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Policy instruments to encourage employer investment in VET (Outline)

Projektbeschreibung

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1 Problem statement and goal of the study (< 5 pages)

Technological and demographic changes are imposing a challenge on the labor markets of industrialized countries: skills expire at an increasing speed while at the same time employees must stay in the market for a longer time. From this, an increased need for continuing education and training results. Many governments feel that the private side has some responsibility in at least partly financing the according efforts and that their current effort is not enough to meet the skill needs. Thus, policies have been developed to raise incentives for employers and employees to invest in skill development. The requested paper contributes to the *OECD Skills Strategy*, which seeks to assist countries in improving economic and social outcomes through better skills and their effective utilization. It deals with instruments targeted at employers only. The goal is to put together information that is available on selected policy instruments, including the stated rationale and objectives, the target groups and operational design. Also, the evaluative evidence is to be summarized. This outline sketches the prospective structure of the final report.

2 Overview of instrument types (ca. 10-15 pages)

In this section, the paper will provide an overview of policy instruments that are being (or have been) used to encourage investment by firms in work-related education and training for their employees. Instrument types will be discussed on a conceptual level and – if possible – grouped such that rationale, objectives, target groups and operational design can be identified for each type. Within these types, further characterizing elements will be discussed. For each type, instruments that are or were implemented in OECD and non-OECD countries will be presented as examples. Peculiarities of the specific instruments will be highlighted and – if meaningful – contrasted with the previously identified characteristics of the according instrument type. Which countries can be covered depends on the information available in English and German language, which is not fully known, yet. It will, however, neither be possible to provide a complete overview of all instruments used in a specific country nor a complete list of all the countries which apply a specific instrument type.

The analysis will take account of grants and subsidies (covering direct or indirect training cost, or training wages) as well as various levy schemes, and less intensively tax incentives. It may, however, not make sense to distinguish grants/subsidies and the provision of training wages. When dealing with the various instruments in depth it may turn out that both can be treated equivalently or that another differentiation is more meaningful.

Instruments that primarily aim at encouraging initial training cannot be incorporated in the scope of the study. However, instruments focusing on both types of training will be considered. Further, the analysis is limited to policies for employed persons. Instruments to support unemployed persons or individuals threatened by unemployment are beyond the scope of this work. Hence, we will disregard any financial support covered by unemployment insurance, but also any other support primarily aimed at improving employability or the labor market situation of individuals. The same applies to public efforts to improve the transition from school to work for youths. Moreover, it is impractical to include public training provision

in the study, because it is usually not treated along with other public financial policy instruments.

2.1 Grants and subsidies / provision of training wages

Subsidies and grants will be considered if employers can count as beneficiaries of the instrument. Whether this is the case depends primarily on the declared rationale and target group of the program and not so much on the actual effects. Individual Learning Accounts as well as paid training leave schemes, for this reason, are not considered in the scope of the project, even though enterprises may benefit from them. Subsidies to organizations which provide training or training related services for firms will be excluded from the analysis, because distinguishing those from the institutional funding of vocational education and training schools is too complex a task for such a small project.

2.2 Levy schemes

As in the case of subsidies, levy schemes will be considered only if employers are among the beneficiaries. The nomenclature on levy schemes (or as called in the terms of reference: training funds) does not seem to be uniform. There is an abundance of different schemes that vary, for instance, along the following dimensions:

- type of training financed (initial/continuing/both),
- administration (national government/sectoral/regional governments),
- generation of funds (revenue-generating/levy-exemption/social insurance contributions),
- distribution of funds (exemption/grant/reimbursement), and
- obligation (compulsory/voluntary).

In accord with the terms of reference, we will consider only levy schemes that are regulated by governments and do not exclusively cover initial, but also continuing training efforts.

2.3 Tax incentives

Finally, tax incentives will be treated only on a conceptual level. As with the other instrument types, different schemes will be described, but in the remainder of the paper, tax incentives will be ignored.

3 Review of evaluative assessments (ca. 10-15 pages)

For only few instruments that encourage firm investment in their employees' training evaluation studies exist. This section reviews the evidence available in English or German language. If evaluation studies are not available, other literature will be used – as far as possible – to derive expert opinions and other statements assessing effectiveness (if possible: impact differentiated by firm size or skill level of benefitting workers) and efficiency of the instruments or the respective instrument type. For the most part, evaluative statements can be found in summary studies. Frequently, those statements are not based on statistical analysis. In some cases they may express personal views of authors. If possible, costs and benefits of the instruments will be considered, in which costs include the deployed funds as well as the cost of implementing an instrument, and also aspects like increased transaction

costs, costs of bureaucracy, deadweight losses and substitution effects. Also, implementation problems and interaction effects with other policies and programs shall be paid attention to. However, the mentioned aspects may be treated only fragmentarily in the existing literature. For instance, information on deadweight losses associated with instruments, costs of bureaucracy, substitution effects or the like, seems to be rare at best. The study will put together what is available for the instruments selected in section 2. If evaluative evidence is not available, we will attempt a judgment on whether the policy design seems instrumental for the achievement of the stated goals. Also, a subsection will be included making use of data from the European continuing vocational training survey (CVTS) that gives information on the employers' perception of public training policy effectiveness in EU member states.

4 Overall assessment / Principals of good practice (<5 pages)

Overall assessments of instruments to encourage firm investment in their employees' training must naturally relate to the level of instrument types. However, they will essentially be based on the findings regarding specific instruments. We will attempt to derive statements general to each type from the information on the conceptual design (section 2) and the experiences with specific instruments (section 3). These will be supplemented with assessments of instrument types found in the literature. Potential issues impairing their effectiveness will be discussed. From the evaluative evidence, characteristics of successful instruments can be derived and put up as principals of best practice.

5 Timeline

The final report will be delivered by November 30, 2011.