

# DOES MONEY MATTER? FINANZIELLE ANREIZSYSTEME FÜR LEHRBETRIEBE

## ein Vergleich der DACH-Länder; DC dVET Discussion Note

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# Outline of the paper

- discussion paper commissioned by DC dVET (Donor Committee for Dual Vocational Education and Training)
- discussion note on “financial incentives for companies” in VET
- Goal: short paper to give background info whether and how one should/could foster WBL / IVET in companies by giving them financial incentives
- literature review + info from national experts
- 4 parts:
  - current schemes in AT, DE, CH & LI
  - design options
  - pros & cons of financial subsidies
  - reform country experiences: SK, HU

# Current schemes in DC dVET countries I

- **AUSTRIA**

Since 2016, basic subsidisation (linked to apprenticeship wage and regressive) + criteria-based grants (partial reimbursements of extra costs/investments into training); both are financed by compulsory levy-funded training fund

some sectoral funds exist (metal sector in western Austria; third learning site in construction sector)

- **GERMANY**

very heterogeneous approaches and schemes at federal, state and chamber level; usually geared for specific groups

generally, incentives have minor relevance for training companies

- **SWITZERLAND**

Training funds at sectoral (voluntary or compulsory) and compulsory funds at cantonal level

Mainly financed by companies (cantonal funds have additional public financing)

Funds shall foster apprenticeship training system in general

- **LIECHTENSTEIN: no scheme**

# Current schemes in DC dVET countries II

Comparative results:

- ALL DC dVET-countries have indirect subsidisation
  - tax deduction for training expenditures,
  - waiving of non-labour costs (AT), preferential treatment in public tenders (CH)
- ALL DC dVET-countries (except LI) have financial incentives
- In no country do incentives cover training investment of companies
- Countries differ to main goal(s) of incentives:
  - AT: basic subsidisation + some specific goals (quality and target groups)
  - DE: incentives more directed to the demand side (i.e. apprentices) – on the supply side (i.e. companies) incentives shall foster training alliances and sector-specific additional supra-company training centres
  - CH: foster apprenticeship training in general (activities that in AT & DE are in the responsibility of and financed by employer organisations (chambers, IHKs) and overwhelmingly financed by general fees companies are paying to these organisations.

# Design options for incentives

- direct and/or indirect subsidies
- basic and/or criteria-based subsidies
- sectoral vs cross-sectoral / regional vs federal
- target group/s:
  - Training companies and/or
  - individuals and/or
  - system level
- financial source:
  - employer contributions (re-distribution) and/or tax-payers money
  - voluntary and/or compulsory funding

# Some pros & cons of financial incentives I

- Company's self-interest in training investment => danger that incentives may distort that fundamental motive
  - „training due to future skilled staff and not due to public money“
  - negative system consequences: breaking up link between qualification demand and supply; undermining quality of WBL
  - potential dilemma of criteria-based / targeted incentives: incentives shall induce behavioural change as well as not distort basic training motive
- If there is massive underinvestment in training due to market failures...
  - ie training companies cannot recoup their investment due to poaching, general skills provision, information asymmetries, uncertainty of outcomes
  - empirical evidence on cost-benefit research show that many companies do not break even

... incentives may be justified to favourably change cost-benefit ratio

  - YET, it is very hard to find robust ex ante indicators/criteria to filter out training companies with investment motives that should be subsidised

# Some pros & cons of financial incentives II

- All subsidies entail windfall gains
- Trade-off between accuracy, criteria complexity and administration as well as information costs
- One established, subsidies are very hard to overcome
- Subsidies may trigger companies to train – YET...
  - How to define a first time training company / additional training places?
  - Will a levy-scheme be perceived as unfair tax or a fair re-distribution scheme?
- Non-financial aspects
  - Incentives may be a positive social signal
  - Re-distribution between training and non-training companies may be fair
- Evidence on limited relevance of free-rider problems (ie poaching) in dual VET countries

# Some pros & cons of financial incentives III

- Does money really matter?
  - often, low training engagement of companies is due to...
    - ... unfavourable frameworks / and inflexible settings
    - ... dominance of schools over company training
    - ... outdated occupational profiles
    - ... administrative hurdles
    - ... lack of information and training competence
  - *if these situations prevail, financial incentives will have no/limited effect!*
- IN-KIND investments – ie building up support structures and tools for training companies – may be the better type of public investment!
  - *how to finance them? Employer or business member organisatuin /"Chambers"?*

**LAST remark: NOT ALL companies shall train!!!!“**



# ThanX for attention!!!

Schmid, Kurt (2019):

Companies Engaging in Dual VET: Do Financial Incentives Matter?

Approaches in Austria, Germany, Liechtenstein and Switzerland Options, Pros and Cons for Reform Processes

ibw-report, Zürich, 2019; DC dVET Discussion Note

<https://www.dcdualvet.org/portfolio-items/finanzielle-anreize-fuer-betriebe-in-der-berufsbildung/>

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# Incentive designs in some reform countries

## ■ SLOVAKIA

Tax exemptions (per apprentice fixed amount of their productive work; usually almost cover expenses!)

Free training of instructors (financed by public & EU funds)

Since 2018 some direct subsidy for companies (esp. SMEs) that start apprenticeship training

## ■ HUNGARY

Complex and extensive system that is based on normative subsidies

Basic scheme: levy-based (training contribution) public training fund; normative subsidies design to cover average occupation-specific training costs;

tr. contrib > normative => difference goes to state

tr. contrib < normative => difference accrues to company

Extended scheme: since 2016; some training companies get extra normative subsidies: for instructors in SMEs; for workshop maintenance (for 9th graders), for investments (company-size weighted per apprentice)

Formula-based tax allowances