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TRAINING LEVY SYSTEM DEVELOPMENT REPORT VOCATIONAL TRAINING ASSISTANCE JORDAN

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TABLE OF CONTENTS

Page

INTRODUCTION. 1

INFLUENTIAL FACTORS IN THE DEVELOPMENT OF
A TRAINING LEVY SYSTEM. 2

FINANCING OPTIONS FOR THE VOCATIONAL
TRAINING CORPORATION. 5

INTRODUCTION

This report summarizes the training levy system development activity co[illegible] as a part of the Vocational Training Assistance-Jorda[illegible]ct (U.S. A.I.D. Contract No. NEB-0238-C-00-1001-00). Other project activities included: conducting two staff seminars, one on the management of in-plant training, and one on the modular system of training; providing United States-based participant training programs on the management of vocational training; short-term advisory assistance in the areas of skill standards development, guidance and counseling program development, and follow-up program development; providing technical information to the Vocational Training Corporation; and establishing a sister school relationship between the Vocational Training Corporation and the National Center for Research in Vocational Education.

Training levy system development is at a formative stage in Jordan. This project activity was therefore concentrated upon the identification of several system options that could be considered by concerned Jordanian officials. These options were identified as a result of experience in other countries, and taking into account the Jordanian cultural and economic setting. This report summarizes some of the major points that were considered in consultations by the National Center's assigned short-term advisor and representatives of the Vocational Training Corporation.

INFLUENTIAL FACTORS IN THE DEVELOPMENT OF A TRAINING LEVY SYSTEM

One of the Vocational Training Corporation's functions is to determine and put in place a suitable funding arrangement for future needed program development. Present funding of training programs rests upon limited government grants and contributions of several industries that participate in a voluntary manner. While experience to date is successful and the participating agencies are compatible, fulfillment of the V.T.C.'s long-range objectives will require major revisions.

Future funding requirements for V.T.C. programs are influenced by such key factors as: expansion in numbers of persons to be trained; improvement in quality of training; and developing a suitable relationship between government, the employers, and workers regarding the responsibility for training.

Major expansion in numbers to be trained will result from V.T.C.'s responsibility to promote worker training programs in all major employment sectors of Jordan. This in contrast to only a few industries being served at present. A second dimension relates to training more newly-employed persons within each sector in response to Jordan's demand for more trained workers. A third element is influenced by changing technology, and therefore creating a need to upgrade many of the present work force participants. This multi-dimensional expansion in numbers of persons to be trained will greatly increase the funds required for training.

Future funding needs will also increase because of a need to improve the quality of training. Advanced technology requires more sophisticated training facilities and equipment, curricula, training materials, and qualified instructors. Much scope exists for increased efficiency and effectiveness through close working partnerships with industries, and the utilization of in-plant equipment and technology to train both present and prospective workers. In spite of such efficiencies, total training cost will be increased as quality of training is improved.

Responsibility for skilled worker training involves a consideration of respective costs and benefits that accrue to the employers, the workers and society at large. This equation should take into account the features of the Jordanian national setting, and be subject to such guidelines as those which follow.

Long-term Stability

The system should provide a stable source of income to the Vocational Training Corporation, and be relatively free from uncertain and sudden changes in revenue. This will allow V.T.C. personnel freedom to concentrate on long-range planning, management, and operational tasks.

Maximum Participation

Incentives in the system should as nearly as possible encourage participation among and within employment sectors both large and small enterprises, and for the training of new workers and the upgrading of present workers.

Adequacy of Revenue

Rates of revenue should be sufficient to provide both quantity and quality of training, and allow for projected growth of apprentice and workers upgrading programs.

Shared Participation

All persons and groups, such as society at large, employers, and persons trained who benefit from the system should participate in system support. This will encourage system productivity and earn the support that occurs through widespread participation and support.

Administrative Feasibility

The system should be as simple and cost-free as possible to operate in order to maximize income for actual training of workers.

Culture-Based

The system should as nearly as possible reflect basic Jordanian cultural conditions. For example, the belief that all citizens should have opportunities to further their education and training; that large-scale modern industry must coexist with small enterprises and shops; and volunteerism is preferred in such systems.

FINANCING OPTIONS FOR THE VOCATIONAL TRAINING CORPORATION

Future Vocational Training Corporation programs are destined to cover a wide range and diversity of training needs. There is an expanding responsibility for the training of new workers and the upgrading of existing workers. There will be an expansion to all major occupational sectors. Within each sector, there exists a combination of large and small scale enterprises, some which embody advanced technology, while others employ traditional practices. The training itself is provided in a combination of institution-based and industry-based settings.

Financing systems in use throughout the world are not typically faced with the immense variety and diversity of training that the V.T.C. envisions. The equations involving who is responsible for and who benefits from a particular training program vary from one situation to another. Financing systems therefore vary according to the kind of institution providing the training, and the purpose of the training.

Seven options are proposed for the consideration of the Vocational Training Corporation in the development of a training levy system. These options have taken into account the unique elements of the Jordanian situation and are based upon experiences of other countries.

Payroll Tax Collected by Social Security

This system would remove the burden of financing from the V.T.C. and provide an automatic source of abundant financing, and concentrate the scarce personnel resources into productive training and system development. The new social security system now covers about 120,000 employees, which at an average wage of 1,500 JD would yield about 1.8 million JD for each percentage point added to the tax. This is the traditional way in which many vocational training systems are financed (United Kingdom, Europe, Japan, Cyprus) in terms of a payroll tax on all employers. This can be linked with a full or partial exemption for employers who provide their own training facilities, participate in the system, pay for the training system or their own instructors, and graduate trainees with certificates.

The payroll tax system is especially useful in modern, industrialized economies and with fairly comprehensive administrative structures to administer the tax process. However, for the V.T.C. this might mean that only about one-half of the employers are covered by social security. An extensive system would be required to grant exemptions, evaluate the cost of training facilities, and arbitrarily determine the amount of exemption.

Payroll taxes are justifiably falling into disfavor in LDCs because they tend to raise labor costs, and thus reduce employment. Such taxes also increase the marginal rate of substitution between labor and capital, and as in industrialized

countries, tend to have the burden of the tax shifted to the employees. Such a payroll tax would essentially mean a tax on higher paid employees to subsidize the training of lower paid employees. It also means a tax on the modern, industrialized sector but evaded or avoided by the traditional small entrepreneur. To the degree the shopkeeper is able to avoid the tax, he is not induced by the incentive of exemption from the tax to participate in the system.

Politically and administratively, it may be difficult for the V.T.C. to build a payroll tax as part of the social security system. As a new system, it may fight to keep its identity and avoid being used by other government agencies as a tax collection device. Employers may also oppose additional increases in the payroll tax in relation to the social security system. Linking the V.T.C. to a tax approach may also send off negative vibrations to the industrial system and get in the way of other systems which rely on incentives, voluntary cooperation, and a focus on the advantages from joining the V.T.C. system.

General Financing

The V.T.C. has essentially a two-sided challenge: (1) how to finance the training levy system; and (2) how to maximize the participation of employers and apprentices.

This need not necessarily be achieved by only one instrument, such as a payroll tax with exemptions. The best way to raise funds from a national point of view is by optimal taxes such as income taxes, capital gains taxes on the increased value

of real estate, taxes on luxury consumption, taxes and fees on passport issuance and renewals, taxes and fees on foreign workers in Jordan, or other taxes which would have superior or less detrimental economic effects than a payroll tax. This would fit into the cultural value that education provides a general benefit, should be generally financed through the overall budget, and should be free of any charges on the participants.

A general financing approach would mean a loss of independence for the V.T.C., and would require special lobbying for higher annual appropriations. This approach would not necessarily provide an incentive system for employers and apprentices to participate, and would not foster the philosophy that education is an investment of importance whose beneficiaries, both industry and the trainees should shoulder some of the costs. It would also provide little incentive for using resources wisely, because one tends to be less careful of those things which are given free.

Vocational Training Fund: Employers

Government can induce its citizens to pay money by force, such as taxes, or by voluntary incentives, such as loans or investments. The voluntary way is obviously preferred by the citizens. Social security systems generally are more popular than pure taxes because they refer to insurance contributions from which the citizen later receives benefits. Students may be allowed to borrow money at no or low interest rates to finance

their education, and later pay back the loan out of the increased wages made possible by their education. Thus, it becomes a costless loan.

From these modern concepts in new public finance theories an original, unique, system may be developed by Jordan to finance the V.T.C. Either the government may pass a law that requires the Ministry of Labor, or V.T.C., to require the employer of some number of workers, for example ten or more, to begin with and then later when V.T.C.'s capacity grows, five or more, to join the Vocational Training Fund. At the beginning it could be completely voluntary if there is enough employer education to realize the benefits of having low-cost apprentices and if the employer demand is sufficient to take in all available applicants.

The Vocational Training Fund, with a board of directors including many employers, would be financed by each participating employer investing or depositing 100 JD or so for each apprentice. Obviously, the investment price can vary to equate market demand and supply; if there is a strong demand for apprentices, the price can be higher. If there is less demand, a lower deposit or even a negative price, whereby the V.T.C. or Fund could pay the employer to take apprentices. The employer might then pay for the training by hiring V.T.C. instructors at least until all possible applicants are put into some apprentice spot.

The employer receives for his investment (1) a high priority to pick the best applicants on a first pay-in, first take-out basis; (2) the advantage of using low-cost labor whose productivity over the three-year course will exceed the V.T.C. financed

low wage for the apprentices; and (3) at the end of the three years, the employer's investment pays off by his receiving his investment back; either the 100 JD returned for each certificate awarded and thus the incentive to treat the apprentice with care and respect, as a human capital investment, or a greater amount, such as 300 JD, if the employer also pays for the V.T.C. instructors, or as a credit voucher which can be used as a deposit for a new set of apprentices. For a young system such as the V.T.C., the growth of the system, as in social security systems, means that the early payins greatly exceed the later pay outs providing for a surplus to finance the system.

Vocational Training Fund: Trainees

Apprentice applicants in the system can also share at the cost of the investment in the system--out of their increase in wages and productivity made possible by the V.T.C. The V.T.C. would give the student a symbolic 100 JD loan, paid back immediately to the V.T.C. so no money changes hands which is then paid back by the trainee in his third year by deducting 10 JD a month, 120 JD to cover the 100 loan and 20 JD registration fee for the third year. This should be acceptable because the student's wage in the third year has gone from 350 JD in the second year to 750-1200 JD in the third year. The income tax at this point would only be equal to about 5 percent for the trainee at this point plus another 5 percent for the social security tax so the trainee is quite capable to pay back some of the cost of education.

Earmarked Increase in Registration Fee on Foreign Laborers

Another option would be to increase the current 3 JD registration fee for foreign workers in Jordan to say 5 JD yielding about 300,000 JD, assuming there are 150,000 foreign workers in Jordan. This is logical and equitable as the temporary foreign workers tend to lower wages, replace Jordanian workers, and should contribute to the education of the host country. Or the foreign worker could be exempt from the social security tax with the employer paying his current 10 percent (8% + 2%) social security tax to the V.T.C. to equalize employee deductions.

Earmarked Increase in Passport Renewal Fees

Another option is to increase the passport issuance/renewal fee to require Jordanians overseas to contribute to education in Jordan. The 15 JD fee could go to 16 JDs (yielding about 150-2000,000 JDs per year, given the 500,000 Jordanians abroad with a three-year renewal cycle).

Combination Plan

This could involve a combination of increased fees and general financing and/or Earmarked Options to increase registration fees on foreign workers, or an increase in passport renewal fees, and a bonus to employers (100-300 JDs) for each certificate granted.