Project on Skills, Innovation and Training

11 June 2021



BUSINESSEUROPE





Employers entrusted to deliver Sustainability Growth Innovation

Financial incentives for research and development and skills investments



Project of the European Social Partners with the financial support of the European Union

Research: state of play June 2021





expenditure2019 6.2 3.9 4.9 6.3 4.3 6 3.1 4 4 5.3 4.8 3.9 5.4 5.8 4.6 4.7 4.7 5.3 5 4.8 5 4.4 3.6 5.5 4.2 5.6 6.9 4.9 4.7 4.7 4.6 in education

General government expenditure in education (2019)

European social scoreboard



R&D intensity in EU (2019)

Eurostat (rd_e_gerdtot)





Enterprises providing CVT, 2005, 2010 and 2015 (% of all enterprises)

Eurostat (trng_cvt_01s)

	All activities	Industry	Construction	trades and accommodation and food services	services and financial and insurance activities	Other services (')	providing CVT courses	providing CVT other than courses
EU-27	70.5	69.5	69.4	66.5	84.5	76.5	60.2	56.7
Belgium	83.9	86.1	82.8	80.7	95.9	85.3	78.4	68.6
Bulgaria	42.2	41.8	47.4	36.1	61.2	50.1	31.9	37.3
Czechia	90.6	92.1	92.5	88.6	95.0	89.5	89.4	38.6
Denmark	86.6	82.6	83.2	83.7	92.2	94.1	69.9	74.4
Germany	77.3	79.9	72.8	75.4	92.4	76.5	61.9	73.7
Estonia	86.1	82.6	87.3	86.8	89.2	88.2	64.4	80.5
Ireland	77.4	75.9	74.3	73.2	89.8	84.3	57.1	74.3
Greece	21.7	23.5	18.1	18.9	41.8	25.2	12.7	18.0
Spain	86.0	87.2	89.7	84.4	93.0	85.0	80.6	64.4
France	78.9	81.5	66.4	76.4	86.2	86.1	75.1	47.9
Croatia	55.4	53.8	49.2	53.0	65.5	64.6	42.7	47.1
Italy	60.2	61.4	74.8	50.6	79.8	65.3	52.3	42.6
Cyprus	69.5	70.9	61.3	65.0	87.1	75.0	52.1	52.8
Latvia	99.9	99.9	100.0	99.9	99.4	100.0	31.3	99.9
Lithuania	61.6	60.4	58.6	57.5	71.5	73.0	43.7	55.3
Luxembourg	77.1	80.3	60.8	75.0	93.1	83.9	71.9	70.5
Hungary	43.8	47.1	46.1	38.6	65.3	43.1	32.1	37.3
Malta	61.6	55.7	41.7	51.4	86.1	81.6	43.3	58.4
Netherlands	85.0	85.0	86.4	83.8	88.1	85.4	75.5	76.4
Austria	88.1	88.6	87.4	85.4	94.9	92.3	81.6	79.5
Poland	44.7	45.5	39.0	39.2	67.2	56.0	29.2	40.6
Portugal	75.0	71.0	67.6	76.2	92.7	83.4	53.8	67.7
Romania	26.7	27.3	26.2	21.9	42.1	32.8	21.1	22.1

Enterprises providing training by type of training and NACE Rev. 2 activity and type of training (% of all enterprises) - 2015

Eurostat (trng_cvt_01n2)



Eurostat (trng_cvt_19s)

Performance of EU Member States' innovation systems EIS 2020



Coloured columns show countries' performance in 2019, using the most recent data for 27 indicators, relative to that of the EU in 2012. The horizontal hyphens show performance in 2018, using the next most recent data, relative to that of the EU in 2012. Grey columns show countries' performance in 2012 relative to that of the EU 2012. For all years, the same measurement methodology has been used. The dashed lines show the threshold values between the performance groups.

		Proportion of enterprises not providing CVT that cited selected reasons for not providing CVT								
	Proportion of enterprises not providing CVT	High costs of CVT courses	Focus on IVT rather than on CVT	Major CVT efforts made in recent years	Existing qualifications, skills and competences corresponded to the current needs of the enterprise	Lack of suitable CVT courses in the market	People recruited with the skills needed	Difficult to assess enterprise's training needs	High workload and limited / no time available for staff to participate in CVT	Other reasons
EU-27	29.5	29.0	24.7	13.0	81.2	12.9	53.4	15.0	31.7	17.1
Belgium	16.1	10.7	3.2	2.0	75.5	6.4	28.3	2.5	19.0	
Bulgaria	57.8	42.7	21.7	9.5	81.2	21.5	82.8	15.0	39.5	6.7
Czechia	9,4	5.6	1.0	1.4	69.1	2.3	4.3	1	5.6	23.3
Denmark	13.4	22.0	44.0	4.5	73.9	19.5	65.3	38.1	41.9	16.4
Germany	22.7	23.3	47.1	13.9	87.7	12.2	53.2	23.3	32.4	21.8
Estonia	13.9	8.8	1.0		43.9	2.3	15.8		10.7	36.7
reland (')	22.6	14.8	7.0	3.5	78.6	9.3	51.3	10.3	27.3	15.1
Greece	78.3	28.8	16.4	2.7	65.7	13.8	55.5	9.2	42.2	12.6
Spain	14.0	38.3	4.2	22.0	84.4	31.2	61.4	20.3	47.7	33.4
France	21.1	48.3	58.3	33.5	88.5	21.0	63.4	36.8	72.6	19.0
Croatia	44.6	14.1	4.2	2.2	79.2	7.0	34.5	6.2	12.1	11.6
Italy	39.8	13.3	8.5	12.1	74.3	6.0	15.4	4.9	14.5	17.1
Cyprus	30.5	19.8	7.4	8.7	78.2	13.8	59.7	3.8	34.2	3.3
Latvia	0.1	:	:		1	-	:	:	:	100.0
Lithuania	38.4	63.7	15.8	12.2	87.4	26.1	85.2	45.5	40.3	6.6
Luxembourg	22.9	6.0	4.2		70.1	3.5	22.3	:	16.1	15.3
Hungary	56.2	30.6	14.2	5.0	85.2	13.4	63.5	10.5	22.7	16.9
Malta	38.4	20.7	6.9	3.8	79.9	8.2	50.9	11.5	39.6	15.0
Netherlands	15.0	14.1	5.9	2.2	73.1	4.4	53.5	3.1	9.5	33.3
Austria	11.9	32.0	12.2	1.6	88.2	10.8	50.0	10.9	44.0	19.2
Poland	55.3	33.7	38.3	16.1	85.2	11.4	70.4	12.1	24.9	17.7
Portugal	25.0	46.3	22.3	7.9	76.5	30.3	64.4	30.6	40.5	40.4
Romania	73.3	34.0	5.4	5.6	83.5	8.0	78.3	6.7	26.1	1.5
Slovenia	15.9	31.3	11.9	30.0	92.0	10.1	64.1	5.5	20.8	13.0
Slovakia	30.0	30.6	22.9	15.0	74.2	8.9	48.1	7.9	30.2	12.2
Finland	16.9	39.9	36.1	5.1	89.3	14.4	66.2	17.5	48.7	16.4
Sweden	6.9	1	:	1	4		:			4
United Kingdom	14.3	19.1	23.3	13.6	88.7	19.4	73.2	30.8	35.7	10.8
Norway	0.9	44.6	:	1	100.0		30.0	1	2.9	1
North Macedonia (')	38.1	26.8	8.6	2.8	47.2	10.2	28.1	7.7	20.4	17.9

Enterprises not providing CVT, 2015

Eurostat (trng_cvt_01n2) and (trng_cvt_02s)

Funding instruments vary across countries

Broadly speaking, "funding approaches are more effective when social partners are actively involved in the designing and implementation process; high-quality and widely accessible guidance and information services are provided to beneficiaries; the legal environment is favourable, stable and flexible; and the administrative burden is kept as light as possible" (CEDEFOP 2015)



Even in countries where higher education institutions have a high degree of autonomy, governments sometimes fund particular courses in attempt to address labour market needs.

In Sweden, for example, the government has made some adjustments in the number of health care and engineering places in higher education (OECD, 2016). Supply-side measures Public subsidies Governments also subsidise short-term training courses through their **Public Employment Service**. Indeed, where such training is not provided in-house, the Public Employment Service will either provide vouchers or purchase such training from external training providers and, frequently, the courses procured will be in areas of high labour market demand.

In Spain, for example, the <u>Observatory of Occupations</u> identifies those occupations where the demand for labour is high/growing and these are subsequently discussed in round tables with the State Foundation for Training for Employment, resulting in a list of high priority training needs. Supply-side measures Regulating the start-up of programmes Governments can also steer the supply of education and training by regulating the start-up of new programmes (and, indeed, the closing of existing ones). This can be seen as a financial incentive insofar as a programme's eligibility for public subsidies is conditional on its being approved.

Set up in the mid-1990s and inspired by the demand for specific skills expressed by employers like Volvo, the aim of the Swedish model of Higher Vocational Education (Yrkeshögskolan, or Yh for short) was to provide a form of education that could respond to labour market needs, while at the same time deliver highly skilled professionals. Typical Yh programme length is between six months and two years. Employers are the main stakeholders in this model, and their involvement is four-pronged.

Demand-side measures Individuals - Subsidies for employed Subsidies are the most direct, as well as a highly flexible, way of providing financial incentives to individuals to invest in education and training. They include: **scholarships, grants, bursaries, allowances, vouchers, training cheques, credits**, etc. and come in many shapes and sizes – which makes them difficult to classify. In general terms it is possible to distinguish between subsidies on the basis of their target population, on the one hand, and the type of skills gap they seek to address, on the other.

- In Germany, workers without qualifications and workers who have spent at least four years working in a job unrelated to their initial training (Berufsentfremdung or "professional alienation") may receive funds from the government to retrain in an area with good labour market prospects.
- In Finland, adults with no vocational qualifications are exempted from paying fees for education and training that lead to competence-based qualifications (EUROPEAN COMMISSION/EACEA/EURYDICE, 2013).

Demand-side measures

Individuals - Subsidies for the unemployed/inactive Labour market training for the unemployed/inactive plays a critical role in matching labour demand and supply by ensuring that the unemployed/inactive are given the skills that are needed by employers. This requires good **labour market intelligence** (including forecasts). In terms of incentives, labour market training for the unemployed/inactive is usually provided free of charge while individuals continue to receive unemployment (or equivalent) benefits.

- The duration of such programmes is often limited: six months in Sweden, and up to three years (with average weekly hours of 20 or more) in case of the <u>Fachkräftestipendium</u> (Skilled Workers' Grant) in Austria.
- Sometimes, additional funding is made available to cover travel and other costs associated with attending training programmes. For example, the Austria <u>Beihilfe zu den Kurs- und Kursnebenkosten</u> (Allowance for Course and Course-related Costs) covers not only 100% of the course costs, but also 100% of course-related costs, such as medical or psychological assessments, examination fees, special clothes, commuting expenses, board and lodging, as well as sign language interpretation.

Individual savings accounts

Allow users to deposit and accumulate money regularly onto a real, physical account, to be used for training purposes. The saving process is supported by the state, for instance through tax reduction or via a matching system.

Training Vouchers

Individual learning accounts

Support those taking part in further training through direct governmental payment of money. They often require more or less co-financing from the user and do not allow for any accumulation of rights or resources over time. Are virtual, individual accounts in which training rights are accumulated over time. Publicly financed, they are virtual in the sense that resources are only mobilised if training is actually undertaken.

Source: ADAPT elaboration on Oecd 2017 and 2019

Demand-side measures

Individuals - Savings and asset building mechanisms - Individual Learning Accounts

Bildungskonto

Austria

- Introduced in Upper Austria in 1994 and is still running today.
 The scheme offers bonuses and discounts for adult learners.
- In a standard case, it covers 30% of training fees up to a maximum of €2000, while for several target groups the support granted has risen to 60% up to €2,400.
- Now it includes new target groups such as the self-employed and immigrants.
- A specificity of the scheme is that application is made after completion of the training.
- Regarding the content of training, quality issues have been addressed well since the launch of the scheme (ISO certifications), and additional quality frameworks have been put in place effectively over time – at both regional (Qualitätsgütesiegel) and national level (Ö-Cert).
- The Chamber of Labour cooperates with the regional government locally in establishing people's eligibility, and plays an important role in informing and guiding people.

Cheque Formação

Portugal

- In August 2015, Portugal introduced a training subsidy for both employees and job seekers, Cheque Formação, with the aim of supporting the acquisition of relevant skills for the labour market.
- Employees wishing to invest in training, can receive a subsidy of €175

 to cover up to 50 hours of training while jobseekers can engage in
 a maximum of 150 hours of training with a maximum amount of €500.
- Unlike the other schemes, funds can be taken up either by individuals, or by firms for their employees. The latter represents the overwhelming majority of cases, most often as a means to cover their short-term needs.
- Together with the government, the public employment
- service establishes labour market training priorities that training programmes must match in order to be covered by the scheme.
- The scheme is complemented by another programme, Qualifica, featuring Qualifica Centres that provide guidance as well as the recognition, validation and certification of skills free of charge, with special help for low-skilled individuals.

Compte Personnel de Formation

France

- In the EU, only France has implemented, since 2015, what is often described as a fully-fledged individual learning account.
- Workers are credited with an amount in euros, depending on hours worked. Those who work at least 50% of the statutory working time benefit from €500 a year with a €5,000 ceiling, but targeted support is also available for low-qualified adults and those with a disability, who receive €800 a year, up to €8,000.
- Additional funding from public employment services, regional authorities, the employer and other entities can top up the account.
- The entitlement to training is enhanced by an improved Career Transition Counselling Service (CEP), Conseil en evolution professionnelle. Actions to validate acquired experience, skills assessments, support and advice for entrepreneurship, as well as distance learning are eligible.
- The CPF is financed by a part of the annual compulsory contribution by companies for vocational training, which is managed by the Caissevdes Dépôts et Consignations. France's recovery plan for the Covid-19 crisis provides that accounts of young people in need of basic digital skills training be topped up to entirely cover the fees of digital training courses.

Demand-side measures

Individuals - Tax incentives

Governments widely use tax incentives to incentivise individuals to invest more in education and training, and these come in various forms: tax allowances (i.e. deductions from taxable income); tax credits (sums deducted from the tax due); tax relief (lower or zero rates) on scholarship incomes, grants and student income; and tax deductibility of interest payments on student debt.

Several European countries have set up tax incentives to foster national education and training activities. The need to provide continuing training for the workforce has led to several cost-sharing (co-financing) schemes across Europe, including tax incentives, loans, training funds, and individual learning accounts. Therefore, tax policy has been incorporated into some initiatives to enhance incentives and means for financing lifelong learning. Demand-side measures Individuals - Loans One of the main sources of market failure in the skills market stems from the difficulty individuals face in financing their education and training through borrowing. Governments can and do therefore intervene by putting in place a range of measures – such as state guarantees, interest rate subsidies, loan guarantees, income-contingent repayments, student loan remission and/or forgiveness – to address the reluctance of private financial institutions to provide loans for education or training purposes but also the risk averseness of certain learners (particularly those on lower incomes) (OECD, 2017).

Demand-side measures Individuals - Study/Training Ieave

- Belgium, for example, provides longer study leave for individuals who (re)train in areas where labour market shortages exist (métier en pénurie/knelpuntberoep).
- In Austria, training choices need to be approved by the PES, which should only be done if the course is likely to improve the labour market prospects of the individual in question; "hobby courses" are not financed.
- In Norway, the studies undertaken must be vocational. In countries where study leave is regulated by collective agreement (e.g. the Netherlands), training priorities are likely to reflect those set down by the social partners.
- Finally, some governments (e.g. Hungary, Iceland, Lichtenstein, Latvia and **Portugal**) make training leave compulsory for certain professions, e.g. teachers, social care, or health care specialists.

Demand-side Measures Incentives for employers -Subsidies Most subsidies targeted at employers remain general and do not target specific skills. The risk with this approach is that valuable resources are spent on training that is not directly relevant to current or future labour market needs. On the other hand, it allows for more flexibility in the identification of training needs, both on the part of employers and on the part of government, especially at the local level. While certain programmes do target specific skills, there is no robust evidence to indicate whether this is effective or even desirable.

For example, in the case of the <u>Walloon Chèque Formation</u> (a training voucher which employers can purchase at a subsidised rate), some of the vouchers are targeted specifically at green and language skills. Demand-side measures Incentives for employers - SMEs-Subsidies Small and medium-sized firms are the most likely to encounter barriers to training, and the flexibility provided by subsidies makes them an effective tool for targeting SMEs and, thereby, reduce the extent of deadweight loss associated with public funding for training.

- Some programmes are targeted exclusively at SMEs. Some of these are designed to help SMEs overcome cost barriers (e.g. Chèque Formation in Wallonia, Belgium; Profi!Lehre and Weiter!Bilden in Austria) specifically seek to help them grow and become more competitive through skills investments (Industry Skills Fund in Australia, KMO Portefeuille in Flanders, Belgium). In this context, the Formação-Ação in Portugal focuses on a particular barrier to SME growth, namely management skills.
- In Poland, grants awarded through the <u>National Training Fund</u> cover 100% of the costs of lifelong learning for microenterprises, compared to 80% for all other firms.

Other measures

Italy

- The Law Decree No. 34 of 19 May 2020 (art. 88) and Law Decree No. 104 of 14 August 2020 set up the New Skills Fund (Fondo Nuove Competenze) under the premises of ANPAL (the National Agency for Active Labor Market Policies).
- The Fund has the goal of raising the level of human capital in the labor market, offering workers the opportunity to acquire new or greater skills and equip themselves with the tools to adapt to the new conditions of the labor market, and supporting companies in the process of adapting to new organisational models and production determined by the epidemiological emergency from COVID-19.
- The Fund supports companies and workers in training activities to face companies changing organisational and production needs. Companies and employers can implement specific collective agreements with the most representative trade unions to reshape working hours in order to respond to changing organisational and production needs of the company or to encourage workers' relocation paths, with which part of the working time is aimed at the realisation of specific programs for the development of workers' skills. The intervention, therefore, is targeted to workers whose working hours have been reduced due to participation in skills development courses.
- The Fund reimburses companies the cost of the reduced hours allocated to attend these courses, including social security and welfare contributions. Collective agreements must identify the employer's needs and may provide for the development of skills aimed at increasing the worker's employability (also with a view to relocation to other situations). The maximum limit is 250 hours for each worker.

Demand-side measures Training levies/funds Training levies are used in some countries as a way to pool resources from employers and earmark them for expenditure on training. They are a form of collaborative solution, but differ from those that were discussed above in that, generally, they do not involve a government subsidy. Training levies can emerge either from public policy or from the initiative of social partners. Given the focus of the present chapter, only the former type of levy schemes are considered here – although it is not always easy to draw a neat distinction between the two.

In the Netherlands, sectoral training funds (Opleidings- en Ontwikkelingsfondsen) are set up and managed by the social partners. However, by extending collective agreements, the Minister of Social Affairs and Employment can effectively impose a training levy to the entire sector.

The main purpose of levy schemes is to address the concern that training firms have their workers "poached" by non-training ones. Training levies "mutualise" financial resources and use them for the common good: they mitigate the "free-riding" problem by reshuffling money from employers who invest little in training to those who invest a lot. As a result, training levies can promote higher levels of employed sponsored training by helping to overcome this type of market failure. Demand-side measures Sectoral training dunds "A 'training fund' is a dedicated stock or flow of financing outside normal government budgetary channels for the purpose of developing productive skills for work"

- Training funds in the EU are very heterogeneous. The differences concern the governance models (bipartite or tripartite nature), the number of funds established per country, the type of (education and training) activities and target groups supported, and the way the money is collected and redistributed.
- Training funds may be created voluntarily and managed by social partners, as part of collective agreements at sectoral level (e.g. Denmark, France, the Netherlands). In some countries, this may result in a high number of training funds covering the majority of economic sectors (e.g. approx. 90 training funds in the Netherlands), whereas in other countries, training funds may be present only in a few, particular sectors (e.g. UK, Germany). Finally, some countries opt to create a single national training fund, governed by the State, often in partnership with social partners (e.g. Cyprus, Spain).

What interviewees said -Insights from interviews and online survey

Financial incentives for research and development and skills investments

"As far as it concerns the funding for training, we think that **a public-private co-funding involvement in terms of contribution to the continuous vocational training could be the most effective**. More funds should be allocated for the continuous vocational training, with specific reference to the area of digitalisation and securisation of career paths " [TU rep - L]

"Concerning training funding, we have to consider the money that is put in also by **European funding**." [Company level respondent empl - FR]

"Given that funding is one of the main barriers to accessing both initial and periodic training in countries where training is not (sufficiently) state-funded, representative trade associations and their national trade union social partners should jointly reflect on and identify the most appropriate ways within their respective countries of establishing collective funding schemes to fund, in whole or in part, all types of training (initial, periodic, apprenticeships, niche, excellence etc.). Two best practice are identified in training and development bilateral funds in Belgium and in the Netherlands." [TU rep - Eu level] Financial incentives for research and development and skills investments

"We have a problem of insufficient resources and investments on training. It is necessary to invest in education and training and there are some attempts in this direction from governments: tax credit, National innovation plan Industry " [TU reps - IT]

"One concern about the funding for training is the unpredictability of the public payments schedule which discourage employers and training providers from applying for funding. Thus, is not a matter of availability of funding (enough money allocated) but of stability of transfers. This concern also applies to employment promotion measures that we have in terms of active labour market policies and, in general, in receiving replies in due time from the public administration " [EMPL - PT]

	Number of replies received	An Enterprise/workers' representative	An Enterprise/employer's side	An Employers' Organisation	A Trade Union
They have a consultation role	17	1	1	7	8
They have a marginal role	15		2	2	11
They play a significant role	14		2	6	6
They have a quite relevant role	14	1	3	8	2

Perceived role of Social Partners in helping to design and/or encourage incentives for research and development and skills investments by employers in their workforce

Has your Organization/Union/Company ever been involved in measuring the effectiveness of the incentives in terms of skills development and strengthening of innovation?



Financial incentives for research and development and skills investments

- Responding to interviews linked to studies about training [TU rep. Spain]
- By participating in training funds [TU rep the Netherlands]
- By participating in Monitoring Committees supervising the operational programmes [EMPL rep. - Italy]
- An evaluation of the last reform concerning training is planned for 2021 and French Social Partners initiated a work programme in order to reflect on the measurement of the impact on companies of the « Bill for the freedom to choose one's professional future » promulagated on Septembre 5th, 2018 [EMPL rep. - France]
- We monitor innovation impact on customer product rating and market expansion [Company level respondent EMPL]
- Law regulating collective access for employees to continuing training, individual training leave, existing competence centers (eg. construction sector) [TU rep. France]
- Interprofessional training funds [TU rep. Italy]
- Training financed to a large extent with the professional training fee paid monthly by companies and workers [TU rep. Spain]

Financial incentives for research and development and skills investments

Are you aware of any cost-sharing approaches (publicprivate, and/or between Social Partners) to training provision within your country/sector?

YES: 32/64 NO: 32/64

If there is not currently a cost-sharing approach, do you think that introducing one could help to increase investment in training (including In the form of incentives encouraging employers to invest)?

Maybe: 21 YES: 38 NO: 3 Financial incentives for research and development and skills investments

Which kind of resources, besides the financial ones, could encourage employers to invest in research, innovation and upskilling their workforce and supporting employees to acquire the skills and qualifications adequate to meet the innovation challenge both now and in the future?

- Collaborations with startups, universities, research centers, participation in clusters, etc.
- Facilitation/Counselling/guidance through networks and alliances
- General business environment, legal certainty, business-fiendly policies
- Recognizing the value of innovation to retain and build the customer base. we run a lot of research on this
- Appropriate policies for professional and personal development in the medium and long term
- Support structures for SMEs, greater co-responsibility in the sharing of the functions associated with the training process (prioritization, offer coordination, evaluation ...), and recognition of the training role of the company
- Employers themselves need training to become aware of the importance of training for the productivity of the company, to guarantee its future
- Increased competitiveness, differentiation from the competitors
- Penalties for employers in the event of non-compliance with their obligations
- Non-compulsory question. Brief paragraph reply option (autonomous entry by respondents). "Recurrent" refers to similar replies entered by at least 2 respondents.
- Addressing also SMEs peculiarities.

Thank you!



