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Working Paper 1

Access to Finance for Private Technical Vocational Education and Training Providers and Students in Sri Lanka

Canada

November, 2017

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WUSC is a non-profit organization registered in Canada. Charitable Registration Number 11930 4848 RR0001.

This Working Paper Series is funded by the Government of Canada.

Canada

Access to Finance for Private Technical Vocational Education and Training Providers and Students in Sri Lanka

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Published by World University Service of Canada

Available from:
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Web: www.wusc.ca

Please cite this paper as:

Welamedage, Lalith (2017) *Access to Finance for Private Technical Vocational Education and Training Providers and Students in Sri Lanka. WUSC Working Paper Series. Paper No. 1, November 2017. World University Service of Canada Publishing. Ottawa*

Table of Contents

Contents

Glossary

ADB	Asian Development Bank
DFAT	Department for Foreign Aid and Trade
DTET	Department of Technical Education & Training
GOSL	Government of Sri Lanka
ILO	International Labour Organization
ISSC	Industry Sector Skills Council
MFI	Micro-Finance Institutions
MSDVT	Ministry of Skills Development & Vocational Training
NAITA	National Apprenticeship and Industrial Training Authority
NDB	National Development Bank
NGO	Non-Governmental Organization
NVQ	National Vocational Qualifications
OJT	On-the-Job-Training
PTP	Private Training Providers
SDP	Skills Development Programme
SME	Small & medium-sized Enterprises
SSDP	Skills Sector Development Plan
TVEC	Tertiary & Vocational Training Commission
TVET	Technical and Vocational Education and Training
UNIVOTEC	University of Vocational Technology
VT	Vocational Training
WUSC	World University Service of Canada

Executive Summary

This working paper[1] examines the current student financing system in the technical and vocational education and training (TVET) sector in Sri Lanka, with a particular focus on gaps in student financing and challenges for current and prospective students in financing their vocational training education.

In Sri Lanka, approximately 325,000 young women and men enter Grade One every year. Of that number, almost 17,000 leave school before completing the G.C.E. Ordinary Level Examination, and nearly 65,000 students miss opportunities to take the G.C.E. Advanced Level Examination, due to various socio-economic factors. About 28,000 students gain access to university education or enrol in other higher studies after G.C.E. Advanced Level Examination. About 160,000 of those who fail to achieve good results in A/L, or secure a placement in a local university take on vocational or technical educational courses at public or private fee-levying institutions. It estimated that around 10,000 go abroad for higher education every year[2]. Since the Sri Lankan university system is unable to provide opportunities for all those who pass the A/L, many students look for 'fast-tracking' their job readiness through quality job-oriented and vocational or higher education opportunities. However, those who come from poor financial backgrounds have very limited access to vocational or higher education. The recent trends show that the labour market becomes more diverse and specialised, requiring higher levels of skills. While the public sector TVET providers alone cannot respond adequately to the demand for skills and qualifications, the private sector TVET providers can play an equally important role in developing skills needed for the country.

The aim of this paper is to provide information and analysis that will help policy and decision-makers in the government, donor and financial community to better understand the existing student funding mechanism in the Sri Lankan TVET sector. It also aims to identify and draw lessons from good practice in other countries. Based on the proceedings and recommendations of the Symposium *'Access to Finance for Private TVET Training Providers & Students'* held in March 2016, the analysis examines what works and what does not work, in funding private training providers (PTP) within a broader context of vocational education and training for workforce development.

[1] Welamadege, Lalith (2017) *Access to Finance for Private Technical Vocational Education and Training Providers and Students in Sri Lanka. WUSC Working Paper Series. Paper No. 1, September 2017. World University Service of Canada Publishing. Ottawa.*

[2] Calculated based on Ministry of Skills Development and Vocational Training (MSDVT) reports.

The paper is d into five main sections. The first section presents an overview of the TVET sector in Sri Lanka, the role of private training providers, and the identification of key issues that emerged from the 2016 Symposium. The second section describes and analyses the TVET sector in Sri Lanka. The third section presents an analysis on the financing of TVET sector and the fourth section examines the good practices in financing in the private sector vocational training and presents models of student financing. The final section summarises the main issues, explores lessons learned and policy considerations to WUSC for addressing TVET issues, relative to economic growth and development, workforce and youth development, and vocational education and training systems in Sri Lanka.

Key words: inclusive finance, vocational training, youth, gender, inequality

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Chapter 1: Introduction

Economic Growth and the Skilled Labour Deficit

As a middle-income country, Sri Lanka's economic growth has been impressive, particularly since the end of the conflict in 2009. The economy grew at 6.4% in 2015, despite the global economic downturn. The per capita income has reached an all-time high of USD 3637.54 in 2015[3]. The recent achievements in service and manufacturing sectors provide a significant opportunity to invest in human capital. An ILO report notes that if Sri Lanka's economy is to expand into higher value-added sectors and reduce poverty, it needs to become efficiency-driven. The only barrier to growth is quality and supply of skilled technicians (ILO, 2015).

SMEs play an important role in the country's economy, accounting for 80% to 90% of all private sector businesses. The share of employment in SMEs is estimated to be 75% of the 8.1 million workforce. About 66% of the total workforce is in informal work arrangements. Many key constraints, however, have been identified to private sector-led development, particularly in the lagging regions, including: skill gaps in the workforce; access to markets and market linkages; lack of understanding of local and provincial government about the importance of SMEs to economic development; lack of access to finance and quality business development services.

Research suggests that Sri Lanka's workforce is better educated than that of other countries in the South Asian region[4]. However, the high education outcomes are not translated into competitiveness of the economy. According to the 2013 Global Competitiveness Index, Sri Lanka is now in transition from the factor-driven to the efficiency-driven stage of development. Higher value-added production, increased productivity, technology usage, and efficient work are key factors affecting competitiveness and are crucial in supporting the move beyond current production processes.

While Sri Lanka is ranked 62nd out of 148 countries by the World Economic Forum, in terms of quality higher education and training, it is ranked 135th in terms of labour market efficiency, with 35% of respondents identifying lack of skills as a constraint for trade (footnote 1). The World Bank also notes that many organisations recognise "inadequately educated labour" as one of the key constraints to their business. 2 Sri Lanka has a relatively low unemployment rate, 4.6% in the first-quarter of 2013, but youth unemployment is significantly higher at 20.1% (ages 15–24) and 7.5% (25–29). 3 In 2012, of the almost 8.8 million workers, 57.4% were engaged in unskilled or low-skilled occupations, where productivity is low and jobs are mostly in the informal sector. Informal sector employment accounts for 61%, but varies across economic

[3] Department for Census and Statistics http://www.statistics.gov.lk
[4] See for example Song (2016), World Bank (2016)

subsectors (86% in agriculture, 46% in tourism, and 47% in industry). About 24% of the workforce is employed overseas, mostly as unskilled workers. In 2012, an additional 262,700 workers found jobs overseas, of whom about 70% were housemaids or unskilled workers.

At the national level, 16.4% of the population received TVET, while 59% of highly skilled workers in the informal sector received TVET[5]. Various reports on Sri Lanka's TEVT sector argue that increasing the competitiveness of the economy requires an efficient technical and vocational education and training (TVET) sector to support skills-formation linked with movement up the value chain (footnote 1). The Government has acknowledged the need for improvements in TVET to address, in particular, high youth dropouts from formal education without employable skills; high unemployment (17.3%) among educated youth, especially women; shortages in skilled labour and low labour force participation rate (48.6%), which is the lowest in South Asia[6].

The construction industry is a fast-growing sector of the country. The construction industry has demonstrated 14% to 22% annual growth rates during the last four years and its share of the GDP was 11.8% in 2014, and it was larger than the share of the agriculture sector. The most common problem in the construction sector has always been the shortage of skilled workers, such as masons, painters, carpenters, welders, plumbers, bar-benders, etc., which are considered difficult jobs in the industry. Many jobs in the sector remain vacant for long periods, resulting delays in completion of construction projects (TVEC, 2015) (Sunday Times, 2017).

Information and Communication Technology (ICT) sector has recorded an annual growth rate of around 15% in the past few years and it is now ranked as the second fastest growing industry in the country. Sri Lanka is rapidly becoming a hub for BPO, KPO and ICT-related services. Although the growth of the sector has created demand for new skills and job profiles, its future growth will depend largely on the expansion of ICT skills (TVEC, 2015).

The tourism and hospitality industry sector has shown a significant growth over the past 5 years with an increase in the number of tourist arrivals in the country. This industry has shown 12% to 40% annual growth rates for the period 2009 to 2014 and this industry can be ranked as number one, among the fastest growing industries in the recent past. The total number employed in the sector was estimated to be around 200,000 or 2.4% of the total employed persons in year 2014 (CBSL). The performance of this industry is dependent among others on the increased availability of trained staff (TVEC, 2015).

[5] http://www.tvec.gov.lk
[6] ADB. (n.d.). ADB Skills Sector Enhancement Program (RRP SRI 42251)

An Overview of Sri Lanka's TVET Sector

The government's policy on skills development affirms that it aims to create a society where there is no person without employable skills by 2020. It also attempts to bring down the rate of unemployment from 4% to 2.5%, while meeting the full requirement of skills for domestic industries particularly; construction, tourism, ICT and light engineering. Sri Lanka's TVET system is characterized by a multitude of agencies, including a regulator, training providers of public, private and NGO sectors, standards and curriculum development agencies. The Tertiary and Vocational Education Commission operating under the purview of the 'Ministry of Youth Affairs is the regulatory body for TVET sector.

National Apprentice and Industrial Training Authority (NAITA) and the University for Vocational Technology (UNIVOTEC), previously known as the National Institute of Technical Education of Sri Lanka (NITESL) function as competency standards and curriculum development agencies, respectively. The UNIVOTEC[7] was inaugurated in 2008 with the purpose of providing education at degree level for those who come through the NVQ system, as well as those who work in industry, and wish to acquire degree level education. The NITESL was converted into a faculty of the UNIVOTEC, as per the provision of the UNIVOTEC Act. The NAITA functions as the leading agency in providing apprenticeship training. It manages three (03) national training institutes viz. Apprenticeship Training Institute (ATI), Automobile Engineering Training Institute (AETI) and Institute of Engineering Technology (IET), Department of Technical Education and Training (DTET) and operates 38 Technical Colleges throughout the country as at end of 2009, of which nine (09) Colleges have been upgraded as Colleges of Technology (CoTs) to offer diploma level courses leading to National Vocational Qualifications. The Technical Education Development Project (TEDP) funded by the Asian Development Bank provides funding for this initiative.

In the year 2007, the Technical Education Development Project (TEDP), the successor to the Skills Development Project (SDP), came into effect, concentrating on activities related to NVQ level 5 and above, diploma level courses and setting up of the University for Vocational Technology (UNIVOTEC) for award of NVQ level, 7 degree-equivalent qualifications.

The Vocational Training Authority (VTA) operates a network of Rural Vocational Training Centres (RVTCs), Special Vocational Training Centres (SVTCs), District Vocational Training Centres (DVTCs) and National Vocational Training Centres (NVTCs), throughout the country. As at end of 2009, there were 270 training centres managed by VTA. The National Youth Services Council (NYSC), under the purview of the Ministry of Youth Affairs, organises vocational training courses in urban, as well as rural areas. In addition, a set of other public-sector agencies provide training in different areas.

[7] University for Vocational Technology

Private-sector establishments in the industry provide industry-specific TVET courses for their own workers, as well as for outsiders in different occupations. Registered private and NGO sector training institutions also play a pivotal role in providing TVET in the country.

The Skills Sector Development Plan (SSDP) developed by the previous Government sets out a comprehensive 7-year roadmap that includes skilling strategy of the government and policy reforms. Five key result areas established in the SSDP are:

- improving quality;
- improving relevance;
- improving access;
- improving recognition of vocational education and training; and
- improving supportive policies, systems, and structures.

In July 2017, the Ministry of Skills Development and Vocational Training launched an ambitious programme titled "Sri Lanka Skills – Ten + One Programme"[8] aiming to uplift Sri Lankan youth through ten interconnected projects. The ten projects are:

1. "BIG STEP" programme to provide vocational training opportunities for underprivileged youth in higher education.
2. "Nipunadiri" scholarships for vocational trainees.
3. "Sisusuraksha" insurance for trainees.
4. Loans, under a concessional interest rate, for "NVQ" certificate holders.
5. "Next Step" Career Guidance Centres at 1000 schools
6. Skills Student Clubs in each school.
7. "Nipuna Thahavuru" programme to award NVQ Certificates under Recognition of Prior Learning to identified trades, including Tri-forces and Garment Industry.
8. Multi-Expert Programme to provide vocational training of various trades for three -wheeler drivers.
9. "Skills App" (SAPP) to providing technical support for distance learning.
10. "Skills Passport" system.

In recent times, some significant achievements can be seen in the TVET sector. Investment from public, private and NGOs sector in the TVET has increased and it has led to a rapid expansion of the sector. Key reforms have been brought in, including the introduction of a National Vocational Qualifications Framework, in participation with industry. The introduction of a regulatory framework for public and private providers is another major change introduced by the Government. Various studies are of the view that still, much remains to be done, to improve the number and range of TVET courses and their market relevance.

[8] http://www.srilankaskills.com/tenplus/tenplus/i/srilanka-skills-tenplus

Role of Private Training Providers (PTPs) in Providing Market-demanded Training

The private training sector consists of for-profit private businesses and other non-profit organisations and overall accounts for about one third of student enrolments. Though small in scope, NGO providers have been recognised for their outreach to marginalised groups. Most private providers are not registered with TVEC and many private courses are not classified under the NVQ system (DFAT, 2016).

Industry-based training has been one of the key strategies in vocational education and training. The National Apprentice and Industrial Training Authority (NAITA) provides job skills through industry-based training to the students enrolled on courses offered by NAITA training centres[9]. In addition, it arranges on-the-job training (OJT) for engineering undergraduates in universities and DTET students. About 3,500 government and private industrial and service are registered as OJT providers. NAITA pays a stipend to apprentices working for an employer to obtain on-the-job training. On-site training is supplemented by full- or part-time theoretical and other instruction that is institution-based. The recent trends in this are changing with some of the larger hotel chains. The network of Chambers of Commerce provides small-business support training in a variety of areas. Sri Lanka has one of the lowest rates of industry-based training (employer-provided in-house training) (DFAT, 2016).

In most countries, the state has identified that the public sector alone cannot provide training and skills development. The private sector, by employers and private training providers, often fills the skills gap. Private sector involvement in training and skills development, at strategic level or at delivery level, can greatly enhance what is offered by the public sector. To reap full benefits, such involvement needs to be in partnership with the public sector, with clearly defined responsibilities recognising each other's strengths, rather than in the public sector and in the private sector, working independently of each other.

By the end of 2016, more than 1,200 private TVET providers had registered to deliver NVQ-accredited training courses. However, it does not mean that having a registration allows an institution to conduct specific courses. The provider must prove that it has all the resources, including, financial, physical and human, that require providing accredited courses. The extent of registration and accreditation is limited, largely due to the lack of staff. The Standards and Accreditation Directorate of TVEC has only six staff members involved in judgments about registration and accreditation. They must rely on contractors, usually from a different organisations,

[9] 3 national institutes and 54 regional apprenticeship-training centres operate dual apprenticeship training at the centres and in industry.

for conducting appraisals in many areas. Use of contractors has led to issues of credibility (Australian Aid, 2014).

In Sri Lanka, the private sector seems to be more responsive to market demands for skills and training. They are more flexible in making decisions on introducing new courses, developing existing programmes and changing obsolete courses. Many private providers are still neither registered nor accredited, and there is no mechanism to monitor, regulate and improve quality of private training providers (Dunbar, Millot, Savchenko, Aturupana, & Piyasiri, 2014). The TVEC has a system to quality control registered NVQ providers but not all private sector providers. Among the non-NVQ providers, there are well established foreign-accredited training providers, offering medium and long-term professional courses (that is, City & Guilds). There are local professional institutions that offer accredited entry level and advanced vocation-based training courses around the country. Many of these providers operating in major towns so those in rural areas are missing out.

The 2016 Symposium 'Access to Finance for Private TVET Training Providers and Students

The Symposium on Access to Finance for Private TVET Training Providers and Students was held on March 30th, 2016 at the Cinnamon Grand Hotel, Colombo, which was attended by about 75 participants from diverse backgrounds, including leaders and decision-makers from the private sector, finance, the TVET sector, donor agencies, NGOs and academia to discuss and share experience and to explore ways of working together towards a common goal[10].

The objectives of the Symposium are to:

- Provide a forum for key stakeholders to present and discuss experiences, approaches, opportunities and barriers to private financing.
- Integrate regional and international models and best practices that are relevant to the Sri Lankan context.
- Identify key institutional and policy recommendations for strengthening access to finance for private TVET providers.
- The Symposium was organised into three thematic areas (TA):
- Thematic Area 1: Financing market-demanded skills training for PTP and students
- Thematic Area 2: Facilitating the access to finance for marginalised and vulnerable groups

[10] (WUSC, Symposium Final Report - Access to Finance for Private TVET Training Providers & Students: Accelerating the Quality & Supply of Market-Demanded Skilled Labour in Sri Lanka, 2016)

- Thematic Area 3: Towards an enabling environment for PTP & student TVET financing

Twelve speakers shared their experience, views and opinions relevant to each of the above Thematic Areas, emphasising on the need for demand-oriented or market-based vocational training system that will give long-term and sustainable income sources for young people, especially those from poor and vulnerable communities. The need for better access to finance by both students and private sector training providers was discussed and argued at length.

In TA 1, the presenters highlighted the role of private sector in skills development in an efficiency-driven economy. The technical, cognitive and soft skills gaps of entry-level workers remain very high. Skills gaps are higher in innovation and technology-based sector and tourism subsectors. The speakers also highlighted the inadequate labour supply in real estate, hotels and restaurants, construction, manufacturing and wholesale, and retail trading. Bridging the gap between TVET enrolment and target population of TVET, addressing the labour market skills gaps, skills development in high growth sectors, closing the rural-urban skills divide and bridging the labour market inequalities, are the key challenges for the government, as well as TVET providers. The speakers emphasized the growing employment opportunities in the tourism and hospitality sector. Over 9000 trained operations staff are needed every year, but the current supply is 2000 trained workers. This shows that there is a huge staff shortage in the sector to reach its full potential.

In TA2, sharing their country experience, two speakers from Cambodia mentioned that the country's education and TVET policy focuses on two areas: Poverty Reduction - by providing basic skills to the rural poor to improve their family income; and Supporting Industrial Development - by providing higher level skills required by the industry, especially the emerging industries. Over the next five years, the aim is to increase employment of TVET certified workers and create and strengthen an accessible, demand-driven TVET system responsive to continuing and emerging labour market demands. The National Training Fund (NTF) established in 1997, is a demand-driven programme for skills training, through a system of output-based contracts with public and private training providers. NTF is funded through Government and external contributions.

Presenting in TA2, a speaker representing the Ministry of Skills Development & Vocational Training outlined the Training Purchase Model, a new initiative by the Ministry. The model consists of 3 stakeholders; vocational training providers, industry and the Ministry. The speaker also highlighted the key issues and barriers and mentioned that training providers prefer short-term training programmes due to high dropout rate in long-term programmes, high cost per student, lack of awareness on VT opportunities, and apprentices' mobility – not preferred by students from rural and marginalised communities. The Ministry is now focussing more on promoting dual training methods, combining shorter in-house and longer

workplace learning, reducing operational cost (cost per student), and participation of more private vocational training providers.

The founder of Rukula, a new and innovative micro-finance company, shared his company's vision to solve access to credit for the low-wage earners in the population. The company adopts a no-cash approach, where it provides finance to purchase household items through a network of SME retailers. The payments are directly paid to the merchant. The repayment period is 2-6 months. The company has partnered with a PTP and a foreign employer in the hospitality sector, to finance Sri Lankan students enrolling on VT courses.

In TA3, the Director of Regional Development Division of the Central Bank outlined the Bank's role and the present status of government funding to the TVET sector. The government spending on education as a percentage of total government expenditure has increased from 8.5% in 2011 to 10.6% in 2014. The presenter stressed the mismatch between the education system and the labour market, while the TVET sector too needs to stay applicable and reactive to the needs of school leavers, industry and community. There is a need for increased private sector participation, not only as providers of employment, but also as providers of training and skills development. The presenter pointed out that there is no government-sponsored loan scheme for the TVET sector and none of the schemes by state and private banks facilitates financial needs of the students or training providers. The only closest scheme is the SEPI (Self Employment Promotion Initiative Loan Scheme) which provides financial assistance to NVQ-qualified students to start self-employment projects at 9% interest rate. Five TVET institutions and 82 courses are eligible for this scheme. A challenge for the Central Bank / Government, according to the presenter, is devising a loan scheme to lend money to the prospective students, especially those from low-income groups. As commercial banks are unlikely to give loans without securities, unless the government provides some guarantee through a credit guarantee institution[11]. More research is needed on this to make a case for the government to take a decision.

Speaking in the TA3, the CEO of National Development Bank (NDB) described what it is doing to finance the TVET sector. Although there is no specific credit scheme, existing credit schemes serve the financial needs of PTPs and students. Presenting the evidence from a WUSC research study on loan schemes for education, training and skills development, the CEO of LSV highlighted the rising demand for employment-focussed quality higher education, vocational and professional qualifications. On the supply side, there is a significant increase in state and non-state sector education and training providers providing degrees, local NVQ qualifications and international professional and vocational qualifications. With regard to financial services for the TVET sector, there are no loan schemes for

[11] Currently, there is no independent credit guarantee institution in the country. Discussions are taking place with the ADB to establish an independent credit guaranty institution in the form of public private partnership (Director, RDD - CBSL).

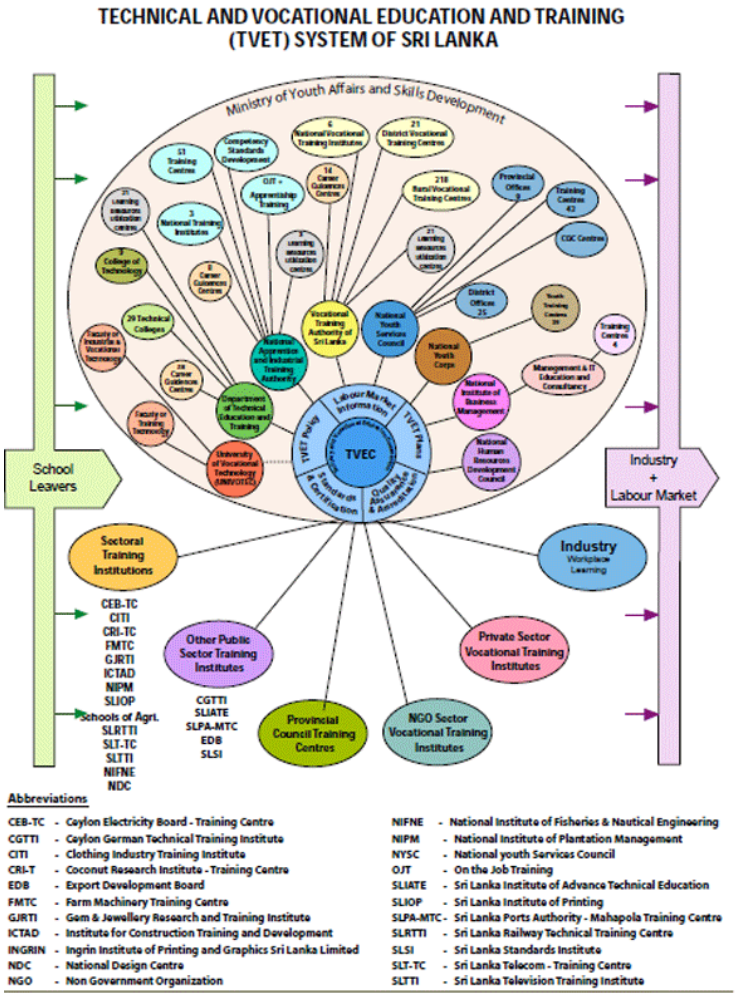
students wishing to follow NVQ or vocational training courses at state or non-state training institutions. Obtaining a loan for education and training purposes is much harder for students from low-income families and those living in rural areas. Often, commercial banks regard education loans as a risky investment and, therefore, demand high collateral security. The Central Bank's intervention is very essential to encourage commercial banks and MFIs to consider providing affordable loans, particularly for those from low-income and rural backgrounds. The need is greatest for a separate financial institution for "Education and Training Loans" and this could be a public-private partnership (PPP) involving private, education/VET and commercial and development banking / MFI sectors.

Chapter 2 - A Profile of the TVET Sector in Sri Lanka

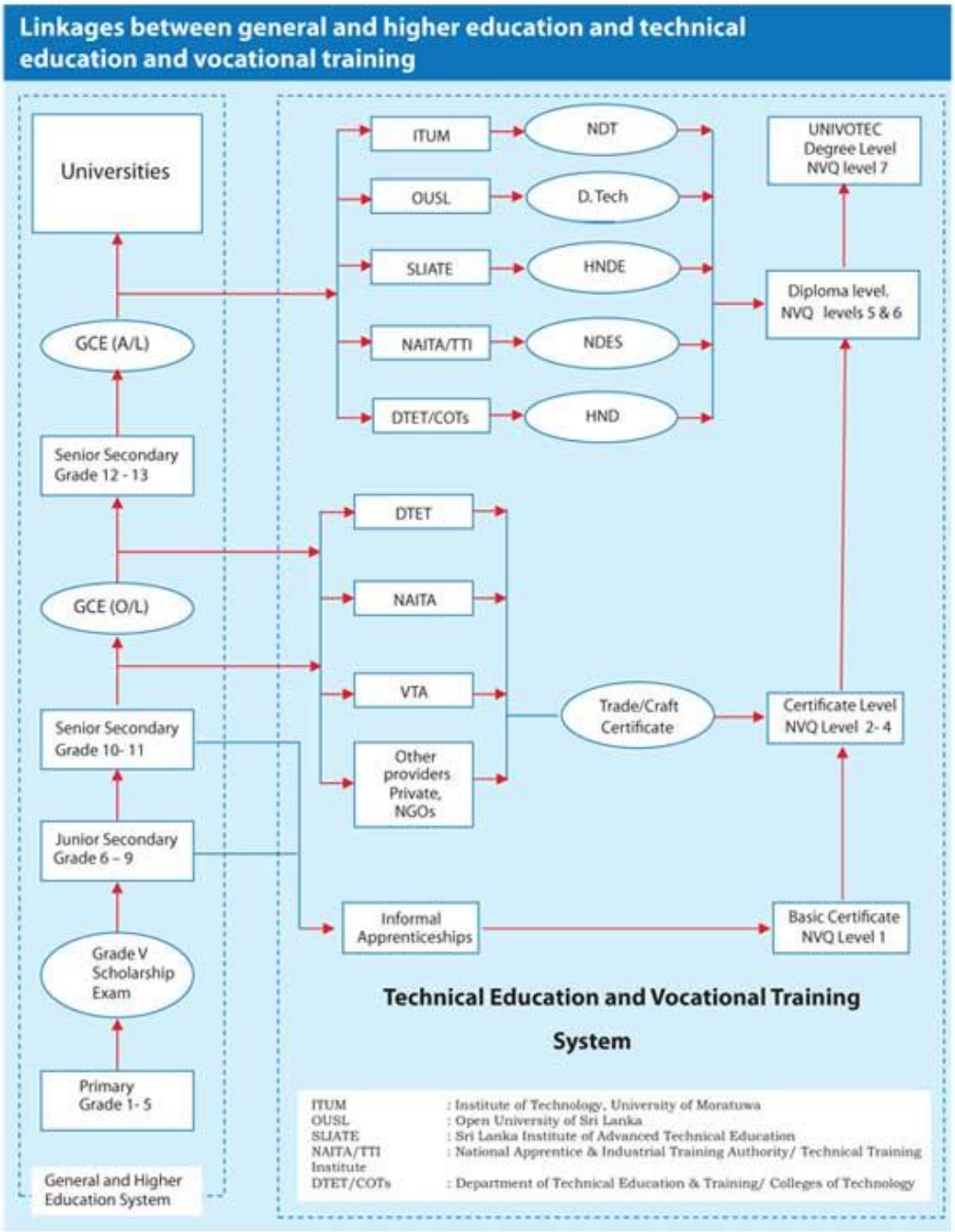
The Role of TVET in Sri Lanka's Efficiency-Driven Economy

Skills development in Sri Lanka is crucial for the country's development because the country is experiencing demographic changes, a shrinking labour force, low unemployment, a high proportion of migrant workers, low productivity, and increasing global competition (ADB, 2015). Much of these issues can be addressed through the TVET focusing on quality and productivity aspects of labour. The Figure 1 illustrates Sri Lanka's TVET system and the Figure 2 shows the linkages between general, higher education and vocational and technical education systems.

Figure 1:



Source: UNESCO TVET Database – Sri Lanka



(Source: Financial Times -12 July 2013)[1]

Over the past four decades, the TVET Sector in Sri Lanka has undergone many transformations, taking the sector to an important place in the economy. Having identified the importance of the vocational skills development for the country's economic growth sector, the Government of Sri Lanka proposed, through its Public Investment Strategy 2014–2016, to improve the TVET system to better meet industry skills needs and support economic transformation through higher inclusive growth. Studies done by the ADB, ILO and the World Bank were critical of outdated courses offered by TVET institutions as being unaligned with the needs of emerging, high-growth sectors such as tourism. Some institutions are slowly introducing new courses in these emerging sectors.

The Government's Sector Skills Development Plan (SSDP)[12] emphasised on bringing in innovative changes to every layer of the education system that builds on policy initiatives within the Ministry of Education, prepare students for post-school TVET to access skills and employment opportunities.

With the support of the ADB and the World Bank, along with other development partners, the main objective of the SSDP is to build an efficient skills development system to meet the demands of local, as well as foreign labour markets. Hence, the overall objective of this programme is to provide a constructive platform for better alignment and coordination of assistance in the TVET sector. Thus, all development partners are enabled to align their ongoing programmes with this national requirement and channel their future initiatives through the SSDP by closely cooperating with the SSDD. Accordingly, the SSDP has been formalised to bring its overarching outcome that implants an efficient skills-education system in the country by 2020, by achieving five specific objectives, such as improving quality, access, relevance, supportive policies, system and structure for skills training[13].

The German Development Cooperation (GIZ) has been supporting the TVET sector for many years and institutions in the North, in their effort to improve the quality and quantity of vocational training. The Sri Lankan-German Training Institute (SLGTI) provides training in identified technical trades at NVQ Levels 4, 5 and 6 tailored to the demands of the labour market, and conducted in cooperation with the private sector. The physical structure of the new SLGTI is financed by the German Development Bank - Kreditanstalt für Wiederaufbau (KfW), whereas GIZ is responsible for training and capacity development. Thirteen satellite vocational training centres in the five Northern districts of Jaffna, Kilinochchi, Mulaitivu, Vavuniya and Mannar, as well as Trincomalee in the Eastern Province, have been

[12] The Sector Skills Development Programme (SSDP) is a significant initiative in the skills development sector with the support of development partners, as the successor of the Technical Education Development Project (TEDP) supported by the Asian Development Bank (ADB). This programme is being executed by the Sector Skills Development Division (SSDD) under the purview of the Ministry of Youth Affairs and Skills Development (MYASD) for a period of seven years commencing from 2014. The speciality of this programme is results-based funding, with the help of disbursement-linked indicators.

[13] (SSDD, n.d.)

selected by GIZ and function as feeder institutes that will ensure an adequate and steady supply of candidates qualified up to NVQ Level 3, and thus eligible to enter the SLGTI. Through Swiss co-financing the satellite centre concept has expanded to the Eastern Province – Trincomalee District. The GIZ is spending EUR 8 million for the period between 2012 and 2018 through the MSDVT[14].

The first phase of the SSDP called Skills Sector Enhancement Programme (SSEP) has been planned to be implemented up to December, 2016, with the financial input of USD 100 million of ADB. The expected key results of SSEP include increasing the student enrolment to around 180,000 and their employability to at least 55% by 2016, while eliminating dropouts and skills mismatching.

University Colleges is a new initiative in the TVET sector, with the support of SSDP, with the aim of increasing access in TVET sector. This is a new avenue for increasing the supply of skilled people, while meeting the increasing demand for them in the labour market. The primary objective of these colleges is to produce middle-level technicians and managers to meet the demand in industries, where employment opportunities are available for qualified people. These University Colleges will have a flexible and productive mode of learning opportunities to all who come from general education, as well as the TVET sector. Therefore, the role of University Colleges becomes significant in the TVET sector in the sense of synchronizing the outcomes of the technological stream of Schools.

Employment Linked Training Programme (ELTP) is another new initiative, with the aim of increasing the relevance in TVET sector, where training will be purchased from private training providers in skills shortages areas, with the guarantee of job placement within a prescribed period after the training.

Establishment of Industry Sector Skills Councils (ISSCs) is one of the many initiatives for PPP in the TVET sector, where each industry representative will jointly form a collective voice for the improvement of increasing the quality in the TVET sector. ISSCs will be recognised and supported by the Government and action has been taken to register ISSCs as Limited Guarantee Companies with the Registrar of Companies. In fact, ISSCs are non-profit organisations but, it will not depend totally on state funds on a permanent basis. It will function and operate as a business and provide services to generate income for its sustainability. Accordingly, ISSCs will be operated and governed by a Board of Directors representing the MSDVT, Ministry in charge of the Subject of the relevant industry, TVEC, NAITA and Treasury as ex-officio Directors, and Directors representing respective industries. Thus, ISSCS will be industry-owned, industry-led and industry-driven, supported by the governments, to strengthen the industry relationship for the betterment of industries, as well as the TVET sector[15].

[14] Vocational Training in the North and East of Sri Lanka (VTN), GIZ
[15] (Sunday Island, n.d.)

The government aimed to transform TVET into a more industry-responsive, performance-oriented, flexible system that support students into gainful, productive employment. During the implementation of SSDP, nine technical colleges under DTET in each province were upgraded with the funding support of JICA and GIZ.

The National Qualification Framework of Sri Lanka (NVQSL) is the key element in technical and vocational education and training systems. It is aimed to ensure that existing and new TVET activities are coordinated. The National Competency Standards (NCS) are prepared in consultation with the industry and curricula, trainer guides, trainee guides and assessment resources are prepared based on the NCS. A competency standard is a document defining competency units pertaining to skills, standards and activities related to acquiring relevant knowledge, competencies and attitudes. Competency units are identified, based on industry requirements in a particular occupation. Assessments are competency-based and the system is benchmarked against qualification systems in developed countries. Competency-based training curricula and related training, learning and assessment materials are included in the framework, together with requirements for registration and accreditation of training providers and their courses.

Level No.	Qualification	Generalised Description	
Level 1	National Certificate	Level 1 recognises the acquisition of entry level competencies	For craftsmen who possess basic skills and entry level competencies
Level 2 Level 3 Level 4	National Certificate	Levels 2,3 and 4 recognise increasing levels of competencies. Level 4 qualification provides for full craftsmanship/workmanship.	For craftsmen who need direct & regular supervision For craftsmen who need occasional guidance For craftsmen who can work independently
Level 5 Level 6	National Diploma	Level 5 and 6 recognise the increasing levels of	For supervisors For managers

			competencies of technicians including supervision and process management.	
	Level 7	Bachelor's Degree	Level 7 recognises the vocational/technological competencies at Bachelor's Degree level	For decision-makers

TVET generally refers to skills training for industrial, manufacturing, construction, and service sectors. It covers a diverse range of training activities, while it is also education and training outside the general education and higher education systems. In Sri Lanka, TVET is undertaken by government institutions, private sector companies and NGO's or the NGO-supported community and voluntary sector institutions. Although the public sector is the key player in the delivery of TVET, private and NGO training providers have expanded their services in recent times. According to an ADB report (ADB, 2015), much of the programmes offered by private and NGOs sectors are confined to vocational subjects, such as commerce, computing, accounting, and entrepreneurship. NGOs include many religious and voluntary that offer craft training targeted at unemployed youth, rural women, school dropouts, and semiskilled or unskilled workers.

Currently, there are 1220 registered vocational training institutions in the country; 529 in the government sector, 601 in the private sector and 90 in the NGO sector (See Table 1)[16]. The private sector providers represented 60% of the total providers and in Colombo district 86% of the training providers were from the private sector.[17]

Sri Lanka's TVET sector operates through an island-wide training service network with an annual enrolment of more than 254,000 students. The shares of full- and part-time course programs in public TVET are 77% and 23%, respectively. Public expenditure for TVET is about LKR 5.9 billion (USD 44.7 million) per year. Government funding for TVET has always been inadequate because technical education and training require substantial inputs of material, energy, machinery, and equipment. An ADB study revealed about 28% of the unemployed who have

[16] Calculated by the author using online directory of registered TVET providers on TVEC Website www.tvec.gov.lk

[17] The number of registered private training providers has decreased by 119 between 2014 and 2017. According to the Census of TVET Sector, there were 1240 Private and 99 NGO sector training providers in the country.

obtained TVET training, display skills-jobs mismatches and shortage of talent for promoting innovation and creativity, is also a reason for unemployment.

Table 1: Number of TVET registered training providers

Districts	Government	NGO	Private	Grand Total
Ampara	20	3	19	42
Anuradhapura	21	3	8	32
Badulla	17	2	7	26
Batticaloa	16	2	18	36
Colombo	55	7	239	301
Galle	27	6	18	51
Gampaha	30	5	89	124
Hambantota	25	1	6	32
Jaffna	27	4	18	49
Kalutara	18	5	24	47
Kandy	30	4	39	73
Kegalle	37	2	9	48
Kilinochchi	11	3	0	14
Kurunegala	31	9	37	77
Mannar	6	3	0	9
Matara	24	3	6	33
Mathale	23	1	8	32
Moneragala	19	5	2	26
Mulaithivu	3	4	1	8
Nuwara Eliya	9	4	8	21
Polonnaruwa	11	1	3	15
Puttalam	12	2	18	32
Ratnapura	24	2	14	40
Trincomalee	24	3	8	35
Vavuniya	9	6	2	17
Grand Total	**529**	**90**	**601**	**1220**

Source: www.tvec.gov.lk – Calculated by the author.

An ADB report (ADB, Unknown) reveals that TVET is still often seen as a second-rate option to university, although it is slowly becoming more widely accepted among students who have passed both O/ and A/ Level examinations. In 2008, around 40% of TVET students had passed A/Levels. Over the past decade, there has been a significant growth in student numbers, where in 2014, there were 254,000 students registered for TVET courses and the output was almost 235,000 trained workers (Table 2). The report further reveals that enrolments and output are spread equally between public and private training providers. The very high completion rates are a

striking feature across all providers. Employment outcomes for TVET graduates average around 50%, although there is wide variation among the different TVET agencies.

Table 2: Enrolment, output and completion rates in TVET institutions – 2014

Institutions	Enrolment	Completed	Completion rate	Percentage of total output
Under Ministry of SDVT	70,323	63,943	91	27
Other government agencies	52,296	48,475	93	21
Private sector	131,528	122,577	93	52
Total	**254,147**	**234,995**	**92**	**100**

Source: TVEC Baseline Survey of TVET Sector

The 2015 TVET Baseline Study found a fairly even spread of public TVET institutions across districts, in contrast to universities, but revealed that less training has been conducted in the centres in rural districts. It has also been that TVET enrolments are lowest in the provinces with high poverty levels. TVET traditionally attracts students from lower income households, but most of the students who drop out from craft-level training have been from low-income households in rural areas.

According to the TVEC data base as of December 2014, there are only 7 training centres in the private sector that have established the Quality Management System (TVEC, 2015).

The Table below presents the training performance by registered public and private sector training institutes for the year 2015. The data shows that although the PTPs outnumbered public training providers, the enrolment rate was much higher in the public sector, mainly due to the variety of courses offered compared to PTPs. On average, the completion rate of PTP students was slightly better than the public-sector providers, especially for female trainees (TVEC, 2015).

Table 3: Training performance by registered public and private sector training institutes for the year 2015

Sector	No.	Number Recruited			Number Completed		
	%	Male	Female	Total	Male	Female	Total
Public	**No.**	70162	47159	117321	48664	35888	84552
	%	59.8	40.2	100.0	57.6	42.4	100.0
Private	**No.**	29764	26336	56100	15763	15138	30901
	%	53.1	46.9	100.0	51.0	49.0	100.0
Public & Private	**No.**	99926	73495	173421	64427	51026	115453
	%	57.6	42.4	100.0	55.8	44.2	100.0

Source: TVEC, 2015

The TVEC study revealed that the highest number of student enrolment in PTPs in 2015 was recorded in the Information Communication and Multimedia Technology field, while the lowest number of recruitments was recorded in the Gem and Jewellery sector. The Information Communication and Multimedia Technology sector was the sector that was most in demand among both males and females in 2015. Males and females are quite evenly represented in TVET, with 48% of female enrolments overall. This varies greatly from sector to sector, with high female enrolments in personal and community development, garments, office management and hairdressing, but very low enrolments in most trade courses, such as welding, auto-mechanics, as well as electrical, electronics, and telecommunications. It is only in ICT that a reasonable gender balance seems to exist. Thus, although officially there is no gender bias in recruitment to TVET programs, gender stereotyping still exists to a marked degree.

'The National Strategy on Tertiary, Vocational Education, and Training Provision for Vulnerable People in Sri Lanka' is the policy document for providing vocational education and training for vulnerable groups in Sri Lanka (TVEC, 2010). The policy identified six groups:

a. Disadvantaged Women, especially those heading households
b. People with disabilities (Mental and Physical)
c. Disadvantaged youth (including school dropout and former child labour)
d. Poor (including people in plantation areas, rural and urban poor)
e. Persons affected by conflict (including Internally Displaced Persons (IDPs) and ex- combatants)
f. Migrant Workers.

The policy identifies seven strategies: ensure training courses that are relevant to needs; include livelihood and entrepreneurship training; establish specialized

training facilities; ensure support systems for vulnerable persons to continue TVET; recognise current skills through Recognition of Prior Learning (RPL); offer career guidance and counselling; and, set appropriate admission criteria.

Key Issues and Constraints Facing the TVET Sector

Despite the vast improvements in the TVET sector over the years, several recent studies have highlighted the constraints and challenges of the TVET system, which underpin this sector assessment. The ADB report identifies 3 key challenges to the TVET sector:

i) Limited access and focus on middle-level skills training

- Current system needs to expand to accommodate more TVET students.
- TVET courses should cater to the needs of the industry and provide opportunities for mid-level skills, particularly for students who graduate from the school system.
- Only 2.2% of the workforce is trained in middle-level skills.

ii) Low market relevance of TVET provision

- Most courses are classroom-based with little emphasis on structured on-the-job training.
- Course content is not linked to known occupational outcomes or skills sets required by employers.

iii) Inadequate quality of TVET provision

- Lack of qualified and trained instructors, assessors and training managers.
- Salaries and recruitment practices need to be improved to ensure that qualified practitioners with industry experience are absorbed into the TVET sector.
- Systemic improvements to performance and quality of teaching should be implemented.

iv) The absence of a unified national skills development strategy and plan has resulted in continuing duplication and fragmentation of functions between training agencies.

v) Limited private sector engagement

- The private sector is not fully engaged in driving the TVET policy, guide service delivery, or monitor quality.

- The public perception of TVET as a credible alternative to formal education at a postsecondary level remains low.
- There is little provision for industry to deliver training or assess skills, while industry bodies are not adequately supported to guide the setting of training standards or approve training courses.

vi) Low and inefficient sector financing

- Regional disparities in public spending in TVET (e.g. low investment in Northern 7 eastern provinces).
- There are no incentives for employers to engage in the public TVET system, to upskill the existing workforce, or to create opportunities for new entrants to gain skills.
- Lack or absence of Government incentives and financial assistance for students to pursue TVET.

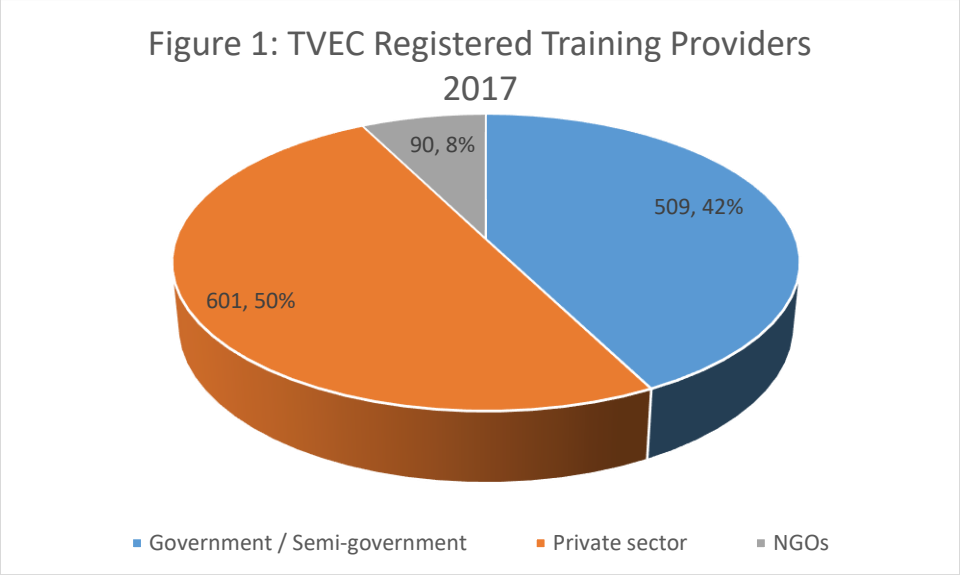
Many studies point out the need for the government to increase the quality and relevance of the TEVT sector. If the sector is to be sustained, the government needs to resolve several issues the sector is facing. Some of the key issues include:

- Duplication of functions and responsibilities of major training providers;
- Absence of an organisation to assess skills and award certificates; and
- Lack of opportunities for work experience after training.

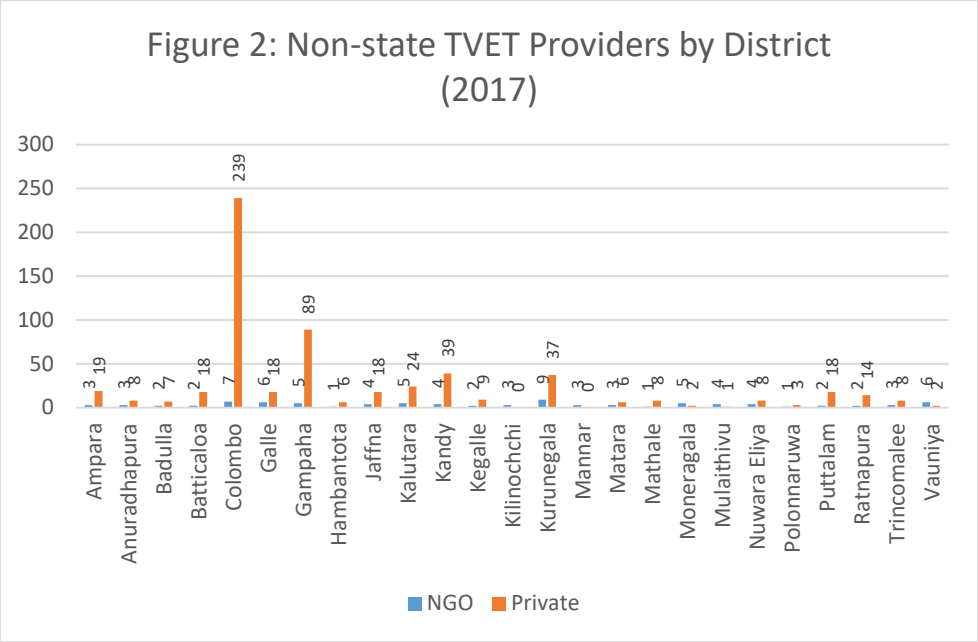
In Sri Lanka, the three main training providers, the Department of Technical Education and Training (DTET), National Apprentice & Industrial Training Authority (NAITA) and Vocational Training Authority (VTA) operate under the Ministry of Skills and Vocational Training. The ADB study is quite critical of the duplication of functions of these three agencies and states that, "*due to legislative and other constraints, these providers are saddled with overlapping functions and responsibilities*". The report suggests that, to overcome the issue of overlapping, the government must consider establishing a single statutory body with a clear mandate to plan and deliver technical education, vocational training, and apprenticeship in a mutually supportive and flexible manner.

With regard to the certification of skills awards, the studies also suggest that there should be an independent testing and certification service. The Government's decision to register and grade institutions and their courses can be considered a good move, as it helps students, parents, employers, Government and all stakeholders to identify training providers, the courses they provide and the level of quality. Through the present registration system, the TVEC aims to help improve the internal and external efficiency of the training provided by them. The registration of training institution is done according to the clause No. 14 of Tertiary and Vocational Education Act no. 20 of 1990, Extraordinary Gazette dated 7th September 1995, to assure the quality and relevance of the TVET sector in the country.

The Private TVET Sector



As presented in Table 1 & Figure 2, of the total TVET providers, 56.6% were non-state training providers, which constituted 601 private sector and 90 NGO sector providers. About 59% of the private sector providers are in the Western province, followed by the Central province (9%), North Western province (9%), Eastern province (7%), Southern province (5%) and Sabaragamuwa province (4%). In the Northern province, there are only 21 private training providers (3%) and 18 of them are in Jaffna, 2 in Vavuniya and 1 in Mulaithivu. There are no PTPs in Kilinochchi and Mannar. However, in the Northern province, 76 public and NGO training providers operate, which may be the reason for the lack of interest by PTPs.



Although there is no data available on the number of students enrolled in private TVET institutions, the numbers could be in the region of 30,000 annually. Each year about 326,000 students who enrol in secondary school will choose skills training, either because they drop out of the school system or because, after graduating, they are not able to secure a place in higher education, locally or abroad. Annually, around 152,000 youth do not have access to TVET services to improve employability.

Following the introduction of free market policies, private training institutions began to emerge at a rapid rate. Due to the massive growth of the service sector, employment opportunities arose in accounting, marketing, management, computing, automobile repair, and the apparel industry. Students in large numbers enrolled with private providers to prepare for professional examinations in accounting, marketing, and management. From the 1980s onwards, as computer use and information technology (IT) became intrinsic to all businesses, private providers of computer literacy and IT courses also burgeoned (Dunbar, Millot, Savchenko, Aturupana, & Piyasiri, 2014).

The training providers in the private sector are privately-owned training Institutions and enterprises. The private training sector follows market principles and are usually non-subsidised and competitive. Private enterprises provide training to their trainees/workers, free of charge, as a part of their employment contracts. Training is usually provided when they are recruited as apprentices or as part of induction programmes.

In recent times, the private sector has shown a growing interest in vocational training, particularly in short and medium-term courses in trades and occupations that are in high demand and not offered by public sector providers. The current and

previous governments have offered a range of incentives to private sector investors including grants, duty-free imports, and tax concessions to setup training facilities.

According to the TVEC records, currently there are 601 registered private sector training providers in Sri Lanka and they represent 50% of the all training providers[18]. Most of the private sector providers are small and medium-sized companies. There are a few large corporate sector companies; among them Colombo Dockyard, Dialog Axiata, Coca Cola Company, DIMO, Prima, Nawaloka Hospitals, Singer Sri Lanka, Tokyo Cement, Brandix, Sri Lanka Telecom, IDM and CINEC, leading companies in Sri Lanka that are providing NVQ-accredited training courses. About 40% of the private training providers are in the Colombo district. The rest are spread across Gampaha (15%), Kandy 6.5%), Kurunegala (6.2%), Kalutara (4%). All other district have less than 2% each. There is no private sector presence in Mannar and Kilinochchi districts. However, 6 NGO providers are operating alongside 17 government training providers.

There are two main categories of private TVET providers: professional associations and private training institutions. Of the 42 members of the Organization of Professional Associations (OPA), 17 conduct programs that award certificates, diplomas, or degrees (Dunbar, Millot, Savchenko, Aturupana, & Piyasiri, 2014).

In July 2000, the government established the Skills Development Fund (SDF). The main objective of the SDF is to assist the employers to train and upgrade the skills of their employees. The government contributed Rs. 100 Million to commence the SDF. The Employers Federation of Ceylon (EFC) and a private sector entrepreneur contributed Rs. 1 million each. This entrepreneur was the first chairman of the SDF.

In July 2017, the Skills Development Fund was launched with a financial contribution of Rs. 600 million from the Australian Government and managed by the Skills for Inclusive Growth program. It will finance innovative training packages for the tourism industry in four districts – Trincomalee, Batticaloa, Ampara and Polonnaruwa[19].

Even with all these incentives, the employers seem not to be motivated enough to invest in training and to upgrade the skills of their employees. The incidents of poaching trained workers from other companies is a very common practice in Sri Lanka. Opportunities for entry level workers are very limited as employers prefer workers with at least 2-3 years of experience, in addition to training.

A study by the ADB recognises that many private providers operate outside the TVEC qualification framework, including those recognised by industry and overseas training systems. About 1,119 TVET institutions have been registered with TVEC to deliver 5,950 training courses, of which 1,388 are accredited to NVQ status. NVQ

[18] Calculated by the author using TVEC web-based directory of registered training providers.

[19] http://www.scopeglobal.com/promoting-inclusive-growth-and-skills-for-prosperity/

certification is a requirement for employment in the public sector and, since September 2012, is a requirement to access overseas employment through the Bureau of Foreign Employment. However, only about 16% of TVET students have received NVQ certification. While expansion of the NVQ system is a key government policy priority, greater industry ownership will be required for the benefits to translate into relevant training and career pathways, with associated increases in income levels and improvement in productivity.

There is no systemic monitoring system in place to track or report on the quality or relevance of TVET training in meeting industry skills requirements, particularly across middle- and higher-level skills. Limited staff within TVEC reduces its regulatory capacity and undermines its potential to inform policymakers. Current approaches to quality assurance are rigid, as opposed to strategic and facilitative for continuous improvement. Assessment systems are driven by academic curriculum and examination, and are not linked with workplace requirements or demonstrated mastery over specified skill sets. While flexible service delivery approaches should be supported, consistent quality and performance standards should be applied to ensure that users have clarity on what skills result from training programs, with clear industry endorsement to improve graduate employability.

In 2013, the government signed two partnership agreements with an industry association and a private sector provider in the construction and health sectors to manage and cost-share skills development through custom-built facilities to meet industry skill requirements under the university college programme.

According to the TVEC, encouraging more private and NGO participation in training in key industry sectors is a key issue. Another issue is the initial cost of setting up training facilities, which is one of the key constraints to private provider participation. The inability of trainees to pay the full-cost of training is another barrier. A voucher scheme to support trainees who pursue training in private institutions is another option that should be explored in this regard.

Enterprise-based training is increasingly becoming popular particularly among PTPs where they tend to partner with corporate, as well as SME employers that provide OJT opportunities for trainees. This method is very popular in many developed countries, where there are policies that encourage enterprises to increase on-the-job training. The policies may differ according to the various types of enterprise. Interfirm alliances of enterprises along global value chains related to multinational enterprises offer opportunities for economies of scale in skills development, for example, by reducing the costs of training for individual firms through the sharing of costs between allied enterprises (ADB, 2009).

A study by ILO found that Sri Lanka provides more industry-based training than its South Asian neighbours. The evidence from market surveys also indicates that organisations concentrate more on induction training, in-house structured training and OJT, rather than relying on outside training providers (ILO, 2015).

Unlike in developed countries, private training institutions in Sri Lanka typically do not conduct tracer studies of their students to determine the post-training destinations of students and their earnings. For the World Bank study[20], focus group participants stated that employment opportunities and salaries in the private sector varied substantially and were dependent on both student trade specialization and the institution from which students received training. For example, the monthly salary of a beautician or hairdresser could be over SL Rs. 15,000 in registered salons. Graduates of engineering crafts earn about SL Rs. 12,000 in Colombo and SL Rs. 7,000 in Kurunegala. Graduates of Prima Baking School start at about SL Rs. 15,000–20,000, and experienced pastry chefs can earn about SL Rs. 100,000–150,000 monthly.

Private TEVT institutions appear to be the more efficient providers. PTPs can save public funds that would otherwise have to be spent on providing training places, and often are more efficient in delivering skills. However, the range of quality among PTPs is often wider than in public institutions. This presents a challenge for quality assurance.

Strengths and weaknesses of Enterprise-based training

Strengths	Weaknesses
Self-supporting –does not require government subsidies or administration.	Enterprises tend to under train because of fear of poaching.
Almost by definition, tends to be practical and closely linked to enterprise requirements.	Training in enterprises tends to be selective: firms investing in training for workers tend to be larger, foreign owned, and more likely to export; workers selected for training by enterprises tend to be from white collar and skilled occupations and to have higher levels of education.
Expands access to skills development to people without opportunity to attend formal training courses.	Small and medium –sized enterprises cannot afford the time or money for organized training of their staff; EBT applies mostly to larger enterprises.
Can be delivered in less time. Allows for continuous learning and adaptation to new technologies.	
Because they may be able to extract benefits from general skills training when	

[20] (Dunbar, Millot, Savchenko, Aturupana, & Piyasiri, 2014)

labour markets are imperfect, firms will invest in both general and firm-specific skills(Acemoglu and Pischke 1999 in Johanson and Adams 2004:111)

Targeted EBT has been crucial to raising the skills of the workforce, along with phased industrialization (e.g in Japan, Republic of Korea and Singapore (DFID 2007:9).

There is widespread evidence of firms' willingness to invest in EBT, particularly in East Asia.

Has the strategy produced results?

It is well-known that Sri Lanka's tertiary enrolment rate is low and, as of 2014, only 5% of 20-24-year olds were enrolled in a university, while another 8% were enrolled in other educational institutions and only a 3% of the same age group were enrolled in Technical Education and Vocational Training (TEVT) courses (Figure 1). Despite the significant investment in TVET sector, the statistics indicate that tertiary enrolment rates in Sri Lanka are quite low, compared to those of other countries in the region. For instance, Sri Lanka's gross tertiary enrolment rate (21%) is below the averages for lower middle-income countries (22%) and upper middle-income countries (44%), according to the World Bank's World Development Indicators of 2014 (IPS, 2017).

The government is committed to addressing the low tertiary enrolment rate, but the main bottleneck is the capacity constraints of the state university system, absence of a parallel private sector led higher education system, and most importantly, underdeveloped TVET. According to CBSL Annual Report of 2016, of the 155,450 students who were eligible for university entrance from the A/Level examination in 2015/2016, only 18.6% were admitted to state universities, due to limited placements. Consequently, each year, about 125,000 students who qualify have no option other than to abandon their ambitions to enter a university.

On the other hand, with regards to vocational training, the transition from school to vocational training is not smooth. A majority of school leavers leave the education system after their O/Levels and A/Levels. Each year, about 300,000 students sit for O/Levels but only 50% – 60% of them passed the examination and qualified to sit for A/Levels. Further, each year about 250,000 students sit for A/Levels but only 60% of them qualify to enter public universities. Thus, each year about 130,000 and 100,000 students leave the school system without succeeding at the O/Level and A/Level examinations, respectively.

The Asian Development Bank reported in 2008 on an independent evaluation of its Skills Development Project in Sri Lanka which 'aimed to restructure and reorient the vocational training system through introduction of competency-based training (CBT) to ensure a closer partnership between vocational training institutions and the private sector. The project was rated as successful, relevant, efficient, effective and likely to be sustainable. Positive impacts resulting from the ADB Skills Development Project in Sri Lanka included[21]:

- bringing together the Ministry and training providers to agree on a common national framework for evaluating and assessing craft, trade, vocational and technical competences;
- developing standards of occupational competency with the full participation of leading practitioners in commerce and industry for 45 occupations;
- staff development, resulting in a critical mass of instructors and administrators knowledgeable in CBT methodology and supportive in its continued use; convergence of standards, curricula, trained teachers and instructional materials and the resulting significant impact on programme completion rates. Introduction of CBT methodology raised the completion rate from 50% to 90%.
- self-employment and entrepreneurship training for approx. 5,000 trainees, mandatory for 836 trainees who obtained loans under the self- employment promotion initiative (of which 30% were female).
- IT training for almost 3,000 rural youth.

Bringing private or NGO providers and the public sector providers together in public-private partnerships that lead to more efficient use of existing public sector facilities is another strategy pursued by TVEC. With the increased public funding for new initiatives, such as SSDP, NVQSL and NCS, and private sector NGO participation, it is hoped that the TVET sector will have multiplier impact and contribute further to the country's economic growth.

In many countries, public-private partnerships (PPPs)in TVET have been proven to be a successful approach. PPPs can happen at any level, at policy level, sector level or training delivery level and employer (enterprise) level. The collaboration can be vertical, between local partners and national institutions, or horizontal, between local institutions or between national entities. The forms and modalities of PPPs vary widely. They can be formal and structured, or informal and flexible. In some places, particularly transition countries, such as the People's Republic of China (PRC), partnerships between public TVET institutions and public enterprises may already be well established. The challenge lies more in forging partnerships between public institutions and private ones.

[21] Project Completion Report, ADB, Sri Lanka: Skills Development Project, January 2008 cited in DFID Engaging the private sector in skills development (Guidance note: A DFID practice paper).

02. An ADB report identifies key strengths and weaknesses of public and NGO/Private training, as illustrated below.

Strengths & weaknesses of public and NGO/Private sector training

Strengths	Weaknesses
Stand-alone vocational training centres not regarded as part of the formal education system, giving them an advantage.	Focuses almost exclusively on the wage economy.
High demand for postsecondary technical education, e.g., polytechnics, in some countries.	Often not well linked to the employment market.
Public systems tend to be more evenly spread geographically in the country than private training, providing an equity advantage.	Tendency of inertia –because of isolation from the market and the long chain of command from the centre to training institutions.
Staff, as members of the public service, tend to have job security.	Limited budgets lead to outdated equipment, infrequent repairs, and lack of consumable supplies –possible recapitalization.
	Staff often poorly motivated and poorly paid.
	Tendency for inefficient use of resources, such as low trainee-staff ratios.
	In short, typically lacking accountability for costs and results.

Strengths	Weaknesses
Can extend access to skills acquisition by people without government subsidies, reducing pressure on public spending for skills development.	Wider range of quality than in public provision-at lower end many unregistered and unregulated providers are of dubious quality, wasting private sprending.
Often more in tune with the labour market thank public institution, because private institutions can be unprofitable or go out of business in the market considers their products irrelevant or of low quality.	Inequity – fees often prevent entrollment by lower income groups.

May be able to start new training programs more quickly than government providers.	Private training tends to concentrate narrowly on low-cost courses such as business, accounting languages, IT
NGO insititution may provide training in higher cost occupations such as carpentry, auto mechanics, metal work.	Obstacles to sustainability, or scaling up NGO initiatives (because initiatives depend on NGO leadership and staff commitment, which are not easily replicable)
NGO programs often target those not reached by public or private for – profit training providers (e.g; the poor in urban slums or rural areas, refugees, people with HIV/AIDS, those with special needs)(DFID 2007:8)	Lack of information and choice – range of choices not well known to the public
At the top end, quality of private provision tends to be better than government provision many countries.	

Chapter 3 – The Financing of TVET

An Overview of TVET Financing

The government spending on education as a percentage of total government expenditure has increased from 8.5% in 2011 to 10.6% in 2014. In 2011, Rs. 121.4 Billion was spent on education and training and in 2014, it was increased to Rs.190.1 Billion[22] .

The TVET sector in Sri Lanka is supported by a number of development partners and donor agencies to enhance the quality of TVET. Most of the donor agencies operate through the Ministry of Skills Development and Vocation Training that coordinates national TVET activities[23]. Some of the key donor projects are:

- ADB-World Bank Skills Sector Development Programme, 2014 to 2018.
- GIZ - Establishment of the Sri Lanka – German Training Institute (SLGTI) in Kilinochchi, 2012 to 2017.
- WUSC - Advancing Specialized Skills for Economic Transformation (ASSET) Project, June 2014 to March 2019.
- JICA - Construction of two training centres and support for delivering of NVQ level 5 and 6 courses.
- KOICA - Upgrading VT in Agriculture in North, 2016 to 2020.
- ILO - Promoting decent work through good governance, protection and empowerment of migrant workers, ILO/SDC, July 2016 to Feb 2020; Promoting Decent Work in Tea Plantation Sector in Sri Lanka, ILO, July 2016 to June 2018; Enhanced recognition of skills and reduced vulnerability of Sri Lankan construction workers in selected GCC countries, ILO, Aug 2015 to Jan 2018, Skills for Inclusive Growth(S4IG), ILO work is generally useful, but more consultation is needed to ensure sustainability.
- Australian Aid (DFAT) - Providing teaching support to TVET institutions, 2017 to 2029.
- Indian High Commission - Provides training and employment for people with disabilities to establish tourism and transportation businesses.

The World Bank and the ADB are partnering with the Government to support the USD 660 million Skills Sector Development Program (SSDP) with the provision of loans of USD 101.5 million and USD 100 million, respectively. A key objective of the SSDP is to improve coordination of TVET/skills policies and programs at the national level and to advance the systemic reform agenda related to relevance, quality, access and efficiency. Implementation will also include the introduction of incentives for public and private providers using an 'Employment-linked Training Agreement'

[22] Calculated by the author based on Central Bank statistics.
[23] There are criticisms on certain donors who bypass the Ministry in formulating projects.

(ETA) to 'purchase' demand-driven training, and the piloting of performance-based financing to support providers performing well. However, the focus of this significant investment is predominantly targeting skills development for the formal economy; flexible training tailored to the skill demand of the informal sector in disadvantaged regions is not the priority consideration for the SSDP.

The SSDP serves as a medium-term development programme. The government's indicative costing of the SSDP forms the basis of the TVET sector MTBF. SSDP expenditures are estimated to be USD 961 million from January 2014 to December 2020. The government was expected to support the SSDP expenditure framework through an annual budget to be executed by MYASD (USD 874 million) and other ministries (USD 87 million). The SSEP (2014–2016) will take MYASD's budget and the government budget of all relevant agencies under MYASD and other ministries (USD 386 million) for 2014–2016 as its expenditure framework. The SSEP capital budget is USD 265 million (69%)[24]. The Table below provides the SSDP financial plan up to 2020.

Table 4: SSDP Financial Plan up to 2020

	SSEP (2014 – 2016)			SSDP (2014 – 2020)		
Source	**LKR Mil**	**USD Mil**	**%**	**LKR Mil**	**USD Mil**	**%**
Government	24,048	185	48	67,609	520	54
ADB	13,000	100	26	13,000	100	10
World Bank	7,800	60	16	13,000	100	10
Other DPS	5,330	41	11	5,330	41	4
Gap	0	0	0	26,000	200	21
Total	**50,178**	**386**	**100**	**124,939**	**961**	**100**

Source: Ministry of Finance and Planning, GOSL & ADB cited in ADB (n.d.)

Under the financial assistance for private and NGOs training providers, TVEC has disbursed 34 grants amounting Rs. 8,187,938 to the private sector training institutions. The geographical distribution of such grants is provided in the following table. Accordingly, the highest numbers of grants were provided to Colombo and Gampaha districts, whilst the highest value of grants provided to Monaragala District. Grants were not provided to Kandy, Ampara, Polonnaruwa, Jaffna, Killinochchi, Mannar, Kegalle, Ratnapura, Galle, Badulla and Kalutara Districts.

[24] (ADB)

District	2012		2013		2014		Total	
	No of Grants	Value of Grants (Rs.)	No of Grants	Value of Grants (Rs.)	No of Grants	Value of Grants (Rs.)	No of Grants	Value of Grants (Rs.)
Kandy	1						0	
Matale		102,250					1	102,250
Nuwara Eliya	1	676,000					1	676,000
Ampara							0	
Batticaloa			2	233,121			2	233,121
Trincomalee	1	93,675	1	107,170	1	46,690	3	247,535
Anuradhapura	3	363,272	1	688,401			4	1,051,673
Polonnaruwa							0	
Kurunegala			1	404,950			1	404,950
Puttlam	1	324,464			1	213,612	2	538,076
Jaffna							0	
Kilinochchi							0	
Mannar							0	
Mullaithivu					1	239,680	1	239,680
Vavuniya					1	522,300	1	522,300
Kegalle							0	
Ratnapura							0	
Galle							0	
Hambantota	1	52,160					1	52,160
Matara	1	316,000			1	5,043	2	321,043
Badulle							0	
Moneragala	2	937,700	1	233,730	1	623,000	4	1,794,430
Colombo	2	546,130	2	312,200	1	393,019	5	1,251,349
Gampaha			4	582,745	1	117,575	5	700,320
Kalutara	1	53,050					1	53,050
Total	**14**	**3,464,701**	**12**	**2,562,317**	**8**	**2,160,919**	**34**	**8,187,938**

SEPI loan scheme which was implemented during the period of 2003 to 2006 under the skills development project has provided loan facilities to 819 trainees, who have passed out from the VT institutions to start up self-employment schemes. Five TVET institutions and 82 courses are eligible for this scheme. SEPI was implemented from 2003 to June 2006 in 17 districts of eight Provinces, provided Rs. 94.4 million credits at 10% interest rate, among 819 entrepreneurs. The credit facilities up to Rs. 250, 000 were provided to trainees who have undergone skills training through qualified

Vocational Training Centres, NGOs and private sector institutions. Credit has been provided as short, medium and long-term sub loans depending on the business plan, through 10 Participating Financial Institutions (PFI). The loan recovery period varied according to the loan, with the maximum time period of eight years including two years' grace period[25].

A study by TVEC on the effectiveness of the SEPI reveals that the awareness programmes were the most effective method to make trainees aware of the loan scheme. 84% percent of the loan holders have completed the loan repayment and 5% were still paying back. The purpose of loan of 98% of loan holders were to purchase machinery and equipment, purchase raw materials and the business place. 58% percent of the loan holders are engaged in full time self-employment. An 80-day Entrepreneurship Development programme has helped to start up the business, develop them and make profits out of them. 76% of loan holders require another loan and further training to develop their business. Terms and conditions imposed by the banks made it difficult for trainees to obtain loans, as most banks demanded fixed assets (properties) to obtain loans exceeding Rs. 150,000. A guarantor was required to obtain loans.

There is a significant gap in financing pre-employment skills development and acquiring vocational qualifications and training in Sri Lanka. Financing and the diversification of financing is central to private providers and to the TVET sector. Whereas, public training institutions are able to benefit from subsidies and significant investment by government, private providers rely almost entirely on grants form donors, income generating activities and student fees as their primary sources of financing.

Currently, there are 601 registered non-state training providers (PTPs and NOGs) and apart from the NGO-run training providers, PTPs are operating as profit-making business. Therefore, they charge fees from the students based on the market rates. A majority of the PTPs provides NVQ accredited courses in areas where there is a demand for specific skills and jobs.

The private sector is already burdened with heavy taxation which would make the imposition of a training levy difficult. However, marketable skills are most needed by the most underprivileged in society, who cannot bear the cost of acquisition of TVET skills. Therefore, a large proportion of education and training is provided free of charge, together within a daily allowance. Some public training institutions charge fees for high demand courses, such as computing, cosmetology, bakery etc.; and engage in training-related production to generate an income. At present the state TVET sector depends heavily on treasury funds and a significant extent on donor/lender funding and interventions for development activities.

[25] Effectiveness of Self Employment Promotion Initiative (SEPI) loan scheme, TVEC Research Cell, MYASD.

An ADB report (ADB, 2009) identifies five fundraising methods for TVET beyond government subsidies: enterprise contributions, including payroll levies on employers; tuition and other fees paid by trainees and their families; production and sale of goods and services by training institutions; community support and donations; and indirectly, expansion of non-government training provision.

The National Policy Framework on Higher Education and Technical & Vocational Education (2009) sets the following goals towards better management of financing TVET:

- Ensure that all TVET institutions in the state sector provide relevant statistics on an annual basis to the TVEC;
- Require all registered private sector TVET providers to submit annual financial and statistical reports to the TVEC;
- Encourage state and private sector providers to use basic cost information uploaded to the TVEC in generating financial accounting reports;
- Establish a management information system to facilitate generation of financial management reports by institutions;
- Curricula and courses provided at state-run TVET institutions should be strictly responsive to economic and social demand and be maintained at national and international competitive levels;
- Enhance active participation of industry sector employers in designing courses provided by state-owned TVET institutions;
- The legal provisions of state-run TVET institutions should ensure more financial autonomy;
- Rationalise courses to optimise the use of resources in state TVET institutions;
- Provide state assistance to non-state sector TVET institutions, where necessary; and
- Encourage establishment of formal, long-term public-private partnerships at institutional and training centre level.

With regard to PTP financing in Sri Lanka, for-profit institutions depend on fees collected from trainees. To finance investment in buildings and equipment, they borrow from banks at commercial rates. For example, to date, Wayamba Technical College has invested a total of SL Rs. 50 million. It took out bank loans totalling LKR 8 million at 12 percent, 13 percent, and 16 percent interest and four- to five-year terms, and the TVEC granted it SL Rs. 1.8 million in 2007 under its private sector assistance scheme. NGO providers, which do not charge students fees, mainly depend on donor funding. The TVEC has helped many of them by providing 70 percent of the funds required to procure equipment and tools to fulfil course accreditation requirements. However, Treasury funds are limited. NGO providers occasionally undertake external projects that generate income by producing items

for sale as part of training, such as furniture or machinery components. The training provided by DIMO Automobile Training School is funded by the company; in 2011 the total cost was SL Rs. 24 million. Regular trainees do not pay fees, but part-time students preparing for external examinations do. Prima Baking School depends almost entirely on trainee fees. The Training Division of the Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) charges fees for professional development courses and receives funding for construction related training from partner organisation in Germany (Dunbar, Millot, Savchenko, Aturupana, & Piyasiri, 2014).

MSDVT Purchase Model (TVEC, 2015)

The Purchase Model has been launched by MSDVT with the assistance the ADB and World Bank SSDP initiative. It has developed a scheme to purchase training from private and NGO training centres. Public training centres outside the purview of the Ministry of Skills Development and Vocational Training and industry also could take part in this scheme. The Ministry decides the number of training places to be purchased, considering shortages of skilled crafts persons in respective occupations, in consultation with ISSCs. Training purchases is done through competitive bidding and bidders are required to submit price quotations for all activities from enrolment of students through skills training to their job placement. MSDVT has already completed two rounds of bidding and awarded contracts for training of about 1000 youth. The TVEC study reports that the scheme is not proved to be entirely successful, with the numbers of students lower than anticipated. However, MSDVT hoped that the enrolment numbers could be increased through a better and more d system, in partnership with private sector and industry.

Chapter 4 – International Good Practice in Financing for PTPs and Private Students

Government supported student loans are on the policy agenda in many countries. At present, a large number of countries are operating both government-sponsored, public-private or privately-managed tertiary education focused student loan schemes.

In recent times, student loans schemes have attracted research interest by a number of international and national agencies (e.g. UNESCO, World Bank, European Union, and ADB) etc.). There are several analyses on success and failures of student loans but none of the studies prescribes a right model for student loans. This may be due to the huge differences in higher and tertiary education system and education financing systems, as well as the banking systems. However, these studies have pointed out what worked and what did not work and things that should be avoided in designing and operating loan schemes.

The financing of vocational training providers and students contains both monetary and institutional aspects. In terms of monetary aspects, quantifying the amounts allocated for funding in a differentiated manner, according to the different funders (that is, the State, the company, individuals) and according to public and private budgets is important. The institutional aspect primarily focuses on the procedures mutually agreed through a balance of interests between those participating in vocational training (State, employers' associations and trade unions) via political opinion-building and decision-making of resource collection, resource use and resource administration, with the aim of achieving the targeted vocational training goals established through consensus (Kath, 1998).

A research report by USAID (USAID, 2014) on TVET in Europe and Eurasia region identifies three models of financing options for TVET systems:

- full subsidy of TVET within the national education system (France),
- private-sector financing and delivery (UK), and
- mixed public and private financing (Germany).

All reform systems consistently demonstrate the benefits of public-private support for TVET, offering “needs-based” public sector subsidies and private sector financing through user fees to a wider group of participants and firms.

The success rate for loans schemes in developing countries, in particular, has been mixed, while some schemes have proved to be broadly successful, the outcomes of loans schemes have frequently been disappointing, both in terms of meeting set objectives and in terms of financial sustainability. Where schemes have been less than successful, the reasons for the lack of success have been weaknesses in the

process (administrative issue, excessive default or poor targeting) or the causes were in-built and, in particular, related to excessively generous loan conditions and high subsidies (Ziderman, 2004).

Loan Schemes for Private Students and PTPs

This section examines current loan schemes offered by local commercial banks, finance companies and micro-finance institutions, and identifies the gaps in the local financial market not served by banks and financial institutions and assesses the demand / opportunity for a loan product for education, skills development and training (WUSC, 2016).

Currently, there are no loan schemes for students wishing to follow NVQ or vocational training courses at state or non-state training institutions. Obtaining a loan for education and training purposes is much harder for students from low-income families and those living in rural areas. Often, commercial banks regard education loans as a risky investment. Therefore, they demand high collateral security.

In rural areas where youth are unable to continue with their education, due to their low-income levels and social background, there are possibilities of youth remaining unemployed. With the expansion of Industries, such as automobile, construction, ICT, hospitality and tourism, the need for producing higher level of skilled workers is accelerating. The importance of vocational training programs is essential to provide job opportunities for this youth which, in turn, also helps in reducing the unemployment rates in Sri Lanka. To achieve this objective, the commercial banks, finance companies and micro-finance companies should find a way to fill this gap by initiating a product that would help young people from low-income marginalised communities.

The study found that there is a sharp increase in the demand for private higher education and professional education courses. The commercial banks have also responded positively to this demand by offering educational loans for students, which is secured by their salaries or their parent's income or fixed assets. Short and medium-term loans are offered at different interest rates starting from 12%, with or without a grace period. However, obtaining a loan for education and training purposes is much harder for students from low-income families and those living in rural areas, as the banks do not want to lend, due to less returns, and difficulty in recovery etc.

There are no loan schemes for students wishing to follow NVQ or vocational training courses. Commercial banks regard this type of loans as a 'risky investment'. In the past, some banks and MFIs have offered 'vocational training courses' (e.g. NDB and Berendina) but these are no longer in operation. One of the main reasons for the low demand for loans for vocational training is that most courses are provided free-of-charge by the government-run and non-profit providers, so the demand for such loans by students in public and sponsored training institutions (non-profit/NGO supported) seems to be very low. In contrast, students enrolled in courses at private TVET institutions are charged fees that can be a few thousand or hundred thousand of rupees, which may vary between institutions. Since there are no financial aid initiatives for students in private TVET institutions, they rely on their parents or

family members for financial support. Those who can provide security or collateral are able to obtain personal loans at commercial rates to meet the cost of education, but the majority, particularly those from low-income backgrounds and vulnerable groups, are struggling to raise funds.

Job-oriented courses that ensure job placements are most favoured by the lenders, including MFIs, so that the lender can recover the loan instalments directly from the employers.

NDB Educator loan scheme is for students pursuing higher education in any field or profession. Loans can be obtained for up to 75% of the course fee, with provision to pay only the loan interest during the course of study and pay off the loan capital once the course is completed. Loans are granted for a maximum tenure of eight years.

NDB Jeewana Loan Scheme (in partnership with DIMO and Mt. Lavinia Hotel) provided loans for low-income youth wishing to pursue careers in automobile and hospitality sectors. Due to the low recovery rate, the loan scheme is no longer in operation anymore.

Lankaputhra Bank's 'Shasthree' higher education loan scheme provides loans for those who wish to follow Post-graduate Studies and Professional Studies in local or international institutions and for Certificate and Diploma Courses pertaining to skilled trade categories[26]. The minimum period of the course should be 03 months and maximum loan amount is Rs.7.5 million with a repayment period of a maximum of 7 years. For loans, less than Rs. 500,000/- two acceptable guarantors are required, and all loans above Rs. 500,000/- require property mortgage or similar collateral security to minimise the risk element.

A number of commercial banks have introduced similar loan schemes for those pursuing local and foreign higher and professional education courses. They are:

- 'Seylan Scholar' by Seylan Bank,
- 'Lifestyle Education loan' by HSBC,
- 'Aspire Educational Loan' by Pan Asia Bank,
- Commercial Bank Education loans,
- HNB FUTUR+ Higher Educational Loans Scheme,
- Cargills Bank Education loans,
- National Savings Bank's 'Buddhi' loan scheme,
- Vardhana Nenasa Educational Loan by DFCC,
- Bank of Ceylon's Comprehensive Educational Loan Scheme, and

[26] Skill trades qualified for the loan scheme are: Technical, Construction Trades and Equipment Operation
Carpentry, Electrical Work, Plumbing, Welding Technology, HVAC (Heating, Ventilation and Air Conditioning)
Trade Personal, Hotel Management, Quantity Survey, and any other recognised courses.

- Peoples Bank Educational Loans.

In August 2017, under the implementation of the 2017 Budget Proposals, the Ministry of Higher Education and Highways introduced an interest free loan scheme for A/L qualified students to pursue higher studies. This scheme particularly targets students who have obtained minimum qualifications for university entrance at the G.C.E A/L examination held in the year 2015 (who have obtained 3 passes in A/L examination but did not get a chance to enter a State University) to follow a degree course at Non-State Degree Awarding Institutes accredited by the Ministry of Higher Education and Highways[27].

International Experiences with PTP Financing

Australia

In Australia, many banks, as well as the Australian government, offer various loan schemes to assist individuals with their finances and who are supporting themselves during their higher education. Although many banks and financial institutions in Australia do offer student loans, government programs might be the best option for most students. This is because they offer the best loan repayment terms since the government does not try profit from the loans provided to an individual, unlike a Bank. If a student is granted a government student loan, repayments will not be necessary and interest will not be built-up until the individual files a tax return that shows that he or she is making over AUD 40,000 per year. However, not everyone can qualify for a government student loan and even those who do will only be able to cover their educational expenses from the loan, as living expenses are not taken into consideration here.

In 2016, the Australian government introduced a new VET Student Loans Bill 2016 which came into effect from January 2017[28]. The new regulations limit courses eligible for VET Student Loans to those that align with industry needs and are selected based on analysis of employer, state and territory and Commonwealth data, to provide a high likelihood of leading to good employment opportunities. The new scheme includes three bands of loan caps at USD 5,000, USD 10,000 and USD 15,000 that will be set for courses depending on their delivery cost. The Minister can review the cap rates at any time in the first 12 months of the scheme and there will be a

[27] http://www.mohe.gov.lk/index.php/en/students-loans/students-loans-scheme

[28] "Minister for Education and Training Simon Birmingham said the new Vocational Education and Training (VET) Student Loans programme, which replaces Labour's failed VET FEE-HELP scheme, will provide value for money to both students and taxpayers via tougher barriers to entry for providers, properly considered loan caps on courses, stronger course eligibility criteria that aligns with industry needs, mandatory student engagement measures, a prohibition on the use of brokers to recruit students and a stronger focus on students successfully completing courses" (The Department of Education and Training Media Centre, https://ministers.education.gov.au/).

compulsory review after the first 12 months of VET Student Loans to ensure it is working as intended.

Cambodia

The National TF established since 1997, was a demand-driven programme for skills training through a system of output-based contracts with public and private training providers. NTF was funded through Government and external contributions.

India

Skill development is a national priority of India and the Ministry of Labour and Employment is responsible for providing financial support for creating skill infrastructure. The National Skill Development Corporation (NSDC) was established as a public private partnership initiative set up by the Ministry of Finance, under section 25 of the Companies Act. It has an equity base of Rs. 10 crores, of which the Government of India share accounts for 49%, while the private sector has the balance 51%. NSDC works towards catalysing private sector intervention in capacity-building of youth through providing financial support in terms of loan, equity and grant. Currently, 100 corporate houses/private players/private education institutes are associated with NSDC for imparting vocational education and training in India. With the help of private players, NSDC aims to reach its desired target (150 million skilled persons) by year 2022 (Tripathi, 2014).

In India, the most significant step in this direction is financing skill development through vocational loans by scheduled commercial banks for trainees. A sustainable and demand-driven model for a vocational education loan scheme has been floated by Indian Banking Association (IBA) in 2012. The new scheme enables loans for courses of duration from 2 months to 3 years, with no minimum age limit and no collateral; the parent would be a joint borrower. The moratorium period is a minimum 6 months after completion of the course.

In addition, there is a variety of educational loan schemes offered to students who require financial aid. But based on my research, all loans offered to students are from Banks and Financial Institutions. The government does not help provide financial schemes for individuals wishing to pursue their higher education. The repayment of these loans starts one year after completion of the course. The loan is expected to be repaid within 15 years after commencement of repayment. In case a second loan is taken for higher studies later, the individual would have to repay the combined loan amount within 15 years after the completion of the second course.

Malaysia

There are a variety of educational loan schemes offered to students who require financial aid. Most of which have government affiliations, such as Perbadanan Tabung Prendidikan Tinggi Basional (PTPTN) and the MARA Study Loan Programmes. There are also those such as KOJADI and MIED that are private student loans.

Schemes of all these loans differ, but where they are all similar is in the repayment of loans. The repayment starts 06 months after completion of the course or upon employment, whichever is earlier. The maximum loan/financing period is up to 20.5 years (inclusive of 5 years' study period, up to 06 months' grace period and up to 15 years' repayment). If a student stops their studies prematurely, they are expected to begin repayment of the loan with immediate effect.

Norway

The Student Finance Act 2000 (Wet studiefinanciering, 2000, amended later) helps students over 18 years of age in full-time education to cover education costs. Since September 2015 a new student finance system has been applied to students in higher education. The most important change is the abolition of the basic grant. The new system comprises three financing components: a loan, free/discounted public transportation cards and a supplementary grant (depending on parental income). The repayment period for loans will be increased from 15 to 35 years. Learners do not have to pay back the supplementary grant and public transportation fees when they graduate within 10 years. For students in upper secondary VET (MBO) the student finance system will not change: the basic grant will remain. Free/discounted public transportation will also become available for MBO students under 18 years of age from 2017 onwards (CEDEFOP, 2016).

Thailand

The Thai loans scheme, which started in 1996, is aimed at disadvantaged students, enrolled in upper secondary general and vocational schooling, as well as in tertiary education, in both the public and the private sector. Financed by the government, the loan scheme covers students in upper secondary, tertiary, and teacher training. Borrower selection is made by individual educational institutions (schools, colleges and universities), which receive loan budgets through a system of top-down budget allocation. There are 3 agencies which are responsible for educational loans, namely, the Ministry of Finance, the Ministry of Education, and the Ministry of University Affairs. The Krung Thai Bank Public Company Limited is responsible for loan distribution to schools and instructions under the jurisdiction of the Ministry of Education, and for the borrowers in the Ministry of Education, as well as for other agencies and other Ministries which are also responsible for education organisation, excluding the Ministry of University Affairs.

Individual educational institutions have considerable autonomy in the lending process, including decisions on the size of individual loans (up to a designated maximum) and on the purpose of a loan (tuition fees, accommodation and other living expenses). This highly decentralized method of loan distribution leads to

considerable inequities across the educational system (Ziderman, 2004) . Key features of the loan scheme are[29]:

- The borrowers must be students from low-income families, who wish to continue their upper-secondary education up to the undergraduate level in Thailand in both general and vocational fields.
- This includes students in the non-formal education system, who wish to further their studies from lower secondary school in the types of education stipulated by the Ministry of Education.
- The students have to settle the loan, as well as the interest after completing their studies.

United Kingdom

Student loans and grants in the United Kingdom are primarily provided by the government through the Student Loans Company (SLC), a non-departmental public body. The SLC is responsible for Student Finance England and is a delivery partner of Student Finance Wales and Student Finance Northern Ireland. The Student Awards Agency for Scotland assesses applications in Scotland. Most undergraduate university students resident in the UK are eligible for student loans. In addition, some students on teacher training courses may also apply for loans. From 2016, postgraduate university students aged under 60, who study a taught Masters or research course will, for the first time, also be eligible for student loans. Repayments are made upon employment after completion of course. The employer will take repayments from the salary during any pay period where the individual's earnings before tax are over the weekly or monthly threshold.

European Union (CEDEFOP, 2012)

The research by CEDEFOP reviewed vocational education and training loans in 33 European countries with a focus on selected schemes (12) in eight EU Member States: France, Hungary, Poland, the Netherlands, Austria, Finland, Sweden and the UK. Based on the analysis, the report recommended that well-performing (vocational) education and training loan schemes should be fiscally ungenerous, attractive to learners and, if commercial sources are to be used, to private lenders. To improve the VET loan schemes, it makes some important recommendations, they are:

- increase flexibility of repayment,
- carefully design / improve state subsidy strategies aimed at making the loans more attractive for the borrowers,
- link loans with other VET cost-sharing mechanisms,

[29] Further information on the Thai student loan scheme can be found at http://www.moe.go.th/eloan.htm

- coordinate implementation of loans with wider policies,
- incentives for larger financial institution role, and
- non-financial measures to ensure financial and political stability of VET loan schemes.

The review of 33 European countries has identified 35 VET loan schemes with most countries having schemes in which the government plays some role. No such loan scheme (currently operating) was identified in the Czech Republic, Ireland, Greece, Cyprus and Romania. The research study reports that there is no single best loan scheme model for financing VET in Europe. However, there are some core principles of good practice to be considered when designing and implementing VET loan schemes:

- extended eligibility (for higher number of VET learners, part-time learners, etc.);
- flexible repayment with built-in income safeguard;
- operated by a specialised institution with expertise;
- level of subsidy aligned with loan scheme objective;
- involvement of private capital, classified as private;
- possible involvement of financial institutions and other actors (e.g. tax authorities) in repayment collection and other administrative activities;
- links with other VET cost-sharing mechanisms;
- coordination of implementation of loans with wider policies; and
- use of non-financial measures (e.g. increased monitoring and evaluation capacity or more efficient guidance and communication strategies).

In several European countries, many banks, but also governments, offer the opportunity to take a loan for educational purposes. 22 out of 35 identified VET loan schemes can be classified as public. Most VET loan schemes in Europe (especially those classified as private) are financed from bank funds. However, there are alternative private funding sources. For example, the Austrian scheme is financed from customer deposits at building society banks. The Hungarian scheme is financed from bonds issued in the open market and loans from the European Investment Bank and other financial institutions. The UK Kent loan was financed from charity funds. Half of the loans classified as public are provided by specialised public institutions (devoted to loans provision for education and training exclusively) or other public institutions which also performs other functions, not necessarily related to the provision of loans. The other half delegate provision of loans to the banks. Private loans are usually provided by banks: retail banks, credit unions or specialised banks, such as building society banks.

The most eligibility criteria for loans are nationality, residence and age. Almost half of VET schemes are limited to young adults, who are often targeted for their reduced access to funds needed for education. Almost half of VET loan schemes apply risk assessment criteria. The most popular are means tested and checks on outstanding

debts. Sometimes countries assess risks related to the opportunity of finding a job or career progress or age. Countries also impose other eligibility requirements: loans are sometimes only available for registered learners/students enrolled in full-time training/studies, for programmes approved by authorities and/or provided by accredited learning providers.

The period for loan repayment varies. Usually a maximum repayment period is used (10-20 years is most widespread, but it can be as little as 1.5-6 years). In some countries (e.g. Estonia), the period of repayment is calculated by considering learning duration and loan provision: the repayment period is the same or twice as long as the learning/studying or borrowing period, as is the case in the student loan schemes in Poland. The third approach does not set a maximum period, but collects payments until the loan is repaid (e.g. until the person is aged 65 in Hungary, Iceland or Sweden). Schemes with longest repayment periods were mostly public, while the shortest were provided almost equally by public and private actors.

In Hungary and the UK student loan, loans are managed by specialized publicly-owned institutions. In seven countries, financial institutions (retail banks) have an important role in managing loans. In Finland, France and in the UK PCDL they jointly manage loans together with publicly-owned institutions. The smallest schemes analysed are managed by other institutions: local labour exchange offices for the Polish loan for the unemployed and a private non-profit organisation for the UK Kent loan. The stability of managing institutions is a crucial issue for education loan schemes, as stability guarantees more experience among loan scheme managers and, in turn, the better establishment of the loan scheme in the country's educational system and positive, objectively reasonable, expectations among its customers.

The research highlights the importance of the role played by governments in VET loan schemes in Europe is setting the eligibility, repayment and other rules (26 out of 35 schemes), and monitoring and evaluating the implementation of the schemes (24 schemes). In many countries governments are involved in provision of different subsidies (interest rate subsidy, loan guarantees) and financing administrative costs. In 14 schemes, the loans are actually provided by the governments: the provision of loans by a public actor implies that the government is also involved in financing the administration costs. In Malta and Slovenia, government agents collect the applications for loans and check them against eligibility requirements before sending them to banks.

One of the significant features is that students / borrowers are not required to provide collateral. Instead, the State, principal bank or a credit guarantee institution provide credit guarantee to minimise the lender's risk.

PTP Financing Model for Sri Lanka

In Sri Lanka, with the increase in the demand for skilled workers in the private sector, the demand for TVET is gradually increasing, particularly among urban youth. The demand is high for courses that have clear and progressive career paths. Young people are turning towards private accredited providers (NVQ and foreign such as City & Guilds and EDEXCEL), and professional (CIM/SLIM, CIMA, AAT, IBSL, and CASL etc.) that offer job-oriented courses and guaranteed job placements. It has been observed by a number of studies[30] that students' preference is high for work-based learning offered by government-run training institutes, particularly VTA, NAITA, NYSC and DTET. However, the institutions in rural areas are struggling to survive with funding constraints and low student recruitment levels.

The number of private sector providers have increased in recent times, offering generic and accredited professional courses. Courses offered by private institutions are very costly, and in most cases, the students borrow loans from formal and informal lenders at higher interest rates. The loan conditions are much tougher than concessionary loans offered by state banks. Obtaining a loan for such a programme is very difficult for most middle and low-income families as the banks do not want to lend due to difficulties experienced in loan recovery. The current education loan systems serve only a small fraction of the students and majority of them undergraduate and post-graduate students enrolled in foreign degree courses.

To address the issue of the lack of student and PTP financial services in Sri Lanka, the introduction of a concessionary education and TVET loan would be a boost for prospective TVET students. The international examples show that the student loan system has worked well, where PPP has been applied. Therefore, for Sri Lanka, establishment of PPP-led institution to administer higher education and TVET loans will be an ideal opportunity. Similar initiatives can be found in UK, Malaysia, India, and in most European countries.

The international experience has shown that vocational training loan products should be flexible and tailored to students' needs with reasonable interest rates, substantial grace periods and longer repayment periods. In most countries, student loans are paid directly to the training providers and a similar method can be applied. Loan repayment can be done over a specified period in a form of fixed monthly instalments as:

- Conventional (traditional or mortgage-type) loans in which the repayment is made over a specified period.
- Income-contingent or hybrid loans in which loan repayment instalments are determined as a proportion of the borrower's income over a certain period.

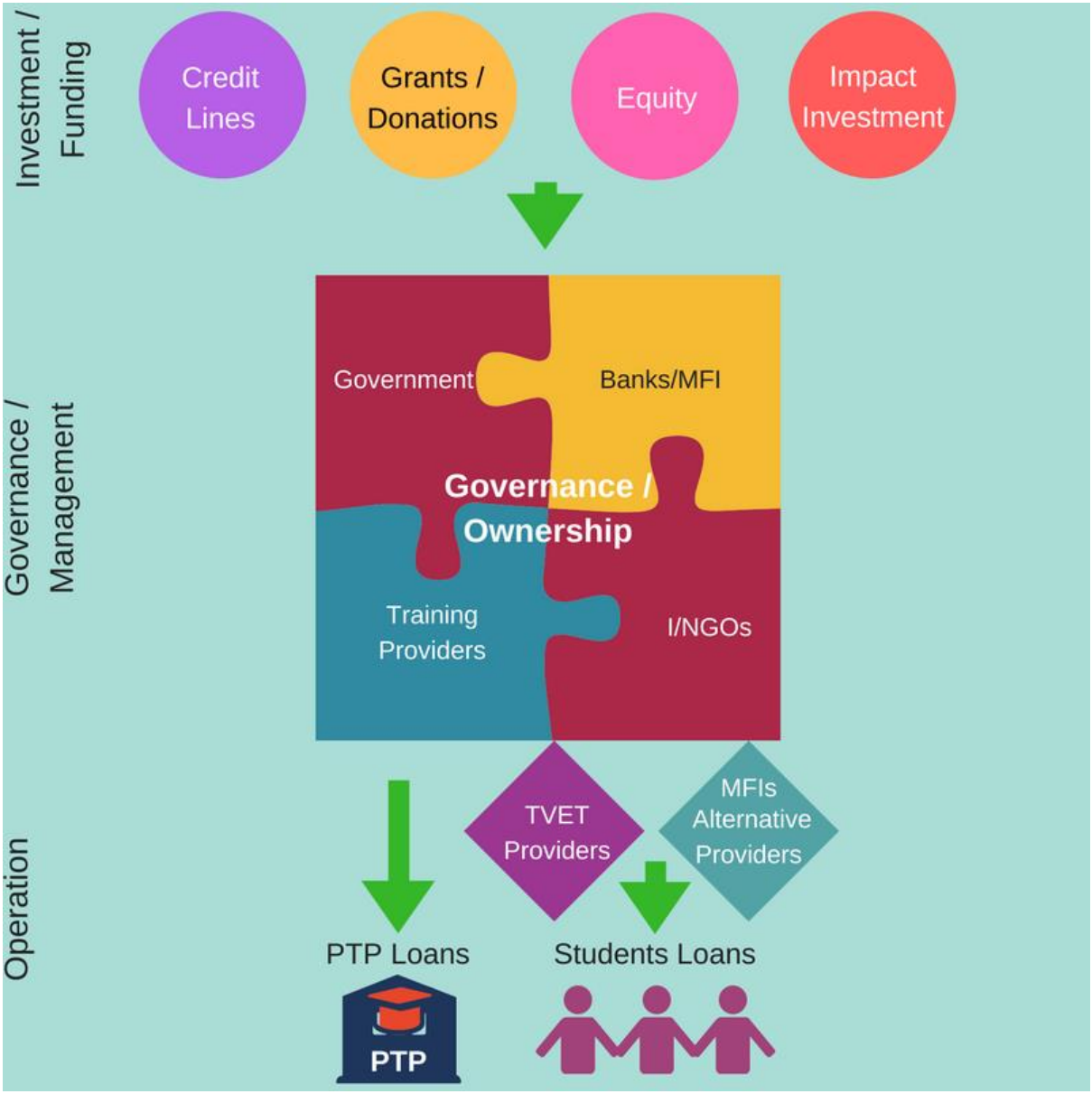
For PTPs, a guaranteed fund, operated through commercial banks, can be launched to provide loans at concessionary interest rates for private providers to expand

[30] See for example, World Bank, ADB, WUSC, ILO etc.

training in areas of high labour market demand. Targeted financial assistance from the TVEC for specific quality improvements in private training providers must continue and be expanded. PPPs should be established to ensure full utilisation of public facilities and reduce the costs of training for both public and private institutions.

The following model is presented for a PPP-led student and PTP loan company for Sri Lanka. This model can be considered as a hybrid model, where public, private and NGO sectors have collaborated. The prospective collaboration could be the Government (relevant Ministry / TVEC), Central Bank of Sri Lanka, commercial banks and MFIs, private education and vocational training providers and I/NGOs (e.g. WUSC, Plan International etc.).

PPP-Led Institutional Model for Student & PTP Loans (Author designed)



Chapter 5 – Issues and Policy Considerations

Based on the policy and literature review, the following recommendations can be presented for further consideration and action:

- To ease the financial burdens of PTPs and TVET students, a guaranteed fund can be established to provide loans at concessionary interest rates to meet the capital and operational costs.
- Student loans must be available for all students enrolling in vocational training courses; priority must be given to students from low-income groups and those enrolling in courses in high demand vocations.
- Training providers should be given powers to make decisions on student loans, based on their social and economic status and merits and de-merits of the courses.
- The loans must also be available to PTPs in regions and rural areas where there are fewer training providers, particularly small and medium-sized training providers, both for- and non-profit.
- Tax and duty concessions can be granted to PTPs purchase / import high value training equipment.

Purchasing of training from non-state training providers (PTPs, NGOs / non-profit training providers) in areas where there is demand for jobs should be encouraged by the government.

Public-Private partnerships (PPPs) should be established to ensure full utilisation of public facilities and reduce the costs of training for both public and private institutions (Dunbar, Millot, Savchenko, Aturupana, & Piyasiri, 2014). The financing model presented in point 40 is designed, based on Public-Private partnership mode.

Strengthening linkages between training providers and employers is the most important factor to make the training successful, while ensuring job opportunities for trainees. The employers, as well as industry experts could contribute to the training (e.g. advising, evaluating training programmes, undertaking teaching and workshop sessions, experience sharing, organising exposure visits to industrial establishments and conducting career/job fairs etc.). The Sector Skills Councils which is established by MSDVT should include private sector employers and training providers in their decision-making bodies (e.g. Bangladesh and Maldives). Few examples of employer – training provider linkages are (ADB, 2009):

- Viet Nam—advisory committees established at each project school;
- Bhutan—established an industry liaison unit;
- Maldives—established employment sector councils;
- Kyrgyz Republic—established advisory boards for primary vocational schools;

- Indonesia—strengthened school-industry linkages through formal partnership agreements; assessors from local industry paid to assess students completing competency-based modules; school managers trained in business management practices involving closer links with the private sector; and
- Bangladesh—planned establishment of three sector working committees, in addition, for the informal sector, establishment of forum of skill development partners.

With regard to PTPs in Sri Lanka, the links between PTP are very poor and they are not organised well enough to negotiate or lobby with the government. There is a greater need to bring them together so that their issues and demands can be discussed at national and sub-regional forums. The Sector Skills Councils need to identify this as a matter of priority and bring PTPs in respective sectors to the fore.

Policy reform in the field of student finance, as in other areas, should be guided by international experience of good practice (on what has worked well) and mistakes to be avoided. In this context, private training providers and INGOs in TVEC can play a bigger role in facilitating the policy makers and training providers.

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