Vocational and Technical Training

An IDB Strategy

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Foreword

This strategy establishes guidelines for Bank support of vocational training programs, both as stand-alone activities and as part of other projects. The word *training* is quite broad and often ambiguous. In this report, it is used to refer to the preparation of workers and technicians for activities in the manufacturing, agriculture and service sectors.

Those readers who are less versed in the nuts and bolts of training may ask why so much discussion is needed before tackling proposed Bank strategies head on. The answer is that agreement on many of the general principles of training is required to develop Bank projects. Training is an area plagued by lack of consensus and bitter controversies. Even the term *training* can have positive or negative meanings, depending on the author. Much of this paper is an attempt to set the record straight and take positions on many issues surrounding vocational training, starting with a question as basic as whether it makes sense for the public sector to provide training or to pay for it.

The strategy proposed here dovetails with other approved strategies; namely, those for the delivery of social services and higher education. It is also designed to complement the chapter on secondary education of the Primary and Secondary Education Strategy, as well as the Science and Technology Strategy and the Labor Market Strategy, which are under preparation.

This strategy is consistent with and responds to the Eighth Replenishment of Bank Resources (IDB-8). Section 2.26ii of this mandate directs Bank support to programs of "skills training, technical, vocational, higher education and its reform and modernization, to produce a workforce that can adapt to the needs of a new century."

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Economic Development and Training

There is ample consensus among researchers that education and training have been critical factors of production and that recent technological improvements have magnified their importance. In the second half of the century, the nations of Latin America and the Caribbean invested in the creation of training systems that prove to be valuable components of national development policies. High growth in decades past ensured employment for all the graduates. In fact, at the time, the number of graduates was more critical than the quality of the training they received. However, after a succession of economic crises that began in the 1970s, quality became more important as did the careful adaptation of training to meet existing demand.

The new wave of economic transformations has made training at once more important and more difficult to calibrate to the new and more stringent requirements of the world of work. Enterprises working at the leading edge of technological change have become avid producers and buyers of training. Traditional industries face the threat of open borders, internationalization and fierce competition. Without significant improvements in the quality of their work force, which is required for modernization, these industries risk being wiped out of the market. The new forms of organization that would allow them to survive require workers with much higher levels of education and training.

AN OVERVIEW OF TRAINING IN THE REGION

Latin America and the Caribbean have a long and distinguished vocational training tradition. The Brazilian SENAI was created in the early 1940s, ushering a long sequence of similar institutions in just about all countries of the hemisphere. In essence, SENAI-type institutions are funded through a payroll tax of around 1 percent. The SENAI, SENA, SENAC, SENATI, INCE, INA, INACAP, as these independent institutions are known in various countries (henceforth called the "S and I" system), in most cases fall under the responsibility of the ministries of labor, rather than education, and are much closer to the productive sector than regular academic schools.[1] These institutions also benefited from a set of very interesting and robust teaching methods, the "methodical series," which provided solid materials to the thousands of vocational schools spread across the continent. Since they were detached from academic schools, the "S and Is" catered to students after they completed their coursework. As schooling levels in the region increased, they were able to adjust their offerings to meet the needs of students with more education. They also shifted from pre-employment training, increasing the share of programs offered to improve the skills of those already in the labor force. For this reason, the sharp distinction often made between pre-employment and the upgrading of skills is not as important; the training institutions are the same and they tend to adjust their offerings according to market conditions.

Twenty years ago, the "S and Is" were the pride of Latin America and the Caribbean, a wealthy and well-run set of institutions, in stark contrast to the poverty and mediocrity of academic schools. Yet, starting in the late 1970s, they began experiencing problems placing graduates and were slow to adjust to the new times. In addition, they became older, slow to react and, in a few cases, suffered from the politicization of staff. As a result, staff became increasingly demoralized

[1] For a full discussion of the center-based model, see Castro, 1998.

and the institutions acquired the reputation of being a problem rather than a solution. Moreover, outsourcing and other economic changes eroded their financial sources. No easy solutions have been found for the institutions with more serious problems; they retain the political strength to resist attempts to reform or close them down. Their reform is a major challenge for the IDB.

During the past few years, the "S and I" institutions were particularly slow to serve the lower end of the labor market. As a result, ministries of labor and international agencies (e.g., in Central America) have intervened by creating programs to train workers in the informal sector and unemployed youth. The role the ministries of labor play in training thus has expanded considerably and needs to be considered in the new training policy scenarios. Some of these programs (e.g., Chile Joven and Proyecto Joven) proved more successful than others, although the overall record remains unclear. Some programs are successful within the narrow confines of what they try to do (e.g., training youth), but do not provide a solution to the overall task of training workers (particularly those who are older and unemployed), although they are part of the solution. The task of improving programs to train workers of all demographics must go hand in hand with that of working with the larger and much more centralized "S and I" institutions.

At some point or another, all the countries of Latin America and the Caribbean have operated technical school programs offering a combination of academic (leading to a secondary school degree) and technical subjects (preparing students for the labor market). There are several impressive programs along these lines, some of them representing new models of technical education. However, results have been disappointing in the majority of the cases. A good share of the programs were in teacher training and accounting, but they became obsolete and are now in need of a complete overhaul. The problems of programs in the industrial arts were compounded by the practical impossibility of doing well all the tasks asked of these schools. Most programs tended to offer a watered down academic curriculum, they failed to prepare skilled workers (the teachers themselves were amateurish) and their attempts to prepare middle-level managers met unresponsive markets. In the majority of the cases in which schools offered a high quality education, students eventually abandoned all their technical training and opted for moving on to the elite higher education institutions. All in all, a rather poor performance. Very clearly, this is an area in dire need of reform. This subject is discussed in greater detail in the Strategy on Primary and Secondary Education as well as in a background paper.[2]

As elsewhere, many Latin American and Caribbean firms host employee-training programs. This is particularly the case when the skills needed by the company are otherwise unavailable or the risk of poaching employees by other firms is not serious. Yet, while enterprise-driven training is increasingly more important, in-house training is losing importance as firms choose to contract with outside providers, vendors and even with S and I institutions. It has been observed that the companies that invest in training focus more keenly on upgrading the skills of existing employees (providing more sophisticated skills). In contrast, their emphasis on basic skills training (or in providing basic managerial skills) has diminished. The exception is companies operating in industries where technology is complex or rapidly changing. Those firms generally host more expensive and ambitious training programs than traditional firms. All of these efforts should be welcomed from a public policy point of view. The government should only be concerned with monitoring the training behavior of firms because it needs to fill the gaps where spontaneous market mechanisms do not provide sufficient training. Moreover, it is the government's responsibility to ensure that legislation and the structure of taxation do not create disincentives for training.

Overall, the region has lost the preeminence it had in training. Yet, the deterioration has not

[2] See Castro, Carnoy and Wolff, 2000,

been so dramatic as to turn training shortages into a major development bottleneck. While, on the whole, there remain a serious and distinguished group of large training institutions and private training, enterprise-based training and new public initiatives are mushrooming, this strategy takes the position that the current situation is far from satisfactory. There is a great need for an overhaul of the system by means of intelligent policies and selective investment.

Traditional and New Lines of IDB Support

Bank lending in support of vocational/technical training has a long history. Since 1967 and the approval of the first of these loans to Brazil and Chile, the Bank has invested approximately US$690 million, or almost 17 percent of its education portfolio, in training. Over time, these activities have undergone important quantitative and qualitative shifts. Quantitatively, although the absolute volume of resources allocated to training has increased, relative allocations have decreased.[3] This shift reflects the diversification of the Bank's education portfolio into other areas, particularly primary education, a trend evident since the late 1980s (see Table I).

The portfolio of vocational/technical loans has undergone qualitative shifts. *Along the way, the IDB acquired considerable experience in vocational and technical training.* It has provided support to three types of projects, each of which has evolved over time. Support for *technical schools*, a traditional area, has gained in importance with the recent emphasis of member countries on secondary education. The second type of IDB project in this area involves support for *traditional training systems* of the "S and I" variety. And the third is support for *short-term training of unemployed youth*, along the lines of Chile's Proyecto Joven.

As Table I shows, early loans focused on center-based training, and were aimed primarily at financing the approach to training of "S and I" institutions in a particular country. Such loans tended to address issues of training in relative isolation from those of general (e.g., secondary) education. *Support for such training practically disappeared for fifteen years but returned in 1990 with a different and more reform-oriented face.* Projects supporting *certification* and *basic skills* look very promising. The support for developing basic skills programs also deserves much attention. Based on initial work in Central America, it seems that the IDB could envisage *loans to reform the traditional training institutions*, along the lines outlined in the present strategy. These loans might be very different from one another but they will share the goal of achieving better targeting of the courses of study as well as increased efficiency.

By 1969, Bank lending had diversified to include other training suppliers. As Table I makes clear, an emphasis on the technical schools quickly became the preferred modality of lending to the subsector. However, *the traditional technical schools have more shortcomings than desirable qualities* as a result of the ambiguity of the various roles that they play. They are, at once, secondary academic schools preparing students for higher education, technical training schools, and institutions that prepare skilled workers. Often, these institutions fail on all three counts because they have spread their efforts too thinly. The IDB has had its share of failures along these lines, as well. However, the Bank is now interested in projects that take alternative routes. In some

[3] The current portfolio of vocational-technical training loans in execution includes seven loans. These loans consume approximately 9.5 percent of Bank resources invested in education. These loans include: Program for the Expansion and Improvement of the Education System (PN-0073); Technical Education Improvement Program (UR-0018); Youth Job Training Program (VE-0042); Support Program for the Production-Transformation Process (AR-0062); Vocational Training Program (PR-0038); Non-University Technical Higher Education Reform Program (AR-0181); and Technical and Vocational Reform Program (BR-0247).

cases, it *redefines the meaning of practical/technical education*, giving up explicit preparation for jobs and opting for a form of academic education with some degree of concentration on broad occupational categories. In others, *technical or occupational training is pushed to the post- secondary level.* This approach is illustrated by the projects approved for Argentina and Brazil in 1997, which devote considerable effort to ensuring a demand-oriented system. The new orientation proposed by the Strategy on Primary and Secondary Education and reiterated in this document is to *abandon the old technical schools approach* and explore all the new alternatives which take the role of preparing for specific occupations away from academic secondary education. Under this approach, Bank loans support the reform of training within the larger context of reform of secondary education.[4] These loans thus differ from those conceived under the center-based model in that they operate within the parameters of the formal school system, often under the supervision of the ministry of education.

Most recently, the favored approach to vocational/technical training departs from the market-oriented policies alluded above (and discussed in more detail ahead). Rather than targeting the supply of training, this approach awards funds on the basis of competition.[5] Based on the success of the Chile Joven program, the IDB has pursued the expansion of this training approach, which targets unemployed and undereducated youths. This type of support is based on two key concepts. The first is the competitive contracting of training by the sponsors of the programs (in this case, the ministries of labor) instead of direct program operation. The second is to extend contracts only to those operators who can ensure that there is a job waiting for the graduate or that an internship lasting as long as the training program itself will be available upon graduation. Overall, the results are quite promising. The rate of employment of graduates is considerably higher than that of control groups. Nevertheless, these programs did not pay sufficient attention to institution building and underinvested in the preparation of quality training materials and teacher training, shortcomings that need to be corrected in similar projects. In addition, the efforts to avoid selection bias may have been insufficient.

Under this approach, the role of government progressively shifts from that of a provider of training (as in the center- and school-based approaches) to that of a buyer of services. As a financial agent, the government establishes clear rules for purchasing training, selects the best bids, and monitors the quality of the services offered. This leads to an increased and more diversified supply of training providers and, in some cases, takes the government, which pays for the training, out of its delivery. Since the implementation of Chile Joven in 1992, this approach has consumed a significant portion of Bank resources invested in vocational/technical training (see Table I).

Just about *every project funded by the Bank includes a training component that may add one to three percent to the total budget of the loan.* These training expenditures add up to slightly more than total Bank spending on projects that directly finance education and training. Yet, the criteria for project-related training remain loose and information about them scarce. The Bank *has little if any indication of whether this training is well-managed or effective*.[6]

As indicated by the content of the pipeline, the Bank's portfolio of education loans continues to diversify. Recent loans have supported the reform and modernization of education at the secondary and post-secondary levels. As these trends continue, the volume of resources invested in secondary education and vocational-technical training is likely to be increased. Although no loans were made the training sub-sector in either 1998 or 1999, there are projects supporting vocational-technical training in the pipeline.[7] Given the

[4] For a full discussion see Castro, Carnoy and Wolff, 2000.

[5] For a full discussion, see Castro, 1999.

[6] Appendix II provides a more detailed discussion of project-related training.

[7] Vocational Education Training Program (HA-0017); Modernization of Technical Education (CR-0108); Vocational Education Training Reform Pro-

strategic principles outlined in this document, these and future loans are likely to apply a more integrated approach to training, replicating key principles of the approaches outlined above to improve the match between the supply of training and its demand. In some cases, an appropriate response to a given situation may include a combination of approaches, as in Uruguay and Paraguay (see Table I).

Overall, the Bank has funded good and bad projects. Most noteworthy in its portfolio is the clear sense of learning and evolution it displays. An overview of all training loans demonstrates that projects attempt to correct faults found in earlier loans. As problems are detected in one loan, the subsequent loans try to avoid making the same mistakes by whatever means available.

gram (HA-0017); and Reform of Labor and Training Program (DR-0134).

Policies That Yield Results

This section places the region's experience with training in a broader context. It draws on and highlights a number of issues emerging from successful training experiences implemented around the world. The conclusions and policies these issues imply, in very general terms, can be used as a checklist of what to promote and what to avoid when designing projects. The Bank will not force these policies on borrowers. Yet, as evidenced by past experience and depending on the situation, going counter to them may hurt project implementation.

TRAINING REQUIRES AN ENABLING ENVIRONMENT

The success of any training program depends on a broad range of circumstances in the country. Some of the policies and actions required to create a favorable environment for the success of a given project are beyond the legitimate range of its interventions. *However, training by itself will not be effective unless the conditions for the deployment of learned skills are favorable*. This includes the political and economic climate. If those preconditions are not present, it may very well be that the project cannot be justified. Nevertheless, if the problems pertain to the microenvironment where training and deployment of acquired skills take place, dealing with such problems may be part of the training reform. The first and foremost precondition is the creation of jobs. Unless jobs are being created, training runs a high risk of being ineffective.

Yet a strong argument can be made that an overall environment favoring productivity growth is pitifully incomplete if workers lack requisite skills. Thus, even if training does not immediately lead to employment or the rates at which graduates join the labor force are less than spectacular, some training may still be justified. This argument has strong implications for the content of training and calls attention to the need to take extra precautions when designing training courses in times of economic decline. If the benefits of training take some time to materialize, improvisation and stopgap policies are not justified. What matters is what lasts and not all training is equally durable or effective in the long run. If trainees are unable to find employment immediately upon completion of their programs, then the real value of training may be in its provision of a more durable core of basic skills. In some cases, then, the necessary precautions may include a greater emphasis on basic skills; in others, depending on the clientele, a greater emphasis on education or self-employment may be warranted.

TRAINING DOES NOT REPLACE A GOOD EDUCATION

Before setting the groundwork of vocational training policies, it is important to sort out the roles of vocational training and education. Although there are conceptual differences between the two, the borderline between training and education is quite blurred. In its purest version, education is knowledge removed from practical applications (e.g., learning astronomy is pure education, except for those who plan to become professional astronomers). At the other extreme, pure training is a version of skill preparation that does not explore the theoretical implications of tasks being learned (e.g., learning how to use a saw and a jack plane without learning drafting and the requisite mathematics). However, in most cases the two are combined. Good training and a good education are equally good—and actually very similar in nature—when they promote the broad conceptual and analytical development of the trainee. By the same token, a good education

is often linked to applied endeavors that turn the theoretical knowledge into a practical skill. The difference is mostly one of intention. Education uses the practical or occupational content to obtain a deeper mastery of theory, being somewhat unconcerned with the application of the knowledge in the marketplace. Training starts with the clear goal of preparing for an existing occupation, the theory being a necessary component to prepare a better worker for that position.

Training is not a cost-efficient substitute for good schools for all. Although training can serve this purpose in limited cases (and can be a convenient way to give context to theory, as explained in the next section), this is not a general solution given its higher cost and the fact that not all occupations need vocational or technical training. By contrast, *a solid basic education is the best preparation for a wide range of jobs.* In addition, it shortens the length of training required. In other words, the need to develop a good training system does not replace the (perhaps) stronger imperative to develop a good general education system.

On the other hand, *no country has developed or can expect to develop its economy without a very substantial effort in training.* In many instances, on-the-job learning is not feasible and the complexity of subjects requires a long learning period and a heavy load of theory. For this reason, all industrialized societies have massive and expensive systems of training.

GOOD TRAINING IS ALSO GOOD EDUCATION

Modern economies require strong cognitive development as a foundation for vocational skills. Learning an occupation increasingly requires higher levels of understanding of scientific theories and the technological component of occupations. Part of this education should precede training, thus facilitating and shortening it. But, in addition, *most training programs offered today could benefit from a little more emphasis on language, mathematics and science,* as occurs in the best courses and apprenticeships. This is increasingly happening in Germany, the American Tech Prep and the new generation of SENAI courses in Brazil.

While the word *training* may be applied to such sophisticated areas as medicine and engineering, the modes and levels explored here are targeted to youths (or adults) who have relatively low levels of previous education. Therefore, *the methods used to impart the training make a great deal of difference,* since in addition to teaching practical or manual skills they must develop the ability of trainees to understand the tasks of their occupations and to reason intelligently.

Recent developments have shown that the *integration of skills training with conceptual development is possible.* Moreover, this integration creates a learning environment that is particularly favorable to embedding theory. The learning context should resemble the context of application. Learning can be triggered by practical problems that are interesting in themselves. These are the principles behind the "basic skills" movement, as well as "applied academics" and the "contextualization of learning."

While learning an occupation, the trainee may have an ideal opportunity to develop the same general skills that are taught in academic schools, i. e. general education. But this will not happen spontaneously. The integration of theory and practice, of shop activities with general principles of science, can only be the result of deliberate and well-informed efforts. Training programs should not underestimate the potential offered by such integration or the difficulties of achieving it. But there are good examples of these ideas: for instance, the new versions of the traditional Latin American "methodical series," as well as new methods developed in countries such as the United States (Tech Prep, School to Work) and Germany (key qualifications) have good track records.

Workers with a *good mix of practical skills and conceptual understanding of technology* can adjust more easily to new and different occupations, grow in their careers, and adjust to technological changes. The real issue is not general versus super-specialized training but the solidity

and depth of the basic skills that go together with specialized training.

TRAINING PAYS

Careful studies have shown that *good training provided at the right moment to the right group pays well.* Training increases productivity and, hence, the income of workers. It also tends to improve their employability and adaptability to different occupations. By the same token, from a social point of view, it is as good an investment as any other, if not better. Well-trained workers can be more productive, as long as they work in an environment that allows them to deploy their higher skills. And an environment with well-trained workers breeds good habits that benefit everybody.

Training consists of imparting not only cognitive skills and dexterity but also in *developing the requisite values, attitudes and behaviors, in other words, the ethos* which are typical of the occupations taught and essential for superior performance in them. Acquiring the values and the skills takes place simultaneously and with interactions between the cognitive and noncognitive sides.

Beyond preparing competent workers, a very significant role of training is tantamount to a transfer of technology. Technology may be embedded in machinery but it can also be brought to the workplace through training. The best training not only reproduces the skills endowment of a country (or industry or firm) but also upgrades it. This strategy takes the position that *the chief justification for training is its long-run impact on technology, know-how and productivity.* Increases in the wages of graduates is just one of the results of training. Rates-of-return analysis, while a useful tool for understanding training, is only one of the criteria for making intelligent decisions, given the presence of externalities and long-run effects which cannot be detected by looking at costs and earning profiles.

Given the heterogeneity of training modes and skills, and the sector of the economy to which it is targeted, *aggregation risks masking the truly important findings.* Circumstances may be so fundamentally different and the modalities of training may have so little in common that adding disparate results can lead to meaningless averages. By the same token, the fact that training is successful (or ineffective) in one place or at one level, tells little about its success (or failure) elsewhere.

Training targeted to the industrial arts tends to be expensive and long and to cater predominantly to men. However, expected growth in enrollment is very modest. Training for the services industries (the full gamut of office technologies included) is more flexible, less expensive and easier to organize. This training grows faster and has a greater participation of women who, in some areas, clearly predominate. Training to improve the so-called soft technologies in management constitutes an increasingly important area (ISO 9000, Total Quality, Just-in-time, etc.). Training for entrepreneurs and for self-employment is a more recent development and its optimal profiles and success rates are still not well known. Training for the rural sector has features that may approach one of the above modalities but also its own peculiarities. In discussing training, one is well advised not to mix all these different modalities. Notice that industrial enterprises include service sector activities (accounting, cafeteria, etc.), and that the strong movement to outsource services pushes typical manufacturing activities (such as plant maintenance) to the tertiary sector. It is important not to mix sectors with the intrinsic nature of the training to be imparted and not to extrapolate characteristics of one sector onto another.

NO DEMAND, NO TRAINING

The number one problem of training is the mismatch between training and jobs. When those who receive training cannot find a job where their skills can be used (directly or indirectly), training is a bad investment. It is often more expensive than education and if skills learned are not utilized, the benefits are doubtful. Programs lacking good targeting abound. Therefore, obtaining a good match is a *sine qua non* condition. The rule should be simple and forceful: *no demand, no training.*

To get a good fit, *the incentives have to be right* and the mechanisms that drive training to respond to market demand must be in place. The efficient use of resources should be rewarded at all levels by means of hard and soft incentives. Socially useful behaviors within the training system should be rewarded and, conversely, those that are not good should be penalized. Some recent practices deserve attention. For instance, requiring that a certain proportion of the graduates find jobs where they use the skills acquired, establishing the employability of graduates as a condition of financing and providing additional funds to schools that achieve better links to labor markets. (The latter mechanism has been successfully used in the IDB project Chile Joven.)

Training in independent centers, such as that common in Latin America and the Caribbean, tends to pay at least some attention to demand. By contrast, those forms of training linked to formal systems of education (vocational and technical schools) tend to be greater sinners in ignoring the market for its graduates. This may be one of the reasons explaining a strong tendency to move the training end of these programs elsewhere. One of the most widespread solutions is to move training to the post-graduate level, having it become a short higher education career. Another solution is to dilute the occupational component and merely offer a secondary education that introduces students to some broad occupational lines. Still another alternative is to separate the training from the education end of technical/vocational programs, allowing academic schools to focus on academics and moving the training somewhere else.[8]

Demand-driven training does not mean that the training institutions sit and wait for the demand to appear or that they accept the usual reticence of traditional business. Like aggressive firms promoting a new product, *training institutions need to market their training and convince employers that training pays.* Good training meets the needs of firms but also takes some steps ahead of present needs in order to make training a channel for change. Like many other economic activities training needs an aggressive social marketing effort.

Contrary to current belief, *most firms know neither their training needs nor the profile of the skills that would best help them.* By the same token, *trainers, isolated in their schools, have an imperfect notion of firms' requirements.* But working together, schools and firms can put their comparative advantages to good use and develop the right training.

Worldwide experience shows that *quality is paramount to meet market needs.* Improvisation and sloppy practices do not pay in the long run. Successful training imparts a *sense of perfection and responsibility* that cannot be learned unless the training environment itself displays these traits. Last, but not least, graduates of high quality training programs tend to be chosen for the existing jobs, even if the economy is not creating new ones; hence, from an individual point of view, it is always a good investment.

Demand-driven training can lead to a process of selection of courses and people that may secure economic results but at the cost of avoiding those areas and people who, for equity reasons, are more deserving. Administrators have to be aware of this tendency and set up programs that strike a balance between efficiency and equity.

THOSE WHO BENEFIT SHOULD PAY

There are good reasons to encourage those who benefit from training to pay for at least a small part of the costs. This makes the budget load lighter and can boost equity. Moreover, those who pay will expect more, be it in terms of quality or targeting, putting additional pressure on providers. But it is quite clear that the ability and the willingness to pay depend much on the clientele and the type of training.

One of the most important reasons to charge users is to introduce a self-regulating mechanism in the provision of training. Unless users perceive a worthwhile market at the end of the course, they are less likely to enroll. In fact, paid training

[8] For more details, see Castro, Carnoy and Wolff, 2000.

(both in private and public institutions) is far less likely to generate the classic pattern of mismatches with demand.

Employers should pay for that training which generates results they can immediately appropriate and where the risk of losing the investment to free-riders is small. This usually means short and highly specialized training or training in which, the employers can capture most of the results. The specialized literature calls this "firm-specific training."[9] By the same token, many firms are conservative, reticent about training or overwhelmed by more urgent demands, failing to benefit from increases in productivity that can result from higher levels of skills. In addition, firms tend to be shortsighted and do not usually foresee long-run economic trends or adjust their training to them. Even so, limited initiatives, such as accepting interns or apprentices, may have positive consequences: some service sector courses should be offered free of charge to vulnerable clienteles, and training for some blue-collar occupations may require some payment.

The presence or the possibility of free-riders and poaching severely limits the amount of training individual firms are willing to undertake. This is the classical case of the "Prisoner's Dilemma" where uncoordinated action leads to inaction. No entrepreneur wants to pay for training if competitors can poach trainees. This leads everywhere to little "generic" training, even though entrepreneurs would be willing to pay if they knew others would also pay. A payroll levy is one such "social contract" to get all parties to pay their part. In fact, it was originally proposed by entrepreneurs in Brazil, the first Latin American country to adopt such an approach.

Controversies[10] aside, the payroll levy also ensures some degree of equity in training systems. Training providers follow funding sources and adapt their offerings accordingly. Barring payroll levies or public resources, training is likely to drift upwards, both in terms of the clienteles and markets addressed. Payroll levies provide a means to keep training focussed on the needs of those industries and employees paying the bill.

Those who take the training should pay as much as they can afford. Middle-class students taking short courses geared to the service sector (secretarial, computing, etc.) typically can pay a significant part, if not all, of the costs. Blue-collar workers taking long courses in industrial arts typically cannot afford to pay much, requiring considerable subsidies from the government. In such a case, it will often be pointless to require payment, particularly considering the foregone earnings already incurred and the low level of income of the clientele. But the rules should be flexible, the above are just illustrations of typical differences in clienteles.

There are *reasons to believe that good quality training generates at least as many external economies as education.* There is no more rigorous empirical research to back this statement than there is to support the belief that this is the case for education. But one should consider that well-trained workers bring sound working habits and techniques to the workplace, and that the best craftsmen are given the task of helping younger staff. In fact, the finest training systems in Europe justify their existence and expenditures on the grounds that they are needed to develop a technological culture. Hence, training should be treated in the same way as education and a proper balance between expenditures for general education and training should be sought. There are no industrial countries in which the public budgets for training are modest. (For the purpose of the present paper, we are assuming payroll levies to be public funds). *This is one of the reasons why training systems should not aim at breaking even through cost recovery.* The principle should be to raise school revenues as much as permitted by the financial means of the clientele but not beyond the point where the reduction in the amount of training taking place will hurt the economy. Additionally, various schemes should be considered to diversify sources of revenue. These may include student loans for

[9] The concept of firm-specific training has been proposed by Garry Becker (see Becker, 1993).

[10] Literature on tax burdens questions the belief of entrepreneurs that the levy impinges on their profits, but this is immaterial for the argument presented above.

higher level courses, selling of services to enterprises and perhaps even alumni fund-raising.

Public funding of training is not the same as public operation. The first is unavoidable, the second is often avoidable. Significant efficiency gains are possible when delivery is in the hands of institutions that can be held accountable to outside agencies or actors. Private training firms, NGOs or the same firms that employ the trainees are likely candidates to deliver training. Also, it may be a public institution, as long as it is subjected to the same incentive and accountability rules that are usual in the private sector. In fact, leading enterprises in the United States are increasingly divesting their training activities to public institutions, such as community colleges, which have comparative advantages in their lines of business and have to comply with performance requirements set out in contracts with firms such as Boeing, Caterpillar and the major carmakers. If such strong accountability can be implemented, there are no compelling reasons to avoid public delivery. But in most countries across the region, efficiency gains through private delivery are still a more feasible alternative.

The government always will have a key role to play, both in funding and in policy-making. Training cannot be funded solely by the private sector or from the payments made by trainees, even though there should be an effort to increase their financial participation. The payroll tax has been a common and successful means of financing training. Yet, new styles in public finance resist funding mechanisms that tie revenues to uses.[11]

Governments' record in the coordination of training has been mixed. Training boards have been effective in some countries but not in others. The tools to give effective power to boards are not obvious. At the same time, we can only rejoice that some boards have been ineffective, given their prejudices and poor judgement. As a rule, one ministry is powerless to influence whatever activities take place under the auspices of another ministry. The bottom line for coordination is not very optimistic: there are no winning formulas.

[11] The IDB respects this fiscal discipline on the part of member countries but does not take a stand against a tool that has sheltered training from the vagaries of public budgets and allowed it to bloom.

How to Improve Training

This section presents a number of proposals for improving training and reforming institutions based on the problems identified in the previous section. The advice provided derives from recent experience in Latin America and elsewhere. These proposals should ultimately serve as guidelines for IDB projects.

IMPROVING THE PERFORMANCE OF EXISTING PROVIDERS OF TRAINING

A few decades ago Latin America sported a dynamic and effective set of training institutions. It was a just cause for pride, and experimental attempts for exporting this system to Africa were made. Unfortunately, some of the "S and I" systems have lost their shine, dulled their ability to respond to market needs and become politicized, heavy and unmanageable. With some exceptions, the *large training institutions in Latin America have become slow, inefficient and expensive, even though they still may deliver good quality training*. They are in need of structural transformations to make them more acutely aware of the need to better target their output, become quicker to respond to market changes and obtain more results from given inputs. In addition, the reform should emphasize the introduction of self-regulating mechanisms. But there is no single formula for reaching these objectives. Reform does not bring about an abrupt or overnight change. Rather, it is likely to happen in stages. The goal of reform should be to move along the lines described below, at whatever speed is possible, understanding that these are not mutually exclusive trajectories.

All training institutions, bar none, should *monitor closely the market for their graduates.* Tracer studies of former trainees—formalized as in SENAI/São Paulo or *ad hoc*—are one of the easiest and most effective means to keep track of market evolution. But other methods are also available and are equally useful. Large, centralized and expensive tracer studies are not necessary. Informal contacts with former students and close interaction with the enterprises which typically hire the graduates can work quite well. What matters is a sense of proximity and intimacy with the market, and the belief that it is incumbent upon the schools to adjust the supply of training to existing demand. Information is a necessary but not a sufficient condition for change. If penalties for generating unemployed graduates do not exist, school operators have no interest in getting information or in using it when provided. Thus, the implementation of a policy mandating the monitoring of markets depends more on changing incentive structures (creating penalties for poor targeting) than on the nuts and bolts of generating information.

Breaking the monopoly of the large public training institutions is always a good policy. The creation of competitive training funds is a very attractive complement that will increase the efficiency of the system. Chile Joven and Proyecto Joven (Argentina) are prime examples of this strategy. As a rule, there is ample justification for the survival of the "S and I" institutions but equally strong reasons to make them a smaller player in the training market. They should compete with many other providers but also retain a major role in training trainers, preparing high quality training materials and playing a leadership role.

In order to reduce the mismatches between supply and demand for training, *employers should be given a stronger voice in the decisions of*

training institutions. The token presence of business representatives on boards or working groups is not enough. Real entrepreneurs with *real* power should be involved in making these decisions at the school level. The participation of unions has been modest, if at all present, in all but a handful of countries. However, their participation should be more than welcome and there are good reasons to encourage a greater role for unions.

Linking some components of the budgets of training institutions to their success in adjusting training to demand can increase efficiency. There are several mechanisms to grant prizes or to reduce budgets according to performance, in particular, by linking funding to the success of the graduates in finding suitable jobs, as the Chile Joven project has done.

Apprenticeship schemes requiring placement in a job prior to training are more immune to lack of targeting. Hence, this is a path that should be considered seriously (discussed ahead).

Under some conditions, training institutions could shift their emphasis to a greater normative role instead of delivery. However, the agency that creates and enforces norms should not also provide training (unless its norms affect sectors where it does not operate). Given the reluctance of the "S and I" institutions to withdraw from the conventional delivery of training, standards should be purview of the government, enterprise associations or of a new agency or board created for that specific purpose.

NEW MODES OF APPRENTICESHIPS

On-the-job learning acquired a more deliberate and purposeful format beginning with the establishment of apprenticeships in the Middle Ages. *The idea of using the job environment as a learning place and the established craftsman as a trainer remains as valuable today as it was in the past.* In Germany, a classroom component was added to the learning by doing and by watching system, giving rise to the expression "dual system" to the practice of alternating between classroom and work environments.

Much effort has gone into reproducing the "dual system" in Latin America and elsewhere. However, the demanding requirements on employers' and workers' associations, as well as on the government, have led to modest results. As an exaggeration, we could say that it is *either small and good or big and bad,* due to the difficulties of scaling up the system and the complexity of the required articulation between different social players.

There are good reasons to pursue apprenticeships closely modeled after the German format in *sophisticated or up-market areas where the small numbers more or less correspond with the demand, and the complications* and costs are justified by the strategic importance of the skills.

Yet, the idea of adding some structure, technology and basic skills to existing on-the-job learning and apprenticeships remains quite promising. (Tunisia has adopted a very well-conceived program along these lines but its implementation has been inadequate.) One of the driving forces behind this approach is to correct the bad working habits and shortcomings of workers since poorly trained workers transmit their poor craftsmanship to their apprentices. Moreover, cognitive skills such as mathematics, drafting, and reading are poorly, if at all taught in traditional enterprises. *These apprenticeships could be offered to large numbers at very low costs.*

The public sector, like its private counterpart, also provides a significant amount of training. The problem with training in public institutions (sometimes including parastatals) is that *it tends to be seen as an entitlement.* Workers are trained because there is a mandate to train, not because there is a concrete need for additional skills. This leads to waste and ill feelings, since nothing happens after training takes place. The rule to fix these mistakes is simple, training in public institutions should follow exactly the same principles adopted by the best private enterprises, avoiding the waste of aimless training and the myopia of conservative enterprises.

Public policy should stimulate all forms and modes of learning. This can be done through

regulation, such as the certification of skills or policies to *increase transparency* and to protect consumers. Apprenticeship requires careful planning. The legal framework may kill or boost such schemes. In the case of training done by enterprises, *tax rebates or other forms of subsidies can be considered.* At the very least, the *government should not hinder or over control* these initiatives.

PROMOTING LIFELONG LEARNING

Modern societies offer myriad education and training opportunities outside the official and public institutions. Proprietary schools offer courses in computers, secretarial skills, accounting, languages and other subjects. Distance education has a long and successful record throughout the region, having been present in the form of correspondence schools and now migrating towards television and the Internet. Radio, television, cable television and satellites are being used for specialized courses and mass education, including extension courses on farming and small business operations. Universities, higher education institutions and technical schools already offer extension courses, both to the public in general and under contract with companies. Last but not least, many serious NGOs cater to the lower end of the society and have played a priceless role. Some estimates, methodologically flawed as they may be, suggest that the amount of informal education and training is several times larger than that offered through academic and formal channels.

Regardless of the seriousness of the public sector's efforts to provide training, in most societies this will constitute a small fraction of the learning opportunities available. However, various training programs are offered by proprietary institutions, NGOs and employers. Correspondence programs, television and videotapes offer unlimited opportunities for learning. While there are no statistics for these training alternatives, there are good reasons to believe that in a modern economy the sum of these private and scattered initiatives may enroll several times more students than official public training.

Workers learn by doing. The fact of the mater is that the workplace is also a learning place. *All policies that encourage workplace learning are welcome.*

Once workers reach a certain threshold of education or training, self-learning, be it by buying books and magazines, listening to the radio, going to the library or through the Internet, becomes a major source of knowledge and skills. Given the proper incentives at work, the availability of self-learning opportunities and the mastery of reading skills, the potential for additional learning is great.

Despite the significant variance in quality, the overall impact of this motley set of initiatives is not to be underestimated. There are very good reasons to encourage further expansion of such activities (in some Scandinavian countries they reach as much as half of the population, while in the United States they reach one third). Therefore, countries are well advised to enact policies and create an overall environment in which self-learning can flourish. Protecting consumers from fraud, amateurish efforts and deceptive advertising should be part of the training policies adopted by all countries. But outright regulation and licensing of such initiatives, in most cases, will do more harm than good.

NEW FORMS OF DELIVERY FOR FORGOTTEN CLIENTELES

The region has had considerable success in developing institutions capable of offering high quality training for the classical manual trades. Yet, *their record in providing for the lower end of the labor force (both formal and informal) has been mediocre.* In particular, the challenge to train the workers for many segments of the informal sector has not been met. The fact is, given their resources and costs, the ability to train a significant proportion of these workers is limited, even if they were to use their entire budgets for training workers for the modern sector.

The traditional training institutions may only hope to reach this huge clientele (which is about half of the labor force in many countries) by *establishing training technologies which would*

allow for a dramatic reduction in costs per trainee. Distance education is a possibility that has been tried at relatively small scales in different countries. The *use of mass media*, such as radio, television and videos, is another variant that has worked well in the past and shows continued promise (Tecnológico de Monterrey offers training in this manner). The possibility *of franchising* training to small operators is another path (pioneered by the Iazigi Language Institute and informally tried by SENAI in some of its simpler metal-mechanic courses). Teaching *basic skills* to workers who have otherwise mastered the more manual dimensions of the trades is a less usual but promising alternative.

Given the reticence of traditional training institutions, ministries of labor are moving in and already sponsoring a significant share of the training for low-end clients. An increasingly popular approach is to have ministries of labor (or local governments) purchase training by competitive bidding in the private and public market, instead of trying to create a training system or rely on the regular training institutions. Another interesting line of action is given by initiatives launched by some ministries of labor to contract NGOs and other small institutions to offer training in simple occupations. Financing from the ministries of labor could greatly increase the scale of operation of these activities.

Other areas of concern include training of older workers and the unemployed. Whereas the Bank has had some success in training unemployed youth (Chile Joven, Proyecto Joven in Argentina), like most of the rest of the world, it has had difficulty in training or retraining older workers. Indeed, the record of retraining is mixed. It is relatively expensive and not appropriate across the board; in some cases, it has proved to be ineffective in leading to job creation or higher income (see OECD, 1996). Thus, in training older workers and the unemployed, the Bank will take a more cautious approach. To minimize risks, the most reasonable policy will be to focus on well-targeted and selected trainees and, in close collaboration with employers, train only for well-specified purposes. The model set out in the Labor Markets Modernization II Project in Mexico shows promise along these lines. Among other activities, the project includes job placement and training for unemployed workers; employers play a large role, both in defining training priorities and in providing employment opportunities for trainees. Initial results of this project are encouraging: within the first two years of execution, training targets have been exceeded and most quantitative indicators have been met.

UPGRADING TRAINING FOR THE MODERN ECONOMY

Economic modernization requires increasingly complex forms of training. Training institutions must upgrade some of their courses in order to cater to new needs such as increasing complex technologies. Technician training, undergraduate programs and, eventually, post-graduate courses need to be offered in areas such as CAD/CAM, robotics, welding technology and industrial automation. As programs with more sophisticated technical components begin to be offered, there is a tendency to also offer services which go beyond regular training. These include quality control, technical assistance and, in the best schools, applied R&D (there are some good examples of this, particularly in Brazil: SENAI and a few federal technical schools). The models of the U.S. community colleges and French IUTs deserve particular attention.

Expansion of *certification* through trade examinations would also encourage other agents to provide training.

Modern training requires many bridges between school and enterprise. Traditionally, there was an abrupt transition between training and the job market. Even when internships were offered, they tended to be formal afterthoughts, not true links between school and work. With the increasing complexity of technologies, schools cannot provide fully the environment required for learning and enterprises are unable to offer the full range of theoretical preparation which new technologies demand. Therefore, various bridges between training and work have to be established, particularly in the case of more complex forms of occupational training and technical schools. In-

ternships require more intensive planning and supervision from both ends as teachers spend time in factories and company engineers spend time in schools. These activities help develop joint ventures between schools and factories which could, for example, lead to R&D projects involving students and firm personnel.

LAYING THE GROUNDWORK: DEVELOPING MATERIALS AND THE TRAINING OF TRAINERS

The provision of *training requires previous and expensive investments in trainers, in methods and in training materials.* The most outstanding training programs are backed by heavy outlays in course development, long periods of fine-tuning the teaching materials and ambitious programs of preparing trainers.

There must be institutions capable of conducting this investment in R&D, and they must have adequate funding. Training through competitive contracts is desirable to improve the efficiency of delivery and targeting. Yet institutions (not necessarily public) capable of operating with longer time horizons and with mandates to provide the pool of materials and instructors required for maintaining high quality training also must exist. From the point of view of training markets, such expertise and R&D investments are essential public goods and can be had by any permanent institution capable of developing materials and serving as clearinghouse. This role does not have to be performed by public institutions, the need for public subsidies notwithstanding.

There is a severe scarcity of trainers in the region. No serious effort to improve training can forego a serious and systematic program to train trainers. Those who teach shop disciplines at technical schools lack practical experience and regulations usually forbid or discourage the hiring of instructors with real life experience. In processes of technical and secondary school reform, efforts thus should be made to convince governments *to eliminate or soften rules that discourage the hiring of instructors with relevant work experience*. By contrast, those who have practical experience and teach at vocational schools or apprenticeship programs often lack a strong conceptual basis and the skills to transmit their knowledge. The latter shortcoming is particularly serious in the case of company workers who are responsible for on-the-job training (equivalent of the German *meister*). Hence, retraining the *meisters* is also an important component of vocational school projects.

TRAINING AS SOCIAL POLICY BUT NOT TO CREATE JOBS

In the last decades there has been a tendency to resort to *training as a social policy tool* or to justify it on moral grounds. Indeed, training should not be an exception to the imperative that *equity must be a permanent target for public spending*.

But the *intention of equity is not the same as effective improvements in equity.* It makes much sense to target resources to the disadvantaged. But what matters are not the intentions but the consequences. Unless the trainee can benefit directly from the training received, little is accomplished.

Mainstream Latin American training institutions have, to a large extent, *failed to reach the underprivileged classes.* Their training has been mostly targeted to what one could call a "blue-collar elite," even though they have often done an excellent job in preparing world-class skilled workers. This is no minor achievement. Yet, in countries where the informal sector encompasses close to half of the labor force, there is a moral imperative not to forget this side of the economy.

Since the oil crisis, *training has often been considered a tool to fight unemployment.* It shows initiative on the part of public administrators and it creates the impression that the problem is being solved. Unfortunately, there is *no tangible evidence that training alone creates jobs.* Jobs are created when all requisite factors come together, not merely by offering training. In some cases, training can better equip some groups to get ahead of others in the race for existing jobs. To the extent that public policy aims to boost the employment of such groups, training is a power-

ful tool. But this is not necessarily employment creation.

The key idea to keep in mind is that training is essential to improve productivity and competitiveness and, hence, contributes to the health of the economy. To the extent that economic growth creates jobs, training may, in fact, make a strong contribution to job creation. But this indirect and powerful potential impact on growth should not be confused with the immediate impact of training programs on employment.

In all training programs, however strong the goals of equity may be, there must be a significant probability of finding jobs at the end of the training or within a reasonable period of time. Unless that is the case, general education or other forms of support for the target clientele may be a better idea.

While some programs may fail to reach both equity and efficiency goals, there is usually a point at which the trade-off between equity and efficiency will surface, whether we like it or not. To make training more equitable it is usually necessary to make it less efficient (or more wasteful). Whatever the clientele, training institutions have to strive for efficiency. Significant improvements can be obtained, particularly in trying to respond to demand. But there is a limit to efficiency gains without equity losses. There comes a point in which difficult decisions will have to be faced: more efficiency or more equity? As economic crisis hits countries and as unemployment soars, these trade-offs become steeper. To what extent should training institutions sacrifice efficiency in the attempt to cater to the lowest end of the social scale, i.e. those who need it the most but are the least employable? As public budgets become scarcer in times of crisis, should they be used to train groups of people in which very few will get jobs, instead of responding to the needs of enterprises which require candidates with different profiles? There are no easy answers, and this strategy is not trying to stimulate any alternative but merely to point out a serious training issue that is exacerbated in times of economic crisis.

Training should emphasize basic skills during periods of unemployment or when the chances that all graduates will find employment are slim. The longer the expected waiting period before a job is found, the greater the chance of a mismatch between the training and the job and more is forgotten of what was learned. Hence, training should be less specialized and, instead, focused on skills that are of a more generic use.

Even though the overall record is poor, there have been some positive experiences in Latin America and the Caribbean with training targeted to underprivileged groups. Perhaps the most significant examples are Chile Joven and Proyecto Joven in Argentina, both supported by the IDB. These are classical initiatives in which the potential providers compete for the contracts, but in order to bid they have to convince an employer to hire the graduates or offer them an internship lasting as much as the training program. Both programs have shown rates of subsequent employment significantly higher than those found in the control group. *The challenge facing the managers of such programs is to strike a balance between the motivation to reach down to deprived clienteles and still obtain a satisfactory level of subsequent employment of the graduates.*

Self-employment training is the only clear exception to the proposition that training does not create jobs, and therefore deserves considerable attention. Nevertheless, the record is mixed. A careful selection of the candidates is critical for achieving an acceptable success rate. Youth just out of school have few chances of being successful in creating their own businesses. Nevertheless, adding courses introducing all or most students to business practices and promoting self-employment initiatives remains a good idea. Even if few ultimately benefit from the exposure to these ideas, this is an inexpensive policy that makes much sense. Past experience suggest that successful programs provide far more than training to the chosen candidates (e.g., they also provide financing and technical cooperation). It has also been found that programs that try to improve the performance of already established small enterprises fare better than those trying to

enable trainees to create their own firms. The down side is the fact that training institutions have little comparative advantage in offering more (i.e., integrated training packages) than training. Despite these difficulties, there are strong reasons to pursue policies to promote self-employment.

Guidelines for the IDB

GENERAL PRINCIPLES

Well-focused training is investment in human capital at its best and is indispensable for economic development. Hence, the IDB will continue and possibly expand its support for training. To pursue this goal it will utilize all tools available, from regular loans to technical cooperation.

In line with the essential commitments of the Bank, *all forms of discrimination should be eliminated,* gender or otherwise. While female enrollment reached 35 percent in Latin America and the Caribbean, 75 percent of trainees in electronics, metalworking and mechanics are men. As a result, there are good reasons to ensure a more gender-neutral training environment. Equally strong should be the determination *that disadvantaged social groups are not omitted from training programs.* The disabled, older workers, indigenous populations and any other chronically vulnerable groups deserve special attention. Lastly, training should develop an awareness of environmental protection in the student.

In training, *what matters are the results, not the intentions.* Regardless of clientele, training is justified *when it leads to jobs; it should not be considered a form of social assistance.*

Evaluation and monitoring are critical to identify, to correct errors and to learn the lessons needed to avoid repeating the mistakes of the past. It is more convenient, easier and more rigorous to design evaluations beginning at the early stages of the project.

Bank projects will look at the entire training effort, rather than take a piecemeal approach. They *will favor systematic reforms rather than individual projects.* This requires a stronger commitment from the borrowing country and from critical stakeholders. Policy dialogue with all concerned stakeholders will be the entry door to any project.

There are *no single solutions that are good for all countries* or even for the same country at different moments in time. The Bank has to respond to specific needs and avoid one-size-fits-all solutions. Needs and priorities follow geography. Nevertheless, given the existence of large, expensive and somewhat dysfunctional training organizations in several countries, their reform is often one of the more central priorities. The legitimacy of the IDB, the relatively large size of loans and its access to state-of-the-art expertise put it in a unique position to stimulate and support far-reaching institutional reforms.

THE COMPARATIVE ADVANTAGES OF THE IDB

Training in Latin America and the Caribbean needs more than occasional patches and quantitative expansion because it presents a picture of institutional stalemate and unfilled demands. Throwing money at the problems or designing projects with elegant technical solutions is not sufficient. The institutional reform and the structural changes required are politically delicate and involve the reshuffling of people, institutions and funding mechanisms. The high level of legitimacy of the IDB in the hemisphere and its ability to mobilize the right people and

the requisite resources puts it in a unique position do actively support reform.

The Bank has considerable experience in designing and supporting serious reform projects. However, it *lacks sufficient staff with the required experience and expertise* to deal with technical matters in training. Without larger teams with experience in this area, the risks of developing operations that prove to be unsuccessful is considerable, and the probability of foregoing major reform opportunities is even higher. Considering operational budget restrictions faced at present, this strategy merely flags the risks and the foregone benefits. The mobilization of an outside pool of consultants may partly compensate the small size of the in-house installed capacity.

Multilateral banks and international donors have different comparative advantages and roles in development. Banks are less flexible, move larger amounts of funds and are better suited to engage in system-wide reforms. Donors are more flexible, more independent, more suited to regional activities and can undertake a greater variety of operations, including support for individual training centers. Exchange of information, networking and an earnest attempt to collaborate within each partner's comparative advantages are worth pursuing in a more systematic manner. A recent initiative of the German GTZ provides an interesting example of such cooperation: the GTZ, collaborating with the IDB in a technical education loan to Brazil, is developing areas where the IDB loan lacks flexibility.

PRIORITIES FOR IDB FUNDING

The following areas will be favored by Bank operations:

Reforming training institutions is the number one priority.

Training is a privileged form of technology transfer. It is a tool to increase efficiency and competitiveness. Advanced industrial and service areas need training programs that are equally sophisticated. The IDB will support the creation or upgrading of technical programs which offer technical assistance to industry and undertake applied R&D. But since, in many cases, the institutions are already in existence, reforming them may be the first step.

Traditional training institutions throughout the region have an outstanding record but many have failed to keep up with changes in the economy and the labor market. While there are fundamental differences in their performance, many of them are embattled and deeply involved in divisive controversies. Legitimacy has been corroded and their efficacy questioned. There are those who believe that they should disappear altogether. For better or for worse, they have enough power to repel lethal attacks and, at the same time, avoid the necessary changes.

The first aspect to consider is the high costs of the "S and I" institutions, regardless of whether they are productive or not. Indeed, they typically consume from one to two percent of the payroll, a sizable sum by any yardstick. If these institutions fail to deliver good and well-targeted training, the waste of resources is very high. Therefore, *money invested in reforming them could have a huge payoff,* as it leverages the productivity of the entire institution.

Past experience shows several cases of successful institutional change. Several institutions have undergone major reforms or improvements.[12] In other words, reforms are possible and are taking place. On the other hand, attempts to reform by brute force or to close training institutions have failed.

[12] For instance: SENAC (Brazil) about ten years ago began charging all users for its courses, avoiding the chronic mismatches between supply and demand for training. SENATI in Peru changed dramatically when entrepreneurs managed to convince the government to have them appoint its CEO. In Santo Domingo INFOTEP has greatly improved. INA in Costa Rica was deeply reformed in recent years. HEART in Jamaica was overhauled and became one of the most efficient institutions in the region. Observers of the training scene believe that the moment is ripe for further changes. Indeed, SENA in Colombia has expressed an interest in some reforms along the lines laid out in this strategy.

Under any circumstance, understanding these institutions is a first step in the right direction. This will require *careful institutional analysis and the examination of the political feasibility of different scenarios for change.* It is no less important to analyze the market for training (tracer studies are the most compelling tools). It is difficult to imagine that major projects in this area can be undertaken without this previous effort. In some cases, networking institutions may be an efficient way to promote reform and create the shared values and attitudes required to engage in meaningful dialogue. Sector analysis and policy research will precede loans.

Institutions are not changed from the outside. Multilateral agencies can support change but not promote or initiate it. Strong commitment to change is a precondition for any activity in this direction. *All Bank activities to support change need a constant and intimate dialogue with all stakeholders.* In this particular case, the role of the ministries of labor (which in most countries supervise the training institutes) should be given greater attention. But users, enterprises, unions and all relevant actors also may have a role to play. If nothing else, they must understand and be part of the dialogue that leads to consensual solutions. In the recent technical education loan to Brazil project teams have engaged in a very constructive dialogue with local communities. Trust between the Bank and its partners is essential. It is better to obtain incremental improvements than to risk a stalemate in head-on confrontations with embattled institutions.

This strategy concurs but will not repeat what is proposed in the Primary and Secondary Education Strategy regarding tackling those technical schools which are riddled with ambiguities in their multiple roles of preparing students for higher education, training technicians for ill-defined positions and preparing workers for skilled manual jobs. Promoting the development of post-secondary technical courses is one of the solutions proposed for those schools.

New Programs and New Technologies to Reach the Poor

Given the discrepancy between the large number of workers who need training, particularly in the informal sector, and the relatively modest means of training providers, only the deployment of different delivery technologies can offer hope for a solution. The region has considerable experience in distance education, particularly radio and television. Hence, the IDB will respond favorably to requests to create *training programs using distance education, radio, television and satellites which may allow reaching farther, lowering costs or improving the impact of training. Computers, the Internet and other more sophisticated technologies promise much as future alternatives.*

Along the same lines, the IDB favors different organizational patterns that *lower costs and extend access.* This is the case with the selective use of *NGOs,* for-profit organizations and any other arrangement that may extend the reach of training. *Franchising* (formally or metaphorically) is a distinct possibility to combine the technical expertise of the traditional institutions with a radical decentralization of training and lower costs. A few informal experiments along these lines warrant further support. By the same token, *simplified forms of apprenticeship* offer considerable promise.

Given the high youth unemployment rate and the low levels of education and training of many young people, the Bank is well-advised *to pursue its successful experience in training young workers.* The experience of Chile Joven and Proyecto Joven in Argentina will be deployed in similar projects, with due attention paid to local peculiarities. Yet, the rule "no demand, no training" applies here as much as anywhere else. In that respect, this approach remains a robust and intriguing idea. Instead of operating training institutions, buying training by competitive bids is a very pertinent approach, even though it is not a panacea or a replacement for conventional training.

Training for older, displaced workers will also be pursued, albeit cautiously. The usual precautions apply doubly here. Training needs to be targeted

to both the market and the needs of the clientele, and input and collaboration from employers is essential.

Improvements in Classical Vocational Training

The IDB will support projects to *introduce basic skills* in conventional training, even though this is a new area and there is lack of in-house expertise. As occupations became more complex, the ability of workers to write, calculate, draw and work in teams increased much faster than the average training programs in the region could match. But changing curricula, materials and instructors along these lines is expensive, usually justifying Bank loans. "Contextualization of training," "applied academics," "work-keys" and "key qualifications" are part of what has to be developed and implemented. In the case of workers who already have the manual skills and experience, programs to deliver just the basic cognitive and affective skills offer a great potential.

Competency-based training, modularization of training and several other technical innovations in delivery deserve attention. But equally (if not more) important are all efforts to bring training closer to the demand. *Good systems of monitoring the markets, particularly by means of tracer studies (and reverse tracer studies where the researcher goes to the labor markets to find out how workers have been trained) will be an integral part of all projects.* These do not have to be large centrally managed and expensive projects, but a permanent effort on the part of school management to find out what is going on in the labor market and how their graduates are doing.

Once the monopoly of the large training institutions is eroded, *certification* becomes more important since neither trainees nor employers can easily evaluate the degree of preparation of people trained in a wide range of institutions. In fact, in order to promote decentralization and multiplication of independent training initiatives, quality control via certification is necessary. Yet, due caution will be taken to avoid the rigidities and undue "credentialism" that might be introduced by certification. The fix can be worse than the problem when it creates a market reserved for those who have the right diplomas but may not be the only nor the best qualified person for the job. *Accreditation of training institutions also has a place,* despite the bad reputation of most attempts in the area. But in general, given the high specificity of content and the fragmentation of suppliers, certification of individual trainees is a better idea. Certification is more reliable because it tests outcomes rather than processes. Moreover, since certification is centralized and requires a simple bureaucracy to enforce, it is easier to maintain.

Programs to Redirect Training and Funding to the Private Sector

The IDB will support countries in the design of policies to *encourage diversification* in the provision of training, both by enterprises and selected NGOs. It will also encourage self-learning at large and apprenticeships. These *stimuli* may be tax incentives or subsidies, but above all, a sound regulatory framework, involving issues such as lower salaries for trainees, indenture contracts and so on. The record of tax rebates is mixed. It should be pursued with due caution. The French experience with payroll levies to contract training with outside providers is eminently positive and not different from the Latin American proposal to divert part of the levies to competitive training contracts (which have found much opposition in several countries). Direct subsidies to firms that train their workers also are a possibility.

Better Preparation, Approval and Monitoring of Project-Related Training

Considering the poor performance of the training component added to most Bank projects (project-related training), the Bank should allocate professional staff to support the preparation of better-designed training, systematically review loan documents and monitor their implementation closely. These professionals will examine the past performance of project-related training in great depth, in order to derive practical advice on how to avoid the errors of the past and it will support the operational divisions in designing

more robust and functional training programs. Finally, they will permanently monitor the implementation of the training in the field with the support of the staff of representations.

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Annexes

Table I
Historical Evolution of IDB Lending in Education
(in US$ million)

Year	Center-Based	Technical School-Based	Market-Oriented, Short-Term Training for Youth and Disadvantaged Populations	Total in Vocational-Technical Training	Total Education Lending	% Total Education Lending in Vocational-Technical Training	Total IDB Lending	% Lending in Education Total IDB Lending
1965				0.0	8.0	0.0	175.2	4.6
1966				0.0	29.1	0.0	396.0	7.3
1967	3.0 (BR-0115) 1.0 (CH-0010)			4.0	65.9	6.1	481.8	13.7
1968				0.0	9.4	0.0	402.7	2.3
1969	1.5 (EC-0011) 12.0 (AR-0025)	3.4 (PN-0049)		16.9	25.4	66.5	644.5	3.9
1970	4.5 (UR-0015)			4.5	11.2	40.2	626.1	1.8
1971	2.6 (EC-0016)	3.5 (CR-0013)		6.1	67.3	9.1	628.0	10.7
1972		9.4 (TT-0008)		9.4	28.7	32.8	772.7	3.7
1973	16.0 (BR-0001)			16.0	57.8	27.7	870.4	6.6
1974	3.3 (CR-0003)	6.7 (HO-0003)		10.0	19.0	52.6	1102.1	1.7
1975	8.6 (GU-0007)	12.2 (PN-0014)		20.8	70.8	29.4	1360.2	5.2
1976	6.6 (BA-0007)			6.5	19.4	33.5	1462.9	1.3
1977		9.7 (BO00025) 10.7 (CR-0024)		20.4	44.6	45.7	1809.6	2.5
1978		10.5 (PR-0029)		10.5	95.5	11.0	1823.3	5.2
1979		13.3 (PR-0037)		13.3	27.2	48.9	2177.2	1.2
1980		21.0 (EC-0095)		21.0	53.5	39.3	2114.6	2.5
1981		7.2 (DR-0069)		7.2	14.7	49.0	2437.8	0.6
1982				0.0	201.2	0.0	2688.9	7.5
1983		78.5 (AR-0147)		78.5	141.8	55.4	3000.6	4.7
1984				0.0	25.4	0.0	3500.7	0.7
1985		20.2 (PN-0073)		20.2	92.0	21.9	2985.4	3.1
1986		50.4 (EC-0128)		50.4	118.2	42.6	2974.8	4.0
1987				0.0	75.3	0.0	2286.6	3.3
1988				0.0	0.0	0.0	1611.3	0.0
1989		20.0 (DR-0099)		20.0	115.1	17.4	2552.9	4.5
1990	14.4 (ES-0035)			14.4	14.4	100.0	3803.3	0.4
1991				0.0	57.3	0.0	5330.3	1.1
1992			40.0 (CH-0024)	40.0	139.1	28.8	5994.6	2.3
1993	28.0 (UR-0018)	UR-0018 (Reform of Sec. Education)	15.0 (VE-0042)	43.0	218.9	19.6	5963.2	3.7
1994	20.7 (PR-0038)		154.0 (AR-0062) PR-0038 (pilot projects)	174.7	1143.4	15.3	5231.5	21.9
1995				0.0	158.9	0.0	7223.3	2.2
1996				0.0	243.3	0.0	6740.6	3.6
1997		82.5 (AR-0181) 250.0 (BR-0247)		82.5	613.0	13.5	6024.0	10.2
1998				0.0	144.1	0.0	2233.7	6.5
1999				0.0	440.4	0.0	9117.8	4.8
TOTAL				**690.3**	**4589.3**	**16.6**	**98,548.6**	**4.6**

Appendix I

A Plan of Action for the IDB

The IDB will pursue the identification of interesting project ideas and attempt to further develop its portfolio of training loans. There is much room for growth in this area.

Future projects in support of training sponsored by the IDB will conform to the lines of this strategy. Within three years there will be a review of the new loans and technical cooperations, each of which will be expected to meet the criteria described below.

1. Bank projects will seize all existing possibilities to reform training institutions and eliminate systemic faults in their operation. In doing so, the Bank will give close attention to the reform of delivery mechanisms.

2. Training will be driven by demand, having built-in adjustment mechanisms to respond to fluctuations or changes in demand. In other words, systems will be self-regulating by means of cost-recovery, financial incentives, voice of users or other mechanisms.

3. The training sponsored by Bank projects will have a clear impact on productivity and competitiveness of the economy, responding to needs of sectors that are important for growth and the well-being of society.

4. The projects will incorporate state-of-the-art teaching methods and technologies. Quality will be a paramount consideration.

5. A substantial proportion of the portfolio will be targeted to the poorer members of the labor force.

6. All forms of discrimination will be absent from the projects supported.

7. There will be effective means of monitoring the operations and also mechanisms for early detection of problems and distortions.

8. Project-related training will be better designed and monitored, avoiding the present pattern of waste, erratic performance and the lack of systematic information on implementation and impact.

Appendix II

Support and Monitoring of Project-Related Training

This appendix draws heavily on the paper "Project-Related Training: The Current Portfolio" prepared by Richard Johanson and Aimee Verdisco for SDS. The paper analyses IDB experience in complementing its loans with training components and shows how little attention has been devoted to the design, implementation and monitoring of these activities. As part of the Plan of Action for this strategy it proposes a number of concrete actions to improve the performance of such training.

Project-Related Training and the Bank: Investment Without Institutional Support

Project-related training (PRT) "supports the systematic development of the attitudes, knowledge, and skills required either individually or collectively by new or existing staff of the project entity to ensure that project objectives are not constrained by lack of trained human resources."[13] In its ideal form, PRT ensures that neither project objectives nor processes of overall project implementation are compromised by skill deficiencies in responsible staff. PRT is related to the scope and objectives of the project it supports. It neither duplicates nor replaces other established and/or structured training initiatives, such as those offered by the formal education system (e.g., secondary education or vocational/technical training) but, insofar as any investment in the development of human capital is directly related to productivity, provides an obvious complement to them. It is in these respects that PRT plays an important role in the project process.

No single policy statement exists to guide Bank investments in PRT. Some mention of training can be found in both the Seventh and Eighth Replenishment documents. The *Report on the Eighth General Increase in the Resources of the Inter-American Development Bank* (IDB-8), includes training among those activities to be funded with technical cooperation monies and recognizes the use of training to promote project initiatives in the social sectors and other priority areas.[14]

Despite the lack of guidelines, PRT is widely utilized by the Bank. Of the 464 projects in execution as of December 1996, two-thirds (279) contain at least one PRT component. In the aggregate, these 279 projects include 519 training components, averaging about two per project. The volume of resources thus consumed by PRT is significant. Rough estimates of resources dedicated to project-related training exceed Bank expenditures in the education sector. As of December 1996, Bank investments in PRT totaled approximately US$2 billion;[15] and approximately US$1.9 billion had been invested in the education sector.[16] The use and

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[13] World Bank, Education and Employment Division, Population and Human Resources Department, *Annual Operation Review: Fiscal 1987 Education and Training,* August 1988, 8; World Bank, *Central Projects Note 5.01: Policy and Guidelines on Training in Bank/IDA Projects,* July 1980, 1.

[14] Priority areas include: 1) poverty reduction and social equity, encompassing family, women and youth; health and nutrition; formation of human capital; and indigenous groups; 2) modernization and integration, including: modernization of production structures; and modernization/reform of the public sector; and 3) the environment, which also includes the management of natural resources. See Inter-American Development, Board of Governors, *Report on the Eighth General Increase in the Resources of the Inter-American Development Bank* (AB-1704), August 1994, 14-36.

[15] This figure is rough. In many cases, PRT does not appear as a line item in project budgets. Rather, it is often consumed under institutional strengthening, technical cooperation, or other activities.

[16] Stairs Database.

volume of these (PRT) resources vary by sector, with a comparatively greater incidence and volume of PRT is found in the social, as opposed to traditional, sectors.

PRT: From Project-Specific Interventions to the Support of Sector-Wide Activities

PRT, as its name implies, is project-specific. With the implementation of IDB-8, however, its applications are increasingly being used to pursue further reaching (e.g., sector) objectives. PRT appears throughout the current portfolio as a means for addressing a plethora of problems? from weak institutions, to distortions produced by public-sector reform, to instances of policy-induced environmental degradation. This expanded use of PRT relates to the increasingly complex nature of the Bank's lending portfolio. The evolution from first (emphasis on the provision of social infrastructure), to second (efforts to redress biases in infrastructure by adding components for areas normally considered current expenditures), to third (attempts to initiate sector-wide reform) generation loans[17] suggests that training, by nature, has implications beyond a single project.

Design of PRT Components: Too Wide a Margin of Error

PRT components, as they appear in the loan documents, lack the precision of training activities found in stand-alone education and training loans. Indeed, the failure to specify who, what, where, when, and why of the training to be delivered constitutes the most widely observed shortcoming in the current portfolio.

In more cases than not, the design of PRT components is incomplete. Delivery generally occurs through consultants and funding is secured from either technical cooperation monies or institutional strengthening activities; broad thematic PRT topics are superficially presented, without the requisite specifications. Yet, neither the means through which consultants are to deliver their services nor the expected outcomes of their activities are made clear. As a result, the probability that the supply of training provided will miss the mark in terms of the demand for training is high.[18]

Supporting PRT Preparation and Monitoring Impact

The objective of PRT, as presented above, is to ensure that neither project objectives nor processes of project implementation are compromised by a lack of qualified staff. Such objectives remain as relevant and important as ever. Yet, if PRT is to meet expectations and reach the objectives outlined in project documents, such activities must have the benefit of preparation by qualified staff or with the support of those who are. At present, the preparation of PRT appears to be compromised by a lack of focused attention and lack of experience of staff with training problems.

The Bank currently has no specialized staff dedicated to support the preparation or monitoring of PRT components. Given the volume of resources currently invested in these activities (US$2 billion), however, the hiring of at least one staff member (to be allocated to a central unit) with responsibilities for PRT is advised. This would be a cost-effective investment: assuming a cost of US$150,000 per year for one full-time staff member, for every US$1 million spent on PRT, US$800 would be invested to ensure the proper design and monitoring of these components (less than one-tenth of one percent). This is a very modest amount for an activity that could have a major impact on the design and delivery of PRT. Thus prepared? e.g., targeted to the right people/institutions, delivered through the most effective mechanisms, and

[17] See Inter-American Development Bank, Social Programs and Sustainable Development Department, Social Programs Division, *Supporting Reform in the Delivery of Social Services: A Strategy*, August 1996, 7-11.

[18] Evaluations of PRT components are rarely included in Project Completion Report or other project-related documentation.

scaled to meet demand? PRT may prove to be an effective means for increasing and sustaining capacity beyond the implementation of a given project.

Better monitoring of PRT activities is also advised. As alluded to above, PRT components are not routinely evaluated in Project Completion Reports or other project-related documents. In those cases where evaluations do exist, the level of detail is disappointing and limited, focussing mainly on the number of training activities held, the number of participants attending, and associated costs. While this information is important in accounting for investments, it provides a limited basis for assessing the effectiveness, relevancy and impact of training activities. Indeed, at present, little is known about the effectiveness, relevancy and impact of PRT components implemented within the context of Bank loans. A better understanding of these components is necessary, both as input in the design of future PRT activities and a means for ensuring the smooth delivery of those under execution.

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