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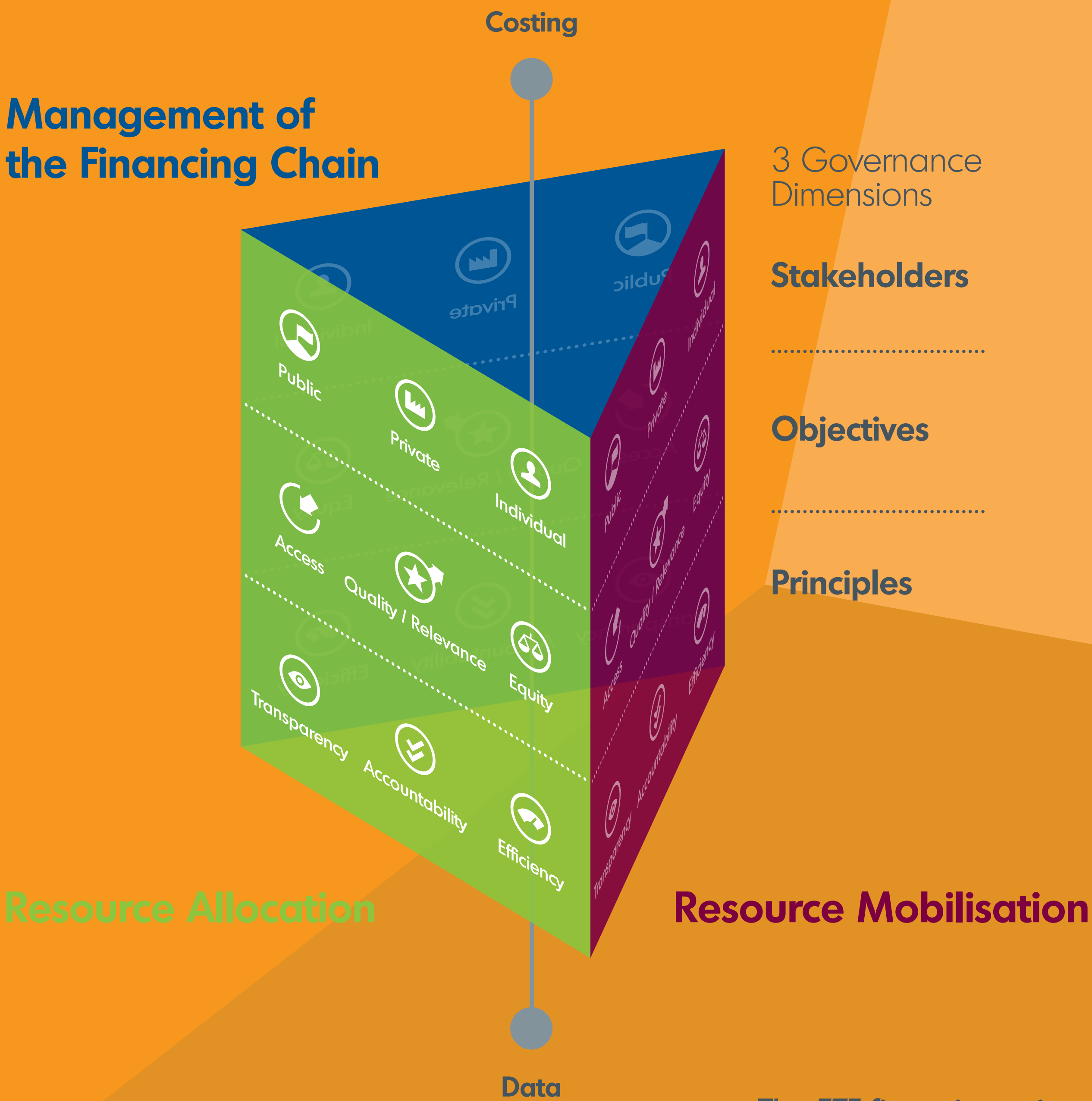
Financial incentives for companies

A policy guidance note on reforms in vocational education financing

This note explores financial incentives targeted at companies to increase their engagement in vocational education and training. It is illustrated by case studies from Austria, Ireland and France.



The ETF financing prism

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Preface

ETF support to vocational education financing

All public policy depends on financing to meet the fundamental requirements of affordability and sustainability. The structure of public policy financing determines how resources are collected, allocated, and managed, and is therefore central to good governance. Within the field of human capital development, financing is one of the factors that shapes vocational education and training (VET) systems and their performance, as well as being an enabler of ambition in VET policy. In many countries around the world, VET is seen as an increasingly important factor in employment, productivity, and international competitiveness. As that importance grows, so will questions about VET financing, especially in light of the complex stakeholder environment and overlapping government accountabilities which can lead to VET being viewed as a relatively expensive part of the education system.

The ETF has been studying financing for several years, as part of its wider remit in VET governance. In 2018 the ETF published a Position Paper – *The Financing of VET and Skills Development: A Policy Area for ETF Support*[1] – with an emphasis on moving away from a technical view focused on monetary and resourcing aspects, to a holistic policy-oriented vision. To this end, the ETF is developing a series of tools to contribute to country-based policy analysis, advice, and institutional capacity building.

The main users of these tools are policy makers and VET experts in ETF partner countries. They will also be of interest to international VET experts and the wider education reform and development assistance communities. The ETF developed a methodology called the ETF Financing Prism[2] both to guide analytical efforts, and structure social dialogue. This methodology offers a comprehensive, holistic approach to financing, anchored in VET policy objectives, and taking the governance setting into account. The prism is a geometric model which captures the interrelated aspects of VET financing policy, allowing issues to be examined through the three key aspects of resource mobilisation, resource allocation, and management of the financing chain. The prism rotates on an axis with 'data' at one end, and 'costing' at the other, to ground reform efforts in the realities of their inevitable costs, and the need for data throughout the policy cycle to inform decision-making.

The ETF is also producing policy guidance notes to help partner countries develop specific financing instruments. Following the logic of the prism, each note explains the policy issues at stake behind a particular financing instrument[3], the possible modes of implementation, and critical points for consideration and success. They also include case studies from EU Member States.

[1] See www.etf.europa.eu/web.nsf/pages/Financing_VET_and_skills_development
[2] See www.etf.europa.eu/en/publications-and-resources/publications/guide-etf-financing-prism-tool-policy-dialogue-financing
[3] The first policy guidance notes, published in 2018, cover the following instruments: formula funding, financial incentives for companies (the topic of this note), and training levies.

About this policy guidance note

Both governments and companies have an interest in ensuring that VET students, as future employees, are trained in relevant skills, or that current employees meet new or additional skills requirements. These demands are increasingly managed through partnerships and shared financing mechanisms. This note provides a policy framework for financial incentives that the State may set up to foster such partnerships and encourage companies' engagement in vocational education and training.

It is illustrated by case studies from Austria, Ireland and France. The cases show how the design of incentives depends on policy makers' aims, the existing institutional structure, and perceptions of companies' role in VET financing.

Defining financial incentives and their objectives

A financial incentive is defined in the business world[4] as 'a monetary benefit offered […] to encourage behaviour or actions which otherwise would not take place.' When applied to VET, it can be used as a State policy instrument through which a benefit is defined and offered to companies to encourage behaviours and actions in relation to training.

There are four main types of incentives for companies' engagement in training:

1. grants involving a transfer of money or in-kind support from the State to the companies;

2. tax relief enacted by State regulation using the corporate tax or social security system, resulting in a monetary benefit for companies;

3. regulatory interventions by the State to address market imperfections, through guaranteeing access to loans; and

4. other types of encouragement provided by the State to companies, not related to monetary aspects (e.g. preference in State procurement processes, or the use of awards ceremonies to create public recognition).

Incentives can be 'stand-alone', or linked to financial instruments such as levy-grant schemes or training funds. Financial incentives may be the main lever to secure enterprise investment in VET, or part of a wider repertoire of policies targeted at VET or business development.

The first two types of incentives are the most commonly considered by ETF partner countries and form, therefore, the focus of this note.

[4] See www.businessdictionary.com/definition/financial-incentive.html

Main connection to the ETF financing prism

Financial incentives cross all facets of the ETF Financing Prism. Designing financial incentives for companies' investment in VET primarily addresses the Resource Allocation facet of the Prism, as incentives are largely a means to allocate resources to enterprises. Financial incentives can be used to encourage rather than mandate VET investments, and they can operate in lieu of formal regulation and governance structures, i.e. within a private market. They can be used within existing policies to improve Resource Allocation, for example by linking the distribution of a training fund to specified priorities.

There can also be implications for Resource Mobilisation, from two perspectives. If incentives are anchored in the taxation system, for example through levy-grant schemes, it may lead to a reduction in tax revenue. On the other hand, incentives help the State share the responsibility and associated cost of training with companies. They can operate alongside existing policies to incentivise Resource Mobilisation. Finally, financial incentives also relate to the third facet of the Prism, Management of the Financing Chain, at two levels: First, in their design, implementation, and monitoring, which are expected to be conducted in partnership with companies' representatives; and second, as noted above, because incentives are often channelled through training funds.

Institutional and political choices determine their design and operation and the precise interaction of each incentive with the Prism.

Executive summary

Main issues for social dialogue

1. What are the policy objectives?

Defining policy objectives from the outset is essential for effective performance measurement, and objectives should be discussed and agreed with social partners. General objectives include recognising current VET investment by enterprises and incentivising them to do more. Specific objectives are defined against the final beneficiaries and type of training favoured, such as ensuring VET students are equipped to meet employers' needs, or supporting unemployed people into work.

2. Who is targeted?

Target groups will be identified in the process of articulating objectives, and then refined based on attributes such as number of employees, profit, economic sector, or location. Delivering incentives through the tax system may exclude start-ups or restructuring firms who are not currently reporting a profit, or employers in the informal sector. Within targeted groups, incentives can be universal or limited to certain types of company, beneficiaries, or types of training. In Austria, the incentives described are universal and applicable to pre-defined training activities. In Ireland, the incentives sit within a set of local economic and enterprise development policies; in France, they are among priority policies to improve apprenticeship placements. In each case, enterprises receive a financial reward or cost offset for specific actions.

3. What type of incentive?

Once objectives and target groups are identified, policy makers can consider the different types of incentive. In offsetting part, or all, of training costs, both direct and indirect costs are in scope, including purchasing, procuring, and providing training; and absorbing lost productivity, travel time, and subsistence claims, respectively. There are also potential recruitment, salary, and social security costs associated with trainees, including apprentices and interns. In Austria, the incentives distinguish between type of cost, but not between type of employee engaged in training. In Ireland, training grants are linked to business development and skills needs. In France, the incentive schemes prescribe the financial benefit of employing an apprentice, and the penalties for not doing so. Eligibility and application criteria must be determined to make it clear on what basis an incentive can be activated, and what monetary benefit is offered. As noted, the focus in this document is on training grants and tax reliefs.

Grants can include payments to an enterprise to purchase training, usually paid directly to the training provider or as part of a public-private co-financing mechanism. Tax reliefs can include tax exemptions or allowances, tax credits, or tax deferral. Each tax relief method involves the consideration of numerous factors, such as varying the proportion of direct and indirect costs to be met, scaling to allow a range of tax deduction according to recipient characteristics. Additional consideration needs to be given to a range of other factors, including the different payment timings for grants and tax reliefs (in advance or in arrears); time limits, such as defined apprenticeship periods; and instances of offsetting at greater than 100% of costs.

Policy process: From discussion to decision

Recommendations for effective policy content design

1. Identify the place of incentives within the existing VET financing system and/or the public policies concerned, and how they align with related policy instruments.
   The introduction of financial incentives will interact with existing fiscal and financing public policy in general, and VET financing in particular, as well as with public policies supporting business development. There will be consequences beyond the enterprise sector, including potentially unintended and unwelcome areas such as pushing up the price of training. Crucially, the design of the incentive scheme should match with policy objectives, and careful consideration must be given to pre-requisites for introducing the scheme, such as whether new legislation is required and, in the case of training levy grants, whether a budget appropriation is necessary.

2. Make the use of incentives simple for the targeted enterprises.
   Aim to strike a balance between the size of the incentive and the application and reporting requirements, to keep the incentive simple to use. Otherwise it may deter the very groups the policy seeks to target.

3. Keep the management of incentives simple for the public authority in charge.
   Government will incur costs for administering any scheme. Again, aim to strike a balance between the value of the intended outcomes and the administrative costs. A tracking and monitoring procedure will be necessary for any type of incentive, but must be appropriate to the method of disbursement, whether through the tax and social security system or the routes for grant-giving.

Recommendations for policy process to achieve sustainable design

4. Promote coordinated decision-making for joined-up policy.
   Financial incentive schemes involve considerable overlap among the responsibilities of different line ministries, as well as the diverse interests of private sector representatives. This is particularly the case where incentives are linked to training taxes or levies. Coordinating policy decisions will ease the implementation of the scheme and will make measuring the impact of incentive schemes more viable.

5. Allow for tailoring of incentives at local level.
   Government and social partners operate across different levels, and where possible solutions should be tailored to local economic conditions. Applying the principle of subsidiarity will help; those functions which can be performed at local level, should be. Which means that the general scheme for incentives could be left to local adaptations according to specific constraints or needs for companies.

Finding the right mix

Each option, or combination of options, has advantages and disadvantages and attracts risk, so it can be helpful to examine indicative pros and cons of different options. In light of these factors, decision-making will benefit from a 'reality check' on policy intentions – as well as from checking the reality of the existing situation on the ground. Answering the imperative of establishing a transparent policy dialogue framework from the outset can avoid duplication, misunderstandings, and mistrust later. The right scheme will be both proportionate and affordable, and will involve regular review to determine if the incentive is sufficient to motivate enterprises' engagement in VET, and whether the incentive is fit for purpose – as noted above, it must be adequate to generate the intended beneficial actions and related social outcomes without creating onerous administrative complexity, leading to inefficiencies.

Key success factors

A successful incentive policy requires clarity of purpose – is it clear what should be achieved? And is that adequately defined in the policy design? The objectives ought to specify the additionality that is sought – is it more enterprise expenditure on training? Or more VET trainees? The balance of agreement across levels of governance is crucial; from the national, regional, and local authority levels to the range of social partners. The fit in terms of institutional and regulatory structures is also key. Are administrative, budgetary, or legal changes required?

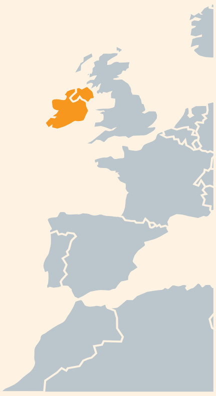
Transparency about the likely risks is required, as incentives can lead to market distortion. There is always a possibility of some actors 'gaming' the system, and undesirable outcomes can occur even when everyone acts in good faith, for example if apprenticeships displace regular recruitment, or the already well-qualified gain most from the incentive. Similar clarity is needed about what an incentive policy can and can't achieve, which will depend on many context-specific factors. Finally, steps must be taken to ensure that measuring the impact of the incentive can be done consistently and fairly. The lack of evaluative studies and, therefore, definitive assessments of the effectiveness of incentives, remains a problem.

Case study 1: Austria

This case study describes two incentive schemes which introduced tax deductions and credits for enterprise training, in 2000 and 2002 respectively. Having operated these incentives for over a decade, with an increase in the credits and allowances claimed, the government rescinded them in 2016. In terms of their design and operation, consideration was given to balancing the level of incentive with administrative cost, both for government through the use of the existing corporate taxation system, and for the enterprise through the use of tax returns. Other important factors included enterprise eligibility through the choice of either a tax deduction or tax credit, training type (whether purchased from accredited providers, or delivered in-house), and the inclusion of direct and indirect training costs. The introduction of the incentives was based on an estimated tax revenue loss of around EUR 22 million. However, take-up was higher than anticipated, leading to nearly 50% greater lost revenue than predicted. And whilst the evaluation acknowledged that the incentives were successful in terms of take-up, they were criticised for generating deadweight and benefiting higher qualified employees.

The purpose of the incentives was to stimulate additional training at enterprise level, rather than create windfalls for existing expenditure. Moreover, the incentives were heavily promoted by providers, raising the question of whether the schemes offset enterprise costs or merely inflated prices. The incentives were not reformed or replaced by any other measure at federal level, although a range of more targeted grants and other incentives continues to be in place regionally.

Case Study 2: Ireland



This case study provides an example of training incentives offered as grants and linked to wider business development. Training grants have been available in Ireland since the 1950s, but were overhauled in the 1990s to focus more on enterprise development than on labour market support. Two quasi-autonomous government agencies provide grants to Irish companies, and to foreign firms located in Ireland, respectively. Multi-Factor Authentication (MFA)Applications are considered on a case-by-case basis and there are ceilings on the grants, depending on whether the training is defined as general or specific. Within this category, there are no targets for enterprise size or sector, or for numbers to be trained, or for the formal status of the qualification. Given that there are restrictions of target group and numbers of participants, the training grants are a small element of public policy, and must be viewed as a component of a broader suite of policies to encourage foreign investment. An evaluation of the programme in the period 2005–2010 shows 107 grants were approved, totalling EUR 52.7 million. The majority (69%) were for enterprise-specific training, and the grants ranged from EUR 3,000 to EUR 2.4 million, with an average of EUR 429,000. The evaluation of the programme confirms that the training grants have a positive effect on employment and enterprise performance, within the many evaluation constraints. The evaluation considers the potential for deadweight, and emphasises that grant availability sped up enterprise training plans and allowed them to be more ambitious.

Case Study 3: France

This case study describes the operation of wage and social security subsidies and exemptions for enterprises employing apprentices. France has a long-established contract-based system for apprenticeships which operates within a highly regulated financing system for training, requiring all enterprises to pay a general levy for training, and a specific levy to fund apprentices. With a focus on tackling youth unemployment through the two main contract modes (apprenticeship contract and professionalisation contract), the policy objective is to boost enterprise involvement through financial incentives and via regulation. The French dual system, formation en alternance, has increased in popularity over the past 20 to 25 years, and the school-based element is financed through the apprenticeship tax and the regional apprenticeship fund. There are multiple financial incentives to promote the apprenticeship contract among employers, including a Regional Council payment of minimum EUR 1,000 per apprenticeship, with increased amounts for priority social categories, such as disabled and low qualified apprentices. In addition to the incentives, there is extra support for companies exceeding the recruitment requirement, and penalties on those who fail to meet their apprentice quota. There is currently no systematic evaluation available of these incentives.

Main policy questions for social dialogue

Enterprises procure and provide training for many reasons, which can have external benefits to participants, other enterprises, and the economy. The challenge in designing financial policy to incentivise enterprise involvement in VET stems from the variation in how enterprises and governments perceive:

- their respective VET responsibilities;
- how the benefits accrue from VET investments; and
- whether there are obstacles to investment.

Depending on the baseline position, the rationale for change can be to recognise existing enterprise investment, as a means to encourage more; or to incentivise additional investments over and above the baseline rate. The rationale for introducing incentives as a new financing instrument should be a clear understanding of the behaviour and activities to be encouraged and rewarded. In basic terms, that behaviour is an enterprise spending more of its income on training for one or more of its employees, thereby attracting a 'monetary benefit'. In aggregate, the policy aims are to increase:

- enterprise VET expenditure;
- numbers/types of enterprises investing;
- training activities and/or trainees financed.

Any of these criteria could form the policy objective and target, but the concept of additionality is central – i.e. there should be more investment, more trainees, more enterprises participating in VET. Defining the purpose of the additionality is equally important. Is it to encourage enterprises to invest in training for their own benefit, or to use incentives to leverage enterprise investment for public policy aims? This will influence the type of incentive chosen and its operation.

There are numerous debates concerning the overlap between the economic benefits which accrue to enterprises and the socio-economic benefits of investment in skills development. The argument here is that expectations of financial incentives – and the way they are operated – differ according to whether it is perceived as a private market with voluntary enterprise investment, or a shared action between enterprises and government. The case studies from Austria and Ireland link the incentive to enterprise training which is for their own benefit. The French case is an example of an incentive to enterprises to fulfil public policy targets.

1. What are the policy objectives of the incentive?

The performance of the selected measure will be defined against priority policy objectives, so it is essential to define them from the outset, based on discussion and agreement with social partners. General objectives include recognising companies' current training efforts and incentivising future efforts. Specific objectives are defined against final beneficiaries on the one hand, and the type of training to be encouraged on the other. They may include:

- ensuring VET students, as future employees, are trained in skills needed by enterprises;
- supporting current employees to meet skills requirements, whether for business as usual, regulatory and/or new industry standards, or research, development, and innovation;
- accompanying efforts to get unemployed people into work, or other social inclusion policies.

In other words, specific objectives may focus on supporting:

- initial VET, through work-based learning or apprenticeship schemes;
- continuing VET, through the offer of continuing training for employees whether on or off the job, and whether in their field of work or outside it;
- active labour market policies, through hiring unemployed people and offering on-the-job retraining.

2. Who is targeted by the incentives?

Clarifying objectives gives an indication of the intended target group, which needs to be refined according to relevant characteristics such as size, turnover or profit, economic sector or geographical area. These characteristics can lead to questions about whether employers in the informal sector can also benefit from incentives if they are linked to payment of tax; whether the objective is to support companies experiencing economic difficulties or facing re-structuring challenges; whether the intention is to support competitiveness in dynamic sectors, develop emerging sectors, or help lagging sectors; and whether the intention is to support skills development in central or remote areas.

An incentive can be universally available, or targeted at all or some enterprises, training activities and beneficiary groups (see Table 1). A financial incentive may be universally available to all enterprises purchasing externally accredited training, or for all enterprises employing an apprentice. The definition of the behaviour or action can be based on a perceived weakness in enterprise participation in the training market and/or an opportunity to engage them in newly defined policy priorities.

In the Austrian case, the incentives have universal eligibility and are applicable to pre-defined training activities. In the Irish case, the incentives are placed within a broader set of local economic and enterprise development policies. The French case is part of a set of priorities to improve apprenticeship placement in enterprises. In each case, enterprises receive a financial reward or cost offset for their actions.

Table 1. Examples of targeting by different characteristics

Targeting by enterprise characteristics	• Size by employee numbers or turnover, e.g. micro, SME, large • Profit e.g. to support companies experiencing difficulties or facing restructuring. • Economic sector e.g. to support competitiveness of enterprises in new sectors or development of under-performing enterprises • Geographical area e.g. to support enterprises in certain regions
Targeting by training activities	• Formal, accredited training or non-formal training • External and/or internally provided • Leading to a specific qualification
Targeting by group	• All or some employees, e.g. defined by wage/grade levels, job tenure, or contract type • Specific groups defined in public policy, e.g. apprentices, interns, or groups viewed as experiencing a labour market disadvantage such as women returners, older workers, or low-skilled employees

3. What type of incentive?

Discussions must address the most appropriate types of incentive, based on policy objectives and targets, and linked to a defined cost. The incentive operates by offsetting part or all of the costs associated with the training activities of eligible enterprises. These include:

- Direct training costs, e.g. for purchasing, procuring, and providing training, internally or externally. This can cover a wide range of costs including in-house trainer salaries, purchasing external training materials, and accreditation and certification costs.
- Indirect training costs, e.g. arising from lost productivity; travel to/from training; salary of trainees; and accommodation and subsistence payments, if required. Where there are tax deductions, this distinction is frequently used to deduct indirect as well as direct costs, especially for smaller enterprises and lone traders, where residential courses and accommodation costs are expensive.
- Recruitment/salary/social security costs of trainees, including apprentices and interns.

An incentive may cover full or limited costs, defined by a fixed amount or proportion. These may reflect the costs incurred on a total enterprise basis or per employee. Where the incentive targets certain training types and/or employees, the costs could be linked to them. For example, all apprentices within an enterprise can attract a reduction in the social security contributions for the enterprise. Or, all training costs could be offset, regardless of who they are associated with.

In the Austrian case, the incentive does not distinguish between training participants in an enterprise (there is a separate policy for apprentices), although it does distinguish between types of cost. Initially, it was only available for training purchased from an external provider. In the Irish case, grants are linked to business development and specified skills needs. And in the French case, the incentives prescribe the financial benefit of employing an apprentice, and the penalties for not doing so.

Designing the right type of incentive entails policy dialogue with social partners to elaborate:

- eligibility criteria, the basis on which the incentive can be activated; and
- application criteria, the monetary benefit on offer, including whether it is a training grant or tax relief.

Eligibility criteria

These are conditions for activation of the incentive, and stem directly from the policy objective and intended target group. For example, if the objective and the target group is articulated by 'encouraging continuing training in micro and small enterprises', the first two eligibility criteria will be 'type of training' and 'size of enterprise'. Eligibility criteria follow the rationale for choosing an incentive, such as a deficit of specific skills preventing enterprises from attracting enough qualified workers; or existing employees not gaining skills effectively. Therefore, the use of an incentive is intended to induce participation by enterprises in need of these specific skills. In addition, decision-makers may want to specify other eligibility criteria, related to the training delivery mode – work-based learning or apprenticeship, long-term internships, distance learning, blended learning, and so on – and the training output, e.g. skills upgrade, certification, or qualification (and the level of qualification).

Application criteria

- Scope and definition. A financial incentive must be linked to a defined cost. This requires identifying the details of the cost it aims to support. The incentive operates by offsetting part or all of that cost. Policy design can target some or all of these costs within the incentive definition.

- Intended recipients. In most cases, particularly a tax relief, since enterprises are being targeted they will also be the recipients of the incentive, but they may not receive any money directly. However, in the case of grants, the question of who receives the incentive deserves to be addressed, as there may be alternative funding channels. This can avoid treating enterprise subsidies as 'income'. For example, funds from a grant for enterprises to enrol employees at a VET provider may go directly to the provider based on their enrolment, rather than to the enterprise.

- Level of incentive. The incentive can match full or partial costs, with or without setting up of ceilings (i.e. maximum amounts). The costs can be reflected in the incentive definition at a flat or proportional rate. The rate could also be greater than the costs incurred.

- Calculation method. This can be based on actual costs incurred, or on standard costs defined by the State. A financial mechanism is linked to a unit of collection and/or distribution. This could be set per employee, per enterprise, or per training type, and forms the unit of calculation, among other parameters or variables. In turn, this is measurable either ex-ante in planning documentation, or ex-post via enterprise accounts or training reports. For example, a grant could be linked per employee or per enterprise and triggered by a training plan. It could be a per capita amount or per enterprise and a fixed or variable amount. In designing the mechanism, the units must be defined as must their measure and validation.

Monetary benefit on offer

The focus here is on two main types of incentives, based on the nature of the monetary benefits they offer: training grants, which include elements such as lump sums; and tax reliefs, which rely on the use of the corporate taxation system in different ways.

1. Training grants include payments made to an enterprise to purchase training. They may cover full or partial training costs. If paid to an enterprise, they should be accounted for separately within the company's accounts for full transparency. Most often, the grants will be paid directly to a training provider for the specified courses for employees, or may form part of a co-financing mechanism between public and enterprise funding[5]. In Member States, government grants to enterprises must meet EU State Aid requirements.

2. Corporate tax relief on training, including:

    - Tax exemptions[6] or allowances. An enterprise deducts, exempts, or claims an allowance on training expenses from their taxable revenue, thereby reducing their tax liability. The financial benefit is the marginal tax rate. It can apply to all training costs, direct and indirect, or be set as a percentage of training costs, or as a maximum amount. It can be scaled to allow higher deductions for enterprise type, target group, type of VET and/or amount spent. The exemption amount can differ according to type of enterprise, training, and/or participant.

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[5] Training grants in this context are public funds distributed to enterprises which they can spend on training aligned directly with their development goals. Whilst some countries finance free training for all people (regardless of their employment status), this is aligned to personal rather than enterprise development.

[6] The difference between a tax deduction and exemption has not been made here, since the primary point is reducing the tax due, rather than whether training expenses are exempt or deductible.

- Tax credit. An enterprise applies a credit to their tax liability, again lowering their tax bill. The financial benefit is the net reduction. The credit amount can differ according to the type of enterprise, training, and/or participant.
- Tax deferral. A tax payment is deferred and later offset, for example, if training in one year is linked to a capital investment in another. The financial benefit is the saved cash flow due to postponement of the tax payment.

3. Social security exemptions, credits and/or deductions. An enterprise reduces its social security liability for specified employees such as those attending training, apprentices, long-term unemployed, or new recruits. The reduction can be a fixed amount, proportional, or based on a certain aspect of social security payments. The reduction can operate beyond the training duration.
4. Other types of exemptions, credits and deductions. One example not covered above is the use of public funding to subsidise other enterprise revenue-raising activities, such as issuing loans (including subsidised interest rates or extended repayment facilities). Another example, is the provision of publicly funded consultancy services for business start-ups, entrepreneurs and restructuring companies. All of these examples may involve training provision and are mentioned here as incentives applicable in a small number of cases.

There are some additional considerations in terms of how the policy will operate, as some factors will be inconsistent.

- Time frame. A grant will be distributed in advance of the training, whereas tax deductions and credits are only available at the end of the year after the expenditure has taken place.
- Time limits. Deductions for targeted employees will have to be subject to a time limit on the available deductions at the end of the apprenticeship or specified point of employment.
- Offsetting at greater than 100%. A tax incentive can be designed to permit deductions and allowances at more than 100%. This allows for a marginal net tax benefit exceeding the amount due on the actual training cost (the enterprise does not receive the actual amount spent on training but can receive a higher tax benefit). In the Austrian example, a tax benefit greater than 100% was provided.

Policy process: From discussion to decision

Recommendations for effective policy content design

Recommendation 1. Identify the place of incentives within the existing VET financing system and/or the public policies concerned, and how they align with related policy instruments

Effective policy content design involves fitting the incentives within the existing financing framework, including the public finance management system and tax code. The treatment of enterprise income and expenditure is defined through the accounting and taxation system. Introducing a financial incentive will interact with that system, and it can have consequences beyond the enterprise, for example, on the demand for, and price of, training courses. In defining an incentive, it is important to consider the potential impact on enterprise accounting, the VET system, and the labour market. These can be many-layered systems at different levels of government; with different accounting systems (e.g. the range of taxation – property, employment, excise, social security, etc.); and in different types of partnerships (e.g. sectoral agreements, regional enterprise organisations, and collective bargaining agreements). Most importantly, in answering the policy questions discussed above, the design should match the policy aims. For example, having a universally available tax incentive for training will de facto exclude enterprises that do not pay taxes. This can include non-tax paying enterprises in the informal sector, but also start-ups and restructuring enterprises which are not making a profit. Both may be important target groups for financial incentives.

Careful consideration of the pre-requisites in terms of legal steps is also necessary, beginning with whether, in the given legal framework, new legislation is required. A requirement for new legislation will depend on the type of incentive chosen and who will administer it. A training grant requires a budgetary appropriation (see below) and a means of distribution, allocation, and verification. The provision of loans will also require a system of delivery with a legal base. Using the taxation system has the advantage of having an existing administrative system with both a legal base and a means of establishing annual amendments to the code. This leads to the question of whether, in the given financial framework, a budget appropriation is required. This would be necessary both for a grant scheme and for any loans offered to enterprises with the necessary allocation design, method, and means of verification. Within the tax system, no budget is required since funds are not distributed.

Recommendation 2. Make the use of incentives simple for the targeted enterprises

There is a balance to be struck between the size of the incentive and the necessary reporting requirements. An incentive should be simple for enterprises to access and use. If it is too complex to integrate into enterprise accounting and audit systems, it may disadvantage the groups it is designed to help, such as small enterprises, or discourage bigger companies from using it. For example, reporting standards might be higher for tax credits than for deductions, since the reduction is higher. Similarly, offsets at higher than 100% require stringent auditing to ensure that the funds are used as intended. Depending on the jurisdiction, an additional tax benefit might require more documentation than a simple cost deduction. Another consideration is standardised versus tailored incentives. Incentives can be designed in a standardised and broad way, or provide more individual support to enterprises. The latter requires a more complex administrative and monitoring structure.

Recommendation 3. Keep the management of incentives simple for the public authority tin charge

There is also a balance to be struck between adequate policy targeting, and minimising administrative costs. One advantage of using the existing taxation system as an incentive is that the administrative and legal structure already exists, and it does not require a budgetary appropriation. However, support will be necessary for tax accountants when making them aware of new arrangements. Any financial incentive which requires a budget and/or is net expenditure, such as a larger than 100% tax deduction, requires tracking and auditing. This is one argument for combining a central tax policy for enterprise expenditure on VET with provision for more targeted incentive measures flowing from central to local government.

Financial incentives are not always easily trackable. For example, if training is fully tax deductible as a 'cost of doing business' it might be tracked differently in company accounts and not reported on, unless via an audit procedure. Costs that are offset may not be reported on. Grants, on the other hand, are trackable, with payments monitored through government budget and payment procedures. In the scenarios envisaged, would the incentive be disbursed based on a simple declaration by companies, or through an audit of expenses? Would the disbursement be ex ante or ex post? Would verification be systematic or by sample? Whichever policy design option is chosen, a monitoring and tracking procedure will be necessary. For incentives using the tax and social security system, it is likely that an audit and accounting procedure is in place. But for new incentives, more robust or different procedures can be necessary.

Recommendations for policy process to achieve sustainable schemes

Recommendation 4. Promote coordinated decision-making for joined-up policy

As explained earlier, using financial incentives for companies' engagement in VET overlaps with the interests of many different line ministries (typically those in charge of education and training, employment, economic development, and finance), and the involvement of enterprise representatives. Therefore, it requires, at the very least, integration into taxation policy. Even if the incentive is not a tax incentive, for example a grant payment, it will require instruction on how it is to be treated in enterprise accounts. Introducing a tax deduction requires agreement with the finance ministry on accepting the loss and/or passing it on to the ministry responsible for VET by deducting it from a budget line. Linking incentives specifically to earmarked training taxes or levies[7], where they exist, is a key issue in policy coordination.

[7] This is the topic of a separate ETF policy guidance note.

Recommendation 5. Allow for tailoring of incentives at local level

Both VET responsibilities and financial incentives for enterprises operate at different government levels, which balance central and regional/local governance with social partner agreements. The existing policy mix is important, as outlined above. The introduction of more enterprise incentives can best be tailored at the local level and/or by social partners, and addressed in central government finance through grants and allowances for regional government; for example, allocating discretionary grants to local government for enterprise-based VET, or to other agencies tasked with enterprise policy. At local level, solutions can be tailored to economic conditions, for example when providing training subsidies targeted at employees in re-structuring companies. A range of incentives may be appropriate, depending on the level of government at which they operate. The principle of subsidiarity applies; those functions which can be performed at local level, should be.

Assessing the pros and cons of different financial incentives

It is not easy to state the pros and cons for different options in abstract, especially because incentives are one financing mechanism and one policy instrument among many. However, Table 2 builds on lessons from case studies, including those included below, to identify generic points for consideration.

Finding the right mix of incentives: A matter of social dialogue

There is usually a combination of various schemes in place, and the success and impact of incentives will depend on the level of buy-in for the proposed measures shown by target enterprises. Therefore, the imperative at the very beginning of considering introducing new incentives is to set up a transparent policy dialogue framework with enterprise representatives and social partners.

Finding the right scheme: A matter of proportionality and affordability

In addition to the broad principles related to the policy level, which are to be addressed through general policy dialogue, some questions need to be explored in parallel by technical experts, to ensure the feasibility of the incentive schemes. This includes asking whether the total cost of the envisaged incentive scheme is both affordable, and proportional to the intended impact.

Regularly reviewing effectiveness and impact

Incentive schemes are, and should remain, dynamic instruments requiring ongoing review and, at times, adjustment. Guiding questions for a review mechanism could include:

- Is the incentive sufficient to motivate enterprises' engagement in VET?

  Although financial incentives can subsidise, reimburse, and recognise all enterprise training costs, there is no compulsion for enterprises to increase either their VET investments or activities. Even where both salaries and training costs are met

Table 2. Broad characteristics of financial incentives

Description	Decisions	Advantages	Disadvantages	Risks
Training grant (full or partial)	Level of government? What costs are subsidised? Scaled according to need? Interaction with tax system?	Can be targeted Not profit linked	Requires a budget Requires administration Can increase tax liability	Deadweight Employees replaced
Tax/social security: • Deduction • Exemption • Allowance • Credit • Deferral	Level of government? What costs are treated – some or all? For all employees? Greater or less than 100%? Scaled according to enterprise type?	Can be targeted Administration in place Can be combined	Linked to tax liability (e.g. not start-ups or those without a formalised profit)	Deadweight Capacity to incentivise additional investments Too complex to use (audit requirements)
Combination	As above, plus: How will they interact?	As above, plus: More inclusive	As above, plus: Harder to aggregate	As above, plus: Lack of control; potential for double-funding

(or offset in taxation at 100% or above), the enterprise will bear a range of indirect costs, such as on-site costs and the loss of productivity among trainees' co-workers. Even if all direct costs of training an additional employee are met, there will still be costs for the enterprise to absorb.

- Is the incentive fit for purpose?

  This requires a precise clarification of what actions are expected by whom; design of an appropriate measure to stimulate those actions; and measurement to see if a net increase occurs. In theory, the aim of financial incentives is simple – to recognise and increase enterprise contribution to investment in training. Yet, in practice, financial incentives can interact in unintended ways. For instance, the deadweight risk of providing public funds for activity that would have taken place anyway; or the collateral effect risk, in which creating incentives disproportionately favours unintended groups. In the latter case, better educated people receive more of the benefit, and current employees are replaced by cheaper 'subsidised' employees attracting a financial incentive.

  At the same time, it is a challenge to tailor a policy to avoid such consequences without creating something complex and expensive to administer and monitor. Financial incentives can be useful to motivate actions which otherwise would not occur, and although the objective is complex it should be achieved in a way which is administratively efficient, useable, and measurable.

Key success factors

A successful incentive policy requires:

- **Purpose.** What should be achieved? Is the goal to increase enterprise training, or to encourage enterprise cooperation for a public policy aim? This must be clearly defined in policy design.
- **Objectives.** What is the targeted change and what is the additionality which should result? More enterprise expenditure on training? More participation of enterprises? More VET trainees? Without clearly defined targets, measuring the additionality will be difficult.
- **Agreement.** This may be secured between policy makers and social partners and/or with lower government levels and enterprise representatives. This depends on roles and balance of responsibilities across government and between public authorities and social partners.
- **To fit into the current financial system.** Are administrative, budgetary, or legal changes required (including within EU state aid rules)?
- **To be clear about risks.** All policies involving financial transfer carry a risk of creating an incentive to pursue the easiest route to receive the available funding (e.g. replacing new enterprise recruits with apprentices, or funding cheaper shorter courses, or providing training for those already well-qualified); and/or lobbying to receive funds for what is done anyway. There are also risks to the costs of training supply, as incentives to stimulate training demand can lead to increased prices.
- **To be clear about what an incentive policy can and can't achieve.** Whilst financial incentives can subsidise, reimburse, and recognise all enterprise training costs, there is no compulsion for them to increase either their VET investments or activities to the target levels.
- **To measure whether the incentive is achieving its aim.** The purpose of financial incentives appears simple and easily measurable – are enterprises investing more in training, and have their training activities increased? In practice, there are many confounding factors, including the risks outlined above, administrative costs, and market distortion. One of the challenges in identifying the case studies below has not been the lack of financial incentive schemes for enterprises but the lack of evaluative case studies of their effectiveness.

Case study 1: Austria

Background

This case study describes two incentive schemes which introduced tax deductions and credits for enterprise training, in 2000 and 2002 respectively. The schemes rewarded and encouraged enterprises investing in employee training, and operated at federal level until 2016. The tax deductions were specifically for enterprise-based training, rather than apprenticeships or individual training, as there are other incentives for apprentice recruitment as part of a larger public policy package. The incentives intended to benefit enterprises for training pursued as part of day-to-day business, and operated through the corporate tax system. The schemes were evaluated and, whilst they were discontinued in 2016, can be traced from their introduction to the decision to discontinue them. It is important to note that, although the schemes were not replaced at federal level, each regional government operates its own schemes for enterprise-based training through agreements with social partners[8]. At federal level, training expenses are treated like any other business expense in the annual assessment for corporate income tax. They are deemed deductible if the training measures are 'in the interest of the business'[9]. There are no upper limits for the deduction. The deductions were supplemented by additional incentives in 2000[10] and 2002[11] through the Tax Allowance for Training and the Training Tax Credit. These aimed to increase employees' continuing vocational education and training (CVET) but were discontinued in 2016[12] because they did not trigger sufficient additional investment and provided 'deadweight' windfall gains to enterprises.

Stakeholders

The Federation of Austrian Industry first proposed the measures, and successfully campaigned for the tax law to be amended. The campaign was supported by the Austrian Economic Chamber, Austria's employers' organisation, which also proposed increasing the tax allowance to 40% for small enterprises (less than 20 employees), as well as for special target groups such as older workers.

Rationale and objectives

Training tax allowance. A 9% additional tax allowance was introduced in 2000 for external training activities. It was increased to 20% in 2002 and extended to in-company training. The target group was all company employees irrespective of position, age, specific training needs, etc. The incentive took the form of an extra deduction from taxable profits, with not only the actual training expenses deducted from taxable income, but also an extra 20%. For example, a training expense of EUR 1,000 attracted an additional deduction of EUR 200 from the company's taxable income. The financial benefit was the marginal tax rate saved on the EUR 200.

[8] Austrian Chamber of Commerce, https://bildungsfoerderung.bic.at/foerderungen
[9] Training delivered in the interests of an employee is regarded as in-kind payment.
[10] Introduced by the Tax Reform Act 2000 (Federal Law Gazette Part 1, No 106/1999).
[11] Increase to the tax allowance and introduction of the tax credit through the Economic Recovery Act (Federal Law Gazette, Part 1, No 68/2002).
[12] Tax Reform Act 2015/16 (Federal Law Gazette Part 1, No 118/2015).

Training tax credit. This was introduced in 2002, at the same time as the tax allowance was increased, to encompass enterprises with low profits unable to take full advantage of the allowance. It was a tax credit of 6% of the actual training expenses. Companies that did not make enough profit to benefit from the 120% tax allowance could claim the 6% credit. The credit had to be claimed within the employer's tax return and was deducted from their tax liability.

Employers chose which tax benefit to use, but the two incentives could not be used simultaneously.

In short, the incentive allowed companies not only to deduct the actual cost of training as a business expense from their taxable income, but also to deduct an additional 20%. The tax base was diminished by 120% of the actual expense, which in turn resulted in a lower tax liability. Companies which did not make enough profit to benefit from such a tax deduction could claim a credit for training expenses of 6% of the actual expense, which was deducted from the tax liability. The main goals of these incentives were to promote companies' investment in human resources to increase national and international competitiveness of Austrian companies, and foster equal treatment of human and financial capital.

Operation and implementation

The tax deductions were available for internal and external training measures, and employers could choose which deduction they took. There were different criteria for deductions for internal and external training as outlined below, regardless of whether the enterprise was claiming the tax deduction or the tax credit.

Criteria for the tax allowance for internal training measures:

- expenses resulting from training organised and provided by the company for its employees;
- organisational autonomy of department providing the training (e.g. own accounts system);
- training must be formal (e.g. course or seminar) and verifiable (e.g. proof of attendance);
- maximum amount claimable was EUR 2,000 per training day, irrespective of number of participants (i.e. EUR 400 additional tax allowance).

Criteria for the tax allowance for external training measures:

- provided by an accredited provider;
- recipients were employees of the company;
- training was in the enterprise interest;
- fully paid for by the employer claiming the allowance.

All training costs and expenses claimed had to be verifiable by invoices for training expenditures, primarily through:

- course, seminar, or workshop invoices;
- fees for trainers;
- costs for workshop equipment and training material.

Criteria for the tax credit of 6% (for external training only):

- subject to the same criteria as the tax allowance for external training, including the verification criteria. The tax credit could not be used for internal training.

Evaluation and impact

When the incentives were introduced in 2000, the government estimated they would lead to a tax revenue reduction of about EUR 22 million. For 2008, this reduction was estimated to be approximately EUR 30 million. The tax credit accounts for two-thirds of this, and the tax allowance one third. More detailed data are not available from the Ministry of Finance, and it is not possible to disaggregate the data into, for example, what type of enterprises used the incentive and/or what type of training was pursued. (Schneeberger and Mayr, 2004). But the use of the allowance and credit was higher than anticipated, leading to nearly 50% greater lost revenue than predicted. Most of this was used for the tax credit (direct deduction from the tax bill) compared to the tax allowance (a reduction in taxable income). The evaluation found the main advantages of the tax incentives to be:

- low administrative/red tape costs for government as well as businesses;
- no related market distortions;
- the 6% tax credit was regarded as advantageous for start-ups in particular, as they can take longer to turn a profit.

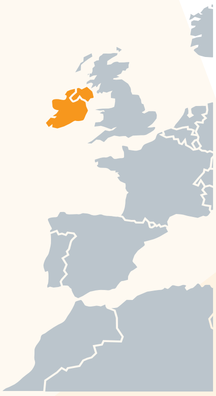
Two points of caution were raised. First, deadweight losses were likely, as large firms are assumed to conduct training without incentives. Some respondents suggested that tax incentives play little part in training decisions. The use of other subsidies, especially grants, appears more important; although it is not clear whether this is due to low awareness of the incentive or weak stimulation effect. Second, disadvantaged groups in the workforce were not targeted, and incentives may benefit employees who are already highly qualified.

Although acknowledging possible deadweight losses, employer organisations valued the extra tax allowance as an instrument for reinforcing the importance of firm-based training in an overall lifelong learning strategy. The employer organisations proposed increasing the allowance to 40% for small enterprises and for certain target groups such as older workers, low qualified workers, people returning to work after child leave, and so on.

In addition, the Economic Chamber wanted to make the tax incentive applicable to entrepreneurs. The trade unions would have preferred to raise the allowance for lower qualified employees rather than for older workers, as they saw low training levels correlated to qualification rather than to age. Training providers promoted the incentives as a way of marketing their services, and many printed information on the tax incentives prominently on their brochures. Whether the incentives served to offset actual costs or inflate prices was not evaluated. Rather than adjusting the measures again, the government decided to rescind them in 2016.

Case study 2: Ireland

Background



Training grants for foreign-owned enterprises in Ireland are embedded in broad, national programmes to assist enterprise development and promote innovation, leading to increasing exports and higher levels of skilled employment. Two agencies administer business grants: Enterprise Ireland[13] (EI), which supports Irish businesses within Ireland and abroad; and the Industrial Development Agency Ireland[14] (IDA), which supports foreign direct investment and non-Irish firms located in Ireland. Many of the grants have a training component. Training grants have been available for enterprises since the 1950s, but underwent wholesale reform in the 1990s when they "became more part of enterprise development than of the labour market support system"[15].

Training grants operate as direct subsidies, and are allowable under the European Commission's State Aid rules[16]. They are exempt from Commission notification, but ex-post evaluation is required. The grants are embedded in wider enterprise development programmes, and while primarily targeted at enterprise needs, they can also be used for entrepreneurs and general training for employees, and distinguish between general and specific training support. Training in specific skills, such as management and production techniques, is also available as part of the overall support package.

The IDA provides a specific training grant for clients located in Ireland. Whilst the grants account for only 5% of funds disbursed by the IDA between 2003 and 2013[17], unlike other grants they are training specific. More grants are available from EI for domestically-owned enterprises, but are also linked to other business activities. The IDA training grants are the focus here because of their specificity and the length of time of their operation.

There are many other grant schemes; for example, EI operates a Job Expansion Fund for enterprises planning to employ more full-time employees. It shares key features with the scheme described below, such as bespoke project financing and support requiring co-financing from the enterprise. As it is not targeted specifically at enterprise training, and has only been evaluated over a two-year period, it is not included here. In 2015, a series of evaluations was undertaken, both on training grants specifically and State Aid for enterprise support generally.

Stakeholders

Enterprise Ireland supports start-ups, SMEs and larger enterprises to grow and improve productivity. Training grants are available for management training and to recruit and train new employees. EI provides holistic business development packages tailored to individual

[13] See www.enterprise-ireland.com/en/
[14] See www.idaireland.com
[15] DJEI (2015c), p. 2.
[16] Other grant programmes in Ireland have been reduced due to changes in EU criteria for Regional Aid (the IDA Capital and Employment Grant Programme fell from 84% of IDA grants in 2005 to 31% in 2011. DJEI, 2015b).
[17] DJEI (2015d), p. 20.

enterprise needs, and has a network of 31 Local Enterprise Offices[18] operating a range of activities, including training, to promote and support enterprises through on-line tools and the provision of workshops. The IDA offers incentives to enterprises planning to locate in Ireland. It also provides a range of grants to foreign enterprises already in Ireland which are planning to grow and develop. Training grants are designed to meet enterprises' internal development needs as well as to overcome local labour market constraints[19]. The purpose of the training grants is to encourage enterprises to invest and expand operations in Ireland rather than to increase enterprise training activities per se. In addition to these discrete grants, all enterprises are able to deduct expenditure on training as a cost of doing business from their corporation tax liability[20].

Rationale and objectives

The rationale for training grants is presented within the context of 'a systems approach to enterprise policy' (DJEI 2015d, p. 10) as a way for the State to address specific market failures, and partner with business. With a small domestic economy, the relative costs for Irish enterprises are higher given the need to internationalise quickly. For international companies, investment in the local labour force can help them level up with competitor economies, thereby reducing relocation costs. Mitigating capability failures also helps to provide investment in up-to-date management techniques and new technologies. 'Enterprises and individuals do not always invest optimally in education, training and management for a number of reasons such as lack of awareness of the benefits, lack of access to, or relevance of, training available, prohibitive financial costs and lack of time. These factors are particularly acute for SMEs.' (DJEI, 2015d, p. 11).

Additional rationales for a systems approach include: Creating incentives for enterprises to 'engage in additional activity which it would not have engaged in without the aid' (DJEI, 2015d, p. 10); sharing risks of start-up enterprises and firms investing in innovation; and overcoming market failures, such as barriers to internationalisation. The support for enterprises is designed to treat applicants on a case-by-case basis. There are no 'fixed' packages with pre-set grants and/or co-financing requirements, although 'State financial support forms a proportion (often small) of the total investment made by the company and plays a critical role in leveraging and incentivising investment by an enterprise' (DJEI, 2015d, p. 12).

Operation and implementation

Enterprises can apply for support to either the IDA or EI depending on whether they are domestic or foreign owned. The IDA differentiates its training grants within its business development packages, and the following information focuses on these. IDA training grants differentiate between subsidies for specific or general training, which are up to

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[18] See www.localenterprise.ie
[19] See DJEI (2015a).
[20] The corporate tax rate in Ireland is 12.5%.

25% and 60% respectively[21]. The grants are available for enterprises already located in Ireland (i.e. existing IDA clients, approximately 1,000 enterprises). To obtain a grant, enterprises must address all or some of the objectives in the Programme Logic Model (see Figure 1). Whilst the IDA has targets for a range of outcome indicators, including number of new jobs and total number of investments, there are no specific targets attached to the training grants.

The application process comprises some or all of the following steps:

1. Project concepts arise through communication between IDA staff and client companies.
2. Enterprise submits a formal application to the IDA. There is a standard format requiring inclusion of a two- to three-year Learning and Development Plan.
3. The suitability of the application is reviewed by independent training advisors.
4. The application is reviewed by IDA executives and, if approved, forwarded to the IDA Management Investment Committee for final approval.
5. If approved, the programme is monitored by both the IDA and an external monitoring body. Final payments are dependent on satisfactory completion.

Changes may be made to the application at steps 3 and 4, after obtaining further clarification from the applicant. Training grant eligible costs are set out in the Department of Jobs, Enterprise and Innovation (DJEI) evaluation, as follows:

- trainer's personnel costs;
- trainers and trainees' travel expenses including accommodation;
- other current expenses (materials/supplies) directly related to the project;
- cost of guidance and counselling services with regard to the training project;
- trainees' personnel costs up to the amount of the total of the above eligible costs (known as the 50/50 rule[22]) (DJEI, 2015c, p. 4).

Evaluation and impact

The 2005–10 evaluation criteria used by DJEI (2015c) followed the Programme Logic Model shown in Figure 1. Some of the key 'inputs' and 'outputs' are given below.

Inputs

Some 107 grants were approved totalling EUR 52.7 million. At the time of the evaluation, 84 training grants valuing EUR 41.1 million for 72 companies had started. The evaluation estimates that the enterprise contribution was nearly EUR 100 million, with the total value of programmes started at EUR 141 million[23].

[21] Specific training is defined as principally applicable to the employee's current position (with limited transferability). General training is defined as not principally applicable to the employee's current position and is transferable.

[22] The reference to the 50/50 rule ensures that the personnel costs of the trainee should not exceed the actual training costs subsidized by the grant.

[23] Also including IDA staff and operational costs.

Outputs

- 69% of grants approved between 2005 and 2010 were for enterprise-specific training, just under 16% for general training, and a further 16% had combined elements.
- 72 companies were supported, 7% of existing IDA clients.
- 66% of projects were stand-alone and related to training support only; 34% were part of a package of grants.
- Grants ranged from EUR 3,000 to EUR 2.4 million, with an average of EUR 490,000.
- Of the 84 projects, the largest 20 accounted for 85% of grants, giving some indication of the significance of large projects for large companies.
- Top sectors supported were electronics (24%), medical technologies (18%), and pharmaceuticals (10%). Companies supported from these sectors were most tlikely to receive grants of larger size and in combination with other business development support.
- Companies were surveyed about their level of satisfaction with the awareness, application, approval and grant process. The vast majority surveyed were 'very satisfied' with the programme, especially the support system and the treatment of training as part of wider business development. Negative comments related to a burdensome process for claims, due to the validation process before the grant can be paid.

Impacts and outcomes

The primary proxy metric used to assess an increase in enterprise activity was total employment, compared three years before and after the training grant. Other proxies were measured including total sales and per employee sales, as well as a productivity metric. Although positive compared to the control group, the evaluation report's authors issue interpretative cautions. An increase of 12% across all companies was observed, although, as noted by the authors, there are numerous other factors which can influence employment levels. It is also noted that employment increases were higher in enterprises receiving the training grant in tandem with other business development grants. A 'matched comparison' analysis showed that employment increased 15% more among companies who received a grant compared to non-participating enterprises. Given that many enterprises receiving a grant were in some form of transition, this is interpreted as a positive outcome. Another metric compared expenditure on training between enterprises which received a training grant and the matched control group. Whilst the authors warn on the reliability of the results, there is a positive correlation, backed up by enterprise survey comments, whereby the increased expenditure on training was viewed as beneficial.

Figure 1. Programme Logic Model – IDA training grants 2005–10
Source: DJEI (2015c)

Objectives

- Raising company valued added
- Allowing the operation to produce more sophisticated products or services
- Facilitating the setting up of new 'higher order' functions
- Putting in place major new management processes
- Helping to alleviate skills deficits that might threaten the development of an operation, by supporting strategic up-skilling

Inputs

- IDA training grant investment
- IDA staff and indirect costs
- Cost of training advisors

Activities

- Development of opportunities for spport to existing clients transformation
- Appraisal, approval and montitoring of training projects

Outputs

- Material increase in size,scope, spend and speed of completion of the supported activities
- Number and value of project approvals
- Value of grants processed/paid
- Amount of associated private investment
- Number of training projects completed
- Number of company staff up-skilled
- Number of companies with training plans
- Improved business performance metrics

Outcomes and impacts

- Increased company skills and capabilities
- Increased levels of company training and training capacity
- Installation of improved management and operations processes
- Increased long-term competitiveness and transformation
- Increased higher-order functions amoung client companies
- Increased productivity, value added, profitabilility
- Increased sales and exports
- Increased or retained employment levels

The survey was also used to understand more about the motives for enterprises to apply for a grant. Some of the key issues raised include the following:

- The most frequent response given by companies applying for a training grant was that they sought to alleviate skills deficits which might threaten the development of an operation, by supporting strategic upskilling (DJEI, April 2015, p. 23).
- 29% of respondents said their objectives were wholly achieved by the training grant; 54% said largely achieved.
- More than 85% of companies viewed the role of IDA training grants as vital or very important.
- 45% of companies provided training for 45% of their employees because of the grant.
- 29% indicated that the grant was used for training of longer duration (6-12 months).
- 73% provided training in-house, while 42% indicated that some of the training was externally validated and/or led to a formal certification. Of the 42%, 58% indicated that the qualification was part of the National Qualifications Framework.
- Top impacts were increased skills and capabilities, efficiency and/or productivity.

The survey addressed deadweight by asking enterprises whether they would have funded the training regardless of whether they had been successful in receiving a training grant. 41% answered that the training would have gone ahead, although over 50% indicated that it would have been delayed or smaller in scale; 36% answered that it would have gone ahead, but not in Ireland; and 23% indicated that it would not have gone ahead. The evaluators also attempt to compare the average per capita training costs for enterprise participants with equivalent public programmes. They find costs to be high compared to publicly delivered programmes, but note that the training is tailored.

Case study 3: France

Background

This case study describes the operation of wage and social security subsidies and exemptions for enterprises employing apprentices. As in Ireland, the financial incentive is linked to a broader policy objective, but here it relates to training and integrating apprentices within enterprises and exceeding the legal regulations for employing apprentices. Key features of the incentives in this case include:

- part of a wider policy to increase apprenticeships for young people;
- embedded within a highly regulated financing system for training which requires all enterprises to pay a training levy for enterprise-related training for employees, and a specific levy to finance apprentices. Additionally, all enterprises are required to ensure the composition of their employees includes a specified proportion of apprentices;
- assists enterprises to fulfil their legal requirements, and encourages them to exceed financing and employment requirements.

The system of apprenticeship in France is regulated by law, including the financing of the programme. Given the high levels of youth unemployment, there are moves to extend the programme to target youth trainees to undertake part of their training within a 'real world' enterprise context (known as alternance). The desire to expand the availability of work-based training and apprenticeships has led to a series of mechanisms to boost enterprise involvement, including financing incentives and regulation. There are two main apprenticeship schemes.

1. Apprenticeship contract (contrat d'apprentissage)

   The apprenticeship contract[24] is an employment contract available for young people (aged 16 to 25) for between one and three years, depending on the professional qualification pursued, and is restricted to diplomas and titles registered on the Répertoire national des certifications professionnelles (RNCP). The contract alternates periods of learning in training centres, centres de formation par apprentissage (CFA) and periods of work. It is regulated by the Labour Code. Training under this type of contract must represent at least 400 hours on average per year. The apprenticeship wage is between 25% and 78% of the national minimum wage, depending on the age of the apprentice. In 2015 just over 280,000 new apprenticeship contracts were registered, of which 96% were in the private sector, and 42% were preparing for a level 5 degree (OECD, 2017).

2. Professionalisation contract (contrat de professionalisation)

   The professionalisation contract was introduced in 2004[25] to provide access to employment for young people through the acquisition of a recognised professional qualification. This type of contract has a broader target audience, consisting of youth

[24] The 'contrat d'apprentissage' has been in place for close to 100 years. For more details on the apprentissage system, see www.eqavet.eu

[25] It replaced a similar scheme called the 'contrat de qualification'.

(16 to 25), job seekers, and individuals receiving specific government benefits. This type of contract can also be used for training to obtain a Certificat de qualification professionnelle (CQP) or for other types of sector-recognised training. A lower number of training hours is required (minimum 70 per year) and wages are higher (between 65 and 85% of the minimum wage). In 2015 almost 186,000 new professionalisation contracts were started, of which 76% were for youth. The biggest groups of participants are unemployed (31%) and students (31%) (OECD, 2017). The contract alternates periods of school-based training with work-based training related to the qualification. It is targeted at young people as a way to gain a vocational qualification[26].

Table 3. Apprentice wage for 2014 (% of guaranteed minimum wage)
Source: www.euroguidance-france.org

Apprentice	< 18 years old % of minimum wage	18 to 20 years old % of minimum wage	21 years old % of minimum wage
Year 1	25% (€364.68 per month)	41% (€364.68 per month)	53% (€772.48 per month)
Year 2	37% (€539.28 per month)	49% (€714.18 per month)	61% (€889.09 per month)
Year 3	53% (€772.48 per month)	65% (€947.39 per month)	78% (€1,136.86 per month)

Table 4. Participation rates
Source: Ministry of Labour, http://travail-emploi.gouv.fr/

Year	Apprenticeship contract	Professionalisation contract	Total
2012	315,911	178,825	494,736
2013	292,379	172,821	465,200
2014	280,321	176,308	456,629
2015	283,268	185,874	469,142
2016	288,652	195,326	483,978

Financing apprenticeships

The school-based part of apprenticeship is financed through two sources: the apprenticeship tax and the regional apprenticeship fund. Additional transfers are made from the general levy on enterprises and the European Social Fund (ESF) (Dif, 2011).

[26] Various studies have shown that having a vocational qualification can reduce the probability of unemployment for young people compared to a general qualification. A synthesis of the results of those studies had been made by IGAS (Inspection générale des affaires sociales): IGAS report No 2013-145r/IGA No 14-013/13-122/01 www.ladocumentationfrancaise.fr/var/storage/rapports-publics/144000160/0000.pdf

Apprenticeship tax

French employers contribute to the financing of the class-based component of apprenticeships through an apprenticeship tax. This tax amounts to 0.68% of the firm's wage bill. The tax revenue is split between the regions (51%), the apprenticeship training centres (26%), and the financing of initial non-apprenticeship professional and technical training (23%) (OECD, 2017). Firms decide which training centres or schools receive their quota and non-quota tax. Firms with more than 250 employees employing less than 5% of their employees on an apprenticeship or professionalisation contract have to pay an additional tax (contribution supplémentaire à l'apprentissage) (OECD, 2017). The level of the additional tax depends on the share of employees on apprenticeship or professionalisation contracts, and on the size of the firms, ranging from 0.05% to 0.6% of the wage bill. The tax is paid to a Joint Organization for the Collection of the Apprenticeship Tax, Organismes collecteurs de la taxe apprentissage (OCTA), which contributes it to the National Treasury, for the regional part, and to the training centres and schools (OECD, 2017).

The professionalisation contract is funded through the annual payment of a training levy (contribution à la formation professionnelle continue). The levy amounts to 1% of the annual wage bill for firms with ten or more employees, and 0.55% for smaller firms. Firms pay the levy to their respective OPCA (organisation paritaire collecteur agréé) (OECD, 2017). The levy is used to fund the CPF[27], the CIF[28], the contract and périodes de professionnalisation and two other training opportunities. The first, the Plan de Formation, concerns the training opportunities provided to employees at the employer's initiative. During training that is part of the Plan de Formation, the employee continues receiving their salary. The second type, the Fonds paritaire de sécurisation des parcours professionnels (FPSPP), is reserved for upskilling or retraining within specific projects, with a strong focus on the most vulnerable labour market participants (OECD, 2017). The share of the levy going to each of the components is fixed, and differs by firm size (see Table 5).

Table 5. Employer financing of professional training: percentage of the annual wage bill
Source: OECD (2017)

	< 10 employees	10–49 employees	50–299 employees	≥ 300 employees
CIF		0.15%	0.20%	0.20%
CPF		0.20%	0.20%	0.20%
Plan de formation	0.40%	0.20%	0.10%	
Professionnalisation	0.15%	0.30%	0.30%	0.40%
FPSPP		0.15%	0.20%	0.20%

[27] Compte personnel de formation (individual training account).
[28] Congé individuel de formation.

Regional fund for apprenticeship and continuing vocational training (CVT)

At regional level, the regional council manages the fund for apprenticeship and CVT, Fonds régional de l'apprentissage et de la formation professionnelle. In addition to the council's own resources, this funding was transferred by the State in line with the principle of transferring the necessary funds accompanying the transfer of VET and apprenticeship responsibilities to regional authorities.

Therefore, this fund constitutes a financial instrument which enables the regions to implement apprenticeship policies and strategies. The regional councils set up a provisional apprenticeship programme specifying which CFAs can receive financial support. For better coordination of their efforts in promoting apprenticeship, the State, the regional councils, and the professional bodies and organisations agree targeted, three to five year contracts, which fix objectives and set guidelines for their achievement (ILO/World Bank, 2013).

Alternance vocational training contribution

Up to 35% of funds collected for financing *alternance* training can be used to finance operational expenses of the CFAs contracted by the State or the regions, in accordance with sectoral collective agreements. This compulsory contribution (as an *alternance* training tax) falls on enterprises which are also subject to apprenticeship tax amounting to 0.40% of the annual gross wage bill. Enterprises which are not subject to apprenticeship tax have to make a contribution to *alternance* training amounting to 0.30% of their annual gross wage bill.

Moreover, it is important to distinguish between two categories of CFAs in connection with direct State financing.

1. CFAs created through regional agreements. This is the dominant category, and they are mainly financed through the apprenticeship tax completed by the regional subsidies, including part of the mandatory contributions to alternance training.
2. CFAs created through national agreements. These are partially or completely financed by the Ministry of National Education. Given that apprenticeship is decentralised, the State intervenes only in cases where there is dispersion or a low number of apprentices, requiring costly infrastructure, or in cases of specific types of apprenticeship such as CFAs in energy production and provision, including nuclear energy (Dif, 2011).

Incentives for employers to recruit apprentices

To promote the apprenticeship contract among employers, multiple financial incentives have been put in place. The main two are the *prime à l'apprentissage* (apprenticeship allowance), a minimum of EUR 1,000 paid by a Regional Council; and the apprenticeship tax credit[29]. All enterprises, including public establishments, employing apprentices for at least one month can benefit from a tax credit. Employers receive EUR 1,600 per apprentice per year, or EUR 2,200 for disabled and low qualified[30] apprentices. In addition to these subsidies, apprenticeship contracts are fully or partially exempt from social security charges, which are funded by central government (Cedefop, 2014). Additionally, firms employing fewer than 250 employees get a hiring subsidy for every new apprentice, and employers employing at most 10 employees get an extra subsidy every year the apprentice is employed. In 2015 another subsidy (*Très petites entreprises jeunes apprentis*) became available for small firms during the first year of an under-18 apprenticeship. For the professionalisation contracts, the financial incentives are limited to specific groups, such as social security relief for apprentices aged 45 or over, and subsidies for hiring unemployed people (OECD, 2017). Regional Councils pay a fixed compensatory allowance for hiring an apprentice. Each Regional Council sets the nature, level, and conditions for granting this indemnity. The amount rises to EUR 1,000 per apprentice and per school year.

In addition to these incentives, there are also penalties on enterprises which do not meet their apprentice quota (bonus-malus). All companies are subject to a requirement to hire apprentices, set at 3% of the workforce in companies with more than 250 employees. This threshold was raised to 4% in 2011, and 5% in 2015. If this requirement is not met, companies have to pay a graduated addition tax of between 0.05% and 0.3% of gross payroll. Furthermore, companies employing more than 2,000 employees must pay an additional tax of 0.6% of gross payroll if they do not reach the threshold of 4% of apprentices. Companies exceeding the requirement get support from the State: a EUR 400 bonus is allowed per additional full-time equivalent.

Evaluation

There is currently no systematic evaluation of these schemes available.

[29] Tax credit for apprenticeships (crédit d'impôt en faveur de l'apprentissage) was established in 2005 (modified in 2006, Loi de programmation pour la cohésion sociale – Law 2005-32 of 18 January 2005). All enterprises subject to corporate tax can claim a tax credit as long as they employ apprentices for at least a month. There are also tax deductions for parents of apprentices who are less than 18 years old.

[30] When hiring a low-skilled apprentice, i.e. with at most a BAC+2 qualification, a tax credit is granted to employers.

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