International Labour Organization

ILO brief

Policy brief

June 2021

Financing and incentives for skills development: making lifelong learning a reality?

Introduction

- Lifelong learning implies that individuals have access to learning (LLL) along their life course, whether they are employed or not, and there is renewed policy interest because it supports more effective labour market participation, contribution to economic growth and greater personal accomplishment. Despite the many documented benefits and positive externalities (e.g. higher productivity, employability, tax return) of lifelong learning for individuals, enterprises and societies at large, both training supply and demand tend to be lower than desirable due to market failures, such as assymetric information, adverse selection (e.g. when training providers exploit the low knowledge small enterprises have and offer inadequate training).
- In lower and medium income countries (LMIC) particularly, there is a significant funding gap to achieve Sustainable Development Goal 4 (SDG4), which aims at inclusive and equitable quality education and the promotion lifelong learning opportunities for all. This situation has only been intensified by the needs created by the impact of Covid-19 (see for example UNESCO, 2020). Ensuring stable funding and establishing appropriate incentives for training providers, individuals and enterprises is thus necessary to achieve LLL. This policy brief discusses options for funding and incentivising LLL, analysing the benefits and challenges of available options, with respect to different national contexts and socioeconomic settings. Continuing vocational training (CVET) and adult learning will be particularly in focus, due to their systematic lower and inconsistent funding and frequent lack of policy attention.

▶ 1. LLL is highly beneficial but inadequately funded

High benefits, but considerable costs and unclear expenditure

Education and training systems across the world are moving from a silo-based approach to learning, focused on guaranteeing basic education, literacy and foundational training to a more integrated approach to learning along the life cycle. Technical and work oriented learning for youth transitioning into the labour market and adults is an important part of LLL with clear positive outcomes for individuals, enterprises and society at large, namely (OECD, 2008):

- Individuals: Higher employability, increased earnings, higher levels of satisfaction at work, lower dropouts from training, higher technical flexibility, increased mobility and possibility to retrain;

Woman showing her certificate from the SIYB (Start and Improve Your Business) centre. This program, implemented by the ILO jointly with other international organizations, has created around 200 000 jobs all over China. Chengdu. China. © Copyright ILO. Photographer: Marcel Crozet.

- Employers: Increased productivity, lower recruiting costs, better image accruing from qualified staff, lower turnover, lower retraining costs;
- Society: Lower expenses with social and unemployment benefits, higher productivity and growth, higher tax revenue from more qualified workforce, positive effects over civic participation, health, crime reduction.

Beyond basic education, skills development and vocational training are becoming understood as an integrating part the fundamental rights to learning and an enabler of access to decent work. UN's blueprint for a sustainable future, the sustainable development goals (SDGs) acknowledge the importance of LLL. They expressly commit to "Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all" (Goal 4) , an aim which is also present in the Education 2030 Framework for Action (UNESCO, 2015) which calls countries to provide 'lifelong learning opportunities for youth and adults that encompass formal, non-formal and informal learning'.

LLL unites acquisition of basic skills with the development of competencies which empower individuals to manage their own learning and careers within a system which provides opportunities to learn at any point and context in life. It combines the possibility of exploring personal aspirations with access to market relevant education and training, in which technical vocational training (TVET), apprenticeships and work based learning (WBL) modalities play an important role. It also includes impartial information and access to both academic and technical tracks to post-secondary training and higher education.

TVET, apprenticeships and WBL can be costly when compared with secondary or university based education, and also often have sub-optimal levels of uptake by learners, employers and education and training providers. For example, in Austria or Luxembourg the average public expenditure per student in TVET was $3,000 higher than a student in general education (World Bank Educational Statistics, 2017). Individuals must often bear the cost of training fees, materials, some equipment and, when in a working environment see the costs of training reflected in lower wages. Employers, in turn, bear the costs of employees paid time off from work and may provide financial support for workers to undertake courses. When developed, in-house training implies paying salaries or stipends to learners who can make costly mistakes and take-up the time of their mentors, who are frequently valuable qualified employees.

The State also incurs in costs linked to core funding of education and training, scholarships, grants, vouchers and incentives to workplace learning. One of the major barriers to planning and managing appropriate financing for lifelong learning is, in fact, the absence of a comprehensive and clear picture of expenditure on behalf of the involved stakeholders. Public spending, by itself, is hard to track and frequently scattered across a high diversity of uncoordinated schemes, managed by different agencies and departments. The basis for a reform of funding and incentives must depart from the existence of clear and reliable expenditure data. Consolidation of resources and information can be encouraged by the creation of national funds (se ahead) which also contribute to the introduction of common funding criteria and program norms across the diverse existing programmes.

Training offer is often lower than needed and not the best

Besides uncoordinated and inadequate public spending, sub-optimal quality and quantity of training may also result from the inability of training markets to balance the supply and demand for skills. Public expenditure in training is historically low in most countries (ILO, 2018), espe-cially in continuing training and adult learning, with funding being mostly channelled to gen-eral/academic tracks. Despite irregular availability, information from 107 countries (UIL, 2019) revealed that only a small share of public resources is allocated for adult learning activities: Nineteen per cent of countries reported spending less than 0.5% of their education budget on ALE and a further 14% reported spending less than 1%. Only nineteen per cent of 107 countries reported spending more than 4% of the education budget on ALE. Funding bias, in the form of lower/no fees for general education tracks may also operate as a disincentive to follow tech-nical tracks (Ziderman, 2016).Adult learning is frequently financed by private contributions, notably of employers (but also individuals and NGOs), with public funding being scattered across an amalgamation of enterprises and private training providers. Employer financing is often strongest in non-formal training, whereas initial and continuing formal vocational education and training, occurring in TVET institutions tends to have strong State financing. Governments also growingly support acquisition of basic skills (normally literacy, numeracy and ICT), sometimes as part of pre-vocational training schemes. Employers may have some degree of public contribution to their training costs, as well as worker contributions, normally in the form of reduced wages during the training period.

While employers tend to initiate and support a very large share of job-related training at their own expense, investment tends to be considerably lower in micro, small and medium enterprises (MSMEs). Fear of poaching i.e. the risk of losing trained employees to competitors, creates the perception of low return on investment. For smaller enterprises with low liquidity and a small number of employees, this represents a very real risk made worse by opportunity costs linked to having an employee engaged in “non-productive time”. Information regarding available training may be unclear or hard to find, limiting understanding of which services are actually on offer. This may lead not only to low demand, but also poor outcomes if training is delivered, in a supply led market, where the training offer is not in response to existing skills needs. Excessive bureaucracy and search times contribute to increased transaction costs for enterprises and act as a disincentive to their involvement (ILO, 2017). MSMEs also tend to lack managerial capacity to organise training due to short term management demands, limited strategic vision and no dedicated human resources development (HRD) function. If actively pursuing training, they often encounter a training offer which does not reflect their needs and that has been developed for larger organizations. For example, while larger enterprises can use scale and specialization to engage in lower cost training for a large quantity of employees, micro and small companies rarely manage to able to train one or just a few employees at a time (Cardon and Valentin, 2017).

Frequently the market presents a training offer which does not support innovation, productivity and growth in specific market segments and niches, due to a limited understanding of MSMEs and their training needs. In the same way, the training on offer may not cater for the needs of more vulnerable groups and people working in informal sectors, who tend to have reduced access to formal training and social protection. In all these situations there is room for the development of funding strategies and incentives for learning based on social partner participation and effective public intervention. Social partners can have a particularly important role in the development of effective and efficient funding, by supporting collective agreements, sectorial councils as well as the development of training levies. Historically, government has moved from centralized public spending, to a decentralized, outcome-oriented model, based on shared responsibilities and with a more complex design.

▶ 2. How to fund: no “one right way”, but ask the right questions

Creating coherence in financing of LLL: different ways to engage stakeholders

Financing of LLL, especially continuing training, adult learning and work based modalities tends to be fragmented, not consistently supporting all learning modalities. Traditionally, public funding has been oriented to pre-employment courses for youth, not always attuned with market demand/needs, or the needs of vulnerable groups, with a predominance of institution-based systems. Participation of social partners in defining both training content and financing is also not as frequent as would be expected. An OECD review (Hoeckel, 2008 based on Kath, 1998), highlighted 3 types of public funding and the way key stakeholders are engaged:

- Liberal: enterprises define the quantity and quality of initial and continuing vocational training themselves and the State only defines qualification standards without regulat-ing the paths to be followed for certification (e.g. Australia);
- Neo-cooperative: employers' associations and trade unions actively steer the process of financial organization and the State provides a legal status to the consensus (e.g. Den-mark);
- Interventionist: the State, as leading actor, assumes the role of designing the system in collaboration with the social partners (e.g. Vietnam).

Despite varying approaches, a clear national LLL strategy, supported by appropriate stakeholder engagement and mechanisms which assure coordination, coherence and transparent measures is the first step to successfully shape coherent financing (ILO, 2020). One key requirement for good coordination of funding strategies consensus amongst key stakeholders. including social partners and the State. This consensus defines priorities for training investment (e.g. skills, value chain stages), and sets principles for incentive design and implementation. Such a consensus should support initial and continuing training, encompassing a wide range of learning initiatives , such as sectoral programmes, apprenticeships, adult learning and work-based learning.

Participation of employers and trade unions in the design and implementation of levies, training funds, grants, subsidies and tax incentives tends to improve their relevance, image and take-up of financing instruments, by allowing for a better understanding of enterprise and worker needs. It is important that the State stimulates targeted social dialogue at national, regional and sectoral level and it provides to enterprises and workers appropriate support in understanding and accessing training and funding opportunities. MSMEs, in particular, require support in assessing skills needs and developing a more strategic posture towards staff development, which may require coordinating national programmes from different ministries, and engaging with diverse regional/local governance actors (e.g. regional development offices, employment services) in a coordinated fashion. In the same way, enabling access of job seekers, learners and workers to funding opportunities entails similar efforts to coordinate public services and labour market intermediaries, including national and regional bodies responsible for TVET, social protection, outreach, career guidance support, recognition of prior learning and other activation measures. This type of coordination becomes particularly important to boost the participation of vulnerable groups in training, such as low qualified, migrants, unemployed and inactive.

Coordination mechanisms vary (UNESCO/ILO, 2018) from ministry led arrangements, normally by education, labour or TVET (when existing) to the establishment of a dedicated agency, apex body or coordination mechanism which engages all relevant ministries and social partners. There is a tendency for mature LLL systems to move towards more decentralized coordination and governance, as a means to achieve greater territorial penetration, better targeting and policy monitoring, as exemplified by the regionalisation reforms in Italy and France. Decentralization normally occurs with the simultaneous definition of a national framework defining roles, responsibilities, monitoring arrangements and resource allocation, setting the path for multilevel governance.

Decentralization also normally involves the transfer of responsibilities to lower levels of administration, as well the establishment or reinforcement of sector and regional for a or cooperation bodies, such as sector skills councils, which bring together training institutions and providers with employers' and workers' representatives. State initiated administrative reforms are often paired with the development of sector based levies and funds or to the targeting of national funding to regional development priorities, both social and in economic growth. In either case, decentralization tends to play a key role in achieving coordinated action at national and local level, and in ensuring that funding is correctly applied and efficiently managed.

Finding a formula for efficient and effective funding of TVET

The need to revise the basis and allocation of public funding for vocational education and train-ing is accepted across the globe, but the way to do so is not always agreed. Historically, TVET systems have evolved from more or less ad-hoc funding to more outcome oriented approaches, with transparent allocation of funds. Despite this trend, in many countries funding is often decided on the basis of lobbying, political allegiance or oversimplified procedures, such as allocating funds on the basis of previous expense levels. Generally, increasing efficiency in fund alloca-tion and efficacy to meet skill needs requires the implementation of reforms and the adoption of transparent allocation methodologies (Ziderman, 2016).

Input-based funding is frequently used to finance training institutions, consisting of multiplying the number of enrolments over a time period by a unit cost of training (variable according to training). While very common, this type of approach does not encourage efficiency gains and it tends to keep training offer irresponsive to labour market needs. *Output-based funding* may be preferred to encourage efficiency, by making funding dependent on the speed outputs are produced.

While output orientation tends to bring efficiency gains, it does not necessarily steer training offer towards addressing labour market needs. For that purpose funding can be dependent on achieving employment outcomes. TGood labour market information and effective employer participation enable *outcome-based* funding mechanisms, but run the risk of promoting exclusion of the weaker trainees/students.

Outcome-based funding is often criticized for promoting exclusion of vulnerable groups from training or under-funding of providers operating in socially disadvantaged areas. Critics propose that mechanisms such as quotas for vulnerable groups or more complex funding formulae that also account for social outcomes are used. Funding formulae can attribute weights to labour market outcomes, measures of training quality (e.g. proportion of certified courses) and repre-sentation of specific target groups. Alternatively, training providers can be specifically contracted to address the needs of specific groups and competitive bidding can be used to guarantee a high level of training quality at a competitive price.

Another way to introduce balance in funding models is to provide grants to individuals, in the shape of vouchers, learning accounts and similar instruments. These provide the possibility to target groups with specific needs and can be tailored to promote acquisition of important competencies. Vouchers, in particular, allow for individual choice of provider and are frequently viewed as a way to introduce competitive market elements in training provision, with potential positive effects over quality of training .

We can classify measures to stimulate training (Hoeckel, 2008) in between compelling measures, such as taxation or levies, and incentives to investment in training, which include subsidies, grants, loans, among others. Compelling measures are used to generate funding which is directly allocated to public and private TVET institutions, normally called *supply side incentives*, or to finance individual and employer demand for training, usually called *demand side incentives* (OECD, 2017). Financial resources gathered through taxation and levies frequently lead to the creation of national and sectoral training funds that can be mobilized to directly fund training or finance incentives. The challenge which national authorities and social partners face is how to manage and allocate existing resources to increase provision of quality training and steer supply and demand to address existing shortages and address the needs of vulnerable groups.

The options to achieve efficient and effective financing of learning are multiple and diverse, and allow for specific national mixes of instruments tailored to each context. In the next sections we will focus on issues linked to the establishment and governance of funds, alongside existing supply and demand side financing instruments. The table below provides a synthesis of financing instruments that can be used to support and enable LLL (based on Ziderman, 2016; OECD, 2017; Cedefop, 2021a, b; ILO, 2020):

▶ Options for Financing Lifelong Learning

Overall financing	
Training funds	Training funds consist of stocks and flows of financing which combine government budget and outside regular public budgets such as levies and donor funds. They aim at developing skills needed by enterprises and individuals to enable growth, innovation and successful careers. They constitute important tools to support continuing training and work based learning. There is a high diversity of funds, with different target groups, sectoral and geographical scope and management arrangements.
Supply side instruments	
Performance based funding of institutions	Integration of performance based elements in funding formulas to improve quality and access to training, including output and outcome monitoring and competitive bidding. They can boost access by vulnerable groups of all ages and create a better response to skills needs.
Public subsidies to courses	Targeted public subsidies to providers of specific courses, to create free study places in certain courses, developing specific skills, promote emerging sectors or increase the attractiveness of important but less popular courses. Includes regulated start-up programmes in which eligibility of new courses for public subsidies is dependent on evaluation and approval. These subsidies can play an important role in increasing both access to young and adults and the attractiveness of courses addressing skills bottlenecks.
Contracted training provision	Objective-based agreements between training providers and governments that can be used for targeted financing and can be used, among other purposes, to promote quality training offer to adults
One-off funding	One-off public funding to increase capacity, respond to priority training needs or reduce the risk of launching new and innovative training offer.

Demand side instruments	
For individuals	
Grants for individuals	Co-funding of (direct or indirect) costs of education and training by using instruments such as grants, vouchers, credits, lump sums or reimbursement of expenses. Grants are very flexible instruments and can support access to TVET in institutes, work based learning and any other training offer.
Tax incentives for individuals	Tax incentives to individuals consist of tax code regulated deductions of costs incurred in education and training either from individual income tax base or the amount of tax due. ax incentives can cover initial education, continuing training and also target specific courses.
Subsidized loans	Loan schemes allow individuals to borrow financial resources for education and training purposes, under favourable conditions, generally with public participation on part of the costs. Favourable conditions include lower interest rates, guarantees, income-contingent payments or even remission of loan.
Education and Training Leave	Leave from current workplace, with a right to return, for a legally designated or mutually agreed period of time. Leave is frequently unpaid and may or may not attract a stipend subsidy. They can be combined with a grant scheme and associated with payback clauses (see incentives for enterprises).
Tuition fees	Co-setting of tuition fees levels between government and training providers normally to increase equal access to training opportunities (can also be defined as a supply side instrument)
For enterprises	
Grants and subsidies to training in enterprises	Direct transfers to employers with the aim of co-financing costs to promote training and retraining by supporting work-based learning, apprenticeships, internships, encouraging training of unemployed and promoting networked/collective solutions for sector skills needs. Public subsidies frequently have the purpose of increasing the intake of apprentices or boosting access of low skilled employees to formal training. Grants cover training and related costs and can be financed through general taxation, levies (levy-grants), unemployment benefit schemes or other social protection schemes
Tax incentives to enterprises	Tax incentives to enterprises consist of tax code regulated deductions for corporate tax liabilities, by reducing taxable profit or tax due. Frequently a high percentage of training and other personnel related costs are deductible.
Targeted public procurement	Award of public contracts to enterprises, conditional on the provision of a designated type of training. It is a popular means to encourage provision of apprenticeships.
Payback clauses	Payback clauses are a contractual arrangement which allows employers to recover part of the investment made in the training of their employees, in case they leave after training, by allowing them to bind employees for a certain period of time after training is completed. Employees are free to depart before the contractualized period in exchange for total or partial reimbursement of the cost of the training. Payback clauses are used to reduce disincentives caused by fear of poaching.
Funding to intermediary organizations	Includes diversified funding strategies to support private and civil society organizations that provide support to individuals in accessing learning and organizations in improving learning and career development capacities. Examples include funding trade union services for associates and vulnerable workers or agencies for apprenticeship placement and support.

Some financial instruments are more common than others, such as training funds, training leaves and pay back clauses, which are often supported by regulations. Others may be quite unstable, such as grants and vouchers, due to relatively discretionary allocation of resources and frequent political instrumentalization. During economic downswings, and changes in government these instruments tend to shift and quite frequently disappear, creating inconsistent support and administrative challenges when, eventually, they are reintroduced under a different guise.

Using levies to build funding: a recipe for everyone?[1]

Developments over the last decade indicate there are genuine efforts to increase the funding of LLL, through diversification of funding sources and greater cost-sharing amongst stakeholders (Ziderman 2016). Employers are engaged in financing LLL to varying degrees and through different means (Hoeckel, 2008): they may have no legal obligation to provide training (Australia, United States, Sweden); take voluntary responsibility for a large share of the financing (Belgium, Denmark and The Netherlands); benefit from tax exemptions in case they provide training to employees (Chile, Germany and South Korea); or be subjected to compulsory financing measures (South Africa, France, Ireland, South Korea).

An increasingly popular strategy is to increase funding though the imposition of earmarked training levies, consisting of the payment by enterprises to the State of a percentage over payrolls, profits (e.g. Jordan, Egypt), turnover (Botswana) or number of employees (Denmark). Pay-roll based systems are more frequent, with rates varying between 0.5% and 4,5% (ILO, 2020). This revenue is normally held in national or sectoral training funds and used to finance training or provide incentives, grants and subsidies.[2] Some payroll levy systems also allow for worker contributions, although in reduced percentages (e.g. Romania). Earmarked payroll levies can be viewed as "benefit taxation," i.e. those that benefit (employers and workers) pay for the training (Johanson, 2009).

Funds often attempt to address the needs of the companies and sectors where the levy is applied, which requires effective needs assessments, in cooperation with social partners. Levies provide a complement to public financing, creating a protected source for pre-employment training and continuing training of adults, including work-based learning. They constitute a stable source of financing for more expensive and longer training programmes such as apprenticeships (e.g. Austria, Denmark, UK, Germany). Some sector levies are controlled by sector skills councils (e.g. Belgium, Brazil, Italy, South Africa), which allows for greater targeting of funds.

Levies also tend to have the advantage of generating transfers from bigger to smaller firms and from formal to informal sectors, allowing training for vulnerable individuals and enterprises which would normally not benefit. Levies can also adopt a train-or-pay logic in which enterprises which do not provide training to employees pay a "tax" on the payroll, thus enforcing the contribution to a fund.

Despite numerous advantages, levies and the training funds they support are, not issue free and may not always be the best option for a country. In countries with weak administrative structures and with large informal sectors, enterprise data is incomplete, providing a weak basis to identify potential payers. Training levies are also frequently perceived by enterprises as "just another tax" and potential beneficiaries, especially SMEs (Johanson, 2009) may not be sufficiently informed about how to access and benefit from the resulting funding. Burdensome administrative procedures can discourage smaller enterprises with lower administrative capacity. Successful implementation of levies and training funds requires strong social partner involvement, streamlined processes and support to smaller firms.

Management of levies and corresponding funds can lack transparency compromising their efficacy and public image. The frequent lack of employer engagement in the definition and management of levies and training funds creates a lack of clarity around their aims, reducing trust and limiting uptake. Generated revenue is sometimes pooled with general tax revenue and redirected to purposes other than training. A recent ILO review of national levy systems in the Southern African Development Community (Palmer, 2020) highlighted that separation between responsibility for levy collection and the management of the resulting training fund contributes to greater transparency, ensuring that funds retain their original purpose of supporting training.

National and sectoral funds

National training funds allow for additional funding beyond regular government budgets and their establishment is frequently associated with the imposition of training levies. They can combine government budget with funding originating from levies and donor funding and are used to support training in TVET institutions, as well as to create incentive for enterprise and individual training. Funds serve to unify diverse sources of financing, increase available resources for training and allocate funds in a way which

[1] For a more detailed analysis of levy grants systems, please see the grants section further down.
[2] More information on the design and functioning of training funds can be found in Palmer (2020)

reflects policy priorities and existing skills needs. Funds can have a broad scope and/or target the acquisition of specific groups of skills in specific occupations and sectors, support vulnerable groups or skills development in specific geographical areas.

Most national funds are autonomous or semi-autonomous bodies and formally run by a management council or board that incorporates government and social partners representatives. The extent of government authority is variable and their management is not always transparent (ILO, 2020). Generally funds are under the authority of a parent ministry which may exert a high degree of control over planning and operational decisions. Frequently employers have little influence over fund management, generating weak targeting and low trust of both potential beneficiaries and levy paying enterprises, who may perceive funds as instruments of political influence.

Funds are usually established to operate outside normal budgetary channels, constituting a more flexible and reserved resource pool specifically for education and training. Low fund autonomy tends to undermine this basic objective, by inserting them in the administrative logic of its parent ministry. Low autonomy also leads to opaque management of funds and surpluses, which may be merged with the parent ministry's budget and allocated with limited transparency. Performance reviews of national funds are not common, resulting in limited accountability to the enterprises and individuals that contribute. As a result, funds may be used to finance inefficient and ineffective training without mechanisms for the continuous improvement of systems and performance.

Governance issues tend to be greater in low and middle income countries, where weak public administration leads to ineffective systems and a lack of transparency. Sustainability can also pose a challenge in low income countries, since funds are frequently established with donor support of limited duration. Long term financing strategies may not be foreseen or can be difficult to implement.

A number of conditions are highlighted in research to for training fund success (adapted from ILO, 2020; Ziderman 2016; Johanson, 2009):

- Trust and stakeholder ownership should be promoted through greater transparency and active participation of social partners (particularly paying employers) and other stake-holders
- Fund autonomy is fundamental to achieve flexibility, binding decisions by the management board and independence of fund allocation from political shifts
- Stable funding is to be guaranteed combining diversified sources such as time limited donor contributions with long term-oriented solutions such as levies
- Funds need to be used to finance their original aims i.e. training and skills development in line with training or social needs, avoiding lack of clarity of disbursements
- Funds should be disbursed in a way which reflects effective demand, by promoting quality via effective funding formulae and avoiding preferential treatment of providers
- Transparency in decision making processes and expenditure is fundamental to engender trust
- Increasing accountability and promoting evaluation processes is fundamental to ensure that there is a consistent increase in the efficiency and effectiveness of fund allocation

Training funds can also have a sectoral character, allowing for targeting of funds to the development of skillsets and occupations critical to sector growth and competitiveness. Sector funds are frequently levy based and assume particular importance in countries where a "skills push" is required in certain sectors where access to financing is low.

Training funds can also be equity-oriented, targeting skills development among vulnerable groups, such as low qualified, unemployed, women, inactive youth or migrants,

Sector Skills Councils in South Africa

South Africa has established 21 Sector Education & Training Authorities (SETAs), which are legally appointed. SETAs are deeply involved in the development of occupational qualifications through a formal recognition as Development Quality Partners. The QCTO may delegate its role in formulating qualifications directly to a SETA. The functions of a SETA include:

- developing a sector skills plan and monitoring training in its sector;
- receiving and disbursing training levies;
- developing and registering learning programmes;
- liaising with central government skills agencies.

Source: ILO, 2019

among others. This type of fund is frequently supported by donor funding in LMICs with efficacy, especially in reaching individuals working in informal sectors or out of the reach of standard activation programmes. Despite their high social value and proven impacts, these type of funds are often cursed with low sustainability, due to the limited nature of donor funding. Sustaining funding for vulnerable groups in the long run requires, as much as enterprise funding, planning and stable financial sources.

Diversifying financial sources: donors, learners and income generation

Levies constitute only one of several types of instruments available to raise funding. One other strategy, particularly in cooperation and development contexts, consists in working with national and private donors. While this type of funding constitutes a potentially good way to develop training capacity, it tends to be time-limited, making it a more appropriate source for targeted short-term investments rather than an option to *sustain* important components of national systems. Donor funding also tends to carry the risk of determining a rigid structure for investment, which reproduces/exports the training model of the donor country or company, which may not fit the needs of the beneficiary.

Another possible alternative to levies are social impact bonds and human capital performance bonds, which are a debt instrument which can be emitted by the government, providing capital to fund skills development projects aimed at generating social outcomes. Social impact bonds allow to flexibly align interest of different stakeholders, such as governments, donors and private investors around socially relevant targets such fighting unemployment, elevating skills levels, activating women or integrating migrants. These bonds have a fixed term, but their repayment by the government is dependent on the success of the project they are financing. While this increases investor risk, it also encourages higher project quality and the inclusion of income generating activities (see ahead). Social bonds are relatively new and innovative instruments. An impact bond for Education has been in India in 2015 and been under consideration in countries such as Australia, Canada, Colombia, India, Ireland, and Israel (Hanni, 2019).

Learner contributions to training costs or income generation by training providers are also strategies used to increase the availability of funds for training. The first option consists on imposing fees which may range from full coverage of training costs to an almost symbolic contribution. Payment of fees is normally justified on the basis of cost sharing and is at times defended as a way of increasing the commitment of individuals so as to reduce course non-completion rates. Payment of fees by learners can, nevertheless, create unequal access to training opportunities and exclude those who would benefit the most. For this reason, when adopted, payment tends to be proportional to learners' income, or take into account factors linked to socioeconomic status, creating a progressive fee scale. Progressive pricing of training is at times advanced as a strategy to minimize deadweight loss due to the impact of subsidized training on training offer (deadweight loss represents training which would have been normally offered by the market but it is not due to the availability of equivalent free training).

Other ways to reduce the impact of payment of fees over vulnerable socioeconomic groups include delayed payment agreements, income contingent loans, loans with favourable conditions and the possibility of payment in kind, which is normally linked to the development of income generation activities (see below). Some courses also offer the possibility of fast fee recovery, when they are geared to high employability and quick firm integration, allowing for a short-term income level which quickly overshoots the cost of the training (commonly work based and linked to an apprenticeship or internship). Another method to promote learners' participation in the financing of training providers is to include them in the development of income-generating activities, which may include (UNESCO, 2017) selling goods or services produced by trainees, the rental of school equipment to external entrepreneurs, or the delivery of services in community projects.

Enabling TVET providers to generate income from various activities can also improve links with enterprises, increase their knowledge of labour markets and create career opportunities for students. They can also provide an income source for students, particularly the most vulnerable, and lead to a better use of existing equipment and facilities. Income generating activities are sometimes criticized (UNESCO, 2017; Ziderman, 2016) for promoting market oriented specializations at the expense of the quality and holistic training. Critics also point out that TVET providers often lack the business mentality, technical capacity and equipment to produce marketable goods and services. At the same time, training centres may face legal difficulties to sell their goods and services (e.g. working age limitations, legal status of provider) and when doing so may introduce unfair competition with existing enterprises and distort local markets.

In 2017 in a meeting promoted by UNESCO-UNEVOC an international group of TVET experts identified a set of factors for successful implementation of income generating activities for institutions (UNESCO, 2017):

- Allocate different responsible managers for training and for commercial activities;
- Promote strategic alignment and complementarity between both activities;
- Create a clear allocation of time for each activity and define appropriate monitoring mechanisms;
- Pay a stipend to trainees engaged in commercial production;
- Allocate different equipment to each activity, to the extent possible;
- Avoid promoting competition with segments and niches where trainees will be employed; and
- Favour innovation as a strategy to avoid inducing unfair competition in the market.

3. Increasing demand for training: incentives are key

Incentives: a toolbox of many possibilities

Non-financial and financial incentives to training normally have the purpose of either increasing training provision, or stimulating individual and enterprise demand. In addition, incentives can steer financing decisions to address existing skills challenges, such as skill gaps, skill shortages, promoting reskilling and combating skills obsolescence.

Greater influence of employers and learners over training provision creates so-called demand-led markets, in which the consumer influences the quantity and quality of the service. While demand-led markets, based on cost sharing principles can generally increase provision, issues linked to risk of poaching, unequal access, imperfect information (discussed before) and, notably, adverse selection still remain. Adverse selection results from an imbalance regarding the degree of knowledge clients and providers have of the services being transactioned. In this case, training providers tend to have greater knowledge of training packages than many clients who may purchase inadequate packages.

The State may reduce the proportion of its funding in a demand-led market, but the need for its intervention may arguably be bigger, to assure that additional marketization does not compromise addressing skills challenges, the needs of small enterprises and of the most vulnerable, as well as territorial development. Poor or absent regulatory intervention may, in fact, lead to poor performance of market incentives, generating expensive and low quality offer, with high risk for vulnerable clients.[3]

Demand-side instruments, such as grants and vouchers are particularly important for adult learning and normally aim at sharing both the direct costs of participation in training, such as fees and travel costs, and indirect costs such as foregone wages. If well designed, they help increase coherence between formal and non-formal learning offer for adults, as well as support the offer of integrated learning pathways leading to qualifications. In that sense, they should also accommodate aspects liked to recognition of prior learning and career development support for adults.

Using subsidies and grants to support enterprise training for greater flexibility

One of the longest standing instruments used to steer demand are subsidies for training, c in the form of direct transfers to enterprises . Due to their flexibility, subsidies tend to be good instruments to support micro enterprises and businesses with high degrees of informal labour, rather than more administratively complex mechanisms, such as levy-grants (see ahead). While subsidies allow for flexibility of support, their design is seldom based on preliminary assessments and they tend to weakly target skills needs of individuals and businesses. We can distinguish between subsidies to (OECD, 2017):

i) incentivise employers to provide work-based learning opportunities;

ii) encourage them to hire and train unemployed individuals;

iii) get employers to train existing workers;

iv) seek to achieve joint solutions between several employers.

Work based learning solutions, including apprenticeships, constitute employer-based responses to their own skills

[3] See for example the evaluation of the VET FEE-HELP scheme in Australia

needs. Apprenticeship subsidies constitute a direct and targeted response to specific skill needs, assuring that public financial support is effectively directed. Subsidizing apprenticeships can also an important step towards formalising occupations and enhancing the competitiveness of strategic sectors competitiveness. During periods of crisis, subsidization of apprenticeships also operates as a social cushioning mechanism, by supporting continued employment. As in most incentives under analysis, the effectiveness of this type of subsidies is highly enhanced by career guidance support to trainees, to help them find the right course and specialization.

Subsidies to hire and train unemployed and inactive people usually fall under the umbrella of active labour market policies and can help less experienced unemployed adjust their skillsets to labour market requirements or provide experienced unemployed workers with the possibility to retrain or upskill.

For example, the Enhanced Hiring Incentive in Singapore provides salary support for employers who hire local mid-career workers aged 40 and above through eligible reskilling programmes. Generally this type of subsidy aims at providing beneficiaries with an opportunity to find stable employment in an enterprise which provides the training and/or increase the employability of individuals in the targeted sectors. In many cases, the State will subsidize training of unemployed in areas where enterprises have clear skills gaps, as well as a diminishing risk compensation for low initial productivity, in exchange for a guarantee of hiring trainees on behalf of the enterprise. The existence of MSME dedicated units in public employment services can widely increase the effectiveness of this type of incentive.

Subsidies to train or retrain employees can either target the development of specific groups of skills or have an occupational/sectoral scope. Typical examples of the former are incentives to encourage enterprises to develop digital skills, marketing skills or enhance the transferable skills of their employees. The second type will be frequently associated with policies to enhance sector competitiveness or support industry or territorial restructuring efforts. Subsidies may, for example, be aimed at supporting diversification of products and processes, encouraging retraining of employees to assume new roles or to create qualitative leaps in staff skills, by easing up liquidity pressure over smaller enterprises. This type of subsidy can be made more effective by appropriate support to enterprises in assessing and their skills needs and planning appropriate training.

Subsidies for collective solutions are an increasing popular solution, particularly in sectors dominated by small organizations, where pooling risks and resources is a good solution to address existing skills needs. Subsidizing collective solutions also helps address the limitations of firm-specific training, generating a pool of professionals which can potentially work in a diversity of enterprises, also enabling greater business cooperation. An example of such organizations are the Australian group training organisations (GTO) employ apprentices and trainees and ensure that they receive suitable training in a 'host' employer.[4] In sectors where skills governance is relatively week, this type of subsidy can help improve coordination and promote joint action on skills development in a sector or region. Availability of sector skills needs assessments and skills anticipation greatly increases the efficacy of these types of subsidies.

Grants are public funding received by enterprises to cover training costs and can be financed through general taxation, levies, unemployment benefit schemes or other social protection schemes. The reason for great attention to grant schemes is that they allow for cost-sharing solutions, normally by increasing employers' contribution to training costs and for a more structured approach to training. Targeting is a great advantage of grants, which can be conditional on the development of training programmes for the development of specific skillsets. The most usual way to achieve employers' participation in to introduce levy-grant schemes, in which grants are financed by a training levy (see above), frequently with a sectoral character (see section on levies earlier in the text).

Levy-grant schemes can be classified in three types (Ziderman, 2016):

- Cost reimbursement: part of the levy is reimbursed to paying enterprises, covering part of training costs incurred in pre-defined areas, normally up to a threshold (Netherlands Malta, Nigeria);
- Cost redistribution: levy transfers costs of training from the enterprises who train to the ones who do not, to minimize the risk of poaching. Attributed grants generally cannot exceed the amount of the levy (New Zealand and Ireland);
- Levy exemption a.k.a. "train-or-pay": firms which are assessed as meeting a minimum ceiling of training needs are exempted from payment (France, Cote d'Ivoire).

Levy grants tend to be effective incentives for employers to invest in training since reimbursement of payments is conditional on applying to the grants, which can, in turn be higher than the paid levy.

[4] https://www.australianapprenticeships.gov.au/group-training.

Tax incentives: easier, but less precise

Tax incentives can be seen as indirect subsidies to training and generally provide reductions of payable taxes in proportional to costs undertaken with training. Types of tax incentives to employers include (Torres, 2012, OECD 2017):

- Tax allowances, which are deducted from gross income when taxable income is being calculated;
- Tax exemptions, which prescribe categories and thresholds of income exempted from the taxable base;
- Tax credits, which consist of deductions from the tax due;
- Tax relief, which provide lower rates for some tax payers or activities;
- Tax deferrals, which allow for the postponement of tax payments.

Tax treatment of training costs of employers has evolved in parallel with the overall taxation frameworks on corporate tax (Cedefop, 2009). In fact, tax incentives are generally easy to implement, because they make use of existing taxation structures and associated institutional arrangements. They have been successfully used in the promotion of apprenticeships, traineeships and work based learning in a number of countries such as Austria, Belgium, Italy, the Netherlands and Spain. The downside is that they are "blind" incentives, which are difficult to target for the development of specific groups of skills or sectoral needs. Targeted tax incentives requires well developed systems for corporate taxation and very frequently hold little relevance for MSMEs. They work better as incentives to well targeted and structured programmes such as apprenticeships, but less well with non-formal training and in countries where informal activities abound, tax incentives become even less relevant, due to the high level of undeclared business.

Tax incentives are also criticized for promoting training which would have happened in any event i.e. generating deadweight loss, also due to their inability to target effective needs. Attempts to introduce targeting in tax incentives are generally onerous and frequently ineffective, given the high degree of generality they necessarily have. Successful targeting MSMEs and vulnerable groups of workers has been achieved in Austria, Malta and the Netherlands, by allowing them to have higher deductions on training specific costs and for the training of workers from vulnerable groups. One other strategy used has been to only provide deductions to enterprises that demonstrate a yearly growth of training expenses.

Payback clauses and education and training leave

Payback clauses are contracts which allow for employers to recover part of the costs they have incurred in training an employee, in case he/she decides to leave shortly after finishing the course. The amount to be reimbursed by the employee depends on period elapsed after training and the defined retention period. Payback clauses are designed to minimize the impact of poaching and are frequently associated with training leave allowing employees to negotiate employers participation in the cost of training that they would like to undertake. Payback clauses have evolved from national labour rights and have suffered in many countries consecutive reforms (Cedefop, 2012).

Payback clauses encourage employers to invest in training and motivate employees to successfully complete the training (successful completion is normally also included as a clause) and take an active interest in career development. In most payback clauses the majority of employees are covered, including permanent, full-time or part-time employees. Minimum costs or duration of training for payback clauses can be legally defined and the contractual retention period of an employment contract after training is normally defined in national labour codes and collective (normally three to five years) or included in individual employment contracts negotiated between employers and employees.

In many countries, nevertheless, legislation and collective agreement are vague about the guiding principles for payback clauses, including what costs can be reimbursed. They are also more suited for formal training with a clear market price and qualification outcome. The fact that there is a minimum threshold of cost and duration of training to apply the clauses also tends to discourage smaller enterprises from adopting them, due to their tendency not to invest in expensive training.

For payback clauses to have good uptake, it is important that they are integrated in national labour codes or collective bargaining frameworks with clear definition of its principles and conditions at sector and enterprise level. It is also important that they are not too restrictive and cover low cost training, with favourable conditions for MSMEs, including technical advice on how to use this instrument.

Another way to encourage enterprises to finance employee training and allow them to go on prolonged training leave is to adopt job rotation. Job rotation schemes temporarily place unemployed people as replacements for the employee on leave. While job rotation schemes were not specifically designed to stimulate training they can be used for that purpose, especially when public employment services work closely with employers to ensure the scheme meets enterprise needs.

Non-financial incentives and the importance of a healthy skills ecosystem

Most of the instruments described in the previous section can be enhanced by an effective skills ecosystem which creates mix of incentives that serves the true needs of the labour market and supports enterprises and individuals to engage in training(ILO, 2020). As mentioned at the beginning, availability of good quality data is a fundamental condition for the creation of a favourable environment. Both skills needs assessments and reliable expenditure information need to be produced regularly, to enable effective targeting of investment and a transparent and efficient management of available funds. To a large extent, good quality data operates as a system level incentive to good fund application, increasing both financial and non-financial returns to training.

It is particularly important that MSMEs understand which incentives are available to them and how to use them, through engaged intermediary organisations, awareness raising initiatives, well designed information portals or good practices projects. They need to be supported and advised on processes of application to funds, grants and other incentives. Intermediary organisations including sector skills bodies and public employment services are especially well placed to provide this type of support to associates and enterprises in their area of influence, respectively.

Many smaller businesses also require support to develop or outsource their HRD function, so they can adopt a more strategic vision of staff development, which guides their use of existing incentives and makes public expenditure and fund mobilization more effective. Ministries dedicated to the support of MSMEs, skills councils and public employment services can create dedicated support units and access to business coaching/consultancy to help improve staff management, plan and deliver training, make use of incentives to increase socially responsible hiring. They can also help firms avoid lay-offs during slack periods, such as the one created by COVID-19, by using workers time to develop blended learning with financial incentives support (ILO, 2021). Intermediary organizations, such as employment services, trade unions, employer organizations and business service providers can play a fundamental role in consolidating organizational learning cultures and stimulating innovation. They can assist enterprises in adopting modernized approaches to staff management, to encourage skills development and training, based on clear evaluation of activity specific skills needs and on a climate of mutual trust. Coordination across services and good local governance are fundamental to make a smart usage of existing financial instruments to promote this type local and sectoral capacitation.

Flexible support to individuals via subsidies, tax incentives, loans and savings accounts

Demand for training can also be increased and steered towards meeting economic and social needs through incentives to individuals, which include scholarships, grants, tax incentives, loans among other instruments. Grants, vouchers and learning accounts have been used also to cover costs of non-formal training since the 1990s, although in an inconsistent way and through ongoing reforms. In the last few decades individual incentives have evolved from measures aimed at increasing take up of training into more complex mechanisms which attempt to stimulate private training markets and provide greater individual choice and empower learners to make choices which have a long term impact on their careers.

These incentives can target students in initial education and training, normally through scholarships which frequently encourage training in STEM areas or towards qualifications in high demand. Subsidies can target employed workers to support training and retraining, although normally indirectly through subsidies to employers (see section above) and they can target unemployed and inactive, with the aim to increase employability and address existing labour market needs. In the later case, PES are often left with the responsibility of matching individuals with labour market relevant training. Training sponsored by PES is normally free of charges for beneficiaries of unemployment benefits, but frequently short, requiring complementary measures towards longer term learning. For example in Denmark, upon approval of the PES, unskilled adults over 30 can choose from 104 vocational education and training programmes and receive an unemployment benefit at a reduced rate (80%) for a period of up to two years. (OECD, 2017)

Targeting of labour market needs generally implies the setup of mechanisms that can produce reliable and up-to-date information regarding vacancies and occupational dynamics. Development of national level surveys and appropriate engagement of employers in the production of this information are key for correct incentive targeting. In the same way, targeting of vulnerable groups requires adequate knowledge of the typology of social issues that need to be addressed for successful incentive design and appropriate outreach initiative to increase the penetration of incentive mechanisms in informal sectors, isolated communities and marginalised groups.

Tax incentives can be offered to individuals, allowing for deduction of training costs from taxable income (allowances), tax due (credits) as well as relief of repayment of grants received. They are easy to implement through existing taxation systems which guarantee relatively high take up. Despite these advantages, similarly to tax incentives to enterprises, they also tend to be weakly targeted and do not address specific skills needs in the economy. Another alternative to subsidies to individuals are loans to undertake training, often linked to interest rate subsidies, income dependent repayment of loans and forgiveness of debts under pre-established conditions (normally undertaking training in areas with skills shortages). Loans constitute a cost sharing alternative to subsidies that transfer part of the costs to individuals and which arguably stimulate learner performance.[5] They are, nevertheless, generally less effective than grants in stimulating learning among the most vulnerable groups and incur the risk of many beneficiaries not being able to repay their debts.

Savings accounts, often called, individual learning accounts (ILAs), allow individuals to make tax-free savings to undertake training in the future. ILAs have been used mostly by highly educated individuals to finance advanced training, rather than the low skilled and have had only limited take-up by financial institutions due to relatively low commercial interest rates. Time accounts are similar mechanisms, but instead of money, they allow individuals to save time, such as over-time work, which can be allocated to training, thus allowing for the engagement of employers in the scheme as well. Both ILAs and time accounts have, in several contexts, evolved towards voucher-based systems targeted at low skilled with complementary career guidance support, opening the door for the expansion of a rights based approach to lifelong learning (Dunbar, 2020).

A rights based approach to individual incentives: from leave to learning entitlements

Study leave provides the right for an employee to be absent from work to undertake training for a prolonged period, while preserving the rights to health insurance, pension and to return to work after the training is completed. Education and training leave constitutes a fundamental element of a rights based approach to encouraging training and has been the object of an ILO Convention on Paid Educational Leave, 1974 (No. 140). Study leave is normally consigned by law or part of collective agreements and can be complemented by incentives to employers, such as payback clauses and job rotation schemes (see section above). As in the case of payback clauses, regulation concerning training leaves can be imprecise and fail to address the direct and indirect costs for employers in honouring this entitlement.

The growth of individual entitlements to education and training goes one step further, by expanding the widespread guarantee of access to initial schooling to a lifelong right of access to learning. While attractive, comprehensive entitlement systems involve significant challenges linked to their potential scope, cost and oversight given they cut across the different policy domains of education, employment and social protection. Entitlements can follow different models (Dunbar, 2020) that can go from limited time accounts guaranteed by the State to universal rights of access to free training in public institutions. In practice, they have most frequently been implemented through the expansion or integration of ILA's, time accounts, tax incentives and individual vouchers. Vouchers have become particularly popular instruments due to their capacity to target the most vulnerable and their flexibility, allowing them to be combined with loans and other incentive mechanisms. While popular, nevertheless, to be effective in addressing skills needs, vouchers require considerable effort to support and inform individual training decisions.

Most countries do not have a fully developed entitlement scheme but many have taken steps towards it (ILO, 2019): England, Canada, USA, Morocco and New Zealand have committed to achieve it (e.g. in national strategy); Thailand and Malasya have issued a declaration of entitlement (e.g. legislation); Korea, Australia, Vietnam and Japan (e.g. vouchers, ILAs) have taken practical steps towards implementing it. Successful examples of comprehensive entitlement systems can be found, for example, in Singapore and France. Outside of these countries efforts are often more of a patchwork across existing initiatives rather than strategically engaged approaches to LLL supported by legal commitments. Unsurprisingly, the challenges of establishing an integrated LLL system also constitute the major barriers for the implementation of entitlement schemes, namely: fragmented financing solutions, low adult learning participation rates, weak coordination of stakeholders, high levels of economic informality in many LMICs and insufficient quality assurance of training.

[4] Loans were mostly popular during the 1980's as a way to support higher education students.

The ecosystem and the individual: empowering individual demand

A healthy skills ecosystem also serves the purpose of encouraging and enabling individuals to engage in lifelong learning. From an individual perspective, LLL offers the possibility to address individual and societal aspirations, to ensure access to decent work and livelihoods, to engage in learning to address critical skilling and reskilling needs, and to develop career paths. As noted before the efficacy of instruments such as grants, vouchers, tax incentives or learning entitlements requires individuals to understand their skills needs, clarify their learning objectives, identify opportunities and have the capacity to act upon them.

A healthy skills ecosystem must therefore enable individuals to establish and follow individual career and learning pathways and make sense of their experiences. An important building block of LLL systems is the existence of clear skills frameworks for occupations and qualifications alongside well established systems for the recognition and validation of learning. These allow an individual's learning experiences to be recorded and recognised, making the creation of individual portfolios possible and creating the possibility of referrals across guidance and training providers, social security services, employment centres and enterprises. Financing strategies targeting individuals need to be based on medium to long term career planning monitoring and case management, as for example happens with the French individual learning account.

Another important building block is the provision of appropriate career guidance. Information, advice and counselling allow individuals to understand training offer, available incentives, as well as their skills and preferences thus helping them to make successful training investments. From the standpoint of system financing, offering target groups adequate career guidance increases the efficacy of the targeting of incentives and overall efficiency by contributing to reduce deadweight loss. It also raises individual labour market outcomes, satisfaction and contributes to productivity gains via impacts of adequate training over skills matching and utilization in workplaces.

▶ 4. Conclusions

Challenges to be addressed

Effective financing is the foundation stone of a lifelong learning system, which allows individuals to access learning solutions at any point in their lives, skilling and re-skilling to find decent work and build careers, good financing solutions must exist. Funding of education and training has traditionally been weighted towards initial and university based education, with technical and vocational training being under resourced alongside non-formal training and adult learning. While LLL has clear positive outcomes for individuals, enterprises and society at large, it can be costly when not managed effectively and meet with resistance from education and training institutions.

There is a tendency for markets to offer, on their own, inadequate levels of training, partly due to limited relevance of supply led institutional training and partly due to limited engagement by smaller enterprises. Fear of poaching, insufficient liquidity and low managerial and administrative capacity keep MSMEs raising their training levels while the market frequently offers inadequate solutions. Better funding solutions that orient training towards market needs and helps steer demand toward economic growth and social outcomes are necessary.

Ways forward

Transparent information and social dialogue are pre-conditions for consistent financing of LLL

A balanced allocation of resources across diverse branches of education and training will only occur once there is reliable data on public expenditure and private participation in lifelong learning activities. Continuing training, adult learning and WBL are examples of activities that require strategic and criterious allocation of resources. In many countries this information is currently scattered across multiple ministries, departments and agencies, without appropriate monitoring, accountability or evaluation. The engagement of workers and employers representatives can constitute a fundamental step towards consolidation of data, harmonization of funding criteria and establishment of policy evaluation.

Increase funding transparency and coherence

LLL funding needs to evolve from an ad-hoc, scattered logic, by administrative silos and affected by lobbying and political agendas, to a more integrated approache that efficiently allocates funds and meets the needs of the economy and social groups. This requires the implementation of reforms in many LMICS to adopt more transparent and efficient allocation mechanisms to establish outcome based funding measuresthat account for both growth and social welfare targets. Efficiency gains also eliminate misuse of funds and deadweight loss, increasing outcomes without the need for additional funding.

Diversifying sources

Besides taxation and levies, donor funding can be sourced to finance training although at the risk of being time-limited and of promoting the training model of the donor country or company, whether it's adequate or not for the receiving country. Alternative models such as social impact bonds and human capital performance bonds can also be used with considerable success aligning the interest of different stakeholders to generate social outcomes. Learners can also participate in training costs, in a way proportional to their income/social status or by encouraging their participation in income-generating activities. The later need to be implemented carefully to avoid and excessive business orientation, by exploring complementarities of learning and business oriented production, rather than merging them.

Good coordination and governance improve financing of LLL

Experience shows that a clear national LLL strategy, supported by social partner engagement and mechanisms which assure coordination, coherence and transparency of adopted tools and measures are fundamental for effective financing. Participation of employers and trade unions in the design and implementation of levies, training funds, grants, subsidies and tax incentives tends improves their targeting and take-up. Multilevel governance, with sector level organization, through mechanisms such as sector skills councils, helps to assess skills needs of enterprises and find successful financing solutions.

Independency of Training Funds

Funds are powerful instruments that unify diverse sources of financing, increasing available resources for training, but they need to be well managed to address policy priorities and skills needs. It is important that funds are run by management boards comprised of government and social partner representatives, with sufficient independence from government so that they can follow their mandate without interference. Efficient management also implies that surpluses are identified in a timely way and mobilised, targeting the needs of businesses and individuals. Developing national funds can be challenging in countries with high degrees of economic informality, weak business information and public administrations. MSMEs may benefit more from simpler grant systems that do not require complex procedures to access funding. Funds can adopt a sectoral character, targeting strategic sectors and occupations for national growth or regional development, in which case the establishment of sectors skills councils will be of great value.

Levies can work well if designed well

Levies and taxation can be used to generate funding but they not suit all contexts. Levies constitute a stable source of financing but are not the best solution in countries with weak administrative structures and with large informal sectors. Employer engagement in the definition of levies is fundamental to create clarity around their aims, as well as increased trust and support for their use. For greater transparency, it is also recommended that responsibility for levy collection and the management of the resulting training fund are separated.

Supporting Enterprises to target skill needs

Subsidies for training in enterprises subsidies need to be designed on the basis of skill needs assessment, so that they target the skills needs of businesses. Improving targeting of subsidies requires the development of strategies for the assessment of skills needs at sector and enterprise level and an administrative mechanism to support applicants to identify those needs. Levy-grant systems tend to be more effective in targeting sector needs, are more adequate for well defined, formal training. Administrative and technical support should be made available to MSMEs to be able to benefit from such schemes. Tax incentives are easier to implement, but tend to be harder to target, operating as generalist measures to increase uptake of training, frequently generating deadweight loss.

MSME support is a priority

MSMEs need to be supported to plan and deliver training that supports innovation and sustainable business strategies and that makes the best use of instruments available to them. Supporting actions include awareness raising initiatives, advice and technical support on processes of application to funds and in developing their HRD function through business coaching and consultancy. Intermediary organisations are especially well placed to provide this type of support.

Encourage inclusive and market relevant skills development

Similarly to enterprises, subsidies for individuals, such as scholarships, grants and vouchers can be used with great flexibility for individuals and can be implemented with relative ease. Appropriate targeting to encourage acquisition of specific skills or address the needs of the vulnerable requires administrative investment and the production of quality LMI though appropriate engagement of social partners. Tax incentives can also be offered being easy to implement, since they can be incorporated in yearly personal income tax return, although they tend to be weakly targeted. Loans with special conditions to undertake training can be provided although they are less effective than grants in supporting vulnerable groups.

Developing the right to LLL: leaves and entitlements

Education and training leave normally form part of labour law or collective agreements and can be supported by payback clauses. Payback clauses, in particular can benefit from clear definition of its principles and conditions at sector and enterprise level, with favourable conditions and advice on how to use them for MSMEs.

Entitlements to LLL have been growing as expansion of ILA's and time accounts, and make use of tax incentives and individual vouchers. The success of entitlements depends on government commitment to: address the inadequacy of financing solutions, engage adults in training, improve coordination of stakeholders and raise the quality of training. The success of entitlements is also very dependent on supporting training choices of beneficiaries, through improved career guidance services.

Non-financial incentives and support to individuals

The efficacy of individual incentives such as grants, vouchers, tax incentives or learning entitlements is directly linked to the capacity of individuals to make successful career choices and autonomously manage their learning. Availability of and awareness about RPL services guidance support and early investment in career management skills in school are fundamental. Individuals should be supported with a lifelong perspective, in cooperation with employers and professional associations. During the COVID 19 recovery multi-channelled services should be offered, with particular concern for vulnerable and youth groups.

Bibliography

Cedefop (2021a), Financing adult learning database (last consulted on 01/06/2021).

https://www.cedefop.europa.eu/en/publications-and-resources/tools/financing-adult-learning-db

Cedefop (2021b), Database on financing apprenticeships in the EU (last consulted on 01/06/2021.

https://www.cedefop.europa.eu/en/tools/financing-apprenticeships

Cedefop (2012) Payback clauses in Europe: supporting company investment in training.

Hanni, M. (2019), "Financing of education and technical and vocational education and training (TVET) in Latin America and the Caribbean", Macroeconomics of Development series , No. 200 (LC/TS.2019/29/Rev.1), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC).

Hoeckel, Kathrin (2008) Costs and Benefits in Vocational Education and Training, OECD.

https://www.researchgate.net/publication/265100359_Costs_and_Benefits_in_Vocational_Education_and_Training

Cardon, Melissa S. and Valentin, Stephen D. (2017). Training and Development in Small and Me-dium Enterprises. In: Brown, Kenneth G. (ed.). *The Cambridge Handbook of Workplace Training and Employee Development*. Cambridge: Cambridge University Press, pp. 363-382.

Dunbar, Muriel (2020), *A review of Entitlement Systems for LLL*, ILO.

https://www.ilo.org/skills/areas/skills-policies-and-systems/WCMS_752215/lang--en/index.htm

ILO (2021), *Skills development in the time of COVID-19: Taking stock of the initial responses in technical and vocational education and training*, International Labour Office, Geneva

https://www.ilo.org/skills/areas/skills-training-for-poverty-reduction/WCMS_766557/lang--en/index.htm

ILO (2020) *Effective governance and coordination in skills systems: towards a lifelong learning ecosystem*, Policy Brief, ILO

https://www.ilo.org/skills/pubs/WCMS_755400/lang--en/index.htm

ILO (2019) Policy note: Sector Skills Councils.

https://www.ilo.org/jakarta/whatwedo/publications/WCMS_738640/lang--en/index.htm

ILO (2018) *Financing life-long learning for the future of work, Report prepared for the G20 Framework Working Group*, ILO.

https://www.ilo.org/global/about-the-ilo/how-the-ilo-works/multilateral-system/g20/reports/WCMS_646046/lang--en/index.htm

ILO (2017), *Upskilling SMEs: How governments fund training and consulting. Comparing experiences from Asia, Europe and North America*, International Labour Office, Small Enterprise Unit, Enterprises Department, Geneva.

https://ilo.primo.exlibrisgroup.com/discovery/fulldisplay/alma994974093402676/41ILO_INST:41ILO_V2

ILO (1974) ILO Convention on Paid Educational Leave, 1974 (No. 140).

https://www.ilo.org/dyn/normlex/de/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312285

Johanson, Richard K. (2009) *A review of national training funds*. Washington D.C.: The World Bank

https://documents.worldbank.org/en/publication/documents-reports/documentdetail/893311468178131914/a-review-of-national-training-funds

Kath, F. (1998), "Financing of vocational education and training", in Cedefop (ed.), *Vocational education and training – the European research field*, Background report, Vol. 1, Office for Official

Publications of the European Communities, Luxembourg.

Torres, C. (2012), "Taxes and Investment in Skills", *OECD Taxation Working Papers*, No. 13, OECD Publishing, Paris,.

http://dx.doi.org/10.1787/5k92sn0qv5mp-en.

OECD (2017), *Financial Incentives for Steering Education and Training*, Getting Skills Right, OECD Publishing, Paris.

http://dx.doi.org/10.1787/9789264272415-en

Palmer, Robert (2020), An Assessment of the Skills Development Levy Systems in Southern African Development Community (SADC) Countries, ILO.

https://www.ilo.org/skills/areas/skills-policies-and-systems/WCMS_753306/lang--en/index.htm

UNESCO (2020).

Robinson, D. and Dominguez-Reig, Gerard (2020), *An international comparison of technical ed-ucation funding systems. What can England learn from successful countries?*, Education Policy Institute

https://epi.org.uk/publications-and-research/international-comparison-of-technical-education/

UNESCO Institute for Lifelong Learning (UIL) (2019). *4th Global Report on Adult Learning and Education (GRALE 4),* UNESCO Institute for Lifelong Learning

https://unesdoc.unesco.org/ark:/48223/pf0000372274

UNESCO (2020), *Act now: Reduce the impact of COVID-19 on the cost of achieving SDG 4*. Policy paper 42, Global Education Monitoring Report Team, UNESCO, Paris

https://unesdoc.unesco.org/ark:/48223/pf0000374163

UNESCO (2017), *Financing TVET. Diversifying the funding sources for TVET. Report on the UNESCO-UNEVOC virtual conference 16 to 22 January 2017.* UNESCO-UNEVOC International Cen-tre forTechnical and Vocational Education and Training, Bonn

https://unevoc.unesco.org/home/UNEVOC+Publications/lang=en/akt=detail/qs=6028

UNESCO (2015), *Incheon declaration. Education 2030: Towards inclusive and equitable quality education and lifelong learning for all*.

https://en.unesco.org/world-education-forum-2015/incheon-declaration

UNESCO/ILO (2018), *Taking a whole of government approach to skills development*, UNESCO

https://unevoc.unesco.org/home/UNEVOC+Publications/lang=en/akt=detail/qs=6028

Ziderman, Adrian (2016), *Funding Mechanisms for Financing Vocational Training: An Analytical Framework*, IZA Policy Paper No. 110

https://www.iza.org/publications/pp/110/funding-mechanisms-for-financing-vocational-training-an-analytical-framework

▶ Further information

Skills and Employability Branch
International Labour Office
www.ilo.org/skills

Contact details

International Labour Organization
Route des Morillons 4
CH-1211 Geneva 22
Switzerland

Skills and Employability Branch
E: skills@ilo.org