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*საქართველოში რეფორმების  
განხორციელებაში დახმარება*

# **SYNTHESIS REPORT ON INTERNATIONAL GOOD PRACTICE IN VET FINANCING**

*Diversified financing mechanisms for VET*

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## List of Abbreviations

EU	European Union
ETF	European Training Foundation
CEDEFOP	European centre for Vocational Education and Training
GE	General Education
GeoNQF	Georgian National Qualifications Framework
GeoQF	Georgian Qualifications Framework
GESI	Gender Equality and Social Inclusion
GGF	Good Governance Fund
GoG	Government of Georgia
GQF	Georgian Qualifications Framework
LLL	Life-Long Learning
MoESCS	Ministry of Education, Science, Culture and Sport of Georgia
MoF	Ministry of Finance
NQF	National Qualification Framework
PPP	Public Private Partnerships
SCEPs	Short Cycle Education Programmes
TVET	Technical Vocational Education and Training
UNESCO	United Nations Educational, Scientific and Cultural Association
VQ	Vocational Qualifications
VET	Vocational Education and Training
VEU	Danish acronym

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## Glossary of Key Terms and Definitions

### Terms and Definitions <sup>1,2,3</sup>

<b>Adult education</b>	Education provided for adults, often intended for general purpose rather than vocational education. Comment: adult education is close to, but not synonymous with, continuing vocational education and training. It is usually used: - to provide general education for adults in topics of particular interest to them (e. g. in open universities); - to provide compensatory learning in basic skills which individuals may not have acquired earlier in their initial education (such as literacy, numeracy); - to enable people (a) to access and attain qualifications not gained, for various reasons, in the initial education and training system or (b) to acquire, improve or update skills and/or competences in a specific field: this is continuing vocational education and training. Source: adapted from ETF, 1997.
<b>Compensatory training</b>	Learning intended to fill the gaps accumulated by individuals during compulsory education, mainly to enable them to take part in training. Source: Cedefop, 2003.
<b>Continuing Vocational Education and Training (CVET)</b>	Education or training after initial education or entry into working life, aimed at helping individuals to: - improve or update their knowledge and/or skills; - acquire new skills for a career move or retraining; - continue their personal or professional development. Comment: continuing education and training is part of lifelong learning and may encompass any kind of education (general, specialised or vocational, formal or non-formal, etc.). It is crucial for the employability of individuals. Source: Cedefop, 2002.
<b>Cost-sharing mechanisms</b>	Collection or allocation mechanisms through which funding for adult learning is made available. Cost-sharing mechanisms can take a form of collective investment (where employers and/or employees share the costs) and public-private cost-sharing (where government and employers and/or individuals share the costs).
<b>Further Education</b>	further training Short-term targeted training typically provided following initial vocational training, and aimed at supplementing, improving or updating knowledge, skills and/or competences acquired during previous training. Source: Cedefop, 2003.
<b>Grant</b>	Subsidy to support the individual's or company's investment in education and training.
<b>Individual learning account</b>	Subsidy to support the individual's learning. Often, the money is transferred directly to the individual's bank account.
<b>Initial Vocational Education and Training (IVET)</b>	General or vocational education carried out in the initial education system, usually before entering working life. Comment: (a) some training undertaken after entry into working life may be considered as initial training (e.g. retraining); (b) initial education and training can be carried out at any level in general or vocational education (full-time school-based or alternance training) pathways or apprenticeship. Source: CEDEFOP, 2003.
<b>Loan</b>	Scheme that allows individuals to borrow financial resources from their future income to cover (part of) their training costs. The following two types of loan may be distinguished: mortgage-type (traditional or conventional) loan, where repayment in fixed instalments is required; income-contingent loan, where instalments depend on the borrower's income.
<b>Mechanisms</b>	Borrowed from engineering: mechanisms are viewed as part of machines, such as lever, pulley, wheel, etc. and in management terms is understood as <b>devices and methods</b> for the accomplishment of something.  Devises: Instruments, tools, etc.  Methods: Systems, structures, ways, procedures, processes, etc.
<b>Payback clause</b>	Legal instrument that allows the employer to bind employees for a certain period of time in compensation for the employer's investment in employees' training. In fact, employees are free to

<sup>1</sup> <https://www.cedefop.europa.eu/en/publications-and-resources/tools/financing-adult-learning-db/glossary>

<sup>2</sup> <https://unevoc.unesco.org/go.php?q=TVETipedia+glossary+A-Z&char=A#A>

<sup>3</sup> [https://www.etf.europa.eu/sites/default/files/m/C12578310056925BC125716B004F1C7B\\_NOTE6PPJW.pdf](https://www.etf.europa.eu/sites/default/files/m/C12578310056925BC125716B004F1C7B_NOTE6PPJW.pdf)

	move to another company but if they terminate the employment relationship within the agreed retention period they can be requested to reimburse (a share of) the cost of training.
<b>Retraining</b>	Training enabling individuals to access either an occupation requiring skills other than these for which they were prepared originally, or new professional activities. Source: Cedefop, 2003
<b>Saving scheme</b>	Instrument for promoting individual saving for future education/training costs. The account holder is required to set aside money over time in a savings account. Such individual savings are matched by contributions from the State budget and/or employers.
<b>Tax incentive</b>	<p>Tax incentives are the concessions in tax codes that mean a conscious loss of government budgetary revenue. They are usually intended by public authorities to encourage particular types of behaviour (in relation to education and training, in this case) and/or to favour concrete groups (certain individuals or companies).</p> <p>The following tax incentives may be distinguished (OECD):</p> <p>tax allowances – allowing deduction from the gross income to arrive at taxable income (i.e. tax base), for individuals and legal entities;</p> <p>tax credits – allowing deduction from tax liability (i.e. tax due or tax payment), for individuals and legal entities.</p>
<b>Training fund</b>	A stock or flow of financing outside normal government budgetary channels dedicated to developing productive skills for work' (Johanson, R. 2009. A Review of National Training Funds. SP Discussion Paper No. 0922. Washington, D.C.: World Bank). It is sourced usually from levy on company payroll. Training funds may be set up at national level (with tripartite governance) or sectoral level (with bipartite governance, based on social partner agreements).
<b>Training/educational leave</b>	Regulatory instrument setting the conditions under which employees can be granted temporary leave from work for learning purposes. The following two types of training leave may be distinguished: paid training leave which entitles employees to maintain salary in its entirety or in part, or in some cases compensates it in the form of grants from public or social partner funds; unpaid training leave in which the salary is not paid during the training period, but an employee has the right to return to his/her employment when longer periods of absence are granted.
<b>Vocational Education and Training</b>	<p>Education and training which aims to equip people with knowledge, know-how, skills and/or competences required in particular occupations or more broadly on the labour market. Source: <a href="#">CEDEFOP 2008, Europe</a></p> <p>Those aspects of the educational process involving, in addition to general education, the study of technologies and related sciences, and the acquisition of practical skills, attitudes, understanding and knowledge relating to occupations in various sectors of economic and social life. Source: <a href="#">UNESCO 1984, Global</a></p>
<b>Voucher</b>	Subsidy (coupon of certain monetary value) directed mainly to individuals but also companies, enabling them to access adult learning services and to choose training provider and/or content of services, timing, etc.

## 1. Executive Summary

Vocational Education and Training across Europe today face a challenging and complex financial situation in which traditional modes of funding have been transformed and continue to evolve. Moreover, public sources in many countries are not as generous as they were in the past and often have become more demanding and competitive. The changes are particularly significant in Europe due to the traditional reliance of the State on public funding, with growing pressures upon the sustainability of funding regimes of public VET and mounting pressure to explore new sources of income. The efficiency of funding in terms of the capability to meet certain policy goals in a cost-effective way is becoming increasingly important.

In Europe and elsewhere in the world, VET financing is heterogeneous. However, since the 1990s a common trend across all countries is the shift to sharing the cost burden of Vocational Education and Training (VET) between the Government, the Employer and the Individual. This is evidence from scrutiny of the financing mechanisms across EU and other countries.

New trends in VET show a significant shift away from pre-employment type VET being aligned to school based upper secondary education. According to the OECD annual report “Education at a Glance 2019” the location where VET takes place in the education system is changing. What was part of upper secondary education in the past, now takes place either partially or fully in post-secondary education in 21 of the 37 OECD countries, where entry commences at age 18/19 years of age, instead of the traditional 15-16. This is also due to the fact that many professions at level 4 require full secondary education as a prerequisite for VET entry and are completed as part of Dual or Modern Apprenticeship type work-based VET system. In addition, many of the traditional professions require level 5 qualifications which takes place as part of higher-level VET or Associated Degree level higher education. The shift in VET provision has also resulted in a shift in VET financing to a more dynamic financing model.

The ETF has identified the most important dimensions, beyond the strictly monetary in how VET is financed. First, there are three main dimensions that any approach to financing should encompass:

- **Resource mobilisation** (sources, plans, amounts, collection modalities and tools);
- **Resource allocation** (criteria and tools for distributing and channelling resources throughout the system);
- **Management of the financing** (governance bodies and mechanisms making the financing chain operational, serving policy objectives and following clear rules).

Two additional dimensions have an important impact on the system and require, therefore, proper attention. These are costing, and finance information derived from data collection. Although, strictly speaking, they are not part of mobilisation, allocation and management, but are a significant contributor.

- **Costing** (cost simulation of VET policy options envisaged, as a key element for decision, and cost estimate of policy measures decided, for planning purpose);
- **Data** (quantitative and qualitative: financial and non-financial data needed for proper running of the financing system, monitoring and evaluation of policy implementation and impact assessment).

Collection and allocation mechanisms through which funding for VET and Adult Education is made available. Cost-sharing mechanisms can take a form of collective investment (where employers and/or employees share the costs) and public-private cost-sharing (where government and employers and/or individuals share the costs).

The **mechanisms** through which finances for VET are **mobilised and allocated** are based on the following and vary in scope and scale from country to country.

1. **State funding based on budget financing** from the state budget, local authorities’ budget and other types of funding from the State system.
2. A **‘training fund’** is a dedicated stock or flow of financing outside normal government budgetary channels for the purpose of developing productive skills for work.
3. **Tax incentives for companies** are the concessions in tax codes that mean a conscious loss of government budgetary revenue because they reduce either the tax base (tax allowance) or the tax due (tax credit). Concerning tax incentives for the purposes of corporate income tax, countries typically regard company expenditure on training as a business cost which is usually 100% deductible from the taxable income.
4. **Tax incentives for individuals** are the concessions in tax codes that mean a conscious loss of government budgetary revenue because they reduce either the tax base (tax allowance) or the tax due (tax credit). Concerning tax incentives for the purposes of personal income tax, they may allow adults to deduct their costs for continuing vocational training or adult learning related to their current or future occupation from their individual income tax base or tax due. Adults with low or no income, paying no personal income tax, cannot profit from the tax deduction. Only if a negative income tax is implemented correcting this imbalance, low wage earners could profit from education and training related tax incentives. When income tax is progressive, adults in higher tax classes profit more from the tax deduction from the tax base than adults in lower tax classes.

5. **Grants for Companies** are aimed at investment in education and training with financial contributions ranging from 40% to 100%
6. **Grants for individuals** are a subsidy to support the individual's investment in education and training with financial contributions ranging from 15% to 100%.
7. **Loan scheme** allows individuals to borrow financial resources (on favourable conditions) from their future income to cover part of their (education and training) expenditure. The State may support the availability of loans and co-finance loan-related costs to encourage participation in adult learning. To cover tuition fees or living costs during (full time) study, adults might be required to take up a loan. Without support structures, taking up a loan for education and training involves high levels of personal risk, as it is not sure that a started programme will be completed successfully or that a programme will allow an individual to sustain or achieve a well-paid occupation. On the free market, access to loans might be restricted due to missing securities or continuing income. Furthermore, high interest rates and risk premiums might work as a disincentive.
8. **The training/educational leave** is a regulatory instrument which, either by statutory right and/or through collective agreements, sets out the conditions under which employees may be granted temporary leave from work for learning purposes. Furthermore, the training leave allows the employee to be absent from the workplace for education and training purposes without losing the right to return to work later on or other social rights connected to a current employment. In case of long-term leave, various regulations might specify whether or not particular rights from the employer (e.g. statutory yearly pay rises) or the social security system (e.g. years of contribution to old-age pension schemes) are negatively affected. In some countries, for example Hungary, training leave is only stipulated for attending mandatory training (CEDEFOP 2011), which the employer organisation is responsible for.
9. **Payback clause** are a legal instrument that may encourage companies to invest in training by allowing them to bind employees for a certain period of time after training in return for providing the training. In fact, employees are free to move to another company but may be requested to reimburse (part of) the cost of the training. Payback clauses should increase employers' investment in training as their risk of paying for employee training, yet not profiting from it, is decreased. In turn, employees are expected to profit from employers' increased readiness to pay for training, when learning outcomes also have market value beyond the current employer.
10. **Individual learning account** is a Subsidy to support the individual's learning. Often, the money is transferred directly to the individuals. In the US the individual learning account bill establishes tax-preferred savings accounts that may be used to pay for training expenses and will be managed by state programs known as Lifelong Learning and Training Account programs. Tax-exempt distributions from an account may be used for training that results in a recognized postsecondary credential (qualifications), such as an industry-recognized certificate or certification, a license recognized by the federal government or a state, or an associate or baccalaureate degree. The bill (2018) specifies contribution limits, age restrictions, and income limits that apply to beneficiaries of the accounts. Accounts that meet the requirements are eligible to receive certain federal matching funds for contributions made by the beneficiary or an employer. In Scotland, this new scheme is managed by **Learn-direct Scotland** and the **Student Awards Agency for Scotland is an Executive agency** of the **Scottish Government**. It supports eligible Scottish students by paying their **tuition fees**, as well as offering bursaries and supplementary grants. It also assesses students applying for **loans**. The Agency administers the **Individual Learning Accounts** Scotland scheme (ILA's) in partnership with **Skills Development Scotland (SDS)**.
11. **Ad-hop mechanisms** containing element of formula-based financing that can be applied as a standalone measure or an integral part of the other mechanisms.

The above **11 mechanisms** are based analysis and scrutiny of good practices in EU countries and well as an in-depth analysis of Denmark, Czech Republic and Estonia. The draft synthesis report also took due cognisance of global practices and issues in VET Financing.

## Conclusions

Analysis and scrutiny of international good practice would suggest that over the past 20 years there has been a paradigm shift from existing financing models to the “dynamic funding model”. This could be described as a shift to output based budgets as well and cost sharing between the state, the employer and the individual in the skills development field. The financing of VET can be categorised into pre-employment, continuous professional development (Training Retraining/ Adult Education) and Equity in the form of Gender Equality and Social Inclusion (GESI). For pre-employment education and training in most countries is the responsibility of the State with element of cost sharing by way Dual system or the modern Apprenticeship system. The results to date would indicate that there are efficiency gains resulting in savings on the input-based budget and savings created by cost sharing, and by income generated by the VET providers. The cost sharing has resulted in the establishment of national or sectorial training funds as can be seen from Table 1, which shows that training funds exist in 15 of the EU Member States with some countries having a number of training funds that are sector specific.

Currently, the internal efficiencies of the VET system are known to be less than 40% efficient for the formal pre-employment programmes. That is when current enrolment, graduation and placement in employment is taken into consideration. The external efficiencies of VET graduates in the labour market some 3, 5 and further years after graduation is not known. However, anecdotal evidence would suggest that VET graduates are comparable or better than other graduates from the education and training system.

From a policy perspective, financing mechanisms for VET are heterogeneous (varied) and are tailored to suit the circumstances at a given time in a particular country. However, analysis and scrutiny would suggest that there are 11 funding mechanisms that are used in the form of a menu or list of funding windows used by various in what can be called “Diversified Financing Mechanisms for VET. These are:

1. **State funding based on budget financing**
2. **A ‘training fund’**
3. **Tax incentives for companies**
4. **Tax incentives for individuals who pay fees (deferred / non-deferred)**
5. **Grants for Companies**
6. **Grants for individuals**
7. **Loan schemes**
8. **The training/educational leave.**
9. **Payback clause**
10. **Individual learning account**
11. **Ad-hoc mechanisms**

Within each mechanism or a combination of mechanisms, tools and methods will have to be devised for successful implementation resulting in the “**Dynamic Funding Model**” for VET.

## Recommendations

Regarding **Diversified Financing Mechanism for VET in Georgia**, it is recommended that the MoESCS engage in **policy dialogue** with stakeholders with the following focus:

1. Through the process of **policy dialogue**, carefully review the current situation based on the **situation analysis report** taking due cognisance of the strengths and weaknesses of the current system of VET financing,
2. Consult widely under the umbrella of **policy dialogue** on how realistic, achievable and sustainable each of **policy options** outlined in this report are regarded as suitable financing mechanisms for VET going forward.
3. Based on the consultation process, select policy options with a longer-term focus for further development, leading to Government of Georgia **Resolution** on VET financing.
4. Based on expert opinion provided by the GGF Project Team on “**Diversified financing Mechanisms for VET in Georgia**” the following is recommended:
  - a) The current voucher funding should be retained to support the **direct costs** of VET in both public and private VET providers at level 2 to 5 in the Georgian National Qualifications Framework.  
*It is recommended that the “**Voucher Funding**” be retained for modular type programmes and for non-modular type programmes.*
  - b) The institutions receive **program funding** for the following purposes: (a) for the staff salaries; B) the costs required for operation; C) for other current expenses.  
*It is recommended that the title be changed “**Institutional Support Funding**” covering VET “Indirect Costs” at institutional level.*
  - c) The institutions receive **targeted program funding** during the budget year on the basis of the targeted programme(s) approved by the Minister of Education, Science, Culture and Sport of Georgia.  
*It is recommended that no change be made to “Targeted Programme Funding”, other that Public Expenditure Tracking Survey be applied to the type of funding.*
  - d) To overcome the internal inefficiencies in the VET system.  
*It is recommended the “**Performance Funding**” be introduced to represent a top-up of up to 20% of total institution state budget by way of lump sum grant or block grant, subject to performance related criteria being met.*
  - e) Gender Equality and Social inclusion is currently considered as part of the Voucher Funding and or Targeted Funding to include funding from other sources. (other than the MoESCS).  
*It is recommended, that a new **Equity Funding** budget line be established in order to have clear clarity of effort towards GESI in VET.*

Table 1. Diversified Financing Mechanisms

Sources of Finance (Mobilisation)	Diversified Financing Mechanisms	Purpose of Financing (Funding) as per intent of new VET Law No .../2018
<ol style="list-style-type: none"> <li>1. Government/ public sources</li> <li>2. Student / learners</li> <li>3. Employers</li> <li>4. Employees</li> <li>5. Training taxes for National Training Funds (NTFs)</li> <li>6. Philanthropy</li> <li>7. Alumni</li> <li>8. Income generating activities</li> <li>9. PPP in Provision</li> <li>10. Economic sectors</li> <li>11. Grant or loan financing from International Multi-lateral / Bi-lateral organisations, NGOs and possible others.</li> </ol>	<ol style="list-style-type: none"> <li>1. State funding based on budget financing</li> <li>2. A 'training fund'</li> <li>3. Tax incentives for companies</li> <li>4. Tax incentives for individuals</li> <li>5. Grants for Companies</li> <li>6. Grants for individuals</li> <li>7. Loan scheme</li> <li>8. The training/educational leave</li> <li>9. Payback clause</li> <li>10. Individual learning account</li> <li>11. Ad-hoc formula-based financing as stand-alone or combined.</li> </ol> <p>Allocation of funds</p> <p><b>Methods of financing (current)</b></p> <ol style="list-style-type: none"> <li>1. Voucher funding</li> <li>2. Programme funding</li> <li>3 Target funding</li> </ol> <p><b>Methods of financing (Possible Future)</b></p> <ol style="list-style-type: none"> <li>1. Voucher funding</li> <li>2. Institutional Support Funding</li> <li>3. Targeted funding</li> <li>4. Performance funding</li> <li>5. Equity funding (GESI)</li> </ol>	<ol style="list-style-type: none"> <li>1. A new Basic VET qualification is introduced (entry from basic general education) at <b>GNQF level 3</b></li> <li>2. A new Secondary VET qualification is introduced (entry from basic or secondary general education, secondary VET should include secondary general core curriculum for the group of students enrolled based on completion of Basic General Education). The qualification is at <b>GNQF level 4</b></li> <li>3. A new High VET qualification is introduced (entry from secondary General Education or Secondary VET) at <b>GNQF level 5</b></li> <li>4. A new Associated Degree at level 5 is introduced to be granted after completion of Short-Cycle Education Programme in higher education or equivalent. Entry is usually for students who have completed secondary education, and level 4 VET students. Optional groups who gain-entry into Associate Degree Programmes are second change learners, usually under 25, and mature students who comply with the minimum entry requirements.</li> <li>5. New vocational training and retraining <b>qualifications at levels 2-5 are introduced</b></li> </ol>

Table 2: Diversified Financing Mechanisms - Dynamic Funding Model

DIVERSIFIED FINANCING MECHANISMS – DYNAMIC FUNDING MODEL											
<b>MECHANISMS</b>  <b>(Mobilisation)</b>  	1. State funding based on budget financing	2. A training fund	3. Tax incentives for companies	4. Tax incentives for individuals	5. Grants for Companies	6. Grants for individuals	7. Loan scheme	8. The training/educational leave	9. Payback clause	10. Individual learning account	11. Ad-hoc formula-based financing
	<b>Purpose of Funding</b> 1. A new Basic VET qualification is introduced (entry from basic general education) at GNQF level 3 2. A new Secondary VET qualification is introduced (entry from basic or secondary general education, secondary VET should include secondary general core curriculum for the group of students enrolled based on completion of Basic General Education). The qualification is at GNQF level 4 3. A new High VET qualification is introduced (entry from secondary General Education or Secondary VET) at GNQF level 5 4. A new Associated Degree at level 5 is introduced to be granted after completion of Short-Cycle Education Programme in higher education or equivalent. Entry is usually for students who have completed secondary education, and level 4 VET students. Optional groups who gain entry into Associate Degree Programmes are second change learners, usually under 25, and mature students who comply with the minimum entry requirements. 5. New vocational training and retraining qualifications at levels 2-5 are introduced.										
<b>Types of Funding (Allocation)</b>	1. Voucher funding	<b>2. Institutional Support Funding</b>		3. Targeted funding	<b>4. Performance funding</b>		<b>5. Equity funding (GESI)</b>				
<b>Management</b>	Central Intermediary Providers	Central Local Government Providers		Central Intermediary Providers	Central Public VET providers		Central Intermediary Providers				

## 2. Background and Introduction

### 2.1 Brief Overview

Currently, there are 39 public and 65 private VET institutions operating in the country. According to the information on the Education Management Information System (EMIS), in 2018, the total number of students enrolled in VET in 2018 was 11,489, of which 7,510 students (81%) were enrolled in public VET colleges and 3,979 students (19%) in private VET providers<sup>4</sup>. This suggests that private VET providers in Georgia are on average much smaller operations than public ones. Overall in 2018, less than 1% of those aged 15-29 were enrolled in VET. This is a very low figure, compared to most European countries.<sup>5</sup> A feasibility study, undertaken by the GGF MF GE60 project (Facilitation of Public-Private Partnerships), showed that “in Georgia, 15% of the population in the age cohort 15-29 should be enrolled in initial VET, i.e. 8,000 students should be enrolled in initial VET each year. Furthermore, at least 13,000 adults should receive some form of skills development on an annual basis to achieve the government target of training 3-5% of the 30+ age group<sup>6</sup>.”

Currently, only 88% of VET institutional capacity is used based on EMIS enrolment data for 2018. The completion rate is 63-68% on average, and VET graduate employment rates are at 60% based on the recent tracer study<sup>7</sup>. Overall, in the realm of education economics, this would give an internal efficiency of just less than 40%. The evidence suggests that there is a need for more, better targeted and more effective VET provision. **Diversified financing mechanisms can be an enabler in this regard.**

The VET financing framework in Georgia is regulated by Government Resolution #244 (dated September 19, 2013) on "Defining the Rule of VET Financing for Public Education Institutions". The Resolution creates a framework for two main types of funding: 1) voucher; and 2) programme financing (also referred to as subsidy budgeting).

**Voucher financing** is meant to cover the basic costs of the learning process for each student, including teachers' salaries and learning materials. For students with disabilities and special needs, some additional costs of support are covered.

**Programme financing** (subsidy) entails: a) the salaries of non-teaching personnel (including administration) and contracted staff of the educational institutions, b) operational costs, and c) all other running costs of the facility. Based on 2017 data the total per capita cost was 2,106 Georgian Lari (GEL), with an average voucher value of 1,605 GEL and a subsidy of 501 GEL.

**Targeted financing**, institutions receive **targeted program funding** during the budget year on the basis of the targeted program (s) approved by the Minister of Education, Science, Culture and Sport of Georgia.

**Capital/investment** funding is provided by ESIDA.

Information released by the Ministry of Finance (MoF) in 2018 indicates a total spend for all levels of education in Georgia of GEL 1.2 billion, which is 11.8% of total public expenditure. Between 2015 and 2018, budget expenditure on education increased by 76%<sup>8</sup>.

In 2018, 95% of the budget of public VET institutions was formed from the state budget (the remainder was from grants from international partner organisations working in Georgia). VET funding (GEL 41.4 million constituted only 2.8% (GEL 1.2 billion) of the total budget of the MoESCS. This includes spending on VET delivery (94%), accessibility of VET education for prisoners (0.5%) and training and retraining for ethnic minorities (5.6%). During 2015-2018 VET funding increased from GEL 23 million (in 2015) to GEL 41 million (in 2018).

Planned budget allocations for VET in 2019 are positive. According to MoF, VET allocations will increase by 17% compared to 2018, which will constitute 3.1% of the MoESCS 2019 allocations.

To date, including within the VET Development Strategy 2013-2020, inadequate attention has been given to establishing effective funding mechanisms that will enable achievement of excellence through both public and private sector VET provision.

<sup>4</sup> Data obtained from Education Management Information System (EMIS), 2018

<sup>5</sup> Estonia 10.5; Finland 20.9; France 10.2; Germany 13.7; Greece 6.7; Hungary 6.7; Iceland -10.3; Israel 7.9; Italy 16.6; Korea 3.3; Latvia 10.6; Lithuania 4.9; Luxembourg 22.2; Mexico 5.8; Netherlands -22.6; Norway -6.8; Portugal -11.9; Slovak Republic -16.7; Slovenia -26.4

<sup>6</sup> Facilitation of Public-Private Partnerships in VET in Georgia: A Feasibility Study, MoESCS, 28 December 2018

<sup>7</sup> <https://bit.ly/2SskDnU>

<sup>8</sup> State budget allocations on education, MoF data: <https://mof.ge/5115>

Several reports<sup>9</sup> identify the current funding policy and mechanisms as inefficient and inadequate. The funding allocated to only public institutions, despite the fact that training in some sectors, like medicine, is almost exclusively offered by private institutions. Thus, training in some key sectors is not funded by the GoG.

Current funding policy is not only discriminatory to the private colleges, but also to those who need VET the most, i.e. young people 15-19, people from marginalised groups<sup>10</sup>. As the analysis of statistics provided by EMIS<sup>11</sup> show, the enrolment of 15-19 age group, as well as those with a low socioeconomic status (SES) and from minority regions, has reduced since the enactment of the current regulation in 2013. Government officials have been long aware of these trends and are seeking for an expert support in this regard. The MoESCS has set some qualitative and quantitative targets of increasing VET provision and decreasing - if not eradicating – the skills mismatch between supply and demand. Enrolment of 11% of the age cohort in VET is one of the three targets by MoESCS within their new programme<sup>12</sup>.

## 2.2 The need for change

There is a **clear need to review the current system** in detail, taking into consideration **international good practices in VET financing, to draw conclusions and articulate diversified funding mechanisms for VET**, with the aim of increase enrolment, efficiency and inclusiveness of the system and provide better quality and more relevant and flexible provision in Georgia.

The Unified Education Strategy of 2017-2021 speaks of the need for **effective VET funding mechanisms** under its Second Objective, i.e. ensuring access to VET through Life-Long Learning (LLL) principles. The objective, apart from setting a target of “helping with the labour market relevance of VET” for the financing policy, states other needs the new funding model should cater for. Namely, it should facilitate:

- **Expansion of financing sources;**
- **Generation of additional financing resources;**
- **Involvement of the private sector;**
- **Effective distribution of financing between institutions, disciplines, and programmes;**
- **Facilitation of the efficient management of vocational education<sup>13</sup>.**

## 2.3. The Context

The **new** Law of Georgia on VET approved in 2018 also refers to a new funding mechanism<sup>14</sup>.

Completion of the above tasks pose challenges, especially taking into consideration forecasted increase of education budget by 2022 up to 6% of Georgia’s Gross Domestic Product<sup>15</sup>. The institutional and capacity needs of the Ministry need to be augmented through technical assistance in support of new policy direction for VET.

Technical assistance was requested by the VET Development Department to address this. The proposed GGF project will support the Ministry to **establish effective funding mechanisms for VET** that will fill the gap and will result in:

- Making VET more attractive to individuals;
- Improving quality of VET through more active engagement of employers;
- Providing a more dynamic and diversified VET service;
- Increasing internal efficiencies of the VET system for better returns on investment.
- Increasing awareness of relevance and the impact of VET in Georgian amongst citizens, politicians, employers and the international community.

In VET financing the linkage between the critical component in VET financing that careful management are the linkage between VET Policy, VET Legislation and VET financing on the one hand and the linkage in the budgetary cycle of budget preparation, approval, allocation and executions (implementation) Figure 1 below show the continuum between the components.

<sup>9</sup> Georgia: Education, training and employment development, 2016, ETF

<sup>10</sup> Within the current funding system, there is neither an incentive for providers to care for diversity within their institutions, nor additional funding to cater for needs of low SES students or students from mountainous regions

<sup>11</sup> Georgia: Education, training and employment development, 2016, ETF

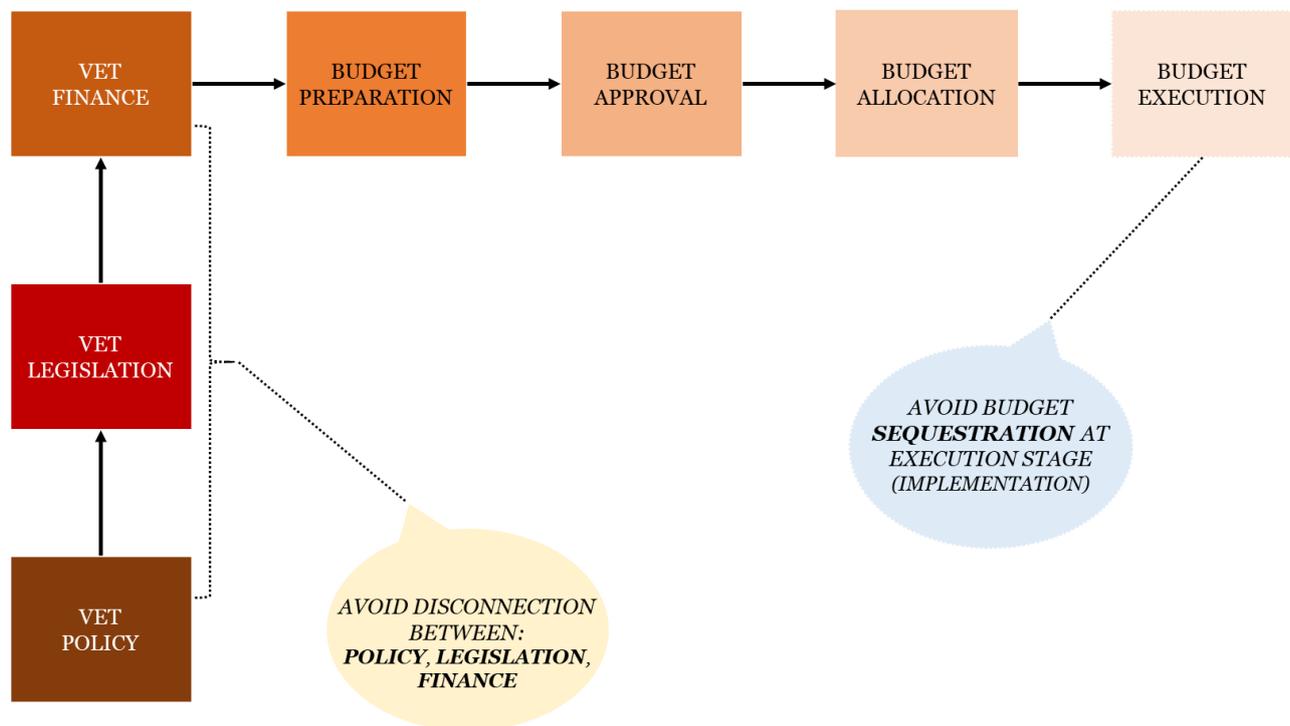
<sup>12</sup> MoESCS, Presentation on VET reform 2019-2020; Education and Training and Employment in Georgia, ETF, 2018

<sup>13</sup> Unified Education Strategy 2017-2021, MoESCS, 2017

<sup>14</sup> Article 21 (h), Law of Georgia on VET of 2018. Source: <https://matsne.gov.ge/en/document/view/4334842>

<sup>15</sup> [http://gov.ge/index.php?lang\\_id=ENG&sec\\_id=526&info\\_id=70553](http://gov.ge/index.php?lang_id=ENG&sec_id=526&info_id=70553)

Figure 1. Diagrammatic representation of management of the financial chain



### 2.3.1 Legislation

The current system of VET financing in Georgia is based on Government Resolution #244<sup>16</sup>, which outlines the rules and terms of financing VET. However, the new VET Law allows for a mere diversified financing system which may result in a new Government resolution.

#### 2.3.1.1 Extracts from the GoG Resolution #244

##### Article 3. Purpose of provision of financing

The purpose of provision of financing by the Ministry is:

- Promotion of Vocational Education Development;
- Maintaining the potential of vocational educational institutions and widening the directions of educational activities;
- Increasing the accessibility and improving the quality of vocational education;
- Preparation of vocational education students for professions, which require application of practical knowledge and skills;
- Increasing the employment (indicator) and economic activity of the population of the country.

##### Article 4. Types of financing

- Voucher financing;
- Voucher financing of the module of vocational educational programmes consisting of modules;
- Programme financing
- Targeted programme financing

#### 2.3.1.2 Extract from the VET Law

##### Chapter I. General Provisions

##### Article 2. Goals of the state policy in the VET field

<sup>16</sup> <https://matsne.gov.ge/ka/document/view/2021412?publication=0>, 19 September 2013

1. The goals of the state policy in the VET shall be to:
  - a) Support the economic development of the country;
  - b) Support social inclusion, personal and vocational development of an individual;
  - c) Support lifelong learning;
  - d) Ensure approximation and conformity of the Georgian VET system with the unified European educational space.
2. For the achievement of the state policy goals within the VET, the state shall ensure:
  - a) Equal access to VET for all;
  - b) Provision of various forms of teaching and learning (work-based learning and others) and innovative approaches in the light of technological development;
  - c) Relation between VET, on the one hand, and general education and higher education, on the other hand, and flexibility of VET system;
  - d) Adjustment of VET with the present and future requirements of the labour market and training of an individual for employment and entrepreneurial activity;
  - e) Development of National Qualifications Framework, establishment of tools for the recognition of informal education, development of the system credit accumulation and transfer;
  - f) Development of internal and external mechanisms for ensuring VET quality;
  - g) Support of the competitiveness of an individual on the labour market through vocational training and retraining;
  - h) Support of social partnership within the VET field;
  - i) Development of vocational orientation, consultancy and career planning system within the formal education;
  - j) Establishment of the system of VET teacher training, professional development and career growth;
  - k) Support of mobility of VET students and teachers;
  - l) Sharing and introduction of the best international practices.

### Chapter III. Management of Vocational Education system

#### Article 21. Government of Georgia

In the field of vocational education, the government of Georgia:

- h) Determines the *rule and conditions of funding vocational education program, short cycle education program and Georgian language training program, as presented by the Ministry;*
- i) Determines the *rule and conditions for setting price of products created /paid services rendered in educational process by educational institutions established by or with participation of the state, spending revenues received from this activity, as presented by the Ministry.*

### Chapter IX. Funding of Vocation Education, Short Cycle Educational Program and Georgian Language Training Program and Economic Activities of Educational Institutions

#### Article 30. Funding of Vocational Education and Training, Short Cycle Educational Programme and Georgian Language Training Programme

1. Vocational education, short cycle educational programme and Georgian language training programme are funded by the state agencies, ministries authorized in the sphere of education of Autonomous Republics of Abkhazia and Adjara and municipalities, in accordance with the legislation of Georgia. Vocational education, short cycle educational programme and Georgian language training programme are *also be funded by other agencies and organizations in accordance with the legislation of Georgia.*
2. Agencies specified in Paragraph 1 of this Article fund, in accordance with the *rule determined by the government of Georgia,* vocational education, short cycle educational programme and Georgian language training programme in institutions established by or with participation of the state, also in legal entity in private law – educational institution, in accordance with the state policy and priorities.
3. Revenues and expenditures of college established by the state are reflected in its budget. *College has an account in the state treasury and a seal.*
4. Educational institutions established by the state *may be financed from other sources.*
5. Vocational education, short cycle educational programme and Georgian language training programme *may be funded by natural persons and legal persons in private law.*

**Article 31.** Economic Activity of Educational Institutions

1. Educational institution founded by or with participation of state is entitled to *implement economic activity*, including sale of products created within educational process/provision of paid services, as well as to raise funds as allowed by the legislation of Georgia, inter alia, generate income from economic activities that pose no harm to human health and has no negative impact on the quality of teaching.
2. Economic activity implemented by the educational institution founded by or with participation of the state shall only serve the purpose of its economic sustainability, development of educational process, *raising additional funds for financing education process, and improvement of quality of created products/services*.
3. Funds *raised from sales of produced goods/services* as well as other auxiliary economic activities can be used only for implementing the goals and performance of functions of the institution, as determined by the legislation of Georgia.

**Article 32.** Establishment of a New Legal Entity by College

1. College, with the purpose of achieving goals described in the charter of this college, is entitled to establish entrepreneurial or non-entrepreneurial (non-commercial) legal entity. Where a college, which is founded by or with participation of the state, establishes an entrepreneurial or non-entrepreneurial (non-commercial) legal entity, the college shall hold no less than 50% of the shares.
2. Implementation of the right granted under Paragraph 1 of this Article by a college which is founded by or with participation of the state shall be agreed with its founding body/bodies.

**Chapter X. State control, Assets, Reporting, and Accounting of College Established by or with Participation of State****Article 33.** State Control of College

1. State control over college founded by the state is implemented by appropriate founder agency.
2. State control means oversight of legality of activities implemented by college (performance of requirements of Georgian legislation and those stipulated within individual administrative-legal acts of the state control agency), its appropriateness, effectiveness, and financial-economic activities.
3. *College submits annual report* to the state control agency, detailing compliance with the legislation of Georgia and education process. Forms of report and timeframe of submission are determined by the control agency in its individual administrative-legal act.
4. For performance of state control, a relevant agency is entitled to request submission of materials and information or do a field visit to verify compliance of college with requirements of the legislation of Georgia, and individual administrative-legal acts of the state control agency.

**Article 34.** Assets of College

1. During the process of establishment of college, the state grants appropriate assets according to the legislation of Georgia.
2. All buildings and premises under the use of college and accompanying land is owned by the state.
3. College manages the state assets transferred to it by the state based on consent from the agency implementing state control, as determined by the legislation of Georgia.
4. College, based on the consent from the state control agency, is entitled to transfer assets purchased with revenues from its economic activities to entrepreneurial or non-entrepreneurial (non-commercial) legal entity established by the college, free of charge, or with payment, with the right to use. Assets remaining after the liquidation of entrepreneurial or non-entrepreneurial (non-commercial) entity, which were handed over to it pursuant to the rule determined in this article, are fully returned to the relevant college after the completion of liquidation.
5. Assets remaining after liquidation of college established by the state are fully returned to the state, according to the regulations of Georgian legislation.

**Article 35.** Reporting of College

Rule of reporting of college is determined by the charter of college.

**Chapter XI. Information System of Vocational Education Management****Article 36.** Information System of Vocational Education Management

1. Information system of vocational education management shall reflect information about educational institutions, relevant educational programs, personnel implementing educational programs and personal data of persons eligible for/enrolled in programs (including, in cases envisaged by Georgian legislation, the data on their health condition), also other information specified in Georgian legislation.

2. Collection, storage, processing, analysis and administration of data by the Ministry in information system of vocational education management, in accordance with the requirements of the Law of Georgia on Protection of Personal Data, shall be performed by a legal entity of public law subordinated to the Ministry.
3. Legal entity of public law specified in Paragraph 2 of this Article shall be entitled, for the purpose of performing the functions specified in the same paragraph, to obtain and use personal data of other legal entities of public law falling within the system of the Ministry.

### In Summary

As mentioned above, major legal amendments, specifically introduction of the new Law on VET, enforced in September 2018, completely revised VET qualifications system (see diagram 8b below). The following are the major changes stipulated by the new Law of VET:

1. A new Basic VET qualification is introduced (entry from basic general education) at **GNQF level 3**
2. A new Secondary VET qualification is introduced (entry from basic or secondary general education, secondary VET should include secondary general core curriculum for the group of students enrolled based on completion of Basic General Education). The qualification is at **GNQF level 4**
3. A new High VET qualification is introduced (entry from secondary General Education or Secondary VET) at **GNQF level 5**
4. A new Associated Degree at level 5 is introduced to be granted after completion of Short-Cycle Education Programme in higher education or equivalent. Entry is usually for students who have completed secondary education, and level 4 VET students. Optional groups who gain-entry into Associate Degree Programmes are second change learners, usually under 25, and mature students who comply with the minimum entry requirements.
5. New vocational training and retraining **qualifications at levels 2-5 are introduced.**

The points below summarise some of the important features of the new qualifications and their reference to the old system:

6. The new basic, secondary and higher VET qualifications will have equivalence to level 3, 4 and 5 in the NQF. The secondary education comprising obligatory secondary general education core curriculum is seen as a solution to the dead ends in the vocational education system. So far not clear whether the secondary vocational diploma is equivalent to general education certificate in giving eligibility to its graduates to higher education programs or there would be a general education certificate granted in parallel to secondary vocational diploma.
7. The new vocational education and training system contains a separate further/continuing education track – vocational training/retraining qualifications at levels 2-5. The curricula of the programs will be defined at institution level.
8. Associated degree can be an intermediary qualification – between VET level 4 and HE education. They can be provided by either VET or HE institution and combines the features for both VET and HE to enable a smooth progression routes between VET and HE:
  - a) Close connection with the labour market – through the requirement to be based on Education Standard (which is, on its turn, a document based on an occupational standard)
  - b) Transferability of credits between VET and HE will be regulated in accordance with both HE and VET Laws.

## 2.4 The Synthesis Report on International Good Practice

Given the background outlined above, and a follow-up to the other projects under the auspices of the GGF, namely PPPs in VET and SCEPs, it was decided to undertake a project aimed at articulating “**Diversified Financing of VET in Georgia**”. The conceptual framework for the Project outlines the following **four outputs** for the Project:

1. Assessment of the existing VET financing system in Georgia (Situation Analysis);
2. **A synthesis (assessment) report to identify international good practice on financing mechanisms in VET, with a focus on performance-based funding with recommendations on workable models; (this report).**
3. An evaluation of the preferred model of financing of VET in Georgia;
4. Road map for the enactment of the New Financing Mechanism prepared and a resolution of the Government on the financing of VET in Georgia drafted.

The **Report on International Good Practice in VET Financing** sets out to review:

1. The scope of financing of VET, supported by **Annex A**, administration of VET finance in EU countries and **Annex B** – social partners involved in VET to include finance;
2. VET finance in Denmark
3. VET finance in Czech Republic
4. VET finance in Estonia

Denmark has the most varied and dynamic financing model in use in the EU and is greatly influenced by local conditions and local stakeholder involvement. The Taximeter system of VET financing is efficiency orientated and focuses on needs and rewards performance in VET. In the case of the Czech Republic, which has not reformed the school-based VET financing like other former Soviet countries that are now member States of EU. However, the Czech Republic is regarded by CEDEFOP<sup>17</sup> as having a skills index of 1, which measures three parameters of 1) skill development, 2) skills activation and 3) skill matching amongst the EU28. In addition, according to Eurostat, the Czech Republic has the lowest level of unemployment at 2.1% in Q2, 2019 and the question arises, if there is a correlation between job matching between demand and supply and low levels of unemployment. The third country selected to study is Estonia due to its connection with Georgia in terms of VET and its active experimentation in the financing of VET, with elements that are close to the Czech system of financing.

The synthesis report draws conclusions indicating that the financing of VET in Europe varies considerably from country to country. One dominant factor in EU VET financing is that cost sharing is evident and becoming the norm across all EU Member states.

The synthesis report is for the purpose of information sharing with beneficiary, prior to coupling with the analysis of the current situation in Georgia. A final report on both the current situation and international good practice will be the focus of determining policy options for diversified VET financing in Georgia.

<sup>17</sup> CEDEFOP (2019). 2018 European skills index. Luxembourg: Publications Office of the European Union. CEDEFOP reference series; No 111. <http://data.europa.eu/doi/10.2801/564143>

## 3. Financing of VET: Synthesis of International Good Practice

### 3.1 The Scope of Financing: ETF<sup>18</sup> perspectives on VET financing

Terminology in financing is particularly confusing. Financing itself is a complex and multi-dimensional concept, covering aspects such as costing, budgeting, funding, fundraising or resourcing. This complexity brings potential for confusion when the term is used in discussions and decision making. Therefore, it is important to unpack the term, to be as specific as possible and to agree on a working definition and approach as the starting point for an accurate analysis of the situation and for structured national, multi-stakeholder dialogue.

The ETF has identified the most important dimensions, beyond the strictly monetary aspect. First, there are **three main dimensions** that any approach to financing should encompass:

- **Resource mobilisation** (sources, plans, amounts, collection modalities and tools);
- **Resource allocation** (criteria and tools for distributing and channelling resources throughout the system);
- **Management of the financing modalities** (governance bodies and mechanisms making the financing chain operational, serving policy objectives and following clear rules).

**Two additional dimensions** have an important impact on the system and require, therefore, proper attention – although, strictly speaking, they are not part of the financing policy:

- **Costing** (cost simulation of VET policy options envisaged, as a key element for decision, and cost estimate of policy measures decided, for planning purpose);
- **Data** (quantitative and qualitative: financial and non-financial data needed for proper running of the financing system, monitoring and evaluation of policy implementation and impact assessment).

**This working definition** has been used to map the state of play of financing-related challenges in ETF partner countries. It is also the backbone of the method introduced as part of the ETF tool kit to support a structured policy and social dialogue around financing in the ETF partner countries.

While ETF partner countries have very different patterns regarding VET financing, they share a few common features and challenges, as revealed by the ETF's analytical work and in-depth participation in the policy dialogue in partner countries. Listed below, they illustrate the fact that the quantitative element of financing is the only visible part of the financing issues and debate. They can serve as a starting point for any reflection and work on VET financing and relevant to the Georgian context.

#### 3.1.1 Resource Mobilisation

The overall challenge, common to all partner countries, is to mobilise more resources by **diversifying the financing sources** for fairer public-private cost sharing. Making a case for VET is also needed in order to increase the state budget shares, as the current levels of mobilisation hamper the implementation of ambitious policies.

1. Diversifying the sources of finance that focus on engaging and attracting investment from the business world. The diversification of financing sources is a way to overcome constrained public budgets, in particular by avoiding relying solely on **one source of funding**. This diversification also assumes an economically fair cost-benefit approach (making those who benefit from public policies also contribute to them). In EU Member states, the participation of the private sector in the financing of VET varies from country to country. In comparison, in central Asia, South Eastern Europe there is no institutional system for raising private funds for the VET sector. This challenge raises the question of the mechanisms required to collect funds securely (e.g. a training tax), as well as questions relating to thresholds, such as who pays for what, and how the informal sector contributes, if at all.
2. Increasing the share of the public budget that is dedicated to VET. In general, Georgia aim to increase the quality of VET and to modernise the system in order to make it more attractive. This requires substantial investment, but often the budget dedicated to VET does not meet current needs. Better **public-private cost sharing**, which is essential, must not prevent from additional public efforts; but these need to be articulated with a clearer vision of the expected role of the state in training.
3. Various analytical documents identify the following six avenues (see table 1), that can be used separately or in combination with one another. The global trend, as noted, is to move from single sources (formal public training –mainly by state,

<sup>18</sup> ETF – European Training Foundation

formal training within private providers and on the job training by companies and beneficiaries) to co-financing and” partnership in the financing of training” (all forms financed from diverse sources).

**Table 3. Resource mobilisation mechanisms**

Instruments	Major Drawbacks
1. Government subsidy from general levy system	All costs are born by the government. Most prone to being underfinanced
2. Earmarked training levies	Small companies tend not to benefit from skills provision Earmarked taxes weaken budgetary unity Government may use levy for other purposes Source of income may be over-sheltered, leading to unspent surpluses, top heavy bureaucracies, inefficiencies Raises cost of labour, possibly discouraging employment
3. Donor funding	Often will not be sustainable after donor funding ceases May not aid private provision
4. Cost sharing through tuition fees	Imposes hardship on disadvantaged students, depending on scholarship Policy Income may not remain with the institution
5. Income from production and services	Neglect of training function may lower quality and supply of training Resources diverted from training to production Income may not remain with provider
6. Private training provision	Concentration on low-cost, high demand courses, leaving public sector providers with more costly, technical courses

- The participation of the private sector in the financing of VET is very uneven and varies according to regions. The most advanced systems have a training tax system through which companies contribute to the mobilisation of resources. This challenge raises the question of the tools and mechanisms required to collect funds securely (e.g. a training tax), as well as questions relating to thresholds, such as who pays for what, and how the informal sector contributes, if at all.
- Increasing the share of the public budget that is dedicated to VET. In general, countries aim to increase the quality of VET and to modernise the system in order to make it more attractive. This requires substantial investment, but often the budget dedicated to VET does not meet current needs. Better public-private cost sharing, which is essential, must not prevent from additional public efforts; but these need to be articulated with a clearer vision of the expected role of the state in training.
- For example, IVET needs refer not only to funding for the running of the system, but also to additional funds that are needed to modernise equipment and, at a macro level, funds for systemic reforms. This might include a review of curricula to encompass more work-based learning, the analysis shows that current financing does not meet the needs either for VET school infrastructure (both physical and technical, including information and communication technologies) or for improving or innovating learning and teaching in VET.

### 3.1.2 Resource Allocation

An important task of funding disbursement policies is to provide an appropriate mix of regulation and incentives to ensure that public training can hold its own in an environment of competitive training markets. A second reason for government intervention of this type is a “corrective one” – to encourage enterprises to provide more and better-quality training. The resource allocation can also assume diverse forms (see table 2)

Table 4. Resource allocation mechanisms

	Instruments	Type	Major Drawbacks
Allocations of funds to institutional training – (mostly applied to school-based training)	Incremental funding (based on institutional allocations of the previous year)	Input-based	political influence, interest group pressure and or the negotiating skills of the institutional actors.
	Formula funding options, related to inputs, outputs and outcomes	<b>Input-based funding</b> (funding inputs like teaching and administrative salaries, teaching materials etc.)	Provides little incentive to improved efficiency and, because it promotes a training environment divorced from employment needs, it may lead to a training system that is out of kilter with the realities of the labour market.
		<b>Output-based funding</b> (funding outputs like course completion, students places in apprenticeships etc.)	Though encouraging internal efficiency, does not encourage lead to a greater demand-driven orientation of training. It may lead to “creaming” - whereby providers screen out less promising candidates in order to maximize measured performance.
		<b>Labour market outcomes:</b> (funding outcomes like employment of graduates etc.)	While leading to better performance, may result in funding instability, since funding will be subject to the vagaries of economic activity. Like output funding, it may result in creaming
		<b>Training quality</b> (funding tied to accreditation of program or institution)	
	<b>Composite formulas</b> (weighted funding including a number of constituent elements including institutional inputs – for stability, outcomes –for internal efficiency, training quality and enrolment of special groups)		
	Contract funding	Output based	Can be expensive and not always cost effective
	Competitive bidding	Output based	
	Vouchers (allocations to individuals)		Vouchers, like grants, do not lighten the financing burden falling on the funding body; the cost of training is still borne by government
Individual learning accounts	Output based		
Mechanisms for encouraging enterprise training (mostly applied for adult training or work-based learning schemes):	Levy-grant schemes	Means to an end	However, requires sufficient organizational and administrative capacity and trends seem towards reduced effectiveness, over time
	Company tax concessions	Means to an end	Requires well-developed, broad-based system of corporate taxation. Reduced public revenues Responsiveness of companies low if few companies earn sufficient profits to benefit from tax exemptions
	<i>General training subsidy (grant)</i>	Output based	Cost burden falls on public budgets (increased expenditures)

Source: Adapted from Adrian Ziederman

The main challenge regarding resource allocation is to identify schemes that ensure the achievement of the VET policy objectives, including the transversal objectives of relevance to the labour market and of equity in access to the VET system (for both individuals and companies).

1. Moving away from a budget-incremental approach to more **purpose-oriented methods** for resource allocation. Although some countries are now adopting slightly more sophisticated formulas for budget allocation, for most, the budget is still determined by a simple percentage increase on the previous year's budget ('historic incremental' approach), which does not consider the VET policy objectives.
2. The limitations of such an approach are now commonly recognised. In response, many countries try to move to formula funding, multiply enrolments by a parameter of unit costs e.g. number of students and number of teachers. Formulas may be enriched to take account of the differing cost of various training courses. Yet, these parameters often remain at the level of inputs and do not consider, therefore, the policy objectives (whose achievement is measured through outputs). Two inherent problems are associated with input funding: it provides little incentive to improved efficiency and, because it promotes a training environment divorced from employment needs, it may lead to a training system that is out of kilter with the realities of the labour market.
3. On the other hand, funding formulas can be tied with outputs or outcomes. Outputs (and outcomes) may be measured in absolute terms (often defined as the number of course completions) but may also relate to the speed with which outputs are produced (to minimize cost-enhancing repetition). Output based funding encourages internal efficiency in the training process but does not encourage lead to a greater demand-driven orientation of training. Funding related to training outcomes is based on the success of the training provider in meeting labour market needs; this may be measured by the percentage of course completers placed in jobs and by the speed with which they are absorbed into employment. However, outcome orientated funding, while leading to better performance, may result in funding instability, since funding will be subject to the vagaries of economic activity.
4. Both output and labour market outcome measures may lead to "creaming", whereby providers screen out less promising candidates in order to maximize measured performance. This may be countered by quotas or by giving greater weight in the reward structure to outputs drawn from disadvantaged population, who are likely to be excluded through creaming.
5. Formula funding will be most effective where broadened to include a number of constituent elements, including institutional inputs (for institutional funding stability), outputs (internal efficiency), outcomes (external efficiency), training quality and the enrolment of special groups (see below). The weight applied to each element in the funding formula would reflect the relative importance of each element, in terms of the overall objectives of the training programme in question.
6. Encouraging modern delivery of training, through work-based learning. Work-based learning, that is, alternating learning periods at school and in enterprises, varies according to region. In Eastern European countries, it tends to be underdeveloped, while it is more developed in Southern Mediterranean countries. As well as being essential for driving forward the quality and relevance of training, work-based learning has consequences for funding schemes for VET. On the one hand, work-based learning can potentially decrease the cost per trainee on the state budget, as trainees spend less time in school and companies take over part of the burden. On the other hand, work-based learning can lead to other expenses. For example, in some countries there are subsidies for businesses that take on apprentices, through various incentives.
7. Apprenticeship usually relies on a co-partnership between formal institutional training provided in training centres and training on-the-job. The former is usually financed by the state, while the costs of the job-related component (training costs and apprenticeship wages) are borne by the employer. Apprentices also share in the costs of the work-related component through the receipt of wages that are lower than market levels; state support for the work component, in the form of subsidizing the wages of apprentices, is also prevalent in many systems.
8. But good quality, effective apprenticeship training on-the-job is expensive; in many countries the formal employment sector is loath either to take on a sufficient number of apprentices to meet the skill needs of the economy or to provide training of the necessary quality. Two forms of corrective state intervention may be adopted. One approach – as evidenced in the case of France and Algeria – is to introduce an apprenticeship training levy to finance the apprenticeship training system. More widely practiced is the provision of financial support for apprenticeship training in the form of subsidizing the wages (allowances) of apprentices. Thus apprenticeship training is co-financed by government contributions to the Fund, by all employers (particularly those not taking on apprentices) and by the apprentices themselves (their Apprentice wage subsidies may be provided within the context of a wider regime of government training subsidies or they may constitute part of a levy-grant scheme – as in the cases of Jordan, Jamaica, Malawi, South Africa. Apprenticeship wage subsidies may be provided in different ways, over the whole apprenticeship period (as is generally the case) or confined to the earlier years of apprenticeship (as in Zimbabwe), where the net value of apprenticeship output may be low or even negative. Such wage subsidies can be useful tool, positively influencing the quantity of initial training provided by companies. through lower wages).
9. However, for this to be the case, some preconditions must be present:

- The subsidy design should not permit employers to exploit the availability of wage subsidies to gain access to cheap labour
  - The elasticity of supply of apprenticeship spaces must not be low; otherwise the desired supply response of an increased apprenticeship intake will not materialize
  - A relatively new regulatory instrument for dealing with this problem is to be found in Payback Clauses. As defined by CEDEFOP (2009), payback clauses are “a set of legal provisions regulating the relationships between employers and employees on the allocation of training costs of employees deciding voluntarily to discontinue the employment relationship with the employer who invested in their training”. Payback clauses more usually relate to individuals, where the worker reimburses all or part of the training costs expended by the employer. They may relate also to firms that hire (poach) trained workers; these firms must reimburse all or part of the previous employers’ training investment. The 2009 CEDEFOP study of newer EU member states identified payback clauses in place in eleven of the twelve states surveyed
10. Using funding allocation in such a way as to offer more flexibility and autonomy for VET providers to manage their institutions to achieve more quality and efficiency. Linked to the previous challenges, the resource allocation system also determines how VET providers are authorised to use their funds and whether they can raise funds themselves, through tuition fees, ‘training-with-production’ activities, or obtain additional resources through partnerships with businesses or other parties. This legal framework can be an important factor for innovation in the VET system; however, the often-restrictive rules and administrative procedures imply that it is rarely used.
11. For training of special needs groups contract funding, competitive bidding, vouchers (or entitlements) are used. On top, competitive bidding can both integrate training markets and provide a more cost-conscious competitive environment, in which private providers compete on equal terms with public training institutions. And lastly, instead of budgetary allocations being made directly to training providers, vouchers and individual learning accounts provide a way to make the beneficiaries as a center of the scheme and give them a decision-making power and choice. This form of “demand-side” financing promotes competition amongst training providers (both public and private), wider trainee choice and training that is closer to market needs. Voucher financing (or similar instruments) have been used mainly for continuing training (England and Wales, France), training for the unemployed (Austria and France) and individual training accounts (Malta, Scotland).

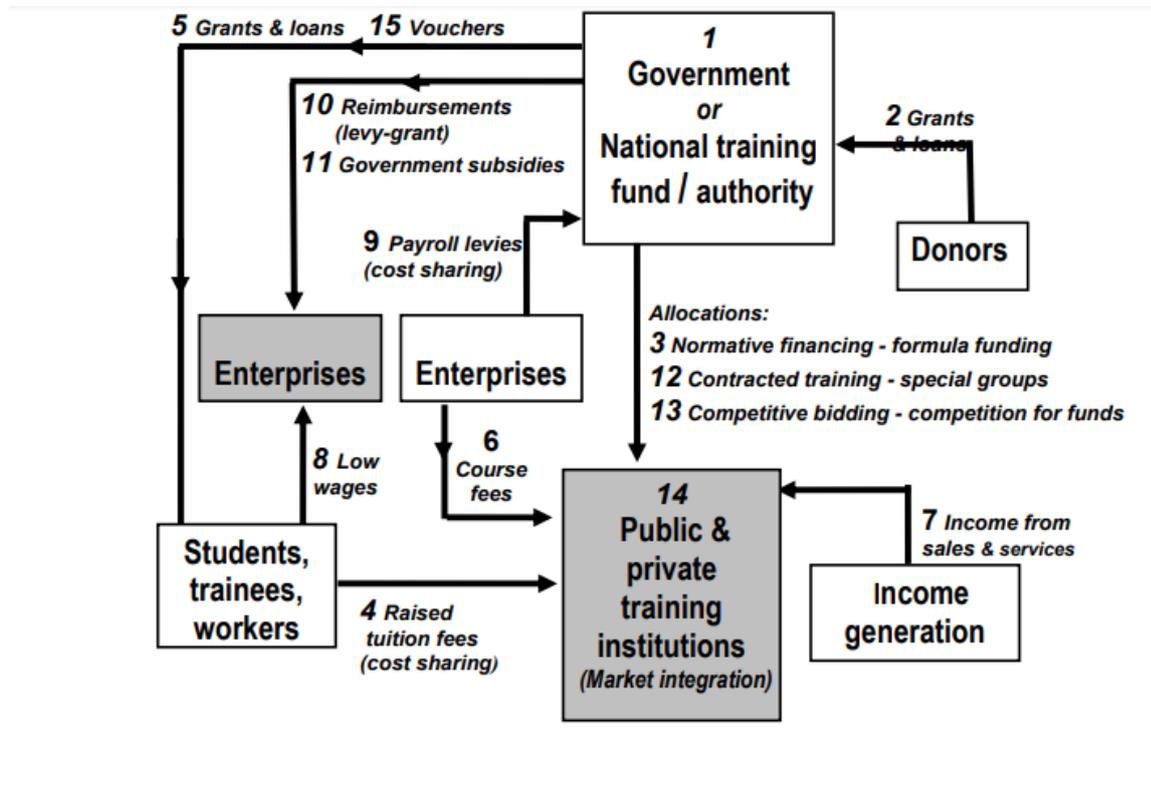
**Table 5. Weaknesses in incentive mechanisms for encouraging enterprise training**

Weakness	Explanation	Policy directions
Windfalls	Eligible training might have been provided by the firm in the absence of the incentive scheme	Revoke subsidy if windfalls are widespread
Training distortions	May bias training towards more formal and externally-provided training, away from informal training on-the job	Redesign training eligibility criteria to avoid distortions
Repackaging Effect	“The adaption and documentation of existing training provision to comply with eligibility requirements....” (Docherty and Tan, 1991)	Improve inspection methods
High costs of inspection	The central costs of inspection and monitoring, to counter abuse, may be high	Raise sanctions and monitor enterprises on a sample basis
Administrative costs on the firm	Considerable cost to the enterprise of establishing eligibility band compliance (including paperwork, record-keeping)	Avoid cumbersome administrative procedures and onerous eligibility criteria

Source: Adrian Ziederman

Figure 2 below illustrates all flow of money from resource mobilisation to resource allocation discussed above.

Figure 2. A diagram illustrating mechanisms for mobilisation and allocation of funds<sup>19</sup>



Government funding of training institutions is made either direct or via a national training fund (or NTA), as shown in 1. Where available, donor funding is supplied centrally to the government or training fund and not to individual institutions (2). Core financing of public training institutions is based on objective formula funding (3). Greater cost sharing is introduced in public training institutions, through augmented course fees closer towards competitive levels (4); this is facilitated by the availability of selective scholarships for the poor or student/trainee loans (5). Additional income for public training institutions derives from fee payments for tailor-made courses for firms (6) and from income generation activities (7). On-the-job training within firms is partially financed by workers through low wages (8). Payroll levies on firms may be used, to either augment national funding for training (9) or may constitute part of a levy-grant scheme to encourage enterprises to train more (10). Alternatively, government subsidies may be used to augment enterprise training (11). Contract financing of designated government programs (such as for the unemployed) are made available to both public and private and training institutions (12); competitive bidding for funds (13) would further enhance market integration of public and private training providers on a competitive basis (14).

### 3.1.3 Management of the financing chain

Management of financing chain is an institutional framework that unifies and augments sources of funding for training (Government budget, training levies, donors, other) and allocates funds in line with national (economic and social) policies and priorities. Generally, the funding is spent through public bodies or a training funds (see details below), that are becoming more diverse themselves performing many more functions beyond management of training –such as qualification development, certification etc.

<sup>19</sup> Source: <http://ftp.iza.org/pp110.pdf>

Table 6. Typical disbursement funding windows for VET

	1	2	3
Types of VET	Pre-employment VET	Adult Education and Training (Continuous professional Development/Hobby Education/Training)	Equity education
Objective	Transition to work	Continuous relevance to the need of the labour market	Gender Equality and Social Inclusion (GESI)
Recipient of funding	Training Providers (VET Institutions – public/private, learning enterprise for WBL and the virtual learning space)	Training providers (VET Institutions both public and private)	
Methods	Various modalities	Various modalities	Various modalities

The main challenge is to get rid of a tool-driven, technician approach and consider financing as a **key leverage for steering VET policy**.

- Using the financing chain as a leverage for steering VET policy. Few partner countries use financing as a variable to enforce their policy, for example by targeting funding on skills development according to promising economic sectors (as does Czech Republic and in the case of Morocco, for instance, with seven priority sectors), and by setting up levy-grant schemes that reward companies involved in training or by introducing financing tools to reach out specific populations (e.g. young people not in employment, education or training (NEETs)).
- Making sure there is **equity** throughout the chain from different perspectives, from mobilisation to allocation. This is a challenge from two perspectives. First, there is a need to make sure that contributing companies receive back some funding, especially for CVET. This is a problem where companies complain that the direct return on levy taxes is very low. Second, there is a need to make sure that companies that are not able to pay a training tax (either because they are too small or because they are informal) can still benefit from VET, because skills development may help them to grow and move into the formal economy. Similarly, tuition fees for individuals could be considered for higher qualification levels in vocational education, as the return on investment is higher and the need for social benefits lower. However, in practice, tuition fees are rarely used. Of course, this would require accompanying measures, such as scholarships and exemptions, so that students who are unable to pay also have equal access to training. In partner countries, social dialogue on how to combine cost-benefit analysis with financing rules and tools rarely takes place.
- Putting in place adequate governance structures to manage the financing chain. This covers national training authorities, training funds, – which may be sectoral, national, or even sometimes regional, – and similar bodies. As examples, the first two challenges in this list would be more easily tackled, as there would be some modalities in place to ensure that the relevant actors are associated with the policy decision. This challenge covers the issue of fungibility of funds in the treasury (how to secure the effective use of the training tax for training if revenues are merged into a single state budget account), and, beyond, the issue of consensus building on the principles, rules and criteria of budget management. The choice of the best governance setup depends both on the institutional context and on the policy priorities.
- Fostering performance-based funding as a governance principle to link financing to policy objectives and priorities. Currently, there is very little performance-based management linking financing mechanisms to the effective running of the system, and even less linking it to VET policy objectives and priorities. For instance, regarding incentives for the cost-effective use of technology, or for establishing public-private partnerships to ensure that students have access to modern technological facilities, only Turkey reports that the government has provided incentives for private contributions to the education system. In Montenegro, a law on public private partnerships is in preparation, and legal provisions allowing those employers who have established cooperation with schools to receive tax concessions are under discussion. There is no use of formula funding that would include a parameter on the rate of successful transition from school to work (this is also linked to the above-mentioned problem of the unavailability of data). Simplifying procedures to make resource allocation more effective, and to encourage skills development. At the crossroads between resource allocation issues and management issues (see below) lies the procedure-related problem. In countries where there are systems in place for resource allocation, bureaucratic procedures often prevent the best use being made of the financing tools. Therefore, there needs to be a balance between clear procedures to prevent the misuse of funds or corruption and over-complicated procedures that discourage applications

The main challenge regarding resource allocation is to identify schemes that ensure the achievement of the VET policy objectives, including the transversal objectives such relevance to the labour market and of equity in access to the VET system

Moving away from a **budget-incremental approach** to more **purpose-oriented methods** for resource allocation.

Although some partner countries are now adopting slightly more sophisticated formulas for budget allocation, for most, the budget is still determined by a simple percentage increase on the previous year's budget ('historic incremental' approach), which does not consider the VET policy objectives. The limitations of such an approach are now commonly recognised. In response, many countries try to move to formula funding, where the allocation to VET providers is determined by mixing various factors (such as the number of students and teachers). Yet, these parameters often remain at the level of inputs and do not consider, therefore, the policy objectives (whose achievement is measured through outputs). When countries adopt a formula-driven funding approach, there is often little knowledge of the next steps.

Encouraging modern delivery of training, through work-based learning. That is, alternating learning periods at school and in enterprises, varies according to region. In Eastern European countries, it tends to be underdeveloped, while it is more developed in Southern Mediterranean countries. As well as being essential for driving forward the quality and relevance of training, work-based learning has consequences for funding schemes for VET. On the one hand, work-based learning can potentially decrease the cost per trainee on the state budget, as trainees spend less time in school and companies take over part of the burden. On the other hand, work-based learning can lead to other expenses. For example, in some countries there are subsidies for businesses that take on apprentices, through various incentives.

12. Using funding allocation in such a way as to offer more flexibility and autonomy for VET providers to manage their institutions to achieve more quality and efficiency. Linked to the previous challenges, the resource allocation system also determines how VET providers are authorised to use their funds and whether they can raise funds themselves, through tuition fees, 'training-with-production' activities, or obtain additional resources through partnerships with businesses or other parties. This legal framework can be an important factor for innovation in the VET system; however, the often-restrictive rules and administrative procedures imply that it is rarely used.
13. Simplifying procedures to make resource allocation more effective, and to encourage skills development. At the crossroads between resource allocation issues and management issues (see below) lies the procedure-related problem. In countries where there are systems in place for resource allocation, bureaucratic procedures often prevent the best use being made of the financing tools. Therefore, there needs to be a balance between clear procedures to prevent the misuse of funds or corruption and over-complicated procedures that discourage efficiency in resource allocation.

#### 3.1.4 *Management of the financing chain*

The main challenge is to get rid of a **tool-driven**, technician approach and consider financing as a **key leverage for steering VET policy and enhancing efficiency and effectiveness**.

1. Using the financing chain as a leverage for steering VET policy. In EU countries and in some EU partner countries, for example by targeting funding on skills development according to promising economic sectors (as does Morocco, for instance, with seven priority sectors); by setting up levy-grant schemes that reward companies involved in training; or by introducing financing tools to reach out specific populations (e.g. young people not in employment, education or training (NEETs)).
2. Making sure there is equity throughout the chain, from mobilisation to allocation. This is a challenge from two perspectives. First, there is a need to make sure that contributing companies receive back some funding, especially for adult education or continuous VET (CVET). Second, there is a need to make sure that companies that are not able to pay a training tax (either because they are too small or because they are informal) can still benefit from VET, because skills development may help them to grow and move into the formal economy. Similarly, tuition fees for individuals could be considered for higher qualification levels in vocational education, as the return on investment is higher and the need for social benefits lower. However, in practice, tuition fees are rarely used. Of course, this would require accompanying measures, such as scholarships and exemptions, so that students who are unable to pay also have equal access to training.
3. Putting in place adequate governance structures to manage the financing chain. This covers national training authorities, training funds, – which may be sectoral, national, or even sometimes regional, – and similar bodies. As examples, the first two challenges in this list would be more easily tackled, as there would be some mechanisms in place to ensure that the relevant actors are associated with the policy decision. This challenge covers the issue of fungibility of funds in the treasury (how to secure the effective use of the training tax for training if revenues are merged into a single state budget account), and, beyond, the issue of consensus building on the principles, rules and

criteria of budget management. The choice of the best governance setup depends both on the institutional context and on the policy priorities.

4. Fostering performance-based funding as a governance principle to link financing to policy objectives and priorities. Currently, there is very little performance-based management linking financing mechanisms to the effective running of the system, and even less linking it to VET policy objectives and priorities. For instance, regarding incentives for the cost-effective use of technology, or for establishing public-private partnerships to ensure that students have access to modern technological facilities, only Turkey reports that the government has provided incentives for private contributions to the education system.

### 3.1.5 Costing

In most countries, costing raises two main challenges in the policy life cycle – at the strategic decision stage and at the budget planning stage.

1. Simulating the financial implication of policy options to ensure that choices are realistic, affordable and sustainable over time. Using the cost variable as a decision factor in the definition of a VET strategy supposes, **first** the availability of data (see below), not only on financial issues but on the VET system as a whole and relating financial figures to absorption capacity considerations. **Second**, it requires tools and methods to process this data into policy priority alternatives and **third**, a discussion framework within which this cost argument will participate. Due to lack of time in the reform processes, but also to lack of method and knowhow, such an ex-ante, forward-looking exercise does not occur commonly in most countries.
2. Estimating the costs of the planned policy and aligning it with resources through sound budget planning so that policy implementation meets its goals. Generally, skills development strategies and plans are not accompanied by proper budgeting efforts, in terms of either **budget planning or resource mobilisation**. Furthermore, planning does not consider the various sources of funds, which are both public and private. This creates a gap between strategies and actual achievements, which discredits the policy.

### 3.1.6 Data

Putting in place information systems to accurately document financing aspects, as a key element for informed policy making. All partner countries report problems, such as a general lack of available data or concerns about data transparency and reliability will hamper monitoring and real policy discussion. General data on the financing systems, as produced by education and labour market management information systems (EMIS, LMIS), are needed to tailor finance related measures to the needs (e.g. a voucher system to encourage individuals to engage into training courses addressing companies' skills shortages has to be shaped following an accurate skill needs analysis). This issue applies to both public and private sector funds invested in the VET system. For instance, in South Eastern Europe and Turkey, there is little consolidated data available on the public funding of VET systems by various public entities. Finally, in all partner countries the state budget makes it difficult to compare resource mobilisation data and resource allocation data, which causes issues of transparency and accountability.

## 3.2 Inventory (List) of financing mechanisms

Mobilisation and resource allocation mechanisms through which funding for VET and Adult Education is made available is the mechanism in which finances are collected and allocation. From analysis and scrutiny of International Good Practice, cost sharing mechanisms can take a form of collective investment between Government, Society and Employers. (where employers and/or employees share the costs) and public-private cost-sharing (where government and employers and/or individuals share the costs). However, it is clear from analysis that the finance mobilisation and allocation is heterogeneous around the world.

### 3.2.1 State funding based on budget financing from the state budget, local authorities' budget and other types of funding from the State system.

Vocational education and training in most countries is financed by the State, when it is considered as initial VET or pre-employment VET, Continuous VET, which is regarded as training and retraining (Georgian Context Adult Education) is usually on a cost sharing basis. With regard as equity in VET, financing is mainly from the State with contributions under corporate social responsibility, civil society organisations, etc.

### 3.2.2 Training Funds

A 'training fund' is a dedicated stock or flow of financing outside normal government budgetary channels for the purpose of developing productive skills for work." Training funds in the EU are very heterogeneous. The differences concern the

governance models (bipartite or tripartite nature), the number of funds established per country, the type of (education and training) activities and target groups supported, and the way the money is collected and redistributed.

Training funds may be created voluntarily and managed by social partners, as part of collective agreements at sectoral level (e.g. Denmark, France, the Netherlands). In some countries, this may result in a high number of training funds covering most economic sectors (e.g. approx. 100 training funds in the Netherlands), whereas in other countries, training funds may be present only in a few, particular sectors (e.g. UK, Germany). Finally, some countries opt to create a single national training fund, governed by the State, often in partnership with social partners (e.g. Cyprus, Spain, Ireland).

Beyond these two basic types of trainings funds (national and sectoral), other solutions can be found among EU countries. Training funds in Italy, for example, allow for the voluntary association of employers linked to a subfield of the economy or a particular occupational or professional field (inter-professional funds). The funds, therefore, do not correspond to established economic sectors and their industrial relations (e.g. regarding wage bargaining).

Training funds source their income mainly as **compulsory training levy on company payroll**. However, there can be also other, additional sources, e.g. national/regional government own resources collected via general taxation, EU funds (European Social Fund - ESF), interest, donations or voluntary contributions. In some countries, the function of training fund has been adopted by the public employment service, where employers and employees co-fund training of employees as part of their overall contribution to the unemployment insurance system.

Training funds typically collect financial resources from all companies (in the economy or sector), irrespectively of the levels of their training investment, and redistribute the collected funds back to companies for training purposes ('pay and receive', 'levy-grant' mechanisms). Alternatively, training funds collect financial resources only from the companies which do not meet a predefined minimum level of training activity/contribution ('train or pay', 'levy exemption' mechanism) and create training opportunities with the means collected.

The collected funds may be redirected to:

- employers via different subsidy-schemes, in which case co-financing from employers may be required;
- employees via different subsidy-schemes or through supply side funding, in which case co-financing from employees may be required;
- unemployed via supply side funding or work-based learning. In the latter case, co-financing from the employer providing the training may be required.

Training funds may have a single purpose, but most have multiple objectives, such as: pooling the resources for training from various sources, distributing the costs of training between employers and employees, building training capacities, increasing the volume of company training, avoiding the free-rider problem<sup>[2]</sup>, ensuring access to training for disadvantaged groups or developing competitive training markets. Sectoral training funds are usually set up to respond to specific sectoral training needs.

Training funds are among the oldest funding instruments supporting training/adult learning. They were established in the 1960s and 1970s in many countries. While some countries have discontinued their schemes, others have introduced training funds in the past decade.

### 3.2.3 Tax incentives for companies

Tax incentives are the concessions in tax codes that mean a conscious loss of government budgetary revenue because they reduce either the tax base (tax allowance) or the tax due (tax credit). Concerning tax incentives for the purposes of corporate income tax, countries typically regard company expenditure on training as a business cost which is 100% deductible from the taxable income. Thus, training expenditure is considered as cost incurred by the economic process and treated on equal footing with other costs such as costs for material or merchandise, rents, wages, etc.

In some countries, companies may also receive additional tax incentives related to their training activities. For example, Austria allows employers to deduct more than 100% of training costs, thus provides a real incentive.

Tax incentives can be used to encourage training in companies in general or they can be targeted at specific types of training or companies, e.g. training for entrepreneurs or SMEs.

Cost redistribution is the most prevalent approach adopted by countries with levy-grant schemes. Levy-grant schemes are in place worldwide. They are to be found in industrial countries (such as France and New Zealand), transitional economies (Hungary) and in developing countries such as in Africa (Zimbabwe and South Africa) and Asia (Malaysia and Singapore). While there are numerous variants, a three-fold classification of levy-grant schemes (Gasskov, 1994) has been widely adopted.

Cost reimbursement:

Firms receive pays grants on a cost-incurred basis, for certain designated forms of training (both on and off-the-job). The purpose of such schemes is often misunderstood, particularly among employers; the scheme aims not at reimbursement of the

levy as such but rather reimbursement of training expenditures incurred (to encourage firms to train more or better). Thus, a training expenditure reimbursement ceiling (for firms that train to acceptable standards) is usually set, up to a given percentage of the levy paid. Cost reimbursement schemes have operated in the

Netherlands, Malaysia and in Nigeria. Cost redistribution: Designed in particular to deal with the ill-effects on training supply of the poaching of skilled workers by non-training firms, a cost redistribution scheme redistributes the burden of training expenditures amongst enterprises away from companies who do not train, towards those who do. Training companies may receive grants in excess of the amount of levy paid, providing strong incentives for firms to train.

Such arrangements have been adopted in New Zealand and the Republic of Ireland.

Levy-exemption: This is usually employed as part of a broader cost reimbursement scheme. Levy-exemption allows firms, adequately meeting their training needs, to withdraw from the levy-grant system or at least to benefit from reduced levy assessments. A major advantage is freeing firms from the bureaucratic fatigues of levy payment and subsequent grant claim - potential cash flow problems are avoided. This mechanism is found more typically in industrialized economies (such as France); the Cote d'Ivoire scheme constitutes an example of levy exemption arrangements in a developing country.

### **3.2.4 Tax incentives for individuals**

Tax incentives are the concessions in tax codes that mean a conscious loss of government budgetary revenue because they reduce either the tax base (tax allowance) or the tax due (tax credit). Concerning tax incentives for the purposes of personal income tax, they may allow adults to deduct their costs for continuing vocational training or adult learning related to their current or future occupation from their individual income tax base or tax due.

Adults with low or no income, paying no personal income tax, cannot profit from the tax deduction. Only if a negative income tax is implemented correcting this imbalance, low wage earners could profit from education and training related tax incentives.

When income tax is progressive, adults in higher tax classes profit more from the tax deduction from the tax base than adults in lower tax classes.

In some countries, adults can deduct educational costs for members of their households, in particular for their children; yet, the maximum deductible amount then applies to both costs for their own training and the costs for their household's members training (as, for example, in Estonia).

Tax incentives vary across EU countries in relation to the types of education/training activities supported (e.g. for current employment/occupation or for individuals intending to start a new career). Occasionally, specific tax incentives for individuals are provided for supporting particular policies in lifelong learning, for example, tax credit for expenditure on the accreditation of prior learning provided in the Czech Republic.

Companies may cover the costs of educational and training activities (mainly) in the interest of their employees, which could be regarded as taxable income (fringe benefits). A particular tax exemption can be granted for these benefits within certain limits (as, for example, in Malta). This type of tax incentives is not reported in this database.

Exceptions from value added taxes for some training activities or types of training providers are also present in some Member States (for example in Austria and Italy), potentially reducing the costs of services for individuals (see CEDEFOP 2009). However, they are not reported in this database.

### **3.2.5 Grants for Companies**

Subsidy to support the company's investment in education and training with financial contributions ranging from 40% to 100%

### **3.2.6 Grants for individuals**

Subsidy to support the individual's investment in education and training with financial contributions ranging from 15% to 100%.

### **3.2.7 Loans**

Loan scheme allows individuals to borrow financial resources (on favourable conditions) from their future income to cover part of their (education and training) expenditure. The State may support the availability of loans and co-finance loan-related costs to encourage participation in adult learning.

To cover tuition fees or living costs during (full time) study, adults might be required to take up a loan. Without support structures, taking up a loan for education and training involves high levels of personal risk, as it is not sure that a started programme will be completed successfully or that a programme will allow an individual to sustain or achieve a well-paid

occupation. On the free market, access to loans might be restricted due to missing securities or continuing income. Furthermore, high interest rates and risk premiums might work as a disincentive.

In order to overcome restrictions in access to loans for education and training, various Member States have opened standard loans – partly in combination with and adding up to grants – also to educational and training purposes. Most frequently, these schemes are aimed at first-time students in higher education but, are also open for adults (25 and older) up to a certain age limit or without such a limit. Moreover, there are examples of loan schemes designed explicitly for adults for (specific) educational and training purposes (e.g. training loan for unemployed people, job seekers and employees aged 45+ in Poland).

Almost all EU countries have loan schemes for education and training purposes in which the government plays some role. Governments are usually involved in setting eligibility, repayment and other rules as well as in monitoring and evaluating implementation of the loan schemes. In several schemes, the government acts as loan provider (through financial institutions). An important government function is also provision of subsidies.

The State-supported loans provide solutions beyond credit provision on the private capital market at three fundamental levels:

- Reducing the risk of the (adult) learner: the individual's risk of taking on a loan may be strongly limited by providing income-contingent loans, where repayment depends on successfully achieving a wage above a pre-defined level.
- Overcoming the difficulties in access to loans: reluctance of banks to provide credits to adult learners might be reduced if banks are not required to bear the risk of credit default. The State (via special bodies) may take on this risk and offer guarantee in case of default.

Reducing interest rates and improving conditions for repayment: the costs of loans could be reduced by State subsidies (lowering interest rates for the borrowers) or by regulating a submarket for loans for educational and training purposes. Finally, the State may support the access to/attractiveness of loans, if repayment of the loan starts only (some time) after completion of the educational and training programme/ grace periods are offered.

### **3.2.8 Training leave**

The training/educational leave is a regulatory instrument which, either by statutory right and/or through collective agreements, sets out the conditions under which employees may be granted temporary leave from work for learning purposes. Furthermore, the training leave allows the employee to be absent from the workplace for education and training purposes without losing the right to return to work later or other social rights connected to a current employment.

The concept of training leave covers quite heterogeneous arrangements. One of the key dimensions concerns whether the training leave is granted for a comparatively long period (for, example, three months, up to two years) or for a much shorter period (one or a few days, up to one or a few weeks). Another key dimension concerns whether the leave is paid (i.e. includes continuous wage payment), unpaid or a wage replacement/allowance (although lower than the actual wage) is available to the employee for the time off work.

When the training leave is granted for a longer period, it allows an individual to temporarily return to full-time education and training and to acquire or complete a qualification based on an extended educational programme. Such leave is typically accompanied by a wage replacement payment directed to the individual (to compensate foregone income) and covered by an external funding source (e.g. the public employment service, a training fund). Alternatively, a long unpaid leave may be combined with a grant available independent of the individual's employment status (as for example, in Sweden). Lastly, individuals may need to use their own financial resources (savings).

Moreover, in case of long-term leave, various regulations might specify whether particular rights from the employer (e.g. statutory yearly pay rises) or the social security system (e.g. years of contribution to old-age pension schemes) are negatively affected.

Shorter spells of training leave are granted for short vocational courses. In addition, in various countries, employers are obliged to provide days off for their employees to pursue part-time studies, for preparing or sitting exams. For short leaves, employers are often obliged to continue wage payment (they are covering the wage costs from their own resources but may be entitled to wage compensation from an external source: training fund or State subsidy/grant).

Moreover, a right for unpaid days off might be granted (i.e. employer is not obliged to pay a salary, though may contribute voluntarily). For short time leaves, employees do not lose any of their social rights from the employer or the social security system.

In some countries, for example Hungary, training leave is only stipulated for attending mandatory training (CEDEFOP 2011), which the employer organisation is responsible for. Similar obligations for employers to provide types of formal/certified training are present in most of the Member States and are not reported in this database as cases of training leave. Beyond formal training leave schemes, based on a law or a binding collective agreement, it might be widely shared practice in some countries and sectors and for some groups of employees to provide paid or unpaid training leave. However, these voluntary arrangements are not reported in the database.

### 3.2.9 *Payback clause*

Payback clauses are a legal instrument that may encourage companies to invest in training by allowing them to bind employees for a certain period of time after training in return for providing the training. In fact, employees are free to move to another company but may be requested to reimburse (part of) the cost of the training.

Payback clauses should increase employers' investment in training as their risk of paying for employee training, yet not profiting from it, is decreased. In turn, employees are expected to profit from employers' increased readiness to pay for training, when learning outcomes also have market value beyond the current employer.

Within the freedom of economic parties to conclude contracts, payback clauses are principally possible as part of or in addition to any employment contract if principles of fairness and appropriateness as stated in civil law are not violated. However, given the imbalance of power between employer and employees, the possible range for payback clauses is typically limited by formal regulations of various kinds, including labour codes, rulings by relevant courts (in particular, labour courts) or binding collective agreements at sectoral or regional level (NB: most of the labour codes allow amendments of regulations at sectoral level through collective agreements or at company level, provided the conditions are more favourable for employees than those established in national statutes).

Limitations put in relation to the use of the payback clauses may concern the following issues (CEDEFOP 2012):

- Minimum amount: payback clauses might only be valid, when training costs exceed a certain minimum amount. Alternatively, another threshold might be used (e.g. the duration of training).
- Depreciation over time: typically, the amount to be paid back decreases over the agreed (retention) period. The depreciation is equal to similar approaches for investment goods, if skills acquired lose value over time. Moreover, employers are expected to profit from their investment over time.
- Maximum contractual retention period: payback clauses are not valid for any period longer than a set number of years. In addition, it is often specified that the period must not be inappropriately long regarding the duration/costs of the training.
- Valid reasons for asking for a refund: payback clauses are to be applied only when employees leave voluntarily or are dismissed for misbehaviour. However, there are cases where the non-completion of training is also a possible reason.
- Eligibility: payback clauses are usually applicable to all employees, although employees on fixed-term contracts are often not covered by payback clauses. Usually labour codes allow the use of payback clauses for general (transferable) training. For firm-specific training that is directly related to current or future work tasks within the company, the employer usually bears 100% of the cost of training and no reimbursement is enforceable if the employee leaves the company (shortly) after training (a mixed form, where reimbursement of training costs can be requested for both general and firm-specific training, exists in the Netherlands).

### 3.2.10 *Individual learning account*

Subsidy to support the individual's learning. Often, the money is transferred directly to the individuals.

The introduction of Individual Learning Accounts (ILAs) in many countries (often still on a trial basis) may be seen as part of the shift away from direct government funding of training providers to a form of demand-based training in which incentives are provided for workers to choose training options over the working life. While ILA schemes may take many forms, two are of interest: First ILA-based saving schemes and voucher entitlements to training. Under ILA-based saving schemes, individuals save on a regular basis towards payment for periodic training or retaining over the working life. The incentive for participation in these schemes is a matching contribution by government as well as tax concessions on sums saved. While such schemes are unlikely to be attractive to lower skilled (and lower earning) groups, the ILA scheme in the US is a matched savings scheme focusing on low income families. Voucher-type ILAs provide entitlement to access approved training courses at zero or reduced cost. Such schemes are operated in Austria, Belgium and Scotland. The highly successful Scottish ILA 200 scheme, introduced in 2004, is directed towards low income individuals and provides up to £200 annually towards tuition fees for a wide range of courses (that need not lead to a formal qualification). ILA 100, introduced the following year, is available to individuals not eligible for ILA 200 and provides up to £100 a year towards tuition fees of a more limited range of courses, which must lead to formal qualifications. Currently, some 60,000 individuals avail themselves of the schemes, the vast majority through ILA 200.

A novel scheme, introduced in France in 2004, aims at providing workers with access to training over their working life. Under the Individual Right to Training scheme (IRT), employees are entitled to request 20 hours of annual training from employers; this can be accumulated up to a maximum of 120 hours over a six-year period. Training may be during or outside working hours. Second, in the latter case, employees continue to receive 50 percent of their net wage. Although the employee takes the initiative in requesting rights under the IRT, employers (who fund the training) may refuse employee applications. The scheme has proved to be less successful than expected. The access rate of employees to IRT is under 7% (with only some 20 average hours of training, in total) and less than 30 percent of firms use the scheme.

In the US the individual learning account bill establishes tax-preferred savings accounts that may be used to pay for training expenses and will be managed by state programs known as Lifelong Learning and Training Account programs. Tax-exempt distributions from an account may be used for training that results in a recognized postsecondary credential, such as an industry-recognized certificate or certification, a license recognized by the federal government or a state, or an associate or baccalaureate degree. The bill (2018) specifies contribution limits, age restrictions, and income limits that apply to beneficiaries of the accounts. Accounts that meet the requirements are eligible to receive certain federal matching funds for contributions made by the beneficiary or an employer.

#### Box 1: Scotland's ILA

In 2004, the **Scottish Executive** launched *ILA Scotland*, to replace the original ILAs. This new scheme is managed by Learn-direct Scotland and the Student Awards Agency for Scotland. This provides up to maximum amount per training programme. ILAs are available for people with an income below a certain threshold, who are not in full-time education or who are receiving social security benefits.

**Student Awards Agency Scotland (SAAS)** is an Executive agency of the Scottish Government. It supports eligible Scottish students by paying their tuition fees, as well as offering bursaries and supplementary grants. It also assesses students applying for loans. The Agency administers the Individual Learning Accounts Scotland scheme (ILA's) in partnership with Skills Development Scotland (SDS).

SAAS provides funding to students. Some of the most noteworthy are:

##### Tuition fees

SAAS pays the tuition fees of eligible Scottish and EU students. SAAS will pay these fees regardless of a student's financial situation.

##### Fee loans

SAAS can authorise loans to cover the tuition fees of Scottish students going to study elsewhere in the UK.

##### Student loans

Student loans are available to help with living costs. Student loans are paid by the Student Loans Company, but students apply for their loan through SAAS. Any eligible student can apply for the minimum loan regardless of their income. The maximum loan is income assessed.

Students normally do not have to start repaying this loan until the April after they graduate or leave their course. The Student Loans Company (SLC) expect students to pay 9% of any income they earn over £17,335 a year. This threshold normally increases every year with inflation.

##### Grant (Known as Bursary)

A bursary is a non-repayable income-assessed grant to help students with fees and living costs. Usually, to be eligible to receive a bursary an applicant's family must have a household income not more than a fixed amount.

### 3.2.11 Ad-hoc funding – Incremental subsidies

Although funding formulas can apply the various types of financing mechanisms, however, they are used in recent year as part of active experimentation in VET financing.

#### Formula funding

1. *Formula funding options, related to inputs, outputs and outcomes*
  - a. **Input-based funding:** The most common approach to input funding is to multiply enrolments by a parameter of unit costs; formulas may be enriched to take account of the differing cost of various training courses. Two inherent problems are associated with input funding: it provides little incentive to improved efficiency and, because it promotes a training environment divorced from employment needs, it may lead to a training system that is out of kilter with the realities of the labour market.
  - b. **Output-based funding:** Outputs may be measured in absolute terms (often defined as the number of course completions) but may also relate to the speed with which outputs are produced (to minimize cost-enhancing repetition). Output based funding encourages internal efficiency in the training process but does not encourage lead to a greater demand-driven orientation of training.
  - c. **Labour market outcomes:** Funding related to training outcomes is based on the success of the training provider in meeting labour market needs; this may be measured by the percentage of course completers placed in jobs and by the speed with which they are absorbed into employment. However, outcome orientated funding, while

- leading to better performance, may result in funding instability, since funding will be subject to the vagaries of economic activity
2. Both output and labour market outcome measures may lead to “**creaming**”, whereby providers screen out fewer promising candidates in order to maximize measured performance. This may be countered by **quotas** or by giving greater weight in the reward structure to outputs drawn from **disadvantaged population**, who are likely to be excluded through creaming.
  3. **Training quality**: Institutions are rewarded for providing training at required levels of training quality. E.g. funding tied with accreditation of an institution or a program.
  4. **Composite formulas**: Formula funding will be most effective where broadened to include several constituent elements, including institutional inputs (for institutional funding stability), outputs (internal efficiency), outcomes (external efficiency), training quality and the enrolment of special groups (see below). The weight applied to each element in the funding formula would reflect the relative importance of each element, in terms of the overall objectives of the training programme in question.
  5. **Contract funding**: This approach may be adopted for financing the training of more specific target groups, such as those with special needs or from the informal sector. Funding is made available based on contracts between the funding body and the training institution
  6. **Competitive bidding**: Based on competitive tender which is open to private as well as public training institutions, the bidding process can both integrate training markets and provide a more cost-conscious competitive environment, in which private providers compete on equal terms with public training institutions. In line with this approach, donor agencies would offer support to government ministries only, not to individual training institutions.
  7. **Vouchers** (or, “entitlements”): Instead of budgetary allocations being made directly to training providers, students/trainees would meet tuition fees charged by training institutions, wholly or in part, through vouchers of entitlement to training courses. Vouchers, like grants, do not lighten the financing burden falling on the funding body; the cost of training is still borne by government. Cost recovery is not part of a voucher scheme. This form of “demand-side” financing promotes competition amongst training providers (both public and private), wider trainee choice and training that is closer to market needs. Voucher financing (or similar instruments) have been used mainly for continuing training (England and Wales, France), training for the unemployed (Austria and France) and individual training accounts (Malta, Scotland). The voucher scheme is the Jua Kali in Kenya aims at providing support for training to micro and small enterprises, rather than to individual workers.
  8. **Subsidy** to support the individual’s learning. Often, the money is transferred directly to the individuals. In the US the individual learning account bill establishes tax-preferred savings accounts that may be used to pay for training expenses and will be managed by state programs known as Lifelong Learning and Training Account programs. Tax-exempt distributions from an account may be used for training that results in a recognized postsecondary credential, such as an industry-recognized certificate or certification, a license recognized by the federal government or a state, or an associate or baccalaureate degree. The bill (2018) specifies contribution limits, age restrictions, and income limits that apply to beneficiaries of the accounts. Accounts that meet the requirements are eligible to receive certain federal matching funds for contributions made by the beneficiary or an employer.

### 3.3 Vocational Education and Training System in EU countries: Administrative funding structure of VET – Administrative

In **Annex 1** to this document is an overview of the structure of Institutional Funding of VET from an administrative perspective. The analysis is by Country in terms of the institutional level, the benefiting institutions and scope of responsibility for finance issues.

### 3.4 Vocational Education and Training Systems in EU countries: Role of the Social Partners

In **Annex 2** to this document is an overview of the role of social partners in VET finance.

**Table 7. Financing of VET in EU Countries**

Country	Training Fund	Tax Incentive for Companies	Tax Incentive for Individuals	Grant for Companies	Grant for Individuals	Loan	Training Leave	Payback Clause
Austria	1	2	1	5	6		1	1
Belgium	1	1		8	1		3	1
Bulgaria		1		1	2		1	1
Croatia		1		2	1		1	1
Cyprus	3							
Czech Republic		1	2	3	1		1	1
Denmark	4			2	3	1	1	
Estonia		1	1	1		1	1	1
Finland		1	2	1	5	1	1	
France	2	1		1	1	1	3	1
Germany	1	1	1	6	8	3	3	1
Greece	1					1		
Hungary	1			1	1	1	1	1
Ireland	1	1	1	4	2			1
Italy	1	1	2	1	1	1	1	
Latvia		2	1			1	1	1
Lithuania			1	1		1	1	1
Luxembourg	3	1		1			2	1
Malta		1	1	1	1	1	1	
Netherlands	3		1	2	2	2	1	1
Poland				4	2	1	1	1
Portugal			1	2		1	2	1
Romania		2		2			1	1
Slovakia		1		1		1	1	1
Slovenia	1	2	1	2	1		1	1
Spain	2			1		1	2	1
Sweden					1	1	1	
United Kingdom	3	1		5	1	2	1	1

## 4. Denmark

### 4.1 Governance and Danish VET System Reforms since 2000 – Overview

In Denmark, there has been a decline in the number of young VET students entering directly from compulsory school. Another recurring problem is high dropout rates. Therefore, the Danish government launched a proposal for a reform of the Danish VET system, Improving Vocational Education and Training. This proposal was ratified in Parliament in the summer of 2014 and contains a lot of initiatives aiming to enhance the attractiveness of the Danish VET system. The 2014 reform **establishes four overall objectives** for vocational education and training, which are translated into measurable targets for monitoring VET development at the central and provider levels:

**Table 8. Objectives and Target of the Danish VET System**

Objective	Result Target
<b>Objective 1: More students choose VET immediately following compulsory schooling (grade 9 or 10)</b>	1. At least 25% of a cohort must choose VET immediately following compulsory schooling. This share must increase to at least 30% by 2025
<b>Objective 2: More students complete VET</b>	1. The completion rate must be improved from 52% in 2012 to at least 60% by 2020 and at least 67% by 2025
<b>Objective 3: VET must challenge all students, so they may reach their fullest potential</b>	1. The share of the most gifted students – measured as the share of students who complete a total number of subjects at a level which exceeds the compulsory minimum level set by vocational committees – must increase year by year. A baseline will be established using the 2013/14 school year as a benchmark; 2. The high employment rate (92%) 40% for newly (one year after final examination) graduated students must be maintained.
<b>Objective 4: Trust in VET and the well-being of VET students must be strengthened</b>	1. The well-being of the students and the satisfaction of the businesses that hire the students must be gradually increased until 2020.

The **objectives provide a clear framework and direction for vocational institutions during the coming years**. In addition, the objectives provide a well-defined foundation for results-based follow-up and evaluation for both the government and the individual vocational institutions.

**Some of the most important elements in the reform<sup>20</sup> are:**

- Clear targets;
- An attractive education environment for youngsters;
- A simpler structure and greater clarity in the VET system;
- Better opportunities for further education and training;
- A new VET pathway for adults aged 25 and over;
- Clear entry requirements and better training options for all young people;
- New vocational tenth grade (EUD10);
- New combined youth education;
- More and better teaching to provide more highly skilled graduates;
- Continued efforts to create apprenticeships and enhanced training guarantees; Focus on guidance.

#### 4.1.1. *Shaping VET and Qualifications*

##### VEU Centres

In 2010, VEU Centres were established to provide **one common/joint entrance to continuing education**. The partner schools in the VEU Centres are vocational schools (AMU, VET), Adult Education Centres (VUC) and e.g. social and health schools.

The VEU Centre covers three main policy areas:

<sup>20</sup> The reform was introduced in August 2015 and is closely followed by KORA, the Danish Institute for Local and Regional Government Research, and EVA, the Danish Evaluation Institute.

- employment policy;
- education policy; and,
- business policy.

The VEU Centres ensure close interaction between the stakeholders of unemployment insurance funds, trade unions and job centres, business councils, employers' organizations and companies. The role of the VEU Centres coordinated effort that creates them best prerequisites for upgrading the labour force - and thus for growth in a market, which is often characterized by increased competition.

The VEU consultants advise the companies about the challenges of the future, the individual company's skills development needs and enduring linkages with the Education and Skills Development System. The VEU services to companies are free and includes a wide range of tools for the benefit of the employees and the business. Such services include education and skills planning (focus on training needs in enterprises), Job rotation, Preparatory adult education, Basic Adult Education and Real Competence Assessment.

#### 4.1.2. *Public Authorities and Social Partners*

Cooperation with the social partners is an integral part of national labour-market policy, including in areas primarily regulated by legislation. For example, health and safety at work, job placement services, measures to combat unemployment, and unemployment insurance. Likewise, while adult vocational training (AMU) is the overall responsibility of the education ministry, the social partners are involved at both the national and local levels, playing a key role in management, development, priority-setting, organization and quality assurance, as well as being represented on school boards and educational committees<sup>21</sup>. In the adult education and continuing training system, the same institutional structure exists. National Council for Adult Education and Continuing Training (Voksen og efteruddannelsesrådet, VEU-rådet) is responsible for advising the Minister for Education on all matters concerning adult education and continuing training.

Ten national, trade-specific adult education and continuing training **committees** (efteruddannelsesudvalg) are responsible for developing the form and content of programmes and courses within the frameworks, which is established by legislation and for drawing up joint competence descriptions. Local training committees are advising colleges and AMU training centres on local adaptations of adult education and continuing training.

Until 2009, there were two advisory councils, one for general adult education, and one for vocational adult education and continuing training. Their amalgamation into the National Council for Adult Education and Continuing Training is part of efforts to increase links between the two areas, thereby better enabling a holistic view of the individual's competence requirements<sup>22</sup>.

#### 4.1.3. *VET Providers*

There are approximately **ninety public providers of AMU in Denmark**, including colleges also offering VET programmes, as well as some private providers. To receive accreditation as a public AMU provider, an institution must participate in the local VEU centre (Voksen- og Efteruddannelses Centre or VEU centre). **The thirteen VEU centres** were established in January 2010 to provide a unified gateway to both **general adult education and vocational adult education and continuing training**, including educational and career guidance, with a greater focus on quality and effectiveness. Within AMU, where short-term responsiveness to local and regional labour-market training needs is essential, VEU centres have the identification and integration of skills needs as one of their five primary functions. Providers of programmes are locally based, with programme success dependent on close cooperation between local enterprises and training institutions and on the degree to which programmes are adapted to local needs. As such, another objective in associating all public AMU providers with a local VEU centre is to improve their ties with the local and regional labour markets and of the potential for closely coordinating local educational, employment, and business and growth policy. Colleges' and AMU training centres' governing boards are responsible for appointing local training committees. These must consist of an equal number of representatives from employee and employer organisations. A college or AMU centre determines whether to appoint one or several committees (separate committees for different vocational fields). They can also decide to cooperate with local vocational colleges (VET providers) and appoint local committees covering both VET and AMU. This is part of a government strategy to encourage collaboration and synergy between AMU and other VET providers.

<sup>21</sup> Ministry of Education, 2014

<sup>22</sup> VEUrådet, 2010, p. 3

## 4.2 Financing of VET

In Denmark, public financing of VET is a fundamental characteristic of the system, and there is no sign that this is going to change. The government attaches great importance to improving the quality and efficiency of education and training systems to equip all individuals with the skills required for a modern workforce in a knowledge-based society, while at the same time permitting career development and reducing skills mismatches and bottlenecks in the labour market. The basis for achieving these objectives is a highly developed and publicly financed system for basic, secondary and further education and training which also recognises relevant non-formal and informal competences and, in particular, practical work experience.

Financing mainstream ('youth') VET is based on alternative models where training takes place in turns at **college and in an enterprise**. The **state finances training at colleges, and enterprises finance on-the-job training; apprentices receive an apprentice's salary while in the company, as laid down in the collective agreements**.

### 4.2.1 Financing training in Colleges

Financing training colleges is in accordance with the 'taximeter' principle, whereby funding is linked to some quantifiable measure of activity, for example, the number of full-time equivalent students, with a set amount awarded per unit. Among other things, such a system provides an incentive for colleges to **increase retention within the system**. Besides the 'taximeter' rate, VET providers also receive an annual **fixed grant** for the maintenance of buildings, salaries, etc. **The total state grant is provided as a block grant** which institutions use at their own discretion within the boundaries of the legislative framework and specific institutional objectives.

### 4.2.2 Financing of Training in Companies

All employers, both public and private, pay an amount into the '**employers' reimbursement scheme**' (Arbejdsgivernes Uddannelsesbidrag), regardless of whether they provide apprenticeship placements. This fund finances both VET and AMU. From 2018, all employers are obliged to pay an annual contribution of about EUR 400 per full-time employee. These funds are then allocated to work-places that take in apprentices so that they do not bear the cost of training alone. These employers receive wage reimbursements during apprentices' periods of college-based training.

### 4.2.3 Financing VET for adults

AMU is largely publicly financed. Providers receive 'taximeter' funding and must annually negotiate budgets and targets with the education ministry. In addition, there is a **participant fee** for most courses, on average corresponding to approximately **EUR 100 per week**, which is generally paid by the **employer**. Unemployed participants taking part in AMU as part of their **individual employment plan are exempt from any fees**. Participants are entitled to a fixed allowance, the state grant system for adult training from VEU(s). The fixed allowances correspond to 80% of the maximum unemployment insurance benefit rate. As most participants are employed and receive a full salary during the training period, this allowance is primarily paid **to employers as partial wage reimbursement**. As with apprenticeship training, expenditure for the allowances is covered by the employers' reimbursement scheme, to which all enterprises contribute a fixed amount regardless of levels of participation in adult education and continuing training activities. Participants may also receive a **transport allowance and financial support for board and lodging**, if programmes are offered at a considerable distance from the participant's home.

### 4.2.4 Guidance and counselling for learning, career and employment

The provision of educational and vocational guidance for young people is given a high priority in Denmark. The Danish act on guidance aims to develop a transparent guidance system with easy access to high quality services. Guidance is regarded as a continuous process that should help young people become more conscious of their abilities, interests and possibilities, thus enabling them to make informed decisions regarding education and employment. The act defines **seven main aims of guidance**, according to which education, training and career-related guidance must:

- Help to ensure that the choice of education and career will be of the greatest possible benefit to the individual and society, and that all young people complete education or training leading to vocational or professional qualifications;
- Be targeted particularly at young people, who, without specific guidance, will have difficulties in relation to choose and the completion of education, training and career;
- Take into account the individual's interests and personal qualifications and skills, including informal competencies and previous education and work experience, as well as the expected need for skilled labour and self-employed businesspeople;

- Contribute to limiting, as much as possible, the number of students who drop out or who change from one education and training programme to another and ensure that the learner completes the chosen education with the greatest possible academic or vocational and personal benefits;
- Contribute to improving the individual's ability to seek and use information, including Information Communications Technology (ICT) based information and guidance about choice of education, educational institution and career;
- Help to ensure coherence and progression in the individual's guidance support;
- Be independent of sectorial and institutional interests, meaning that guidance should be provided by practitioners with an approved guidance education or recognized competencies at the same level.

### 4.3 The Danish Taximeter System

The self-governing educational institutions have **two sources** of revenue for financing their educational programmes:

1. **State grants;** and
2. **Their own income from income-generating activities, participant fees and fees paid for unemployed people in activation programmes, etc.**

State grants amount to approximately **80 per cent of the total funding** and are thus the primary source of revenue for the institutions. Of this amount, activity-level determined grants (teaching, building and maintenance, or collective expenses taximeters) total approximately **92 per cent**, so that by far the greatest part of state funding consists of **taximeter funding**.

The taximeter system is thereby the primary **appropriation model for distributing state funding**, but it is also necessary to supplement the taximeter management with a number of supplementary management tools in the form of **basic grants, targeted research and development funds, multi-year agreement models**, etc. in order to ensure that the collective financial management is flexible enough to meet various political, administrative and institutional needs.

The national financial management must therefore both meet the demand for the efficient distribution of funds and, at the same time, support the educational political objectives regarding, among other things, the geographical availability of educational programmes and the development of special areas of initiative, which requires a variety of management tools.

The interplay between various management tools and financing sources, including the relationship between activity-level managed and framework managed allocations has, at the same time, significant importance for the activity-level dependence and budget security of the institutions.

#### 4.3.1 The Taximeter System

Taximeter management entails that within the state's total financial framework for educational purposes, which is determined by a range of overall political expense priorities, activity-level dependent appropriations are distributed to the **individual educational institutions** based on:

- Objective goals for **activity levels;** and,
- Politically determined **taximeter rates per activity-level units.**

The appropriations are provided as **block grants**, which the institutions are **free to use as they see fit** within the frameworks of the applicable appropriation preconditions and rules of disposal and in accordance with the objectives that have been determined for the individual educational programmes and institutions.

Both the **taximeter** and the **block grant principles** are grounded in the **legislation regarding institutions**, which similarly establishes the fact that state grants are to be provided in accordance with the **taximeter rates** that are determined in the **annual Appropriations Acts**.

The **coupling of activity levels and politically determined taximeter rates involves**, therefore, at its core that institutions have the assurance that an increasing level of activity in existing education programmes will be financed according to the taximeter rate. In a situation of stable activity levels, the institutions (and the state), all else being equal, will therefore have a reasonable degree of budget security.

Taximeter management has been developed according to a range of overriding considerations:

- **Firstly**, the intention was to institute a system of financial management that was, to a greater degree, oriented towards results and incentives. With the taximeter system, the size of the grant is therefore linked with the **direct results of the institution, measured in terms of the annual number of fulltime students or student fulltime**

equivalents. The institutions thereby also have an incentive to adjust the capacity to fit the demand and to continually look for ways to economise and become more efficient.

- **Secondly**, the intention has been to ensure that funds are efficiently transferred from educational programmes, with decreasing amounts of activity, to programmes that are experiencing growth, partly to support free educational selection and to provide institutions allocation security through open admissions or open access. Activity-level dependence entails that this transfer happens “automatically,” without elements of negotiation or administrative redistributions.
- **Thirdly**, the **taximeter rates** support productivity management, which is aimed to prevent activity level fluctuations in unit costs due to falling activity levels.

**Table 9. Characteristics of the Taximeter System**

<b>1. Demand Management</b>
<ul style="list-style-type: none"> <li>• The money follows the <b>user and creates incentives for user-friendly behaviour</b>. Financing of increased educational activity levels is hereby ensured.</li> <li>• Flexibility in terms of institutional structure (mergers and split ups).</li> </ul>
<b>2. Productivity Management</b>
<ul style="list-style-type: none"> <li>• No inadvertent improvements or worsening of standards as a result of demography and changes in application patterns.</li> </ul>
<b>3. Politically Determined Taximeter Rates through the Appropriations Act</b>
<ul style="list-style-type: none"> <li>• The determination of taximeter rates is independent of the individual institution’s expenses. Limited opportunity for pressure from interested parties (institutions, organisations, local/regional forces).</li> <li>• No negotiations or administrative redistribution.</li> <li>• Transparency across educational programmes and educational fields.</li> <li>• Activity-level dependency and numbers principles. Budget security when the level of activity is stable, both centralised and decentralised.</li> <li>• Staggering the timing of the grant foundation increases budget security.</li> <li>• Numbers principles are result oriented.</li> <li>• The activity-level dependency can be reduced, for example, through basic grants, research and development funds, etc.</li> </ul>

The development of the taximeter system has taken place with consideration for the fact that the institutional area of the Ministry of Education is extremely broad, including both very large and organisationally complex institutions that offer a wide range of educational choices as well as smaller institutions often offering very few programmes.

The flexibility within the framework of the taximeter system is particularly tied to the rate structure and numbers principles, while the flexibility in the allocation distribution is generally achieved using activity-level independent grants.

A premise of the system is that, already at the beginning of the year the institutions are aware of the financial foundation for the coming year. At the same time, this means that the possibility exists for taking issues into consideration during the allocation distribution process, as there is no possibility for individual negotiations between specific institutions and the Ministry of Education.

However, there are situations and conditions that need to be considered financially, which occurs outside of the framework of the taximeter system in the form of basic grants, research and development funds, etc. For example, small institutions are given special attention through a relatively larger activity-level independent basic grant.

#### **4.3.2 The Rate System**

The rate system that is applied at medium-cycle higher education institutions is based on three basic rates:

- The **teaching taximeter**, which is designated to cover **direct teaching-related expenses** such as salaries, teaching equipment and materials.
- The **building and maintenance taximeter**, which is a grant designated for capital costs, including building rental, interest and payments on mortgage debt, and expenses related to the maintenance of the buildings.
- The **collective expenses taximeter**, which is designed to cover types of expenses that cannot appropriately be linked to individual educational programmes, such as administration and management costs, running costs and supplies.

There are, however, certain differences in what the taximeters are designated to cover in the individual institutional areas.

The rates are a result of political prioritisation in the sense that they are determined with the adoption of the annual Appropriations Acts, and the determination of the rates is thereby independent of the expenses and overhead conditions related to the individual institutions. Continuous or systematic imbalances between the rates and the expenditures can, however, lead to a regulation of the rates.

The types of rates and the number of rates fundamentally reflect a choice between a rough-meshed or a fine-meshed rate structure. The rate structure must be adequately fine-meshed such that the institutions are guaranteed fair coverage of their expenses, but, on the other hand, the number of rates ought to be limited in order to prevent the taximeter system from becoming ambiguous or unclear.

Most of the educational programmes are, therefore, distributed and placed in rate groups with common rates, which makes it, among other things, possible to compare the different programmes' financial situations. The placement in these groupings should, in principle, be able to be justified on actual and fundamental differences in the demands placed on the programmes and in the teaching and organisational formations.

#### 4.3.3 *Numbers Principles*

Within the framework of the taximeter system there are a range of area-specific adjustments based on the conditions of specific institutions and educational areas.

One example of this is the use of differentiated numbers principles, i.e., in what way the activity levels are related to resource allocation. Here a distinction is primarily made between the method used within the higher education system, where it is the level of completed activity that applies (STÅ), while with the post-compulsory education programmes, the foundation is primarily based on the number of students that begin an education and are continuing the programme on specific days designated for counting the students (full time equivalent students).

The background for this distinction is that the higher education programmes are typically characterised by longer subjects, lasting one to two semesters, where the number system supports the incentive of the institutions towards progression by the number of students being a source of financing when a subject is passed/approved.

At the post-compulsory level, the course of education (school periods) is generally shorter, where access to the next school period is conditional on completion of the previous course. A strict system of counting promotes the institutions' thinking in terms of efficiency and reduces the risk of arbitrary deviations in the financial foundation of the institutions because of, for example, a high target-group defined dropout rate.

#### 4.3.4 *Supplemental Financial Management Tools*

In addition to the taximeter system, several possibilities exist for supplementing the activity-level dependent taximeter grants with **activity-independent grants**, which, seen as a whole, contribute to creating the necessary flexibility in allocation distribution in relation to various needs.

- **Firstly**, the allocation system must be able to support the regional distribution of educational opportunities and the existence of institutions that only offer a few programmes which are especially vulnerable to activity-level variation. However, the taximeter does not allow for the possibility of taking such instances into consideration in the allocation distribution process, and therefore a basic grant programme has been established that makes financial allowances for small institutions.
- **Secondly**, a need can arise to promote specific educational political objectives within a limited time horizon that cannot be met through the taximeter system. Therefore, a number of grants are given which are not activity-level dependent but earmarked for special purposes. These could take the form of, among other things, pool allocations and agreement-based allocation models.

#### 4.3.5 *Basic Grants*

In all areas, the taximeter system is combined with a basic grant designed to finance the basic expenses of the institution. At present there are two different basic grant models:

1. An activity-level independent basic grant, which is budgeted as a unit grant.
2. An activity-dependent basic grant, which is intended to provide support for the institutional structure.

The basic grant, particularly in the activity-level independent form, causes a redistribution to take place to the benefit of smaller institutions as compensation for their relatively higher unit costs. The grant can therefore have a relatively large financial importance for these institutions and assist in ensuring their continued activities. The basic grants thus also have a regional, political dimension because many smaller institutions are situated in geographical outlying areas, and the basic grant is thus a flexible way of supporting the regional spread of educational opportunities.

#### 4.3.6 *Funds for Needy Institutions*

In the relevant legislation there is a legal basis for awarding loans or grants to self-governing institutions that are in a particularly difficult situation and funding for such situations is provided for in the annual Appropriations Acts.

The primary rule is that Ministry of Education provides aid in the form of interest earning loans that are to be repaid in instalments over a period of no longer than five years to institutions that are experiencing acute liquidity difficulties. Providing these loans is conditional on the institution following the Ministry's requirements for restructuring activities with the aim of re-establishing a sound financial foundation. The institution is placed under strict economic supervision and must normally send quarterly reports on development to the Ministry.

#### 4.3.7 *Mergers as a Management Tool*

A select few educational institutions are so small that, according to the Ministry of Education, they will have a difficult time maintaining a sustainable financial situation.

These institutions usually only offer one type of educational programme and are, therefore, vulnerable to even the slightest deviation in the number of students. In such situations, the Ministry of Education can recommend that these institutions look for possibilities for merging with another and financially more sustainable institution. In certain instances, the Ministry has even made such a merger with a better-grounded institution a requirement of providing funds for needy institutions.

The Ministry follows up on making sure that the institution realises the financial and administrative perspectives that were the basis of Ministerial approval of the merger.

#### 4.3.8 *Non-Activity Level Dependent Grants*

Apart from the basic grants, several objective-defined, or “**earmarked**” grants are also provided such as, for example, multi-year agreement models and pool allocations in the form of, among other things, research and development funds.

These types of grants reflect the fact that the taximeter system primarily supports existing educational programmes. **Therefore, several funding models have been developed to supplement the taximeter system.** These models are designed to provide support for the quality development of the programmes and to take into consideration the need to be able to promote politically prioritised initiative areas.

The multi-year agreement concept generally entails the institutions being allocated grants based on objective criteria in return for meeting requirements regarding quality development within a range of politically defined areas of initiative. It is, at the same time, a requirement that the institutions document the results achieved and the use of the funds. Multi-year agreements allow for the possibility of promoting qualitative areas of initiative and making the results of development work visible. On the other hand, the model also bears the risk of over management because the concept involves the extremely detailed administration of a relatively small amount of funds.

Research and development funds (pool allocations) are similarly used to promote specific, politically prioritised objectives that lie outside the normal aims of the institutions and cannot be accommodated within the framework of the taximeter system. **These include research and development work in connection with, among other things, the development of new education programmes.**

#### 4.3.9 *Income-Generating Activities*

The legislation concerning institutions allows for the possibility of the institutions performing income-generating activities in open competition with private sector enterprises. The intention is partly to ensure flexible and efficient utilisation of capacities and resources and partly to take advantage of the academic synergy-effects and opportunities for competency development. The surplus from these income-generating activities can be used for financing new needs, for example in relation to the development of new educational programmes.

The institutions are subject to conditions for carrying out income-generating activities, which means that:

- The income-generating activities must be a natural extension of the regular activities of the institution.

- The institution must be able to separate the production of goods and services that are intended to generate income from the institution's other tasks.
- The surplus or loss in one financial year can be carried over to a later financial year.
- The accumulative result of the income-generating activities may not be negative for four years in a row.

Apart from this, there are rules governing the pricing of goods and services that are provided as income-generating activities.

As a rule, the **pricing must be such** that it does not compromise the competitiveness of private or public competitors and such that the long-term average costs are covered. In accordance with the legislation applicable to institutions, it is made additionally clear that institutions that practice income-generating activities must follow good marketing practices and must not impose unfair price competition on others.

The Ministry of Education is responsible for supervising institutions with income-generating activities.

## 5. Czech Republic

### 5.1 Governance and The VET System

The main body holding executive powers in the field of education (IVET and CVET) at the national level is the Ministry of Education, Youth and Sports (Ministerstvo školství, mládeže a tělovýchovy – MŠMT). The key responsibilities of the MŠMT include:

- the development of the national education strategy and priorities; development of curricular policy and care for the quality of education for and in accordance with the objectives and content of education;
- coordination of public administration and funding in the area of education.

The MŠMT holds the main responsibility for administration and establishing the rules for higher education (HE) institutions, which, however, have broad academic autonomy. The Ministry of Labour and Social Affairs (Ministerstvo práce a sociálních věcí - MPSV) is responsible for retraining under the auspices of the public employment service. The Ministry of Health is responsible for training of health staff, the Ministry of Interior Affairs is responsible for the accreditation of public administration staff training courses, etc.).

At the regional level, self-governing bodies – the regional assembly and regional council (zastupitelstvo kraje, rada kraje) – are directly responsible for establishing public VET schools at upper secondary and tertiary professional levels. The regional assembly has decision-making and consulting powers on the number, structure, provision, quality and funding of schools.

The regional council (9-11 members) is elected by the assembly and holds executive powers. It forms expert advisory commissions in various fields, including education. A regional body of state administration is a regional authority (krajský úřad). It is responsible for the development of a regional long-term plan for the development of education and a report on education in the region. It also allocates resources from the state budget to schools which cover pedagogical staff wages and direct educational costs. The Regional Councils for Human Resource Development perform a consultative function for regional councils. All schools (including VET) have a relatively high level of autonomy. School directors hold significant powers. They are responsible for the preparation and implementation of school curricula based on approved national curricula, for the quality of pedagogical work.

The majority of VET schools are public schools established by regions. The rest includes private schools, church schools and schools run directly by ministries (state schools).

Legislative framework Vocational education and training up to the level of tertiary professional schools is governed by the Act on pre-school, basic, secondary, tertiary professional and other education – School Act (Zákon o předškolním, základním, středním, vyšším odborném a jiném vzdělávání – Školský zákon). Higher education institutions (vysoké školy – VŠ) are governed by the Higher Education Act (Zákon o vysokých školách). The Act on Pedagogical staff (Zákon o pedagogických pracovnících) stipulates a definition of the position of pedagogical staff, lays down requirements for the performance of the occupation, as well as for the continuing training and career system. Training provided within the public employment services is regulated by the Employment Act (Zákon o zaměstnanosti).

### 5.2 Funding

There are three different systems of regular **public funding of VET**. The first system is regulated by the Schools Act and finances the **upper secondary and tertiary professional schools**. The second system finances **higher education institutions** and is governed by the Higher Education Act. The third system covers the **Public Employment Service training** and is governed by the Employment Act.

#### 5.2.1 Upper secondary and tertiary professional education

The responsibility for funding vocational schools (ISCED level 353 and 354), general secondary schools (ISCED level 344), and tertiary professional schools (vyšší odborné školy – VOŠ, ISCED 655) is shared between the MŠMT and those responsible for establishing schools, i.e. regional authorities or in some cases private entities, churches and ministries.

Regions administer approximately 81% of upper secondary schools and approximately 64% of tertiary professional schools.

There is no comprehensive system of financial incentives for VET participation. Nevertheless, there are several mechanisms through which limited financial support for VET can be obtained under certain conditions (besides the regular state funding mechanisms for IVET).

National level Tax incentives were introduced at the end of 2014. Direct and indirect funding of secondary and tertiary vocational education by employers is deemed as a tax-deductible expense:

- a deductible amount per hour of practical training or internship provided to a pupil/student on the tax-payer's premises;
- costs of the assets at least partially used for the purposes of vocational training.

In addition, the limit of tax-deductible amounts for corporate scholarships has been increased. The principle objective of the measure is to compensate part of entrepreneurs' costs and motivate new companies to commence cooperation with the schools. As for CVET, two tax incentives are included in the Czech legislation: (a) costs for employees' training are deemed as a part of the overall business costs for taxation purposes; (b) individuals can deduct the costs for exams in line with the Act on Verification and Recognition of Further Education Results from their tax base. Enhanced possibility for schools to finance instructors from companies has been fostered by the amendment to the School Act of 2009. The schools may use part of the per capita labour costs to pay the employee of the company leading the practical training. By means of this measure, the schools shall be able to acquire the companies to implement practical training and to function as contractual partners more easily, and they may check on its quality more effectively. Employers can apply for public grants to support the training of their employees upon meeting defined conditions. There are several programmes operated by the state and funded from the state budget or from EU funds. The co-funding principle is applied. The programmes are: (a) Active employment policy schemes. A company can apply for contribution for (re)training their employees (b) Investment incentives (according to the Act on Investment Incentives). Investors in regions with high unemployment can receive support for training their employees. (c) Operational programmes co-funded by EU. Companies can draft projects that include training and receive co-funding if they meet the criteria set by the programmes. For example, in the period 2015-2020, a programme POVEZ II (Support to Vocational Education of Employees), administered by the Labour office regional branches, offers subsidies to companies and entrepreneurs for the training of employees.

### 5.2.2 Regional level

Most regions provide scholarships or other benefits for students of less popular secondary level programmes which are highly demanded by the labour market. The goal is to attract and/or motivate students to complete the programme. Regular school attendance, excellent learning results and good behaviour are usually prerequisites for receiving a scholarship. The scholarship programmes may slightly differ between the regions. A student can receive funding for three years of study (the monthly amount derives from the grade of study).

### 5.2.3 Company level

Some enterprises provide scholarships and other benefits to the students within the fields of their interest. An agreement that the benefiting student will work for the company after completion their studies may be required. In November 2015, the MŠMT prepared recommendations on contractual relationships between employers and learners, including agreements on the provision of the learner's allowance.

### 5.2.4 Policy and project-based support

There is a high level of awareness of IVET benefits and of the risks that arise from decreasing IVET participation. The Government and employers are active in the field, they engage in discussions and pilot projects that should eventually result in more systemic support for IVET. At political level, there is also a high awareness of the need to promote continuing vocational education of adults which is reflected in most relevant strategic documents.

Recent initiatives with funding that is supporting VET development comprise of:

(a) National project POSPOLU (fostering cooperation between schools and companies) was implemented by the education ministry in cooperation with the Confederation of Industry in 2012-15. It piloted a closer form of cooperation between schools and employers and subsequently drafted new proposals for legislation and other changes in the system. Project objectives aimed:

- to enhance the entrance of graduates from schools onto the labour market (increase the range of the period of practical training in real work environment);
- to increase the quality of the graduates' competences to meet the employers' needs
- to modernise the general education in VET programmes, support the personal assurance of cooperation between school and companies;
- the position of coordinator, practical training of teachers, quality assurance of practical training in companies, completion of study programmes in cooperation with employers, linkage between IVET and CVET qualifications);
- to match the VET programmes, supply with the demand of the labour market (reform of school financing, coordination of VET);

- to enhance the attractiveness of VET for young people (strengthen the carrier guidance and ensure the better permeability of VET system).

(b) In 2013, the Government adopted a paper called New Measures Fostering Vocational Education and Training, which defines the main steps relating to the organisation, administration and legislation planned for the next few years intended to enhance participation in VET and its quality.

(c) In July 2014, the Strategy for Education Policy until 2020 was adopted. The Strategy sets out three priorities for the upcoming period reaching across all components of the system: reducing inequalities in education, supporting high-quality teaching and teachers as a prerequisite for such teaching, governing the system in both a responsible and efficient manner.

(d) In 2014, a one-year development programme fostering continuing education of teachers and pedagogical staff was launched by the MŠMT. The programme aims at enhancing the cooperation between secondary technical/vocational schools and employers, increasing the vocational competences of teachers of technical subjects and teachers of practical training, especially in technical fields (machinery, electrical engineering, chemistry, etc.).

(e) Since 2015, legislation amendments allowed directors of schools to employ part-time the experts from the world of business but also from non-profit organisations and State administration without a pedagogical qualification.

(f) Several media campaigns have been implemented during recent years promoting the choice of VET among school children and their parents or promoting the CVET among the public (on the initiative of e.g. Ministry of Industry and Trade, MŠMT, etc.). Several promotion media campaigns (often co-financed from the ESF) have also been carried out in the regions, in many cases in co-operation with social partners, particularly employers. Regional media campaigns are also carried out by schools to attract prospective students.

(g) The MŠMT declared the 2015 Year of Technical Education. The detailed event programme (media campaigns, seminars, open days, conferences, etc.) was prepared in cooperation with the Confederation of Industry and other social partners. An important target group of many activities were parents, as they have influence over their children's education choices, and most still see vocational schools as a lesser option. A new interactive electronic publication called Almanac of Technical Education for parents, presenting a range of almost 500 secondary schools providing education in technical fields, including 70 good practice examples of cooperation between schools and companies, has been developed. It is available at [www.RokPrumyslu.eu](http://www.RokPrumyslu.eu). From 2016 the Confederation of Industry has an option to comment on modifications related to school capacity and programmes.

(h) In March 2016, a six-year project Support to Regional Action Planning (P-KAP) commenced with the aim to ensure methodological support in the utilisation of action planning to all regions of the country as well as to secondary and higher professional schools.

(i) In April 2016, the MŠMT prepared recommendations on contractual relationships between employers and schools with the aim to unify proceedings and practices regarding the practical training provided in the real working environment of companies and to motivate employers towards cooperating with schools.

## 6. Estonia

### 6.1. Estonian VET System – Overview

Vocational education system in Estonia is regulated by the Vocational Educational Institutions Act<sup>23</sup> which provides the basis for the establishment, maintenance, transfer, reorganisation and closure of vocational educational institutions, the basis for the right to provide instruction, management, organisation of studies, education financing, the rights and obligations of members of schools, and state supervision over the activities of schools. In addition, Vocational Education Standard sets uniform requirements for initial and continuing vocational training.

The Adult Education Act is the central legislation related to the adult education system in Estonia. It stipulates the right of every person to constantly develop their knowledge and skills, the obligations of the state and local governments in the coordination of adult training, and the obligation of employers to grant study leave to learners engaged in distance learning, evening courses, external study or part-time study.

Vocational education can be acquired either in vocational education or professional higher education institutions. In the 2018/2019 academic year, there are 28 state and municipal<sup>24</sup> vocational educational institutions and 6 state professional higher institutions active in Estonia that offer a range of 160 specialties (with student pool of around 18'979 in vocational and 2'937 in professional higher education). There are 4 private institutions as well<sup>25</sup>.

Estonian is the primary language of instruction used in vocational training in Estonia. Russian is also used as language of instruction in some vocational education institutions. In the vocational education centre of Valgamaa one can also study in English.

### 6.2. Qualifications

There are level 2, 3, 4 and 5 vocational education qualifications in the Estonian Qualifications Framework. Vocational secondary education is equivalent to level 4 vocational training, meaning that besides vocational training the student also acquires upper secondary education. Level 5 vocational training, also known as specialised vocational training, was established in Estonia during the 2013/2014 academic year – there was no equivalent level of vocational training available previously. The learning outcomes of all types of vocational training, meaning the knowledge, skills and attitudes mastered during the programme of study, are described in the Vocational Education Standard.

**Table 10. Levels 2-5 of vocational training**

VET qualifications till Sept 2013	Qual. Level	VET qualifications since Sept 2013
-	1	-
Vocational Education without the requirement for basic education	2	2 Level Vocational Education (no requirement for previous education level)
Vocational Education Based on basic Education	3	3 Level Vocational education (no requirement for previous education level)
Secondary vocational education/ Vocational Education based on secondary education	4	4 Level vocational education (including secondary vocational education)
-	5	5 Level Vocational Education (based on secondary education)
-	6	-
-	7	-
-	8	-

Since 2013, vocational training is calculated in Estonian vocational education credit points. One credit point corresponds to 26 hours spent by a student on studies upon the acquisition of skills and knowledge. A single study year in vocational training is equivalent to 60 credit points.

<sup>23</sup> <https://www.riigiteataja.ee/en/eli/505022014002/consolide/current>

<sup>24</sup> 26 state and 2 municipals

<sup>25</sup> However, the contribution is small, only 2 % of students (446 students in 2018/2019) study in private institutions

Vocational training is offered through to initial and continuing curricula. Studies based on the initial training curriculum does not require previous professional competence, while continuing education requires a competence within or similar qualification. Continuing vocational training takes place only in level 4 and 5 of vocational training.

Workplace based studies constitute a specialised form of vocational education where the ratio of practical assignments undertaken in companies or institutions encompasses at least two thirds of the curriculum. Workplace based studies are conducted upon signing an intern contract between the school, student and employer, which stipulates the rights and obligations of parties as well as the exact details of the learning process. The employer must recompense the student for tasks performed to the amount agreed upon in the intern contract. The agreed wages must not be less than the statutory minimum wage established by the government. In cases where the student and employer are already bound by a valid employment contract, no extra wages are paid. The number of students in workplace-based study form is growing and in 2018 included already 1'700 students.

Vocational schools (both private and public) and higher education institutions offer adult students the possibility to acquire vocational education in the form of part-time study, and work-related training. Work related training can also take place within the workplace itself; and for some professional fields (e.g. teachers or doctors), study is within university institutions.

### 6.3 Teachers and trainers

Vocational Educational Institutions Act (Parliament, 2013) defines both general education and vocational subject teachers as vocational education institution's teachers, though two professional standards apply – one of teacher's and another (õpetaja) of vocational teacher's (kutseõpetaja). The professional standard defines three qualification levels (EQF levels 5, 6 and 7) for vocational teachers (kutseõpetaja). Some vocational teachers work part-time and have no pedagogical qualification. However, to reach the highest level, the person should have at least EQF level 6 qualification (180 ECTS) in one of the available tertiary vocational teacher programmes. According to the professional standards, a VET provider cannot employ more than 20% of staff with the lowest level qualification.

The Vocational Educational Institutions Act (Parliament, 2013) stipulates compulsory and free-of-charge continuing professional development for VET teachers. It is the teachers' obligation to develop their professional skills and be up to date with new developments in the world of education. Since 2015, no minimum continuing professional development requirements remained. Instead, teachers' individual needs, current competences and tasks and the needs of VET providers are taken into consideration. VET providers offer tailored training to teachers in accordance with their annual self-evaluation and feedback from the direct superior. Self-evaluation replaces the former system of teacher attestation.

Teacher practice at an enterprise or institution may also be counted towards continuing professional development. Teachers are excused from teaching during practice. The leading continuing professional development providers are universities, followed by VET providers, private companies and foundation courses.

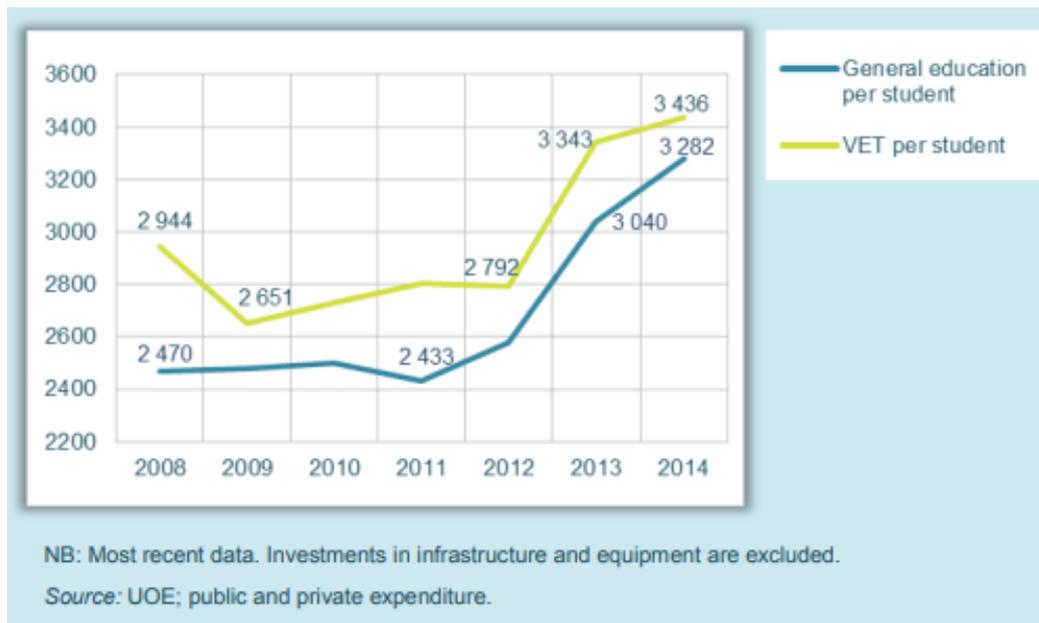
Teachers have permanent monthly salary and 8 weeks of paid vacation. Minimum salary of a full post is 1'250 €/month (stipulated by Government Regulation). Full post means 35 working hours per week, within that 18-22 contact lessons (i.e. 45-minute academic hours).

### 6.4 Financing of VET in Estonia<sup>26</sup>

Formal VET is mostly State financed. In 2016/17, 99% of 25,071 initial and continuing VET learners were in state-financed programmes. Private VET schools may also apply for state funding, if free of charge study places are created in prioritised study programme groups, where state schools can't cover all the labour market needs (e.g. ICT).

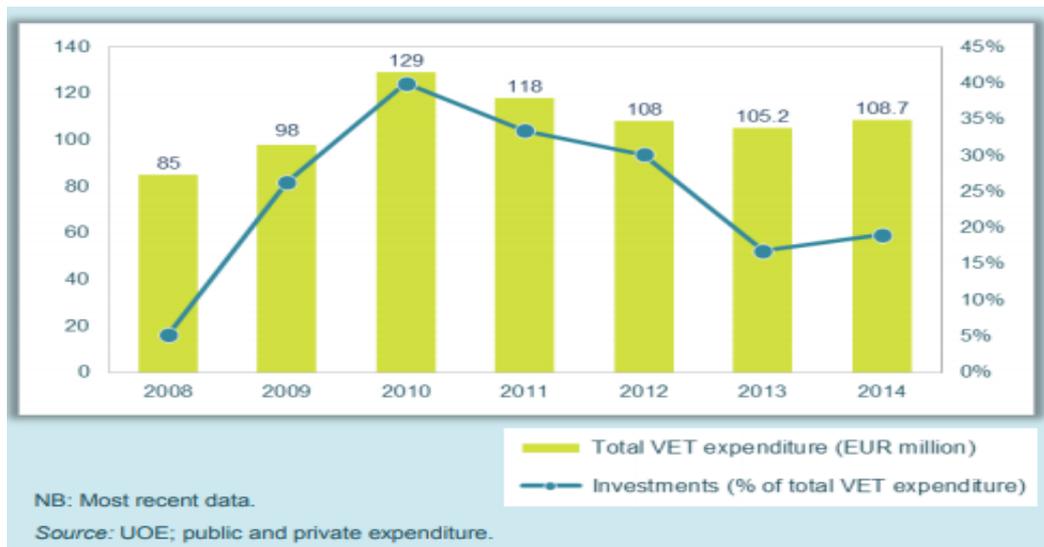
<sup>26</sup> [https://www.cedefop.europa.eu/files/4155\\_en.pdf](https://www.cedefop.europa.eu/files/4155_en.pdf)

Figure 3: Expenditure per student in 2008-2014 in Estonia



A few privately financed VET programmes are available in State and municipal VET schools. Such programmes are usually in high demand among potential students (as with cosmetician) but are not part of the State-financed programmes. Apprenticeships, officially called Workplace based studies (one study form in formal VET) are also jointly financed by ESF (European Social Fund). It is prioritised by State and thus financing is enhanced. Also, different financing model applies to that. State and municipal vocational schools may provide continuing training for adults for a fee without age restrictions. They can also attract additional financing from other sources, such as domestic or international projects, selling goods and services produced in training process or from sponsorship. Approximately 66% of total expenditure is on staff salaries, but it may vary depending on the profile of the VET school.

Figure 4: VET total expenditure and investments in 2008-2014 in Estonia



6.4.1. Funding principles – formal vocational education

The financing formula has changed recently from what was in-input based formula funding to outcome-based formula funding, so called performance-based funding.

The input-based formula funding consisted of base cost and coefficients by study field, qualification type (initial or continuing) and special educational needs. In 2016/17, the base cost of a programme per learner per year (60 credits) was EUR 1,665 multiplied by a coefficient (1.0 to 4.0)<sup>27</sup> depending on curriculum group. The cost covers staff salaries, training materials and

<sup>27</sup> See Annex D: Estonian VET Funding formula: Coefficients per field of study and inclusion of SEN students

maintenance (such as heating and electricity). The government defines the base cost for each calendar year. This financing mechanism applied to all formal VET levels and forms until 31st of December 2017.

Before the Amendments to the Vocational Institutions Act of 2018, the financing of VET was in line with so called state commissioned places. Each year the education minister defined the number of study places (equivalent of learners) to be financed from the State budget for the following three years by curriculum group and VET provider (for example ‘media technologies’ that comprises curricula from related fields such as ‘multimedia’, ‘printing technology’ and ‘photography’). The figures were updated annually for the next two years. The school had the right to decide the specific curriculum within the funded curriculum group (defined by the VET standard) and study form. If a VET provider did not have enough learners in the curriculum group, the funding could be used for another curriculum group or for adult education in the same curriculum group.

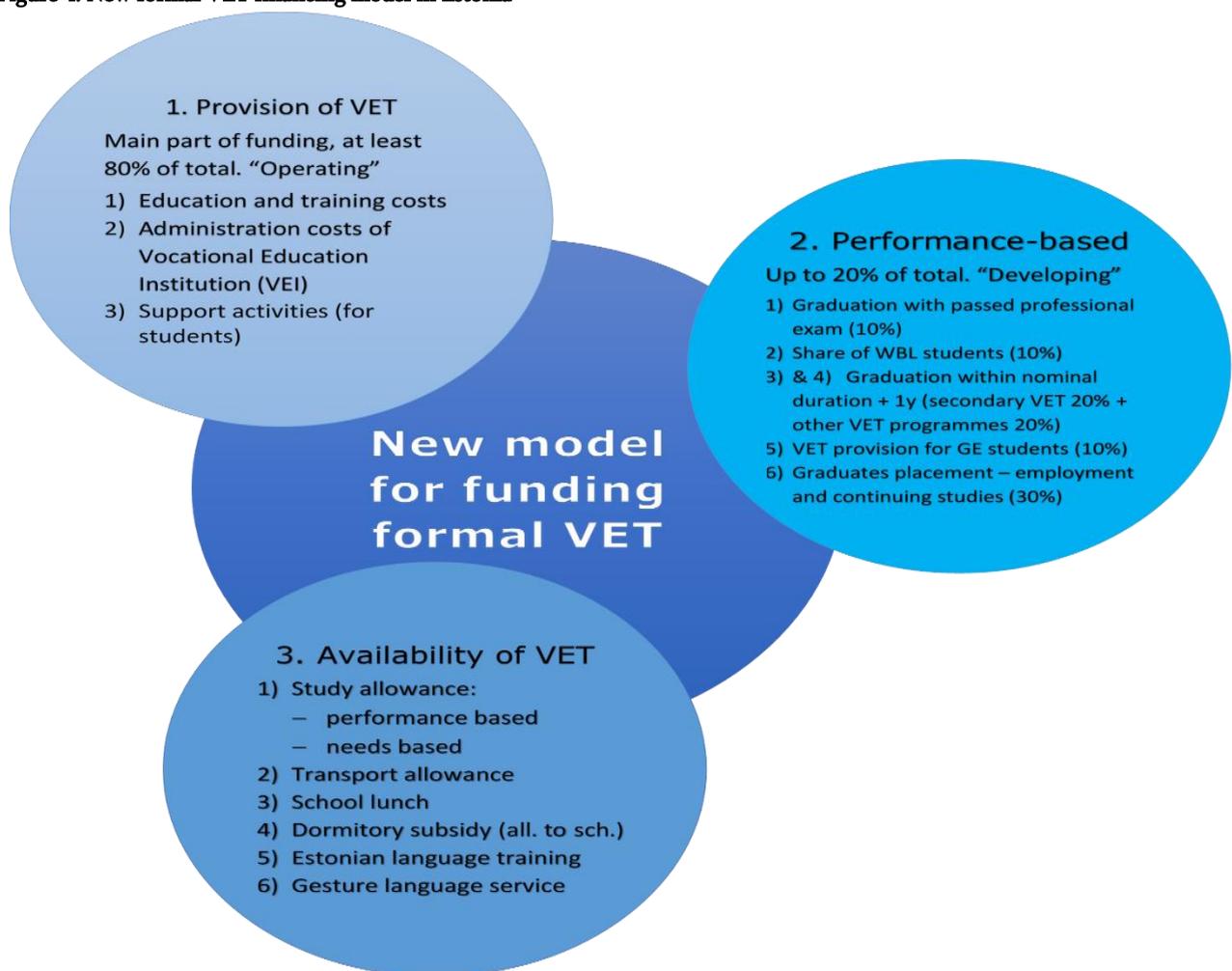
Government adopted a new decree on Vocational studies' funding principles and components and implementation conditions and rules on 21 December 2017<sup>28</sup>. Already 2018 IVET budget for VEIs were designated according to new rules. Secondly, on 12 December 2018<sup>29</sup>, Parliament adopted amendments to the Vocational educational institutions Act to link vocational programmes better with the labour market and to amend new funding principles of vocational schools (See Annex C).

The amendments abolish State-commissioned education. This will give schools more autonomy and responsibility. The Government's Decree no. 197 of 21 December 2017 on Financing of VET introduces a new financing model consisting of three types of budget lines – components (See Figure 4)

- 1) component for provision of VET
- 2) component of performance-based financing
- 3) component of availability of VET

The first component – for Vocational education and training covers all provision related costs among them tuition and administration.

**Figure 4: New formal VET financing model in Estonia**



<sup>28</sup> <https://www.riigiteataja.ee/akt/129122017026>

<sup>29</sup> <https://www.cedefop.europa.eu/el/news-and-press/news/estonia-vet-law-amendments-bring-better-vocational-training-and-labour-market-links>

Second, up to 20% of the schools' operating expenses will be covered by performance-based financing, determined by school results of six criteria. The aim of performance-based financing is to motivate schools to complete their main tasks and contribute to state level objectives successfully. The schools will be responsible for cooperating with social partners and meeting local education demands and the needs of the labour market. In the future, the state will cooperate with its partners to agree on the amount of training at each school in the fields that have national importance.

Third – the availability (or access) component covers additional students' related costs like stipend, dormitory, school-lunch and transport allowance as well as need related to different SEN categories, among them state language training.

### Box 2: The performance indicators within Estonia's new VET funding model

Vocational Institution Act. Chapter 9. Financing

- 1) The quality indicators of the provision of vocational training, including the indicators of graduating the school with a vocational examination and the indicators of workplace-based study
- 2) The performance indicators of the provision of vocational training, including the indicators of completion of vocational secondary education curricula
- 3) Indicators of supporting the development of society, including the indicators of participation in employment and continuation of studies and the indicators of cooperation with the social partners and educational institutions.

The vocational education and training related funding take into account “the number of training places, study areas, curriculum groups and differences in the organisation of students and study at school, workplace and prison.” More specifically, the Article 2.4 of the Government's 21.12.2017 regulation no 197<sup>30</sup> on VET financing stipulates the following base cost and funding formulas:

- 1) Teacher salaries: 1,000 Euro\*N of Places<sup>31</sup>\*Study Coefficient (see Table 11)
- 2) Administrative costs related to teacher's job: 12 Euro\*N of Places\*Study Coefficient (see Table 11)
- 3) Student additional support: the sum of above-mentioned funding\*1.334 (if moderate pedagogical intervention needed) and the sum of above-mentioned funding\*2.868 (if thorough pedagogical intervention needed)
- 4) Training equipment and materials: N of study places\*the basic cost of training materials (19,89 Euro) \*the coefficient of training materials of the study field (see column (3) in Table 12) in school-based studies and N of study places\*the basic cost of training materials (19,89 Euro) \*the coefficient of training materials of the study field (see column (3) in Table 12) \*0.6 for work-based learning.
- 5) Practical study area (workshops): N of study places\* 72.49 euros\* practical study area coefficient (see column (4) in Table 12). And N of study places\* 72.49 euros\* practical study area coefficient (see column (4) in Table 12) \* 0.6 for work-based-learning. The practical training area shall not be financed in vocational training in prison<sup>32</sup>;
- 6) in-service training for teachers, principals, educational staff and support professionals: N of training places\* EUR 18
- 7) use of sports facilities: N of training places in secondary VET\* EUR 40
- 8) In case of providing vocational programmes with volume at least 20 credits for general education students, the N of students shall be multiplied by a coefficient of 0.3
- 9) Support services<sup>33</sup>, the budget of which is calculated on the basis of:
  - N of students of up to 20 years of age and without secondary education enrolled in full-time curricula shall be multiplied by a coefficient of 0.35 and the result of that multiplied by EUR 353.23;
  - the number of students requiring moderate pedagogical intervention shall be multiplied by EUR 706.46;
  - the number of students requiring thorough pedagogical intervention shall be multiplied by EUR 1,766.16.
- 10) School administration finances<sup>34</sup> in public vocational education institutions:
  - at least EUR 331,405 for a school with a maximum of 336 training places (equivalent of students);
  - at least EUR 485,737 for a school with a maximum of 756 training places;
  - at least EUR 709,864 for a school with a maximum of 1,260 training places;
  - at least EUR 1,020,773 for a school with more than 1,260 places for training.

<sup>30</sup> The regulation is replaced in 16.08.2019 by the regulation No 39 of Minister of education and research but the financing model and formula have remained the same as in the regulation No 197.

<sup>31</sup> the number of students registered in the Estonian Education Information System as of November 10.

<sup>32</sup> As it is responsibility of prisons.

<sup>33</sup> includes the provision of career services, study assistance, special and social pedagogical and psychological services

<sup>34</sup> the cost of staffing and managing staff involved in school management, study organization, administration and learner leisure activities, as well as the number of places of business, in the classroom, administrative and general areas.

- 11) School administration finances<sup>35</sup> in public applied higher education institutions (providing vocational programmes), in private and municipal vocational education institutions:
- at least EUR 986 per training place if the number of training places is not more than 336;
  - at least EUR 643 per training place if the number of training places is not more than 756;
  - at least EUR 563 per training place if the number of training places is up to 1,260;
  - at least EUR 486 per training place if there are more than 1,260 places.
- 12) Base costs for work-based learning is 1,665 EUR.

**Table 11. Coefficients for calculating teachers' labour and management costs based on study specifications**

(1)	(2) Distribution by the study form	(3) Distribution by the size of study group according to curriculum group	(4) Coefficients for Vocational secondary education	(5) Coefficients for 2-5 level vocational training other than vocational secondary education
1	School based learning	Large group learning (Business, Administration & Law)	1,028	1,000
2		Small Group Learning <sup>36</sup>	1,658	1,721
3		Music and performing arts studies	4,497	5,679
4		Subject Group Learning (all other areas and curriculum groups not mentioned above)	1,217	1,280
5	Workplace based learning		-	2,047
6	Prison training		-	1,721

**Table 12. Coefficients for calculating study area-dependent learning materials and practical learning in school-based learning**

(1)	(2) Field of study	(3) Training equipment and materials	(4) Area for practical learning
1	Business, Administration and Law	1.0	1.0
2	Health and well-being	1.8	1.0
3	IT and Communication Technology	8.2	1.0
4	Science, mathematics and statistics	8.2	2.0
5	Servicing	6.2	2.5
6	Humanities and Arts, except Music and Performing Arts	11.1	2.5
7	Engineering, manufacture and construction	8.2	3.5
8	Humanities and Arts – Music and Performing Arts	11.1	4.0
9	Agriculture, forestry, fisheries and veterinary	15.9	10.0

To improve access to formal education, vocational educational institutions can open study programmes that are not connected to specific vocational standards but, prepare students in some specialisation. This will create more flexibility for students who could not select studies after graduating from basic education or have dropped out of vocational school or an upper secondary school. It is a practical study programme introducing different specialities, to which a compensatory general education studies are added if necessary.

The accreditation of vocational education will be replaced by quality assessment. This change means that a study-centred approach at school will be developed and the trustworthiness of vocational education increased.

Below is other sources and end uses of funding for vocational education.

<sup>35</sup> the cost of staffing and managing staff involved in school management, study organization, administration and learner leisure activities, as well as the number of places of business, in the classroom, administrative and general areas.

<sup>36</sup> Curriculum groups include: Forestry and Agriculture and animal husbandry; curricula which, prior to 1 January 2017, were part of the Maritime and Transportation Management curriculum group; field of study: Humanities and Arts, except Music and Performing Arts.

#### 6.4.2. Financing of Adult learning

Estonian Ministry of Education and Research (EMoER) commissions professional training for adults (professional courses for adults). State commissioned courses are financed in contribution ESF funds. It is eligible for all adults (initially only for working adults, during the years eligibility were broadened and some population groups prioritised). Prioritised groups are those most vulnerable in labour market - those with low educational level (without or with only basic education), those with only general secondary education, i.e. without professional certificate, people over 50y of age etc. If the places of particular course are not fulfilled with learners of prioritised groups, all other can apply. Financing of these courses bases on unit price (e.g. 11.30 EUR per academic/45min lesson), number of academic hours/lessons of the course and curriculum group the course belongs to. All vocational education institutions and those higher education institutions having vocational programmes can apply, EMoER decides about applications.

Estonian Employment Insurance Fund makes procurements to fund trainings for unemployed, many vocational and higher education institutions apply. This measure is open for private training providers too, certain formal criteria should be fulfilled. There are some sector specific continuous adult training options available. For example, Estonian Agricultural Registers and Information Board (ARIB, in Estonian PRIA) procures professional training for people engaged in agricultural sector (incl. more specific subsectors as forestry, horticulture, pisciculture etc.) and development rural life as such.

The tools and mechanisms used for financing adult training are described below:

#### 1. Incentives for learners

##### a. Study, school-lunch and transportation allowances

Study allowances (also study loans) are regulated by Study Allowances and Study Loans Act<sup>37</sup>. Total study allowance budget is calculated on the principle that 40% of VET learners receive the performance-based allowance (so-called stipend). Appropriate funding is designated by EMoER as separate article in VEI's budget. VET learners can apply for basic (based on study performance) and special (needs based) study allowances at school twice a year: (a) the monthly basic allowance is EUR 60 and is available from semester two in formal full-time programmes. Around 40% of VET learners receive the allowance based on performance merit; (b) A special allowance can be granted to learners in a difficult economic situation; the board of the education institution approves the procedure to use the provider's special allowance fund.

VET providers create allowance funds (basic and special) which are financed from the State budget as earmarked article and it doesn't belong into the budget targeted to VET provision. The special allowance fund can be up to 50% of the resources of the basic allowance fund. Another extra article in budget designated to VEIs by State/MoER is school lunch. The basis for calculations is unit price<sup>38</sup> and the number of eligible VET learners up to age 20 who have not completed secondary education<sup>39</sup> according to the initial training curricula (Parliament, 2013). VEI have right to broaden the target group of those receiving school lunch (and breakfast in some cases) from school's own expenses. VET learners<sup>40</sup> are reimbursed public transport tickets between the learning venue and home. Dormitory residents and those who rent apartments close to the learning venue are reimbursed one return ticket to their hometown per week and an additional ticket during national and school holidays.

##### b. Study loans

In 2003, study loans were introduced to improve access to full-time post-secondary VET and on-time graduation. Secondary education graduates who wish to enrol in at least six-month formal VET programmes, can apply. Since 2015/16, part-time students may also apply.

In 2015/16, 4.4% of VET learners benefited from the loan<sup>41</sup> that can be up to EUR 2,500 as of 2019-2020 academic year.

##### c. Tax exemption on training costs

Estonian residents can be exempt from income tax on training costs: those incurred for studying in programmes and courses for a fee at a State or local government education institution, or licensed private/foreign provider (Parliament, 1999).

<sup>37</sup> <https://www.riigiteataja.ee/en/eli/ee/521032019018/consolide/current>

<sup>38</sup> Since 1 January 2018 it is 1 EUR per school day

<sup>39</sup> Excluding 'non-stationary' programmes, i.e. comprising more than 50% self-learning

<sup>40</sup> Excluding 'non-stationary' programmes, i.e. comprising more than 50% self-learning

<sup>41</sup> The Ministry of Education and Research.: HaridusSilm [Educational statistics database]: <http://www.haridussilm.ee/>

#### d. Study leaves for employees

The Adult Education Act (Parliament, 2015) provides the right for employees to take leave of up to 30 calendar days per year while in formal education or professional training. On application, the employee must present written proof of studies from the provider. During leave, employers pay the national average wage; EUR 540 per month (20 calendar days of leave) or EUR 3.20 per hour in 2019.

Additional study leaves (15 days) is granted for preparing for the final exams (Applies only for graduation of formal education programmes and in that case national minimum wage applies (in 2019 it is 540 EUR))<sup>42</sup> in formal education (incl. basic and general secondary, all levels of formal VET and higher education). An employee also has the right to leave without pay to sit entry examinations<sup>43</sup>.

These rights and benefits are applied in the public and private sector, in small, medium-sized and large companies (Cedefop ReferNet Estonia, 2014).

#### e. Incentives for the unemployed

The Ministry of Social Affairs (Sotsiaalministeerium) is responsible for training the unemployed. Vocational training for the unemployed is funded by the public employment service<sup>44</sup>. This allocates resources to employment services to purchase and organise labour market training. It commissions training from education institutions, including VET providers, including private ones.

The public employment service also supports work-practice placement for the unemployed through agreements. The participant continues to receive unemployment benefit and is granted a scholarship<sup>45</sup> and travel compensation<sup>46</sup>, paid by the employment service<sup>47</sup>.

Since 2009, labour market training for the unemployed is also offered based on a voucher system (koolituskaart)<sup>48</sup> –grants to individuals. Vouchers offer a quick and flexible way for the unemployed to use the resources for further training or retrain to find a new job. The service covers up to EUR 2,500 per training for two years. The fund compensates the training costs covered by the training card (incl. the study materials included in the training price) to a value of up to 2,500 euros (including Value Added Tax) which may comprise one or several training courses. If the amount of the selected training(s) exceeds the maximum limit of the training card, we recommend that you notify your consultant and, where possible, the fund will order the necessary training for you. If you are using only the training card, you must pay the excess as your own contribution. As of 1 January 2014, we compensate the training costs of the training card to a value of up to 2,500 euros over a period of two years."

Unemployed person can do proposal to the funds consultant to get the training card for applying some certain training. So, the fund must agree with it and then can give right to person to use it. If I remember correctly, it was under 10% of all unemployed who benefit from that measure.

In May 2017, the public employment service launched a new package of services for unemployment prevention through continuing training and retraining. Individuals are encouraged to move to jobs that create higher added value. Examples are workers who are likely to lose jobs but could retain their employment: those without a qualification or whose skills are outdated and do not correspond to the needs of the labour market; workers with poor knowledge of Estonian; and those aged over 50. The package also supports employees who cannot continue their present employment due to health issues. This service package also offers a study allowance scheme that supports participation in VET and in higher education.

<sup>42</sup> Mostly final exam in formal VET is professional exam (in different forms; conducted by authorised professional body [VEI/HEI can apply to become the authorised body for its graduates only]). Secondary vocational and SEN students can choose school exam (mostly practical or combined) instead of professional exam. Since April 2019 those who fail passing professional exam can apply to school exam.

<sup>43</sup> Usually there's no entry exams in VET (in some cases it exists, e.g. in Arts, Music and Ballet or in technical / ICT specialities with high competition). Most of VEI's use interviews.

<sup>44</sup> Unemployment Insurance Fund

<sup>45</sup> The grant is calculated on the basis of the data provided by the service provider for each day that the person in question participated in the service. The daily rate of the grant is 3.84 euros, which will be transferred to your bank account (the details of which you submitted) during the month following your participation in the service

<sup>46</sup> The calculation of commuting and accommodation benefits is based on the shortest distance between the address of your actual place of residence (listed in the information system of the Unemployment Insurance Fund) and the place where the service is provided. The commuting and accommodation benefit are 10 cents per km, but no more than 26 euros per day. This benefit is paid if the commuting distance is at least 500 km (one way of a return trip)."

<sup>47</sup> <https://www.tootukassa.ee/eng/content/subsidies-and-benefits/commuting-and-accommodation-benefit>  
<https://www.tootukassa.ee/eng/content/subsidies-and-benefits/grant>

<sup>48</sup> <https://www.tootukassa.ee/eng/content/services/what-training-card>

People at risk of unemployment now have access to labour market training through vouchers. In addition to direct support to employees, skills development is supported by compensating 50% to 100% of the training costs to employers. Employers can apply for a training grant to support their workers in adapting to the changes in business processes, in technology or changes in formal qualification requirements. Employers can also use the grant to fill vacancies in high demand roles by equipping potential employees with the necessary skills. More than 3,700 people are estimated as receiving this support in 2017, and around 15,000 to 19,000 annually in 2018-2020<sup>49</sup>.

## 2. Incentives for enterprises

### a. Wage subsidy and training remuneration

Employers are reimbursed by the State for supervising work practice for the unemployed (Parliament, 2005), with a daily supervision rate of EUR 22.24 – eight times the minimum hourly wage (EUR 2.78 in 2017) (Parliament, 2009) – for each day attended of the first month of training. Reimbursement decreases to 75% of the daily rate during the second month, and to 50% during the third and fourth month.

### b. Tax exemptions

There is no value added tax for formal training; this includes learning materials, private tuition relating to general education, and other training services unless provided for business purposes (Parliament, 2003b). Since 2012, enterprises have been exempted from income tax if they finance the formal education of their employees (Parliament, 1999a).

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<sup>49</sup> At 2018 there was 29-34 thousand registered unemployed (depending on month)

## 7. Gender Equality and Social Inclusion (GESI)

### 7.1 Overview of international good practice

All disadvantaged groups need special support in order to ensure their inclusion in society's life. In the frames of the current project, the special effort needs to be done to support GESI participation in VET education and subsequent employment.

The international experience shows that the best results are achieved when TVET institutions consider these issues at the educational programs' planning stage. Indeed, all activities directed to inclusion of GESI people into the programs need financing, therefore, it is very important to consider this at the planning stage, otherwise, later on, the best intentions might not be realized as a VET institution finds out they do not have funds for these.

Based on the above reasoning, TVETs are called for a careful planning of all initiatives to support GESI inclusion and calculating corresponding costs. Below, the activities, usually employed by TVETs worldwide are listed:

Programs - Institutions design programs, curricula and syllabi, and prepare study materials, teaching and evaluation methods in GESI neutral manner. The training syllabus have a GESI component in it, the course objectives and subject topics are designed with a GESI perspective, the curricula includes GESI sensitive subjects and GESI related issues such as gender roles, disabled needs and constraints; training manuals and material content are not GESI biased in terms of language, images and content and training methods reflect GESI specific needs. Special consideration is given to class schedule these are flexible in timing to adjust to the needs of GESI students.<sup>50, 51</sup>

Teachers and staff - need to be ready to instruct different types of students, some of them might be slow in getting instructions; some might need special attention and assistance and so on. Teachers might face additional difficulties with respect to disabled students and should be taught how to overcome these. Teachers, managers, workers, should be given special training on gender equality and disability issues and how to address people with special needs.<sup>52</sup>

VET education funding considers the costs associated with such activities as mentoring, because, quite often, one-to-one work with special needs students is needed. Therefore, teaching hours loading for teachers increases and this is considered in their remuneration.

Recruitment of GESI students - a plan is designed how to reach out for potential students, special places where such students can be found are considered, as well as the special ways of information formulation and spread. Such ways are diversified and use maximum range of places and ways, such as: going to schools, community gathering places, advertising through internet, radio, working with community leaders, women's NGOs and NGOs working with minority and other disadvantaged groups as well as local government officials and offices of related ministries.<sup>53</sup>

Training environment – VET institutions consider ahead how to provide means of transportation for disabled who need a special transportation, or those from remote areas, or poor. They also provide accommodating facilities, such as hostel facilities for women and disabled that are equipped with special ramps, and Special equipment for those who need them (hearing aids, etc.), building entrances, lifts, classroom arrangements, separate restrooms for male and female students. They have maternity and/or daycare services, medical facilities, flexible contact hours.<sup>54, 55, 56</sup>

Concepts of universal design and reasonable accommodation are introduced in educational institutions worldwide. A proactive approach to universal design means removing barriers and preparing for unanticipated circumstances in advance. These needs preparing for access and use by everybody. "For example, reserving parking spaces or organising accessible transportation so that they are available when someone needs them, doors that can be opened easily, signage in large print and in Braille; accessible bathroom stalls, etc. This may also mean locating the most popular classrooms on the ground floor, along with

<sup>50</sup> European Centre for the Development of Vocational Training. (2009). Using tax incentives to promote education and training.

<sup>51</sup> Tuladhar, J. (2012). Resource guide on gender mainstreaming into technical and vocational education and training (TVET) in Bangladesh. ILO-TVET reform project, Bangladesh.

<sup>52</sup> International Labor Organization. (2013). Inclusion of People with Disabilities in vocational training: A practical guide. International Labor Office – Geneva.

<sup>53</sup> Tuladhar, J. (2012). Resource guide on gender mainstreaming into technical and vocational education and training (TVET) in Bangladesh. ILO-TVET reform project, Bangladesh.

<sup>54</sup> International Labor Organization. (2013). Inclusion of People with Disabilities in vocational training: A practical guide. International Labor Office – Geneva.

<sup>55</sup> Tuladhar, J. (2012). Resource guide on gender mainstreaming into technical and vocational education and training (TVET) in Bangladesh. ILO-TVET reform project, Bangladesh.

<sup>56</sup> Australian National Training Authority. (2004). Equity in Vocational Education and Training. [www.ncver.edu.au](http://www.ncver.edu.au)

business and counseling offices, the auditorium, cafeteria and health office, or having these commonly used facilities accessible by elevator. Universal design can be applied and practiced in recruiting trainees, in testing applicants, in offering instruction, including in the presentation of print and electronic materials, and designing internships and curriculum".<sup>57</sup>

Awareness raising of students - VET institutions employ activities aimed at changing students' worldview on different GESI issues. Students are trained in a multicultural environment with post-positivist values for enhancing GESI sensitive social values in organizational culture.

Report on the disadvantaged students' performance - Both quantitative and qualitative indicators are used to measure differences between baseline and outcome to assess the effectiveness of activities designed to address GESI issues. All the indicators are disaggregated by sex and age.

Helping in finding jobs - Experience of organizations like Disability Rights UK, Lloyds Banking Group and the BBC that have implemented career development programs and networks to increase disabled people's opportunities to achieve careers are valuable. These and other organizations advocate with the policy makers to provide special incentives for employers to hire GESI graduates, to provide stipends and special provisions for GESI students. These institutions also network with the industry to encourage apprenticeships for GESI graduates; familiarize employers with some constraints faced by GESI workers: need for flexibility in working hours, need to balance work and domestic life, fear of sexual harassment, lack of social benefits.

All these activities are considered by TVETs at the planning/preparatory stages as support of GESI student needs will inevitably lead to additional expenditures, so, they need additional funds to be consolidated. These costs will be support services, additional human resources, trainings, special equipment, etc.

Overall expenses as well as expenses for specific programs are calculated and taken into account in their funding policy. These institutions consider the following:

- The number of learners who might require additional support;
- The costs involved in developing study materials, careers advice and the establishment of relevant infrastructure and staffing, as well as special trainings such as gender sensitive training;
- The cost of delivering services in remote regions.

Once all needed funding is carefully calculated, institutions work on obtaining these. The international practice shows that state involvement is necessary. A practical guide for inclusion of people with disabilities in vocational training calls for governmental support of VET education providers that plan to have students with special needs. For example, hearing and visual aids equipment is quite expensive and training institutions might not be able or willing to purchase these. Reasonable accommodation should be achieved with governmental support.<sup>58</sup>

Indeed, the governments of many countries support GESI VET education. 28 European countries report on various aspects of inclusive VET education, including funding. In Finland, Denmark, Norway, Switzerland, SEN students receive a "disability supplement" which is considered as compensation for them not being able to work in addition to their studies. In Netherlands, SEN students after 18 can receive a work and employment support grant.<sup>59</sup>

The governments also use special tax incentives to meet GESI people needs and to encourage TVET institutions to recruit such students. The European Center for the development of vocational training conducted a study on using tax incentives for VET education financing and studied situation in 6 European countries - Germany, Ireland, France, the Netherlands, Austria and Finland and has shown that these countries use tax incentives to support those who wish to gain VET education.

"Tax incentives can be defined as those concessions in tax codes that mean a conscious loss of government budgetary revenue because they reduce either the tax base or the tax due. These are usually intended by public authorities to encourage particular types of behavior (education and training, in this case) and/or to favor concrete groups (certain individuals or companies)".<sup>60</sup> Tax incentives come in number of forms, such as tax allowances (deducted from the gross income to arrive at the taxable income), tax exemptions (some particular income is exempted from the tax base), tax credits (sums deducted from the tax due), tax relief (some classes of taxpayers or activities benefit from lower rates), tax deferrals (postponement of tax payments).

Germany, the Netherlands and Austria have introduced tax incentives that support VET education as well as prepare people for a long-term employability perspective, for possible occupational change. After analyzing situation in these 6 countries and

<sup>57</sup> International Labor Organization. (2013). Inclusion of People with Disabilities in vocational training: A practical guide. International Labor Office – Geneva.

<sup>58</sup> International Labour Organization. (2013). Inclusion of People with Disabilities in vocational training: A practical guide. International Labour Office – Geneva.

<sup>59</sup> European Agency for Special Needs and Inclusive Education. (2014). Vocational education and training: Summary Of Country Information.

<sup>60</sup> European Agency for Special Needs and Inclusive Education. (2014). Vocational education and training: Summary Of Country Information.

comparing their systems to each other, the study concluded that tax incentives should be considered as complimentary instrument, while grant schemes for enterprises, loan schemes, subsidies for individuals or enterprises, learning accounts, training funds, should be considered as the main sources for funding.

Overall, international practice shows that share of the country governments in funding VET education is high<sup>61</sup> and it should be even higher in countries with low economic development, such as Georgia. The logic behind is that in such countries, other sources of financing are not active, such as business/industry, community and the learners, the latter simply can't afford these.<sup>62</sup>

Below is an example of financing GESI people in Serbia. This example is from a school education but can also be applied to VET education.

The **vulnerable population** is grouped in 4 categories, according to the **Organization for Economic Cooperation and Development (OECD) guidelines**. These categories are:

- Group 1 (disabilities), visual and hearing impairments, cognitive disorders, physical disabilities
- Group 2 (disorders), learning disabilities, emotional disabilities, etc.
- Group 3 (disadvantages), socio-economic, etc.
- Group 4 (any combination of characteristics from Groups 1-3)

The representatives of these groups are assigned specific service packages that do not include capital investments, such as adapted buildings or purchase of auxiliary equipment; neither have they included costs for transportation. Packages are limited to the extent that they do not differentiate between students who have significant needs versus those with milder needs within each particular category. The minimum standard costs for each category were used to calculate weights. These weights indicate how much it costs to provide the minimum services packages as compared to the cost of educating a typical student. A student who has no additional needs would have a weight of 1.0. Weights were calculated based on the following equation:

**Table 13. Inclusive education weights used in Serbia**

The resulted weights are provided in the table below:

$$\text{Inclusive Education Weight} = \frac{\text{Cost of providing Minimal Standard Package for 1 student in a group}}{\text{Average per student cost in Serbia}}$$

Category	Weight
Group 1	1.62
Group 2	0.76
Group 3	0.22
Addition for G3 who are Roma 0.21	
Group 4	1.65

<sup>61</sup> European Centre for the Development of Vocational Training. (2009). Using tax incentives to promote education and training.

<sup>62</sup> NVEAC. (2011). National vet equity advisory council equity blueprint 2011 – 2016.



## Annex 1. Vocational Education and Training Systems in EU

#	Countries	Level	Institution	Responsibilities	
1.	Austria	Central	Federal Ministry of Education, Science and Cultural Affairs		Funds pupil benefits, staff, school facilities and maintenance, financial compensation for Laender and 50% of staff in part-time vocational schools.
			Federal Ministry of Social Security, Generations and Consumer Protection		Funds family benefits, schoolbooks, travel benefits.
			Federal Ministry for Agriculture, Forestry, Environment and Water Management		Funds agriculture and forestry school staff and agriculture and forestry colleges and academies (post-secondary).
			Federal Ministry for Health and Women's issues		General healthcare vocations. Academies in the healthcare sector (post-secondary VET colleges).
		Laender	Provincial Authorities		Facilities and maintenance for agriculture and forestry schools; staff and maintenance for prevocational schools; 50% of staff, maintenance and facilities for part-time vocational schools.
		Laender/ Local	Public Employment Service		Special subsidies for businesses offering apprenticeships; administration and distribution of integrative vocational training and vocational pre-apprenticeship training courses.
		Local	Municipalities		Maintenance of prevocational schools.
2.	Czech Republic	Central	Ministry of Education, Youth and Sports	Financial resources from state budget.	Programmes initiated by Ministry of Education, Youth and Sports.
		Regional	Regional authorities	Financial resources from the budgets of regional and local administration.	Wages, teaching and learning tools, teacher training.
		Providers	Schools	Receive funding from regional and municipal budget.	Operating and capital costs.
				Financial resources from state budget.	Experimental testing and development programmes.
3.	Denmark	Central	Ministry of Education		Funding of IVET Colleges and Labour Market Training Colleges through taximeter system, support CVET students for loss of wage during training, support IVET students through educational grants.



			Employers' Reimbursement Scheme	Receive funding from trade and industry.	Support IVET students during work placement abroad, compensate employers for wage payments when apprentices are at college.
			Labour Markets' VET Fund	Receive funding from trade and industry.	Contribute to the provision of training via labour market training centres.
			European Social Fund		Support relevant projects in IVET colleges and labour market training colleges.
		Local	Trade and Industry	Receive wage compensation from Employers' Reimbursement Scheme.	Contribute to Employers' Reimbursement Scheme and Labour Markets' VET fund. Pay user fees for CVET to labour market training centres.
<b>4.</b>	<b>Finland</b>	Central	Ministry of Education	Receives funding from state budget.	Distributes funding to education providers according to central government criteria; maintains a few special VET institutions; distributes funding for CVET and adult learning to Provincial state offices.
			Ministry of Labour	Receives education budgeted from the state budget.	Distributes funding to the Regional Employment and Economic Development Centres.
		Regional	Provincial state offices	Receive funding from Ministry of Education.	Decide on the allocation of appropriations related to the programme to improve the educational level of the adult population during the years 2003 to 2007.
			Regional Employment and Economic Development Centres	Receive funding from ministry of labour.	Fund labour market training directly, also allocate money to the Local Labour Offices to acquire training locally.
		Provider	Municipalities, joint municipalities, private institutions	Receive funding from ministry of education and local government.	Self-management of budgeted operational budget including for staff.
			Local labour offices	Receive funding from Regional Employment and Economic Development Centres.	Fund labour market training.
<b>5.</b>	<b>Germany</b>	Central	Federal Ministry for Education and Research	Receives funding from state budget.	Funds inter-company training centres; gives grants to IVET, advanced training and adult education; funds VET research and pilot projects.
			Ministry of Economics	Receives funding from state budget.	Funds inter-company training centres, additional training places and continuing training for SMEs.
		Regional	Laender ministries	State and regional finances.	Fund IVET and CVET in schools, i.e. salaries of teachers, decide on financial support for enterprise-based training.
		Provider	Vocational schools	Receive funding from local governments.	Fund school facilities, equipment, media as well as non-teaching personnel.



			Companies	Collective Sectoral Funds.	Fund in-company training and continuing training voluntarily.
<b>6.</b>	<b>Greece</b>	National	Ministry of Labour and Social Protection, Ministry of National Education and Religious Affairs		Funding of Technical Vocational Schools, supervise planning, allocation and expenditure of state and EU co- funding for CVET.
		Regional	Regional Authorities		Allocate funding for CVET.
		Local	Municipal Authorities		Operate and maintain the infrastructure of publicly owned Technical Vocational Schools.
		Providers	Technical Vocational Schools; Apprenticeship Technical Vocational Schools	Receive funds from the European Social Fund (75%) and national sources (25%).	Provide upper secondary education.
			Vocational Training Institutes	Receive funds from the European Social Fund (75%) and national sources (25%).	Provide all types of vocational training.
<b>7.</b>	<b>Ireland</b>	Central	Departments of Education and Science, and of Enterprise, Trade and Employment	Receive budget from Ministry for Finance.	Providing funds to intermediary organisations.
		Providers	Community/comprehensive schools	Receive funds from the Department of Education and Science.	Payment of the first portion of each teacher's salary.
			Vocational schools	Receive funds from vocational education committees.	Funding based on a standard pupil-teacher ratio.
<b>8.</b>	<b>Italy</b>	Central	Ministry of Education, Universities and Research	Receive funding from state budget.	Bears the costs of salaries and refresher training of the teaching and management staff of vocational schools and the costs of adult education schemes.
		Regional	Regions, Provinces	Receive funding from State, Region's Common Fund and European Social Fund.	Finance all the operating and maintenance costs of schools.
<b>9.</b>	<b>Luxembourg</b>	Central	Ministry of Education and Vocational Training	Receives funding from state budget.	Fund vocational training.
		Providers	Enterprises	Subsidies and awards from Employment Fund (state budget).	Apprenticeship allowances of young people in training.
<b>10.</b>	<b>Netherlands</b>	Central	Ministry of Education, Culture and Science	Receives funding from state budget.	Distributes funding for VET; fees and studying grants.
		Providers	Regional training centres	Receive funding from central government.	Finance IVET courses, adult education courses and integration measures.



11.	Portugal	Central	Ministry of Labour and Social Solidarity, Institute of Employment and Vocational Training	Receives funding mainly from national budget, social security budget, European Social Funds.	Funds initial VET courses, apprenticeship courses, initial qualification courses, CVET programmes, “Saber+”-scheme.
			Ministry of Education	Receives funding mainly from national budget, social security budget, European Social Funds.	Funds initial VET courses, vocational training courses, adult education courses, technological courses, technological specialisation courses, “Saber+”-scheme.
12.	Spain	Central	Ministry of Education and Culture	Receives funding from state budget.	Costs of personnel purchases of goods and services, subsidies to private educational bodies, scholarships and research.
13.	Sweden	Central	Ministry of Education and Research	Receives IVET budget from Ministry of Finance.	Sets broad policy outlines, implemented by the Swedish National Agency of Education.
			Swedish National Agency of Education	Receives budget from Ministry of Education and Research.	Defines goals to administer the school system and recommends improvements.
			National Agency for Advanced Vocational Education		Funds CVET training programmes delivered through public and private training providers
		Regional	Municipalities	Receives budget from Ministry of Finance, raise municipal taxes.	Allocate funding to IVET providers according to central government criteria.
		Providers	Upper secondary schools	Receive budget from municipalities.	Self-management of operational budget including for staff.
Universities, university colleges	Receive funding directly from the state budget, final allocation depends on student numbers and study performance.				
14.		Central	Department for Education and Skills	Receives VET budget from the Treasury.	Distributes funding to the funding bodies. <sup>63</sup>

<sup>63</sup> Local authorities for school-based IVET and Learning and Skills Councils for colleges and at work place, in England. In Wales, the Welsh Assembly Government Department for Training and Education funds IVET through local authorities and National Council for Education in Wales. In Northern Ireland, the Department for Education and the Department for Employment and Learning NI, and in Scotland, the Scottish Executive and Scottish Enterprise, Transport and Lifelong Learning Department through Scottish Further Education Funding Council are respectively responsible for the VET funding.



	<b>United Kingdom</b>		Department for Work and Pensions (DWP); Department for Education and Skills	Receive training budget from the Treasury.	Distribute funding to Jobcentre Plus under the DWP (responsible for training of unemployed and other disadvantaged groups in England) <sup>64</sup> .
		Regional	Corresponding Departments of education training or lifelong learning	Receives budget from corresponding central government or devolved governments.	Allocates funding to VET providers (schools, colleges and others) according to central government or devolved governments' criteria and funding formula (esp. CVET).
			Jobcentre Plus, Regional Authorities	Receive budget from corresponding central government or devolved governments.	Allocates funding to providers (colleges and others) according to central government or devolved governments' funding formula.
		Providers	Schools, colleges and others	Receives budget from regional government.	Self-management of operational budget including for staff.
			Enterprises, colleges and others	Receive budget from regional government.	Self-management of operational budget including for staff.
15.	<b>Norway</b>	Central	Ministry of Education and Research	Receives budget from Ministry of Finance.	Distribution of budget to: County authorities (block grant), individual post-secondary education and training institutions, recognised Adult Education Associations, Distance Education, Distance Education Organisations and Folk High Schools.
			Ministry of Trade and Industry	Receives budget from Ministry of Finance.	Distribution of grant and loans to individual applicants; allocation of budget to the Master of Crafts Committee.
			Ministry of Labour and Social Inclusion	Receives budget from Ministry of Finance.	Allocation of budget to Aetat (Public Employment Service) Directorate of Labour and Directorate of Integration and Diversity.
			Master of Crafts Committee	Receives budget from Ministry of Trade and Industry.	Allocation of budget to provider of Master of Craft training: Adult Education Association.
			State Education Loan Fund	Receives budget from Ministry of Finance.	Distribution of grant and loans to individual applicants.
		Central	Aetat Directorate of Labour	Receives budget from Ministry of Labour.	Distribution of budget to regional employment services and specialised services.
			Directorate of Integration and Diversity	Receives budget from Ministry of Labour.	Distribution of budget to local municipalities that organise envisaged training for resident immigrants.

<sup>64</sup> In Wales, the responsibility is devolved to the Welsh Assembly and in Scotland, to the Scottish Parliament. Funding for the Job Centre plus work-based programmes for the long-term unemployed is passed through the Department for Work and Pensions. Funding for other work-based programmes is passed from the Department for Education and Skills to the Learning and Skills Council (LSC) in England. Programmes under the New Deal receive government subsidies (through LSC in England) but are mostly funded by enterprises.



		Regional	County Authority	Receives budget from Ministry of Education and Research and from regional tax.	Distribution of funding to the County Education Department.
			County Education Department	Receives budget from County Authority.	Distribution of budget to upper secondary schools and recognised training enterprises.
			Aetat County Head Office	Receives budget from Aetat Directorate of Labour.	Distribution of budget to local employment offices.
			Aetat specialised services	Receives budget from Aetat Directorate of Labour.	Self-management of operational budget including for staff.
		Local	Aetat Local	Receives budget from Aetat County Head Office.	Self-management of operational budget including for staff.
			Municipal Authorities	Receive budget from Directorate of Integration and Diversity.	Self-management of operational budget including for staff.
		Providers	Upper-secondary schools	Receives budget from Ministry of Education and Research and County Education Department.	Self-management of operational budget including for staff.
			Training/apprenticeship enterprises	Receives budget from County Education Department.	Self-management of operational budget including for staff.
			Technical schools, vocational colleges, universities, university colleges	Receives budget from Ministry of Education and Research.	Self-management of operational budget including for staff.
			Distance Education Organisations and Folk High Schools	Receives budget from Ministry of Education and Research.	Self-management of operational budget including for staff.
			Adult Education Associations	Receives budget from Ministry of Education and Research and Master of Crafts Committee.	Self-management of operational budget including for staff.

Source: European Centre for the Development of Vocational Training, CEDEFOP, <http://www.cedefop.europa.eu>



## Annex 2. The Role of Social Partners

## Vocational Education and Training Systems in EU countries: Role of the social partners

#	Countries	General remark	Level	Responsibility	Type of Role
1.	Austria	The Austrian social partnership is based on a system of chambers and associations with close ties to political parties, parliaments and state bureaucracy at institutional or staff level. The system functions on the foundation of informal structures and does not exist as a legal entity. The collaboration of the social partners is not defined by law but is based on a form of constitutional consent.	National	Involvement in the legislative process, participation in vocational training research, counsel the administrative authorities in apprenticeship training matters.	Advisory and decision-making
			Regional	Administer the apprenticeship system, involvement in the legislative process, development of curricula (especially in the apprenticeship system), provision of VET programmes.	Advisory, decision-making
			Enterprise	Participate in all matters of VET (works council).	Advisory
			Local	Support schools, offer practical courses and tours of factories.	Counselling, support
			All	Influence CVET measures in labour market policy, participate in different VET initiatives.	Advisory
2.	Belgium	At national level, the National Labour Council, and joint educational committees involved, are the negotiating authorities for vocational education and training in Belgium. Under the responsibility of the National Labour Council in which the social partners are represented at the national level, the joint education committees have a large package of tasks including the setting up of models of training programmes per profession.	National	Conclusion of multi-industry agreements connected with training.	Advisory
				Approval of apprenticeship centres; development of training in the occupational field; drawing up the qualification profiles.	Advisory, decision-making
3.	Cyprus	In Cyprus there has been a long-standing tradition of tripartite consultation (government, trade unions and employers' associations) and social dialogue. This is reflected in the active participation of social	National	Participation in the Strategic Development Plan.	Advisory
				Participation in the: National Lisbon Programme, National Lifelong Learning Strategy, National Strategic Reference Framework for Cohesion Policy 2007-2013, CIP "EQUAL"	Advisory
				Members of Board of Governors of: Human Resource Development Authority, Cyprus Productivity Centre, Higher Technical Institute, Higher Hotel Institute of Cyprus.	Decision-making

		partners in the various bodies and committees.		Consultative committees, boards, councils (Consultative Committee of Technical and Vocational Education, ad hoc committees for curriculum development).	Advisory
4.	Czech Republic	The involvement of social partners in VET is voluntary and depends on the initiative of the parties concerned. There are no legal regulations fostering this involvement and the roles of social partners in this respect.	National	Formulation of and comments on legal regulations and government documents.	Advisory
			Regional	Formulation of, recommendations to and comments on strategic documents.	Advisory and decision-making
			Enterprise	Planning, implementation of training in companies; cooperation between schools and companies.	Advisory and decision-making
			All	Collective bargaining.	Decision-making
5.	Denmark	The social partners play a huge and formalised role in VET in Denmark. VET legislation specifically mentions that the social partners should be involved in the process, and their role is both an advisory and a decision making one.	National	Developing the overall framework for VET.	Advise to Ministry of Education
			National	Formulating the exact content, duration, etc. of individual training programme (trade committees).	Decision-making
6.	Estonia	Social partner participation in VET is regulated by national legislation as well as by their own charters, action plans and agreements with other stakeholders.	National	Creation of professional standards, development of VET in certain areas (e.g. increase the flexibility and access to VET, enhance the study environment in VET schools).	Advisory, direct
			Local	Participate in school boards.	Decision-making
7.	Finland	The Vocational Education Act provides that special attention should be focused on working life needs in education. Education must be organised in co-operation with representatives of business life and other sectors of working life.	National	Participate in the planning and development of education through representation on the Council of Lifelong Learning.	Advice to Ministry of Education
				Participate in national education and training committees to develop contacts between VET and working life in cooperation with the National Board of Education.	Advisory
				Organise and supervise competence tests in vocational adult education and training (the competence-based qualification system).	Advice to National Board of Education
			Local	Develop the operations of vocational institutions and its contacts with local working life via consultative committees.	n.a.
			Sectoral	Regulate the terms of in-service-training through “training agreements”.	Decision-making
				Maintain own adult education institutions (labour market organisations).	Direct



			Enterprise	Support and organise adult education and training (e.g. funding in-service training, offering training places for young people and adults studying at vocational institutions).	Direct
8.	Germany	The main feature of the German VET system is the close partnership between employers, trade unions and the government. Social dialogue and codetermination are important for the acceptance of reforms.	National	Setting national standards and designing training regulations; Giving recommendations on all subjects of VET.	Direct advice to the Federal Government
			Regional	Ensure suitability of training centres; monitor training in enterprises; give advice to training enterprises, instructors and trainees; establish and maintain a list of training contracts; institute a system of examinations and hold final examinations.	Advisory, decision-making
				Give advice on VET issues; influence concepts and schemes (e.g. support for disadvantaged youths, opportunities for additional qualifications requiring school training).	Direct advice to the Länder (States) Governments
			Sectoral	Collective bargaining on remuneration of trainees.	Decision-making
			Enterprise	Planning and implementing in-company training, appointing instructors, implementing in-company training, concluding employment contracts upon completion of training, and educational leave.	Decision-making
9.	Hungary	Social partners are involved in the policy and decision-making process of VET through various advisory councils set up under the law.	National	Strategy development (National Interest Reconciliation Council).	Advisory
				Involvement in the National Vocational and Adult Training Council, an advisory body of the Minister of Social Affairs and Labour.	Advisory
				Participate in the development of the National Qualifications Register (OKJ committee).	Advisory
			Regional	Ensure the coordinated development and provision of school-based VET in line with the regional labour market demands (Development and Training Committees).	Advisory, decision-making
			Local	Review curricula of VET institutions make recommendations for the modification of training offers or the use of development subsidy (consultative boards of Regional Integrated Vocational Training Centres).	Advisory
			Sectoral	Defining professional and examination requirements, monitoring apprenticeship and other forms of practical training (chambers of commerce & industry and agriculture).	Advisory
10.	Italy	The definition of vocational training policies on the regional level generally	National	Definition of the institutional framework.	Advisory
				Joint multi-sectoral funds (Fondi interprofessionali).	Advisory



		implies the formal joint approval of the plans together with the Social Partners. This approval generally takes place within the Permanent Tripartite Commissions, which have adopted different names in the various Regions and deal with all the active employment policies.	Regional	Definition of the institutional framework.	Advisory
				Joint multi-sectoral funds (Fondi interprofessionali).	Advisory
			Enterprise	Provision of learning opportunity.	Indirect Advisory
				Definition of training activities.	Advisory
			Elaboration of training plans.	Advisory	
11.	Latvia	Various laws determine the role of social partners in VET development. Social partners draw up proposals for improving VET policy and planning and organise labour market research in cooperation with state and local government institutions. They are also involved in setting up occupational standards and VET educational programmes.	National	Participation in the development of occupational standards determining the curriculum and content of vocational education programmes (National Tripartite Sub-council for Co-operation in Vocational Education and Employment).	Advisory
12.	Lithuania	At national level, the Vocational Education and Training Council functions as an advisory body for the Ministry of Education and Science and other governmental institutions in making decisions regarding strategic questions in VET. The Council is comprised equally of members representing state and municipal institutions, members representing employer and business organisations as well as members representing employee organisations.	National	VET issues (Vocational Education and Training Council).	Advisory
				Organise and carry out the assessment of acquired competencies (Chamber of Commerce, Industry and Crafts and Chamber of Agriculture).	Decision-making
			Sectoral	Development of VET standards and VET curricula (Industrial Lead Bodies).	Advisory
13.	Luxembourg		National	Involvement in VET legislative procedure.	Advisory
				Establishment and supervision of apprenticeship contracts (Chambers of Labour and Trade).	Decision-making
14.	Netherlands		National	Promotion of VET; initiatives for training the employed and unemployed.	Advisory
			Regional	Supervisory board (Regional training centres).	Advisory



			Sectoral	Define occupational profiles; cooperation between education and training, trade and industry.	Advisory
			Enterprise	Participation in negotiations on collective labour agreements.	Decision-making
15.	Poland	The main institutional platform for social partners' involvement in VET at national level is the Tripartite Commission on Socio-Economic Issues established by resolution of the Council of Ministers of 15th February 1994. The Tripartite Commission is composed of representatives of public administration, employers, the largest trade unions as well as some sectoral trade unions. All these organisations function in two capacities in the VET field: both as consultative bodies and as initiators of legal measures.	National	Involvement in VET issues (Tripartite Commission on Socio-Economic Issues).	Decision-making and advisory
				Training for unemployed people; programmes promoting employment; planning and use of the Labour Fund (Central Employment Board).	Advice to Ministry of Labour
				Participation in the reform of the VET system.	Advisory
			Regional	Evaluation of the Labour Fund; submit applications and give opinions concerning VET (Regional and district employment boards).	Advisory
				Discussion of social and economic matters crucial for the region, including questions of education organisation and financing (Regional commissions for social dialogue).	Advisory
			Enterprise	Organisation of practical training and vocational placements.	Decision-making
16.	Portugal	There is legal provision for social partner involvement in vocational education and training in Portugal. The social partners feature regularly and extensively at different administration levels and in almost all official bodies responsible for vocational education and training planning and implementation.	National	Coordination of economic and social policies; definition of vocational training policies and goals; comment draft legislation.	Advisory/ direct
				Coordinate the National Vocational Certification System; discussing and monitoring developments in occupational certification; Organise the National Apprenticeship System.	Advisory/ direct
				Implementation of vocational training policies at national and regional levels.	Decision-making
			Sectoral	Definition of strategic guidelines (Jointly-managed Vocational Training Centres).	Decision-making and advisory
			Enterprise	Organisation of workplace practice.	Decision-making and advisory
17.	Romania		National	Involvement in various CVET issues (National Council for the Vocational Training of Adults, a tripartite body).	Decision-making
				Vocational counselling, guidance and training; allocate funds from the unemployment fund (via the tripartite National Agency for Employment).	Decision-making
			Local	Participate in the planning process at county level, approve the local component of curriculum, nominate social partners in the	Advisory



				assessment commissions for IVET graduates (via Local Development Councils).	
18.	Spain	At a national level, the social partners are represented in the General Council for Vocational Training, which is a joint consultative body advising the government on vocational training. The Autonomous Regions' vocational training councils act in the same way at regional level. These councils, regardless of the geographical area they cover, are made up of representatives from the government, trade unions and employers' organisations.	National	Advising the government on issues related to VET and drafting a National Vocational Training Plan (General Vocational Training Council).	Direct advice to government
				Proposing measures to meet the objectives for vocational training management.	Advisory
			Regional	Drafting Autonomous Vocational Training Programmes (Autonomous Vocational Training Councils).	Advisory
			Sectoral	Monitoring CVT in their corresponding sector (Sectoral Peer Commissions for Continuing Training).	Decision-making
			Enterprise	Drafting training programmes within the company (collective agreements within the company).	Advisory/ direct
19.	Sweden		National	General Agreement concerning education and information to employees.	Decision-making
				Analyse the need for competences within trade and industry; promote VET.	Advisory
			Regional	Collective agreements in single municipalities and counties.	Decision-making
			Sectoral	Cooperation between the suppliers of education and local trade and industry.	Advisory
			Enterprise	Agreements concerning in-company training.	Decision-making
20.	United Kingdom	Although employer and union representatives advise government and its agencies at all levels, the proportion who are actively involved in this process is probably fairly small. None of them have any statutory or decision-making roles vis-à-vis public authorities.	National	Defining skill needs and occupational standards for specific sectors.	Advisory
			Regional	Development of Frameworks for Regional Employment and Skills Action.	Advisory
			Local	Drawing up statements of local priorities and skills needs.	Advisory
21.	Norway	Norway has a tradition of close cooperation, both formal and informal, between VET authorities and social partners. Through the	National	Development of national framework for public IVET and frameworks for adult education and CVET; development of curricula and procedures for examination and certification; national appeals boards.	Decision-making



	strong representation of social partners in all important advisory boards at all levels, the social partners are directly involved in advising on framing the national structure of recognised trades, the development of national curricula, advising of regional structure and volume of VET provision, and the framing of examinations for the trade- and journeyman’s certificate.	Regional	Decisions on regional provision structure and volume of IVET; organisation and implementation of apprenticeship training; examination and certification; operation of Training Offices.	Decision-making
		Sectoral	Development of national curricula (IVET); organise, support of CVET.	Decision-making
		Enterprise	Training of apprentices.	Decision-making

Source: European Centre for the Development of Vocational Training, CEDEFOP, <http://www.cedefop.europa.eu>

### Annex 3. Chapters of Estonian Vocational Education Institutions Act on Financing before and after the amendments of 2018

#### *Before amendments<sup>65</sup>:*

#### Chapter 8: Commissioned Education

##### § 44. State-commissioned education in vocational training

(1) Student training places shall be ensured with state-commissioned education for persons who wish to pursue vocational training based on the needs of the labour market, strategic development plans of the state and development plans for different fields, studies and forecasts and the capacity of schools and the preferences of the persons who wish to study.

(2) State-commissioned education means the number of student training places financed from the state budget which are formed by curricula groups in formal education and by courses in continuing education.

(3) Upon the formation of state-commissioned education, the actual expenses of completion of curricula shall be taken into account, therefore the reimbursement of study costs shall not be demanded from the pupils studying in student training places formed on the basis of state-commissioned education in any educational institution providing vocational training, regardless of its form of ownership.

##### § 45. Submission of state-commissioned education request and formation of training places

(1) State-commissioned education request may be submitted by the Ministry of Education and Research or another ministry to educational institutions providing vocational training which shall form training places for the conduct of vocational training on the basis of state-commissioned education.

(2) The state-commissioned education request submitted by the Ministry of Education and Research or another ministry shall be approved by the relevant minister. If the state-commissioned education is submitted by another ministry, it shall be coordinated with the Minister of Education and Research before the approval thereof.

(3) The procedure for the formation and submission of state-commissioned education shall be established by a regulation of the relevant minister.

(4) For the submission of state-commissioned education request to a local government, the local government and the ministry shall enter into a contract under public law in which the following shall be agreed:

- 1) the number of training places pursuant to curricula groups, including separately the number of training places for the conduct of vocational training for pupils with special educational needs and in a custodial institution;
- 2) the procedure for allocation of funds from the state budget;
- 3) the procedure and terms for submission of information necessary for keeping records of pupils studying at training places formed on the basis of state-commissioned education;
- 4) rights and obligations of the parties.

##### § 46. Other commissioned education

The request for commissioned education of vocational training can also be submitted by a local government or other legal person. For the implementation of such commissioned education a contract shall be entered into by the school and the subscriber.

#### Chapter 9 Financing

##### § 47. School budget and financing

(1) Schools shall have a budget in which all the revenues, expenses and financing transactions of the school are reflected.

(2) Schools may be financed from the state budget, rural municipality budget or city budget, income received from economic activities, revenue and donations for specific purposes and other funds.

(3) Upon financing the performance of obligations and functions of schools provided for in § 3 of this Act from the state budget, financing principles which among others include components for the provision of teaching and education, availability of vocational training and performance-based financing of schools shall be applied.

(4) The financing principles and components specified in subsection (3) of this section and the conditions and procedure for implementation thereof and the application thereof to municipal and private schools shall be established by a regulation of the Government of the Republic.

(5) The expenses related to the provision of teaching and education shall be covered by the entity submitting the request for state-commissioned education on the basis of student training places formed on the basis of state-commissioned education and the relevant curriculum within the nominal duration of curriculum.

<sup>65</sup> <https://www.riigiteataja.ee/en/eli/529012018009/consolide>

(6) The school shall be entitled to demand the reimbursement of study costs on the conditions and pursuant to the procedure established by the council only from pupils not studying at student places financed on the basis of state-commissioned education. The maximum rate for reimbursement of study costs shall be the cost of the student place formed on the basis of state-commissioned education in the relevant curriculum group or relevant curriculum in the same calendar year. The rate for reimbursement of study costs shall be established by the council at least four months before the commencement of an academic year. Upon establishment of the rate of reimbursement of study costs, the council may increase the rate by ten per cent in comparison with the previous academic year but not more than the maximum rate for reimbursement of study costs.

**§ 48.** Support of coverage of expenses of school lunch

(1) Subsidies shall be prescribed in the state budget for covering the expenses of school lunch of pupils up to twenty years of age who have not completed secondary education and who study in full-time study according to initial training curricula (hereinafter school lunch allowance). After the pupils have attained twenty years of age, the allowance shall be prescribed until the end of the current academic year.

(2) The allocation of school lunch allowance shall be based on the number of pupils specified in subsection (1) of this section, the calculated cost of a school lunch per pupil and the number of days of study in an academic year.

(3) The calculated cost of the school lunch per pupil and the procedure for the distribution of the school lunch allowance shall be established by a regulation of the Government of the Republic.

(4) The conditions and procedure for the use of school lunch allowance shall be established by the manager of school.

(5) The conditions of and procedure for the use of school lunch allowance of state schools shall be established by a regulation of the Minister of Education and Research.

***After Amendment of 2018<sup>66</sup>:***

## Chapter 8 Commissioned Education

[RT I, 28.12.2018, 3 - entry into force 01.01.2019]

**§ 44.** State-commissioned education in vocational training

[Repealed - RT I, 28.12.2018, 3 – entry into force 01.01.2019]

**§ 45.** Submission of state-commissioned education request and formation of training places

[Repealed - RT I, 28.12.2018, 3 – entry into force 01.01.2019]

**§ 46.** Other commissioned education

[Repealed - RT I, 28.12.2018, 3 – entry into force 01.01.2019]

## Chapter 9 Financing

**§ 47.** School budget and financing

(1) Schools shall have a budget in which all the revenues, expenses and finance transactions of the school are reflected.

(2) Schools may be financed from the state budget, rural municipality budget or city budget, income received from economic activities, revenue and donations for specific purposes and other funds.

(3) For the performance of the functions and obligations specified in § 3 of this Act, schools shall be allocated an activity support and support for specific purposes which shall be distributed to the schools with a directive of the minister responsible for the area.

(4) Activity support is a support allocated to a school for the organisation of high-quality vocational training and implementation of the school's development plan.

(5) The components of activity support are basic financing, performance-based financing and ensuring of availability. The ratio of basic financing and performance-based financing components is at least 80 per cent basic financing and up to 20 per cent performance-based financing.

(6) A support for specific purposes is an additional support determined for a school, if necessary, for the implementation of activities arising from the strategic objectives of the state.

(7) Upon calculation of the share of activity support calculated for a school from the performance-based financing, the directive of activity support or the performance of the contract under public law and the following performance indicators shall be taken into account:

1) the quality indicators of the provision of vocational training, including the indicators of graduating the school with a vocational examination and the indicators of workplace-based study;

2) the performance indicators of the provision of vocational training, including the indicators of completion of vocational

<sup>66</sup> <https://www.riigiteataja.ee/en/eli/ee/529012018009/consolide/current>

secondary education curricula;

3) indicators of supporting the development of society, including the indicators of participation in employment and continuation of studies and the indicators of cooperation with the social partners and educational institutions.

(8) On the account of the activity support allocated from the state budget, the school shall form free of charge student training places for the calendar year. A student training place is calculated on the basis of learning outcomes in the volume of 60 credit points. The reimbursement of study costs shall not be demanded from any student studying in a free of charge student training place in any educational institution providing vocational training, regardless of the ownership form thereof.

(9) The principles of activity support specified in subsection (3) of this section and the conditions and procedure for implementation thereof and the application thereof to municipal and private schools shall be established by a regulation of the minister responsible for the area.

(10) The allocation of activity support and, if necessary, the support for specific purposes to a school administered by the state and the obligations of the school upon the organisation of vocational training shall be approved with a directive for allocation of activity support by the minister responsible for the area. The directive for the allocation of activity support shall set out, *inter alia*:

- 1) the monetary amount of activity support and, if necessary, the support for specific purposes;
- 2) the obligations relating to the provision of vocational training based on the functions of the school and needs of the state;
- 3) the number of student training places for the conduct of vocational training financed from the state budget for pupils with special educational needs and at a custodial institution.

(11) Allocation of the activity support and, if necessary, the support for specific purposes, to the manager of a municipal and private school from the state budget as well as the obligations of the school upon the organisation of vocational training shall be agreed on in a contract under public law entered into between the manager of a school and the ministry, which shall set out, *inter alia*:

- 1) the monetary amount of activity support and, if necessary, the support for specific purposes, allocated from the state budget and the allocation procedure thereof;
- 2) the functions and obligations relating to the provision of vocational training based on the needs of the state;
- 3) the number of student training placed financed from the state budget, including if necessary, separately the number of student training places for the conduct of vocational training for pupils with special educational needs and at a custodial institution.

(12) The functions and obligations specified in clause (10) 2) and clause (11) 2) of this Act in cooperation with the social partners shall be determined based on the needs of the labour market, the proposals of registered professional associations, strategic development plans of the state and development plans for different fields, studies and forecasts and the developed network of schools.

(13) The school shall be entitled to demand the reimbursement of study costs on the conditions and pursuant to the procedure established by the council from pupils not studying at student training places formed on the basis of subsection (8) of this section. The rate for reimbursement of study costs shall be established by the council at least four months before the commencement of an academic year. Upon establishment of the rate of reimbursement of study costs, the council may increase the rate by up to ten per cent in comparison with the previous academic year.

(14) The bases and conditions of and the procedure for financing the vocational training of public defence institutions of professional higher education shall be established by a regulation of the minister responsible for the area.

[RT I, 28.12.2018, 3 – entry into force 01.01.2019]

#### **§ 48. Support of coverage of expenses of school lunch**

(1) Subsidies shall be prescribed in the state budget for covering the expenses of school lunch of pupils who have not completed secondary education and who study in full-time study according to initial training curricula (hereinafter school lunch allowance).

[RT I, 28.12.2018, 3 – entry into force 01.01.2019]

(2) The allocation of school lunch allowance shall be based on the number of pupils specified in subsection (1) of this section, the calculated cost of a school lunch per pupil and the number of days of study in an academic year.

(3) [Repealed - RT I, 28.12.2018, 3 – entry into force 01.01.2019]

(4) The conditions and procedure for the use of school lunch allowance shall be established by the manager of school.

(5) The conditions of and procedure for the use of school lunch allowance of state schools shall be established by a regulation of the Minister of Education and Research.

## Annex 4. Estonian pre-performance-based formula funding coefficients per study group and SENs

Fields of Study	Coefficients
1) Music and performing arts	4,0
2) Audio-visual technique and media production, including training programs that were part of the ICT training program group until January 1, 2017	2,6 1,1
3) Handicraft	2,6
4) Wholesale and retail trade	1,0
5) Management and administration	1,0
6) Accounting and taxation	1,0
7) Finance, banking and insurance	1,0
8) Secretarial and office work	1,0
9) Marketing and advertising	1,0
10) Work skills	1,0
11) The natural environment and wildlife	1,4
12) Using a computer	1,1
13) Database and network design and management	1,1
14) Development and analysis of software and applications	1,1
15) Architecture and urban planning	1,5
16) Construction and civil engineering, including road construction program	1,5 2,5
17) Electricity and energetics, including curricula that were part of a group of marine training programs until January 1, 2017	1,5 2,0
18) Electronics and automation, including training programs that were part of the ICT curriculum group until January 1, 2017	1,5 1,1
19) Mining and processing	1,5
20) Chemical technology and processes	1,3
21) Processing of materials (glass, paper, plastic and wood)	1,5
22) Mechanics and metalworking	1,5
23) Motored vehicles, shipping and aviation, including curricula that were part of a group of marine training programs until January 1, 2017	1,5 2,0
24) Manufacture of textiles, clothing, footwear and leather	1,3
25) Food industry	1,5
26) Gardening	1,8
27) Fishing	1,8
28) Forestry	2,5
29) Agriculture and livestock	2,0
30) Veterinary medicine	1,8
31) Care for the elderly and disabled	1,4
32) Child care and youth services	1,4
33) Medical diagnostic and therapeutic technologies	1,4
34) Social work and counselling	1,4
35) Therapy and rehabilitation	1,4
36) Hairdressing and other beauty treatment	1,2
37) Home services (domestic sciences)	1,2
38) Accommodation and catering services	1,2
39) Travel, tourism and leisure	1,2



40) Transport services, including curricula that were before January 1, 2017 transport management and sea transport study group	1,1 2,0
41) For SEN	1,5

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