› Demand for skills upgrading of their staff</li></ul>



## »» Key Findings from Situation Analysis

Constraints for TVET institutes to engage in cooperative training schemes

- › **High work effort** to establish effective collaborations with companies and to develop and set up cooperative training courses
- › **Supply-oriented budget funding does not provide incentives** for TVET institutes to set up private-sector cooperations
- › TVET institutes need a **good reputation** to attract especially large enterprises to cooperate



## »» Key Findings from Situation Analysis

### Conclusions for model set-up

- › **Enterprise-based training** can increase quality of TVET offers
- › **Dual Cooperative Training (DCT)** as efficient model to ensure demand-orientation of TVET
- › Strengthening of DCT included in the new **TVET law**, but so far no appropriate (financial) incentives in place
- › **Core priority** of this model on the strengthening of DCT by setting appropriate **incentives**, targeting at both TVET institutes and enterprises

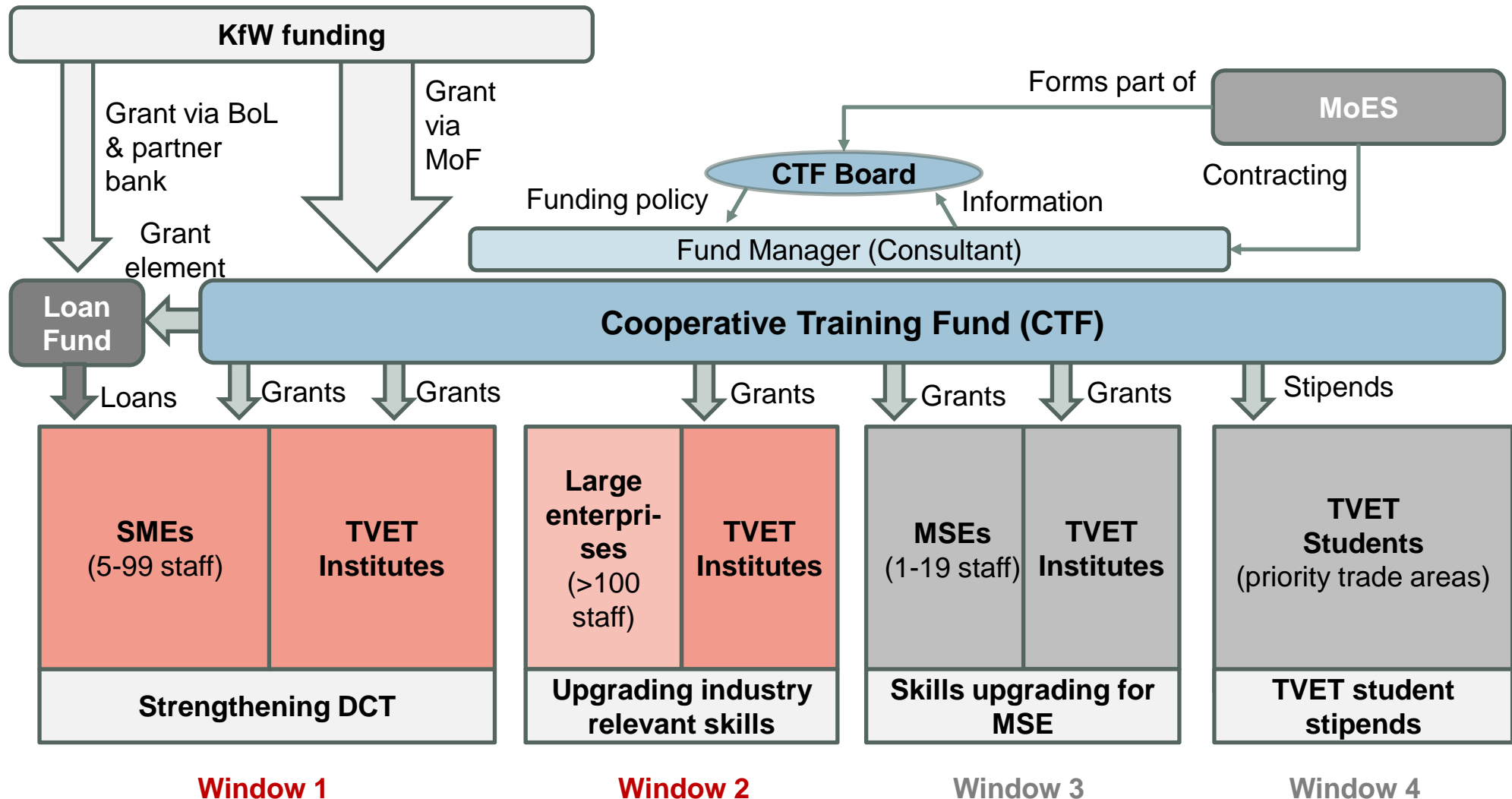




## »» Proposed Model: Cooperative Training Fund

# »» Cooperative Training Fund

## General Set-Up



## »» Cooperative Training Fund

### Purpose of Grant Funding

**Initial funding** to launch DCT schemes:

- › **TVET institutes:**
  - › Position of a **DCT coordinator** for a period of 3 years
  - › **Equipment** needed to offer courses in connection with DCT, spare parts / consumables to a limited extent
  - › **Training and further education** of teachers and school management
  
- › **SMEs:**
  - › **Further training** of in-company training personnel
  - › Compensation for **internal training costs and allowances** paid to trainees (only during practical training in the first year)
  
- › **Large enterprises:**
  - › **Further training** of in-company training personnel

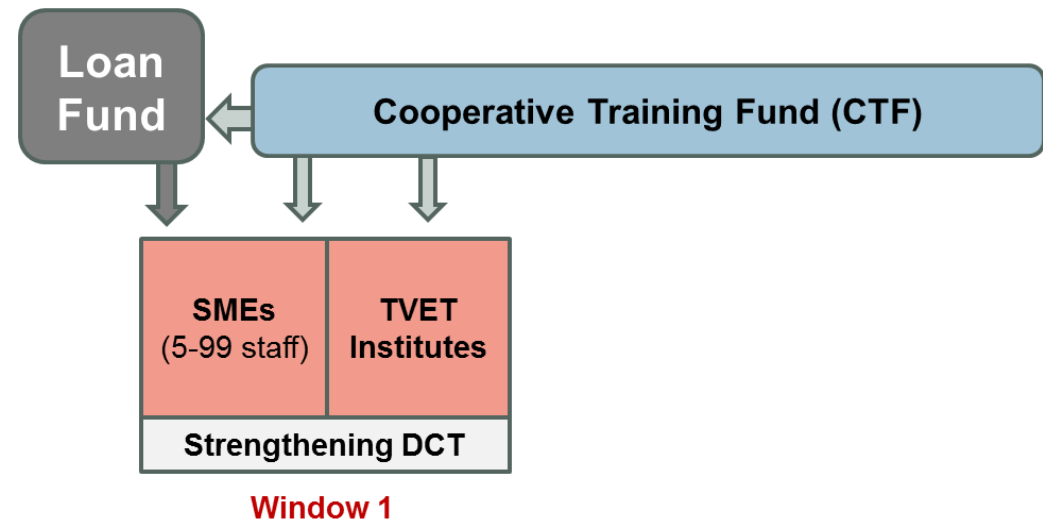
## »» Cooperative Training Fund

Design Features: Challenge Fund Approach

- › **Competitive application process** for funds to strengthen bottom-up initiatives of applicants
- › TVET institute and enterprise form partnership and develop **joint proposal** for establishing DCT
- › **Calls for proposals** at regular, pre-defined dates
- › **Proposal Facilitators** support the applicants to prepare proposals
- › Assessment of the proposal by the Fund Manager based on clear **selection criteria**
  - › Number of formal cooperation agreements
  - › Number of in-company trainee positions
  - › Occupational field
  - › Outline of **Implementation Strategy**

## »» Cooperative Training Fund

Subsidised TVET loans to SMEs

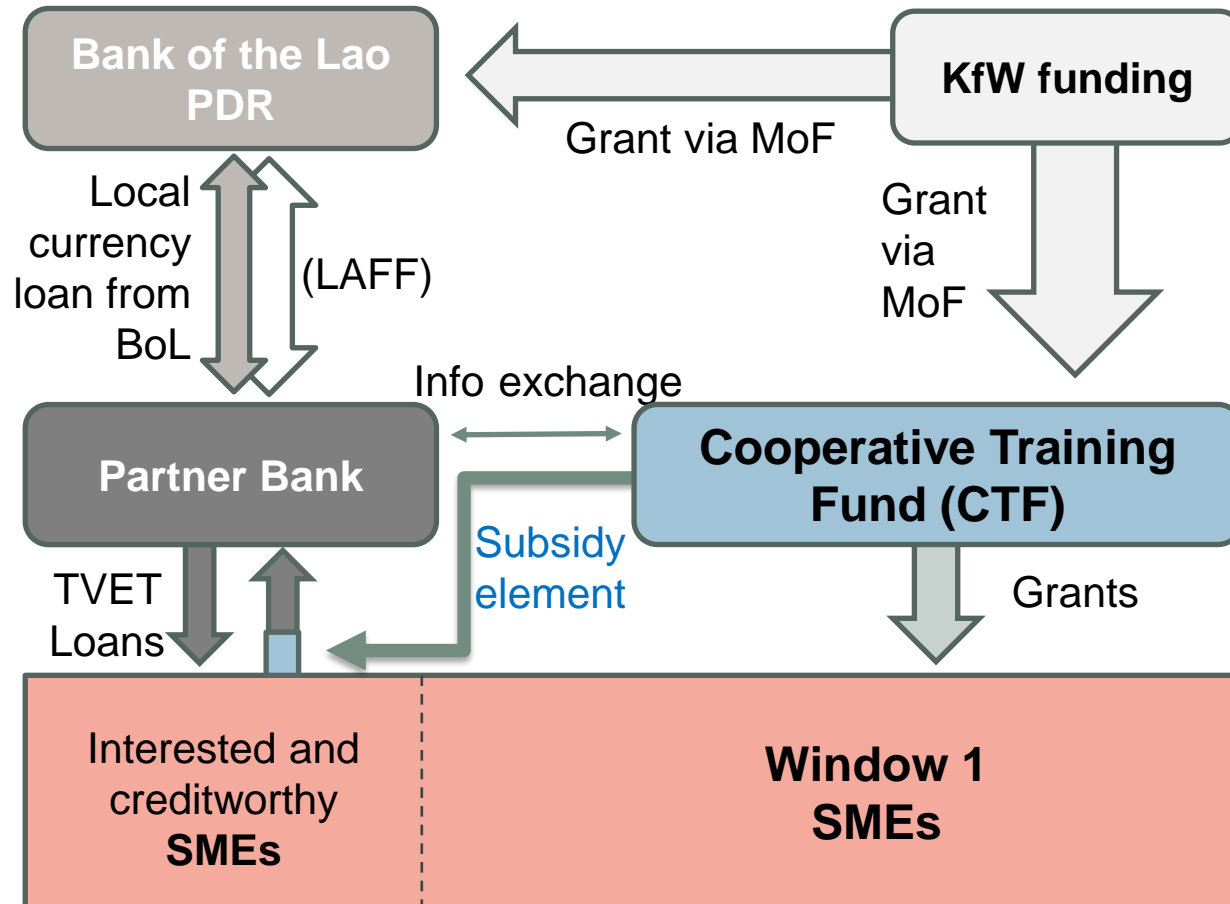


### Rationale:

- › SMEs need to invest in **productive capacities**
- › **Access to credit/funding** identified as a major challenge for SMEs
- › Increasing involvement of well-trained trainees has a **positive effect on growth** and the need for investment in productive capacities
- › Modernized production equipment raises **attractiveness of enterprises**
- › Subsidized loans as an **incentive** to engage in cooperative training scheme

# »» Cooperative Training Fund

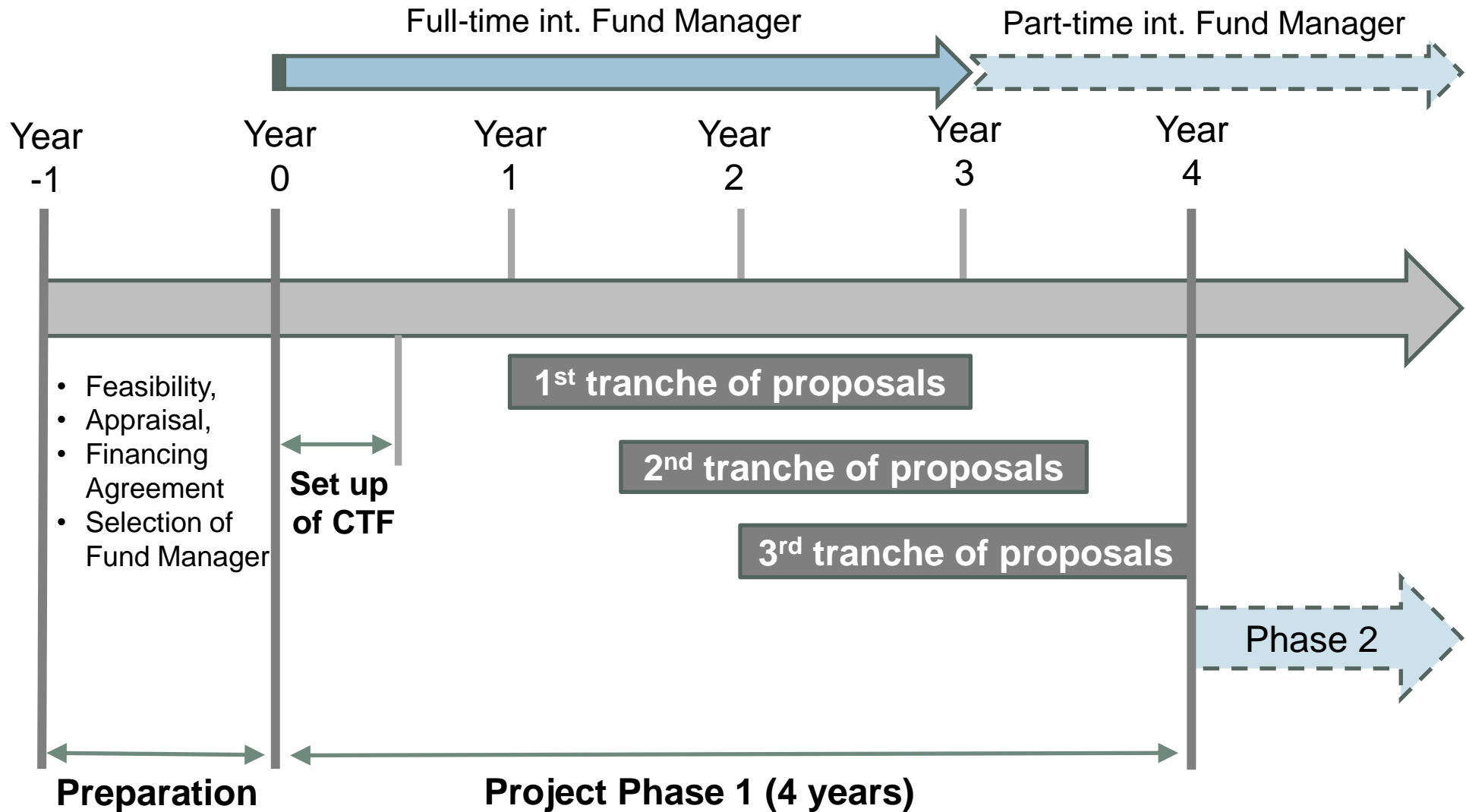
Subsidised TVET loans to SMEs





# »» Cooperative Training Fund

## Timeline



## »» Cooperative Training Fund Risks

Risks	Mitigation Measures
<ul style="list-style-type: none"> <li>› Low quality of grant proposals and limited outflow of funds</li> </ul>	<ul style="list-style-type: none"> <li>› Proposal Facilitators and capacity assessment of TVET institutes by fund manager</li> </ul>
<ul style="list-style-type: none"> <li>› Lack of demand for subsidised TVET loans (open issues)</li> </ul>	<ul style="list-style-type: none"> <li>› In-depth analysis of financing needs and detailed design of loan product</li> </ul>
<ul style="list-style-type: none"> <li>› Sustainability of DCT schemes</li> </ul>	<ul style="list-style-type: none"> <li>› Outline of sustainability of the cooperation in grant proposal</li> </ul>
<ul style="list-style-type: none"> <li>› Sustainability of the CTF itself and transfer to NTSDf</li> </ul>	<ul style="list-style-type: none"> <li>› Constant stakeholder dialogue and publications on lessons learned</li> </ul>



»» Next steps

## »» Next steps

- › **Discussion and Feedback** on the concept by stakeholders and partners (MoES, BMZ, GIZ, other donors etc.)
- › **In-depth feasibility study** to develop detailed programme design, including comprehensive demand analysis of SMEs and TVET institutes
- › Clarification of **governing structure** / role of NTC
- › Clarification of **transition process** to locally funded financing mechanism / NTSDF

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