SKILLS DEVELOPMENT FUND STRATEGY PAPER

(ZERO DRAFT)

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1 INTRODUCTION

Zambia has experienced a decline in the quality and performance of Technical Education, Vocational and Entrepreneurship Training (TEVET) system over the years owing to a number of factors. One of the major challenges has been a lack of a sustainable financing system which has largely been borne by Government and student user fees. This has led to dilapidated institutional infrastructure in the public sector, obsolete training equipment and machinery, inability to attract qualified and competent human resource, rendering graduates from these institutions ill prepared for the labour market.

In order to attain the desired human capital development, there is need to establish an appropriate and sustainable financing system that will address the challenges and foster linkages between training institutions and the labour market so as to enhance productivity.

The Government of the Republic of Zambia, through the Technical Education, Vocational and Entrepreneurship Training (TEVET) Act Number 13 of 1998 and TEVET (amendment) Act Number 11 of 2005 as well as the Skills Development Levy Act Number 46 of 2016, aims to establish a cost effective and high quality skills development system, through the Skills Development Fund (SDF). The SDF is designed to give effect to a new approach to financing TEVET in the country. This is intended to promote close collaboration with industry and other stakeholders to enhance accountability and transparency.

The SDF sets out the guiding principles that will form the basis of calculating the unit cost of training, the funding models, and the mechanism for disbursing the funds.

This strategy will lead to the production of relevant and fully skilled graduates through improved infrastructure, recapitalized machinery and equipment, qualified and motivated personnel and enhanced participation of industry in training.
2 Current financing situation

2.1 Source of funds

The current sources of funds to the TEVET institutions are treasury financing, user fees and other income.

The Funds at Ministry of Higher Education (MoHE) are determined by the Medium Term Expenditure Framework (MTEF), the National Development Plans (NDP), annual Budget ceilings and funding profiles. User fees and other income raised at institutional level comprise tuition fees, Examination fees, Board and Lodging fees, Library fees, Sports and medical fees, proceeds from production, consultancy fees as well as various registration or application fees.

2.2 Distribution of funds

The funds are distributed from MoHE to institutions through the Annual Grants, TEVET Bursary and Capital Expenditure. The Ministry determines the distribution of the annual grants and capital project allocations by taking into account the following factors:

a) Previous year annual grant levels for institutions;

b) An institution’s capability to generate its own income;

c) The geographical location of an institution and the state of infrastructure or facilities of the institution;

d) Executive discretion mainly by the Controlling Officer and political leadership;

e) The financial management systems and capacities of an institution, NDP allocations to the sectors, changes in the annual ceilings and policy decisions;

f) The enrolment levels.

Other factors that are considered include the vulnerability of students, gender and disability.
Government has introduced a SDF, financed by the private sector, to fund skills provision in both public and private training institutions thereby rendering direct benefits to both training institutions and industry. The SDF is located in the MoHE.

2.3 **Application of funds**

Currently, institutional funds comprise annual grants, user fees and other income to support institutional financial obligations. Institutional budgets are presented to the Ministry for intervention and direction.

3 **FINANCING STRATEGY FOR SDF**

Government will collect the SDF through the Training Levy. This gives an assurance of sustainability to the funding strategy and it is expected that stakeholders will play their role.

3.1 **Purpose for the SDF financing strategy**

The purpose of the SDF is as follows:

a) Enhance the provision of skills development in a more efficient and effective manner;

b) Promote private sector participation in skills development;

c) Facilitate predictability of resources to the institutions;

d) Facilitate the development of an objective SDF model for TEVET training;

e) Facilitate and enhance effective budget monitoring and evaluation;

f) Result in enhanced focus on utilization of various funds in the TEVET sector.
3.2 Guiding principles for the SDF

1. Priority Skills areas will be aligned to job performance systems in the world of work.

2. The disbursements of funds will be done in a transparent and equitable manner.

3. Equality and equity shall be integrated in all training activities.

4. Training providers shall strive to attain and maintain accreditation standards required by TEVETA.

5. Staff development programmes will be competency based, i.e. focusing on the development of knowledge, skills and attitudes/values as appropriate for the staff members in specific position.

6. SDF will be determined on the basis of students numbers and staff requiring training in priority skill areas.

7. Skills offered in the TEVET sector will be relevant, effective, provide value for money and support employment equity.

8. Management systems supported by SDF shall include job related skills development, improvement of management systems for the betterment of TEVET.

9. All priority skills training shall be informed by a skills audit as envisaged by the world of work.

10. The education, training and development of employees supported under the SDF in key performance areas shall be a responsibility for institutional managers.
3.3 Aspects considered in determining the funding

In order to increase access to training, the key aspects considered in determining an appropriate funding, which should result in improved training delivery shall be based on:

a) The capacity of enrolment levels at an institution;

b) The nature of courses and programmes that an institution is able to offer;

c) The numbers and caliber of lecturing staff at an institution with a view of upgrading the institutions capacity or attract qualified staff;

d) The proportions of training and operational related costs to the overall cost of delivering training. These include infrastructure development, rehabilitation and maintenance, procurement of training materials, recapitalization and maintenance of machinery and equipment and other related costs.

In this Strategy Paper an objective to determine the current capacity of an institution shall be used in providing sustainable funding other than using arbitrary figure(s). Planning shall include the Ministry and stakeholders to simply give a more realistic budget which should conform to the needs of the institution through the institutional strategic plan. This means that strategies to improve the status of an institution should be developed for each institution and should have a time frame in completing and achieving certain goals. Furthermore, it is important that the current situation be taken into consideration so as to allow for the smooth cross over and ensure no institution is unduly disadvantaged with the change in the financing strategy.
4. Modes of determining cost of training

Funds to institutions will be determined on the basis of the student services the Government will procure from each institution as calculated through the funding modality in section 4.3.

The financing model will be based on a simple formula to be applied in allocating funds for institutions. The weighting of programmes will be influenced by Government priority on an annual basis as determined by policy directives and socio-economic needs analysis.

4.1 Determining unit costs

This cost would be determined on an annual basis. This will be based on the average cost of inputs relevant to each programme. This approach allows for the most realistic approach to funding training by taking into account the actual costs of a training programme. Programmes to be funded will be those agreed between Government and industry/private sector.

4.2 Centers of excellence and specialized institutions

On the basis of national priority skills, Government will identify a selected number of institutions for development as centers of excellence and will, in the first five years, target financing in the following areas:

- Infrastructure rehabilitation and development;
- Procurement of training equipment;
- Human resource development;
- Improvement and development of management systems;
4.3 The Funding Modalities

(a) The formula to fund employer based training which will not lead to national certification will be determined by the fund manager.

(b) The budget to fund human resource development and infrastructure development shall be determined by the fund manager in liaison with SAC.

(c) The funding formula used to determine the cost of pre-service training shall be based on the total enrolment in specific skill areas to be identified by the SAC. Furthermore, an additional consideration will be made to promote equity. SDF shall pay 100% of tuition fee for students enrolled in skill priority programmes. In addition, to promote gender equality it will pay 30% of the tuition fee for all enrolled female students to, promote equity pay 15% of the tuition fee for all enrolled students with special educational needs and 100% of the tuition fee for vulnerable students. In order to promote quality of training, SDF shall also pay 5% of the tuition fee for all students who pass in all subjects at merit level and above in an examination.

Financial Impact (With hypothetical no. of students)
<table>
<thead>
<tr>
<th>Item Description</th>
<th>No of Students</th>
<th>Cost/Year (ZMK)</th>
<th>% Payment</th>
<th>Total (ZMK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Enrollment</td>
<td>100</td>
<td>6,000.00</td>
<td>100</td>
<td>600,000.00</td>
</tr>
<tr>
<td>Female Students in Technical Programmes</td>
<td>30</td>
<td>6,000.00</td>
<td>30</td>
<td>54,000.00</td>
</tr>
<tr>
<td>Students with special needs</td>
<td>10</td>
<td>6,000.00</td>
<td>15</td>
<td>9,000.00</td>
</tr>
<tr>
<td>Vulnerable Students</td>
<td>7</td>
<td>6,000.00</td>
<td>100</td>
<td>42,000.00</td>
</tr>
<tr>
<td>Placement in industry after training</td>
<td>70</td>
<td>6,000.00</td>
<td>10</td>
<td>63,000.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>76</strong></td>
<td><strong>768,000.00</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(d) The budget for TEVET Systems Development and Improvement shall be determined by the fund manager in liaison with SAC.
(e) The cost of training SMEs and informal sector operators shall be determined by the fund manager.

5. Financing of the SDF

The SDF will be collected from the employers at 0.5 percent of their payroll as provided for in the Skills Development Levy Act No. 46 of 2016. The strategy sets precedence for new disbursement modalities involving a number of funding windows that seek to address different labour market segments. These disbursement modalities are intended to provide an environment for continuous improvement in the quality and relevance of training.
The Fund will have four funding windows in-line with the focus areas listed below as follows:

<table>
<thead>
<tr>
<th>Window 1</th>
<th>Window 2</th>
<th>Window 3</th>
<th>Window 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer-Based Training</td>
<td>Infrastructure Development and Equipment</td>
<td>TEVET Systems Development and Improvement</td>
<td>Human Resources Development Pre-Employment Training</td>
</tr>
</tbody>
</table>

**Table 1: Funding Windows**

The first window will be used to finance training for formal sector employers to upgrade or introduce new skills to their employees whereas the second window will support; construction, rehabilitation and maintenance of infrastructure; procurement of training equipment; development of Human Resource; and development and improvement of the TEVET systems. The third window will be used to finance institutional based learning programs and apprenticeship training while the fourth window will be used to finance training of MSMEs and Informal Sector operators through the provision of funds to training providers and intermediary institutions.

### 6. Skills Development Fund Management

#### 6.1 Skills Development Fund Eligibility

In order to qualify for the access of the Fund, participating institutions need to meet the following general eligibility criteria:

a) Priority Skills for national development;
b) TEVET registered Institutions;
c) Ability to manage funds (Availability of Financial Audited accounts);
d) Training should lead to national certification;
e) Where possible demonstrate previous management of similar funds;
f) Banker’s reference confirming that the applicants maintain an account with the bank and the said account is maintained to the satisfaction of the bank;
g) Training providers must submit a Strategic plan, including a Training Needs Analysis (TNA).

In addition to the above, the following criteria shall be used to access funds under the four windows. Under window one, the following eligibility have to be met:

a) The company must be registered under the Companies Act Cap 388 of the Laws of Zambia;
b) The company must be operating in Zambia;
c) The employer must provide a Training Needs Analysis (TNA), which details the training requirements of their employees;
d) The employer must demonstrate how the proposed skills requirements will benefit the company;
e) The company must be current in levy payments due to the Fund;
f) The employers will be required to show evidence of agreement in

In regards to window two, the eligibility criteria to be used will be based on the available infrastructure and equipment and the human resource development. In terms of the infrastructure and equipment, the training provider must have infrastructure and equipment required to offer courses in the national skills priority areas and it must procure equipment relevant to the training provided. Further, the human resource development will require that:

a) the main beneficiaries in this funding window shall be trainers who are in employment with registered TEVET institutions;
b) the beneficiaries will be bonded to their institutions for a period equal to the duration of the training programme.

In order to access funds under window three, the beneficiaries of this funding window should be those that meet the minimum entry requirements in accordance with the curriculum; and only providers offering learning programs that lead to full or partial qualifications will be eligible for financing from this funding window. Similarly, to access funds under window four will be based on the following eligibility:

a) only TEVETA accredited/registered training providers will be eligible;

b) reference will be given to institutions who can document good results from their implementation of training programs towards the specified target groups;

c) due to the fragmented nature of the MSMEs and Informal sector, intermediary institutions such as Cooperatives, Association and other such groupings will be engaged to coordinate training for the MSMEs and the Informal sector; and

d) the MSME/Informal sector will be required to show evidence of agreement in respect of the TEVET Institution identified to deliver the training.

### 6.2 Governance Structure

In order to ensure wide consultation, and to provide the necessary policy guidance, the TEVET System is structured as follows:
Ministry of Higher Education
The Ministry, in consultation with stakeholders is responsible for policy formulation, monitoring and reviewing of skills priorities, and allocation of funds to realize the skills strategies.

Stakeholders Advisory Council (SAC)
The SAC will be established by the Minister to advise the Ministry and other stakeholders. The Purpose of the SAC will be to provide a mechanism for consultation and consensus among the stakeholders. The SAC will comprise stakeholders including representatives from Industry, Employers, MSME Sector, Financial Institutions, Universities, Training Institutions, line Ministries and TEVETA.

6.3 Management of the Fund

The Fund is located in the Ministry of Higher Education. The Ministry will be responsible for the coordination of all activities regarding management of the resources mobilised under the Fund. A Fund Manager shall be established under the supervision of the Ministry. The management of the Fund shall be divided into two overall functions, namely Technical and Financial.

(a) The Technical functions will include:

i. Initiating and maintaining the planning cycle of the Fund in collaboration with service providers;

ii. Receiving and reviewing Proposals and Strategic plans from potential applicants;

iii. Participating in the technical evaluation of Proposals and Strategic plans;

iv. Developing contracts for successful applicants; and Monitoring and evaluation of ongoing projects as well as the Fund management activities in general.
(b) **The Financial Functions will include:**

i. Managing the Fund’s resources as agreed with the Fund contributors;

ii. Preparing management reports on a monthly basis;

iii. Receiving invoices from Fund beneficiaries and preparing financial payments;

iv. Ensuring compliance to Tender processes;

v. Updating and reviewing procurement practices where relevant;

vi. Updating disbursement records and ensuring that Fund beneficiaries submit their reports as per contracts;

vii. Verifying that application of funds is in conformity with the contracts.

6.4 **Disbursement Process for the Fund**

The Skills Development Fund will be managed by Government through the Ministry of Higher Education in partnership with the private sector. The disbursement and utilization of the fund will be guided by the following cycle:

1. Ministry of Higher Education in collaboration with TEVETA shall develop a five (5) year Skills Development Strategy with due reference to National Development Plans;

2. Fund Manager invests the resources according to the Skills Development Strategy;
3. Beneficiary Institutions implement as per agreed performance contracts;
4. Monitoring and Evaluation of the Fund disbursement and utilization;
5. Preparation of reports.

Cycle:

7. Impact

This strategy, through increased collaboration with industry will contribute to improving the quality and relevance of skills development in Zambia for job creation and enhanced youth employability. Additionally, increased availability of modern training equipment and enhanced qualifications of the lecturing staff is expected to enhance the quality of the graduates. The construction and rehabilitation of infrastructure will lead to increased access to skills development.

The fund will target to enhance the priority skill areas which will contribute to eliminating the skills gaps in the Country. This will enhance the performance of the sector and its ability to contribute to the required skills for national economic development.
8. Monitoring and Evaluation

The Ministry of Higher Education will ensure that there is in existence a well-functioning and robust Monitoring and Evaluation (M&E) System for the sector. The System will ensure accountability in the management of resources and achievement of targeted milestones. It will ensure that the targeted outputs are recorded and reported.

The targets will be accounted for through the use of specific and standard outcomes, outputs and corresponding key performance indicators which are illustrated in the SDF Manual. These outcomes, outputs and key performance indicators will be used for reporting by both private and public training institutions benefiting from the Fund in order to ensure standardized reporting.

Each of the beneficiary institutions of the Fund will submit to the Ministry of Higher Education, through the Fund Manager monthly, quarterly and annual progress reports. In order to ensure ease and standardization of reporting, the Ministry of Higher Education will ensure that there is available a robust TEVET Management Information System (TEVET MIS) which shall be designed for use both online and offline. Entry of data onto the system shall be managed by the training institutions, TEVETA and the Fund Manager. Reports from the System shall be accessed by TEVETA, MoHE and the Ministry of National Development Planning. The use of the MIS shall form part of the eligibility criteria for accessing the fund.