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► Financing mechanisms for promoting social inclusion in skills and lifelong learning systems

Global overview of current practices and policy options

Supported by



UK Government

▶ **Financing mechanisms
for promoting social inclusion in
skills and lifelong learning systems**

Global overview of current practices and policy options

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Foreword

Technological advances, digitization and the COVID-19 crisis have had a profound impact, making it essential for countries to address employment challenges by promoting effective and inclusive skills development and lifelong learning. Skills and lifelong learning are also central to achieving many Sustainable Development Goals, including Goal 1 on poverty reduction, Goal 4 on inclusive and quality education and promotion of lifelong learning, Goal 5 on gender equality, Goal 8 on decent work and economic growth, and Goal 13 on climate change mitigation.

The ILO recognizes the relevance of skills and lifelong learning as a key pillar of action to prepare societies for a more inclusive future, as highlighted in the ILO's Centenary Declaration in 2019, and during the International Labour Conference at its 109th session in 2021. Building on the ILO Human Resources Development Recommendation, 2004 (No. 194), the ILO's new strategy on Skills and Lifelong Learning 2022-30 supports the development of resilient systems based on social dialogue that provide inclusive access to high-quality skills development and lifelong learning. Promoting lifelong learning is also instrumental in implementing a human-centred approach to the recovery from the COVID-19 crisis.

Financing is a key element in promoting skills development and lifelong learning for all. It concerns not only broadening sources of funding to increase the level of funds, but also designing and reorienting existing financing mechanisms to meet diverse needs of target groups. For inclusive growth, it is critical that skills and lifelong learning systems are supported by adequate financing mechanisms that support more inclusive access and a just transition for disadvantaged and vulnerable individuals in the labour market whilst increasing enterprises' productivity and competitiveness. Financing is not merely a monetary issue – it is a key instrument for social inclusion.

This report presents a global review of good practices and policy options for ILO constituents and social partners to improve existing financing instruments in their respective countries with the goal of facilitating greater social inclusion. The report presents evidence on current financing instruments supporting individuals, enterprises and training providers and their effectiveness in promoting social inclusion in skills development and lifelong learning.

We hope that the report will increase knowledge and understanding on how to improve the effectiveness of financial support in promoting social inclusion in skills and lifelong learning and improve the formulation of future policies and mechanisms.

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Contents

► Acknowledgements	iv
► List of acronyms	viii
► Executive summary	xi
► 1. Introduction	1
► 2. Financing mechanisms for individuals and social groups	5
2.1 Grants	6
2.2 Tax incentives	21
2.3 Subsidized loans	22
2.4 Tuition fee mechanisms	24
2.5 Involving individuals in ‘production with training’ activities	28
2.6 Education and training leave	29
2.7 Concluding comments	30
► 3. Financing mechanisms for training providers	32
3.1 Contracted training provision	33
3.2 Targeted procurement	37
3.3 Performance-based contracts with training providers	37
3.4 One-off funding	41
3.5 Concluding comments	43
► 4. Financing mechanisms for enterprises	46
4.1 Training levies	47
4.2 Grants and subsidies to encourage enterprises to invest in inclusive training	51
4.3 Tax incentives to encourage enterprises to invest in inclusive training	56
4.4 Targeted public procurement to encourage enterprises to invest in inclusive training	57
4.5 Funding to intermediary organizations to encourage enterprises to invest in inclusive training	58
4.6 Concluding comments	58
► 5. Conclusions and recommendations	60
5.1 Financing mechanisms for individuals: Pros, cons, good practice	60
5.2 Financing mechanisms for training providers: Pros, cons and good practice	65
5.3 Financing mechanisms for employers: Pros, cons and good practice	67
5.4 Recommendations	70
► 6. References	76

List of boxes

1.	Financing mechanisms for individuals that aim to encourage social inclusion in skills and lifelong learning	xv
2.	Financing mechanisms for training providers that aim to encourage social inclusion in skills and lifelong learning	xvi
3.	Financing mechanisms for employers that aim to encourage social inclusion in skills and lifelong learning	xvi
4.	SDG 4 and SDG 8 targets relevant to the issue of inclusion in skills development and lifelong learning	2
5.	Scholarship programmes for TVET students in the Philippines	8
6.	The Ghana TVET Voucher Project	11
7.	The National Tomorrow Learning Card and the Lifelong Education Voucher, the Republic of Korea	12
8.	Voucher scheme for individuals (Opleidingscheques) in Flanders (Belgium)	13
9.	Schooling vouchers for low-skilled temporary workers in the Netherlands	14
10.	Individual Training Accounts in Scotland	14
11.	The Kenya TVET voucher programme	15
12.	Training vouchers were not enough to support inclusion of students with disabilities in Lao People’s Democratic Republic	16
13.	Effectiveness of the National Tomorrow Learning Card in the Republic of Korea	16
14.	Effectiveness of the Lifelong Education Voucher in the Republic of Korea	17
15.	The Compte Personnel de Formation: An individual learning account in France	18
16.	Simplifying approaches of reaching disadvantaged persons: The example of Learn\$ave, Canada	19
17.	The vocational skills subsidy programme in China	21
18.	Pratham, India: Voluntary training fees pay-back scheme	23
19.	The Employment Success Package Programme for jobseekers in the Republic of Korea	24
20.	Initiatives in Singapore offering course fee subsidies to aimed at groups of individuals	25
21.	Fee-free training provided by SENAC and SENAI in Brazil	26
22.	Blanket subsidies for ‘regular’ courses in Technical Colleges in Malawi	26
23.	Equity and the free TVET policy in Ghana (2022)	28
24.	Examples of contracted training provision from levy-financed training funds, selected countries	34
25.	South Africa’s National Skills Fund	35
26.	Ghana’s Skills Development Fund	36
27.	The Punjab Skills Development Fund in Pakistan	37
28.	Challenges of implementing performance-based contracts with public and private training providers: An example from Tanzania	40
29.	Small grants from a UK-based charity to individual training providers in rural Ghana	42
30.	Factors affecting the effectiveness of performance-based contracts with training providers	45
31.	Disbursement approaches of levy-financed training funds	48
32.	The reinforced Youth Guarantee in the EU	52
33.	Promoting training and skills development for older workers	53
34.	Promoting training and skills development for people with disabilities	53
35.	Subsidized training opportunities for vulnerable workers in Ireland, with preferential targeting of small enterprises	55

List of figures

1.	Financial instruments to promote social inclusion in skills and lifelong learning	xi
2.	Financial instruments to promote social inclusion in skills and lifelong learning	3
3.	Performance based contracts with training providers	38

List of tables

1.	Financing mechanisms to encourage disadvantaged individuals to undertake training	5
2.	Financing mechanisms for individuals that promote social inclusion in skills and lifelong learning: The enabling environment	30
3.	Financing mechanisms to encourage training providers to be inclusive of disadvantaged learners	32
4.	Some of the pros and cons of one-off funding to promote social inclusion in skills and lifelong learning	43
5.	Financing mechanisms for training providers that promote social inclusion in skills and lifelong learning: The enabling environment	44
6.	Financing mechanisms to encourage enterprises to invest in inclusive training	47
7.	Financing mechanisms for enterprises that promote social inclusion in skills and lifelong learning: The enabling environment	59
8.	Financing mechanisms for individuals that aim to encourage social inclusion in skills and lifelong learning	61
9.	Financing mechanisms for training providers that aim to encourage social inclusion in skills and lifelong learning	65
10.	Financing mechanisms for employers that aim to encourage social inclusion in skills and lifelong learning	67

List of acronyms

3FPT	Fund for the Financing of Vocational and Technical Training (Fonds de Financement de la Formation Professionnelle et Technique) - Senegal
ADB	Asian Development Bank
AUD	Australian Dollar
BKTSP	Barangay Kabuhayan Skills Training Programme - Philippines
CAD	Canadian Dollar
CBT	Competency-based training
CHAMP	Consortium for HRD Ability Magnified Programme – Republic of Korea
CNY	Chinese yuan renminbi
CPF	Individual Training Account (Compte Personnel de Formation) – France
Danida	Danish International Development Agency
DFAT	Department of Foreign Affairs and Trade - Australia
DFID	Department for International Development – United Kingdom (now called FCDO)
DOORZAAM	Training and Development Fund for Temporary Work Agency Sector - Netherlands
ESPP	Employment Success Package Programme – Republic of Korea
EU	European Union
EUR	Euro
FAFPA	Vocational Training and Apprenticeship Support Fund (Fonds d’Appui à la Formation Professionnelle et à l’Apprentissage) - Burkina Faso
FCDO	Foreign and Commonwealth Development Office – United Kingdom
FDFP	Vocational Training Development Fund (Fonds pour le Développement de la Formation Professionnelle) - Côte d’Ivoire
FMFP	Malagasy Vocational Training Fund (Fonds Malgache de Formation Professionnelle) – Madagascar, Republic of
FODEFCA	The Continuing Vocational Training and Apprenticeship Development Fund (Fonds de Développement de la Formation Professionnelle Continue et de L’apprentissage) - Benin, Republic of
FPFPA	Fund for the Promotion of Vocational Training and Apprenticeship (Fonds de Promotion de la Formation Professionnelle et de L’apprentissage) - Tunisia
FUNDAE	The State Foundation for Employment Training (Fundación Estatal para la Formación en el Empleo) - Spain
GHC	Ghana cedi
GTVP	Ghana TVET Voucher Project

HRD Corp	Human Resource Development Corporation – Malaysia
ICCES	Integrated Community Centres for Employable Skills – Ghana
IEF	Insolvency Remuneration Fund (Insolvenz-Entgelt-Fonds) - Austria
ILA	individual learning account
ILO	International Labour Organization
INA	National Learning Institute (Instituto Nacional de Aprendizaje) - Costa Rica, Republic of
INEFOP	The Labour Reconversion Fund (El Fondo de Reconversión Laboral) of the National Institute of Employment and Vocational Training (Instituto Nacional de Empleo y Formación Profesional) - Uruguay
INSAFORP	Salvadoran Institute of Professional Training (Instituto Salvadoreño de Formación Profesional) - El Salvador
ITAs	Individual Training Accounts – Scotland
KfW	KfW Development Bank - Germany
KIP	Smart Indonesia Card - Indonesia
KRW	won
MoE	Ministry of Education
MSE	micro and small enterprise
NEET	not in employment, education or training
NGO	non-governmental organization
NOK	Norwegian Krone
NSFAS	National Student Financial Aid Scheme - South Africa, Republic of
NTLC	National Tomorrow Learning Card – Republic of Korea
OECD	Organisation for Economic Co-operation and Development
PESFA	Private Education Student Financial Assistance - Philippines
PHP	Philippine Peso
PSDF	Punjab Skills Development Fund - Pakistan
PWDs	persons with disabilities
RBF	Results-based financing
RESP	Rice Extension Services Programme - Philippines
SDC	Swiss Agency for Development and Cooperation
SDF	Skills Development Fund
SDG	Sustainable Development Goal
SECAP	Ecuadorian Centre for Vocational Training (Servicio Ecuatoriano de Capacitación Profesional)
SENCE	National Training and Employment Service (Servicio Nacional de Capacitación y Empleo) – Chile, Republic of

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems:
Global overview of current practices and policy options**

List of acronyms

SENAC	National Commercial Apprenticeship Service (Serviço Nacional de Aprendizagem Comercial) - Brazil
SENAI	National Industrial Apprenticeship Service (Serviço Nacional de Aprendizagem Industrial) - Brazil
SFC	SkillsFuture Credit – Singapore, Republic of
SME	small and medium-sized enterprise
STEM	science, technology, engineering and mathematics
STEP	Special Training for Employment Programme - Philippines
SWEAG	Senior Worker Early Adopter Grant - Singapore, Republic of
TESDA	Technical Education and Skills Development Authority - Philippines
TEVETA-M	Technical, Entrepreneurial and Vocational Education and Training Authority - Malawi
TEVETA-Z	Technical Education, Vocational and Entrepreneurship Training Authority - Zambia
TFP	Professional Training Tax (Taxe de Formation Professionnelle) - Morocco
TRAVI	Training Fund for Temporary Employees - Belgium
TTSP	Tulong Trabaho Scholarship Programme - Philippines
TVET	technical and vocational education and training
TWSP	Training for Work Scholarship Programme - Philippines
UAQTEA	Universal Access to Quality Tertiary Education - Philippines
UK	United Kingdom
UNESCO	United Nations Educational, Scientific and Cultural Organization
USD	United States Dollar
VET	vocational education and training

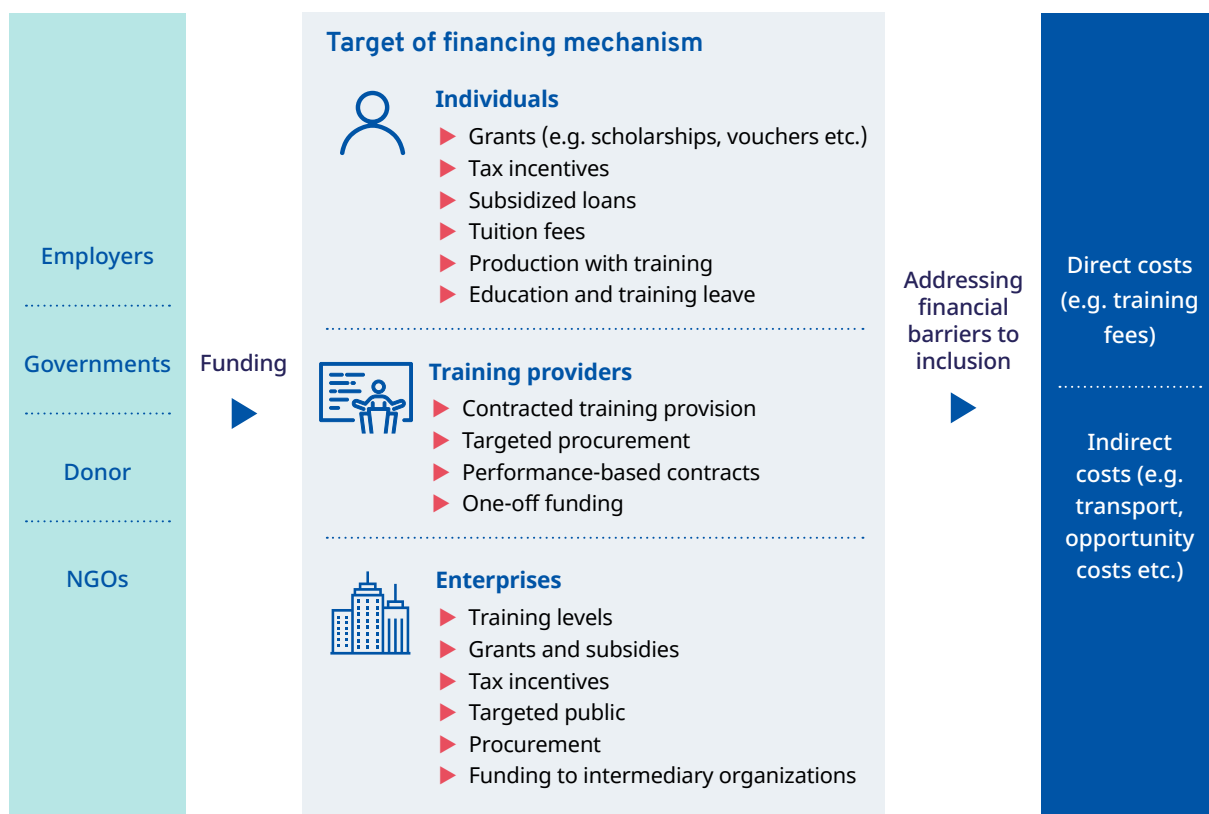
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Executive summary

Promoting social inclusion in skills development and lifelong learning is one of the urgent policy measures that governments around the world should consider addressing as part of their post-pandemic recovery strategies. Inequalities around the world are at an all-time high following the COVID-19 pandemic and the loss of learning, livelihoods and lives that it brought in its wake. Policy makers from many countries are all seeking ways to address this and ensuring that people can learn skills throughout their lives is a key ingredient for more inclusive and sustainable societies. However, discrimination and exclusion continue to be prevalent in many skills development systems, and indeed have been widened because of the pandemic: people in rural communities, persons with disabilities, ethnic minorities, young people, elderly people, workers in the informal economy and other disadvantaged groups face higher barriers than ever to access and participate.

A combination of non-financial and financial instruments are needed to address social inclusion in skills and lifelong learning, but a renewed attention on financing approaches is required. Non-financial measures to promote social inclusion in skills development and lifelong learning have long been promoted, including: making the physical infrastructure of training providers friendly for persons with disabilities and for female trainees; awareness raising; target-setting/equity measures including quotas; guidance and counselling; social marketing campaigns; anti-harassment policies; and capacity building for inclusive learning methodologies; flexible schedules and admission criteria. These remain critical instruments to create an inclusive learning environment and help overcome barriers with regards to information, timing of training or physical spaces. However, they are often more effective if coupled with financial instruments which are designed to address financial barriers associated with participating in training. Financial instruments to promote social inclusion fall into three broad categories: i) Financing mechanisms for individuals (box 1); ii) Financing mechanisms for training providers (box 2); and iii) Financing mechanisms for enterprises (box 3) (fig 1).

► **Figure 1. Financial instruments to promote social inclusion in skills and lifelong learning**



Many financing mechanisms that currently exist to support skills and lifelong learning were not specifically designed to promote inclusion, but many can be adapted to do so. There is often a plethora of financing mechanisms for individuals, employers and training providers and a whole range of different reasons why such mechanisms were set up in the first place. For example, most levy-financed training funds have the aim to increase the overall incidence of training of employees in levy-paying firms, and usually don't have a specific inclusion focus. Grants may be offered to training providers to improve training quality, to pilot new innovative courses or to invest in machinery or infrastructure improvements; not just to address issues of inclusion. There are ways, however, of adapting many such financing mechanisms where policy makers have inclusion as a clear policy objective.

When it comes to the optimal approach to increasing workplace training for disadvantaged and vulnerable individuals already in employment, most successful schemes aim to reach the worker, not the employer. The advantage of incentives reaching the employer directly is that they will likely be in a better position to know what skills they need. However, employer decisions on which employees to train and what to train them on will be more driven by profit and productivity concerns, rather than equity objectives. If the training includes a work-based element, then "employers may be reluctant to take on disadvantaged workers if they perceive their productivity to be low. In these situations, incentives may be required for employers as well, as in the case of taking on apprentices" (World Bank 2017a, 179).

The most suitable financing incentives for encouraging training among disadvantaged individuals are grants – specifically targeted means-based scholarships – as well as targeted training vouchers, subsidies, allowances or tuition fee approaches. Well-designed grants also require a good selection mechanism to improve its effectiveness. Untargeted (blanket) financing mechanisms (such as free TVET for all) can be ineffective instruments that will still leave many disadvantaged persons behind. Tax-based incentives can be administratively light but are next to useless in contexts of high informality where the majority of disadvantaged persons would not be paying tax anyway. Even in contexts with low(er) levels of informality, tax-based incentives typically require individuals to pre-finance training (and then wait for the end of the tax year to offset the cost). Instruments that have a co-financing element, that don't cover both indirect and direct costs, will also exclude those groups unable to contribute. This is notwithstanding some evidence that suggests participants, including disadvantaged ones, may be more motivated to complete training if they have made some financial contribution towards the cost of it. Lending instruments can deter low-income individuals, though income-contingent loans can mitigate this concern.

The most effective financing incentives for encouraging training providers to promote social inclusion in skills and lifelong learning appear to be performance-based contracts (integration of performance-based elements in funding formulas), as well as procurement and contracting approaches (objective-based agreements between training provider and governments) that explicitly take into account social inclusion. However, such approaches remain uncommon and expanding the use of such approaches should be considered. The most common financing instrument used to encourage training providers to address issues of social inclusion are one-off grants, often to improve physical infrastructure or to provide capacity strengthening. Another common approach used by governments is simply to expand overall provision (for example, to underserved rural communities).

As noted above, the most successful financing schemes designed to promote social inclusion in skills aim to directly reach the individual, not the employer or enterprise. However, there are some effective enterprise-targeted approaches that should be considered. A majority of private enterprises, quite rationally, focus on ways and means to increase profits and productivity; as such, from a social perspective, decisions on training taken at the firm level are not optimal. However, formal sector enterprises can be encouraged to train their more disadvantaged workers using targeted grants, tax incentives or differentiated levy payments.

Most training levies were not specifically designed to address the issue of social inclusion in skills and lifelong learning. The main reason for having a levy (especially for sector-based training levies in Europe) is usually to promote an overall increase in the incidence of training by firms, to counter under-investment in skills - the economic argument that firms don't invest in non-enterprise specific skills for fear of having their staff

poached, or to increase overall general funding for initial TVET (as is the case for many training levies in Sub-Saharan Africa).

Several notable exceptions exist, where a proportion of collected levies is ring-fenced to be used to support a more social agenda to skills development; in the levy-scheme in South Africa, for example, 20 per cent of the collected levy is used to finance a dedicated National Skills Fund (with the remaining 80 per cent of collected levies allocated to sector training authorities to manage). Meanwhile, in Brazil a mandated percentage of collected levies needs to be allocated to fund training that supports social inclusion.

Employer-reimbursing mechanisms used by most (but not all) levy-financed training funds are usually not designed with inclusion in mind, but rather with the objective of increasing overall training. As such, they are usually quite ineffective instruments to address the issue of social inclusion of disadvantaged workers in levy-paying firms. Revenue generating mechanisms used by most (but not all) levy-financed training funds are sometimes specifically designed to reach disadvantaged groups, but in some cases are simply being used to subsidise initial public TVET offerings in an untargeted way (which will have marginal impact of inclusion).

Small enterprises, and especially informal sector enterprises in many low- and middle-income countries, are the hardest to reach but – in the case of those operating informally – are also likely to have high levels of disadvantaged owner-operators and informally employed workers. Providing grant funding to intermediary organizations (for example, trade associations, training providers, NGOs) is the most common approach to reaching this group.

Schemes without a co-financing or repayment requirement (for example, stipends/ allowances to individuals and grants to enterprises), are often more suited to disadvantaged persons and small/micro-enterprises. This is because disadvantaged individuals and small or micro-enterprises may not be in a position to co-finance direct or indirect costs linked to training, and may be unable or risk-averse to any mechanism that involves repayment (but this can be mitigated through using income-contingent approaches to loan design) (Dunbar, 2020, 17; OECD 2019a; OECD 2019b).

Keeping the administrative burden as low as possible is important if disadvantaged individuals and small/micro-enterprises are to benefit. The more complicated or bureaucratic an application or course selection process is, for example, the less likely that disadvantaged individuals or small/micro-enterprises would be able to fulfil this requirement. If the application process is online, applicants with low digital skills levels may be unable to complete the form. Furthermore, while targeted approaches to delivering such schemes “may help to reduce deadweight losses and the participation bias against the low-skilled” (OECD 2019b), this can often lead to a higher administrative burden (such as requirements to prove income levels, provide tax forms and so on), though there are examples of how to simplify the targeting process to avoid much of this added administrative burden; for example, by transferring the task of verifying participants’ eligibility to training providers, or by making more use of existing administrative data that can be used to assess social benefits.

Financing schemes that are not sufficiently focussed on addressing disadvantage will often result in deadweight loss (financial support given to persons who would have been able to pay for the training anyway) or diluted anticipated impacts. For schemes aimed at individuals, they need to be designed to reach those that need them the most – or there is a strong risk of funding incentives being captured by more educated, higher income individuals who are more likely to have paid for training anyway. For schemes aimed at employers, without there being specific incentives related to the training of disadvantaged workers, overall training rates might increase but employers are more likely to select workers to be trained based on what will maximise profit and productivity rather than any social agenda.

A lack of information about financial incentive schemes themselves (including their existence, eligibility requirements, application processes) and a lack of information about labour market demand and career guidance reduce the impact of financing schemes. Firstly, the more disadvantaged a person, the less likely they might be to even know of the scheme’s existence. Secondly, information about which training option to select, and which might be most useful for that individual in terms of finding future employment, is likely to be less available to more disadvantaged persons (Dunbar 2020, 17; OECD 2019a; OECD 2019b).

While they can go some way to promoting social inclusion in skills, financial instruments alone are clearly an insufficient approach to reach some disadvantaged groups. Complementary mechanisms that address non-financial barriers faced by disadvantaged individuals wishing to apply for financial support are needed. The lack of information, noted above, is one such concern. Other examples would be: addressing issues of relevant course materials/content and timing; ensuring that teachers, institutional management, administrators, and policy makers have the needed capacities; issues of (gender) discrimination; ensuring that physical training environments are friendly for both people with disabilities and female trainees; ensuring that there are training opportunities available for remote communities (for example, what use is a training voucher covering 100 per cent fees if your nearest provider is 100 kilometres away?); and addressing the fact that many disadvantaged learners may have had a negative experience with previous initial (or continuing) education and may not be keen to return to classroom-based learning. The bottom line is that all types of financing mechanisms need to consider the actual utility of the mechanism in light of the context it is offered. For example, for needs-based scholarship offerings at upper-secondary level to be of any use to disadvantaged young people, they also need improved access to lower-secondary education, completion of which is usually a formal entry requirement to entry to upper-secondary level.

Careful monitoring is needed to understand who is and who is not benefitting in a particular context to understand the extent to which targets in social inclusion strategies are being achieved, and if adaptations to an intervention are needed. It should never be assumed that mechanisms designed to have a particular outcome (for example, improved participation and completion in skills training of a certain disadvantaged group) do have this outcome. This is the case both with measures that are designed for specific social groups (are they actually reaching these groups? Are there sub-groups within these social groups that are still excluded?), and with blanket financing measures (for example, free TVET for all) that are assumed to be beneficial for all (is it captured by a particular group, even if ostensibly free for all?). The choice of financing mechanism and level of financial investment needs to be anchored by a social inclusion strategy which includes targets to be achieved, and to which monitoring tracks progress towards.

Recommendations

1. Understand the root cause of the challenges that lead to the exclusion of disadvantaged and vulnerable individuals and social groups from skills development and lifelong learning.
2. Undertake a national review of current financing mechanisms that aim to support skills development and lifelong learning and assess the extent to which they promote social inclusion.
3. Ensure that sufficient, quality and regular data are collected on the identity and location of disadvantaged and vulnerable social groups.
4. Strengthen monitoring and evaluation so that implementing agencies can confirm that they are reaching those individuals they intend to reach, and that the financial incentive offered has resulted in greater inclusion in skills and lifelong learning.
5. Improve awareness of financial incentive schemes and labour market information among disadvantaged persons directly, and improve awareness of such incentive schemes among firms and potential intermediary organizations.
6. Reach disadvantaged individuals directly via grants (specifically means-based scholarships and other awards), as well as training vouchers, subsidies, allowances or tuition fee approaches.
7. Lending (loan-based) approaches for disadvantaged individuals should also be considered, as long as they are designed in such a way as to support and reassure debt-averse low-income individuals (for example, income-contingent loans that have no repayment commitment until a specific income threshold is achieved)
8. Expand the use of performance-based contracts with training providers, as well as procurement and contracting approaches that explicitly take into account social inclusion.

9. Encourage formal sector enterprises to train their more disadvantaged workers using grants, tax incentives or levy-related incentives.
10. Establish specific approaches to encourage micro and small-enterprises (MSEs) in the formal sector to invest in their disadvantaged workers.
11. Reach enterprises in the informal sector by channelling financial incentives via intermediary organizations.
12. Use levy-financed training funds to support a more social agenda, for example by allocating a proportion of the collected levies to be used to fund training that promotes equity and inclusion.

Key definitions

► Box 1. Financing mechanisms for individuals that aim to encourage social inclusion in skills and lifelong learning

Grants - (Co-)funding of skills training and lifelong learning using instruments like scholarships and bursaries, vouchers, training subsidies, stipends and other allowances (in cash or in kind), conditional cash transfers, cost-reimbursement and individual learning accounts.

Tax incentives - Tax incentives to individuals consist of tax code-regulated deductions of costs incurred in education and training, either from individual income tax bases or the amount of tax due. Tax incentives can cover initial education and 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 loans.

Tuition fees - Co-setting of tuition fee levels between government and training providers is adopted as an approach to increase equal access to training opportunities. Such co-setting may take the form of cost-sharing agreements, maximum chargeable fee levels, fee reductions for certain groups or fully free training.

Production with training - Income-generating opportunities available to individuals during (or as part of) their training, for example, students supporting production units at a vocational institute in return for payment or a reduction of fees and training costs borne by trainees. This is different from work-based learning schemes like apprenticeships where trainees/apprentices are paid.

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. This can be combined with a grant scheme and associated with payback clauses.

► **Box 2. Financing mechanisms for training providers that aim to encourage social inclusion in skills and lifelong learning**

Contracted training provision - Objective-based agreements between training providers and governments / training funds (levy- or donor-financed) that can be used for targeted financing and, among other purposes, to promote access and inclusion.

Targeted procurement - Award of contracts to training providers with priority given to those that indicate the most inclusive approach (for example, a greater share of the poor amongst the trainees enrolled in their training programmes).

Performance-based contracts - Integration of performance-based elements in funding formulas to improve quality and access to training, including output and outcome monitoring and competitive bidding. Providers can boost access by vulnerable groups of all ages and create a better response to skills needs.

One-off funding - One-off public funding to increase capacity, to make training providers more accessible for people with disabilities and to make training providers more female-inclusive.

► **Box 3. Financing mechanisms for employers that aim to encourage social inclusion in skills and lifelong learning**

Training levies - Training levies paid by enterprises are a common source of extra-budgetary revenue for training, with the most common type of levy being payroll-based. A majority of levy-financed training funds around the world serve multiple purposes, which often include the training of disadvantaged and marginalized groups.

Grants and subsidies to enterprises - Direct transfers to employers with the aim of co-financing costs to promote training and retraining by supporting work-based learning, apprenticeships and internships, and encouraging the training of disadvantaged employees. 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, employer training levies, 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.

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 workers' organizations, professional associations or small industry associations.



▶ 1

Introduction

The COVID-19 pandemic has aggravated existing inequalities globally. It has pushed millions of children, adolescents and adults into extreme poverty and affected disadvantaged people and those in vulnerable situations disproportionately (ILO 2022).

Skills development systems are an essential element to further a country's sustainable development by promoting employability and capabilities of individuals, productivity and competitiveness of enterprises, economic diversification and productive transformations of economies. Skills development and lifelong learning also support career progression and personal fulfilment and contributes to equal opportunities and social justice, provided that opportunities to access and participate in skills development are indeed available for all.

Sustainable Development Goal (SDG) 4 on education acknowledges the importance of inclusion in SDG 4 and calls on Member States to "ensure inclusive and equitable quality education and promote lifelong learning opportunities for all". The goals contain several targets under SDG 4 relevant to the issue of inclusion in technical and vocational education and training (TVET) (box 4).

► **Box 4. SDG 4 and SDG 8 targets relevant to the issue of inclusion in skills development and lifelong learning**

... ensure that **all** girls and boys complete free, **equitable** and quality primary and secondary education ... (4.1);

... ensure **equal** access for **all** women and men to affordable and quality technical, vocational and tertiary education ... (4.3);

... eliminate **gender disparities** in education and ensure **equal** access to all levels of education and vocational training for the **vulnerable**, including persons with disabilities, indigenous peoples and children in vulnerable situations (4.5);

... ensure that **all** learners acquire the knowledge and skills needed to promote ... gender **equality** ... (4.7);

... provide safe, non-violent, **inclusive** and effective learning environments for **all** (4.a);

... achieve full and productive employment and decent work for **all** women and men, including young people and persons with disabilities, and equal pay for work of equal value (8.5);

... substantially reduce the proportion of youth not in employment, education or training (8.6).

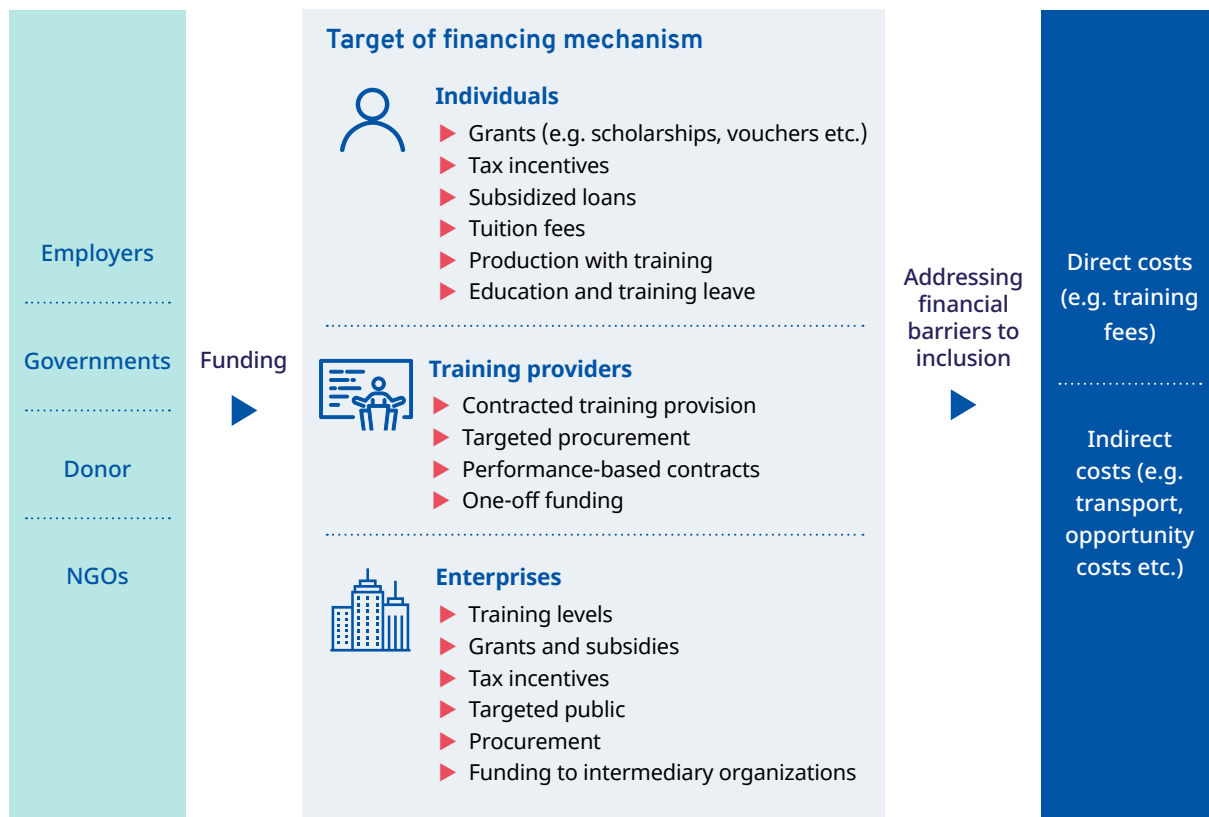
Source: <https://sdgs.un.org/goals> (accessed 15.10.22, emphasis added).

However, discrimination and exclusion continue to be prevalent in many skills development systems: people in rural communities, persons with disabilities, ethnic minorities, young people, elderly people, workers in the informal economy and other disadvantaged groups often face higher barriers to access and participation. Women remain underrepresented in science, technology, engineering and mathematics (STEM) fields, are faced with gender biases in occupational choices and additional sociocultural and economic constraints, all contributing to a persistent gender wage gap and lower labour force participation.

Non-financial measures to promote social inclusion in skills development and lifelong learning have long been promoted, including awareness raising, target-setting/equity measures such as quotas, guidance and counselling, social marketing campaigns, anti-harassment policies, capacity building for inclusive learning methodologies, flexible schedules and admissions criteria (GIZ 2020; Lange et al. 2020). They remain critical instruments to create an inclusive learning environment and help overcome barriers with regards to information, timing of training or physical spaces, yet are often more effective if coupled with financial instruments which are designed to address financial barriers associated with participating in training.

Financial instruments to promote social inclusion fall into three broad categories: i) Financing mechanisms for individuals; ii) Financing mechanisms for training providers; and iii) Financing mechanisms for enterprises (fig. 2).

► Figure 2. Financial instruments to promote social inclusion in skills and lifelong learning



Source: Author.

The forms and types of financial measures to promote inclusion in skills and lifelong learning, as well as their level of effectiveness and efficiency are subject of this report. This report has the following structure:

- The remainder of this 'Introduction' will briefly summarize the key issues that lead to social exclusion in skills and lifelong learning.
- Section 2 examines financing mechanisms for individuals and social groups.
- Section 3 examines financing mechanisms for training providers.
- Section 4 examines financing mechanisms for training enterprises.
- Section 5 provides some conclusions and recommendations.

Key issues that lead to social exclusion in skills and lifelong learning

Technical and vocational skills development – delivered in formal, non-formal or informal approaches – is often assumed by policy makers and politicians to be much more accessible to disadvantaged and vulnerable learners than formal academic education. In some respects, this assumption is correct: academic entry requirements to formal secondary-level TVET are often lower than entering formal general secondary education; the short duration of much non-formal TVET aids accessibility; and informal approaches to acquiring technical and vocational skills, for example through informal apprenticeships – widespread in many African and Asian countries in particular – are also more accessible. This said, it is crucial to understand what has been termed the social composition of skills provision (King and Palmer 2006); which types and categories of persons are getting access to skills (and therefore identifying who is not). Many disadvantaged and marginalized persons – and especially the most disadvantaged and marginalized – are still excluded from skills training and lifelong

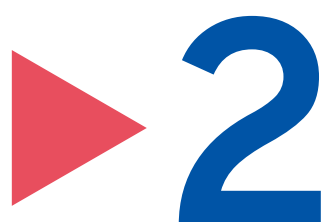
► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

1. Introduction

learning for a multitude of reasons (Lange et al. 2020). Access to TVET is even more limited for persons who are experiencing multiple and compounding disadvantage – for example, women living in rural areas who work in the informal economy. Key access and completion barriers include:

- **Training fees** – the direct cost of tuition fees is often unaffordable to students from low-income backgrounds.
- **Indirect and opportunity costs** – to attend training, learners typically incur indirect costs associated with transport to and from a training venue, lunch costs and perhaps other costs like childcare or accommodation (if a residential course). In addition to this is the opportunity cost that individuals incur when participating in training; they are not able to earn income or undertake domestic or subsistence work at the same time, and this will make participation in training difficult (or impossible) for many – especially those reliant on earning an income on a day-to-day basis (a majority of those working in the informal economy).
- **Formal entry requirements** – most formal TVET courses have formal educational entry requirements – for example, a pass at lower secondary education level. Individuals who have not been able to attain this prior education would be excluded from such courses.
- **Course materials/content and timing** – formal TVET courses may not be well-suited to disadvantaged persons in terms of, for example, the course timing (which may be inflexible or require long periods of training); the course content (which may be more suited to those entering formal employment and not the major destination of disadvantaged persons – the informal economy); socio-linguistic barriers; and insufficient core skills.
- **Gender** – barriers include lack of access to information and advice, gender biases in occupational choices, sociocultural and economic constraints (for example, in many countries the responsibility of child-rearing still rests predominantly with women, or men’s/family/community resistance to women training), and lack of gender-friendly training environments (for example, separate toilets and washrooms) (British Council, 2020).
- **Disability** – barriers include: prejudice, low schooling levels, inadequate trainer capacity, transportation, a people with disability (PWD)-friendly training environment (ILO 2018).
- **Rurality** – there are often a lot more training options in urban areas than in rural areas, and people living in rural areas may find that their nearest training provider is simply too far away to practically reach.
- **Information barriers** – disadvantaged and vulnerable persons often have a lack of information about available training, existing support, vocational options and labour market outcomes.

Addressing these multiple barriers requires effective and coordinated non-financial and financial measures. This report is about identifying the range of financial instruments that are being used and looking at the effectiveness and efficiency of these approaches.



Financing mechanisms for individuals and social groups

This section will examine financing mechanisms that aim to encourage disadvantaged individuals to participate in skills training and lifelong learning. Six types of mechanism are explored: grants; tax incentives; subsidized loans; tuition fees; production with training and education and training leave (table 1). For each mechanism there is a brief description of how it functions, illustrative examples and a summary of any evidence regarding its effectiveness and/or efficiency.

► **Table 1. Financing mechanisms to encourage disadvantaged individuals to undertake training**

Mechanism	Description and social inclusion angle
Grants	(Co-)funding of skills training and lifelong learning using instruments such as scholarships and bursaries, vouchers, training subsidies, stipends and other allowances (in cash or in kind), conditional cash transfers, cost-reimbursement and individual learning accounts. Grants are very flexible instruments and can support access to TVET in institutes, work-based learning (especially apprenticeships) and any other training offer. Grants tend to be the most common instrument with regards to encouraging disadvantaged individuals to participate in skills training and lifelong learning.

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems:
Global overview of current practices and policy options**

2. Financing mechanisms for individuals and social groups

Mechanism	Description and social inclusion angle
Tax incentives	Tax incentives to individuals consist of tax code-regulated deductions of costs incurred in education and training either from the individual income tax base or the amount of tax due. Tax incentives can cover initial education, continuing training and also specific courses. This is a much less common instrument used to encourage participation in skills for disadvantaged individuals and would be of no use to those in the informal economy (who are operating outside of a national tax net).
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 loans. This is a much less common instrument used to encourage participation in skills of disadvantaged individuals and is largely unavailable to those working in the informal economy.
Tuition fees	Co-setting of tuition fee levels between government and training providers, normally to increase equal access to training opportunities. Such co-setting may take the form of cost-sharing agreements, maximum chargeable fee levels, fee reductions for certain groups or fully free training.
Production with training	Income-generating opportunities available to individuals during (or as part of) their training, for example, students supporting production units at a vocational institute in return for payment or a reduction of fees and training costs borne by trainees. This is different from work-based learning schemes like apprenticeships where trainees/apprentices are paid.
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. This is also not a common instrument used to encourage participation of disadvantaged persons in skills training and lifelong learning, and would not apply to those working in the informal economy.

Source: Adapted by author from ILO (2021).

2.1 Grants

Grants are a primary type of financing mechanism for individuals that have the aim of improving social inclusion in skills and lifelong learning systems. Grants to individuals usually have the objective of fully or partially helping individuals to overcome financial barriers to their participation in skills training (Filmer and Fox 2014) by covering direct costs (for example, training fees) and/or indirect costs (for example, transportation costs, accommodation expenses, costs of study materials and forgone earnings). Grants involve the (co-)funding of skills training and lifelong learning using instruments like scholarships and bursaries, vouchers, training subsidies, stipends, conditional cash transfers, cost-reimbursement approaches and individual learning accounts. Grants are regarded as “very flexible instruments and can support access to TVET in institutes, work-based learning and any other training offer” (ILO 2021, 7). The types of work-based learning that can be best supported by grants include formal apprenticeships, work-based attachments as part of dual training and informal apprenticeships.

2.1.1 Scholarships, bursaries and other grants

Scholarships are a common form of grant instrument used to promote inclusion in skills training and lifelong learning.¹ Individual recipients typically apply for a scholarship either at the institution where they plan to enrol or at an independent awarding body (Lange et al. 2020). The extent to which scholarships have an impact on equity and inclusion “strongly depend[s] on the targeting mechanism” (UNESCO 2020a, 103). Scholarships can also cover full or partial costs, and may or may not also cover indirect costs associated with skills training.

Scholarships for women

As an approach to incentivize women to participate in skills training, scholarships may be specifically available only to women, or may be open to both men and women but offer higher grants to women. For example, to incentivize women to become apprentices in **Canada**, the government’s Apprenticeship Incentive Grant for Women offers a taxable cash grant of 3,000 Canadian dollars (US\$2,300) per year/level (or equivalent) up to a maximum amount of CAD6,000 (US\$4,600) per person.² This amount is higher than the Apprenticeship Incentive Grant offered to men, which is a taxable cash grant worth 1,000 Canadian dollars (US\$780) per year or level, with a lifetime maximum amount of 2,000 Canadian dollars (US\$1,550) per person. In addition to these grants, an Apprenticeship Completion Grant offers an additional incentive to complete an apprenticeship training and obtain a journeyman certification; a one-time taxable cash grant of 2,000 Canadian dollars (US\$1,550) per person (GoC 2022a).

Scholarships for individuals on low incomes

Scholarships might also specifically aim to reach individuals on low incomes, with examples of this approach seen all over the world, including from Europe (Slovenia), Latin America (Costa Rica), Asia (Philippines, Cambodia), North Africa (Tunisia) and Sub-Saharan Africa (Cameroon, Niger).

In **Slovenia**, the Ministry of Labour, Family, Social Affairs and Equal Opportunities offers scholarships to young persons from socially and financially disadvantaged family backgrounds. University students up to 27 years old and secondary school pupils up to 22 years old may apply, so long as they are not currently employed and come from low-income families (defined as having an average monthly income per family member not exceeding €680 (US\$720) in the financial year before submitting the application). An additional allowance is available for scholarship holders with disabilities (MoLFSA 2022).

In the **Republic of Costa Rica**, the National Learning Institute (Instituto Nacional de Aprendizaje – INA) has a scholarship system to benefit low-income students, and all persons wanting to participate in INA’s regular training offers can apply. The system includes financial aid to cover aspects such as accommodation, transportation and food (INA 2022).

In the **Philippines** various scholarship programmes exist which, in 2021, supported more than 461,000 individuals. Several of them explicitly aim to reach low-income individuals, for example the Private Education Student Financial Assistance, the Special Training for Employment Programme, the Tulong Trabaho Scholarship Programme and the Barangay Kabuhayan Skills Training Programme (box 5).

1 In this report, a ‘scholarship’ refers to a financial award granted to an individual. Scholarships usually refer to a financial award granted to an individual based on their academic or sporting excellence; they can be either targeted at specific groups (for example, low-income individuals, women), or untargeted and open to all. Meanwhile, bursaries usually refer to a financial award granted to an individual based on their financial neediness. The terms are often conflated, used interchangeably or – sometimes – ambiguously across countries.

2 The Apprenticeship Incentive Grant for Women will end in March 2023.

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

2. Financing mechanisms for individuals and social groups

► **Box 5. Scholarship programmes for TVET students in the Philippines**

The **Training for Work Scholarship Programme (TWSP)** aims to support skills development in areas where there are unfilled jobs in key industries. Beneficiaries are entitled to free training and competency assessment delivered through participating TVET institutions. In 2021, 223,488 people were enrolled under the TWSP scholarship.

The **Private Education Student Financial Assistance (PESFA)** programme seeks to extend financial assistance to marginalized but deserving students in post-secondary non-degree courses enrolling in private TVET. PESFA scholars are entitled to free training, a student allowance of 60 Philippine pesos (US\$1) per day, book allowance of 500–2,000 pesos (US\$10–40) for the whole training programme and assessment fee. Beneficiaries of the PESFA must have completed at least 10 years of basic education, be at least 15 years old at the start of the training and have an annual family income of not more than 300,000 pesos (US\$5,740). In 2021, 11,722 people were enrolled under the PESFA scholarship.

The **Special Training for Employment Programme (STEP)** is a community-based training programme that seeks to address the specific skills needs of communities and promote employment through entrepreneurial, self-employment and service-oriented activities. Under STEP, the training programmes are generally of short-term duration. Both public and private training providers deliver the training programmes under STEP, though most programmes are delivered by local government training centres and TESDA (Technical Education and Skills Development Authority) Technology Institutions. The beneficiaries of STEP receive the following assistance: free training and competency assessment, starter toolkits and training allowance of 60 pesos (US\$1) per day for the duration of the training. The programme was introduced in 2014 in line with an initiative to expand the reach of TVET to the grassroots. In 2021, 80,637 people were enrolled under the STEP scholarship.

Universal Access to Quality Tertiary Education (UAQTEA) is a programme established through Republic Act No. 10931 providing for free tuition and other school fees in State Universities and Colleges, Local Universities and Colleges and state-run Technical Vocational Institutions. In 2021, 46,030 individuals were enrolled in skills training under UAQTEA scholarships.

The **Tulong Trabaho Scholarship Programme (TTSP)** was established through Republic Act No. 11230 which mainly aims to provide more innovative approaches to TVET linked to the requirements of industry to primarily address unemployment and job-skill mismatch through the delivery of various training programmes to qualified recipients; for example, programmes/qualifications in priority sectors as well as those related to new and emerging skills. In 2021, 47,145 people were enrolled under the TTSP scholarship.

The **Rice Extension Services Programme (RESP)** provides scholarships to individuals to learn skills in rice crop production, modern rice-farming techniques, seed production, farm mechanization and knowledge/technology transfer through farm schools nationwide. In 2021, 51,893 people were enrolled under the RESP scholarship.

The **Barangay Kabuhayan Skills Training Programme (BKTSP)** caters to the specific needs of the marginalized and disadvantaged sector in small communities. In 2021, 502 people were enrolled under the BKTSP scholarship.

Source: TESDA (2022a; b); <https://www.tesda.gov.ph/> (accessed 09.10.22).

In **Cambodia**, the National TVET Policy 2017–2025 has the intention to offer scholarships, allowances and accommodation to low-income individuals (especially women), marginalized groups, youth, school dropouts, indigenous peoples, migrant workers and the unemployed (MoLVT 2017).

In **Tunisia**, the government provides some scholarships to students from low-income households enrolled in TVET for occupations that have skills shortages (ILO 2019a).

In **Cameroon**, the Ministry of Employment and Vocational Training offers vocational training scholarships to returning migrants as a priority, to facilitate their social and professional integration (ILO 2019b).

In **Niger**, the government provides bursaries to formal TVET trainees (public and private) from disadvantaged backgrounds (ILO 2019c).

In **Zambia**, the levy-financed Skills Development Fund has a funding window to support pre-employment training (institution-based and apprenticeship training). Bursaries are paid to all students attending Technical Education, Vocational and Entrepreneurship Training Authority vocational institutions (Government of Zambia 2017a, b; Palmer 2020a).

Scholarships for people with disabilities

While some scholarship offers, like those from **Slovenia** noted above, have additional allowances if the scholarship holder is also a person with a disability, scholarships can also be specifically aimed to reach individuals with disabilities.

In **Panama**, for example, an Employment Support Programme caters to people with intellectual disabilities and offers scholarships for people with disabilities at the Training Institute for the Development of Human Resources (ILO 2020a).

Evidence on the effectiveness and efficiency of scholarships to promote social inclusion in skills and lifelong learning

As noted above, scholarships to individuals can either be full (covering 100 per cent of tuition fees and sometimes covering some indirect costs like meals and accommodation) or they can be partial (not covering 100 per cent of tuition fees or indirect costs). Where scholarships are partial, the requirement for the recipient to make a financial contribution as part-payment may result in the inability to join the training. Where scholarships are partial and the remaining costs (part fee payment and indirect costs) remain high relative to the ability of disadvantaged persons to pay, such scholarships will be captured by the non-poor who are able to meet the cost-sharing requirements.

The way in which scholarships are targeted directly affects their effectiveness as instruments to promote social inclusion. For example, merit-based scholarships that prioritise rewarding prior academic performance may be more likely “won” by individuals who have previously been to better-resourced schools. On the other hand, merit-based scholarships that make allowances for prior disadvantage can be truly transformational to those that receive them.

Means-tested scholarships – sometimes referred to as bursaries – that are open to students from lower income backgrounds can also be an effective way to reach disadvantaged individuals. However, even such bursary-type scholarships that are specifically aimed at lower-income individuals can still result in training being inaccessible without consideration for prior educational disadvantage. For example, in the **Republic of Costa Rica**, the National Learning Institute (Instituto Nacional de Aprendizaje – INA) helps disadvantaged and vulnerable people take up training through scholarships. However, on many occasions, the prior educational level of people living in poverty represents a barrier to their participation in INA programmes which require a minimum of a complete primary education (Palmer 2022).

Where bursary-type scholarships are paid to all students in an untargeted approach, some students who could have actually afforded to pay will end up benefitting (known as deadweight loss). For example, in **Zambia**, bursaries are paid to all students attending Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) vocational institutions. However, there is little information on the extent to which the SDF helps to improve access to training for disadvantaged groups. The blanket, untargeted approach of TEVETA of issuing bursaries to all students attending its own vocational institutes will likely result in some deadweight loss (Palmer 2020a).

- ▶ **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**
- 2. Financing mechanisms for individuals and social groups

2.1.2 Vouchers and training grants

Other forms of grant instrument for individuals that can promote inclusion in skills training and lifelong learning are vouchers and training subsidies. Such mechanisms can be financed from a range of funding sources including government funds, levy-financed training funds or development partner projects (in low- and middle-income countries). Types of costs covered typically include the training fees (in whole or in part), and in some instances may also cover some indirect training costs.

Vouchers and training subsidies or grants are distributed to individuals according to selection criteria (for example, a programme might aim to reach low-skilled workers, the unemployed, at-risk or vulnerable groups, and women or workers in informal enterprises). An individual holding a voucher can then (usually) select the training they would like, typically from a list of authorized or accredited providers. Once selected, the monetary value of the voucher is transferred by the funding agency to the training provider. Training subsidies or grants for individuals are often provided to the individual directly based on their application, without issuing a voucher. Vouchers and training subsidies/grants paid directly to individuals can be an effective way to stimulate the purchasing power of marginalized individuals. Where there is choice of provider, this kind of mechanism can also help stimulate competition among providers (which leads to improvements in quality). It is more common that training vouchers are used for further skills upgrading than for initial training (Lange et al. 2020).

Virtually all high-income countries and many middle- and low-income countries have provided training subsidies to individuals in groups underrepresented in workplace training. Examples include older workers (for example in Canada), low-income and low-skill workers (many countries, including Belgium [Flanders], Germany, Hungary and the United States), workers with disabilities (many countries) and indigenous people (Australia) (OECD 2017a; World Bank 2017a, 179). An example of an initiative for low-income and low-skill workers is the WorkAdvance initiative in the **United States**, which provides a package of support to individuals in low-wage jobs and to the unemployed, including:

- ▶ Career education and job-readiness preparation (for example, in soft skills and résumé writing) tailored to the sector.
- ▶ Short-term, sector-specific skills training, provided free of charge, leading to industry-recognized postsecondary credentials or certification.
- ▶ Job development and placement in targeted occupations. Participants are placed in appropriate jobs that suit their skills.
- ▶ Postemployment services. Coaching is provided to participants for up to two years to promote job retention and career advancement.

It is noteworthy that programme applicants to WorkAdvance are intensively screened “before enrolment for motivation and readiness, to ensure programme providers select participants who can take advantage of the training and qualify for jobs in the target sector” (Schaberg and Greenberg, 2020: ES-1). This level of screening, while useful from the perspective of ensuring that the participants make the most of the initiative, could also end up screening out applicants facing multiple disadvantages and who find it harder to be motivated.

Training vouchers for individuals is a financial instrument that has been used in a range of countries, for example, from Sub-Saharan Africa (Ghana, Senegal), Asia (Indonesia, Lao People’s Democratic Republic, Republic of Korea, Singapore), Latin America (Mexico) and Europe (Belgium, Germany, Netherlands, Portugal, Scotland).

In **Ghana**, the TVET Voucher Project uses informal sector trade associations to identify individual master-craftspeople (and their apprentices), with apprentices receiving training in both the informal workplace as well as in formal training providers (funded by training vouchers). While it is an interesting approach it only reaches 1-2 per cent of all informal apprentices and there is no clear route to scale (box 6).

► **Box 6. The Ghana TVET Voucher Project**

Since 2015, the Ghana TVET Voucher Project (GTVP) has provided training vouchers to registered master-craftspersons and their apprentices. The GTVP was established to address an access issue in informal apprenticeship – to reduce the cost for those taking up such training. Vouchers are used to fund competency-based training (CBT) courses in about ten trade areas by accredited training providers and the assessment and certification of National Proficiency Levels II and I under the National TVET Qualification Framework.

Master-craftspeople must belong to a trade association that is registered with the Commission for TVET, and formal training providers must also be accredited by the Commission for TVET. More than 100 formal training providers have been accredited to deliver training under the GTVP.

Informal sector trade associations are responsible for identifying master-craftspeople to participate, and their apprentices then automatically qualify as eligible once they have been training with their master-craftsperson for at least two months. Participating apprentices must spend 3-4 days with their master-craftsperson and 1-2 days with the formal training institution each week. When apprentices attend the institution-based component of the training, they receive a stipend to cover transportation and food of 10 Ghanaian Cedi (US\$1.3) for each day they attend. This is disbursed via the TVET provider.

Via the vouchers, the formal training providers are given 50 per cent of the cost of training the apprentice at the start of the training and the remaining 50 per cent once the apprentice has completed the training. A standard fee amount is paid to all training providers.

About 18,000 apprentices have participated to date. Whilst there has been no specific objective of reaching apprentices with disabilities since the GTVP was launched in 2015, the third phase of the project (2022-27) is expected to address this.

The challenges with the GTVP are several-fold:

- **Scale.** The GTVP has been active since 2015 and only trained 18,000 apprentices in total, or about 2,000-3,000 annually – compared to the approximately 440,000 youths in informal apprenticeship nationwide at any one time.
- **Informal workplace learning.** The quality of the workplace learning experience in the master-craftsperson's enterprise is limited by the availability of tools and equipment in that informal enterprise. These tools in the workplace may also not match the tools that the apprentice has learned about during the two days a week in the formal training institution. Improving the workplace learning experience in these informal enterprises is not supported by the GTVP.
- **Initial investment by formal training providers.** Training providers (including private providers) find it hard to cover the initial cost of the needed tools and equipment.
- **Sustainability.** GTVP funding comes from KfW and the GoG (via a World Bank loan as part of the Jobs and Skills Project, 2021-26). Until there is a sustainable mechanism to resource the vouchers, there is always the risk that donor funding will dry up.
- **Post-training support.** Apprentices need support to be able to set up by themselves once completing their apprenticeship, but the GTVP does not offer this.

Source: <https://cotvet.gov.gh/gtvp/about-gtvp/> (accessed 09.10.22); GTVP official, personal communication (14.02.22); Darvas and Palmer (2014).

In **Senegal**, the Fund for the Financing of Vocational and Technical Training (Fonds de Financement de la Formation Professionnelle et Technique - 3FPT), which is itself financed via a 3 per cent national payroll levy, operates several funding windows through which it allocates funding. One of these windows is to support individuals and groups of individuals, including: young people without professional qualifications; young

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

2. Financing mechanisms for individuals and social groups

people or adults with difficulty accessing the labour market or with low or inadequate qualifications; and young people or adults embarking on a professional retraining course. One of the ways in which individuals can access funding is via a vocational training voucher which can be used as a contribution to the funding of pre-employment training (3FPT 2020; 2022).

In **Lao People's Democratic Republic**, the Asian Development Bank (ADB)-assisted Strengthening TVET project (2010-17) used vouchers to encourage poorer students to take up short courses in priority skills areas. The vouchers covered tuition fees, a subsistence allowance, and stationery and travel costs. At project completion, 5,040 students (against a target of 4,800) had received vouchers, of which 1,677 (33 per cent, against a target of 25 per cent) were female. Half of the recipients came from poor families while 35 per cent belonged to ethnic groups. School records indicate that 95 per cent of the voucher recipients had completed their courses (ADB 2019, 3-4).

In the **Republic of Korea**, the National Tomorrow Learning Card of the Ministry of Employment and Labour and the Lifelong Education Voucher of the Ministry of Education (box 7) are similar in design to voucher schemes (OECD 2021a)³ and are treated as such here.

► **Box 7. The National Tomorrow Learning Card and the Lifelong Education Voucher, the Republic of Korea**

National Tomorrow Learning Card

To encourage up-skilling of vulnerable groups, including workers in SMEs, non-regular⁴ workers and jobseekers, the Republic of Korea's Ministry of Employment and Labour (MoEL) offers a financial incentive (a voucher) to employed and unemployed individuals to participate in training for employment reasons. Until 2020, there were two separate individual learning schemes, one for unemployed (known as the 'Learning Card for Job Seekers') and one for the employed (the 'My Work Learning Card'). Having two separate schemes "made it difficult for vulnerable workers to select suitable training courses, especially if they changed employment status" (OECD 2020). To address this, in 2020 both schemes were merged into one: the National Tomorrow Learning Card.

The National Tomorrow Learning Card (NTLC) aims to provide financial support to individuals (irrespective of employment status) participating in training for employment reasons. The amount of support is 3 to 5 million won (US\$2,400–4,000), which is valid for a five-year period, and can cover from 40 per cent to 100 per cent of training fees. The NTLC covers 100 per cent of the costs without any co-payment requirements when an individual is: (1) of low income and whose contribution to the National Medical Insurance is below a designated amount; (2) a member of a disadvantaged group including beneficiaries of the National Basic Livelihood Guarantees; a person with disabilities; a youth not in employment, education or training (NEET); and so on; 3) a self-employed person with annual sales of US\$120,000 (150 million won) or below; and 4) a non-regular worker with a monthly salary of US\$2,000 (2.5 million won) and below (OECD 2021a).

[Continue on the next page ►](#)

3 Both of these financial incentives are targeted at individuals and are paid directly to them, but do not allow individuals to accumulate finances over time.

4 In the Republic of Korea, non-regular workers are made up of three - at times overlapping - groups: 1) non-permanent workers, including those working on a temporary or fixed-term basis; 2) part-time workers, including those with 35 or fewer regular working hours per week; and 3) non-typical workers, including daily workers, contractors (either engaged for a specific task or paid on commission), temporary work agency workers, domestic workers and other such categories of workers with only weak ties to the employer (OECD 2018a).

► **Box 7 (cont.)**

Lifelong Education Voucher

The Republic of Korea's Ministry of Education, in coordination with the National Institute for Lifelong Education, offers lifelong education vouchers for low-income adults over 19 years and below the 65th percentile income bracket. The value of a lifelong education voucher is around US\$290 (350,000 won) annually, and it can be used to pay for fees and/or learning materials for approximately 6,400 courses at more than 600 institutions designated by the MoE. In 2020, there were about 10,000 voucher recipients, and this was expected to rise to 15,000 in 2021 (OECD 2021a).

In **Singapore**, one of the financial incentives resourced via the levy-financed Skills Development Fund (Palmer 2022; SSG, 2020; SSG-WSG, 2020) is SkillsFuture Credit (SFC), a voucher-like scheme that aims to encourage all individuals – employed, self-employed, jobseekers and economically inactive individuals – to take ownership of their skills development and lifelong learning through a single financial incentive system (SSG, 2022). Introduced in 2016, all Singaporeans aged 25 and above receive an opening credit of 500 Singapore dollars (US\$360) in their own SFC account. Credits can be used for a wide range of skills-related courses, on top of an existing government course fee subsidy. Between 2020-25, one-off SkillsFuture Credit top-ups of S\$500 (US\$360) are also being offered to: i) individuals aged 25 years and above to further encourage reskilling and upskilling; and ii) individuals aged 40 to 60 (inclusive) to support mid-career training (www.skillsfuture.gov.sg/credit). While not specifically aimed at vulnerable and disadvantaged individuals, SkillsFuture Credit is a financing mechanism accessible to them. The SkillsFuture Credit in practice is more of a voucher scheme as there is no formal accumulation of rights over time (OECD 2019b).

In **Indonesia**, the Smart Indonesia Card (Kartu Indonesia Pintar, KIP) guarantees and ensures that all school-aged children from disadvantaged families receive financial grant assistance for education up to the completion of high school/vocational school (TNP2K 2022). KIP aims to reach all children of school-going age (6–21 years old) whose families are part of the Family Welfare programme (Kartu Keluarga Sejahtera, KKS), provided that they are registered in a school (either private or public and at all levels), part of a study group or enrolled in a training course (OECD 2019c).

In **Mexico**, the Becate skills training and internship programme for unemployed youth provided vouchers to cover training of 1-3 months duration in eligible public or private training institutions (van Gameren 2010).

In Europe, examples of voucher or voucher-like schemes include the Bildungsprämie in **Germany**, the Cheque formação in **Portugal** (OECD 2019d), the Opleidingscheques in **Flanders (Belgium)** (box 8), schooling vouchers of DOORZAAM in the **Netherlands** (box 9), and the Individual Training Accounts in **Scotland** (box 10).

► **Box 8. Voucher scheme for individuals (Opleidingscheques) in Flanders (Belgium)**

In Flanders (**Belgium**), *Opleidingscheques* operates as a voucher scheme that supports training through direct governmental payments to individuals. The standard training voucher amount per individual is US\$148. The training covered by the voucher must be vocationally-oriented, and participants can receive career counselling services to help make their choices post-training. The scheme explicitly excludes individuals undertaking training during working time or training that is financed by employers, to avoid substituting one for the other. While most individual learning schemes only cover tuition fees, the *Opleidingscheques* also finance skills assessment services.

[Continue on the next page ►](#)

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

2. Financing mechanisms for individuals and social groups

► **Box 8 (cont.)**

Since 2015, only low- and medium- educated workers can access the *Opleidingscheques*, as before this restriction was introduced almost half of the participants were highly-educated employees. The scheme aims to reach priority groups by varying the amount of support provided – active individuals with less than upper secondary education benefit from a higher rate of support of US\$296. An additional allowance of an unspecified amount is available for those with less than tertiary education undertaking tertiary education training. Low-skilled foreigners, persons over 50 years of age, and disabled individuals are also eligible for up to US\$296 for training fees.

To further minimize financial barriers to training, the *Opleidingscheque* can be combined with paid educational leave. Learners can undertake up to 125 hours of training per year for programmes linked to occupations with labour shortages. During this period, the employee will continue to receive their wage up to a ceiling, while their employer can be compensated by the regional government, the responsible implementation authority for the programme.

Source: OECD (2019b).

► **Box 9. Schooling vouchers for low-skilled temporary workers in the Netherlands**

In the **Netherlands**, the levy-financed Training and Development Fund for Temporary Work Agency Sector – DOORZAAM offers schooling vouchers (valued at €500 / US\$530 each) to low-skilled temporary workers. The aim of the voucher scheme is to promote upskilling among temporary workers without a school-leaving certificate.

Source: <https://www.doorzaam.nl/> (accessed 15.10.22).

► **Box 10. Individual Training Accounts in Scotland**

Launched in 2017, Individual Training Accounts (ITAs) are voucher-type mechanisms in Scotland available to individuals in the labour force earning £22,000 or less per year or unemployed persons who are looking to get back into work. Eligible individuals need to be 16 years or over and not in education, and receive a £200 grant towards a single course or training episode per year.

Since October 2017, ITAs in Scotland have been taken up by some 46,857 learners in Scotland. Skills Development Scotland data on take-up shows ITAs in their current form have disproportionately benefited those out of work; only 45 per cent of current ITA users in Scotland are in work. Some 37 per cent of current ITA users are on benefits and a further 12 per cent have no income. The application process has been simplified in order to make it easier for disadvantaged applicants, such that the task of verifying eligibility has been transferred from the individual to the training providers. Additionally, information about the ITAs is embedded in a careers portal (www.careers.myworldofwork.co.uk) which provides career advice information and support, information on learning opportunities and on funding sources (like the ITAs).

ITA take-up is skewed towards younger learners; over 55 per cent of individuals are 35 years old or younger, and less than 1 per cent are aged over 65 years.

Source: CIPD 2021; SDS n.d..

Evidence on the effectiveness and efficiency of voucher schemes and subsidies to promote social inclusion in skills and lifelong learning

Evidence suggests that properly-designed voucher schemes and training subsidies for disadvantaged individuals can function as an effective tool to support social inclusion in skills and lifelong learning. For example, in **Mexico**, the Becate skills training and internship programme for unemployed youth provided vouchers to cover training of 1-3 months' duration in eligible public or private training institutions (van Gameren 2010). An impact evaluation, using a quasi-experimental method, found that there was an increase in monthly income attributable to participation in the programme through vouchers, compared to people with the same characteristics but who did not participate (van Gameren 2010).

A study on the long-term effects of the **United States'** above-mentioned WorkAdvance initiative with regard to costs, benefits, and impacts found that it increased average earnings and the likelihood of individuals having high earnings. Moreover, the benefit-cost analysis findings were positive from the perspectives of the participants, the government and society (Schaberg and Greenberg 2020).

There are some clear lessons to consider when designing such voucher schemes, including: that financial instruments like vouchers are more effective if combined with non-financial approaches that promote social inclusion in skills; that selection and eligibility criteria for voucher schemes need to be carefully thought through; that vouchers only covering direct costs will likely be insufficient if the intention is to reach the most disadvantaged who cannot cover indirect costs; that a certain level of capacity of individuals is required to make use of the vouchers (for example, using them in an informed way to select courses and providers); and that careful monitoring is needed to understand who is and who is not benefitting in a particular context.

While vouchers can go some way to promoting social inclusion in skills, financial instruments alone are clearly an insufficient approach to reach some disadvantaged groups. For example, in **Kenya**, an impact evaluation of a TVET voucher programme found that voucher holders were substantially more likely to enrol in vocational educational institutions compared to non-voucher holders. However, more than 40 per cent of the individuals did not complete the course, despite being provided with adequate funding. Moreover, there was limited evidence of an effect on earnings (box 11).

► Box 11. The Kenya TVET voucher programme

In 2008, Kenya developed a TVET voucher programme in the western part of the country for out-of-school youth aged 17-28 years. Implementation began in 2008 with the recruitment of approximately 2,160 out-of-school youths (ranging in age from roughly 18-30 years) who were invited to apply for a vocational education tuition voucher. Half were awarded a voucher through a lottery process, the other half served as the control group. Of the voucher winners, around half had vouchers for participation in public vocational institutions and the other half for attendance in public and private schools. Seventy-four per cent of those receiving vouchers enrolled in some type of training programme. Unrestricted vouchers that could be used for either public or private training programmes were 10 per cent more likely to encourage enrolment than restricted vouchers. However, despite recruiting individuals who claimed to be highly interested in vocational training and paying for all (or nearly all) of their fees, moderate dropout rates among the participants (35-40 per cent) were still observed. Individuals who were awarded restricted (public institution-only) vouchers were about 16 per cent more likely to drop out compared to those who were awarded unrestricted vouchers.

The impact evaluation found limited evidence that the vouchers led to an increase in earnings for the participants, but that there was an increase in hourly-wage earnings among wage-earners. There is also evidence that the voucher programme increased the likelihood of working in wage employment among those who had been out of school longer.

Source: Hicks et al. (2016).

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

2. Financing mechanisms for individuals and social groups

A voucher scheme in **Lao People’s Democratic Republic** provides another illustration that financial instruments alone are often an insufficient approach to promoting the social inclusion of individuals into skills and lifelong learning. In this case, it was about the lack of supportive policies, teacher training and disabled-friendly equipment and facilities (box 12).

► **Box 12. Training vouchers were not enough to support inclusion of students with disabilities in Lao People’s Democratic Republic**

In Lao People’s Democratic Republic, the Asian Development Bank (ADB)-assisted Strengthening TVET project (2010-17) used vouchers as a means to encourage poorer students to take up short courses in priority skills areas. The vouchers covered direct costs (tuition fees) and indirect costs (subsistence allowance, stationery and travel costs). However, this still proved an insufficient approach to promote the inclusion of students with disabilities onto the training. What was missing was: i) a policy or mechanism to support disabled students’ enrolment in TVET institutions; ii) teachers who had the relevant prior experience or who had been trained as part of the intervention to support students with physical disabilities; and iii) disabled-friendly equipment and facilities at the TVET providers. By the time the project closed, only eight students with disabilities, out of the initial target of 100 such students, had enrolled in the training.

Source: ADB (2019, 4).

Voucher schemes that have no selection / eligibility criteria risk getting captured by more educated, higher-income individuals, resulting in deadweight loss (meaning that beneficiaries would have paid for the training anyway in the absence of the financial incentive). In **Korea**, the National Tomorrow Learning Card would be a more effective instrument at promoting social inclusion in skills, and reduce deadweight loss, if its selection criteria was more clearly aimed at disadvantaged individuals and social groups (box 13).

► **Box 13. Effectiveness of the National Tomorrow Learning Card in the Republic of Korea**

Evidence shows that the Ministry of Employment and Labour’s National Tomorrow Learning Card benefits the most educated the most. Among the beneficiaries, individuals with lower secondary education or less represented only 6 per cent of total beneficiaries, compared to those with higher education levels at the upper secondary (37 per cent), polytechnic university (22 per cent) and university (33 per cent) levels. In the absence of National Tomorrow Learning Card financial support, those individuals with higher education levels would have been more likely to undertake the training anyway.

Source: KRIVET (2019) cited in OECD (2021).

Similarly, in **Belgium** (Flanders), before 2015 the voucher scheme for individuals (Opleidingscheques) was open to all, regardless of education level. Once it was realized that the majority of voucher participants were highly-educated employees, access to vouchers was subsequently restricted to employees with low- and medium-education level only (OECD 2019b).

Voucher programmes that have eligibility criteria related to how disadvantaged an individual is “have become increasingly popular as a means ... to provide access to education to vulnerable and poor groups” (Albaladejo and Weiss 2017, 23). An additional point concerning eligibility is that such an approach needs to be implemented in a transparent way according to clear selection criteria and to be properly monitored to avoid misuse or misallocation of vouchers (Lange et al. 2020).

Voucher schemes that only cover the direct costs of training will still result in the exclusion of those unable to bear the indirect costs associated. For example, in **Korea**, the evidence from implementing the Lifelong Education Voucher is that even voucher-like instruments that specifically reach low-income individuals, but which only cover direct costs of training, may not be sufficient support for some individuals whose inclusion in skills training and lifelong learning is also inhibited by the indirect costs associated with training (box 14).

► **Box 14. Effectiveness of the Lifelong Education Voucher in the Republic of Korea**

The Ministry of Education Lifelong Education Voucher programme aims specifically to reach low-income individuals (defined as adults below the 65th percentile in the income bracket). Despite this, 21 per cent of the lowest income group (monthly income below US\$1,260) still cite cost as a barrier to participating in adult learning. This is in contrast with higher income groups, where about 10 per cent cite cost as a barrier. In addition to covering direct costs through the Lifelong Education Voucher, “it would also be necessary to consider complementary financial support mechanisms to cover the indirect costs for low-income individuals. This is particularly relevant when low-income individuals with lower levels of education want to pursue long-term formal adult learning programmes that lead to an increase in educational qualification level.”

Source: OECD (2021).

Careful monitoring is needed to understand who is and who is not benefitting in a particular context.

For example, in **Scotland**, the individual training account – which offers £200 grants to eligible individuals actively seeking employment and those who are currently in low paid work. An evaluation found that uptake of the individual training account is highest among out-of-work younger learners (over 55 per cent of learners are aged 16-35), based in the central belt of Scotland, with construction the most popular sector (CIPD 2021; Zemanik 2021). The lower take-up rates among older workers – less than a quarter of individuals are over 45s – “suggests ITAs are not yet fulfilling their potential as a tool to support learners throughout their lengthening working lives” (CIPD 2021, 11). The lower uptake rates outside central Scotland indicate that individuals in more rural parts of Scotland are benefitting less.

2.1.3 Individual learning accounts and individual savings accounts for training

Another type of financing mechanism designed to encourage social inclusion in skills and lifelong learning are individual learning accounts and individual savings accounts for training.

Individual learning accounts (ILAs) are virtual, individual accounts in which training rights are accumulated over time, but where resources are only mobilized if training actually takes place. In **France**, the *Compte Personnel de Formation* (CPF) is an example of an ILA and is financed via an employer training levy (box 15). The CPF is also strongly supported by free personalized career guidance that helps individuals access the right kind of training by matching current skills with the qualifications and training that meet their needs (www.moncompteformation.gouv.fr, accessed 08.07.22).

The CPF allows any individual, “from first entry into the labour market until retirement, to acquire training rights that can be used throughout their professional life. Importantly, training rights are maintained across different forms of employment, through periods of non-employment (such as unemployment, parental leave or long absence due to illness) and are transferrable between employers” (OECD 2021b). In June 2022, the Council of the European Union recommended that “Member States consider establishing individual learning accounts as a possible means for enabling individuals to participate in labour market-relevant training” and facilitate their access to or retention in employment (Council of the European Union 2022, 14).

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

2. Financing mechanisms for individuals and social groups

Individual savings accounts for training are real, physical accounts in which individuals accumulate financial resources over time for the purpose of training. Individuals' savings might be supplemented by employer contributions or by government subsidies. Unused resources remain the property of the individual and may, depending on the scheme, be used for other purposes (for example, retirement) (ILO 2021). Examples include Learn\$ave in **Canada** (now closed) and Lifelong Learning Accounts in the **USA**.

Evidence on the effectiveness and efficiency of individual learning accounts and individual savings accounts for training to promote social inclusion in skills and lifelong learning

The evidence of individual learning accounts and individual savings accounts for training achieving the objective of reaching the most disadvantaged groups is inconclusive (OECD 2019b).

On the one hand, the accounts “are seen as a potential solution to support the participation of disadvantaged groups in adult learning” (OECD 2021a). Such mechanisms can be designed to be open to both the employed and unemployed. Individual learning accounts can function as a way for working-age people to gain access to an individual training entitlement⁵ throughout their lives (Council of the European Union 2022). For employed persons, since mechanisms can be designed so that employer support is not needed, they give individuals more freedom to make training decisions affecting their own future (namely, beyond their current employer) (OECD 2021a).

On the other hand, in many such schemes more educated individuals tend to be over-represented among those who are participating (ILO 2021, box 15), leading some to comment that they “do not appear to be a panacea to increase access of under-represented groups” (OECD 2019b). Additionally, individual savings accounts for training that require, by design, individuals to save some of their own money for training may not be a very useful mechanism for those who are already struggling with the daily or weekly cost of living and who may be able to save very little, if anything.

► **Box 15. The Compte Personnel de Formation: An individual learning account in France**

In France, the Compte Personnel de Formation (CPF) is an individual learning account for which all individuals in work or looking for work are eligible. However, the evidence shows that the least skilled are less likely to participate. For example, over the period 2015-18, individuals with less than upper-secondary education were under-represented among the employees using their CPF; they accounted for only about one quarter of beneficiaries despite representing over 40 per cent of the labour force (OECD).

The French CPF “suffers from a significantly wider participation gap between blue- and white-collar workers than other training schemes” (OECD). “In 2016, the CPF participation rate among employees in managerial/professional occupations was three times as high as that of blue-collar workers, and twice as high as low-qualified white-collar workers” (CIPD 2021,17).

Source: CIPD (2021, 17); OECD (2019b).

An evaluation of the Learn\$ave initiative in **Canada** also highlighted that it can reach disadvantaged persons more effectively by making better use of existing administrative data that can be used to assess social benefits (for example, working tax credits) (box 16).

5 A personal budget at an individual's disposal to cover the direct costs of skills and lifelong learning.

► **Box 16. Simplifying approaches of reaching disadvantaged persons: The example of Learn\$ave, Canada**

Learn\$ave was a pilot mechanism implemented in Canada (2000-2009) to encourage low-income adults to save for their own education or training. It was a means-tested programme that offered restricted savings accounts with matching credits on all deposits made by an account holder.

Its evaluation report found, above all, that simplicity in targeting is essential. It proposed to make better use of existing administrative data that is used to assess social benefits (for example, working tax credits, and so on).

Source: Leckie et al. (2010).

2.1.4 Stipends and allowances

Another common type of financial grant incentive for disadvantaged individuals to encourage their participation in training includes stipends and other allowances. The purpose of this type of financial incentive is to help such trainees overcome financial accessibility barriers associated with the indirect costs of training participation, such as transport to/from the training, meals, accommodation and the opportunity cost (lost earnings) of attending training. Allowances for transport, meals and accommodation might either be in cash or in kind (paid for directly to the service provider and offered for free to the training participant). Examples of such financing instruments can be found in Sub-Saharan Africa (Kenya), Europe (Moldova) and South and Central America (Argentina, Belize, Chile, Mexico and Peru).

In **Kenya**, with funding support from the World Bank (2010-16), the government implemented a Youth Empowerment Project that provided vulnerable youth with relevant skills and internships in the private sector (formal and informal sectors) – three months of training followed by three months of workplace experience. The target group were young people (males and females) between 15-29 years, with a minimum of eight years of schooling but who have been out of school for at least one year, and are not in employment at the time of their application to the programme. A monthly stipend, equivalent to US\$70, was paid to participating youth and intended to cover transportation and food costs during the programme (World Bank 2016; 2020).

In **Moldova**, all TVET students receive free lunches, almost all secondary TVET students are given stipends, many are provided with accommodation at the institutions and students in dual TVET are paid a monthly apprenticeship allowance by government (ILO 2020b).

In South America, the 'Joven' programmes for young people in **Argentina, Chile** and **Peru**⁶ provided stipends such as transport and meal allowances, often with an extra allowance for young women with children (World Bank 2020a). Similar approaches can be found in Central America, for example, in **Belize**; to attract students the government keeps the cost of TVET programmes in technical schools minimal and provides transportation (ILO 2020c). In **Mexico**, the Becate skills training and internship programme for unemployed youth reimbursed participants' transport costs and provided them with insurance against work-related injuries (van Gameren 2010).

Evidence on the effectiveness and efficiency of stipends and allowances to promote social inclusion in skills and lifelong learning

As noted above, schemes without a co-financing or repayment requirement, such as providing stipends or allowances, are often more suited to disadvantaged persons. These approaches can assist such individuals to cover the indirect costs associated with training (transportation, accommodation, loss of income while working and so on).

6 Argentina Proyecto Joven, Chile Joven and Peru Projovent

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

2. Financing mechanisms for individuals and social groups

Training interventions that contain a combination of other supports, including on-the-job learning and stipends, tend to work well in some contexts.

For example, in **Bangladesh**, a randomized control trial in one of the poorest regions of the country evaluating four different combinations of interventions to support employment uptake found that, six months after the intervention, 23 per cent of the intervention group that received one month of residential skills training (for free) and a stipend were employed versus 15 per cent that received the training only and 6 per cent that received no intervention (the control group). However, in another intervention group that received a combination of support – one month of free residential skills training with a stipend, in addition to four weeks of on-the-job training during a paid internship in a factory – 67 per cent were employed six months after the intervention (Shonchoy, Raihan and Fujii 2017).

In **Kenya**, the Youth Empowerment Project (2010-16) provided monthly stipends to vulnerable youth to support them during three months of training followed by three months of workplace experience. About 35 per cent of training participants started their own businesses, and all of this group “reported that the skills imparted during the programme and the savings from... stipends were critical factors in building the businesses’ starting capital” (World Bank 2016, 36).

In **Peru**, the Job Youth Training Program (Projovent) offered three months in-class technical training followed by a three-month internship. During the internship stage, beneficiaries received a stipend (lower than the minimum wage) as well as health insurance coverage. An experimental impact evaluation found that, almost three years after training, there was a high positive impact of the programme on formal employment, but that this varied depending on the beneficiaries’ gender and age (Jose Diaz and Rosas 2016).

In some cases, however, providing stipends and allowances can itself become the primary motivation for an individual taking the training, rather than training itself; participants sign up for training not because they are particularly interested in it, but because they want the stipend payment associated with participation. Some projects have actually found that not offering a stipend means that participants join who are more motivated by the training.

For example, in **Nepal**, the Enhanced Vocational Education and Training Project (2011-17) provided free training without stipends and found that this approach “worked and was instrumental in ensuring the trainee’s ownership of the opportunity. By taking out the monetary incentive [the stipend], the approach brought trainees for whom opportunity for skills development was the motivating factor for their participation rather than the offer of stipends” (World Bank 2017b, 32-33).

Successful schemes have clear criteria-based selection processes and a transparent way for stipends / allowances to be paid (Lange et al. 2020). Selection criteria are used to ensure that those individuals and social groups that need to be supported by a particular mechanism are actually the ones that the mechanism is reaching. Transparency in this process is important so that it is seen as fair and credible and not subject to manipulation by local power elites.

2.1.5 Conditional cash transfers

Payment of grants to individuals that are intended to encourage them to participate in skills training may be contingent on those individuals undertaking certain activities, for example regularly attending training (rather than a voucher which often pays out on enrolment into a course). For example, in **Liberia**, the Economic Empowerment of Adolescent Girls programme used conditional cash transfers to incentivize higher participation of females in training. Participants were paid small stipends and a completion bonus contingent on attendance. Participation was also incentivized through free childcare at every training site, attendance prizes, contests, business plan competitions and other means. (World Bank 2020a, 101). Similarly, in **Nepal**, the Enhanced Vocational Education and Training Project (2011-17) adopted a conditional cash transfer approach to promote attendance and progress in training of disadvantaged groups, especially Dalits and marginalized Janajatis, including the poor and girls. In order to continue to receive a fee subsidy and stipend, students had to maintain a minimum 80 per cent attendance rate and show satisfactory academic progress. About 5 per cent of the recipients were removed from the beneficiary list for failing to maintain this (World Bank 2017b).

Evidence on the effectiveness and efficiency of conditional cash transfers to promote social inclusion in skills and lifelong learning

The **Liberian** Economic Empowerment of Adolescent Girls programme is one example of a training initiative that used conditional cash transfers; participants received small stipends contingent on attendance, in addition to free childcare. These measures contributed to a retention rate of over 95 per cent and an attendance rate of 90 per cent (Filmer and Fox 2014, cited in Palmer 2020b).

2.1.6 Cost-reimbursement

Another form of individual grant to encourage social inclusion in skills and lifelong learning is reimbursement mechanisms; where individuals pay for the training up front and can then get reimbursed all or part of the amount. For example, in **Hungary**, disadvantaged and vulnerable adults can apply for reimbursement from the Training Sub-Fund of the National Employment Fund⁷ for tuition fees, related expenses (travel and accommodation costs), cost of family member/childcare as well as provision of supplementary/compensatory payment (Palmer 2022). In another example, the vocational skills subsidy programme in **China**, offers full fee reimbursement on course completion for certain disadvantaged individuals (box 17).

► Box 17. The vocational skills subsidy programme in China

Since May 2019, the Chinese government has been implementing a vocational skills training programme with a budget of 100 billion Chinese yuan (US\$15.5 billion). The programme aims to train new graduates and unemployed individuals in vocational skills, granting them sufficient qualifications to meet the current job market's needs. Registration and tuition fees are refunded as a subsidy after participants complete a course and receive their national vocational certification. Additionally, some individuals are eligible for stipends to cover living costs while training.

At the end of 2019, there were almost 19 million enrolled individuals, including 2.6 million poor labourers, 1.4 million registered unemployed persons in urban areas and 1.0 million new college graduates.

Source: Xie 2021.

Evidence on the effectiveness and efficiency of cost-reimbursement mechanisms to promote social inclusion in skills and lifelong learning

There is limited evidence on the cost-reimbursement mechanisms as a means to promote social inclusion in skills and lifelong learning. On the one hand, since the mechanism pays based on the completion of training, participants might be more incentivized to complete the full course. On the other hand, however, cost-reimbursement schemes may be less useful for disadvantaged individuals since they are asked to pay for the direct and indirect costs of training upfront, to be reimbursed at a later date (OECD 2019b). This requirement for an upfront payment is unlikely to be met by many disadvantaged individuals.

2.2 Tax incentives

Beyond various types of grant mechanism, another type of financing mechanism for individuals that has the aim of improving social inclusion in skills and lifelong learning systems is tax incentives. Such tax incentives may be in the form of expenses on education and training that are deductible against gross income, which reduces their overall income and thereby the overall tax they need to pay. Tax incentives might also be in the form of a reduction in the amount of tax due (ILO 2021).

7 The National Employment Fund (Nemzeti Foglalkoztatási Alap - NFA) is itself resourced via an employer payroll levy.

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

2. Financing mechanisms for individuals and social groups

In **Canada**, the government offers several tax credits and incentives apprentices can benefit from directly, including related to the purchase of relevant tools, tuition fees and licensing examination fees, and textbook purchase (GoC 2022b). Additionally, also in **Canada**, a Training Credit was introduced in 2020 allowing workers aged 25-64 and earning between 10,000-150,000 Canadian dollars per year, to accumulate a credit balance of CAD250 per year when filing their income taxes, up to a lifetime limit of CAD5,000. This Training Credit can be claimed against training fees at colleges, universities and other eligible training providers (CIPD 2021).

Evidence on the effectiveness and efficiency of tax incentive mechanisms to promote social inclusion in skills and lifelong learning

This is a much less common instrument used to encourage participation in skills on disadvantaged individuals and would be of no use to unemployed or inactive individuals, or to those workers in the informal economy who operate outside of a national tax net. Costs supported by tax incentives are often only linked to direct costs (for example, course fees), and so will likely be more beneficial to those who can cover the indirect costs of training.

Low-skill, low-income taxpayers are more likely to be unable to navigate complex skills tax expenditure processes, and “to be negatively affected either by not claiming or mis-claiming [skills tax expenditures] to which they are entitled” (OECD 2017b, 130).

2.3 Subsidized loans

Another type of financing mechanism for individuals that has the aim of improving social inclusion in skills and lifelong learning systems is subsidized loans. Such loans are usually intended to provide lower-income individuals with the opportunity to access skills training. Unlike grants, loans need to be repaid but many such schemes have public participation which leads to more favourable conditions; for example, low-rates of interest, income-contingent repayment or grace periods (ILO 2021; Lange et al. 2020).

Examples include the VET Student Loans programme in **Australia**, the Apprentice Loan in **Canada**, the BAföG in **Germany**, the Skill Loan Scheme in **India**, the vocational training and living expense loans in the **Republic of Korea**, and the National Student Financial Aid Scheme in **South Africa**.

In **Australia**, the VET Student Loans Programme assists eligible students to pay tuition fees for approved higher-level (diploma and above) vocational education and training (VET) courses. The programme provides income-contingent loans to students studying at approved course providers, typically on courses lasting 1-2 years (DESE 2021). In 2020, the Australian Government provided VET Student Loans to the value of 273 million Australian dollars (US\$193 million) (NCVER 2021), which supported over 50,000 students (DESE 2021).

In **Canada**, apprentices can access up to CAD4,000 (US\$3,100) in interest-free loans per period of technical training, which can be used as needed to pay for tuition, tools, equipment and living expenses, to cover forgone wages or to help support the apprentice’s family. Repayments on the Canada Apprentice Loan do not begin until after an individual completes or leaves the apprenticeship training programme (GoC 2022c), but are not income-contingent.

In **Germany**, the BAföG (Bundesausbildungsförderungsgesetz or Federal Education and Training Assistance Act) provides need-based funding according to the student’s own financial means and those of his or her parents or spouse or partner. The BAföG support is blended, a subsidized income-contingent loan as well as a grant (Federal Ministry of Education and Research n.d.).

In **India**, a Skill Loan Scheme offers a loan facility to learners pursuing vocational programmes run by a range of providers, including the Industrial Training Institute, polytechnics and training partners affiliated to the National Skill Development Corporation or Sector Skills Council, State Skill Mission and State Skill Corporation, leading to a certificate, diploma or degree (Indian Overseas Bank 2019). Repayment schedules vary depending on the duration of the course. For courses longer than a year, repayment begins a year after completion.

Loans are not income-contingent, meaning that there is no minimum income threshold that individuals need to have attained before loan repayments start.

In the **Republic of Korea**, vulnerable people such as the unemployed and non-regular workers are able to apply for vocational training and living expense loans from the Ministry of Employment and Labour to cover their living costs while on training. Individuals can borrow up to US\$1,600 (KRW2 million) per month, with an annual interest rate of 1 per cent, up to a ceiling of KRW10 million (approximately US\$8,000). A trainee can defer the loan up to three years and then pay back the money in instalments over a maximum of five years. Most of the beneficiaries are the unemployed (OECD 2020; OECD 2021a).

In **South Africa**, the National Student Financial Aid Scheme (NSFAS) offers eligible individuals from poor and working-class families income-contingent student loans and bursaries in public universities and TVET colleges. Loans are repayable only once individuals are employed and earning more than 30,000 South African rand (US\$1,900) per annum. Most loans end up going to learners in universities rather than those in TVET colleges; in 2019, for example, less than 13 per cent of distributed loans went to TVET college students compared to 87 per cent to university students (NFSAS 2021).

A final example, also from **India**, is a financing mechanism that aims to support disadvantaged youth and has similarities to a subsidized loan: a voluntary training fees pay-back scheme (box 18).

► **Box 18. Pratham, India: Voluntary training fees pay-back scheme**

Pratham provides heavily subsidized training to youth from economically disadvantaged backgrounds, from rural areas and urban slums, aged 18–35 years. Courses typically cost Pratham about 20,000 Indian rupees (US\$260) per trainee to run, and the majority of this cost is covered by corporate social responsibility (CSR) payments from large companies. In order to promote higher completion rates, Pratham introduced a “learn now, pay later” scheme that’s in part similar to a subsidized loan: Pratham uses the CSR funding to directly pay for the training (rather than giving a cash loan to a participant), yet the training participant is expected to pay back a proportion of this training cost after course completion. Once trainees complete the training and get a job, they are asked to make voluntary repayments totalling about 2,000–3,000 Indian rupees (US\$26–39).

Source: Pratham (2016); personal communication, Pratham (31.03.22).

Evidence on the effectiveness and efficiency of subsidized loan mechanisms to promote social inclusion in skills and lifelong learning

The use of publicly subsidized loans for tertiary and non-tertiary level TVET students is justified by some policy makers on the grounds that they can help lower-income students without the means to pay the fees to access training and pay back the training fees (and indirect training costs) over an extended period. In OECD countries, support to students through income-contingent loans has been found to be particularly effective, in terms of ensuring access to education for low-income students (OECD 2017b: 131). Nonetheless, there are drawbacks to income-contingent loans and they are clearly not a panacea for all types of disadvantaged individuals.

First, it should be noted that most such subsidized loan schemes function at the tertiary TVET level and are therefore inaccessible to all those that don’t complete upper secondary education; this automatically excludes the majority of the most disadvantaged and vulnerable.

Second, even where lower-income and otherwise disadvantaged students have completed upper secondary education and are looking to enter tertiary TVET, or where subsidized loans are available for secondary level TVET study, subsidized loans are “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” (ILO 2021, 15). For example, it is noted in the **Republic of Korea** that “although there are loans that target unemployed

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

2. Financing mechanisms for individuals and social groups

and non-regular workers, the prospect of having to eventually repay the borrowed amount with interest may act as deterrent for these individuals to participate, as such groups have uncertain future income streams” (OECD 2021a). Workers in the informal economy would be very unlikely to be able to access such formal loan mechanisms, and low-income individuals with weak credit history may also not find such schemes accessible.

Third, student loans sometimes do not cover the full costs of training (direct and indirect), so not only do participants have to repay the loan, but they likely also have to find funds during the training to make up the remainder of the direct/indirect training costs. As such, lower-income individuals typically need additional support (such as complementary grants) to take advantage of student loans (Welamedage 2017). The blended support under the BAFöG in Germany, which provides a mix of subsidized income-contingent loans and grants to low-income students, is a good example of such an approach (Federal Ministry of Education and Research n.d.).

Certain types of loan mechanism might be more suited for disadvantaged groups than others, for example where:

- Loans are blended with grants.
- There are flexible repayment conditions and/or when income-contingent loans are used. Income-contingent loans mitigate the risk of the individual earning a low income after course completion and being unable to repay the loan (Torres 2012).
- There are proactive selection policies and awareness activities to better address the needs of disadvantaged borrowers, and to properly inform them about such mechanisms; mostly because of debt aversion, low numbers of disadvantaged learners apply for loans, not all those most in need. (CEDEFOP 2012, 126).

2.4 Tuition fee mechanisms

A fourth type of financing mechanism for individuals that has the aim of improving social inclusion in skills and lifelong learning systems is the co-setting of tuition fee levels between government and training providers. Such co-setting may take the form of cost-sharing agreements, maximum chargeable fee levels, fee reductions for certain groups or fully free training. In most such arrangements, the training provider receives the funding but the incentive is clearly addressed at individuals.

Cost-sharing agreements

Cost-sharing arrangements typically involve public subsidies for the course fees or specific groups of individuals.

For example, in the Employment Success Package Programme for jobseekers, the **Korean** government subsidizes the training, but some participants have to cover a co-payment of 5-50 per cent (box 19).

► **Box 19. The Employment Success Package Programme for jobseekers in the Republic of Korea**

In 2019, the Korean government introduced the Employment Success Package Programme (ESPP) scheme as a way of helping jobseekers neither entitled to Employment Insurance (via initiatives funded by the Employment Insurance Fund) nor receiving support from Korea’s Basic Livelihood Security Programme, but facing considerable disadvantages, especially in the form of low income. The ESPP consists of three stages:

1. Provision of targeted, case-managed job-search support (four weeks’ counselling), which includes the development of a personal action plan that may include vocational training.
2. Up to eight months’ training and job experience to improve employability (where training needs have been identified in the previous stage). The tuition fee is provided as a training subsidy (some participants have to cover a co-payment of 5-50 per cent) and receive monthly training participation and support allowances.
3. Job-placement support (three months).

Source: OECD 2018b.

In **Singapore**, as per the Skills Development Levy Act, individuals preparing to join the workforce, persons in the workforce and persons re-joining the workforce are eligible to access financing from the levy-financed Skills Development Fund. Various financial mechanisms that include course fee subsidies support this (box 20).

► **Box 20. Initiatives in Singapore offering course fee subsidies to aimed at groups of individuals**

SkillsFuture Mid-Career Enhanced Subsidy - supports and encourages lifelong learning and helps mid-career individuals (aged 40 and over) stay responsive to a changing workplace. Recognizing that mid-career individuals may face greater challenges in undertaking training, the fund provides course fee subsidies of up to 90 per cent to individuals, which has helped to reduce the financial barrier to training.

SkillsFuture Career Transition Programme - was launched as part of the Budget 2022 announcement to support mid-career individuals to transit into jobs through the steady-state Train-and-Place programmes. In addition to a course fee subsidy for approved courses, the programme includes skills and training advisory services to support trainees in job search and career switches. Additionally, there is funding to cover up to 95 per cent of course fees for eligible Singaporeans who are lower-income earners, long-term unemployed, or persons with disabilities.

SkillsFuture for People with Disabilities (PWDs) - aims to increase the continuing education and training places/opportunities for PWDs through a range of initiatives which includes course fee grant and training allowance to make training affordable for PWDs.

Source: www.skillsfuture.gov.sg/enhancedsubsidy (accessed 15.10.22); personal communication, SkillsFuture Singapore, 30.04.22.

Maximum chargeable fee levels

Another type of co-setting of tuition fees levels involves the setting of a ceiling fee level by government, above which training providers cannot charge. This blanket mechanism is used to limit fee levels and has the aim of making courses more affordable. One illustration of this mechanism is the setting of a fee ceiling by the Government of **Malawi** with the National Technical Colleges. TVET students allocated places in National Technical Colleges by the Technical, Entrepreneurial and Vocational Education Training Authority (TEVETA) pay a highly-subsidized fee rate that is capped. However, while this mechanism will assist disadvantaged students who were able to obtain the necessary aggregate grade that helps them get admission to the subsidized training, it will not help the majority of disadvantaged young people (see further on this below).

Free training

Training providers can also receive funding, usually from government, to provide free study places in specific courses or to provide fee-free training to all eligible learners. Although the payments are made to training providers, the incentives are aimed at supporting individuals.

Several countries have taken steps to make skills training systems more inclusive through the total abolition of tuition fees for TVET. At the upper secondary level in public institutions, TVET is provided for free as a means to promote TVET for all in **Australia, Colombia, Cyprus, Ghana, Kyrgyzstan, Malta, Mongolia, the Republic of Korea, Thailand, Uruguay, Uzbekistan** and other nations (ILO 2020d; UNESCO 2020b; UNESCO 2013). In **Ghana**, for example, the government introduced a fully free Senior High School policy in 2017⁸ (Abdul-Rahaman et al. 2018). In 2022 all public pre-tertiary provision moved under the responsibility of the Ghana TVET Service

8 Free tuition, no library fee, no boarding fee, no science laboratory fee, no examination fee, no utility fee, free meals for both boarders and day-students, no Parents Teachers Association (PTA) fee, and free textbooks for all at the senior high level.

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

2. Financing mechanisms for individuals and social groups

of the MoE, and the government's free Senior High School policy was progressively applied across the whole pre-tertiary TVET sector. However, this policy is not as equitable as it might first appear (see box 23).

In **Brazil**, both the National Commercial Apprenticeship Service (SENAC) and the National Industrial Apprenticeship Service (SENAI) offer fee-free training to disadvantaged individuals (box 21).

► **Box 21. Fee-free training provided by SENAC and SENAI in Brazil**

In Brazil, both the National Commercial Apprenticeship Service (SENAC) and the National Industrial Apprenticeship Service (SENAI) are required to allocate two-thirds of their collected levy income to the provision of free training programmes. The SENAC Gratuity Programme (Programa Senac de Gratuidade) offers free courses in professional education aimed at adolescents, youth and adults belonging to less advantaged social groups, and individuals from a household with a monthly income equivalent to or less than three months' minimum wages. Similarly, the SENAI Inclusive Actions Programme (Programa SENAI de Ações Inclusivas) aims to promote the inclusion and professional training of disadvantaged persons in SENAI courses.

Source: www.senac.br (accessed 15.10.22); www.portaldaindustria.com.br/senai (accessed 15.10.22); personal communication, SENAC (20.04.22) and SENAI (08.04.22).

Evidence on the effectiveness and efficiency of tuition fee mechanisms to promote social inclusion in skills and lifelong learning

Cost-sharing agreements and maximum fee levels – As noted above, another common approach is the use of public subsidies to cost-share the total course fees of specific groups of individuals; public funds and individual funds are combined to cover the actual cost of the course. For example, in **Malawi**, the financing approach adopted with public technical colleges, described above, is intended to facilitate the access of students to skills training, with fees for the TEVETA route into training being heavily subsidized. However, (as in the case of Ghana below in relation to free training), it signally fails to promote equity among the most disadvantaged students who were not able to attain high aggregate grades at the preceding formal education level (box 22).

► **Box 22. Blanket subsidies for 'regular' courses in Technical Colleges in Malawi**

Entry into public technical colleges in Malawi is via two routes:

1. **A 'regular' route** – about 1,700 students per annum are centrally recruited by the Technical, Entrepreneurial and Vocational Education and Training Authority (TEVETA) and then placed in either technical colleges or community technical colleges. The number of students admitted is based on a cap determined by government and based on the available number of classrooms, workshops, staff and materials. Student admission is based on the results of the Malawi School Certificate of Education level; those with higher aggregate grades stand a higher chance of being centrally recruited. On these courses, TEVETA subsidizes the cost of training in both national and community technical colleges on a per capita basis, with grants paid to institutions. Students pay lower fees as a result; in 2018 student fees ranged from only 5,000–15,000 Malawi kwacha (US\$6-18) per student per term (three terms per year) for the students on regular courses.

Continue on the next page ►

► **Box 22. (cont.)**

2. **A 'parallel' route** - Both Technical Colleges and Community Technical Colleges are allowed to initiate and run continuing education programmes, more commonly referred to as 'parallel courses', which cater for students who did not get admission via the formal 'regular' route (often because they did not have good enough grades). Technical Colleges and Community Technical Colleges recruit students directly and charge them fees to take the parallel courses. They hire additional staff to run such courses. Students on 'parallel' courses pay full fees; in 2018, fees ranged from 30,000-200,000 Malawi kwacha (US\$37-244) per student per term.

Once admitted, students on the 'regular' courses that go on industry attachment also get paid a monthly allowance from TEVETA during their placement. However, students on parallel courses do not get this allowance.

The above financing approach adopted by TEVETA fails to promote equity among students. Since TEVETA admits students to the 'regular' route based on grades, this approach de facto excludes the most marginalized who have typically had fewer (and lower quality) educational opportunities in the years before TEVETA selection. Meanwhile, the 'regular' route students are the ones who then go on to receive a large fee subsidy. At the same time, the much higher fees set for the parallel courses result in further excluding disadvantaged students who failed to get a high enough aggregate.

Source: Author fieldwork in Malawi in 2018; Palmer 2020a.

Even when fee levels are heavily subsidized, if other factors that are stopping people from attending TVET are not also addressed, take-up may still be low. For example, in **Belize**, to make TVET accessible and attractive to as many people as possible, technical schools have been set up across the country with minimal fees and free transportation. "Despite all this, enrolment in TVET programmes remains dismally low. Many factors account for this, including the negative reputation and low quality of programmes and their lack of accreditation, and the limited job opportunities after graduation" (ILO 2020c, 31). This reinforces again the importance of combining financial and non-financial approaches to promote social inclusion in skills.

Free training - Another common approach of policy makers to make TVET more accessible for disadvantaged groups is to introduce fee-free policies in public TVET institutions. Often such approaches are blanket (non-selective) policies, whereby all persons are meant to benefit. However, where measures are non-selective "they dilute, if not outright subvert, their effectiveness in reaching equity objectives" (UNESCO 2020a, 53). Free-training in public TVET institutions, open to all, usually benefits students from richer households more (Guerra Botello et al. 2019). This is because, for example, a fee-free policy for secondary TVET level that fails to recognize prior disadvantage in educational opportunities will result in unequal access at secondary TVET level due to the usual entry requirements associated with formal primary attainment. For example, in 2022, **Ghana** introduced a national free TVET policy meant to open up access to all. However, this policy still excludes the most marginalized who don't have the needed prior formal education, and does not yet support TVET providers who fail to meet minimum criteria (for example, adequate infrastructure and equipment, or staffing capacity) (box 23).

► **Box 23. Equity and the free TVET policy in Ghana (2022)**

Equity issues remain throughout Ghana's TVET system, which tends to exclude the poor (Darvas and Palmer 2014). The participation of women and people with disabilities "is particularly low, especially in traditionally male-dominated areas such as engineering and construction" (MoE 2018, 8).

In 2015, the government introduced the progressive free senior high policy, whereby parents were exempt from paying some of the fees associated with education at this level (for example, examination fees, entertainment fees, library fees, Students' Representative Council dues, sports fees, culture fees, science development and mathematics quiz fees, Information and Communication Technology fees and co-curricular fees). In 2017, this became a fully free Senior High School policy⁹ (Abdul-Rahaman et al. 2018). However, in relation to TVET, the free Senior High School policy originally only applied to the 47 technical training institutes under the Ministry of Education (MoE). In 2022 all public pre-tertiary provision moved under the responsibility of the Ghana TVET Service of the MoE, and the government's free Senior High School policy will be progressively applied across the pre-tertiary TVET sector (CTVET 2021), starting with new first-year students (joining from 4 April 2022). Continuing second- and third-year students are still required to pay fees in 2022. In 2023 both first-year and continuing second-year students will be included under the free TVET policy. In 2024, all students, new and continuing, will be included under the free TVET policy.

However, not all public TVET institutions will be included in free TVET in 2022, as they do not meet the needed criteria (for example, they have inadequate infrastructure and equipment, or insufficient or inadequate staff capacity). Of the 228 public TVET institutes, the free TVET policy is expected to cover 82 per cent (186) in 2022. Among almost all the various providers, all their TVET institutes are to be included. The exception is the national network of rural community-based TVET institutes (known as Integrated Community Centres for Employable Skills - ICCES), where less than a third of TVET institutions (only 16 out of 58 institutes) nationwide are to be included. This is because the minimum requirements for inclusion in terms of infrastructure (appropriate classrooms and workshops), tools, equipment and teachers for subjects taught were not met (personal communication from ICCES 25.02.22).

Another important point to note regarding the free TVET policy is that it is structured to only support Junior High School graduates who are entering public TVET institutes to do full three-year courses. The free TVET policy does not cover students who are only doing Proficiency level; this is significant from an equity perspective, as these are usually the students who don't have the foundational literacy and numeracy skills to be able to take the full trade tests. They are typically already disadvantaged and marginalized. As such, the free TVET policy will serve to widen inequalities between those that pass the Basic Education Certificate Examination at Junior High School level, and those that don't, or don't complete (or even access) Junior High School education.

2.5 Involving individuals in 'production with training' activities

A fifth type of financing mechanism for individuals that has the aim of improving social inclusion in skills and lifelong learning systems is the involvement of disadvantaged individuals in 'production with training' or other income-generating activities at the TVET institute level. Under this mechanism, which is usually informally arranged at the level of the training provider, TVET students are involved in income generating activities, including production units, and receive either a small income, food allowance or both in return for their labour. Such an approach can "provide an income source for students, particularly the most vulnerable" (ILO 2021, 10). An example of this can be found in the Integrated Community Centres for Employable Skills

9 Free tuition, no library fee, no boarding fee, no science laboratory fee, no examination fee, no utility fee, free meals for both boarders and day-students, no Parents Teachers Association (PTA) fee, and free textbooks for all at the senior high level.

(ICCES) in **Ghana**,¹⁰ where many ICCES training providers involve their trainees (usually aged 16-21) in ad hoc local building and construction works (including construction works on the vocational school site), or in the production of school uniforms or carpentry products for sale, in return for a daily income and/or meal provision. The majority of ICCES centres are in rural areas and most trainees are from low-income small-scale farming backgrounds; the opportunity to earn a food allowance while training can really encourage them to attend training.¹¹ Should the implementation of such schemes become more formalized, there may be legal barriers to consider, for example linked to working age and worker/employee status.

Evidence on the effectiveness and efficiency of production with training mechanisms to promote social inclusion in skills and lifelong learning

While this mechanism can be a useful one, in that the opportunity to earn and learn can help to increase attendance among trainees from low-income backgrounds, it has its drawbacks. First, while some vocational schools run production units and there could be the opportunity for trainees to earn while they are learning on a regular basis, other vocational schools only engage in ad hoc approaches where there are opportunities for trainees to earn. In the latter case, a disadvantaged trainee would not be able to rely on the vocational school as a source of their lunch, for example, and may need to take days off to earn money for food. Second, care needs to be taken of the balance between training and production so that such an approach does not actually serve to further disadvantage disadvantaged trainees. For example, in low-income contexts, the market demand is likely to be for low-cost products; as such the breadth, quality and holistic nature of the training received would be limited if this is all that the trainee is doing (ILO 2021). The training received in this situation could be just as limited as if it were being offered via an informal apprenticeship.

2.6 Education and training leave

A sixth type of financing mechanism for individuals that has the aim of improving social inclusion in skills and lifelong learning systems is education and training leave. This refers to an individual being granted leave (paid or unpaid) from their current workplace, with the right to return, for a mutually agreed period of time (ILO 2021). Paid Educational Leave Convention, 1974 (No. 140) promotes that such educational leave is paid. For example, most states in Germany have passed legislation that gives employees the right to be granted paid educational leave (usually up to ten days every two years). Additionally, in the German state of Rhineland-Palatinate, to limit or absorb the costs for smaller employers the state reimburses small and medium-sized companies with a flat-rate reimbursement claim for wage costs (CEDEFOP n.d., a; Rheinland-Pfalz 2001).

Evidence on the effectiveness and efficiency of education and training leave to promote social inclusion in skills and lifelong learning

Since education and training leave is a benefit only available to individuals who are formally employed, and in (larger) firms that have such a policy, it is of no relevance to the unemployed, to inactive workers and to the majority of vulnerable and disadvantaged persons who work in the informal economy, or who work in formal small and micro-enterprises that may likely not have such a policy (or comply with legislation if there is a national policy on education and training leave). As the Council of the European Union notes: “While paid training leave arrangements exist in most [EU] Member States, the awareness and take-up of training leave by working-age adults are often low, and the arrangements often do not cover atypical workers or do not allow adults to seek education and training during periods of unemployment or low economic activity” (Council of the European Union 2022, 7).

10 In January 2022, the Ghana TVET Service was launched which brings together, in one organization, all the agencies and departments, including ICCES, that had previously delivered TVET. With this merger, all ICCES vocational training centres were renamed as ‘Technical Institutes’.

11 Author personal experience with ICCES 2001-2022.

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

2. Financing mechanisms for individuals and social groups

2.7 Concluding comments

The most suitable financing incentives for encouraging training among disadvantaged individuals are grants and specifically means-based scholarships, as well as training vouchers, subsidies, allowances or tuition fee approaches, which are designed with clear selection / eligibility mechanisms. Untargeted (blanket) financing mechanisms (for example, free TVET for all) are less effective instruments that can still leave many disadvantaged persons behind. Tax-based incentives can be administratively light but are next to useless in contexts of high informality where the majority of disadvantaged persons would not be paying tax anyway. Even in contexts with low(er) levels of informality, tax-based incentives typically require individuals to pre-finance training (and then wait for the end of the tax year to offset the cost). Instruments that have a co-financing element, that don't cover both indirect and direct costs, will also exclude those groups unable to contribute. This is notwithstanding some evidence that suggests participants, including disadvantaged ones, may be more motivated to complete training if they have some financial "skin in the game". Lending instruments can deter low-income individuals, though income-contingent loans can mitigate this concern.

The enabling environment

There are a number of factors or pre-existing conditions that need to be in place for certain types of financing mechanisms for individuals to be an effective tool to promote social inclusion in skills and lifelong learning (table 2).

► **Table 2. Financing mechanisms for individuals that promote social inclusion in skills and lifelong learning: The enabling environment**

Mechanism		Comments on the enabling environment needed for the mechanism to function effectively and efficiently as a means to promote social inclusion in skills	Level of administrative and M&E capacity needed	Suited to contexts with high levels of informality?
All mechanisms		Good level of public awareness of the mechanisms, especially among disadvantaged groups.	n/a	n/a
Grants	Scholarships	A good level of trust in the organization administering the scholarship programme (such that it is seen as transparent, impartial and without political allegiance).	Low/medium	Yes
	Vouchers and training subsidies	A good level of trust in the organization administering the voucher programme (such that it is seen as transparent, impartial and without political allegiance). For vouchers, there needs to be a sufficient choice of providers such that they effectively compete with each other to "win" the voucher.	Medium	Yes

Mechanism		Comments on the enabling environment needed for the mechanism to function effectively and efficiently as a means to promote social inclusion in skills	Level of administrative and M&E capacity needed	Suited to contexts with high levels of informality?
Grants	Individual learning accounts	Should be supported with career guidance that helps individuals access the right kind of training.	High	No
	Individual savings accounts for training	Individuals usually need to have a bank account.	High	No
	Stipends / allowances	A good level of trust in the organization administering the stipend programme (such that it is seen as transparent, impartial and without political allegiance).	Low	Yes
	Conditional cash transfers	There needs to be sufficient capacity to verify that the conditions have been met, so that funds are transferred.	High	Yes
	Cost-reimbursement	Individuals need to have access to financial resources upfront to pay for the training before reimbursement. An efficient and rapid reimbursement mechanism would be needed to ensure that disadvantaged individuals are not out of pocket for too long.	Medium	No
Tax incentives		Well established tax collection system. Individuals usually need to have a bank account.	Low/medium	No
Subsidized loans		Individuals usually need to have a bank account.	Medium/high	No
Tuition fee mechanisms		For fee-free mechanisms, there needs to be a system in place to verify the trainee numbers that are being subsidized. For tuition fee subsidies only available to selected social groups, there needs to be capacity and process to assess eligibility requirements.	Low	Yes
Production with training		National level regulations to avoid exploitative behaviour on the part of training providers.	Low	Yes
Education and training leave		National legislation to make it a worker's right to be allowed to take leave for education and training while preserving rights to health insurance, pension and to return to work after the training is completed.	Medium	No



▶ 3

Financing mechanisms for training providers

This section will examine financing mechanisms for training providers (both public and private) as a means to facilitate access and participation of disadvantaged learners (such as the low-skilled, women and people with disabilities). Four types of mechanism are explored, including: contracted training provision, performance-based contracts, public subsidies to courses and one-off funding (table 3). For each mechanism there is a brief description of how it functions, illustrative examples, and a summary of any evidence regarding its effectiveness and/or efficiency.

▶ **Table 3. Financing mechanisms to encourage training providers to be inclusive of disadvantaged learners**

Mechanism	Description and social inclusion angle
Contracted training provision	Objective-based agreements between training providers and governments / training funds (levy- or donor-financed) that can be used for targeted financing and can be used, among other purposes, to promote access and inclusion.
Targeted procurement	Award of contracts to training providers with priority given to those that indicate the most inclusive approach (for example, a greater share of poor amongst the trainees enrolled in their training programmes).

Mechanism	Description and social inclusion angle
Performance-based contracts	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.
One-off funding	One-off public funding to increase capacity, to make training providers more accessible for people with disabilities, to make training providers more female-friendly.

Source: Adapted by author from ILO (2021).

3.1 Contracted training provision

Public funds, levy-financed training funds, or in low- and middle-income countries development-partner funds as part of skills projects can be used to contract training providers to deliver training to disadvantaged and vulnerable groups.

For example, a majority of levy-financed training funds in Sub-Saharan Africa, Northern Africa, Western Asia, Eastern and South-Eastern Asia, two training funds in Oceania, and almost all training funds in Latin America make funds available for training as part of special government initiatives related to training youth or disadvantaged and marginalized groups (for example, out-of-school youths, low-skilled adults, workers in the informal economy) (Palmer 2022). The typical approach is for such training funds to issue a call for proposals, then issue contracts to training providers for them to deliver the training. For example, this is the case among the following levy-financed training funds (Palmer 2022; see also box 24):

- Continuing Vocational Training and Apprenticeship Development Fund (FODEFCA) in **Benin**
- Vocational Training and Apprenticeship Support Fund (FAFPA) in **Burkina Faso**
- Vocational Training Development Fund (FDFP) in **Côte d’Ivoire**
- National Training Fund in **Namibia**
- National Skills Fund to training providers in **South Africa**
- TVET Promotion Fund in **Mongolia**
- Office of Vocational Training and Employment Promotion in **Morocco**
- Fund for the Promotion of Vocational Training and Apprenticeship (FPFPA) in **Tunisia**
- Employment Insurance Fund in the **Republic of Korea**
- Human Resource Development Corporation (HRD Corp) in **Malaysia**¹²
- Employment and Training Fund in **Barbados**
- Salvadoran Institute of Vocational Training (INSAFORP) in **El Salvador**
- Labour Reconversion Fund in **Uruguay**
- Training Fund for Temporary Employees (TRAVI) in **Belgium**
- Human Resources Development Fund in the **Republic of Cyprus**
- The State Foundation for Employment Training (FUNDAE) in **Spain**

12 Only funds from the government, channelled through the HRD Corp, are used to train individuals or firms who have not contributed to the training levy.

► **Box 24. Examples of contracted training provision from levy-financed training funds, selected countries**

In **Benin** the Continuing Vocational Training and Apprenticeship Development Fund (FODEFCA) funds several types of training for workers in the informal economy (for example, modular training for master craftspersons, and supplementary theoretical training for informal apprentices), including through grants made to formal training providers who are responding to calls for tenders (Palmer 2022).

In **Burkina Faso**, the Vocational Training and Apprenticeship Support Fund (FAFPA) makes grants to FAFPA-authorized training providers responding to calls for tenders for the training of workers in the informal economy (Palmer 2022).

In **Barbados**, grants are awarded from the levy-financed Employment and Training Fund to training providers to support customized training programmes in accordance with national priorities, including training for those already in the workforce and want to upgrade their skills, self-employed persons, retrenched and unemployed persons (www.tvandso.officialsite.com.bb, accessed 15.10.22).

In **Brazil**, both SENAC and SENAI allocate two-thirds of their collected levy income to the provision of free training programmes which are delivered by their own training providers (box 21).

In the **Republic of Cyprus**, the levy-financed Human Resources Development Fund contracts certified vocational training centres to provide training opportunities for the unemployed in order to acquire, enrich and/or upgrade their skills and knowledge. Funding is provided for the training of the unemployed and other groups at risk of exclusion from the labour market, such as inactive women and public assistance recipients (www.anad.org.cy, accessed 15.10.22).

In **Mongolia**, funding is allocated from the levy-financed Employment Promotion Fund to training providers to conduct short-term skills training for the unemployed. The arrangement “is based on a contract between the local employment office, the training institution, and employers; a set amount per trainee is allocated, which is determined by the government. The short-term skills training institutions that receive funding from the Employment Promotion Fund are selected through a bidding process” (ILO 2016).

The Office of Vocational Training and Employment Promotion in **Morocco**, which manages the levy-financed training fund signs service delivery contracts with some organizations working in the social field, for example the Mohammed VI Foundation for the Reintegration of Prisoners and the Mohammed V Foundation for Solidarity (www.ofppt.ma, accessed 15.10.22).

In **South Africa**, the National Skills Fund contracts with training providers mainly through calls for proposals (box 25).

In the case of **Tunisia**, the levy-financed Fund for the Promotion of Vocational Training and Apprenticeship (Fonds de Promotion de la Formation Professionnelle et de L'apprentissage) allocates training vouchers to private training establishments so that they offer training in disadvantaged regions (Palmer 2022).

In **Uruguay**, the levy-financed Labour Reconversion Fund (El Fondo de Reconversión Laboral) of the National Institute of Employment and Vocational Training (Instituto Nacional de Empleo y Formación Profesional – INEFOP) makes grants to training providers responding to calls for proposals for the training of disadvantaged and marginalized groups, including those working in the informal economy. In addition, some training is carried out within the framework of agreements with the Ministry of Social Development and its institutions both to achieve coverage and to monitor the actions. INEFOP also has agreements with the Ministry of Education and Culture to support certain disadvantaged groups. In 2019, some 35,518 vulnerable persons trained (INEFOP 2020; www.inefop.org.uy, accessed 15.10.22).

► **Box 25. South Africa's National Skills Fund**

The National Skills Fund in South Africa receives 20 per cent of collected revenue from the skills development levy (1 per cent of payroll). In addition, uncommitted surpluses from the Sector Education and Training Authorities (which together receive the remaining 80 per cent of the collected levy revenue) are also transferred to the National Skills Fund.

The National Skills Fund (NSF) was originally set up “to fund skills development for those that were unlikely to benefit from grants paid to employers. The focus was non-levy payers, youth, women, people with disabilities and people living in disadvantaged rural areas” (NSA 2019: 62). Since the adoption of South Africa's National Skills Development Strategy III (2011-16) (NSA 2019) and the subsequent National Skills Development Plan (NSDP) 2030, the mandate of the NSF has expanded. The NSF is now used to drive key skills strategies within the national Post-school Education and Training (PSET) system itself, as well as to meet the training needs of the unemployed, non-levy paying cooperatives, NGOs, community structures and vulnerable groups (DHET 2021).

Based on the NSF strategic plan and annual performance plan, a portfolio plan is developed which outlines what types of skills development interventions the NSF is required to fund by law (for example, learnerships, workplace-based learning), and then it classifies this according to specific economic sectors, always with the seven transformational imperatives in mind (see more on these below). The NSF develops a strategic funding framework which outlines what approach would be adopted to disburse funds. The NSF uses 3 models by which it receives funding proposals:

- **Solicited proposals** – Where the NSF has already predetermined what the key areas of intervention are that it wants to fund. It then solicits proposals from organizations on an annual basis to deliver this. Proposals under this model are invited through an Open Call or Closed Call. In an Open Call, the NSF publishes a request for proposal (RFP) in the media and invites expressions of interest of skills development proposals from qualifying applicants. Proposals are funded using a competitive process. In a Closed Call, the NSF targets specific partners or stakeholders and invites skills development proposals only from them.
- **Unsolicited proposals** – Where the NSF receives applications regardless of whether an RFP has been issued or not. This approach is intended to allow for creativity and innovative approaches to skills development. Usually, however, such proposals under this model get sent back to the applicant and directed to an existing RFP.
- **Partnerships** – Where the NSF enters into a partnership with key government agencies and asks them to submit a proposal (personal communication, NSF 20.04.22).

Various types of stakeholders can apply to the NSF, including, for example, the private skills development providers, employers, industry associations and the university sector. Each RFP typically states the eligibility criteria for what type of organizations can apply.

Similarly, donor-financed training funds often contain funding windows that aim to fund the training of disadvantaged groups, including those in the informal economy. Due to the difficulty of reaching such groups directly, a common approach is for such training funds to finance intermediaries including informal sector associations and formal training providers.

In **Ghana**, for example, a funding window for the Skills Development Fund (box 26) supports vocational training development in the informal sector. Intermediary organizations, including informal sector associations and public and private training providers, have been invited to submit proposals, with the selected proposals contracted by the Skills Development Fund to deliver the training. Even when the grant agreement is with the informal sector association or employers' organization requesting the training, funds for the provision of such training were usually paid directly to the training provider (upon completion of the agreed training) (Danida 2016a; 2016b).

► **Box 26. Ghana's Skills Development Fund**

A competitive fund was established in Ghana in 2009 to support skills development in, and improved business processes and performance of, enterprises. Called the Skills Development Fund (SDF), the first phase of the fund (SDF I) ran from 2011 to 2016, administered by the Council for TVET¹³ and financed by the World Bank through the Ghana Skills and Technology Project (2011-16). Danida continued support under an SDF II project (2016-20). Following this, the Government and Danida agreed that the fund would be subsequently situated in the Government under the Council for TVET. As of 2022, the SDF is supported by a World Bank loan through the Ghana Jobs and Skills Project (2020-26). However, there is currently no legislation to commit Ghanaian industry to pay any kind of levy that could provide a sustainable source of funds to the Skills Development Fund. It would be expected that industry would be reluctant to agree to this so long as the Skills Development Fund is controlled by the Commission for TVET and under the Ministry of Education; good practice internationally shows that getting employer support for levy schemes is crucial for their effectiveness and sustainability. However, the simple presence of a substantial representation of employers on a training fund board does not automatically lead to a more effective training fund. What is needed is combination of employer representation, employer voice and a good level of autonomy (Palmer 2022).

In **Madagascar**, the Malagasy Vocational Training Fund (Fonds Malgache de Formation Professionnelle – FMFP) is funded both by an employer training levy (1 per cent of payroll) and by funds from development partners (EU and France). One of the training funding windows, which is financed by development partners only, specifically supports equity-type training projects – the funding of vocational training projects for micro, very small and small businesses and training projects for vulnerable employees, with few or no qualifications, and young people in informal learning situations. The FMFP issues calls for proposals, and intermediary organizations, including training providers, can receive funding (www.fmfp.mg - accessed 14.10.22).

Evidence on the effectiveness and efficiency of contracted training provision to promote social inclusion in skills and lifelong learning

The majority of all funding used to contract training providers to deliver training to disadvantaged and vulnerable groups focuses on financing supply-side activities (for example, teacher / trainer salaries, training materials and equipment, infrastructure improvements). Such an approach may do little to incentivize inclusion-related inputs (for example, proportion of disadvantaged learners enrolled) or outcomes (for example, percentage of disadvantaged learners completing the training or attaining minimum standards). A J-PAL Youth Training Program Review noted that the incentive for many training implementers is on training enrolment and attendance, rather than on learning or employment outcomes (J-PAL 2017). “However, program participation does not equal impact,” (Instiglio 2018: 11). There is an emerging, but still very limited, interest among funders in adopting performance-based contracts with training providers; these have a much better chance of successfully incentivizing training providers to include disadvantaged and marginalized groups (see section 3.3, this report).

13 COTVET was replaced by the Commission for Technical and Vocational Education and Training (CTVET) in 2020.

3.2 Targeted procurement

Where government- or development partner-funded TVET initiatives involve a competitive bidding process to contract public and/or private training providers, procurement approaches that give some weight to inclusion can serve to incentivise training providers to be more socially inclusive. For example, in **Pakistan** the Punjab Skills Development Fund (box 27) use a competitive mechanism to contract training providers - both public and private - and “assign...priority to those that give preference to a greater share of poor amongst the trainees enrolled in their training programs” (World Bank 2021, 21). Training providers receive a higher score during the procurement process if they provide details of their intended vulnerable beneficiaries and their targeting strategies in their proposals (Hilton 2018; World Bank 2021). The Punjab Skills Development Fund also signs performance-based contracts with the selected training providers whereby 20 per cent of the contract is payable depending on the performance of the provider (see below on performance-based contracts) (PSDF 2021).

► Box 27. The Punjab Skills Development Fund in Pakistan

The Punjab Skills Development Fund (PSDF) is the largest skills development fund in Pakistan. It was established in 2010 in collaboration with the UK Foreign, Commonwealth and Development Office (FCDO).¹⁴ PSDF also exclusively manages the skills training funding of the World Bank.

The PSDF is designed to reach poor and vulnerable youth between the ages of 18-35 years, defined as those with education attainment levels of grade 8-12, those who are transitory poor or vulnerable (as defined by the Pakistan Poverty Scorecard), and those who are either unemployed or in unskilled jobs. PSDF’s inclusion policy ensures 40 per cent of beneficiaries are women and non-Muslim youth, transgender community and youth with disabilities.

PSDF’s operating model is constructed on result-based funding to its training providers, who are selected through a competitive and transparent procurement process.

Source: PSDF 2021.

Evidence on the effectiveness and efficiency of targeted procurement to promote social inclusion in skills and lifelong learning

In the example of the Punjab Skills Development Fund in Pakistan, the use of a competitive mechanism to contract training providers in a way that gives preference to those more able to demonstrate an ability to reach vulnerable beneficiaries may have contributed to the success of the programme vis-à-vis inclusion. An evaluation of the World Bank project supporting this mechanism found that: “although most of the Training Providers were private, this program was extremely successful, exceeding expectations, including for female enrolment and graduation. Over five years, the training enrolled 54,879 students, of which 15,853 were female (against a target of 51,000 of which 9,000 female) in about 90 different courses” (World Bank 2021, 18).

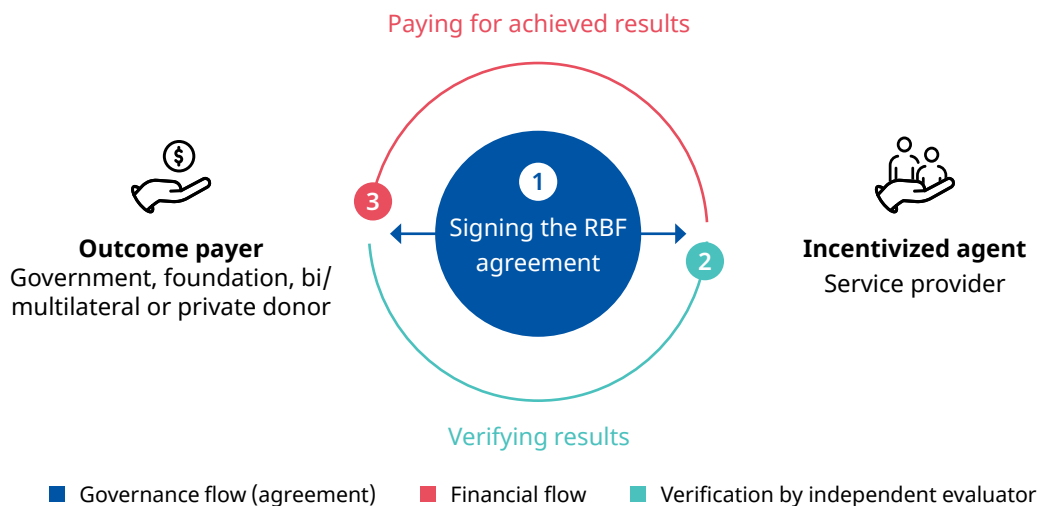
3.3 Performance-based contracts with training providers

Most financing to public training providers, and to private training providers receiving grants from government, is supply-driven; funding is usually provided based on numbers of enrolled students or linked to expenditures made in previous years (for public providers). Such funding approaches do nothing to incentivize improvements in quality or relevance of training provision, nor do they incentivize providers to engage hard-to-reach groups, such as rural workers, women, ethnic minorities, people with disabilities and informal economy workers.

14 Formerly the Department for International Development (DFID).

Performance-based contracts are a type of results-based financing instrument that can be applied to public and private training providers to help align incentives with desired outcomes.¹⁵ Under a performance-based contract arrangement, part of the payment to a training provider is based on their performance in relation to predefined outcomes (for example, increased targeting of under-served and marginalized groups; higher rates of course completion; and higher rates of TVET graduates in work six months after training completion). The proportion of the contract linked to performance indicators is usually small compared to the total contract size and this limits the amount of risk that training providers are asked to bear (Instiglio 2018). Some performance-based contracts provide bonuses based on outcomes (such as the percentage of graduates who have work six months after training completion) in addition to output-related service payments (payment based on the number of persons trained). There are three elements of performance-based contracts with training providers (Fig. 3): 1) Signing an agreement between the outcome payer and the individual training provider, defining the conditions for funding on the achievements of predefined results; 2) The results are verified, usually by a third (independent) party; and 3) The training provider is paid based on the results achieved.

► Figure 3. Performance based contracts with training providers



Source: Instiglio (2018).

Performance-based contracts with training providers are becoming a more commonly used instrument as part of development partner-funded TVET projects, though they are still not usually the beneficiaries of public funds or levy-financed training funds.

Performance-based contracts with training providers have been used in several vocational education and training projects, including three run by the Swiss development organization Helvetas in **Nepal** (Nepal Employment Fund, 2008-20), **Ethiopia** (Skills and Knowledge for Youth, 2015-25) and **Tanzania** (Youth Employment through Skills Enhancement, 2018-25). All three projects aim to reach disadvantaged and marginalized persons. Training providers were selected through a competitive bidding process and performance-based contracts were agreed consisting of a results-based payment and a social inclusion incentive scheme.

15 Results-based financing (RBF) “is a financing arrangement in which some payments are contingent on the achievement of predefined and verified results” (Instiglio 2018, 2). “As opposed to a traditional financing mechanism that pays for the inputs (for example, training delivery), RBF pays for achieved outputs and outcomes of the intervention (for example, employment)” (Zanola et al. 2021, 11).

- In **Nepal**, training providers received payments in three instalments in relation to results achieved: 40 per cent on completion of training and taking national skill tests; 25 per cent after three months based on verification of employment; and 35 per cent after six months of employment above the pre-defined minimum income. In addition, an incentive scheme offered training providers extra per capita payments to train (and place) more disadvantaged groups; these included highly vulnerable women, discriminated social groups, disabled and economically poor (Chakravarty et al. 2016; Kluge et al. 2017; World Bank 2020a).
- In **Ethiopia**, training providers also received payments in three instalments: a first instalment payment of 25 per cent midway through the training, a second payment of 35 per cent (on a pro rata basis according to the number of trainees achieving at least 80 per cent in an end-of-training skills assessment), and a final payment of 40 per cent (on condition that 80 per cent of more of trainees are employed four months after the training completion). As in the Nepal case, training providers were also eligible for an additional incentive payment based on the type and number of disadvantaged persons reached; the highest incentives were offered in relation to women living with HIV, single mothers, women with disabilities and internally displaced people (personal communication, Helvetas 08.04.22).
- In **Tanzania**, the Youth Employment through Skills Enhancement (2018-25) project adopted a blended performance-based contracting approach with training providers; the training cost was covered by an output-based arrangement where the training providers received instalments at the beginning (based on enrolment), middle (based on attendance) and end of the training (based on completion). Meanwhile, an outcome-based element offered training providers an additional monetary incentive which was only paid in the case of successful employment (Helvetas Tanzania 2021).

In **Bangladesh**, the DFID-funded Skills and Employment Programme (Sudokkho) (2014–21), which aims to reach the poor, women and other disadvantaged populations, also uses performance-based contracts with the private training providers it engages with, and “incentives will be on a sliding system with higher payments offered for harder-to-deliver results, such as training women in construction-related jobs” (DFID 2013, 12).

Also in **Nepal**, the World Bank-supported Enhanced Vocational Education and Training Project (2011-17) included an incentive scheme for training providers “to train and place females and youth from disadvantaged groups in employment” (World Bank 2017b, 23).

In **Colombia**, the Jóvenes en Acción programme (2001-2005) consisted of training courses for youth designed and provided by private institutions; these training providers received a part payment when trainees completed the classroom component and the majority payment once they completed the apprenticeship component. In addition, these private providers received additional incentive payments if the trainees were hired by the firms that trained them (Attanasio et al. 2015).

In **Liberia**, the Economic Empowerment of Adolescent Girls Programme provided short duration (six-month) classroom-based training followed by six months of follow-up support for young women to enter wage employment or start a business. Training providers were paid performance bonuses if they successfully placed their graduates in jobs or micro-enterprises (Adoho et al. 2014).

Evidence on the effectiveness and efficiency of performance-based contracts to promote social inclusion in skills and lifelong learning

There is emerging consensus – among project evaluation reports and experience from implementation – that including contracting approaches that contain performance-based elements can promote inclusion of disadvantaged and marginalized groups of all ages, as they link payment with performance (ILO 2021; World Bank 2017b; Zanola et al. 2021).

Financial incentives that encourage the inclusion of disadvantaged groups do work; they “ensure that training providers give priority access to women and discriminated groups, as well as the very poor and youth with special needs” (Zanola et al. 2021, 20).

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

3. Financing mechanisms for training providers

For example, with the **Nepal** Employment Fund, “the incentive-based payment system ... encouraged training and employment service providers to increase the intakes of trainees from disadvantaged groups and the poor” (Hollenbach et al. 2015, 13). An impact evaluation of the Nepal Employment Fund found large, positive and statistically significant effects on the labour market outcomes for Employment Fund trainees (Hollenbach et al. 2015, 13).

While performance-based contracts can be an effective way of re-orienting training providers away from a largely exclusive focus on inputs (for example, number of enrolled trainees) towards outputs (for example, trainee completion) and outcomes (for example, proportion of trainees achieving certain minimum standards, or the proportion of graduates employed six months after training), if such output and outcome metrics are set without consideration for inclusion there is a risk that training providers will “game” the mechanism and cherry-pick “those most likely to succeed rather than those most in need” (Holzapfel and Janus 2015, 14 - cited in World Bank 2020a, 45).

“Incentives can be a two-edged sword: they can motivate training providers to select those genuinely interested in working after training, but they may also lead providers to neglect important groups that are difficult to reach, or to discourage poor performers so they drop out” (World Bank 2020a, 45).

To counter this, the Nepal Employment Fund introduced differential pricing to reward training providers for various categories of hard-to-reach groups. This approach worked well; “‘Differential pricing’ helped to increase access to this program to women and other discriminated youth. For example, 20 per cent of the enrolments in later... programs were Dalits – above the national population of 12 per cent” (World Bank 2020a, 45-46).

Offering training providers social inclusion incentives that are differentiated in amount based on a specific social group is proving to be an effective way of reaching specific disadvantaged and marginalized groups (Lange et al. 2020; World Bank 2020a; Zanola et al. 2021).

Other challenges of implementing performance-based contracts with public and private training providers are noted in box 28.

► **Box 28. Challenges of implementing performance-based contracts with public and private training providers: An example from Tanzania**

In **Tanzania**, the Youth Employment through Skills Enhancement (2018-25) programme had to abandon a purely outcome-based financing approach as it met significant resistance from training providers. The public training providers indicated that “they found it difficult to facilitate employment of graduates” (Helvetas Tanzania 2021, 3). Further, as public training providers were funded by government, and would receive the funding from them regardless, they had little incentive to sign up to a performance-based arrangement. In addition, other development partners working with public training providers in Tanzania at the time were not using a performance-based approach (but the usually input-based approach), again giving these training providers little incentive to sign up to a performance-based arrangement. It may also have been that public training providers were not very confident in their training offer (in terms of labour market relevance), and were not willing to risk lack of payment if graduates did not get jobs (personal communication from Helvetas Tanzania, 22.04.22). Meanwhile, many private training providers indicated that they did not have the ability to pre-finance the training of individuals (for example, if their first payment was not going to be until trainees had completed the course and gained certification) (Helvetas Tanzania 2021).

Consistent with a theme running through this whole review – that financial mechanisms alone are often an insufficient means to promote social inclusion of disadvantaged and marginalized persons – experience from the use of performance-based contracts shows that non-financial approaches are also needed to reach the harder-to-reach, especially women (World Bank 2020a).

In **Nepal**, the Nepal Employment Fund was “not able to cover poor and disadvantaged youth due to supply as well as demand side barriers. In addition, training and employment service providers have been reluctant to take the risk of financial loss, which is inherent in the Employment Fund’s result-based payment system, as they rate the long-term employment options for disadvantaged and ultra-poor to be limited” (Hollenbach et al. 2015, 13).

Also in **Nepal**, the Enhanced Vocational Education and Training Project (2011-17) found that reaching women could be facilitated through a special funding window for women which offered a monetary incentive scheme to training providers so that they improved access and participation of women, as well as funding for non-financial approaches to support women’s access into TVET (World Bank 2017b).

In **Viet Nam**, a review of gender responsiveness of TVET found that, although “some institutions offer incentives to female applicants, in practice, this was found to be minimally affecting enrolment and course selection”, and “deeply entrenched sex-based norms and values” (ADB 2020, 3) were much more significant drivers of female participation in TVET.

In **Ethiopia**, the Skills and Knowledge for Youth project also ensured that training providers were able to offer childcare for female trainees’ children, and flexible training schedules were offered to trainees.

3.4 One-off funding

A final type of funding mechanism for training providers that has the potential to make training provision more inclusive is one-off public funding allocations or grants from NGOs and development partners. Such funds might be used, for example, to expand capacity, to make training providers more accessible for people with disabilities or to make training providers more female-friendly.

This approach varies widely in scale and scope, ranging from a multi-country or nationwide multi-year programme funded by a one-off public grant or grant/loan from a development partner or large NGO, to a small one-off grant to one training provider from a small NGO, charity, company corporate social responsibility (CSR) grant or other small-scale donor – and everything in between.

On one end of the scale, an example of a multi-year, multi-country initiative funded by development partners and intended to address inclusion in skills training is the EU-funded VET Toolbox (www.vettoolbox.eu). The VET Toolbox includes a component that provides grants to “new and innovative inclusive initiatives and tools in Africa and in Asia that contribute to facilitate access to the formal and informal labour market for disadvantaged and vulnerable groups through improved employability and vocational education and training” (ibid.). Grants were made by the VET Toolbox to 11 organizations (mostly NGOs) in 11 different countries, typically of about €400,000 each. Grants were awarded following calls for proposals from the VET Toolbox.

On the other end of the scale, an example of small one-off grants to individual training providers from a small charity are single grants that typically range from US\$500-10,000 made by the small UK charity OneChild Ghana to rural public technical institutes in the Ashanti Region of Ghana (box 29).

► **Box 29. Small grants from a UK-based charity to individual training providers in rural Ghana**

Since 2002, a small UK-based charity called OneChild Ghana (www.onechildghana.org) has been making one-off grants to individual training providers in the rural Ashanti Region of Ghana. The rural public technical institutes, formerly known as Integrated Community Centres for Employable Skills, that OneChild Ghana supports are open to less advantaged students. Trainees attending these types of institutes typically experience multiple disadvantages: they are predominantly from rural communities; from low-income families (most of whom are small-scale subsistence farmers and/or small-scale cocoa farmers); many have previously attended formal education intermittently; and either have low aggregate scores in their lower-secondary education or did not complete lower-secondary education.

Since the 1980s-2000s, when most of these 14 training providers were set up, until January 2022, when they were officially moved under the newly created Ghana TVET Service (under the Ministry of Education), these training providers have received virtually no support from central government for infrastructure provision or for equipment and training materials. For the last approximately 20 years, the government has only paid the salaries of the instructors at each training provider and not provided any support for infrastructure, equipment or training materials. Such capital expenditure and additional recurrent costs were supposed to have been borne by the small fees paid by the trainees themselves and by support from the local communities. However, due to the low-income nature of the communities in which these training providers were based, support only extended to the granting of land by traditional leaders (upon which the training provider infrastructure was built) and to ad hoc support from local communities in construction (for example, small donations of sand or in-kind assistance in carry water, digging foundations and so on). It was never a realistic expectation that these low-income communities could provide for all the infrastructure and equipment needs of these training providers. As such, OneChild Ghana was set up by a group of former UK-based individuals, most of whom had previously completed volunteer work with these rural training providers in Ghana.

One-off grants in the range of US\$500-10,000 have supported a large number of single initiatives over the last two decades, including construction works (for example, classrooms, hostels, washrooms, toilets, boreholes) and bursaries for low-income students (with the fees paid directly to the training providers).

It should be noted that in addition to small one-off grants from OneChild Ghana, over the last two decades these individual training providers have also received small one-off grants from other sources including local companies (as CSR), local government (usually in-kind donation of cement or roofing sheets to support construction), local MPs (from a small fund they manage), foreign embassy small grant schemes and individuals.

Source and disclaimer: the author is a former volunteer with these rural training providers and a trustee of the UK charity OneChild Ghana.

Evidence on the effectiveness and efficiency of one-off funding to promote social inclusion in skills and lifelong learning

Due to the very wide range (in financial scale and project scope) of what might be considered “one-off funding”, there is no aggregated evidence of the effectiveness and efficiency of one-off funding to promote social inclusion in skills and lifelong learning. In the absence of such aggregated evidence, the pros and cons of this financing mechanism are noted – examining the two ends of the spectrum only (table 4).

► Table 4. Some of the pros and cons of one-off funding to promote social inclusion in skills and lifelong learning

Scale	Pros	Cons
Nationwide multi-year initiative funded by a large public grant or from a grant/loan from a development partner.	An opportunity for a large-scale initiative to be supported, but without necessarily having to commit to long term funding.	Funding is not predictable and may not be repeated. If externally funded, continuation of funding is dependent on donor's plans (which may change at short notice). If domestically funded, funding may become linked to one political party and may be withdrawn if elections bring a new party to power.
Single institution initiative funded by a small grant from a small NGO, charity, or company CSR of another donor.	An accessible mechanism for small-scale funders who are not able to commit to wider support or to multi-year initiatives. The effect may be large at the level of the single training provider. An easier opportunity for a small-scale funder (charity, NGO, small firm, individual) to establish a relationship with a training provider.	Funding is not predictable and may not be repeated. The effect may be small compared to the national need. The institution-level funding may not be in alignment with national level priorities for the sector.

3.5 Concluding comments

The most effective financing incentives for encouraging training providers to promote social inclusion in skills and lifelong learning appear to be performance-based contracts, whereby training providers are offered specific incentives based on their actual achievements (for example, percentage of disadvantaged persons trained); however, such approaches remain uncommon as the predominant financing mode from governments remains supply-based funding, giving public training providers little incentive to switch to performance-based. Meanwhile, some private providers find it hard to pre-finance training (as payment is contingent on actual performance). Procurement and contracting approaches that explicitly take into account social inclusion are also important measures, though not adopted as frequently as would be useful. The most common financing instrument used to encourage training providers to address issues of social inclusion are one-off grants, often to improve physical infrastructure or to provide capacity strengthening. Another common approach used by governments is simply to expand overall provision (for example, to underserved rural communities).

The enabling environment

There are a number of factors or pre-existing conditions that need to be in place for certain types of financing mechanisms for training providers to be an effective tool to promote social inclusion in skills and lifelong learning (table 5).

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**


3. Financing mechanisms for training providers

► **Table 5. Financing mechanisms for training providers that promote social inclusion in skills and lifelong learning: The enabling environment**

Mechanism	Comments on the enabling environment needed for the mechanism to function effectively and efficiently as a means to promote social inclusion in skills	Level of administrative and M&E capacity needed	Suited to contexts with high levels of informality?
All mechanisms	Good level of awareness of the mechanisms and opportunities to apply for funding.	n/a	n/a
Contracted training provision	Regulations and/or guidelines for the use of public and donor funds to support training providers, and the need to explicitly address social inclusion.	Medium	Yes
Targeted procurement	Legislation and/or regulations concerning procurement would be required.	Medium/high	No (but yes in relation to government procurement)
Performance-based contracts	See box 30	High	Yes
One-off funding (nationwide multi-year initiative)	The existence of a national skills strategy that includes as a clear priority the need to promote social inclusion in skills and lifelong learning would help align larger scale, multi-year, one-off grants.	High	Yes
One-off funding (to a single training provider)	Individual training providers that are run by principals or managers who are capable of writing small grant proposals and entering into dialogue with potential local funders (for example, local enterprises, local government and so on) would be more likely to solicit such one-off funding. A national skills strategy that includes as a clear priority the need to promote social inclusion in skills and lifelong learning could make it easier for heads of individual training providers to make their case for funding.	Low/medium	Yes

► **Box 30. Factors affecting the effectiveness of performance-based contracts with training providers**

- When there are enough training providers in an area and a healthy level of competition exists (Zanola et al. 2021). Where there are few training providers, there is little competition between providers and little incentive for these providers to sign up to performance-based contracts (assuming they have other financing options).
- When the training market functions reasonably effectively. Where the training market is distorted, for example, where input-based funding is readily available from government or from other development partners (who are not using results-based financing approaches), there is little incentive for training providers to sign up to performance-based contracts. This would particularly be the case where an area is saturated by training providers who have other funding sources (non-RBF) available to them.
- In urban areas versus rural areas, where the RBF focus is on payment based on employment outcomes (Zanola et al. 2021). With much fewer employment opportunities in rural areas, encouraging training providers to sign up to contracts dependent on employment outcomes can be difficult.
- Outcome-based incentives for training providers seem to work best with private training providers because the providers receive the incentives directly; this is especially the case where there are owner-managers, rather than absent owners (who may not pass on the incentive payment to those they employ). Among public training providers there needs to be an agreement for institutional staff to benefit directly from the incentive payment in order for them to be motivated.



▶ 4

Financing mechanisms for enterprises

This section will examine financing mechanisms for enterprises/employers as a means to promote social inclusion in skills and lifelong learning. Four types of mechanism are explored: grants and subsidies for training in enterprises; tax incentives for enterprises; targeted public procurement; funding for intermediary organizations (table 6). Such mechanisms can be used to facilitate access and participation of workers belonging to disadvantaged groups (for example, low-skilled, women and people with disabilities) to training and retraining. For each mechanism there is a brief description of how it functions, illustrative examples, and a summary of any evidence regarding its effectiveness and/or efficiency.

► Table 6. Financing mechanisms to encourage enterprises to invest in inclusive training

Mechanism	Description and social inclusion angle
Training levies	Training levies paid by enterprises are a common source of extra-budgetary revenue for training, with the most common type of levy being payroll-based. A majority of levy-financed training funds around the world serve multiple purposes, which often includes the training of disadvantaged and marginalized groups.
Grants and subsidies to enterprises	Direct transfers to employers with the aim of co-financing costs to promote training and retraining by supporting work-based learning, apprenticeships, internships and encouraging the training of disadvantaged employees. 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, employer training levies, 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.
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 workers' organizations services for associates and vulnerable workers or agencies for apprenticeship placement and support.

Source: Adapted by author from ILO (2021).

4.1 Training levies

Levy-financed training funds are an increasingly popular approach around the world to mobilise funding for skills development. These are dedicated funds, often outside of normal government budgetary channels, that are resourced by employer levies (most commonly payroll levies). Training funds can be national or regional, covering a range of sectors, or can be sectoral, or industry-specific, to support a particular sector (Palmer 2022).

A UNESCO global review of levy-financed training funds found that, in 2020, 75 different countries operated such training funds of various types; in a majority (85 per cent) of countries these were national training funds, but sector training funds are also common, especially in Europe and Latin America. Some levy-financed training funds also receive public subsidies or donor funding (Palmer 2022).

While it is more common for sector training funds to have a single purpose, which is typically to incentivize employee training among levy-paying firms, most national training funds have multiple purposes. These purposes often include the financing of initial TVET, special initiatives aimed at providing skills to the unemployed or other disadvantaged groups, and of course the financing of continuing TVET for individuals employed within companies (Palmer 2022). Donor-funded training funds in low- and middle-income countries, on the other hand, are much more likely to have a greater (or sometimes sole) focus on equity and may not have funding windows that are directly aimed at enterprises (in fact, most have dedicated funding windows intended for intermediary organizations like training providers).

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

4. Financing mechanisms for enterprises

Levy-financed training funds have two broad disbursement approaches; those targeting enterprises directly through reimbursement, and those that are used to generate revenue for other skills development activities (box 31).

► **Box 31. Disbursement approaches of levy-financed training funds**

Employer-reimbursing: training funds that have mechanisms to disburse part of the levy funds back to the employer that paid the levy (directly or indirectly) as it engages in training activities, as a way to increase employer demand for training. There are three main ways this can be done:

- **Levy-grant schemes;** whereby levy-paying employers can get part of their levy back in the form of training grants and choose (within an agreed framework) the kind of training they want to invest in.
- **Cost-reimbursement schemes;** whereby approved training expenditures are reimbursed in whole or in part, within the limits of the levy paid by the enterprise.
- **Levy exemption schemes;** whereby a levy is imposed on firms, but the rate payable is reduced by the amount that the firm spends on allowable training activities.

Revenue-generating: training funds that exist to generate revenue for TVET more broadly; to increase the funding for initial publicly provided training (in vocational schools, institutes, colleges) and for special initiatives to train the unemployed or other disadvantaged social groups, and in that way, to increase the supply of skills to the labour market.

Source: OECD 2017a; UNESCO 2018.

Over 80 per cent of levy-financed national training funds use one type of employer-reimbursing approach. Over 60 per cent of levy-financed national training funds state that one of their purposes is to fund the training of disadvantaged and marginalized groups and/or the training of unemployed youth. Moreover, over half of levy-financed national training funds (almost all of which would be in low- and middle-income countries) state that one of their purposes is to fund the training of workers in the informal economy (including informal MSEs). Additionally, about one quarter of levy-financed national training funds state that one of their purposes is to fund initial TVET (which, depending on the country, can sometimes mean that disadvantaged and marginalized groups benefit) (Palmer 2022).

There are several ways in which levy-financed training funds can specifically direct resources to the training of disadvantaged persons:

- Where there is a clear allocation of part of the collected levies to an equity “funding window” within the training fund, or to a separate national equity fund. An example of the latter can be seen in South Africa, where 20 per cent of the collected levy payment is used to fund the National Skills Fund which has a strong equity focus.
- Where employer-reimbursing mechanisms allow non-levy payers to directly benefit from reimbursement schemes set up for levy-paying firms, or where mechanisms provide additional incentives to train low-skilled or other disadvantaged workers.
- Where revenue-generating mechanisms are used to fund specific training programmes for the unemployed or other disadvantaged persons. Levy funds used to support a general expansion of initial TVET (more vocational schools, institutes, colleges) that widen access to all may also have some beneficial effect on the disadvantaged. Levy funds specifically used to provide one-off grants to support more gender- or disability-friendly environments in training providers will also be beneficial.

Most national training funds do not contain funding windows or mechanisms that directly target enterprises (especially MSEs) as a means to promote social inclusion in skills; rather, they operate via intermediaries, including training providers and sector associations. This said, several national training funds have adopted

financing mechanisms that are intended to reach formal enterprises directly as a means to promote social inclusion among various groups, including the young people in apprenticeships, micro- and small firms (including informal firms), the elderly and people with disabilities.

Evidence on the effectiveness and efficiency of employer training levies to promote social inclusion in skills and lifelong learning

Experience from OECD and emerging countries shows that the design of levy-financed training funds plays a key role in whether they benefit the most disadvantaged (OECD 2019e). In some cases, training levy funds “are not specifically designed to be inclusive and often the most vulnerable are the least likely to benefit” (OECD 2019e). In other cases, “training levy funds are conceived to explicitly target disadvantaged groups” (OECD 2019e).

In general, employer-reimbursing mechanisms used by most (but not all) levy-financed training funds are not designed with inclusion in mind, but rather with the objective of increasing overall training. As such, they are usually quite blunt instruments to address the issue of social inclusion of disadvantaged workers in levy-paying firms. In a majority of levy-financed training funds, small firms (defined by employee size and/or turnover) as well as informal sector firms are excluded from the obligation to pay the training levy. It usually follows, therefore, that these non-levy payers also do not benefit directly. While there are some examples of training funds that have been more successful in reaching small firms in the formal sector (for example, the National Skills Fund in Ireland), most training funds are not designed for this. Additionally, none of the levy-financed national training funds reviewed in a UNESCO global survey in 2020 contained mechanisms whereby informal firms could directly benefit from reimbursement mechanisms that levy-paying (formal) firms could (but many training funds had indirect mechanisms to benefit the informal sector).

Revenue-generating mechanisms used by most (but not all) training funds are sometimes specifically designed to reach disadvantaged groups, but in some cases are simply being used to subsidize initial public TVET offerings in a non-selective way (which will have marginal impact of inclusion).

Below is a discussion of the design features that affect the inclusive nature of levy-financed training funds (drawing on a review of levy-financed training levies presented in Palmer 2022).

General design elements of levy-financed training funds that have the most impact on whether or not a training fund benefits the disadvantaged include:

- Who pays - The decision about which firms pay the levy and if there is a threshold (for example, based on employee size or turnover) under which firms are exempt from levy payment.
- The proportion of collected levies allocated to reimbursing versus redistributive mechanisms - The decision about what proportion of the collected levy funds should finance employer-reimbursing mechanisms versus what proportion (if any) should fund revenue-generating mechanisms, and in particular those that explicitly have equity objectives.
- The extent to which public funds are blended with employer-levies and are:
 - a. Used to fund social objectives – Some training funds that are predominantly funded via employer levies still receive public grants which often come with a social objective. This is the case, for example in Malaysia with the Human Resource Development Corporation, as well as the National Skills Fund in Ireland.
 - b. Used to make up for a decline in levy income during an economic downturn – The levy income to a training fund is directly linked to the economic activity of the country; when an economy slows, firms shed workers and firm profits decline. As a result, levy payments (most of which are based on payroll) decline and there are fewer levy-funds to allocate to training just as demand is at its highest. In such cases, the extent to which public funds can step in would be important.

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

4. Financing mechanisms for enterprises

- Governance arrangements - In particular, the extent to which there are voices representing the skills needs of the disadvantaged within the governance structure of the training fund.
- Legislative context - In particular, the extent to which the levy – and training fund that it finances – is required to have any social agenda. Firms are, on the most part, motivated by profit and the need to increase productivity. This motivation may be at odds with a social agenda of upskilling disadvantaged and low-skilled workers in a levy-paying firm or agreeing that there should be a percentage of the employer-paid levy used to finance training with social objectives.
- Information - It is often the case that smaller firms are more likely to lack information about the availability of funding opportunities from levy-financed training funds and/or lack information on eligibility and application processes.

Design elements in relation to **employer-reimbursing mechanisms** that have the most impact on whether or not a training fund benefits the disadvantaged include:

- Whether non-payers can still directly benefit - If non-levy paying firms can benefit from employer-reimbursing mechanisms in the same way as the actual levy payers, they are more likely to be supporting smaller firms (though this does not automatically mean that disadvantaged individuals within these smaller firms will benefit). While a majority of levy-financed training funds have some kind of mechanism for reimbursing (part or all of) the levy contribution paid by the enterprise in the form of a direct grant (or reimbursement, or levy-exemption), in almost all such funds, only contributing firms can access these direct grants. Small and especially micro-firms tend to be much less likely to either be required to contribute to training levies (as many levy schemes have a minimum threshold under which firms are not obliged to contribute), or in countries with weak enforcement mechanisms – some may simply try to avoid paying the levy entirely. As such, enterprises operating informally won't contribute directly but will also have no way of benefitting directly (although they can benefit via funding that goes through intermediary organizations – see section 4.5 of this report).
- Whether there is any additional incentive to the employer to train its lower-skilled or otherwise disadvantaged workers.
- The extent to which small and micro-firms are required to pre-finance training for their workers (which may result in cash flow issues).
- The extent to which there is public financial support to cover all or part of the costs a firm incurs when sending an employee on training, in terms of the lost productivity of that person during the actual training.
- The administrative burden placed on smaller enterprises – Even when small and micro-firms are contributing members, the process to apply for a direct grant or other reimbursement can sometimes be too complicated or time-consuming for such small firms, many of which do not have a dedicated HR person.

As such, levy-financed training funds that redistribute funds primarily via employer-reimbursing mechanisms, and do so without any inclusion criteria being imposed on them by the training fund (or legislation), are not a very effective means to reach the smallest formal firms, or indeed any informal firms, directly. Nor are they usually a very effective means of reaching the disadvantaged and low-skilled workers within levy-contributing firms.

Design elements in relation to **revenue-generating mechanisms** that have the most impact on whether or not a training fund benefits the disadvantaged include:

- The types of programmes funded and the extent to which they have a specific focus on the disadvantaged - As noted above, revenue-generating mechanisms can be used to provide funding for various types of training provision, ranging from supplementing public funding of initial training (in vocational schools, institutes and colleges) to funding special initiatives set up to train the unemployed or other disadvantaged social groups. Unless funds are used in a way that directly reaches disadvantaged individuals and social groups, the effect on improving inclusion would likely be marginal.

4.2 Grants and subsidies to encourage enterprises to invest in inclusive training

Direct transfers to enterprises/employers in the form of grants and subsidies can be used to promote social inclusion in skills development and can be financed through general taxation, employer training levies, unemployment benefit schemes or other social protection schemes.

Such training grants and subsidies serve to lower the costs to employers of providing work-based learning and apprenticeships to disadvantaged young people (Kluve et al. 2017), as well as to other marginalized persons (for example, elderly workers, people with disabilities, low-skilled workers or the training of the unemployed) (ILO 2021).

Apprenticeships

A common reason for the provision of financial incentives to employers is to motivate them to take on apprentices, especially those who are young, lack work experience and are lower-skilled. Examples of this financing mechanism can be seen in several countries, including Australia, Austria, Chile, Ireland, the Republic of Korea and the United Kingdom, in addition to the reinforced Youth Guarantee in European Union countries.

In **Australia**, incentives may be paid to employers who take on apprentices from nominated equity groups, for example, indigenous, mature, rural and disability (Australian Apprenticeship Support Network 2020).

Since 2008, all **Austrian** companies that train apprentices in the dual system get a baseline subsidy for each apprentice; this is in the form of a grant to cover apprentice costs and is applied for through an online application procedure. This basic subsidization is linked to the apprenticeship wage and is regressive over the training period; training companies are reimbursed three monthly apprenticeship wages in the first training year, two during the second year and one in the third (and fourth) training year. The basic rationale behind this design is to compensate training companies for the low productivity of apprentices in their initial training years. Additionally, Austrian companies that train apprentices may also be eligible for criteria-based subsidies for taking apprentices from ÜBA (inter-company training), which provides apprenticeship training for people with disabilities, people with special educational needs, people without secondary school leaving certificate (or those with very low educational levels) and other people with obstacles to apprenticeship placement. Additional expenses are payable to cover learning support for apprentices with learning difficulties and/or those who have to repeat a grade (Schmid 2019). Both types of training incentives are financed by the Austrian Insolvency Remuneration Fund (Insolvenz-Entgelt-Fonds - IEF) which itself is financed through a percentage surcharge on the unemployment insurance contribution – the insolvency income protection contribution – and thus from employers' contributions. The IEF includes a 0.2 per cent payroll levy earmarked for the direct subsidization of training companies.

In **Chile**, the National Training and Employment Service (SENCE) provides a financial subsidy to employers, equivalent to 50 per cent of the current minimum monthly income, for up to 12 months. In addition, employers hiring apprentices are eligible for a one-off grant of up to 400,000 Chilean pesos (US\$470) per apprentice for training carried out internally or through a training provider. This is to encourage enterprises to take on young people, who lack work experience, as apprentices (<https://sence.gob.cl/empresas/aprendices>, accessed 15.10.22).

In **Ireland**, with funding from the National Training Fund, an Apprenticeship Incentivisation Scheme exists for employers who employ apprentices. In 2022, such employers could access €2,000 (US\$2,080) per apprentice per year. Employers can also access a gender-based bursary when they employ apprentices on any national apprenticeship programme with greater than 80 per cent representation of a single gender. In 2022, apprenticeship employers are eligible to receive a €2,700 (US\$2,800) bursary for each registered apprentice from the minority gender (www.apprenticeship.ie, accessed 10.10.22).

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

4. Financing mechanisms for enterprises

In the **Republic of Korea**, about one fifth of the Employment Insurance Fund expenditure in 2018 was on apprenticeship, which is delivered in Korea via a work-based learning dual system. The Ministry of Employment and Labour provides financial support to both companies and apprentices, including: i) to develop education and training programmes for the apprenticeship training system; ii) to establish training infrastructure; and iii) to provide education and training programmes (including compensation for trainers, a trainee allowance and the costs of both on-the-job and off-the-job training). The purpose of the apprenticeship incentive is to encourage enterprises to hire job-seeking young people who lack work experience as “learning workers” (Paik and Uher Gonçalves 2019).

In the **United Kingdom (UK)**, a nationwide Apprenticeship Levy was established in 2017 with the aim of increasing firms’ investment in training.¹⁶ The levy is 0.5 per cent of payroll (minus an annual levy allowance of £15,000) but only applicable to employers who have annual wage bills over £3 million; this is fewer than 2 per cent of UK employers (House of Lords 2021). While the requirement for eligible employers to pay the levy is UK-wide, spending its proceeds involves devolved responsibilities, with separate arrangements in England, Scotland, Wales and Northern Ireland. For example, in England, the use of the levy for funding apprenticeships is the responsibility of the Department for Education and the Education and Skills Funding Agency. The levy is paid into an online apprenticeship service account, from which funds can be spent on apprenticeship training and assessment with a training provider. It cannot be used for other apprenticeship costs, such as the wages of an apprentice (Powell 2020). In England, the levy is also used to support disadvantaged and marginalized young people to take up apprenticeships, including payments to 19–24-year-olds with defined special needs (British Council 2018); a bursary to care leavers aged 16–24; support to acquire basic English and maths skills; and additional learning support to help apprentices with a learning difficulty or disability. Employers and training providers are also eligible for a £1,000 (US\$1,200) grant each if they hire an eligible apprentice who is either aged 16–18 years old, or aged 19–25 years old and has an education, health and care plan or has been in the care of their local authority (Education and Skills Funding Agency 2022).

In the **European Union (EU)**, financial incentives are used by countries to implement a commitment to ensure that all young people receive a good quality offer of employment, continued education, apprenticeship or traineeship within a period of four months of becoming unemployed or leaving education (box 32).

► **Box 32. The reinforced Youth Guarantee in the EU**

The reinforced Youth Guarantee is a commitment by all EU Member States to ensure that all young people under the age of 30 receive a good quality offer of employment, continued education, apprenticeship or traineeship within a period of four months of becoming unemployed or leaving education. All EU countries have committed to the implementation of the reinforced Youth Guarantee in a Council Recommendation of October 2020, including the use of targeted and well-designed employment and training incentives such as wage subsidies, recruitment incentives (‘bonuses’), reduction of social security contributions, tax credits or disability benefits.

In Denmark, for example, employers receive financial compensation for the cost of the training component of an apprenticeship at a rate of 2,500 Danish krone (US\$250) per employee per month during the vocational introduction employment. This training compensation is also limited to 12 months.

Source: EC 2022; EU 2020.

In **Japan**, the Career-up Josei-kin programme provides employers with subsidies for training individuals on non-regular contracts (OECD 2017a).

16 Before 2017 apprenticeship subsidies were handed out as grants to employers (via training providers), paid out of general taxation.

Elderly workers and people with disabilities

Another reason for the provision of financial incentives to employers is to encourage them to train elderly workers and people with disabilities. Examples include Singapore, Slovenia, Germany and Poland for older workers (box 33), and Australia, Canada (British Columbia), Germany, Malaysia and Singapore for people with disabilities (box 34).

► Box 33. Promoting training and skills development for older workers

In **Singapore**, a Senior Worker Early Adopter Grant (SWEAG) is designed to encourage employers to support older workers (aged 60 years and above) and provides support of up to 125,000 Singapore dollars (US\$91,000) for employers to increase their own retirement and re-employment ages ahead of legislative schedule. To qualify for SWEAG, employers are required to adopt the Tripartite Standard on Age-friendly Workplace Practices; among other things, this requires that employers train their older employees to perform their jobs effectively (www.enterprisejobskills.gov.sg). In **Slovenia**, the Programme of Comprehensive Support to Companies for Active Ageing of Employees includes financial incentives for employers to undertake upskilling of workers over 45. Similarly, SMEs in **Germany** can receive a 75 per cent subsidy for the training costs of workers over 45, while micro-enterprises receive a 100 per cent subsidy, with evidence that the scheme has helped to prolong older workers' time in employment (Ergon, 2021). In **Poland** [*should read Spain?*], the National Training Fund, which is funded through contributions from employers under the wider social protection system, aims to prevent job loss among older workers by supporting workers' retraining or updates to knowledge and skills (Ergon 2021).

► Box 34. Promoting training and skills development for people with disabilities

In **Australia**, the Australian Apprenticeships Incentives Programme provides a range of assistance to support apprentices with disabilities, including Disabled Australian Apprentice Wage Support which is paid to employers, and assistance for tutorial, interpreter and mentor services for apprentices (<https://www.australianapprenticeships.gov.au/>, accessed 15.10.22). In **British Columbia (Canada)**, employer training grants incentivize employers to hire and train unemployed persons with disabilities or upskill a current employee who has a disability. Employers can receive 100 per cent of eligible costs, up to a maximum of 20,000 Canadian dollars (US\$15,600) per participant per financial year for training, participant financial supports and training allowances (<https://www.workbc.ca/Employer-Resources/BC-Employer-Training-Grant/Persons-with-Disabilities-Training-Stream.aspx>, accessed 19.05.22). In **Germany**, companies can access financial incentives from the Federal Employment Agency (Bundesagentur für Arbeit) to train people with special needs (Bundesagentur für Arbeit 2022). In **Malaysia**, under the OKU Talent Enhancement Programme (OTEP Scheme) for Persons with Disabilities, of the National Human Resource Development Corporation, employers may obtain 100 per cent financial assistance to send employees with disabilities for training in selected training programmes (<https://hrdcorp.gov.my/>, accessed 14.10.22). In **Singapore**, employment support for persons with disabilities (PWDs) aims to enhance the employability of – and increase employment options for – PWDs. Through this programme, employers can gain access to subsidies, grants and employment facilitation services to help hire, train and integrate PWDs. For example, the programme offers a 90 per cent course fee subsidy for PWDs who take up eligible training courses. (www.enterprisejobskills.gov.sg).

Micro- and small (formal) enterprises

Financial incentives (grants and subsidies) for employers to invest in training are sometimes specifically targeted at smaller firms, with subsidies or simplified grants mechanisms tending to be better instruments than levy-grants (ILO 2021; OECD 2017a). However, in most training funds, micro- and small enterprises (MSEs) do not directly benefit, either because they are exempt from levy-payment due to their size (in terms of turnover or number of employees) and therefore cannot (usually) access grants from the training fund, or because the procedures in the training fund intended to reach MSEs are overly complex (Palmer 2022). For example, in the National Training Fund of Mauritius, the smallest firms benefit least from the training fund in terms of receiving grants; in 2017-19, only 2-3 per cent of contributing small firms benefit from the training grant, compared to about 70 per cent of large companies (HRDC Mauritius, 2020; 2019). Similarly, in Morocco most MSEs do not have access to the training funds resourced by the Professional Training Tax (Taxe de Formation Professionnelle - TFP) as one of the eligibility criteria is that at least 10 staff must be employed to be able to benefit from these training funds (www.ofppt.ma, accessed 13.10.22; Palmer 2022). In fact, over 85 per cent of registered firms have less than 10 employees (World Bank 2020b). This said, there are several examples where financial incentive mechanisms have had more success in reaching smaller enterprises in the formal sector. Four approaches are used, as illustrated in the following examples.

In the first approach, the financial incentives to invest in training are targeted exclusively at MSEs. For example, in the **Republic of Korea**, financial incentives – themselves funded by the Employment Insurance Fund – are offered to large companies to support the training of SMEs. In 2001, the Consortium for HRD Ability Magnified Programme (the CHAMP programme) was set up which helps MSEs organize, launch and manage in-service training of their workers. Large companies, business associations and universities are offered financial incentives to facilitate the set-up of MSE consortia (a group of 30–50 MSEs in the same area and industry) for sharing know-how, equipment and training facilities with MSEs (OECD 2021b). Supported by training specialists, who provide consortium member MSEs with technical and institutional assistance to undertake voluntary occupational skills training, customized vocational training is provided to MSE employees through a joint training centre combining service providers, enterprises and higher education institutions (Lee 2020). In 2018, 143 joint training centres were being run under the CHAMP programme (Park 2019).

In the second approach, the financial incentives to invest in training are open to firms of all sizes, but larger incentives are offered to MSEs, for example in Poland, Singapore and Ireland. In **Poland**, grants awarded through the National Training Fund cover 100 per cent of the costs of lifelong learning for micro-enterprises (an employer employing up to 10 people), compared to 80 per cent for all other firms (Ministerstwo Rozwoju, Pracy i Technologii 2020). In **Singapore**, with funding from the Skills Development Fund, enhanced training support is offered for small and medium enterprises (SMEs), with additional support for SMEs in the form of higher course fee subsidies. SMEs enjoy SkillsFuture funding of up to 90 per cent of the course fees when they sponsor their employees to attend courses supported by SkillsFuture Singapore (www.ssg.gov.sg). In **Ireland**, Skillnet Ireland, an organization responsible for enterprise-led workforce development and supported by the National Training Fund, provides funding to groups of companies in the same region/sector and with similar training needs, through training networks that deliver subsidized training to Irish businesses. Over half (51 per cent) of Skillnet Ireland firms are micro-enterprises¹⁷ (Skillnet Ireland 2021). Skillnet's Employment Activation Programme offers training to jobseekers through the main training networks programme. In 2020, Skillnet Ireland also launched its Skills Connect initiative to upskill/reskill and support the re-entry to the workforce of those most impacted by the COVID pandemic (Skillnet Ireland 2021). Also in **Ireland**, the Skills to Advance initiative, which provides subsidized training opportunities for vulnerable workers, allows small enterprises to claim back up to 70 per cent of eligible costs (box 35).

17 Micro-enterprises are defined as those with under 10 persons in the organization.

► **Box 35. Subsidized training opportunities for vulnerable workers in Ireland, with preferential targeting of small enterprises**

Skills to Advance is a national initiative that provides targeted upskilling and reskilling support for vulnerable groups in the Irish workforce, especially those who have lower skills levels. The main target groups include individuals that are currently working in a lower-skilled job, are aged 50+ and/or currently working in a job that is experiencing significant change. Small and medium-sized enterprises and other organizations with limited capacity to identify and meet skills development needs of their employees in lower skilled work are prioritised.

Employers can apply for subsidized training opportunities on Skills to Advance courses run by Education and Training Boards (local education bodies who manage training providers) across Ireland. The subsidy level has a ceiling of 50 per cent of eligible training costs, but this may be increased up to 70 per cent of eligible costs as follows: i) by 10 per cent if the beneficiaries are from medium-sized enterprises; ii) by 20 per cent if the beneficiaries are from small enterprises.¹⁸

Funding for the Skills to Advance scheme is provided by the Department of Further and Higher Education, Research, Innovation and Science from the National Training Fund.

Source: SOLAS (2022).

In the third approach, preferential incentives to smaller firms are sometimes in the form of differentiated training levy rates, where smaller firms are required to pay less than larger firms but have the same (or sometimes better) rights to access training grants and reimbursement. For example, in **France**, the levy rate for companies with less than 11 employees is 1.23 per cent of gross payroll, compared to 1.68 per cent for larger firms (www.francecompetences.fr). Similarly, in the **Republic of Korea**, enterprises with 1–149 employees pay a payroll levy rate of 0.25 per cent compared to 0.85 per cent for larger firms (Uher Gonçalves 2019).

In the fourth approach, the financial incentives to invest in training are made easier to access for SMEs by allowing them to apply through simpler and more flexible procedures or by giving priority to their applications. For example, in **British Columbia (Canada)**, employer training grants provide incentives to firms to invest in training, with reimbursement amounts varying between 60 per cent and 100 per cent. Applications from small businesses are given priority, and over 70 per cent of benefitting firms are small enterprises (Province of British Columbia 2022).

Evidence on the effectiveness and efficiency of employer grants and subsidies to promote social inclusion in skills and lifelong learning

Where employer grants adopt a blanket or untargeted approach – one that does not have an inclusion focus – this can result in deadweight loss (the firm may have paid for the training of some of its workers anyway, in the absence of any grant) and would likely result in workers being trained who were not disadvantaged. Alternatively, where employer grants are targeted and do have an explicit inclusion focus, they can make a significant difference. For example, in **British Columbia (Canada)**, an Employer Training Grant provides funding to employers for skills training for new or current employees so they can reskill and upskill to meet the skill needs of the business. Within the grant scheme, various streams are designed to support social inclusion in skills training; for example, Equality of Treatment (Accident Compensation) Convention, 1925 (No. 19) supports the training of those in a sector where job opportunities have been most affected by the COVID-19 pandemic; the “Foundational Training Stream” provides incentives to train unemployed and

¹⁸ Small enterprises are defined as having 49 employees or less and an annual turnover not in excess of €10m (US\$10.6m). Medium-sized enterprises as having between 50 and 249 employees and an annual turnover not in excess of €43m (US\$45.5m).

► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

4. Financing mechanisms for enterprises

low-skilled persons; and the ‘Persons with Disabilities Training Stream’ provides incentives to train PWDs. The impact of the various streams of the Employer Training Grant was found to include:

- three months after training, 89 per cent of programme participants felt they had increased their skills and 88 per cent believed the training was relevant to their needs;
- three months after training, 62 per cent of participants reported that their employment situation had improved and 64 per cent felt their prospects for promotion were greater. (Province of British Columbia 2021)

4.3 Tax incentives to encourage enterprises to invest in inclusive training

Another type of financing mechanism for (formal) enterprises/employers that aims to promote investments in training are tax incentives – typically tax credits or tax allowances. Blanket tax incentives (those open to all) are not an effective mechanism to promote equitable access to skills and lifelong learning as they tend to favour those who already have the best access. Effectively reaching SMEs and vulnerable workers has been achieved in several countries where deductions are correspondingly higher for these groups (ILO 2021) or where eligibility criteria specify such groups.

People with disabilities

Tax incentives to encourage employers to invest in the training of employees with disabilities can be found in several countries. For example, in the **United Kingdom**, employers who invest in training employees with disabilities can receive tax relief, which is backed up by legislation; under the Equality Act 2010, no employer may treat less favourably a person with a disability in terms of training than any other person (LITRG 2022).

Unemployed persons

Tax incentives to encourage employers to invest in the training of unemployed persons also exist. For example, in **Belgium**, the Training-Insertion Plan (Plan Formation-Insertion) provides tax incentives to employers to train job seekers according to their specific needs (usually over 4-26 weeks) and then to hire them for a period at least equivalent to the training. The employer does not pay a salary to the trainees but an “incentive” stipend which is excluded from social security taxation. The tax deduction is calculated from the difference between the taxable remuneration and the unemployment benefits (CEDEFOP n.d., b; Le Forem 2022). In **Chile**, tax incentives are also available to employers to train job seekers; such training, which can last up to two months, has the objective to develop the skills of future workers to increase their employability. Once the training is finished, the beneficiary is not obliged to sign an employment contract with the employer, who is also not obliged to hire the trainee (SENCE n.d.).

Older workers

Tax incentives to encourage employers to invest in the training of older workers can also be found in several countries. In **Luxembourg**, a co-financing arrangement promotes in-company training of employees; private employers can receive a reduction of the tax due (15 per cent of the cost of the training investment made during the financial year). Where employees have either low or no qualifications (for example, no diploma) or are aged over 45 years, firms receive higher financial incentives. The training investment is capped according to the size of the firm, with SMEs given preferential treatment. The training investment cap is 20 per cent of payroll for companies with 1-9 employees, 3 per cent of payroll for companies with 10-249 employees, and 2 per cent of payroll for companies with more than 249 employees (lifelong-learning.lu, 2022). In **Malta**, the Mature Workers Scheme offers employers financial incentives (based on a tax deduction) to hire individuals aged 45-65 years old who have been on the unemployment register for at least six consecutive months prior to employment. Additionally, such employers can also benefit from a further tax deduction of 50 per cent of

the cost of training up to a maximum of €400 (US\$420) per employee (Jobsplus Malta, 2022). Training costs can be deducted against tax where the training is: a) necessary for the duties of the employment; or b) directly related to increasing effectiveness in the performance of the employee's present or prospective duties in the employment (CEDEFOP n.d., c).

Apprentices (younger workers)

Tax incentives to encourage employers to invest in the training of apprentices can also be found in several countries. In **Canada**, the Provincial and Federal governments provide income tax credits for employers of apprentices registered in Industry Training Authority apprenticeship programmes (ITA, 2022). The maximum credit an employer can claim is 2,000 Canadian dollars (US\$1,500) per year for each eligible apprentice (GoC 2022d). In **Slovenia**, firms employing an apprentice or a student to undergo practical training may claim a reduction in the tax base but not exceeding 20 per cent of the average monthly salary in the country (CEDEFOP n.d., d). In **Thailand**, tax incentives (up to 100 per cent tax exemption) for expenditure incurred are available to employers (Uher Gonçalves 2019).

Evidence on the effectiveness and efficiency of enterprise tax incentives to promote social inclusion in skills and lifelong learning

There is a lack of evidence identified on this.

4.4 Targeted public procurement to encourage enterprises to invest in inclusive training

Public procurement can also be used as a mechanism to encourage enterprises/employers to invest in inclusive training; for example, including conditions in public contracts that suppliers must offer certain types of training (usually apprenticeships) to certain groups.

In **Canada**, the Windsor-Detroit Bridge Authority (WDBA) identified community benefits that were included in the contract for the construction of the Gordie Howe International Bridge; these included the provision of training, pre-apprenticeship and apprenticeship opportunities (Tepper et al. 2020).

In **Denmark**, it is obligatory for contracting authorities to consider apprenticeships as a condition related to the performance of certain contracts. In addition, over the period 2019-25, the Municipality of Aarhus piloted the inclusion of training and employment opportunities as part of the actual award criteria for new contracts. In total, 10 per cent of the award criteria was given to training and employment, with various forms of training and apprenticeships assigned different contributing scores (Tepper et al. 2020).

In **Norway**, since 2017 apprentices must be included in all public building and construction projects and services in contracts worth at least 1.3 million Norwegian krone (US\$132,000) excluding VAT for state authorities; 2 million Norwegian krone (US\$200,000) excluding VAT for other public authorities; and where the contract period exceeds three months (DFØ 2019).

In **Sweden**, the Procurement Centre in Falun-Borlänge Region requires that suppliers consider how they can offer employment or vocational internships to individuals far from the labour market (such as long-term unemployed people or people with disabilities) (Tepper et al. 2020).

In the **United Kingdom**, procurement by the Greater London Authority is guided by its Responsible Procurement Policy, which helps to ensure procurement decisions support themes such as enhancing social value, equality and diversity and embedding fair employment practices. With regards to socially inclusive training, depending on the contract value, each submitted proposal needs to consider a range of strategic labour needs and training outputs, including, for example, apprenticeship offers and industry placements (Tepper et al. 2020).

Evidence on the effectiveness and efficiency of targeted public procurement to promote social inclusion in skills and lifelong learning

Using targeted public procurement to encourage private enterprises to invest in inclusive training has proven to be an effective model. For example, in the case of Denmark (see above), this approach “has shown the market that the municipality is willing to reward social responsibility. It is expected that the result of the tender will motivate potential suppliers who have not previously considered this option to create apprenticeships or training opportunities” (Tepper et al. 2020: 25).

4.5 Funding to intermediary organizations to encourage enterprises to invest in inclusive training

The last type of mechanism that can encourage enterprises/employers to invest in inclusive training involves channelling financial incentives via intermediary organizations. This type of mechanism is most commonly used with enterprises that are harder to reach directly, including small and microenterprises, and especially those operating in the informal economy. Intermediary organizations can include employment services, workers’ or employers’ organizations, business service providers and informal sector associations.

For example, **Zambia’s** levy-financed Skills Development Fund has a dedicated window to fund SME training and informal sector training. Calls for proposals are issued and funds are disbursed via intermediary institutions (including cooperatives, associations and training providers) who coordinate the application under this window for the benefit of SMEs and those in the informal sector (Government of Zambia, 2017a and 2017b). In 2018, 85 training providers were supported to train SMEs and informal sector groups (TEVETA Zambia 2019). In 2019, the Skills Development Fund financed 80 per cent of these activities, with the rest funded by an African Development Bank project (TEVETA Zambia 2020).

In **Ecuador**, the Ecuadorian Centre for Vocational Training (Servicio Ecuatoriano de Capacitación Profesional – SECAP), itself financed via a payroll levy, provides training aimed at groups who have been excluded from access to quality work, formal education and training, including the underemployed, self-employed and unemployed. Grants are made to informal sector associations that respond to calls for tenders for the training of workers in the informal economy (Palmer 2022; www.secap.gob.ec, accessed 23.09.22).

Training funds, or skills development funds, have become a popular component in externally- supported TVET projects in low- and middle-income countries that don’t have levy-financed training funds. Due to the equity-focus of many of these funds, and the difficulty of directly reaching disadvantaged and marginalized individuals and social groups, including those working in the informal economy, most such training funds contain funding windows that are targeted at intermediary organizations. Examples of such training funds can be found in Bangladesh (FCDO), Cambodia (ADB), Nepal (FCDO, SDC and the World Bank), Pakistan (FCDO) and Vanuatu (DFAT), among other places.

Evidence on the effectiveness and efficiency of funding to intermediary organizations to promote social inclusion in skills and lifelong learning

There is a lack of evidence identified on this.

4.6 Concluding comments

A majority of private enterprises, quite rationally, focus on ways and means to increase profits and productivity; as such, from a social perspective, decisions on training taken at the firm level are not optimal. However, formal sector enterprises can be encouraged to train their more disadvantaged workers using grants, tax incentives or differentiated levy payments that have clear eligibility criteria.

Most training levies were not specifically designed to address the issue of social inclusion in skills and lifelong learning. The main reason for having a levy (especially for sector-based training levies in Europe) is usually to promote an overall increase in the incidence of training by firms, or to increase overall general funding for initial TVET (as is the case for many training levies in Sub-Saharan Africa). Several notable exceptions exist, where a proportion of collected levies is allocated to support a more social agenda in skills development (for example, the levy system in South Africa and Brazil).

Employer-reimbursing mechanisms used by most (but not all) levy-financed training funds are usually not designed with inclusion in mind, but rather with the objective of increasing overall training. As such, they are usually quite blunt instruments to address the issue of social inclusion of disadvantaged workers in levy-paying firms. Revenue generating mechanisms used by most (but not all) levy-financed training funds are sometimes specifically designed to reach disadvantaged groups, but in some cases are simply being used to subsidize initial public TVET offerings in an untargeted way (which will have marginal impact on inclusion).

Small enterprises, and especially informal sector enterprises in many low- and middle-income countries, are the hardest to reach but – in the case of those operating informally – are also likely to have high levels of disadvantaged owner-operators and informally employed workers. Providing grant funding to intermediary organizations (for example, trade associations, training providers and NGOs) is the most common approach to reaching this group.

The enabling environment

There are a number of factors or pre-existing conditions that need to be in place for certain types of financing mechanisms for enterprises to be an effective tool to promote social inclusion in skills and lifelong learning (table 7).

► **Table 7. Financing mechanisms for enterprises that promote social inclusion in skills and lifelong learning: The enabling environment**

Mechanism	Comments on the enabling environment needed for the mechanism to function effectively and efficiently as a means to promote social inclusion in skills	Level of administrative and M&E capacity needed	Suited to contexts with high levels of informality?
All mechanisms	Good level of awareness of the mechanisms and opportunities to apply for funding.	n/a	n/a
Training levies	Where there is a requirement for a proportion of collected levies to be used to fund equity / social training objectives, employer training levies can be a useful part of the overall resource envelope even in contexts of high informality (*).	High	Yes (*) – otherwise No
Grants and subsidies to enterprises		Low/medium	Yes
Tax incentives to enterprises	Well established tax collection system. Firms would usually need to have a bank account.	Low/medium	No
Targeted public procurement	Legislation and/or regulations concerning procurement would be required.	Medium	No
Funding to intermediary organizations		Low/medium	Yes



▶ 5

Conclusions and recommendations

A common theme in this review is that financial mechanisms alone are often an insufficient means to promote social inclusion of disadvantaged and marginalized persons. A more holistic (or at least multifaceted) approach is needed to increase the effectiveness of financial support in encouraging social inclusion in skills and lifelong learning.

5.1 Financing mechanisms for individuals: Pros, cons, good practice

Various types of financing mechanisms exist that aim to encourage disadvantaged individuals to participate in skills training and lifelong learning, including: grants (scholarships and bursaries, vouchers, training subsidies, stipends and other allowances, conditional cash transfers, cost-reimbursement and individual learning accounts); tax incentives; subsidized loans; tuition fee mechanisms; production with training; and education and training leave.

The pros and cons of these various mechanisms in relation to how useful they typically are for disadvantaged and marginalized persons is noted in table 8, along with a summary of good practice measures.

► Table 8. Financing mechanisms for individuals that aim to encourage social inclusion in skills and lifelong learning

Mechanism		Pros	Cons	Good practice
All mechanisms		<p>Address (in full or in part) the financial barriers to participating in skills and lifelong learning.</p> <p>Can be designed to reach specific categories of disadvantaged persons (for example, low-skilled persons, people with low income, the unemployed, women, people with disabilities, rural populations and workers in informal enterprises).</p>	<p>While financial mechanisms can go some way to promoting social inclusion in skills, financial instruments alone are clearly an insufficient approach to reach some disadvantaged groups; non-financial support is also usually required.</p> <p>Lack of knowledge among beneficiaries on financing mechanisms available along with lack of information on labour market demand and limited career guidance reduces the impact of financial instruments.</p>	<p>Clear selection mechanisms and eligibility requirements are needed to reach specific disadvantaged social groups.</p> <p>Needs to be accompanied by non-financial mechanisms that address issues and participation barriers specific to particular categories of disadvantaged person.</p> <p>Providing career guidance support to individuals can help them make more informed decisions about what courses to take and what financial incentives would be most relevant for them to apply to.</p> <p>Careful monitoring is needed to understand who is and who is not benefitting in a particular context.</p>
Grants	Scholarships	<p>Where scholarships cover 100 per cent of costs (and some or all indirect costs), these can be truly transformational for disadvantaged persons.</p>	<p>Might be captured by the non-poor where scholarships are not 100 per cent and/or indirect costs are not covered, and the remaining financial commitment remains high relative to the ability of disadvantaged persons to pay.</p> <p>Untargeted scholarships often result in deadweight loss (students who could have afforded to pay will end up benefitting from the scholarship).</p>	<p>For merit-based scholarships, selection criteria need to account for prior disadvantage in educational attainment.</p>

5. Conclusions and recommendations

Mechanism		Pros	Cons	Good practice
Grants	Vouchers and training subsidies	<p>Can be an effective way to stimulate the purchasing power of marginalized individuals.</p> <p>Can help stimulate competition among training providers to better meet needs of disadvantaged persons (where individuals have a choice of provider).</p> <p>Vouchers are administratively light at the personal level.</p>	<p>Where voucher only covers direct cost of training, disadvantaged persons may still be unable to take up training opportunities if they are unable to cover the indirect costs of training (for example, lost income, transportation and accommodation).</p> <p>Untargeted vouchers often result in deadweight loss (beneficiaries who would have paid for the training in the absence of the financial incentive will end up benefiting from the untargeted voucher).</p> <p>To be effective, voucher schemes also expect a certain level of capacity of individuals to make use of the vouchers.</p>	<p>Intermediary organizations can often be a good way to reach the disadvantaged (for example, informal sector associations).</p>
	Individual learning accounts	<p>Provide working-age people with a budget for training to improve their skills and employability throughout their lives, regardless of whether they are actually employed or not.</p> <p>Give individuals more freedom to make training decisions affecting their own future (beyond their current employer).</p> <p>Unused resources remain the property of the funding agency.</p>	<p>Where individual learning accounts are open to all, the evidence suggests that the least skilled are less likely to participate.</p> <p>Where there are requirements for individuals to co-finance training costs (direct and or indirect), this may inhibit participation of disadvantaged groups.</p>	<p>Set criteria for whom the individual learning accounts are being aimed at (so that higher income and higher-skilled persons don't end up capturing most of the benefits).</p>
	Individual savings accounts for training	<p>Give individuals more freedom to make training decisions affecting their own future (beyond their current employer).</p> <p>Unused resources remain the property of the individual.</p>	<p>Where there are requirements for individuals to co-finance training costs (direct and/or indirect), this may inhibit participation of disadvantaged groups.</p> <p>May not be a useful mechanism for those who are already struggling with the daily or weekly cost of living and who may be able to save very little, if anything.</p>	<p>Assess the ability of disadvantaged groups to be able to provide co-financing.</p>
	Stipends / allowances	<p>Help disadvantaged trainees overcome financial accessibility barriers associated with the indirect costs of training participation.</p>	<p>In some cases, providing stipends and allowances can result in this being the motivation for an individual taking the training, rather than training itself.</p>	<p>Successful schemes have clear criteria-based selection processes, and a transparent way for the stipends / allowance to be paid.</p>

Mechanism		Pros	Cons	Good practice
Grants	Conditional cash transfers	Payment contingent on actual behaviour of an individual (for example, attendance at training) can be an incentive.	Such a mechanism may be administratively costly due to the monitoring required.	Close monitoring of which individuals do and do not meet the payment requirements is needed.
	Cost-reimbursement	The mechanism pays based on the completion of the training, incentivizing participants to complete the full course.	Disadvantaged individuals are asked to pay for the direct and indirect costs of training upfront, which may not be possible for them. May be administratively difficult to obtain re-imbursement unless procedures are very straightforward.	Ensure that re-imbursement procedure is very straightforward and is not contingent on the recipient having a bank account, for example.
Tax incentives		Often associated with a low level of administrative burden, contrary to subsidy-based approaches. For example, the existing personal income tax system can be used to administer this.	Not relevant to unemployed or inactive individuals, or to workers in the informal economy who don't pay tax anyway. Costs supported may only be direct (for example, course fees), so will likely be more beneficial to the non-poor. If the tax incentive is open to all, there is a possibility that many individuals (especially those who are already highly qualified) would have paid for the training anyway. Tax benefits can only be realized later in the tax year, while the costs of skills training investments are incurred up-front.	Simplicity in application process.
Subsidized loans		Income-contingent loans mitigate the risk of the individual earning a low income after course completion and being unable to repay the loan. The state is able to recover some or most of the loan amount (depending on repayment rate, level of subsidy and other factors).	Largely unavailable to those working in the informal economy, or to other disadvantaged individuals without a bank account, without (good) credit history, or those unable to navigate the application process. Risk-averse individuals, including disadvantaged and marginalized people, and those with low-skill levels may be less likely to take up loans that they see as increasing their debt. If untargeted, experience shows that more educated individuals would end up capturing much of the benefit of such loans.	Application process needs to be as simple as possible. Income-contingent loans are better suited for disadvantaged persons, especially when blended with well-targeted grants.

5. Conclusions and recommendations

Mechanism	Pros	Cons	Good practice
Tuition fees	Tuition fee mechanisms are administratively light at the personal level.	<p>Where measures are not targeted they can dilute, if not outright subvert, their effectiveness in reaching equity objectives.</p> <p>Tuition fee policies (free or heavily-subsidized fees) at secondary TVET level that fail to recognize prior disadvantage in educational opportunities will often widen inequalities.</p> <p>Totally fee-free courses can sometimes lead to less commitment and motivation of learners.</p>	<p>The level of tuition fee subsidy (partial up to 100 per cent) should be based on an assessment of local context, including peoples' ability to pay and motivation levels.</p> <p>It is usually better to link tuition fee subsidy to some selection criteria so that those that need support most are the ones that get it.</p>
Production with training	Gives trainees the opportunity to earn a stipend or lunch allowance in return for supporting a production activity organized by the training provider.	<p>The balance between training and production needs to be maintained to ensure that the trainee is exposed to covering issues in the wider curriculum and not only limited to practical training linked to live orders.</p> <p>Unless there is a full-time production unit or other income generating venture, disadvantaged students relying on this approach to get a stipend or lunch allowance will find their situation unpredictable.</p> <p>Another downside is that it might create "false" competition with local businesses.</p>	A full-time production unit can offer students the opportunity to access a predictable source of lunch allowance or daily stipend.
Education and training leave	Employees are able to pursue training and still have their job to go back to on completion. Some firms offer paid leave.	<p>Some firms will not offer paid leave and disadvantaged persons may be unable to undertake training on an unpaid leave.</p> <p>Mechanism is not relevant to unemployed or inactive individuals, or to workers in the informal economy.</p>	Firms should be encouraged to offer paid education and training leave, and to support with transportation allowance where relevant.

5.2 Financing mechanisms for training providers: Pros, cons and good practice

Various types of financing mechanisms exist for training providers as a means to encourage disadvantaged individuals to participate in skills training and lifelong learning, including: contracted training provision; targeted procurement; performance-based contracts; and one-off funding. The pros and cons of these various mechanisms in relation to how useful they typically are for disadvantaged and marginalized persons is noted in table 9, along with a summary of good practice measures.

► Table 9. Financing mechanisms for training providers that aim to encourage social inclusion in skills and lifelong learning

Mechanism	Pros	Cons	Good practice
All mechanisms	n/a	n/a	The voice of employers and potential learners in the governance of such funding mechanisms can be beneficial.
Contracted training provision	The most common and most straightforward approach to train disadvantaged groups. The funding agency can clearly specify the social group (for example, unemployed youth who are at least 50 per cent female, people with disabilities, and workers in informal micro-enterprises) and the number of individuals expected to be trained.	Almost all such contracted provision perpetuates a focus only on enrolment and (sometimes) on completion, rather than also on post-training outcomes including employment.	Contracted training provision that makes specific mention of certain inclusion-related metrics (for example, proportion of enrolled trainees who have disabilities, who are from rural areas and who are female).
Targeted procurement	Can incentivize training providers to be more socially inclusive.	More administrative work during the procurement phase and potentially the need to verify the claims made by applicant training providers. Good monitoring and evaluation and quality assurance checks are required to ensure that what was promised is delivered.	Use a competitive bidding process to contract public and/or private training providers, with procurement criteria giving some weight to inclusion.

5. Conclusions and recommendations

Mechanism	Pros	Cons	Good practice
Performance-based contracts	<p>Helps to align incentives (payments) with desired performance (for example, disadvantaged individuals trained and earning an income).</p> <p>Can be set up as either:</p> <p>i) primarily an outcome-based arrangement where training providers are paid the majority of funds when trainees complete training and are earning an income; or</p> <p>ii) primarily an output-based arrangement where training providers are paid the majority of funds based on trainee attendance and on completion of the training.</p>	<p>As results are usually verified by a third (independent) party, this adds to cost and administrative load.</p> <p>Good monitoring and evaluation and quality assurance checks are required.</p> <p>Higher administrative costs in following up after training completion.</p> <p>Some training providers may be unable to pre-finance the training and/or be unwilling to take the risk.</p> <p>Where alternative funding is available to training providers (including from government, development partners and NGOs) which is not using a performance-based contracting approach, the incentive to take part in such a financing approach is reduced.</p>	<p>Adapting the approach (for example, primarily outcome- or output-based) to the training provider context (for example, public/private, and ability of provider to pre-finance).</p> <p>Splitting payment into 2-3 tranches; for example, first payment midway through training, second payment on completion of training and taking national skill tests, and third payment X months after the training completion and based on the proportion in employment.</p> <p>Providing an additional incentive payment based on the type and number of disadvantaged persons reached (could also use differential pricing to reward training providers for various categories of hard-to-reach groups).</p>
One-off funding (Nationwide multi-year initiative)	<p>Multi-year initiatives give some funding predictability, at least for the duration of the funding.</p>		<p>Where the one-off grant is in support of a multi-year national strategy, there will be more coherence to the funding vis-à-vis a one-off grant made in the absence of a larger plan.</p>
One-off funding (to a single training provider)	<p>Can be an effective way to directly reach providers. Often there is a personal relationship developed between funder and training provider, which may lead to repeat grants.</p>	<p>Small-scale and may not be linked to national TVET objectives.</p>	<p>Provide basic information on national TVET priorities and objectives to trusts, NGOs and foundations that make such small grants, so that they can better align their local support with national agendas.</p>

5.3 Financing mechanisms for employers: Pros, cons and good practice

Various types of financing mechanisms for enterprises exist as a means to encourage disadvantaged individuals to participate in skills training and lifelong learning, including: training levies; grants and subsidies to enterprises; tax incentives to enterprises; targeted public procurement; and funding to intermediary organizations.

The pros and cons of these various mechanisms in relation to how useful they typically are for disadvantaged and marginalized persons are noted in table 10, along with a summary of good practice measures.

► Table 10. Financing mechanisms for employers that aim to encourage social inclusion in skills and lifelong learning

Mechanism	Pros	Cons	Good practice
Training levies	Levy-financed training funds are sometimes set up to generate revenue to fund training programs for non-levy paying firms. In these cases, they sometimes have the specific objective to reach disadvantaged groups (but it does not always follow that they successfully achieve this).	<p>Most (but not all) training levies are not designed with inclusion in mind, but rather with the objective of increasing overall training.</p> <p>Revenue-generating mechanisms are sometimes simply used to subsidize initial public TVET offerings in an untargeted way (which will have marginal impact on inclusion).</p> <p>Employer-reimbursing mechanisms usually do not benefit small firms, especially non-levy-paying small firms and those in the informal sector.</p>	<p>Having clear legislative backing for part of the collected levies to further a social agenda.</p> <p>A clear allocation of part of the collected levies to an equity ‘funding window’ within the training fund, or to a separate national equity fund.</p> <p>Mechanisms that provide additional incentives to train low-skilled or other disadvantaged workers.</p> <p>Mechanisms that allow non-levy payers to directly benefit from reimbursement for training costs incurred.</p> <p>Mechanisms that provide funds to intermediary organizations (for example, employer organizations) can be more effective at reaching micro- and small firms.</p> <p>Revenue-generating mechanisms that are used to fund specific training programmes for unemployed or other disadvantaged persons.</p> <p>Making enterprises (especially small ones) aware of available incentives offered.</p>

5. Conclusions and recommendations

Mechanism	Pros	Cons	Good practice
Grants and subsidies to enterprises	<p>Can be a simple mechanism to encourage firms to train disadvantaged workers.</p> <p>Lower the costs to employers of providing work-based learning (including apprenticeships) to disadvantaged people.</p>	<p>Blanket or untargeted grants often results in deadweight loss (grants given to persons who would have been able to pay for the training anyway)</p>	<p>Target incentives at specific groups (for example, apprentices, older workers, rural workers, workers with disabilities) rather than provide a blanket incentive.</p> <p>To better reach SMEs:</p> <ul style="list-style-type: none"> ▶ Target financial incentives to invest in training exclusively at SMEs. ▶ Offer larger incentives to SMEs compared to larger firms. ▶ Use differentiated training levy rates (SMEs pay less but have the same benefits as larger firms). ▶ Use simpler and more flexible application procedures for SMEs. <p>Provide administrative support (including via intermediaries) and/or state-subsidized consultancy to support SMEs to develop training plans and apply for funding.</p> <p>Support to SMEs needs to be accompanied by efforts for business upgrading/structural transformation to have them interested in investing and hence making use of financial incentives.</p>
Tax incentives to enterprises	<p>Often associated with a low level of administrative burden.</p>	<p>Not relevant to the majority of enterprises in the informal sector.</p> <p>Costs supported often linked to direct costs (for example, course fees) only, so will likely be more beneficial to larger firms and those that are already more likely to train lower-skilled workers.</p> <p>If the tax incentive is open to all, they tend to favour those who already have the best access (and are therefore not effective at promoting inclusion).</p> <p>Tax benefits can only be realized later in the tax year, while the costs of skills training investments are incurred up-front.</p>	<p>Target incentives at specific groups (for example, apprentices, older workers, rural workers, workers with disabilities), rather than a blanket incentive.</p> <p>Where blanket tax incentives are adopted, offer additional criteria-based subsidies to enterprises that train disadvantaged individuals.</p> <p>Use the existing income tax system to administer this mechanism.</p>

Mechanism	Pros	Cons	Good practice
Targeted public procurement	<p>Can encourage private contractors to invest in inclusive training.</p> <p>Can act as a way to add social value to existing public spending (for example, for construction works).</p>	<p>Contractors may see this as a social issue and one that they need an additional incentive to address.</p>	<p>Legislation to make it mandatory that public procurement includes a requirement that suppliers must offer certain types of training (usually apprenticeships) to certain disadvantaged groups.</p>
Funding to intermediary organizations	<p>Can help to reach enterprises that are harder to reach directly, including small and micro-enterprises and informal sector firms.</p>	<p>Intermediary organizations may still find it hard to reach certain disadvantaged groups. For example, employers' organizations may not represent informal sector enterprises.</p>	<p>Be clear about the type of disadvantaged worker that the financing mechanism is trying to reach and identify intermediary organizations with a proven ability to identify and to support such disadvantaged workers.</p>

5.4 Recommendations

Recommendation 1: Understand the root cause of the challenges that lead to the exclusion of disadvantaged and vulnerable individuals and social groups from skills development and lifelong learning. Inclusion in skills and lifelong learning can be effectively addressed through evidence-informed interventions that tackle the root causes of social exclusion among certain disadvantaged groups. Such interventions typically integrate both non-financial and financial mechanisms and their design needs to be informed by an understanding of the social, cultural, economic and other issues driving an individual's exclusion from skills and lifelong learning. For example, an adolescent from a low-income background might typically find it hard to pay training fees, hard to cover transportation costs and hard to forgo the daily income they might usually have earned. However, they will also likely suffer pre-existing social disadvantage that limits their further education and training, even if they could afford the direct and indirect costs; for example, most upper-secondary level TVET courses have formal educational entry requirements which many low-income individuals cannot meet. In such a situation, an integrated social inclusion approach that addresses direct and indirect financial costs as well as pre-existing social disadvantages would be needed.

From recommendation to action

Governments should ensure that they have an evidence-informed understanding of the root causes of social exclusion from skills and lifelong learning among disadvantaged groups in their country (for example, among unemployed young people, people with disabilities, people from rural communities and workers in the informal economy). Such an understanding can be gained through undertaking mixed-method (qualitative and quantitative) studies that analyses who is and is not found in the current skills system, and the financial and non-financial barriers to training that individuals face.

Recommendation 2: Undertake a national review of current financing mechanisms that aim to support skills development and lifelong learning and assess the extent to which they promote social inclusion.

Such a national review should be informed by the social objectives and priorities of the country and by an understanding of the challenges faced by disadvantaged and vulnerable groups (gained, for example, through the kind of study mentioned in Recommendation 1). The national review should seek to understand the extent to which the current financing mechanisms in the country are, or are not, benefitting such groups and how nonfinancial measures are, or are not, complementing these. The national approach should be compared with good practice approaches from comparator countries.

Some financing mechanisms are specifically established to address social inclusion in skills acquisition and lifelong learning; however, they sometimes only partly achieve this purpose or fail altogether. For example, a scholarship mechanism covering 100 per cent of tuition fees set up to attract academically proficient children from low-income backgrounds may still end up being captured by the less poor who have been able to secure quality education, or who are better able to pay the indirect costs of taking up such a scholarship (for example, transport, uniform and lunch costs in addition to foregone earnings). Another instance occurs wherein policymakers aim to increase accessibility for disadvantaged groups by introducing fee-free policies in public secondary-level TVET institutions. However, such approaches usually provide more benefits to students from richer households. This outcome obtains because fee-free policies for secondary TVET don't adequately address the fact that prior disadvantage in educational opportunities will result in unequal access at the secondary TVET level, which itself owes to the usual entry requirements associated with formal primary attainment.

Meanwhile, other financing mechanisms that currently exist to support skills and lifelong learning were not actually designed to promote inclusion but could be adapted to do so. For example, some financing mechanisms available to training providers have the objective to incentivize quality or the development of innovative, demand-driven courses. Similarly, training levies among employers usually have the objective to increase the overall incidence of training within a firm, or else to generate additional extra-budgetary funding for initial TVET. While exceptions exist, such approaches usually don't also address social inclusion as an objective. However, many of these financing mechanisms can be adapted to include a focus on social inclusion (see further below for illustrations of how this could be done).

From recommendation to action

A review of existing financing mechanisms should look at those that are available to individuals (for example, grants, tax incentives, loans, tuition fee approaches and training leave); training providers (for example, contracted training provision, targeted procurement, performance-based approaches and one-off funding); and enterprises (for example, training levies, grants and tax incentives). The review should describe the mechanism and its current objectives, and assess its efficiency and effectiveness in supporting inclusion in skills and lifelong learning. Such a review needs to be informed by an understanding of the root causes of social exclusion from skills and lifelong learning of particular individuals or groups (see Recommendation 1) so that it is better placed to make suggestions on how to adapt financing mechanisms, and what kinds of non-financial mechanisms are needed to complement them (e.g. support to prior educational disadvantage or the presence of female-friendly infrastructure for individuals).

Recommendation 3: Ensure that sufficient, quality and regular data are collected on the identity and location of disadvantaged and vulnerable social groups. Such data are needed during both the design and the monitoring and evaluation phases of any intervention that aims to reach such groups. Good practice suggests that financial mechanisms tend to be more effective at reaching disadvantaged persons – either directly, via training providers, or via their employers – when selection criteria explicitly focus on disadvantaged social groups. By contrast, untargeted (blanket) financing mechanisms, such as fee-free TVET for all or untargeted voucher mechanisms, can be more inefficient instruments, and these incentives risk getting captured by more educated, less poor individuals, and can result in deadweight loss (beneficiaries would have paid for the training anyway in the absence of the financial incentive). For targeted financial mechanisms to be implemented, more and higher-quality data on the social composition of (potential) trainees are needed. Without such data, implementing agencies don't have enough information on who they are trying to reach, where they are or what range of challenges they face.

From recommendation to action

Policy makers should ensure that there are regular national household surveys undertaken to identify marginalized groups, including the geographical areas in which they are located, and the extent to which certain groups are represented in the general population of a country or locality.

Recommendation 4: Strengthen monitoring and evaluation so that implementing agencies can confirm that they are reaching those individuals who they intend to reach, and that the financial incentive offered has resulted in greater inclusion in skills and lifelong learning. Without this, implementing organizations run the risk that their intervention is not achieving the desired results and not reaching the desired recipients.

From recommendation to action

Once interventions have been designed, data needs to be collected on the number of individuals being reached, and disaggregated to a sufficient level so that it is clear who is being reached (for example, disaggregating data by gender, by disability, by income, by ethnic group and so on.). Such data should be compared with the national or local incidence of poverty, of disability and other factors, so that it is known whether an intervention is reaching less or more than the national and local rates. For example, if the incidence of poverty (as defined by a national poverty line) among secondary-age adolescents in a particular locality is 20 per cent, and it is known through M&E efforts that 5 per cent of students in a secondary-level vocational training programme in that same locality are living in poverty, affirmative action efforts may be needed to attract more such students.

Recommendation 5: Improve awareness of financial incentive schemes and labour market information among disadvantaged persons, and improve awareness of such incentive schemes among firms and potential intermediary organizations. A lack of information about financial incentive schemes that promote social inclusion (including their existence, eligibility requirements and application processes) may result in disadvantaged individuals, training providers and firms never applying or making mistakes in the application form causing it to be rejected. A lack of information about labour market demand and career guidance could reduce the impact of such financing schemes where, for example, an individual selects a training course for which there is very low market demand

In Scotland, for example, information about Individual Training Accounts (voucher-like mechanisms) is embedded in an online careers portal which provides career advice information and support, information on learning opportunities and on alternative funding sources. Similarly, in Flanders (Belgium) a voucher scheme targeting individuals integrates the provision of career counselling services.

From recommendation to action

Organizations implementing financing schemes aimed at improving social inclusion in skills and lifelong learning need to invest in clear communications approaches that are suitable both for the disadvantaged individuals and social groups directly, but also inform firms and other intermediary organizations of available incentives, so that they - in turn - can identify and reach out to disadvantaged individuals and social groups. Approaches that specifically provide a joined-up package of support to such people – for example, by linking financial mechanisms to careers guidance can be more effective.

Recommendations related to financing mechanisms available to individuals

Recommendation 6: Reach disadvantaged individuals directly via grants (specifically, means-based scholarships and other awards), as well as training vouchers, subsidies, allowances or tuition fee approaches. Disadvantaged individuals may not be in a position to co-finance direct or indirect costs linked to training and may be unable or risk-averse to any mechanism that involves repayment. Evidence suggests that properly designed voucher schemes and subsidies for individuals can function as an effective tool to support social inclusion in skills and lifelong learning. While fee-free training is a common approach adopted among skills training interventions that aim to support disadvantaged individuals, there is some evidence that asking for a partial fee contribution from participants helps to improve course completion. However, this needs to be weighed against other evidence which finds that co-financing requirements can exclude the poor.

From recommendation to action

Grant approaches that aim to reach disadvantaged and vulnerable individual and social groups need to be designed with clear selection mechanisms, so that such persons end up being the ones benefitting.

Where grant mechanisms are used, policy makers need to determine whether these should cover both direct or indirect training costs, or direct costs only, and if they should cover 100 per cent of costs or a proportion thereof. Such a decision needs to be informed by evidence of the ability of intended recipients to cover any associated indirect costs and/or their ability to cover the remaining percentage of costs (where a mechanism is not 100 per cent).

In voucher schemes where vouchers are given directly to individuals, there is an assumption that these individuals have a certain level of capacity to make effective use of the vouchers (for example, selecting a training provider and course that is most relevant to them and in an area in which they have a good chance of working). Career guidance support may be needed to help inform such persons.

[Continue on the next page ►](#)

Tuition fee approaches – to charge or not to charge fees – need to be informed by an understanding of the local context, including the ability of intended beneficiaries to contribute, and the likely effects fee-free training may have on trainee motivation and course completion.

As with other financial instruments, grant mechanisms – even if they cover 100 per cent of direct and indirect costs – may still be an insufficient way of addressing challenges faced by some disadvantaged groups (for example, availability of training providers and formal education prerequisites to access some training).

In countries with large informal economies, using means-based approaches may be more difficult in the absence of formal financial data on individuals.

Recommendation 7: Lending (loan-based) approaches for disadvantaged individuals should also be considered, so long as they are designed in such a way as to support and reassure debt-averse low-income individuals. One approach to doing this, for instance, could be by using income-contingent pay back approaches, where loan repayments (when they start and how much is paid back) depend on the loan recipient earning more than a minimum threshold income following their training (for example, if they are unable to find work or to find work that pays below this income threshold, their loan repayment is postponed or may be cancelled after a specified period if an individual never earns above that threshold).

From recommendation to action

To design an income-contingent loan scheme, policy makers need to determine, among other things, the application process, the level of income at which repayments should start and how payments should be collected. Application processes need to be as simple as possible. Affordability levels would need to be informed by evidence on average costs of living in certain areas, among other factors. Repayment mechanisms that make use of existing systems, such as tax or social security payment mechanisms, would reduce costs. Loan-based mechanisms are much less suitable for workers in the informal economy due to the difficulty in determining income levels and in repayment approaches.

Recommendations related to financing mechanisms available to training providers

Recommendation 8: Expand the use of performance-based contracts with training providers, as well as procurement and contracting approaches that explicitly take into account social inclusion. Training interventions in several countries have demonstrated the value of performance-based contracts and how they can incentivize training providers to better include and retain disadvantaged persons. For example, an impact evaluation of the Nepal Employment Fund found large, positive and statistically significant effects on the labour market outcomes for Employment Fund trainees. Procurement and contracting approaches that consider specific social inclusion targets or criteria can also be effective and tend to require less technical capacity (compared to performance-based contracts) on the part of those implementing them.

From recommendation to action

In order for performance-based contracts to be designed and implemented effectively, policy makers should ensure that adequate monitoring and evaluation mechanisms are in place. This is so that agreed “performance” metrics (for example, percentage of people with disabilities completing the training) can be verified (preferably independently of the provider responsible for delivering the training). As such, performance-based contracting may not be suitable for low-capacity contexts.

Procurement and contracting approaches that consider specific social inclusion targets are more straightforward to operationalize. For example, training providers applying for grants to train beneficiaries might receive a higher score during the procurement process if they provide details of their intended vulnerable beneficiaries and their targeting strategies in their proposals.

Recommendations related to financing mechanisms available to employers

Recommendation 9: Encourage formal sector enterprises to train their more disadvantaged workers using grants, tax incentives or levy-related incentives. For example, grant or tax incentives could be offered to employers who take on apprentices from nominated equity groups (for example, low-skilled, mature-aged, rural and disabled persons). In countries with levy-financed training funds, levy-paying employers could be offered higher reimbursement rates when they train workers from a disadvantaged category.

From recommendation to action

The eligibility and selection criteria for grant and tax-based incentives should be clearly specified, such as the types of workers within firms that enterprises can access support to train (apprentices, older workers, rural workers, workers with disabilities and low-skilled workers, for instance).

Where levy-financed training funds exist, incentives could be provided to firms to train low-skilled or other disadvantaged workers (for example, a higher rate of reimbursement of training expenses), or non-levy paying firms training disadvantaged workers could be allowed to directly benefit from reimbursement for training costs incurred.

For micro- and small enterprises in the formal sector, other approaches may be more suited (see Recommendation 10).

Recommendation 10: Establish specific approaches to encourage micro- and small enterprises (MSEs) in the formal sector to invest in their disadvantaged workers. It is known that MSEs tend to train their workers less than larger firms and dedicated approaches are needed to address this.

International practice illustrates that MSEs can be reached through several approaches, the choice of which should be determined by country context. One way to do this is for financial incentive schemes to be aimed at intermediary organizations, including larger firms, for them to train MSEs. A second approach is where financial incentives to invest in training are open to firms of all sizes, but larger incentives are offered to MSEs. A third approach is giving MSEs preferential treatment where levy-financed training funds exist; this could be by requiring MSEs to pay a lower levy rate (or making them exempt from any levy payment), but still offering them the same – or better – rights to access training grants and reimbursement. A fourth approach, which also cross-cuts the previous three, is by allowing MSEs to follow simpler and more flexible application procedures, and/or by giving their applications priority.

From recommendation to action

To determine the most efficient and effective approach to encourage MSEs in the formal sector to invest in their disadvantaged workers, a solid understanding of the MSE sector in a particular country is needed, especially regarding constraints and barriers that may be faced concerning training, as well as the sector's prior experience with financing instruments. For example, where there is no or limited prior experience from MSEs in applying for funds directly, it could be more sensible to work with intermediary organizations.

Recommendation 11: Reach enterprises in the informal sector by channelling financial incentives via intermediary organizations. Informal sector enterprises are usually harder to reach directly. Intermediary organizations can include employment services, workers' organizations, employer organizations, business service providers, training providers and informal sector associations. Intermediary organizations are usually invited to respond to a call for proposals from a funding body, with the call specifying the target group (e.g. informal micro-enterprises in the service sector, or household-based informal enterprises) and expected number of individuals or informal enterprises to be reached.

From recommendation to action

Intermediary organizations could either be provided the incentive directly, so that they reach out and provide relevant training to enterprises in the informal sector, or such intermediaries – especially informal sector associations – could be used to reach their members to distribute training vouchers for the informal firms to use themselves.

Recommendation 12: Use levy-financed training funds to support a more social agenda, for example by allocating a proportion of the collected levies to be used to fund training that promotes equity and inclusion. This could be done either by a proportion of collected levies being used to fund a separately governed ring-fenced equity fund, or by requiring a percentage of collected levies to be allocated to fund social training activities within the same training fund.

From recommendation to action

Dialogue with social partners (especially employers paying the levies) is essential for such a move to be accepted. Making such changes to the distribution of collected levies would require significant dialogue with levy-paying employers and a fully transparent approach, even if it is subsequently mandated through legislative or regulatory changes.

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► **Financing mechanisms for promoting social inclusion in skills and lifelong learning systems: Global overview of current practices and policy options**

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The report analyses pros and cons of practices around the world, shedding light on the policy options to improve access to and participation in skills development and lifelong learning of disadvantaged people.

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