

FINANCING VOCATIONAL EDUCATION AND SKILLS DEVELOPMENT

A POLICY AREA FOR ETF SUPPORT



Prepared by Marie Dorléans, ETF expert.

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INTRODUCTION

Financing is the lifeblood of any public policy. First, because the availability of monetary resources conditions the affordability and sustainability of this policy. Second, because the financing systems in place, including the channels, mechanisms and tools for resource collection, allocation and management, are essential, structural factors to guarantee the effectiveness and efficiency of public service delivery. As such, financing is an essential element of good governance.

In the field of human capital development policies, and more specifically vocational education and training (VET), this double 'role' of financing is made even more complex by the high multiplicity of stakeholders contributing to and benefitting from VET. Therefore, although the capital importance of financing is not questioned, there is no simple approach defined yet to help partner countries address financing in a holistic and strategic manner. This paper aims to pave the way for such an approach.

First, there needs to be a common understanding of what is at stake in the area of financing. Second, a methodology is needed to guide stakeholders through the analysis, decision making and implementation phases in this field.

After elaborating further on the rationale for investing in the area of financing, this paper outlines the challenges that many partner countries face in financing their VET systems and policies. The paper provides a working definition of the term 'financing' and proposes a methodological approach to support the policy dialogue on financing in partner countries.

The paper also outlines the specific support that the European Training Foundation (ETF) can provide in this field.

Expected results

- The overarching aim of the ETF's approach is to support partner countries to change the way they address financing in VET, moving from a technical view focusing on monetary and resourcing aspects to a more holistic, policy-oriented vision.
- The plan is that by 2020, the ETF will be recognised as a knowledgeable actor by partner countries and international development partners in the policy area of VET financing.

1. RATIONALE: THE IMPORTANCE OF INVESTING IN THE AREA OF FINANCING... AND THE CHALLENGE OF DOING SO

In times of economic tension or constrained state budgets, access to resources is subject to competition, often leading to difficult trade-offs between policies.

This is especially the case for social policies, including education and training. Not only are these still commonly considered as costs rather than investments, but it is also difficult to calculate the return on investment owing to lack of data and know-how. As a consequence, although education and training are now recognised as decisive factors in a country's economic performance and competitiveness, they are an easy target for budgetary cuts.

There are a number of characteristics specific to VET systems and policies that shape the financing challenge, some of which are outlined below.

- **High cost of VET.** VET systems are considered particularly expensive, mainly because of a combination of equipment costs, the multiplicity of training programmes and the limited enrolment capacity of training courses in order to enable practice.
- **'Partnership' nature of VET at the crossroads between education and the labour market.** This has two implications as far as a strategic approach to VET financing is concerned.
 - VET has a range of different end users. As beneficiaries of the VET system, these end users are entitled to contribute to the system, including financially. These include companies for which the VET system provides qualified workers, individuals who gain a higher level of employability, and the state, which – through VET – ensures that it fulfils its mission to provide educational social services.
 - Gathering and analysing financial information, as a starting point for policy making, proves to be difficult: VET is typically a public policy in which there may be many interactions with and contributions by other non-public stakeholders. These are likely to be unrecorded if they do not flow through the state budget. This could occur for instance when funding is applied directly to lower levels, as in the case of tuition fees; when funding is provided in kind, such as in the form of equipment; or when the contributions made are outside the public system, as in the case of private training centres funded by companies for their own needs.
- **Multiple ministries with responsibility for training activities.** VET, and particularly skills development, is provided by different line ministries. This means that systemic reform measures for financing would require thorough inter-ministerial coordination (and hence, strong political leadership). It also has a negative impact on the availability of financial data, given that there is no single budget line consolidating all state contributions.
- **Variety of VET provision.** VET delivery occurs in different forms, according to different target audiences. This ranges from initial VET (IVET), which is mostly for young students-through school-based or work-based learning, or a combination of both modalities- to continuing training for employees, and training components of active labour market policies or other social policies for unemployed or vulnerable groups. Each of these forms may be associated with different funding schemes depending on the beneficiaries and the training providers. In theory, it is fairly straightforward to track financing flows relating to IVET (at least for public providers), whereas for continuing VET (CVET) and for training components of other social policies (active labour market policies, social inclusion policies), it is more complicated, given that not only do the financing flows come from many different sources, but they might also have different destinations (training

provision being possibly ensured by companies themselves, non-governmental organisations (NGOs)...

- **Education and training continuum in national budgets.** The bulk of state budgets dedicated to VET (not including accounting budgets of line ministries that provide some training in their fields) tend to be merged into a single education and training budget within the finance law, or to be allocated by public institutions with no information on the type of costs covered (recurrent or investment/capital).
- **Uneven availability of financial data.** Shaping evidence-based policy reforms depends on the availability of evidence. For the above reasons, this is often difficult, because data simply does not exist, or because it has to be processed, unpacked and reconstructed to cover all VET (but only VET).

Given the wide-ranging role that financing plays in VET policy, it should be used as a driver for good governance and for better performance of the systems; to make social dialogue around VET concrete; and to steer policy in a participatory manner, keeping an eye on priority objectives and on efficiency. Contrary to popular belief, the issue of VET financing is not limited solely to ‘money’ and the way to spend it. In fact, limiting the interpretation of financing disconnects it from wider policy choices associated with the VET system. Instead, each decision on financing arrangements has consequences for the overall system (e.g. who pays, for what, and how). In other words, the challenges that financing policy choices are expected to address are how to get the necessary funds, including through increasing state budgets for VET and diversifying financing sources (including private sources); how to use them efficiently; and how to ensure that they adequately support policy objectives.

Therefore, reforming the financing system of VET is not a matter of ‘simply’ setting up or adjusting *technical* instruments for resource collection and use. It needs to be addressed as a fully-fledged *policy* area where each choice is to be thoroughly reflected on in relation to the overall objectives of VET development.

Given the partnership nature of VET, such decisions should be taken following cooperative processes with the relevant stakeholders, after having considered the consequences of different financing options on the VET system. In this way, stakeholders can assess the extent to which financing can best serve policy objectives, provided they have a common understanding of what is meant by financing.

The dimensions of financing: An ETF definition

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

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

- **resource mobilisation** (sources, plans, amounts, collection modalities and tools);
- **resource allocation** (criteria and tools for distributing and channelling resources throughout the system);

- **management of the financing chain** as a whole (governance bodies and mechanisms making the financing chain operational, serving policy objectives and following clear rules).

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

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

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

2. CONTEXT: MAIN CHALLENGES RELATING TO FINANCING IN ETF PARTNER COUNTRIES

While ETF partner countries have very different patterns regarding VET financing, they share a number of common features and challenges, as revealed by the ETF's analytical work and in-depth participation in the policy dialogue in partner countries¹. Listed below, they illustrate the fact that the quantitative element of financing is the only visible part of the financing iceberg. They can serve as a starting point for any reflection and work on VET financing, although it should be noted that the analysis is hampered by the lack of data.

Resource mobilisation

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

1. **Diversifying the sources of finance, in particular engaging and attracting investment from the business world.** The diversification of financing sources is a way to overcome constrained public budgets, in particular by avoiding relying solely on one source of funding. This diversification also assumes an economically fair cost-benefit approach (making those who benefit from public policies also contribute to them). In partner countries, the participation of the private sector in the financing of VET is very uneven and varies according to regions. Maghreb (and to a certain extent Mashreq) countries are probably the most advanced, with a training tax system through which companies contribute to the mobilisation of resources.

In Central Asia, Eastern Europe and South Eastern Europe, however, there is no institutional system for raising private funds for the VET sector. This challenge raises the question of the tools and mechanisms required to collect funds securely (e.g. a training tax), as well as questions relating to thresholds, such as who pays for what, and how the informal sector contributes, if at all.

2. **Increasing the share of the public budget that is dedicated to VET.** In general, partner countries aim to increase the quality of VET and to modernise the system in order to make it more attractive. This requires substantial investment, but often the budget dedicated to VET does not meet current needs. Better public-private cost sharing, which is essential, must not prevent from additional public efforts; but these need to be articulated with a clearer vision of the expected role of the state in training.

For example, in most partner countries IVET needs refer not only to funding for the running of the system, but also to additional funds that are needed to modernise equipment and, at a macro level, funds for systemic reforms. This might include a review of curricula to encompass more work-based learning, as is the case in South Eastern European countries, where VET institutions have seen relatively little modernisation since the collapse of the Soviet system. The analysis shows that current financing does not meet the needs either for VET school infrastructure (both physical and technical, including information and communication technologies) or for improving or innovating learning and teaching in VET.

¹ Sources: Torino Process 2016–17 reports reviewing 25 partner countries' systems; GEMM (Governance for Employability in the Mediterranean) mapping applied to financing in nine Mediterranean countries (Algeria, Egypt, Israel, Jordan, Libya, Morocco, Palestine, Syria and Tunisia); and consultation with ETF country desks.

3. **In the context of decentralisation, assessing the capacity to mobilise funds at regional and local levels to accompany the transfer of responsibilities, when not backed by the transfer of resources.** A number of ETF partner countries (including Morocco, Tunisia and Ukraine) are initiating a process of decentralisation, which often has implications for the level of decision making and the implementation of skills development policies. VET systems are generally not prepared for the changes in resource mobilisation that this assumes, creating significant short- or longer-term gaps in the resourcing of the systems. This, in turn, puts quality, and therefore attractiveness, at risk.

Resource allocation

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

4. **Moving away from a budget-incremental approach to more purpose-oriented methods for resource allocation.** Although some partner countries are now adopting slightly more sophisticated formulas for budget allocation, for most, the budget is still determined by a simple percentage increase on the previous year's budget ('historic incremental' approach), which does not take into account the VET policy objectives. The limitations of such an approach are now commonly recognised. In response, many countries try to move to formula funding², where the allocation to VET providers is determined by mixing various factors (such as the number of students and teachers). Yet, these parameters often remain at the level of inputs and do not consider, therefore, the policy objectives (whose achievement is measured through outputs). When countries adopt a formula-driven funding approach, there is often little knowledge of the next steps. For example, in Central Asia, the norm is to call for the adoption of per capita funding (formula funding built on student unit cost), without necessarily knowing exactly how to proceed.
5. **Encouraging modern delivery of training, in particular through work-based learning.** Work-based learning, that is, alternating learning periods at school and in enterprises, varies according to region. In Eastern European countries, it tends to be underdeveloped, while it is more developed in Southern Mediterranean countries. As well as being essential for driving forward the quality and relevance of training, work-based learning has consequences for funding schemes for VET. On the one hand, work-based learning can potentially decrease the cost per trainee on the state budget, as trainees spend less time in school and companies take over part of the burden. On the other hand, work-based learning can lead to other expenses. For example, in some countries there are subsidies for businesses that take on apprentices, through various incentives (e.g. training tax exemption, redistribution in Maghreb countries, lump sum³).
6. **Using funding allocation in such a way as to offer more flexibility and autonomy for VET providers to manage their institutions to achieve more quality and efficiency.** Linked to the previous challenges, the resource allocation system also determines how VET providers are authorised to use their funds and whether they can raise funds themselves, through tuition fees, 'training-with-production' activities, or obtain additional resources through partnerships with businesses or other parties. This legal framework can be an important factor for innovation in the VET system; however, the often restrictive rules and administrative procedures imply that it is rarely used.

² For more information, see ETF policy note on formula funding (forthcoming).

³ For more information, see ETF policy note on incentives for companies' engagement in VET (forthcoming).

- 7. Simplifying procedures to make resource allocation more effective, and to encourage skills development.** At the crossroads between resource allocation issues and management issues (see below) lies the procedure-related problem. In countries where there are systems in place for resource allocation, bureaucratic procedures often prevent the best use being made of the financing tools. For instance, in Algeria, Morocco and Tunisia, companies complain that the administrative burden they face prevents their having their efforts in continuing training paid by the tools in place. Therefore, there needs to be a balance between clear procedures to prevent the misuse of funds or corruption and over-complicated procedures that discourage applications.

Management of the financing chain

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

- 8. Using the financing chain as a leverage for steering VET policy.** Few partner countries use financing as a variable to enforce their policy, for example by targeting funding on skills development according to promising economic sectors (as does Morocco, for instance, with seven priority sectors); by setting up levy-grant schemes that reward companies involved in training; or by introducing financing tools to reach out specific populations (e.g. young people not in employment, education or training (NEETs)).
- 9. Making sure there is equity throughout the chain, from contribution to allocation.** This is a challenge from two perspectives. First, there is a need to make sure that contributing companies receive back some funding, especially for CVET. This is a particular issue in Maghreb countries, where companies complain that the direct return on tax is very low. Second, there is a need to make sure that companies that are not able to pay a training tax (either because they are too small or because they are informal) can still benefit from VET, because skills development may help them to grow and move into the formal economy. Similarly, tuition fees for individuals could be considered for higher qualification levels in vocational education, as the return on investment is higher and the need for social benefits lower. However, in practice, tuition fees are rarely used. Of course, this would require accompanying measures, such as scholarships and exemptions, so that students who are unable to pay also have equal access to training. In partner countries, social dialogue on how to combine cost-benefit analysis with financing rules and tools rarely takes place.
- 10. Putting in place adequate governance structures to manage the financing chain.** This covers national training authorities, training funds, – which may be sectoral, national, or even sometimes regional, – and similar bodies. As examples, the first two challenges in this list would be more easily tackled, as there would be some mechanisms in place to ensure that the relevant actors are associated with the policy decision. This challenge covers the issue of fungibility of funds in the treasury (how to secure the effective use of the training tax for training if revenues are merged into a single state budget account), and, beyond, the issue of consensus building on the principles, rules and criteria of budget management. The choice of the best governance setup depends both on the institutional context and on the policy priorities.
- 11. Fostering performance-based funding as a governance principle to link financing to policy objectives and priorities.** Currently, there is very little performance-based management linking financing mechanisms to the effective running of the system, and even less linking it to VET policy objectives and priorities. For instance, with regard to incentives for the cost-effective use of technology, or for establishing public-private partnerships to ensure that students have access to modern technological facilities, only Turkey reports that the government has provided

incentives for private contributions to the education system. In Montenegro, a law on public-private partnerships is in preparation, and legal provisions allowing those employers who have established cooperation with schools to receive tax concessions are under discussion. There is no use of formula funding that would include a parameter on the rate of successful transition from school to work (this is also linked to the above-mentioned problem of the unavailability of data).

Costing

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

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

Data

14. **Putting in place information systems to accurately document financing aspects, as a key element for informed policy making.** All partner countries report problems, such as a general lack of available data or concerns about data transparency and reliability, which hamper monitoring and real policy discussion. General data on the financing systems, as produced by education and labour market management information systems (EMIS, LMIS), are needed to tailor finance-related measures to the needs (e.g. a voucher system to encourage individuals to engage into training courses addressing companies' skills shortages has to be shaped following an accurate skills needs analysis). This issue applies to both public and private sector funds invested in the VET system. For instance, in South Eastern Europe and Turkey, there is hardly any data available on the public funding of VET systems. Last but not least, in all partner countries the state budget fungibility⁴ makes it difficult to compare resource mobilisation data and resource allocation data, which causes issues of transparency and accountability.

⁴ 'Fungibility' is the state of being interchangeable. In financial terminology, budget fungibility refers to the fact that one dollar going to the state budget cannot be traced to be sure of what it has been used for. In VET, this means in particular that the link between the resources mobilised (including through the training levy paid by companies) and the expenditure cannot be traced; at best, the global amounts of resources and expenditure could be mirrored.

3. THE ROLE OF THE ETF

Added value

While considerable expertise is available – notably through the International Monetary Fund and the World Bank – on financing issues relating to social policy, in particular health and education, relatively little work has been carried out in the VET and skills development field. In particular, little has been done regarding the costing of policy options, or on the application to VET of public finance management analyses. This gap is easily explained, given the complex nature of VET, its position at the crossroads between various public policies, and the involvement of many different actors. All these factors make any support exercise on policy analysis or policy dialogue extremely difficult, yet at the same time, these are exactly the areas where the ETF provides support to partner countries.

Given its 20 years of experience in the field of human capital development, its long-established presence in partner countries and the provision of neutral advice, and the potential to build upon initial experiences in the field of VET financing and the limited presence of donors, the ETF is well positioned to support partner countries in this sensitive area.

Over the years, the ETF has approached financing through different perspectives. Initially, the ETF conducted analytical reviews of financing systems in Eastern Europe to inform country-led policy making, and organised knowledge sharing, drawing from European Union (EU) and partner country practices. From 2012, the Torino Process analytical framework has included VET financing as one area for progress monitoring. In 2015, the ETF published a guidance note on ‘Cost and financing analysis in VET’ in order to identify the financial aspects of different reform scenarios and thus inform the policy-making process (Dorléans and Mingat, 2015). This methodology can be applied to a VET system as a whole or to parts of it. In parallel, the ETF’s PRIME ex-ante impact assessment helped to identify the most effective reform path by ensuring greater predictability in policy outcomes through evidence-based review of policy options.

The ETF’s comparative edge in the VET financing field is based on the following aspects:

- **360° vision of VET reforms**, which makes it easier to link financial considerations to key policy issues and priorities;
- **in-depth expertise in policy areas** that have a strong link with the financing system; this includes work-based learning (which includes the notion of cost-sharing), quality and attractiveness (which require substantial investment), VET governance linked to social partnership (the inclusion of financing in social dialogue will make it more concrete and of equal interest to all stakeholders), decentralisation (a processes that calls for a rethinking of the whole financing chain, from resource mobilisation to funding channels) and legislative measures (as a way to activate new tools);
- **core business (and functions) that strive for sounder policy analysis** of all aspects of VET, namely through the Torino Process periodic review carried out in all partner countries, which calls for reinforcement of the financing dimension;
- **access to many information sources** through institutional partnerships and through work in networks with international institutions collecting data, such as UNESCO, the OECD and the World Bank;
- **ability to provide examples of good practice from EU Member States**, and to gain inspiration from policy debate at EU level and from EU working groups that are working or have worked on

financing issues (e.g. on-going debate on performance-based funding, and working groups on indicators).

Since the ETF started to work more systematically on the financing issue, and in particular on the analysis of the state of play (main challenges faced by partner countries, as described above, and main features of the current financing systems), one important element has become glaringly apparent. While countries need and require support to modernise or revise their financing systems, there is no common understanding of what the financing system encompasses, and even less knowledge of how to take a step forward, or even where to start from.

Therefore, the ETF has developed a systematic and systemic approach that partner countries can use to address financing as a policy issue. This methodology falls within the ETF's core business of providing policy advice on VET reforms.

Support modalities

What can the ETF do to help advance the VET financing agenda in partner countries? How to help partner countries unpack and address this multi-dimensional issue?

ETF interventions are based on the challenges faced and the needs expressed by partner countries. This is also the case with VET financing. As mentioned above, the situation varies considerably across the 29 partner countries, or at least across the main geographical regions, and this makes it difficult to give one single assessment of the situation. Therefore, the context-specific assessments will serve as the foundation for our work.

The methodology developed takes this into consideration and can be used as follows:

- **to raise awareness among policy makers** and help them better understand the role of VET financing with a view to identifying VET financing as a key topic for the effectiveness (and efficiency) of policies, and to officially launch the work;
- **as an analytical tool** to map the existing VET financing system;
- **to support policy dialogue** as a means of gaining agreement between relevant institutions and stakeholders on the main challenges, bottlenecks or limitations of the current system, as well as its achievements and strengths; the framework can also be used to generate discussion and agreement on possible ways forward, and on the appropriate financing tools and instruments.

The ETF's proposed approach fits with the core functions of the agency, as outlined below. Note that there is some crossover between functions.

Function 1. Supporting the EU's external assistance policies through input to European Commission sector programming and project cycles

- helping to assess the country's VET system in terms of financing features, as a basis for reform and/or for deciding on the advanced financing modalities of EU support; this commonly includes reviews such of public finance management applied to VET policies, public expenditure reviews of VET systems, or credibility assessment of financial aspects of VET strategy, as part of the design of sector reform performance contracts, including budget support.

Function 2. Supporting partner country capacity building in human capital development

- helping to clarify concepts and related challenges and tools for common understanding;
- providing a methodology for costing of policy options as a tool for evidence-based dialogue on envisaged VET reforms;
- reinforcing budget planning processes and public finance management improvement efforts, as a key step towards more efficient VET financing systems.

Function 3. Providing policy advice through evidence-based analysis

- facilitating, catalysing and structuring social and policy dialogue, on the basis of a common analytical framework and hands-on decision-oriented policy notes focusing on specific financing instruments.

Function 4. Disseminating and exchanging information and experience in the international community

- offering exposure to European or partner countries' practices on specific technical aspects;
- contributing to the international debate on VET and skills development, in the framework of the Sustainable Development Goals, by sharing the ETF's recommended approach to financing.

Any ETF support will need to be tailored to the country context. In particular, it will have to take into account the high level of heterogeneity in the financing systems, namely in terms of maturity of partnership processes and complexity of instruments and channels. This implies the ability to offer a range of analytical and decision-making tools, from which partner countries can choose those that are appropriate for the current level of their financing system.

Based on the above, there is a range of possible roles and related instruments for ETF support in the financing policy area, depending on the requests and expectations expressed by partner countries or EU services, and the priority needs as assessed by the ETF.

Building on previous work, the ETF has developed a new methodology, presented below, that combines a number of functions.

- As it is flexible, the methodology can provide different objectives according to the level of policy maturity (analysis, advice, dialogue).
- It can be used as an 'umbrella tool' and combined easily with more in-depth tools (e.g. the costing methodology, policy notes) as they are developed over time.
- Its design will make it an ETF-branded project, similar to the Torino Process or PRIME. This will also help to increase the visibility of our expertise in the field.

4. ETF METHODOLOGY FOR POLICY ANALYSIS AND SOCIAL DIALOGUE ON VET FINANCING

In order to help partner countries address the financing policy issue in an effective manner, the ETF has designed a methodology based on an analytical framework in the form of a financing prism. This prism can be used by partner countries to:

- **unpack the term ‘financing’ and map the state of play:** ‘financing’ currently has many different interpretations, fostering confusion and hampering discussion on policy action. A common understanding of the term will bring clarification and enable a detailed assessment of the challenges at stake along each dimension of financing. This will also confirm that financing is a relevant entry point for multi-level governance as it considers the different dimensions (including, for instance, the horizontal dimension through the expected financial contribution to VET of various stakeholders, or the vertical dimension through the resource allocation down to sub-national levels and providers);
- **create a structured approach** to take into account the different dimensions of informed financing policy under a common umbrella;
- **encourage a participatory process** of analysis and policy discussion, paving the way for ensuring that social dialogue in VET, while focusing on financing elements, is made more hands-on and provides concrete results.

The analytical framework and its dimensions are presented in brief below. A self-standing guidance note (forthcoming) will present this methodology in more detail from both a content and a process point of view.

The ETF’s financing prism: An analytical framework and a tool for social dialogue

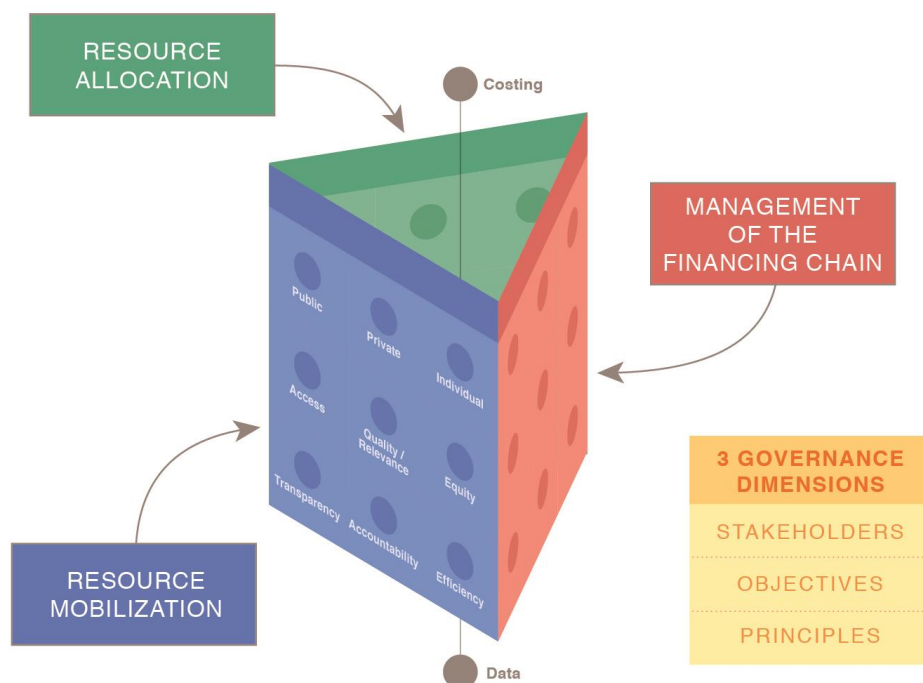
The analytical framework designed by the ETF follows the logic of the conventional definition of financing provided above and considers **resource mobilisation, resource allocation** and overall **management of the financing chain** as the **three facets of a unique ‘financing prism’**.

- Resource mobilisation is addressed through the **stakeholder** entry point.
- Resource allocation is addressed through the policy **objectives** that provide priority criteria for funding decisions.
- Management of the financing chain is addressed through the good governance **principles** and rules that ensure an effective and sustainable financing system.

The **costing** and **data** financing elements are considered as reflection points or ‘pivotal points’ that apply to all three facets of the financing prism. **Governance** is the underlying concept that shapes the most natural entry points to each facet.

Based on this structural approach, the framework proposes a number of policy questions for each element that stakeholders are invited to work through and reach consensus on. These questions are merely examples or starting points; the stakeholders engaged in policy dialogue have the responsibility to adapt these questions to the context priority challenges.

The ETF's financing prism



Facet 1. Resource mobilisation

In terms of the sustainability of resource mobilisation in VET systems, the two most important questions are 'how much?' and 'where will the money come from?'. This raises the issue of the stakeholders who will provide the resources. In this regard, there are three main categories:

- public institutions, including the state at national and regional/local levels, local authorities, donors and public VET providers;
- private sources, including companies, NGOs and private VET providers;
- individuals, including young people (students), adults employed by companies or unemployed, people not in education, employment or training (NEETs), people from vulnerable minorities.

The policy questions to be answered here aim to influence the determination of the level and type of contribution that can be expected from each of the stakeholder groups.

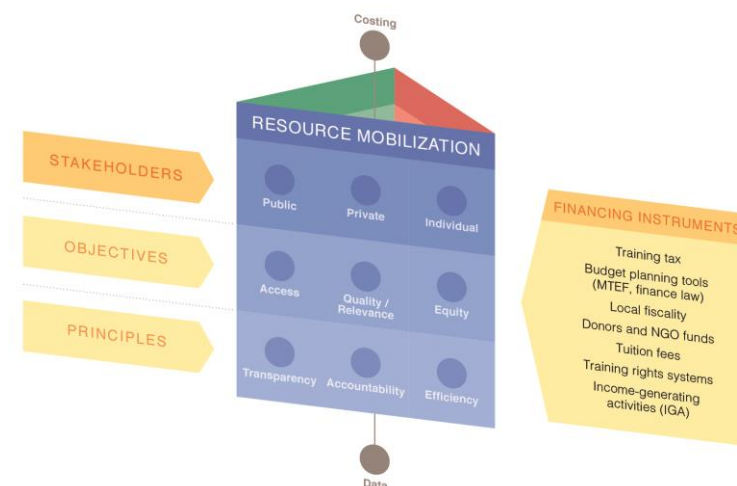
- Who currently pays versus who should pay? This is an essential first question that should prompt an investigation into why stakeholders should contribute, either according to their role or responsibility, or according to how they benefit from the VET system. The question also prompts a review of the current system (who currently pays?) and considers that reforms will start with the identification of key stakeholders to be involved (who should pay – in the future, after the reforms?).
- What is the role of the state and/or other public authorities at sub-national level? There is an impetus to review collectively the expected role of the state in training (provide public training? set and verify quality standards? ensure equity?) because a shared vision on this question will enable to rethink public resources (not only quantitatively but also qualitatively/earmarking for priorities).
- How can the public contribution to VET be increased (including through local fiscality in decentralisation contexts)?

- How can business be made to contribute more?
- How can diversification of financing sources be fostered?
- How can donor funding predictability be increased and earmarked for VET and skills development?
- What shape could each stakeholder contribution take, for example financial, or participation in the running of the system?
- How can equity be assured, and how can cost sharing and equity be reconciled (in particular for tuition fees paid by individuals)?
- How can VET school autonomy be increased in order to improve quality and efficiency?

Together, these questions introduce a number of financing topics and tools for further consideration, such as budget planning tools (sectorial medium-term expenditure framework, finance law), training levy, income-generating training activities (in which students' practical work leads to the production of outcomes that can be sold on the market and generate funds for the training institution), and tuition fees (and exemptions or scholarships). The advantages and disadvantages of each of these must be assessed collectively, taking into account the main concerns, such as the security and transparency of collection channels, the long-term sustainability and reliability of finance collection, and the accountability of stakeholders in mobilising these resources. While the concrete modalities of running the resource mobilisation system can be discussed as part of the third facet (management of the financing system), it is important at this stage to agree on the main tools that will have to be set up or revised to better meet the objectives.

In short, this first facet takes stakeholders as the most natural entry point. It encourages to relate resource mobilisation (or 'fundraising') tools to key policy objectives, taking into account the respective benefits that each stakeholder gains from the VET system.

The ETF's financing prism – Resource Mobilisation facet



Facet 2. Resource allocation

Once the issue of resource mobilisation has been solved, the next issue is the allocation of these resources. In fact, this can be done in parallel (at the same time as the identification stage). The resource allocation element of financing is also known as the 'funding' issue.

Here, the overarching question is likely to be 'what are we paying for?', which refers to the policy priority objectives that will serve as criteria to allocate funds. The links with the VET strategy should be clear. Resources are allocated throughout the system to serve specific policy objectives. Although a different clustering could be relevant, using the three main categories of policy objectives is an effective starting point. These are listed below.

- **Access** to VET, including IVET, CVET or training components of active labour market policies: this assumes that the allocation of resources back the quantitative targets set for the VET system's expansion.
- **Relevance and quality** of VET provision with regard to labour market needs: this assumes that the allocation modalities reward labour market-driven measures, reforms or existing systems and organisations, and that allocation is made in such a way that it secures funds for non-recurrent expenditure (beyond salaries) such as the renewal of equipment and teaching materials, and for capital/infrastructure investment.
- **Equity** promoted in and by VET provision: this sensitive element also applies to the resource allocation criteria and may include affirmative action towards vulnerable segments of the population (e.g. rural students, minorities), as well as targeted support for economically disadvantaged students – to make sure that they are not prevented from studying VET by lack of resources, – or to micro and small companies, or to the informal sector to ensure their participation in training.

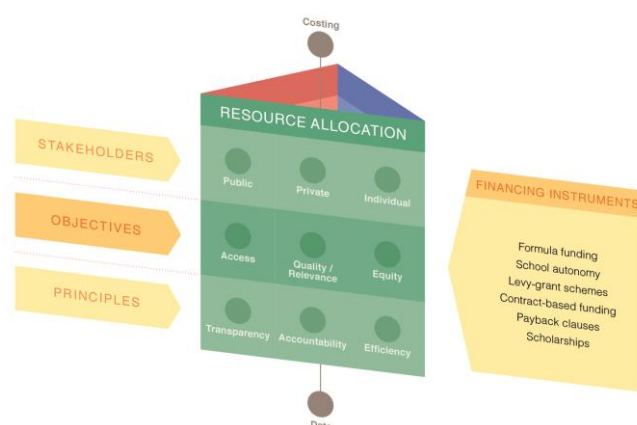
Resource allocation is made through various channels and tools, which have to be identified and discussed stakeholder by stakeholder, according to their advantages and disadvantages. This means that the resource allocation dimension is clearly linked to the stakeholder dimension.

In order for consensus on resource allocation to be reached, discussion should take place at national level. Given the range of topics and tools available, the focus of the discussion may vary. Some examples are provided below.

- The level of relevance and quality provided by VET institutions raises the issue of formula funding as a method to move away from standard, historic allocation and promote input- or output-oriented management practices. In this case, additional questions need to address the following questions: What parameters should be included in the formula in order to increase the relevance of VET to the labour market, or increase equity? What are the possible (negative) side effects or obstacles?
- In the private sector, at company level, levy-grant schemes through which companies are granted resources to encourage staff training are an important channel for fostering in-company (continuing) training.
- Also with regard to relevance and quality, but this time at individual level, vouchers can be a valuable tool for enabling users to make informed choices and can therefore indirectly encourage VET institutions to improve their offer in terms of labour market relevance and quality.
- Another example at individual level concerns the equity criteria: in order to ensure equity, scholarships or loans can be an effective tool for compensating for the reintroduction of tuition fees (Facet 1) or, where there are no fees, for encouraging poor students to pursue VET studies.

- With regard to equity and VET institutions, contract-based funding can encourage VET providers to develop outreach strategies for vulnerable groups, for which they receive dedicated funds in the form of a subsidy.
- Finally, regarding equity and the private sector, it is worthwhile reflecting on ways to involve micro-enterprises and the informal sector in the training system, even though they may not contribute. This can be done through, for instance, 'equalisation funds' at sectorial level.

The ETF's financing prism – Resource Allocation facet



Facet 3. Management of the financing chain

The third facet of this analytical framework makes the link between the first two facets under the overarching and functional theme of management. It looks into the overall engineering of the financing system, as a chain that links policy objectives, stakeholders, instruments and tools.

At stake here are some of the good governance principles that a VET policy is expected to follow, and the extent to which financing will help. In other words, this facet questions what kind of financing instruments or arrangements are needed to support:

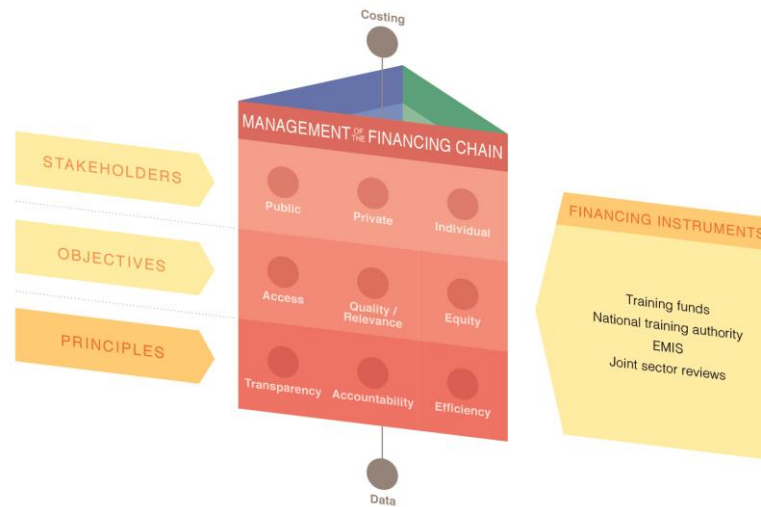
- the **transparency** of the VET system and policy, including the participation of relevant stakeholders to the decisions on financing tools, open policy dialogue, public availability of data on resource allocation, etc.;
- the **accountability** throughout the VET policy, from VET institutions to the highest levels;
- the **efficiency** of the system and policy, or the way financing choices can help a government to drive the reform process with the overall goal of making the best use of resources and minimising the costs.

Some key questions to ask:

- Which priority objectives is the financing chain expected to serve?
- How can the collection and use of funds in coherence with policy objectives be achieved? How can the accountability of partners be ensured?
- How can financing be used as a vehicle to enhance the steering capacity of a government?
- How can the availability of data, its reliability and its use for policy decision be improved?

Here, country experiences show that several financing elements, such as training funds (whether sectoral or cross-sectoral/national) can play a vital role.

The ETF's financing prism – Management of the Financing Chain facet



Pivotal point: Costing

This dimension provides a way of ‘thinking outside the box’. It relates financing to the structural issue of cost analysis, which concerns the VET reform process and the effective running of the system as a whole.

Cost analysis of *envisaged policy options* – or cost simulations – is quite unconventional, but is essential for ensuring the affordability of policy choices, including those relating to the financing system.

Cost analysis has already benefited from the efforts of the ETF to develop expertise, which resulted in the formulation of a methodological tool: the guidance note on *Cost and financing analysis in VET* (Dorléans and Mingat, 2015). This note provides partner countries with a method that they can use to better factor cost and financing considerations into the VET policy-making process. Section 1 of the note raises awareness of the rationale and timeliness of the approach, lists conditions for success, and establishes the basis for a common understanding of the exercise and the buy-in of users. Section 2 presents full details of the steps to be followed, and their respective objectives, rationales and expected results. Section 3 is a technical section that is intended mainly for use during the implementation phase.

Cost analysis of *decided policy measures* – or cost estimates – is an essential anchorage to budget planning, which will ensure the sustainability of measures over time, hence the credibility of the policy/strategy. This credibility is a key factor for donors to decide to financially support national sector strategies.

Pivotal point: Data

Moving towards result-oriented policies and performance-based funding requires the recognition and reinforcement of the role of data, indicators and information management systems. In this respect, EU Member States are encouraged by the European Commission to agree on a set of common indicators to assess and monitor investment in education and training. At the same time, EU Member States are gradually moving towards VET performance-based funding, which relies on good information systems. It would be worthwhile following these developments and sharing them with partner countries.

CONCLUSION: A GOOD DECISION ON FINANCING AT THE OUTSET OF POLICY MAKING

The approach proposed above is expected to combine a range of activities, depending on the degree of maturity of the national policy reflection, and on the readiness to move towards the operational revision of the system in place, including:

- **information provision:** dissemination of key literature on financing in general or on specific sub-topics in particular (e.g. per-capita funding and other formula funding options, models of training funds, governance mechanisms);
- **technical and methodological support to help national stakeholders** to open – in a structured, sequenced and reform-oriented manner – the ‘Pandora’s box’ of VET financing reforms, through the organisation of awareness-raising seminars, capacity-building workshops, and long-term coaching of national teams in charge of finding anchorage points to reform the system;
- **exposure to international (European) good practice** through policy-learning activities once the national reflection is sufficiently advanced to maximise the chances of gaining concrete inspiration from the cases observed (e.g. through collecting practitioners’ testimonies and undertaking study visits).

ACRONYMS

CVET	Continuing vocational education and training
ETF	European Training Foundation
EU	European Union
IVET	Initial vocational education and training
NGOs	Non-governmental organisations
VET	Vocational education and training

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🌐 etf.europa.eu

Viale Settimio Severo 65,
I – 10133 Torino, Italy
+39 011 6302222

