



## Financing Adult Learning in times of crisis

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### Background report for the Workshop

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# 1 INTRODUCTION

“Education has positive effects on earnings, unemployment risks/rates, and health as well as on childrens’ well-being” is a summarising statement that is more or less valid for any level of education, from early childhood to further and adult education. The literature provides ample evidence on this issue. However, reviewing the literature on costs and benefits of and the returns to adult education, empirical evidence seems limited. Furthermore, empirical evidence may even suggest investing more in the early phases of education by cutting public spending for later phases, i.e. particularly higher education, adult learning (Cunha et al. 2006) or active labour market policies (Heckman/Jacobs 2010). Yet, this finding of decreasing marginal rates of return over the (working) life-time is trivial as it is based on the assumption that the costs are the same for early childhood education as well as for higher or adult education. As the latter takes place in later phases the timespan left to gain from e.g. higher income, lower unemployment rates etc., is shorter, resulting inevitably, in lower rates of return. One question is, whether the costs are really the same for all levels of education; another, how high the (maximal) costs for adult learning can be to arrive at the same rates of return than for early education. A third question is, even accepting that rates are higher for early education, whether the returns to adult education are positive and, ideally, at least higher than other investments.

The result will also depend on the costs and benefits reviewed and there is evidence that fiscal returns are higher than private benefits, as a simple example from Germany may indicate: An unemployed person costs on average € 18,000 per year. If this person enters the labour market successfully this cost will be reduced at least partially and – ideally – to zero. In addition, this person will pay social insurance contributions (40% of gross income incl. employer’s contribution) and income tax. For example, if this person earns € 1,000 (gross income) a month, social insurance contributions amount to approximately € 5,000 a year. Thus, the net difference between both situations (unemployed and depending on social security payments versus employed) would be € 23,000 a year; the difference between both alternatives increases with gross income. In a macro-economic perspective fiscal rates of return may be at levels of 20% p.a. and beyond (Dohmen/Henke/Ramirez-Rodriguez 2010). An important issue is the wedge between private, fiscal and social returns.

In addition, if politics would follow this advice it would mean that those who are too old for early childhood education achieved proper education levels would be at the risk of becoming a “lost generation”, which can result in serious political problems (as can be confirmed by the debates on migration or youth unemployment in several European countries). Furthermore, the horizon for gaining fiscal and other returns from early education would be fairly long, while returns to adult learning would arise far earlier. This seems an important issue, particularly with regard to the demographical change that is on the rise and which will lead to shortage of skilled labour in a few years (see chapter 0). The different horizon between adult learning and early education could suggest the use of the short-term benefits of adult education to finance the long-term investment in early education. A full-fledged strategy for lifelong education should comprise the whole system from early to adult education, which this study is focussed on.

Chapter 0 looks at indicators on participation in adult learning (section 0) as well as on the costs, benefits of and (rates of) return(s) to adult learning (section 0). A comprehensive overview on financing, its theory, its modalities in practice as well as political and research debates is presented in section 4. Section 5 will summarise the findings and present some challenges for an expansion of participation in adult learning with a particular focus on disadvantaged and lowly educated groups.

Before going into the details of the economics of adult learning it is necessary to define some terms. In general “adult learning/education” refers to non-vocational education of adults. In this sense it would be more a part of the general education stream than of vocational education and training. Yet, this distinction blurs, as, for example, language or computer training is a basis for private as well as vocational purposes, i.e. any professional training relies/builds on the foundation of general education. In this sense, education and training are complements (Brunello 2001, Heckman/Jacobs 2010). This is even of more importance when referring to disadvantaged target groups, who have left school early or acquired less than (upper) secondary education.

Furthermore, while reviewing the literature for this report it turned out that almost all studies do not clearly distinguish between (non-vocational) adult education and vocational training. This is particularly relevant for reviews on financing models; most studies refer to further vocational training. In addition to the blurring distinction between non-vocational and vocational adult learning, this is another important reason for the pragmatic approach followed by this study, not to follow a clear-cut distinction between both areas. Only company-based or company-initiated training will not be reviewed.

## 2 ECONOMIC AND DEMOGRAPHIC TRENDS IN EUROPE

The trend of a growing role of the services sector occupations and jobs and a diminishing role of primary (agriculture, forestry etc.) and (partially) secondary sector occupations and jobs in production and manufacturing will continue in the future. This development is linked to growing demand for highly and – to a lesser extent – medium qualified people. According to a recent Cedefop-study (2010), demand for highly qualified staff is expected to grow from 64 million in 2010 to 79 million in 2020 within the EU-27, this would be an increase of 15 million (+23%). The demand for medium level qualifications is forecasted to increase from 111 million to 115 million (+4%). In contrast, demand for lowly qualified staff is said to decrease from 45 million to 33 million (-27%)<sup>1</sup>. This picture is similar for almost all EU 27 countries, though size differs. In addition, it should be taken into account that these figures represent expansion demand only, while replacement needs will be far higher and determined by the baby-boomer cohorts in most European countries. Replacement demand is estimated to 73 million and positive for all occupations. Thus, almost one third of the present labour force will probably have to be replaced within the next decade. In total, 90 million jobs might be available for skilled young people.

As a result of these trends the share of highly qualified jobs is likely to rise from 29% to 35%, while the share of medium-skilled jobs would remain at around 50% and that of lowly-qualified would decrease from 20 to 15%.<sup>2</sup>

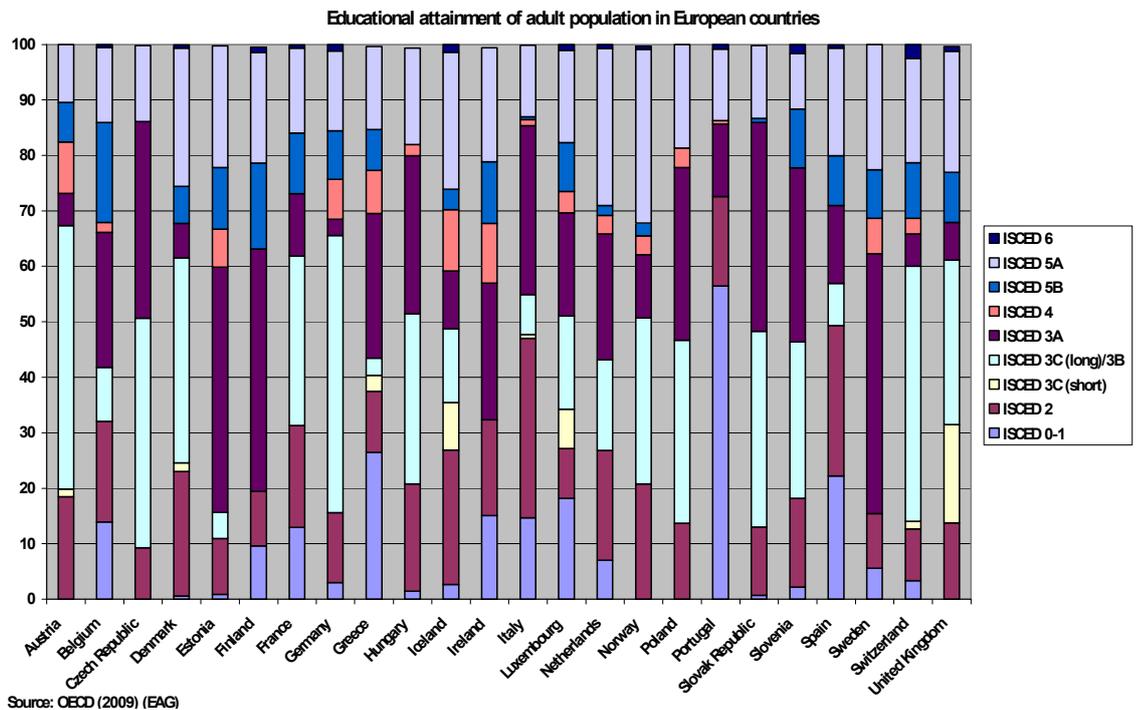
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<sup>1</sup> This is a remarkable decrease in job growth particularly for the highly qualified in relation to Cedefop’s pre-crisis estimate (Cedefop 2008). At that time the expectation was an overall demand of about 100 million for highly qualified (incl. 80 million replacements). Eventually, the skills needed for the next decade will depend on the time required to return to the pre-crisis growth path. However, it should be noted that the share of highly qualified jobs will increase to 35% according to the new estimate compared to 31% as indicated by the previous study. Thus, an important effect of the crisis is its shift of skill requirements to a higher level (see also the figures presented in European Commission 2008, p. 7).

<sup>2</sup> The comparison with corresponding pre-crisis figures indicates an increase from 25.1% (2006) to 31.3% for highly qualified, and from 48.3% to 50.1% for medium level skills. In contrast, the share of jobs requiring low education levels was expected to decrease from 26.2% to 18.5% (European Commission 2008, p. 7; Cedefop 2008). This, again, indicates the positive effect of the crisis on qualification requirements.

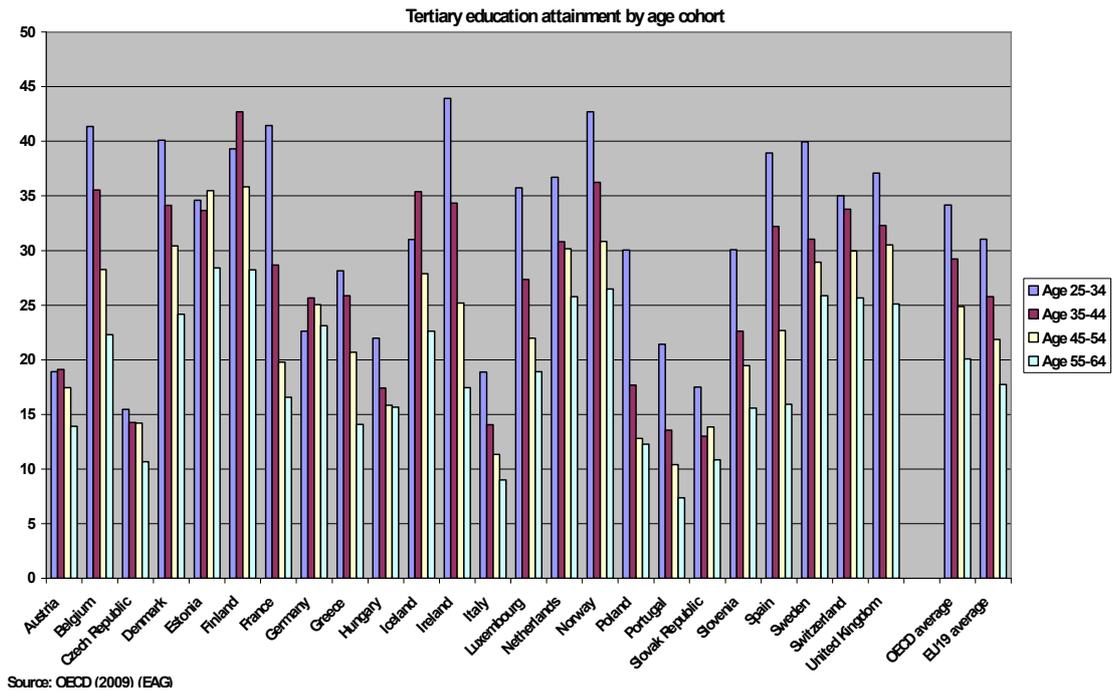
Comparing these numbers and relations with the present educational structure of the adult population (see Figure 2.1<sup>3</sup>), it becomes evident that most countries will still have a way to go to reach such levels, particularly regarding the upper as well as the lowest levels. On average, 24% of the adult population of the EU-19 states have graduated from tertiary education, 46% have upper secondary education, while 29% have less. Actually, only Finland meets the level of the highly educated people share mentioned above, although the proportion of the lowly qualified is still too high in relation to the “benchmark” of 15% lowly qualified required by the labour market.

**Figure 2.1: Educational structure of the adult population in European countries**



<sup>3</sup> ISCED – International Standard Classification of Education: ISCED 0 – pre-primary education, ISCED 1 – primary education, ISCED 2 – lower secondary education, ISCED 3 – upper secondary education (3A general education, 3B vocational education and training, 3C – short programmes), ISCED 4 – post-secondary, non-tertiary education, ISCED 5A – tertiary education programmes of at least 2 years, ISCED 5B – tertiary education programmes of less than 2 years, ISCED 6 – research degrees.

Figure 2.2: Tertiary education attainment by age cohort



Reviewing the trends in educational attainment over the last decades, Figure 2.2 and Figure 2.3 indicate that the share of adults with tertiary and secondary education increased in most European countries. However, the share of those with low levels of education, which can be identified by the difference between the column presenting the share of secondary skilled people and 100% in Figure 2.3, remains still (far) higher in most countries than labour market requirements of 15% (see above). It should be noted that employment rates are less while unemployment rates are far higher for those with low levels of education in relation to those with higher qualification levels (OECD 2009).

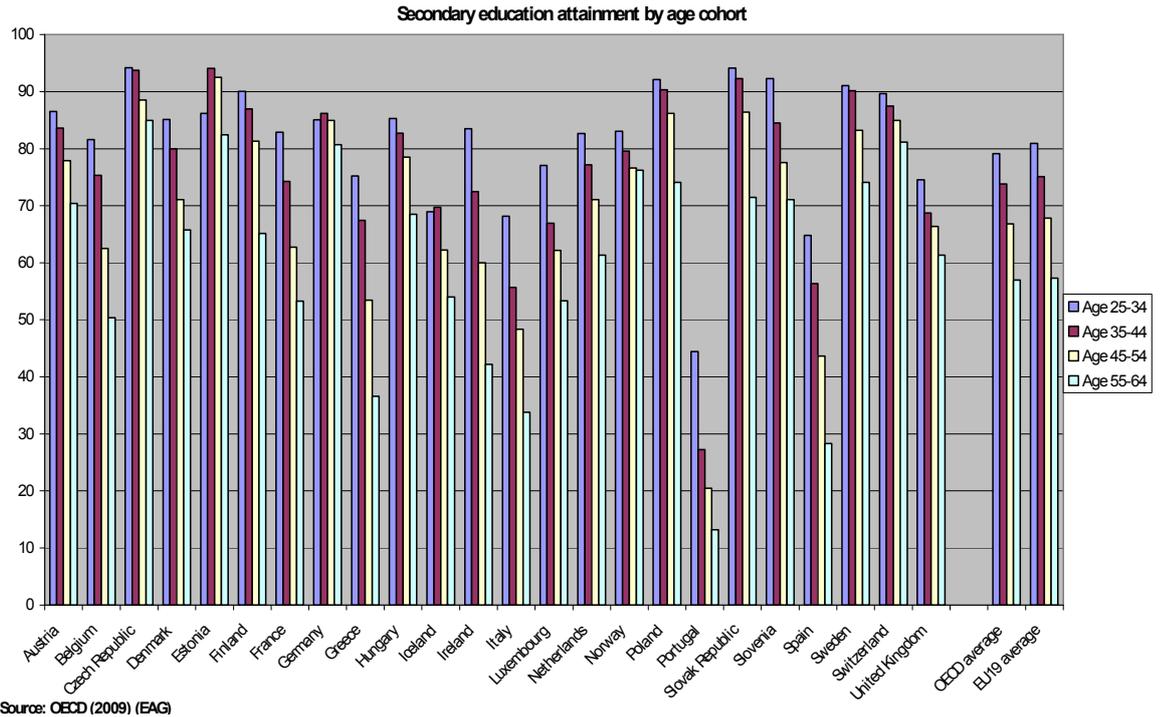
Cedefop (2010) expects a decrease in the share of low and unqualified population from one third to one fourth within the decade 2010 to 2020, in absolute figures this is a reduction from 146 million to 113 million (-23%). In contrast, the number of medium qualified will increase from 197 million to 217 million (+10%) and that of highly qualified from 92 million to 120 million (+30%). However, these figures should not hide, that the total number of younger people is decreasing while that of elderly is growing.

Figure 2.4 reveals that only those cohorts aged 50+ will grow over the upcoming decade, while all younger age cohorts will be smaller in 2020 than in 2010. In addition, Figure 2.5 indicates that the number of highly qualified will increase over all age cohorts during the next ten years, while the figures on medium level qualification are mixed; their number increases among those aged 45+ and decreases across the younger cohorts. The core message of Figure 2.5 is that the total number of medium and highly qualified among the younger age cohorts is less in 2020 than in 2010. In fact, comparing those aged 60 to 64 to those aged 20 to 24, i.e. comparing those age groups which are about to leave the labour market with those which are about to enter it, it turns out that there is a lack of about 1 million highly qualified young people in 2010 and of 3.6 million in 2020. In contrast, the number of medium qualified young people exceeds that of the retiring age cohort by 9 million in 2010 and almost 2 million in 2020.

These figures clearly suggest that adult education, whether non-vocational or (particularly) professional becomes an important strand within the education system.

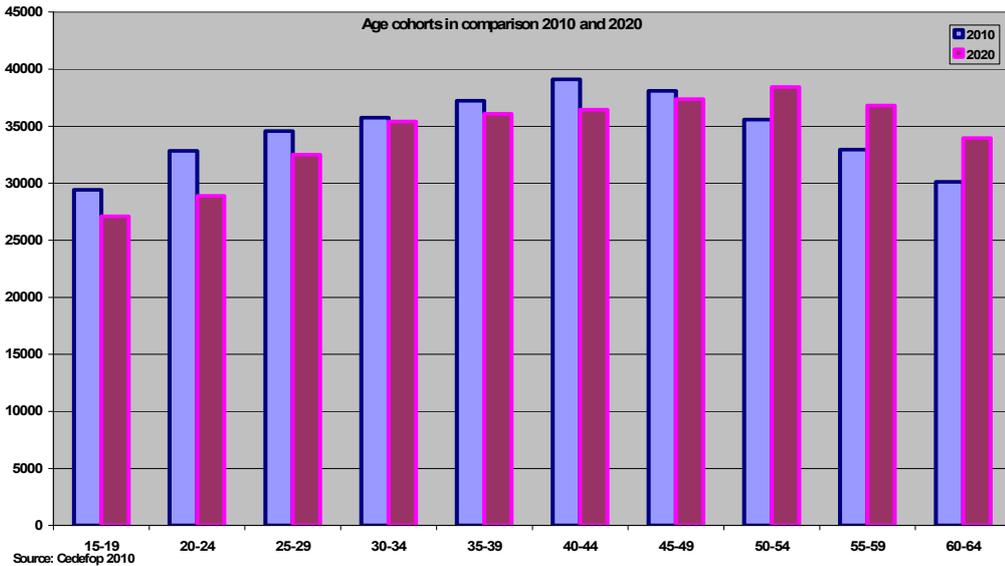
On the one hand educational policies will have to aim at basic qualifications for the lowly qualified, and on the other hand they will have to improve and tailor the skills of those qualified at medium or higher levels to the needs of the labour markets as well as their private requirements. Thus, adult education could serve people to upgrade their skills to (upper) secondary level, and – at the same time – serving those with secondary education to get a tertiary degree certificate. From our point of view, there is no clear cut distinction between vocational and non-vocational programmes. General skills are important for professional as well as non-professional purposes, and some programmes which are of private nature for most participants may be professional for others, for example, music or artistic classes.

**Figure 2.3: Secondary education attainment by age cohort**



Source: OECD (2009) (EAG)

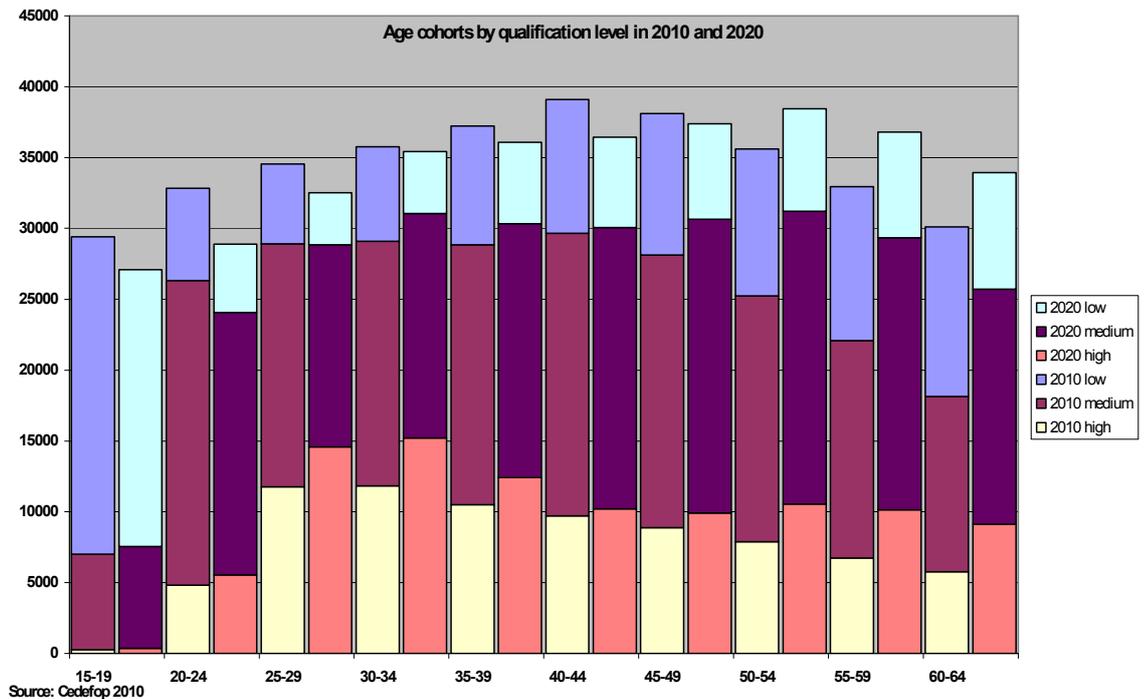
**Figure 2.4: Secondary education attainment by age cohort**



Source: Cedefop 2010

In addition, the European Commission (2008, p. 8) highlights the need to complement classical subject skills (expert knowledge) through competencies for non-routine tasks, for example, marketing or management skills for ICT professionals, digital literacy for service workers etc., as well as so-called transversal key competencies. If such competencies are not an integral part of “initial” education and training (up to tertiary education), they need to be acquired during later phases as part of lifelong learning. The same applies to adopt and respond to new job and labour market requirements.

**Figure 2.5: Age cohorts by education levels in 2010 and 2020**



In this respect, it is somewhat surprising that the major emphasis of the European Commission’s paper “Europe 2020” (European Commission 2010) is about initial education (from early to higher education) and on early school leavers, while lifelong learning (in the form of further and/or adult learning) has a focus on professional education and training only. However, how do we distinguish between a professional and a non-vocational ICT-course, if digital literacy – whether at basic or at advanced level – is concerned? Where is the borderline for marketing or accounting programmes for labour market and voluntary engagement in social organisations? Can a second chance programme to gain an (upper) secondary education degree be qualified either as non-vocational or as vocational adult education, if it serves as an entry requirement for vocation education and training (VET) or higher education – or just a better pre-condition to get a (lowly qualified) job in the labour market? As already mentioned above, (general) education and (vocational) training are complements.

### 3 KEY DATA ON ADULT LEARNING IN EUROPE

#### 3.1 Participation in adult learning

This section provides some empirical data on adult learning activities in European countries. With regard to participation three different surveys are available:

- Adult Education Survey (AES)<sup>4</sup>,
- Lifelong Learning ad hoc module of the Labour Force Survey (LFS)<sup>5</sup>, and
- Continuing Vocational Education and Training Survey (CVTS III)<sup>6</sup>.

**Figure 3.1: Comparison between participation rates in AES, LFS and CVTS III**

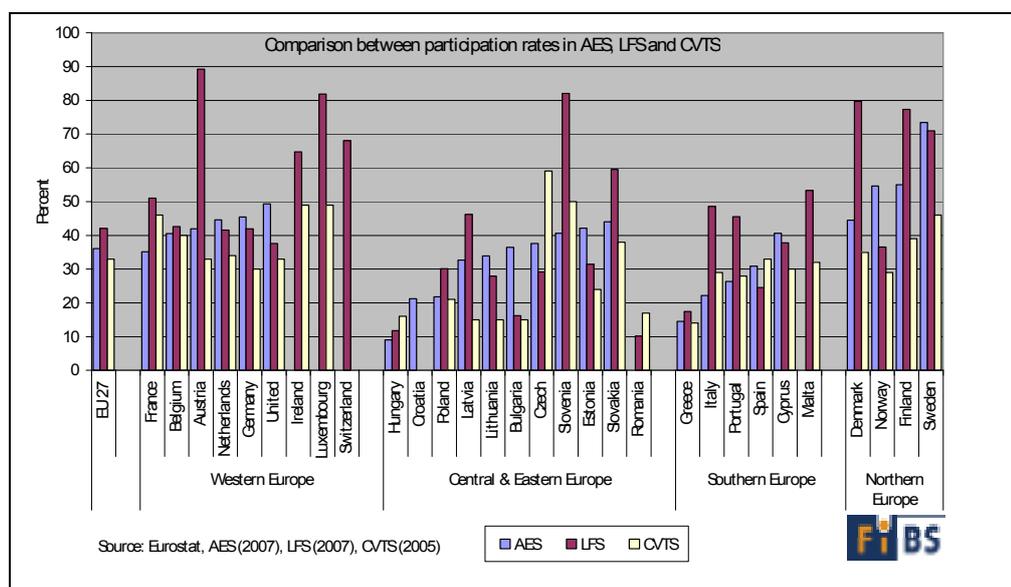


Figure 3.1, comparing the results of the three surveys, presents a very heterogeneous picture. Relying on **LFS-data**, participation rates are particularly high in Austria, Luxemburg and Slovenia (above 80%). Several other countries, such as Denmark, Finland and Sweden reach rates above 70%, while Switzerland and Ireland are beyond 60%. In contrast, the rates of Romania, Hungary, Bulgaria and Greece are below 20%.

The only country that reaches a share of more than 70% according to **AES-data** is Sweden, as evidenced more in detail by Figure 3.1, followed by Finland and Norway

<sup>4</sup> The AES is a self-contained survey referring to "all learning activity (i.e. intentional learning) undertaken throughout life, with the aim of improving knowledge, skills and competences, within a personal, civic, social, and employment related perspectives" (Eurostat AES metadata). This includes formal and non-formal activities, while informal learning activities, such as self-learning, are not considered.

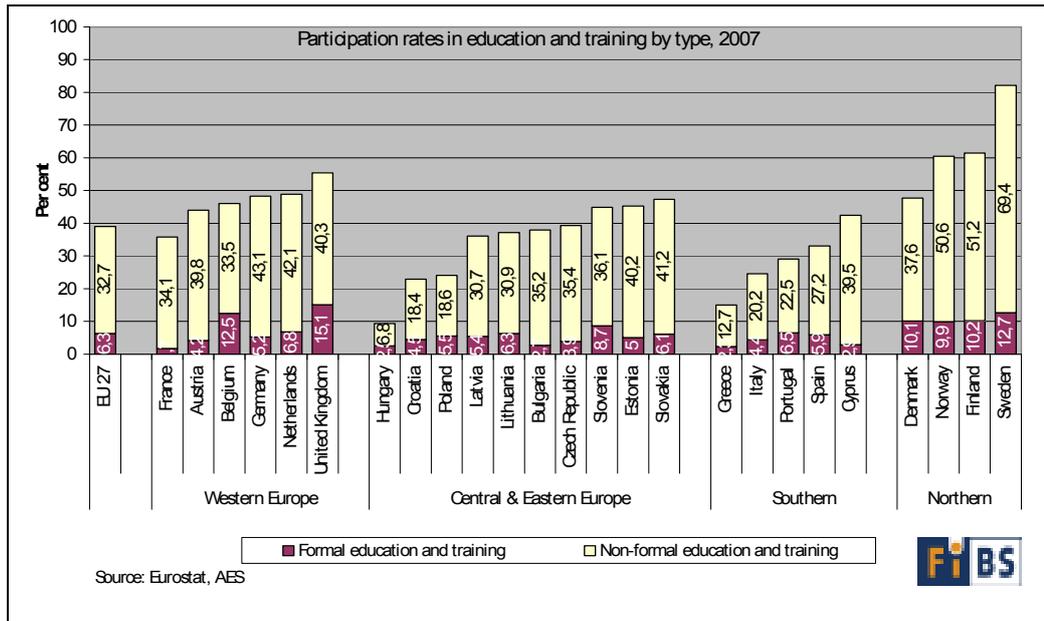
<sup>5</sup> The LLL ad hoc module of the European LFS covers "all purposeful learning activity, whether formal or informal, undertaken on an ongoing basis with the aim of improving knowledge, skills and competences" (Eurostat LFS-LLL metadata); "informal learning activities" include "non-formal education" as well as "informal learning".

<sup>6</sup> CVTS III reviews learning activities in enterprises employing 10 or more staff. Here, participation rates refer to the percentage of employees participating in continuing vocational training courses (all enterprises). Thus, learning activities refer particularly to non-formal training, while informal learning is neglected and persons who are not employed are also excluded.

with around 50%. At the lower end are Hungary with less than 10% and Greece with 15%. Figure 3.1 clearly highlights that across all countries by far the adult learning takes place in non-formal settings, with formal learning only rarely above 10% (for Belgium, UK and the Scandinavian countries).

Figure 3.1 also suggests some regional differences. While the northern countries as well as the Western European countries, except for France, are beyond the EU-average of 39%, the participation rates in most Central and Eastern European countries (except Slovakia, Estonia, Slovenia and Czech Republic) as well as in the Southern European countries (except Cyprus) are below EU-average.

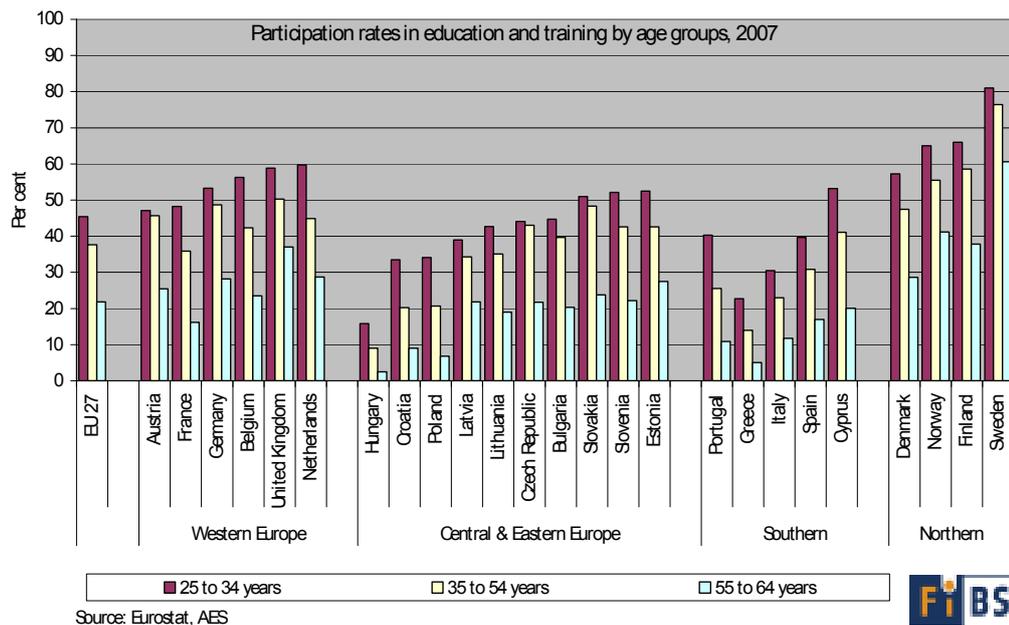
**Figure 3.2: Participation rates in education and training by type, 2007**



It should be noted that female participation is an important driver of the participation rates. Their participation rates are usually higher in those countries, where the participation rates are higher than in comparable countries, as is the case, for example, in the Nordic countries, or in Estonia, Lithuania and Latvia as well as in the United Kingdom (Boateng 2009).

More detailed figures on adult learning are only available from AES-data. Figure 3.2 indicates that participation rates decrease with age, i.e. they are highest for those aged 25 to 34, and are lowest for those aged 55 to 64. However, it seems worth noting that participation rates of the elderly are in some countries, particularly Sweden, higher than participation rates of the youngest age cohort in non-Scandinavian countries.

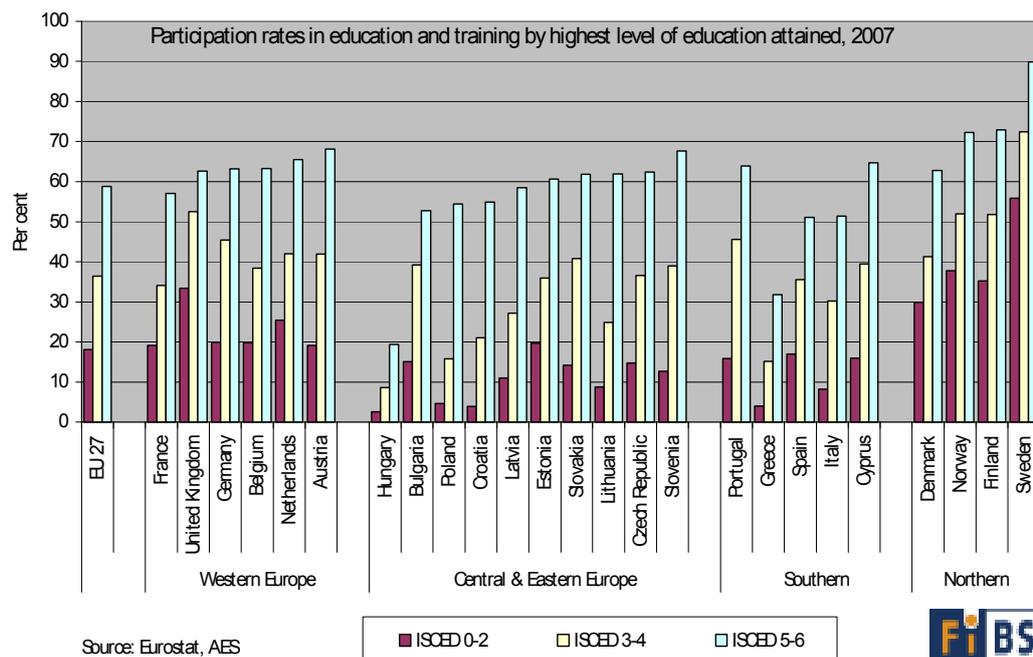
**Figure 3.3: Participation rates in education and training by age groups, 2007**



As is to be expected, participation rates increase with the level of (initial) education (see Figure 3.3). The (relative) differences between the participation rates of those with different levels of (initial) education seem lower in Northern Europe and particularly high in Central and Eastern as well as in Southern Europe. Here, those with tertiary education (ISCED 5-6) participate three to four times more often than those with less than upper secondary education (ISCED 0-2).

In all countries, the mean hours of instruction are highest for the youngest age cohort (25 to 34 years old) and decrease with age (see Figure 3.4). The difference in the number of hours spent on adult learning is particularly high in Germany, Denmark and Hungary.

**Figure 3.4: Participation rates in education and training by highest level of education attained, 2007**



**Figure 3.5: Mean hours of instruction spent per participant and age cohort, 2007**

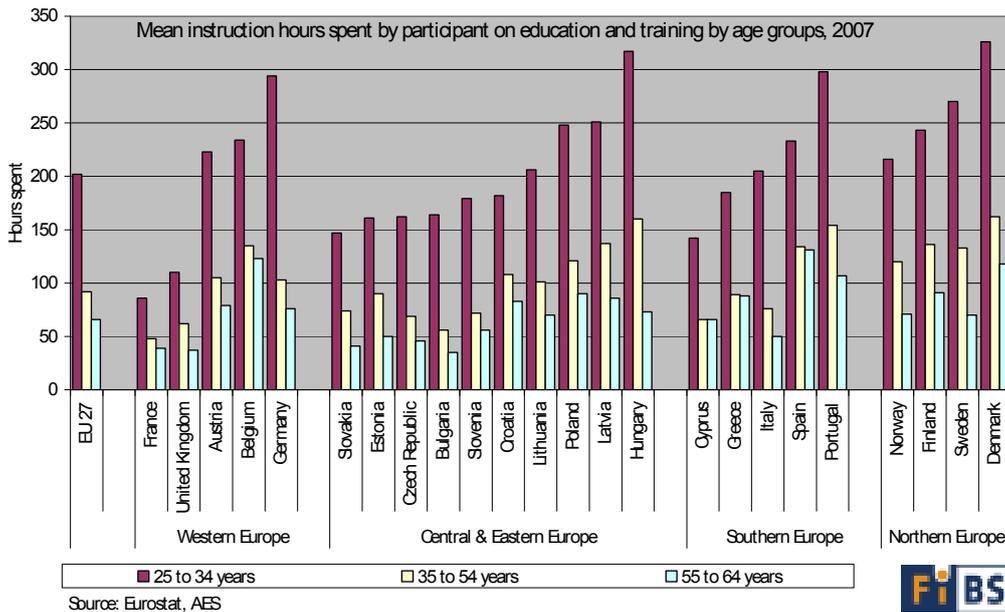
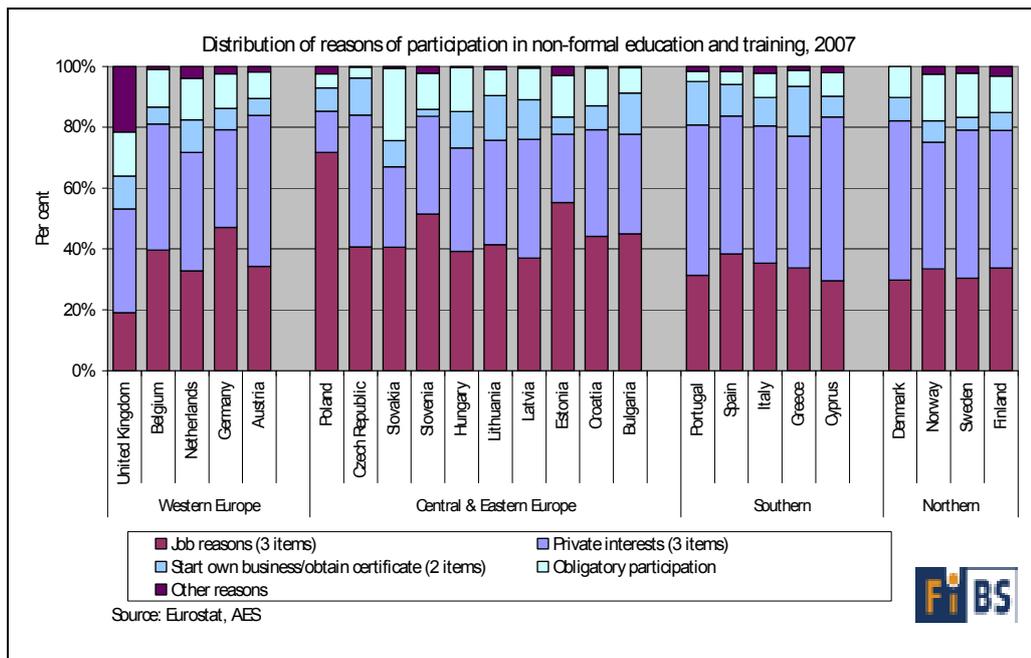


Figure 3.6 indicates that in most countries, between 40 and 50% participate for job reasons (including starting their own business or obtaining a certificate). An interesting finding is that the importance of private interests seems to have a regional bias. While private interests are more important than employment issues in the Nordic and in the Southern countries, employment reasons are at the core in Central and Eastern European countries; the Western European countries reveal a mixed picture, with employment more relevant in Germany and private interests more important in the Netherlands and Austria.

**Figure 3.6: Distribution of reasons of participation in non-formal education and training, 2007**



### 3.2 Costs, benefits of and returns to adult learning

#### Costs of adult education

Information concerning the cost of adult learning is limited. Figure 3.7 indicates on the basis of AES-data across all countries that formal programmes are far more expensive than non-formal ones. A simple explanation for this may be that formal programmes cover (far) more hours than non-formal ones (Boateng 2009). However, it could also be that higher education programmes are included.

The costs for formal programmes range from € 150 to 200 in Finland and Belgium to € 3,300 in Cyprus. In contrast, average expenditures for non-formal courses are less than € 250 in all countries, and are often even less costly than € 100. These low costs for non-formal Adult Education (AE) programmes suggest that this is due to fact that they are very short being only a few hours long (Boateng 2009). However, it is also possible that the limited private costs are due to public subsidisation, as seems also the case in Finland or Belgium, where even formal AE programmes are of low costs.

**Figure 3.7: Mean amount of money spent by participant on education and training by type**

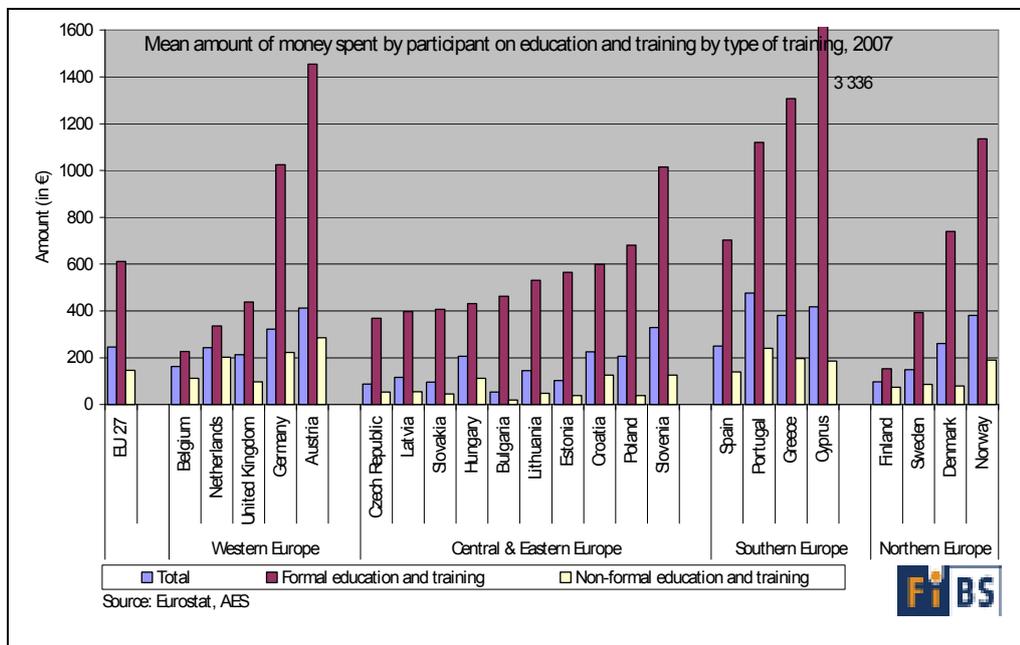
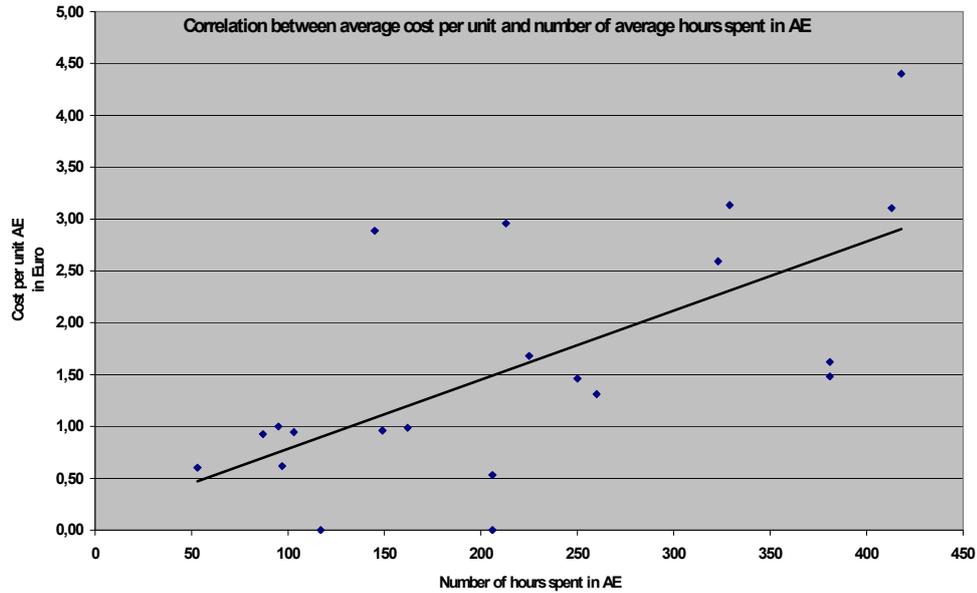


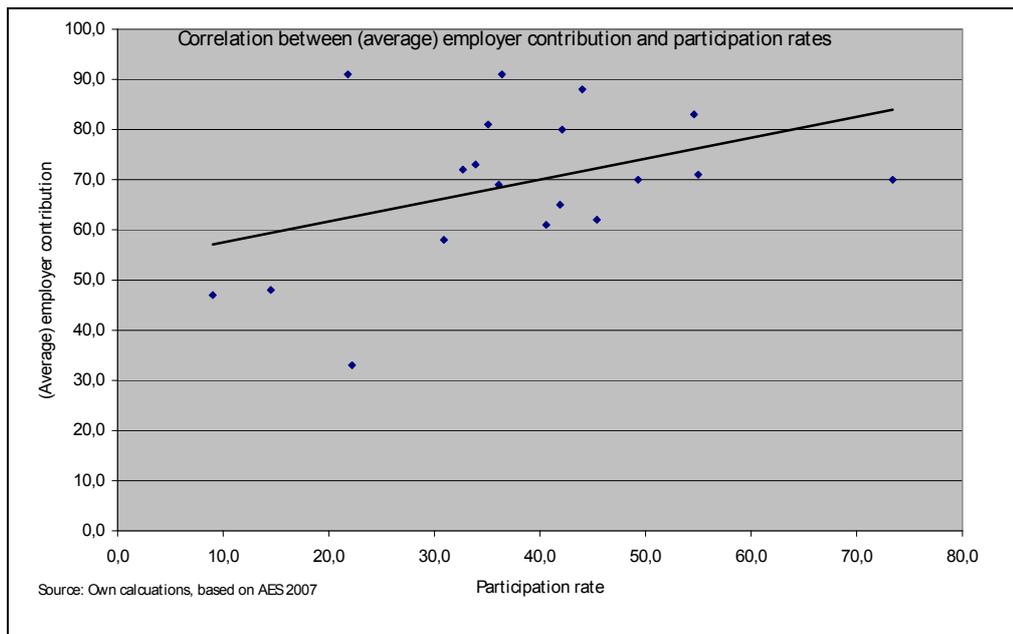
Figure 3.8 indicates that the average costs per unit and the number of hours spent in AE are positively correlated, i.e. that participation is low in countries where costs per hour are low, while it is high where costs are high. This correlation could suggest that costs per hour are an indicator of the perception of the value of AE, though this should be treated with caution.

The following Figure 3.9 suggests that participation rates at least to some extent depend on employers' contribution to the costs. Employers are in almost all countries the major financier of adult learning, particularly as far as vocational programmes are concerned.

**Figure 1: Correlation between average costs per unit and number of average hours spent in AE (own calculation)**



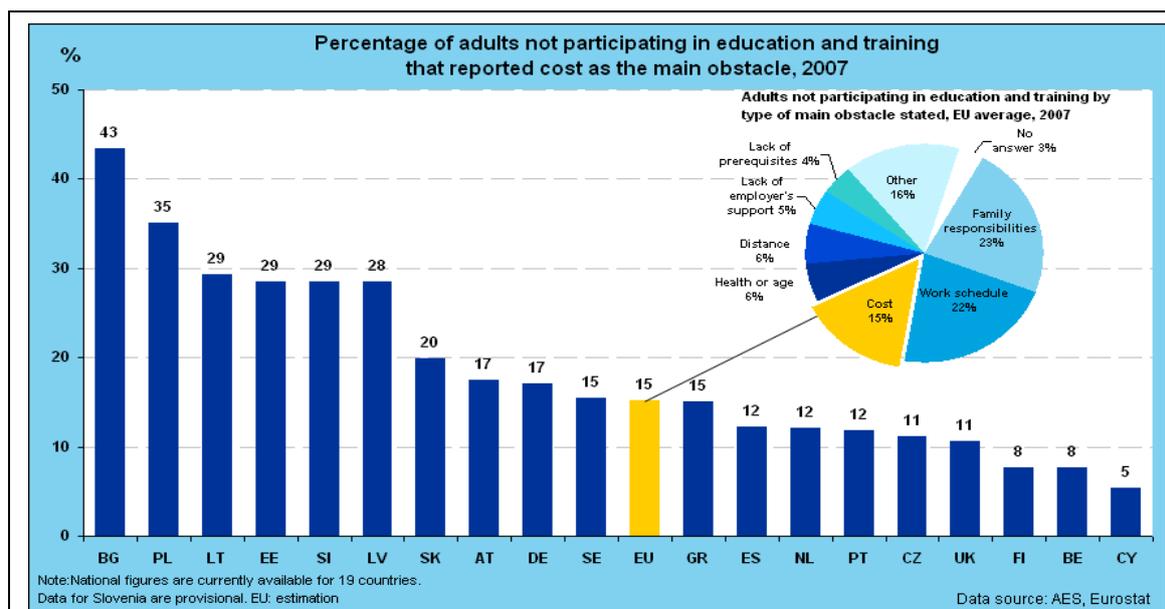
**Figure 2: Correlation between (average) employer contribution to adult learning and participation rate**



The costs of adult education are obviously an important factor for non-participation, though not the most important one if the European average is considered (see **Error! Reference source not found.**). Family responsibilities and work schedule are of importance for 23 and 22%, respectively. This is particularly the case as far as female participation is concerned (Boateng 2009). Costs are an obstacle for 15% on average. However, costs are far more important in Central and Eastern Europe than in the rest of Europe. These findings contradict to some extent the results of the Eurobarometer 2006, which showed the costs incurred to be the main reason for not taking part in further training, with an average of 32%, followed by insufficient time due to family (26%) or work reasons (17%), lack of support from employers (18%)

and access problems (16%).<sup>7</sup> Differences also emerged with respect to the ranking order among the countries. Across all countries on average, 4% of employees and job seekers did not take part in further training because of the financial burden they would personally incur. The highest rates of non-participation were found in Poland with 11% and Hungary with 15%. The importance of self-financing is highlighted by the fact that every fourth training measure is financed or co-financed by participants themselves. This makes self-financing the second most common form of financing for further training, after financing by the employer.

**Figure 3.11: Percentage of adults not participating in education and training that reported costs as the main obstacle**



### Returns

The reasons for participation in adult education differ among countries. According to Eurobarometer, 34% of employees and 62% of those unemployed and looking for work assumed that they would need further training to keep their job or to find a job<sup>8</sup> (Chisholm/Larson/Mossoux 2005). 38% of the employees who emphasised the necessity of training for keeping their jobs stated that they could not currently participate in further training. This proportion increased to 40% in the group of unemployed and this value varied greatly between the different countries. Among the unemployed who regarded further training as necessary for finding a job, and among employees who regarded further training as necessary for keeping their jobs, fairly high proportions of respondents saying that they could not currently take part in training were found in the southern countries, and low rates were found in the northern countries.

Returns from vocational and general further training<sup>9</sup> were estimated using the European Household Panel survey (EHP)<sup>10</sup>. In this estimate, which dispensed with

<sup>7</sup> This question allowed for multiple answers, but this option was little used by the respondents.

<sup>8</sup> This is the unweighted arithmetic average of values for individual countries.

<sup>9</sup> Vocational education and training was surveyed using the question, "Have you at any time since January (year) been in vocational education or training, including any part-time or short courses". This definition includes initial vocational training in the dual system, for example. Information on the EHP variables can be found in Eurostat (2003a) and in the Eurostat coding regulations (2003b).

all control variables beyond individual characteristics, permanent positive returns from vocational training were shown, except for Great Britain and Ireland. It can also be stated that returns from vocational further training were less than those of general education (OECD 2004) except in Portugal, Italy and Spain.<sup>11</sup> Thirdly, an econometric model on returns from vocational training was run with data from the current and the previous employer, using a range of individual, industry-specific and country-specific control variables.<sup>12</sup> In general, permanent positive returns from participating in training and education were shown. The returns were higher if the employee changed jobs after training. The difference in the levels of returns between those who changed employers and those who stayed in their jobs is often viewed as an indication of the market power of the employer, who can absorb part of the resulting productivity. Without departing here from the basic theoretical assumptions, the lower wages of employees who do not change employers after training could also be explained by cooperative behaviour between the parties (OECD 2004).

Brunello (2001)<sup>13</sup> identified rates of returns among European countries that hardly differed. He found significant national effects only for Italy, France and Denmark. The author contrasted current participation in vocational education and training (between 1995 and 1996) with earlier participation in training and education (between 1993 and 1994). Returns to occupational further training between 1995 and 1996 are on average at 17.8% across the countries investigated, they were highest in France (22.5%) and lowest in Denmark (12.2%). In contrast, training in the previous period (1993/94) reduced income by 3.6% on average and in Italy by 9% – a finding that is explained by the fact that returns from training decrease with time (Brunello 2001); this would suggest that training has a temporary effect on private returns and that these have to be “depreciated” over time. This conclusion is also in line with the findings of Brunello (2001), who also found that “the relationship between education and training is stronger for the older and educated birth cohorts, which points to the possibility that current training is a substitute for outdated education” (p. 17).

It was also shown for all countries reviewed in the study that training incidence increased with the level of initial education, i.e. participation is higher for those with higher educational levels, and that returns from further training were higher for tertiary education graduates, though this advantage decreases with increasing professional experience (*ibid*). This would suggest that current training and general education are complements in the short run, while this nexus disappears the more job experience a person has.

An interesting finding with regard to the economic crisis Europe has faced over the last few years (and still is facing) is, that the correlation between training participation and initial education is even increasing, “when European economies are hit by negative temporary shocks” (Brunello 2001, p. 15). Thus, those with less education are hit threefold by an economic downturn: (1) their risk of unemployment is higher, (2) qualification requirements for employment increase, and (3) they participate less in adult education and further training than those with higher educational attainment.

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10 Unfortunately data is not available for all countries. The few internationally comparative econometric studies are based on the European Household Panel surveys (EHP) that were carried out annually from 1994 to 2001. Further information on the EHP can be found in the University of Essex study (2007) and in Lehmann/Wirtz (2003).

11 There is no information available how significant these effects are.

12 Significant results are only available for Belgium, Denmark, Finland, Ireland and Spain.

13 Only the first three EHP were used as basic data here.

From a political perspective this may suggest compensatory political measures to the advantage of “neglected” target groups. First, this suggests motivating those with low (general) education to remain in education and to improve their basic education. Financial support would be a means to support this group, particularly if their own means are insufficient to finance participation in education and training. As studies found that those participating less expect lower returns, it would be important to provide positive examples where returns are positive and remarkable. If experience with education is poor or even negative, positive experiments in short-term training is important. Secondly, this indicates that education and training is (repeatedly) necessary from time to time, be it regarded as continuing, recurrent or lifelong learning. Thirdly, as education and training depreciates over time, as most other investment does, financed provision has to be made for re-investment by individuals, employers and the state.

Apart from limited international comparative research, there are also national studies on the returns from further training for individuals, which do not however allow for any comparisons between countries due to different definitions of further training, varying dependent variables, and completely different research designs.<sup>14</sup> For Europe however, some trends can be identified (cf. Pfeiffer 2001, p. 30; Heise/Meyer 2004, p. 248).

- Both further training and education have positive individual effects. In addition to increased income, in particular career opportunities and the risk of unemployment should be noted. The high level of the dispersion of effects seems to be due to individual attributes and features of the further training systems.
- The relative returns from further training seem to decrease with education levels. However, according to Brunello (2001) this only applies above a certain level of professional experience. Those starting out in employment with high levels of education and training can achieve better returns.
- Various connections between initial and further training were revealed. Opportunities for further training increase parallel to levels of initial training or education. It has also been shown that further training can be a substitute, especially for initial vocational training and education.
- The returns from further training for employees seem to be higher than those for the self-employed.
- The further training of active persons can negatively affect those not participating in the further training.

A recent literature review from the United Kingdom on the impact of lifelong learning finds that learning is a key area for poverty reduction, either to improve employment possibilities for the unemployed or to increase income. Also positive effects on health and intergenerational returns for children were identified. Another aspect is financial literacy and support to access public funds (Sabates 2008).

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<sup>14</sup> An overview of national studies with different emphases can be found in Heise/Meyer (2004) and Pfeiffer (2001). Current findings on returns from further training can be found in Büchel/Pannenberg (2006), Conlon (2002), Dearden/McGranahan/Sianesi (2004), Leuven/Oosterbeek (2001) and Pfeiffer/Reize (2000).

## 4 MODELS FOR FINANCING ADULT EDUCATION AND FURTHER TRAINING – CONCEPTS AND CURRENT DEVELOPMENTS

This section starts with a general introduction into the financing of adult education (section 0) followed by a review of financing models (section 0).

### 4.1 Principles of the economics of adult education

Financing may be defined from two different perspectives. A traditional and narrow definition from business economics aims at all measures of obtaining liquidity and of preservation of the ability to pay. A much broader view on financing focuses on the provision of resources being viewed as necessary for teaching, training and learning. Here, financing means to create the availability of resources. In a formal or non-formal learning context, adult learning can only happen, if four species of resources are available:

- Mental or psychical resources (the ability and willingness to learn),
- The time for learning,
- Physical resources and finally
- Money in the form of liquid means.

If it comes to vocational training, a fifth type of resources becomes crucial which are the institutional conditions of learning like security or quality requirements of products and work places, work contents, work places and environments which are rich of learning opportunities. These different types of resources stand in a strong relationship of complementarity to each other. Without the motivation to learn, time is wasted in vain, money thrown out of the window, learning will not happen. The same holds if there is no time to learn or no money to pay for the instruction.

The need for financial resources can be satisfied either by supply-oriented (institutional) financing or by demand-driven financing. In the former case, the financial means flow directly from the financier or sponsor to the educational institution. In the latter case, money flows directly from the financier to the learner (customer) and from there to the institution (e.g. by means of vouchers as presented in section 0). Institutional financing may focus on inputs or on outputs, as, for example, performance indicators. By and large, the flow of funds to adult learning institutions may be input or output oriented or demand driven. Each of these alternative channels is likely to produce different steering effects on supply and demand behaviour. In particular, demand driven financing is expected to strengthen the market power of the “customers” with respect to pricing, quality, width of the programmes, time position of the courses etc.

A third important aspect of financing relates to the guiding principles concerning the aims of financing adult education. To what extent do different financing modes contribute to internal (institutional) or external (macroeconomic) efficiency as well as to social justice. Social justice leads the attention towards equality and equal opportunities. Unfortunately, empirical knowledge about these effects is very poor due to the difficult task in measuring them. Therefore, the discussion about possible effects suffers from speculations, guessing, assumptions, and is often led by hidden interests.

All financing solutions need an answer to the question “who pays” or “who could pay” for adult education. Basically, four groups of economic subjects could give money for learning:

- The “individuals”, i.e. the participants or “customers” of adult education or related persons,
- The total or groups of the work force,
- Private organisations (companies, unions, foundations, corporations, educational institutions),
- The state (comprising the different state levels).

The type of transactions which might be imposed on the financiers can be

- The market price,
- Fees or dues (only covering a contribution margin and requiring other financiers),
- Taxes (either a special adult education tax or a general tax according to the non-affectation principle), and
- A levy (from the work force or the employers).

A further important question is which sources those can exploit who pay for adult education. In principal, only three sources are available and can be taken:

- The current income,
- The past income (by saving), and
- The future income by taking loans.

Figure 4.1 shows which economic units are involved in financing adult education, where they get their financial means from, and by which types of expenditure they support adult education. It should be clear that the survey already presumes a number of redistribution processes of income, because the primary distribution of the national income happens between labour and capital income. From these primary sources, parts of the national income go to the different state levels (by fees, dues, direct and indirect taxes, tax compensations between the state levels) and to all the private organisations shown in the survey.

**Figure 4.1: Financing adult education: the space of revenues and expenditures by economic unit (financial resources)**

Economic unit		Revenues from	Expenditure for
Learners/ families		Current income: wage, salary, income from rent, interest or grants	Tuition fees, interest on loans, amortisation of loans, general taxes (pro rata) or earmarked education tax, drawing right contributions, saving account contributions, cost of living
		Past income: former savings, heritage, drawing right account	Tuition fees, cost of living,
		Future income: loan, credit	Tuition fees, cost of living
Workers/ employees		Current income: wage, salary, income from rent, interest or grants	Tuition fees, interest on loans, amortisation of loans, general taxes (pro rata) or earmarked education tax, drawing right contributions, saving account contribution, cost of living
		Past income: former savings, heritage, drawing rights	Tuition fees, cost of living,
		Future income: loans, credits	Tuition fees, cost of living
Private organisations	Employers	Sales, rent, interest, tax/ levy exemption/ reduction/ rebate from state or educational funds, grants/ subsidies/ premium	Expenditures for learning of staff (fees, take over of loan interest or loan amortization, selective grants to staff members, general (pro rata) or education tax, levy contribution to state or learning funds), contributions to drawing rights or individual educational saving/ individual learning accounts
	Employers associations/ employers' educational funds	Employers' contributions, fees, sale of counselling services and own education programmes, tax exemptions/ reductions, rebates	Contributions/ grants or loans to supra-firm training institutions, general tax (pro rata), selective grants or loans to learners
	Unions	Member contributions, fees, sale of counselling services and own education programmes, tax exemptions/ reductions, rebates	Contributions/ grants or loans to supra-firm training institutions, general tax (pro rata), selective grants or loans to learners
	Churches	Contributions, fees, donations, taxes from members	Expenditures for own learning institutions and programmes, selective grants or loans to learners
	NGO's/ Welfare Organisations	Contributions/ donations from individuals or organisations, sales of counselling services, tax exemption or reduction, state subsidies	Expenditures for own learning institutions and programmes, selective grants or loans to learners
	Donors	Contributions/ donations from individuals, organisations or states, sales of counselling services, tax exemption or reduction, state subsidies	Expenditures for learning institutions and programmes (capital investment/ infrastructure), selective grants or loans to learners
State	National level, regional level, community level	Tax revenues from the tax system (general taxes, special taxes, education taxes), revenues from educational levy systems, sales of public services against fees, foreign aid (EU)	Expenditures (capital and recurrent) for own learning institutions, revenues foregone by: tax exemptions/ reductions/ rebates to learners/ workers/employees/ employers/ associations (employers, unions), NGOs, churches; matching grants or categorical aid, grants or loans to learners

Discussions on financing education often neglect an important distinction between the question “who pays” and “who bears the burden” (at the end). A third question which is prior to the first asks “who can or who could or should pay” for adult education. Two principles dominate the discussions. The first one (“pay-as-you-use”) refers to the idea of equal exchange of values and defines an exchange as being just, when performance and the “quid pro quo” are equal. From this it is inferred that those who benefit from education should pay. The opposite implication then is that only those who can pay should and will benefit from education. This principle excludes access to education for those whose income is not sufficiently high enough in order to pay for education. A society which has itself devoted to equal chances of access to education (including adult education) will not accept the exclusion effect and prefer the second principle which looks at peoples “ability-to-pay” which implies a partial redistribution of the national income in favour of low income subjects. The contributions of high income subjects then are higher than the benefits they earn from adult education, for low income subjects the contributions are lower than the benefits and may be zero for some.

Seldom discussed remains the question whether those who prima facie pay for adult education do indeed bear the costs respectively the burden of financing adult education, i.e. do at the end sacrifice parts of their financial resources (the cost or the financing incidence, respectively). Subjects and organisations may be able to pass their financing burden on to other subjects or groups of persons or organisations. The ability to pass the burden on depends on market constellations, price elasticities, but also on political and economic power. It is distributed among persons, group of persons and organisations unequally. We can assume that chains of passing on processes in the economy are steadily happening which, unfortunately, cannot easily be observed. Therefore, our empirical knowledge about these pass on processes is very poor, and we can only put forward presumptions. Participants in adult education can be regarded as being politically and economically powerless; therefore they will not be able to pass their financing burden on to others apart from the possibility to reduce their tax debt. Workers, employees and civil servants might try to pass their financial contributions for adult education back to their employers in the course of individual or collective negotiations over remuneration. While success of doing so will be small, even in the case of success, employers will try to pass the burden on to their customers or back to their suppliers. A general conclusion may be allowed: Whenever economic organisations are expected to contribute to the financing of the learning of citizens, they will try to pass this burden on to the customer or consumer by means of raising the prices of their goods. And they will be successful, at least in the long run.

Even the state is not the last source of financial means for adult education, as he gets his revenues from his clients (fees and dues) and from the tax payers, be it by means of general taxes or of special educational taxes. Looking at the two large tax paying groups, the individuals and the taxable organisations, the latter have by far the best chances to pass their burden of taxes and charges on to other economic subjects and ultimately to the consumers. It is safe to conclude that at the end, although many different groups of economic subjects may pay for adult education, only two societal groups are likely to bear the burden of financing adult education which are the tax payers and the consumers. As the tax payers are also consumers, it is safe to say that it is the consumers who bear the burden of financing adult education. However, it is not known, how this burden is distributed among them. A further conclusion is that due to the complex passing on processes, the cost of organised learning, here of adult education, is provided from labour income and not from capital income, by confirming that adult education is an investment which has to be financed by the sacrifice of consumption.

Reflecting the cost and financing burden issue does not mean ignoring the benefit side of adult education. What can generally be said about the benefits of adult education and those who benefit? Three basic problems demand attention:

- Which societal groups are benefiting from adult education?
- How many members of these groups benefit?
- What is the size of the benefit of each group?

Basically, very different societal groups can benefit from education. Without any doubt, the participants of adult education themselves are the first group to gain direct benefits from learning (e.g. higher regular income, better job or better position, job promotion, better performance in volunteering activities). A second group of beneficiaries are the employers of those who participated in adult education by profiting from higher productivity, better work motivation, better work climate and other effects. In addition, in times of demographic change employers will also benefit by a higher number of skilled employees. Other groups like parents, partners, children, relatives, friends, colleagues, neighbours, and the state (by higher tax

revenues or avoided social cost) might draw indirect benefits, even economic growth and the quality of life may be boosted. Some analyses suggest that the fiscal returns for the public budgets are very high in the case that adult education qualifies unemployment in a manner that they successfully enter the labour market or reduce the risk of unemployment.

Information about the number of indirectly benefiting persons or organisations beyond the number of the participants themselves is very difficult to collect. Empirical knowledge is not available. Generally, one can only say that the number of indirect beneficiaries will be larger, the more persons will participate in adult education.

Similarly, the size of the benefits flowing towards the different participants and groups of educational activities is difficult to assess. As an exception, the participants themselves may be able to determine the direct and indirect monetary and non-monetary benefits emanating from their adult education.

## **4.2 Financing adult education – theory, practice and debates**

The financing of vocational further training and lifelong learning has undergone very dynamic development over the last ten years. New models have been introduced and tried out and partly abolished or modified in many European countries.

In considering these developments, a pivotal transnational trend can be identified, which is determined by two largely similar instruments, called either ‘training/learning account’ or ‘voucher’ (see chapter 0). A much smaller role is played however by (low-interest) loans (see chapter 0), savings plans for education analogous to schemes for saving for real estate (see chapter 0) and tax incentives (see chapter 0). These instruments have only been introduced or further developed in a comparatively small number of countries. However, before we present the public (co)-financing schemes, we will have a brief look at individuals’ self-financing (see section 0). Section 0 will complete the presentation on financing models by reviewing briefly employer involvement.

### **4.2.1 Self-financing by individuals**

Most programmes in adult education are (partially) financed by those participating in the programme, i.e. they are paid by individuals. The following box – which will also be applied in the following sections – provides an overview on theoretical, political and research-based implications.

### **Self-Financing**

A system of self-financing adult education requires the individual learner to finance his or her learning activities from their own financial means, which can mean from current income, from former savings or from loans. The model defines a number of assumptions: a) the benefits should only flow towards the learner, b) the cost of learning should be borne (solely) by the learner according to the pay-as-you-use principle, c) supply of and demand for adult education follow the market allocation mechanism and are steered by market prices, d) learners with sufficient income are able and willing to pay these prices, e) learners from low(er) income backgrounds are only partly or not at all able to pay the market prices from their income, so they are expected to take (interest-bearing) loans which they will pay back later from their (hopefully higher) income, f) as it is assumed that due to the high investment risk and missing risk prevention no private capital market will set up in business, public loan or security programmes should be established to open access to adult education for the otherwise excluded individuals. The logic of the “pay-as-you-use” principle requires the loan takers to pay interest without any exception, while the “ability-to-pay” principle would suggest a mixed system of grants and loans, and the mixture of both would change depending on financing ability.

The main objection against the self-financing model argues that fees serve as a deterrent, and loans have a discouraging effect upon the low income groups so that investment in adult education might be lower than is wishful from a societal perspective, and the demand for adult education would unfold reflecting the unequal distribution of personal income in the society. If the education policy goal were the expansion of adult education and higher participation of hitherto neglected societal groups, these two goals would very likely not be achieved. Another side effect might be a shift in demand from non-vocational adult learning to continuing vocational training. While self-financing as a pure financing mechanism does not find a majority of supporters, partial participation of the learners themselves in contributing a fee which does not at all cover the (full) cost of the programme seems to be acceptable by many. As will be seen in the following sections, the more recent debates focus on the question of how the purchasing power of the individuals could be strengthened.

As far as could be established there is no overview in the literature on the extent of self-financed adult learning; recent data from the United Kingdom may suggest that adult learning is only 5% of post-compulsory education, with a spending level of 0.2% of GDP<sup>15</sup>, of which one third is financed by individuals. This finding would suggest that even (non-vocational) adult learning is only partially financed by individuals.

#### **4.2.2 Publicly financed adult education**

Public subsidies for adult education can be supply-side or demand-side, i.e. supporting the institution providing adult learning opportunities or the learners themselves. Supply-side policies subsidise the price, while demand-side approaches *contribute* to individuals’ ability-to-pay.

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<sup>15</sup> These figures are an estimate of the authors of this paper, based on Williams/McNair/Aldridge (2010) and refers to the expenditures for „public programmes“, which seems closest to (non-vocational) adult education, while „National performance“ refers to colleges and universities and “Employee development” to vocational training.

**Financing adult education out of public budgets**

“The state” (represented by national, regional and local political units) can be involved in financing adult vocational and non-vocational learning in different ways. The first distinction refers to the revenue side of the budget. As already shown in Table 1, the state can rely on special education taxes which are raised either for education in general (therefore requiring decisions as to the distribution of spending the revenue between the different sectors of the education system) or which are devoted to adult education from the beginning. Or it is subjugated under the non-affectation principle which means that the revenues of all taxes are put in one “basket” without designation. The state then can and has to decide by budget debate which part of the revenue should be devoted to adult education. The second distinction refers to the expenditure side of the budget and is between supply-side or demand-side financing. Looking at the supply-side, state financing may mean full or co-financing of public or private learning institutions for adults. Full funding of public institutions implies covering all expenditures of the institutions, co-financing implies the existence of other financiers (a third distinction). The state can be engaged by means of subsidies or loans to the institutions or by reduction, exemption or rebate of taxes, he may finance either the cost of the personnel, of investments or of the current material cost.

Demand side financing may be restricted to cover the fees of the programmes. If the fees do not cover the full cost, then either the state is also engaged on the supply side or there are other co-financing partners on the supply side (e.g. the learners or employers or foundations). Demand side financing may go beyond covering the provision of the programmes by widening the financial support to cover the living cost of the learners or parts of it. Here, the instruments are scholarships, i.e. grants, loans (income contingent or not) or reduction, deduction, exemption or rebate of taxes. A general conclusion may be drawn at this point: State financing of education does neither necessarily mean supply-side financing nor full funding nor state production of education. Conversely, state production of education does not necessarily imply full funding by the state.

The following sections particularly focus on demand-side strategies, which have been core during the past decade.

**4.2.2.1 Training vouchers and learning accounts**

Financial support is provided for individuals in particular, but also for small and medium-sized enterprises (see for a recent overview on vouchers for companies Dohmen 2007, Dohmen 2009), through a wide range of different instruments, if we proceed on the basis of their respective titles only; training vouchers, training or learning accounts, training bonus and Training Cheques, to name just some of them. Apart from their different names, they have one thing in common: they support those taking part in further training through the direct payment of government benefits, i.e. they are direct payments of money designed to be used to finance adult learning. In the majority of cases a (one-off) co-payment of varying size is required from the participant. These should be distinguished from an Individual Learning Account in the sense of a savings account, which was discussed for a long time in Sweden and which provided for the tax-advantaged (repeated) accrual of a capital asset that is earmarked to be used for further training (see more in Detail Dohmen 2007, 2009). This kind of savings model will be further dealt with in section 0 below. The following considerations will concentrate initially on government funding with (one-off or limited) co-payments.

**Demand-side financing through vouchers and individual learning accounts**

The basic assumption is that it is (at least) a (sub-) task of the state to (co-) finance learning opportunities. Instead of allocating budgets to the suppliers directly the state would direct the money devoted to adult education to the demanding individuals in the form of vouchers or entitlements. These individuals would then unfold purchase and market power in the education market. The suppliers would have to offer their programmes under conditions of competition and would take either cost covering market prices or – in the case of co-financiers – fees. A voucher would present a certain amount of money, and each eligible person (the largest group of eligible persons would be all people having finished compulsory education) would get a certain number of vouchers which could be used for all types of post compulsory learning opportunities including adult education and being provided by state, private non-profit or for profit educational firms. Levin asks for accreditation of the programmes offered and being eligible for submission of vouchers by the state with respect to programme content, transparency and quality, procedures of complaint, accountability and other characteristics. Vouchers could represent subsidies or loans or a mixture of both, their value varies with income and also depends on ascriptive attributes of the recipients. In order to take into consideration the time preferences of the recipients and the possibility of paying interest on vouchers not yet used could be thought of. Such a voucher system would only work if a comprehensive information and regulation system were established which would have to prove the application of each applicant for vouchers and his or her claim basis, to determine the size and the composition of the vouchers (as to the grant and loan part), to control for the utilisation of the vouchers and to monitor the supply side to meet the standards set. As the voucher system focuses on individual choice between educational institutions and programmes an elaborate information system is crucial which provides both sides, the suppliers and the customers, with useful and easily accessible information (e.g. about the programmes, their cost and their quality, their requirements, about the qualifications of the teachers or trainers, about the accreditation and quality standards, about the infrastructure and equipment etc.). The strong merit of the voucher model is seen in its assumed ability to offer equal access to adult education for all who want and are motivated to learn because the financial incentive is equal for all. Moreover, it is expected that the efficiency of providing learning opportunities and of utilising these opportunities will grow. The intensity of these expected effects is likely to depend on the size of the vouchers as well as on their composition between the grant and the loan part. It is assumed that the effect of equalising educational chances, i.e. the demand for adult education from hitherto disadvantaged or underrepresented social groups will be the stronger the higher the value of the vouchers and the lower the loan part will be. A problem which may have to be addressed is that different educational programmes will entail different costs and require different sizes or numbers of vouchers. This means that vouchers of equal value might reflect different amounts of education or training, depending on the programmes chosen. This problem of determining the appropriate voucher value is crucial, but cannot be solved in a general way but must be decided upon in the context of concrete constellations. Another open question is whether it should be allowed to add on private money to the voucher. If it were allowed, the goal of equalising access and utilisation of adult education might be endangered, if it were not allowed, those clients who were able and willing to add on might search for alternative private ways of investment.

Experiences with vouchers and learning and training accounts will be presented on the basis of a cross-sectional analysis of core elements, in which particular reference will be made to the evaluations made in various countries (see for a presentation on a country basis Dohmen 2007; Cedefop 2009; Dohmen/Ramirez-Rodriguez 2010)<sup>16</sup>.

***The scope of the model, funding recipients and target groups***

<sup>16</sup> As far as could be established, vouchers and individual learning accounts are only rarely established in the new member states (Cedefop 2009, 2009b).

Two different approaches can be distinguished in terms of their scope and the number of those basically eligible for funding and actual funding recipients. On the one hand, there are models oriented towards all or at least larger groups of the population, such as the German Bildungspremia or the Bildungsscheck NRW (North-Rhine Westphalia), the British ILA, or to some extent regional models in Austria or Italy.

Among the “full models”, the British ILA model must be regarded as the biggest of its kind so far, as it was oriented towards all adults and resulted in a total of 2.6 million accounts being opened. 1.75 million courses were booked and 1.4 million accounts used (activated). This also means however, that 1.2 million or almost 50% of the accounts opened did not result in actual participation in further training, which may be partly explained by the suspension of the model. The new models in Wales and Scotland are different in their value and target group. An ILA200 with a value of £ 200 (€ 240) is targeted at low income (Scotland: £ 22,000; € 26,500) or low educated (Wales: below level 2) groups while an ILA100 can be used by broader target groups.<sup>17</sup>

Another almost universal programme is the Bildungsscheck NRW (North Rhine-Westphalia, Germany) which was used by 236.000 over the first 2.33 years (SALSS 2008), targeted at individuals and employees in SMEs (small and medium-sized enterprises) with less than 250 staff. 42% of the vouchers were handed over to individuals, the remaining 58% via companies. According to recent figures of the state’s Ministry of Labour, Health and Social Affairs 130,000 to 140,000 vouchers are issued every year (Matzdorf 2010).

The federal “Bildungspremia” in Germany supported around 30,000 individuals during the first 1.5 years, of which utilisation was boosted from an average of less than 1,000 to more than 3,000 per month through increased maximum support and raised income threshold.<sup>18</sup> This may result in some 40,000 individuals receiving a voucher in 2010 (preliminary estimate). Other programmes at regional level in Germany are commonly targeted at smaller groups of the population (e.g. those aged 45+, employees only etc.) and were only launched in 2009 or even 2010, with modest utilisation levels so far (Hessen: almost 3,000 during the first two years, and 900 in Rhineland Palatinate within the first year (Dohmen/Ramirez-Rodriguez 2010)). However, the biggest voucher model in Germany is to train the unemployed or those threatened by unemployment, which supported more than 800,000 individuals between 2003 and 2006 (Kruppe 2006, 2008).

The Flemish Training Cheque (target group: employees), which was introduced in September 2003 supported 932,000 in total by the end of 2008, almost 1.1 million applications were registered. In 2008, the number of vouchers issued was 200,000. In relation to 2.1 million employees, the voucher scheme reaches 9.7% of the target group (Heyman 2010).

In the Swiss canton of Geneva (target group: those groups who take part in further training at low levels) in the first four years after the introduction of the further training

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<sup>17</sup> Although the new model is named “Skills Account”, it does not seem to be similar to the voucher or account models summarised in this section.

<sup>18</sup> An interesting finding is that the average number of advice session of the regional Bildungsscheck NRW was 6,300 during the first two and a half years (SALSS 2008), while it is at around 3,500 in the first half of 2010, i.e. during the second year of operation, for the federal Bildungspremia. This raises the question whether these differences in response are due to different target groups, individuals with a taxable income of less than € 25,600 (€ 53,200 for married couples) for the federal Bildungspremia compared to employees in SMEs for the Bildungsscheck NRW.

voucher 8,027 further training vouchers were issued to 5,850 persons, a rate of just 6% (Commission externe d'évaluation des politiques publiques, CEPP- 2006).

In Italy, the regional vouchers are usually oriented towards employees in various contractual relationships and life situations, while the credit cards introduced in 2006 in three regions are available for individual further training in particular for the unemployed and employees with atypical employment agreements. The regions and autonomous provinces have positioned and committed themselves in very different ways in this area in recent years. Emilia-Romagna and the Marche were the first regions to try individual funding for training. Some regions have preferred to fund companies rather than provide individual vouchers. The autonomous province of Bolzano-Bozen is the only territory in Italy that also provides individual vouchers to the unemployed registered with the employment office.<sup>19</sup>

The situation in Austria is complex. Individual federal states' models can account for up to 20,000 participants funded per year (see, for example Bauer 2009; Dohmen 2007), but models differ in target groups, coverage of programmes and level of co-financing (Dohmen 2007; Dohmen/Ramirez-Rodriguez 2010). It must also be taken into account that vouchers are also available from the Chambers of Labour. In the first two years after the introduction of the model, the Chambers issued a total of 120,000 vouchers and from 2002 to 2006 provided a total of around 290,000 vouchers. This gives an annual average of around 60,000 vouchers throughout Austria, reaching 2% of the target groups. It would therefore seem reasonable to assume a total number of just over 100,000 participants funded per year for vouchers and learning accounts from the Austrian states (Länder) and chambers of commerce.

The second group of vouchers models are pilot projects that reach a very small number of people. In the Netherlands a total of around 2,500 accounts were opened during two trial phases. In Flanders (Belgium) the number of ILA accounts was 400. The same applies to the Swiss experiment, providing 2,400 individuals with vouchers, of which only less than 20% made use of the voucher. Such small plans aim to provide experience on feasibility, suitable forms and functionality.

### ***Funding amounts and co-payment***

The funding amounts provided vary considerably, but it can be stated that funding in the majority of cases is limited to € 300, and is partly much lower. Only the German schemes generally reach support levels of up to € 500 (in North Rhine-Westphalia even € 750 for a short period of time), as well as the Swiss experimental approach to some extent; where the value of the voucher differed (€ 150, € 550, and € 1,100).

The funding provided through the Flemish Training Cheque covers 50% of costs, with a maximum of € 250 per person and year, i.e. the public contribution is up to € 125. Only those who have no upper secondary education qualification receive funding of up to € 250 annually without making a contribution.

Though the vouchers provided by the Austrian Länder (states) have a much higher value at first glance, these amounts are usually spread over several years, so they usually average out within the range of € 300. Only Tyrol, where vouchers can be worth up to € 500, with 25% of costs shared by the government, is different in this respect. Funding amounts are higher in Vorarlberg, with up to € 250 per month or 2,500 per year, but this subsidy is paid for fulltime training and is therefore designed to replace income. The Chamber of Labour vouchers provide € 100 to 200 annually, with certain regional differences.

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<sup>19</sup> For more information on the regions see Bianchi (2005), Dohmen (2007), and Dohmen/Ramirez-Rodriguez (2010).

Government funding was around € 450 in both phases of the Dutch pilot project and could be added to considerably through payments made by participants or by third parties. In the first phase of the experiment with two pilot models, a personal contribution was required, either as a one-off deposit of € 22 to € 200 or through participation in a further training measure in the participant's free time. In the second project phase this was the case in five models.

In the canton of Geneva (Switzerland) the average value of the 8,000 training vouchers used was CHF 600 (about € 370). Great Britain's original ILA model was also in this range, with government funding of € 180 for a co-payment of at least € 30. The new models in Scotland and Wales have a value of € 120 (ILA100) or € 240 (ILA200)<sup>20</sup>. Although the new Skills Account-model, which was introduced only recently, has a similar name to the previous ILA, it has a different approach and cannot be considered a voucher model or an ILA.

In Italy, in contrast, comparatively high amounts can be provided, with vouchers having a value of between € 500 and € 5.000 and covering around 80% of costs. Participants have to pay up to 20% of costs themselves. The training credit card, which is oriented towards only certain target groups, has a value of up to € 3,000 over a period of two years.

An important issue is that there is obviously a positive correlation between application or utilisation level and the maximum amount of support, as the experience of the Swiss experiment as well as of the German Bildungspremia indicates. In Germany, take-up rates were boosted from roughly 600 applications per month on average in 2009 to more than 3,000 from January 2010 onwards as the maximum level was raised from € 154 to € 500 (though in conjunction with an increase of the income threshold from € 20.000/40.000 (single/jointly taxpaying couples) to € 25.600/53.200<sup>21</sup>). In Switzerland the utilisation rate of the voucher worth € 1,100 was thrice that of the vouchers with a value of € 150. However, here, even windfall profits increased with level of maximum support, i.e. share of highly educated and high(er) income correlated positively, while mobilisation effect decreased (Wolter/Messer 2009).

### ***Average costs of further training***

The low average amounts spent on further training in the various countries are striking. In Scotland the average amount was £ 208 (€ 312), in Flanders it was € 395 on average, with a median of € 300. It must be noted here that average expenditure per measure or course corresponded with the participant's educational levels. In Germany, the Bildungsscheck NRW had a value on average of about some € 350, suggesting an average cost in total of around € 700.

However, it should be taken into consideration that there might be a connection between the value of the voucher and the average cost of the adult education programme, in the sense that the usually limited amount of funding provided through the vouchers or learning account may impact on the average costs of the programmes funded. Other studies also repeatedly refer to comparatively low costs of adult education (see e.g. Dohmen/de Hesselle/Himpele 2007 for Germany, as well as chapter 0 for the AES). An important factor concerning the low average costs of the training programmes

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<sup>20</sup> The change in the Euro-Value of the ILA100 and ILA200 in relation to the former model is due to a variation of the exchange rate in the meantime. While the exchange rate (GBP to €) was 1 to 1.5 in previous years, it is now 1 to 1.2.

<sup>21</sup> This change of two components at the same time hinders a clear assessment which of the two is more important concerning the strong increase. As far as could be established, the evaluation will not be in a position to separate both effects.

could be that subsidies usually refer to non-formal programmes, having far lower costs – partially also due to the limited number of hours – than formal courses (see also Boateng 2009).

### ***Socio-economic characteristics of participants***

If the socio-economic characteristics of funding recipients are examined, it is especially noticeable that in almost all the models examined here, the proportion of women who opened a learning account or used a voucher, was much higher than the proportion of men. This may in some cases be due to the focus of certain occupational groups (Bollens 2003), as in Flanders and the Netherlands, but seems not to depend on this factor alone. For example, 70% those using the Bildungsscheck NRW were female (SALSS 2008), while the share seems even higher among the federal Bildungspremia. In contrast, females are underrepresented in the case of Germany's unemployment voucher, due to the fact that the chance of successful integration into the labour market, which is a requirement to issue the unemployment voucher to an individual, is less than for men. Thus, this result follows the pure logic of the scheme.

The socio-economic characteristics of participants also correspond with expectations; i.e. utilisation rates increase together with educational levels and/or professional position. This suggests that windfall gains are relatively high, although some considerable mobilising effects also have been achieved, as several evaluation reports suggest that adult education and further training would not (or only to some extent) have been possible without financial support (Dohmen/Ramirez-Rodriguez 2010; Wolter/Messer 2009; Doets/Huisman 2009; Dohmen 2007).

In terms of reaching disadvantaged target groups, i.e. in particular the unskilled and educationally disadvantaged groups and older employees, a fairly mixed picture emerges, leaving space for interpretation in both directions. In England for example, 22% of persons who opened an account had not requested any further training in the past 12 months. 56% of users could not have otherwise financed the training and 16% had no vocational qualification (McLaughlin 2007). In Scotland 51% of participants stated that they could have financed their training without the account, in England this rate was 44%, in Northern Ireland it was 31% and in Wales it was 49% (The Scottish Parliament 2001). In the German state of North Rhine-Westphalia 45% of the participants had not participated in adult education for at least five years (Matzdorf 2010).

Among those using the training voucher of the Austrian Chambers of Labour in the first two years, 18% took part in further training for the first time and 45% could not have taken part in training without the voucher (Elap 2006).

This means on the one hand, that in Great Britain and in Austria between one third and a half of participants could have undergone training without government assistance, but on the other hand that at least half, and in Northern Ireland over two thirds could not have taken part in further training without support. Even if this does not show any direct effect on disadvantaged target groups, a certain mobilising effect can be assumed, but it is hardly possible to clearly identify the size of the mobilisation effect. Further activity is however needed to improve the achievement of goals in this area because in almost all, if not in all models, older employees for example, are underrepresented. The same applies to low-skilled workers (see Bollens 2003 on Flanders; SALSS 2008 on the German state of North Rhine-Westphalia).

Conversely, it can be stated that the number of highly qualified participants is generally disproportionately high. In Flanders, the utilisation rates of the Training Cheque and the Learning Account increased with educational levels, with the proportion of the unskilled using the Training Cheque at 15% lower than for the Learning Account (23%).

Employees in small and medium-sized enterprises (SMEs) are usually also underrepresented. 40% of those using the Training Cheque in Flanders came from companies with fewer than 50 employees. 40% of users for whom information on training behaviour was available, had not taken part in any further training in the previous two years. This represents quite a significant effect in our view. The Bildungsscheck NRW (North Rhine-Westphalia) was said to have reached a share of 70% participants from SMEs with less than 50 employees, although this is a high share, it should be noted that the scheme was directed at SMEs (with less than 250 employees) and that in general up to 90% of all employees are employed in SMEs.

Of the 123 companies participating in the Dutch pilot project, one third had fewer than 10 employees, one third had between 10 and 100 employees and the remaining third more than 100 employees. Among the account holders over a third had (35%) an educational level of the general upper secondary education qualification at most, and 55% a vocational upper secondary education qualification or comparable qualification. The remaining 10% may have had a tertiary education or university degree, although Geertsma et al. (2004) do not state this clearly. In the second phase, of the total of 1,400 learning accounts, 500 (36%) were for jobseekers and 900 (64%) were for employees.

A finding of the German voucher for the unemployed, which contributes to the socio-economic bias, is that the lowly educated obviously have difficulties in taking the decision required to make use of the voucher. This group was overrepresented among those who did not use the voucher although they qualified for the labour market access criteria<sup>22</sup> (Kruppe 2006, 2008).

A matter of interest that is indirectly related to socio-economic factors is the regional distribution of voucher utilisation. Results from the German voucher for unemployed scheme suggest a regional bias, when the number of participants is – at a given voucher value – too low to arrive at cost-covering levels from the adult education supplier's side. In this case, less densely populated areas may be disadvantaged compared to cities (Dohmen 2005).

### ***Accreditation and quality assurance***

Reviewing the results of the various evaluations of the British ILA models, it becomes clear that the intention to keep the programme as non-bureaucratic as possible is beneficial on the one hand but on the other hand it is a main weak point. Since the ILAs were designed to achieve a clear increase in participation in further training and reach so-called educationally deprived target groups, a simple application was in principle enough for the opening of an account. Since training providers also profited from the programme and saw new opportunities for business, they advertised massively for them. This motivation of the training providers was a major factor in the large number of accounts that were opened.

In contrast to training providers who receive direct government support and are subject to strict quality controls, accreditation was not required for participation in the ILA programme, which was deliberately done to provide an incentive for fast growth in the demand-oriented training market. This however, subsequently turned out to be one of the central problems, because a number of disreputable training providers took advantage of the situation, providing qualitatively inferior training.<sup>23</sup> The resulting

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<sup>22</sup> This criterion required a 70% labour market entrance probability within six months after the training. This criterion supports pro-cyclical effects within regions, resulting in less vouchers issued in economically worse-off regions compared to better-off regions (Dohmen 2005).

<sup>23</sup> It should also be noted here that similar developments also occurred during German Reunification and have been seen in other countries operating with free-market instruments or similar instruments.

complaints were among the reasons for the programme ending. It must be noted moreover, that outright fraud was also practised. Databases were searched for unused accounts and the corresponding amounts were then misappropriated, in some cases through the faking of signatures. The insufficient safeguarding of the procedure was due to the fast implementation and introduction of the ILA, among other things. The risk of misuse and the criminal energy of certain individuals were underestimated (Auditor General 2003).

The central consequence of this experience is the limitation of utilisation of vouchers, which has been applied not only in succeeding models in England, Scotland and Wales, but also especially in other countries working with voucher models or learning accounts. Vouchers are only to be used with accredited institutions. Courses can usually only be selected and booked through centrally controlled databases or special training and education catalogues, in which providers must be entered after prior application and assessment, where applicable.

Training providers in Italy can also take part in regional tendering processes. Wherever public and private institutions offer voucher courses, they are selected according to the criteria of the reliability of the structure and services. The region of Tuscany for example, has set up its own accreditation institute that regulates the content, structure and scope of the training offered.

In the case of the new credit cards for individual training, after initial experience with the vouchers, but also due to the problem of the target groups – the unemployed and employees with atypical employment contracts – system-related services seem to require more promotion. Monitoring, evaluation, consultation and qualification measures for consultants and tutors, and even modelling, feasibility and transferability studies, (success) analyses and more are planned. The certification of the skills acquired should also be more closely monitored among the target groups (Grelli 2004).

Regardless of the negative experiences with vouchers and ILAs described, it can be stated that levels of satisfaction with the courses undertaken is comparatively high in all countries. 91% of English further training met or exceeded participants' expectations and 90% of participants in the Dutch pilot projects were also satisfied with the courses. Only 10% found them either too easy, cursory or too general, or complained of courses being too difficult and too theoretical. Similar satisfaction levels have also been achieved in other countries.

***Addressing participants or those interested in further training (Marketing, PR and communications)***

The experiences with the various models again very clearly show how important information, marketing and personal relations are in reaching the designated target groups (see Gallacher et al. 2007). Personal address would also seem to be important in the case of disadvantaged and educationally deprived groups. Newspaper articles on successful participants in programmes also seem to be particularly successful in this respect, as has been reported from the Netherlands. This is also an important building block of the 'Train to gain' programme in Great Britain.

The involvement of employers can have an adverse effect if the training is oriented towards individual vocational further training, since in the Dutch pilot project at least, some of the companies had only a limited interest in their employees' training and therefore did not motivate them, but rather hindered their participation. The British 'Train to gain' programme involves companies very closely, but focuses on the companies' training and qualification requirements, which are also partly financed by the government. Employers may have a strong interest in such schemes.

The advertising for such schemes is also designed differently in the various Italian regions and autonomous provinces. Information and consultation is either provided centrally in the region or in the individual provinces, sometimes relying on existing administrative offices, sometimes in their own consulting centres. Promotional events are held at both levels. Various studies have, however, revealed a limited awareness of individual vouchers, of funding for training and education in general, and of public tendering processes. The insufficient organisational information and lack of skills-oriented consultation for participants has also been criticised.

#### ***Concrete handling of learning accounts and vouchers***

The handling of accounts refers here to concrete account keeping on the one hand and on the other hand to the payout of amounts for further training courses. Relatively little information is available on this.

In the Dutch pilot project, accounts were kept in three different ways in practice. In the first model, the accounts were completely and exclusively handled by commercial banks, apparently for each individual account separately. The two other approaches involved intermediary organisations, although in this case too, accounts were opened with commercial banks. In the one case there was a voucher almost as an entitlement to the amount deposited and the interest, and in the other there was a kind of 'virtual learning account' without the voucher. In both cases, collective accounts were set up for making deposits and payouts. It became clear that involving commercial banks also entailed additional administrative costs, since banks were paid for processing through account fees. On the other hand, banks have only limited interest in this kind of business because the amounts invested are very small. The former form – accounts for each individual participant in the programme – must therefore in particular be regarded as uneconomic.

Training providers are paid in the majority of cases according to actual enrolments in the respective courses, sometimes also only during the course, where a certain level of attendance must be proven, e.g. in Italy it is 70 or 75%. Two different models were tried out in the Netherlands. In one model, account holders had to advance the amounts and had them refunded upon the provision of the proof. The other was an application model, in which money was paid out directly to the provider upon application and the presentation of a bill. There is no information in the evaluation report by Geertsma et al. (2004) on whether the two procedures were equally effective or not. The possibility cannot be excluded that the former procedure could represent a certain hurdle for low-income groups.

#### **4.2.2.2 Training Loans**

Loans are a means to provide individuals without sufficient liquidity with the means to finance adult education. Thus, they are an instrument to improve individuals' ability to pay and therefore form part of privately financed adult education. However, private banks are not engaged as human capital cannot be safeguarded, for example, other forms of capital investment, and returns are considered insufficiently secure, but risky. This is an important issue for governments to safeguard loans by guarantees and, often also subsidise interest rates.

### Loans

The common expectation is that loans have a discouragement effect upon low income groups so that the investment in adult education might be lower than is hoped for from a societal perspective, and the demand for adult education would unfold reflecting the unequal distribution of personal income in the society. If the education policy goal were the expansion of adult education and higher participation of hitherto neglected societal groups, these two goals would very likely not be achieved. Another side effect might be a shift in demand for adult education from adult non-vocational learning to continuing vocational training. While self-financing as a pure financing mechanism does not find a majority of supporters, partial participation of the learners themselves in contributing a fee to the revenue of the programme which does not at all cover the cost of the programme seems to be acceptable by many.

Information about the application of loans for adult education is rather limited so far though improving; most of the programmes presented here refer to professional training<sup>24</sup>.

In Great Britain there are two models, one oriented towards companies and one towards private individuals, which function formally as normal bank loans, although these are provided in cooperation with the Department for Education and Skills (Verry 2003).

The so-called **Career Development Loan**, which can be claimed by individuals, works in a similar way. The amount of the loan can be between £ 300 (€ 450) and £ 8,000 (€ 12,000) and it is subject to low interest. No interest is in fact payable during the training and further training and for a further month – the government pays it – nor have repayments to be made. Borrowers can defer the start of repayments by up to 17 months in case of unemployment. The funding period is two years at most; i. e. longer programmes are only partly funded.

This line of credit was opened in 1988/89 and by 2000/01 over 150,000 applications had been approved, which is an annual average of 11,500 loans (Verry 2003). Though more than 17,000 loans were granted in 2005, with a total value of £ 70 million (€ 85 million.), the average number of contracted loans is 15,000 a year (LSC 2008a). Yet, the number of loan contracts decreased in 2006/07 (11,848) compared to the previous year (16,642), which is a drop by almost one third (LSC 2008b). This might mean that they have declined in importance. The average amount of each loan in 2005 was about £ 4,000 (€ 6,000)<sup>25</sup>. In contrast to vouchers or learning accounts, around 60% are male, while the share of female seems to be slightly increasing over the years. The core age group is 20 to 29 years old, though a small share of users is also above age 50 and average level of programme costs are £3,300 (€ 4,000), but said to be increasing over the years (LSC 2008a)<sup>26</sup>. The evaluation clearly indicates that loans are an important source of funding for those with no other financing opportunity or with comparably high costs.

In Germany, full- and part-time programmes for advanced professional training to become master-craftsmen (Aufstiegsfortbildung) can be supported by a scheme that supports up to 30.5% as grant and the rest an interest-bearing loan. Take-up rates were 140,000 in 2008 (Statistisches Bundesamt 2009).

<sup>24</sup> Cedefop has contracted a study on loans that is currently conducted. Results will probably be available by early 2011.

<sup>25</sup> The evaluation of Career Development Loans ([www.ghkint.com/news/nws02.asp?id=23](http://www.ghkint.com/news/nws02.asp?id=23)) that has been announced will be concluded in October 2008 and intermediate reports are apparently not yet available.

<sup>26</sup> One out of six has costs of more than £ 5,000 (€ 6,000).

In addition, loans are applied in 5 out of 12 new member states (Romania, Estonia, Poland, Bulgaria and Hungary). The maximum amount for conventional, i.e. non income-related loans ranges from € 1,600 in Estonia to € 10,000 in Romania, while the amount for income-related loans is higher, e.g. € 15,000 in Hungary and Romania. Interest rates differ between conventional and income-related loans, with often higher rates of the latter. Often, such loan schemes are safeguarded by governmental guarantees. Yet, it seems that no information on the take-up rates is available (Cedefop 2009b).

The preceding details indicate that loans, whether publicly funded or private, may be of secondary importance for the development of alternative concepts for financing adult education. A core issue is that loans will have to be repaid (incl. interest) and that they are therefore more directed at professional training and higher education, aiming at an increase of future income. The Austrian experience described below (see section 4.2.2.3) also argues in favour of this assessment. On the other hand, they could be a reasonable complement for companies and people with no other way of financing further training, particularly for training that is costly or during downturn periods. In addition, financing initiatives from the private sector seem unlikely, given the problem of collateral associated with investment in human capital, the risks, and the cost and effort involved in administration. However, employers in Bulgaria may provide loans of up to € 1,000 for learners aged 20 to 29 enrolled in certain programmes (e.g. management, public administration) in secondary schools and colleges (Cedefop 2009b).

#### **4.2.2.3 Savings plans for further training/capital accumulation for funding training**

In addition to loans, saving schemes are another means of privately financed education, though it seems that, as is the same with loans, private banks or insurance companies do not play a big part, as far as adult learning is concerned<sup>27</sup>.

This section will examine models for saving capital for financing further training. These models are comparable with saving for building or capital accumulation; i.e. savings are made over a longer period and usually in equal deposit amounts. This savings process is supplemented by the state, i.e. co-funded. Three different examples from Sweden, Austria and the Netherlands will be presented.

##### ***The Swedish Individual Learning Account***

The introduction of Individual Learning Accounts based on capital accumulation for further training funded through taxation was discussed in Sweden for many years. Even though the model was not implemented in the end, for the sake of completeness – and in order to cover the range of available options – it will be presented here (see also Ljunggren-Lönneberg et. al. 2003; Schütze 2007).

Government funding of the accounts was to be based on the income tax system and not as a direct payment into an account, as was the case in Great Britain (Ljunggren-Lönneberg et. al. 2003). Payments into the account could then have been deducted from taxation up to an amount of SEK 37,700 (€ 4,100 in 2001)<sup>28</sup>. In order to motivate employers to make payments into the accounts, they also would have been able to deduct the deposits from their tax. They would also have received a 10% reduction in the income tax that would be payable in any case.

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<sup>27</sup> There seems to be no theoretical or research debate on saving accounts so far, thus, the common box is not applicable.

<sup>28</sup> If the amounts paid in are withdrawn, the interest earned is taxed at 15%.

The model, individual aspects of its approach, and the overall concept were all fiercely criticised, in particular by unions and trade associations, so the scheme was not finally introduced and there is no concrete experience with this approach.

### ***A savings plan for education and training in Austria***

The Tyrol Chamber of Labour submitted a proposal for a savings plan for education and training, which has been further developed and since the autumn of 2005 has applied to the whole of Austria. The basic principle is commensurate with saving for building schemes or the employee savings allowance (funding under the terms of the 5<sup>th</sup> German Capital Accumulation Act) already well known in Germany<sup>29</sup>.

Money is to be saved for (further) training measures through the linking of the investment by the participant with the corresponding training premium or interest. The type of saving the person decides on, whether a bankbook, funds, or another form, is not important. The government pays a bonus of 3 to 8%, up to a maximum of € 1,000 annually. The saver is entitled to spend the amount saved plus the training savings plan premium on training (or for another purpose) after six years. After the expiry of this period, the saver is also entitled to take out a loan, the maximum amount of which is assessed in accordance with the amounts deposited. A further advantage of savings plans for training and education is that parents and grandparents can pass the accounts on to their children and grandchildren, so they do not expire. The system appears to hardly have been used so far.

Since autumn 2005 this form of saving for training has been linked with a 'Kredit für Pflege und Bildung' (loan for support, training and education) provided by building societies, which can especially be used to finance further training. Demand would however seem to be very limited (see "Die Presse" of 21.02.2007). This may be the case to an even greater extent because tuition fees for a university course of study can also be financed through this loan, i.e. the few savings or loan contracts that have been concluded may have been used to finance university education rather than for training.<sup>30</sup>

### ***"Savings for further training" in Germany***

As already mentioned above, in early 2009 the federal government has introduced a component that is called "Savings for further training", though it should be understood that this is not a real saving scheme for education but a withdrawal component as part of a general programme to support the accumulation of assets by employees. The Vermögensbildungsgesetz (Law on Asset Accumulation) regulates that those employees whose taxable income is up to € 20.000/40.000 (single/jointly taxed people) can benefit from a governmental contribution in addition to the interest payment of the bank or insurance company. Every month some € 40 is deposited in a "savings account" and a top-up of € 40 by the government (employees' savings premia) is received in addition to the banks/insurance interest payment.

Within this framework, the so-called "savings voucher" allows a withdrawal for adult education from the account during the seven year savings period, within which withdrawals are usually linked to a loss of the governmental savings premia. During the first 1.5 years around 1,300 employees applied for withdrawals.

### ***Summary: savings plans for training***

Taking the preceding details into consideration – including the experiences of the Dutch pilot project on ILAs (Dohmen 2007) – savings plans for training in the "true"

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<sup>29</sup> For more details see also Dohmen/de Hesselle/Himpele 2007.

<sup>30</sup> The Vienna Chamber of Labour is currently carrying out an evaluation, which should be completed by the end of August 2007.

sense, i.e. the accrual of savings, seems at best to be of marginal importance. This may be due to the fact that the required amounts saved are fairly small, so targeted saving is only necessary to a very limited extent, in particular for those on low incomes. Yet, low income earners will usually not be in position to save especially for education, as the liquidity will be constrained. In addition, it is questionable, whether such saving for education would be economically rational, if this affects the liquidity for other consumption or investment purposes. If such a liquidity constraint would result in another credit, taken up, for example, to buy a new car (or whatever), the interest rate for the credit would be higher than the interest return to educational savings, resulting in a loss.

The saving of larger amounts would be possible and perhaps also beneficial, but the prospect for corresponding expenditures on further training is comparatively **limited**, in contrast to the situation with university studies. Such expenditure would however be required for the saving of larger amounts. Savings plans for training are also unattractive for commercial banks for the reasons mentioned, i.e. the fairly small amounts and low relevance of larger amounts saved at a relative high cost.

The model for saving for training of the Swedish Skandia group of insurance companies, which in 1998 developed a product called “skills development”, should be briefly outlined at this point as an excursus. This is a capital assurance scheme involving three parties: the group of insurance companies, the employer, and the employee. The employer’s participation is a central aspect of this scheme. Upon conclusion of the insurance contract, two separate insurance accounts are opened. One account is in the name of the employer and is financed through the employee’s pay. In contrast, the employee directly finances the second account. A contractual agreement is also made between the employee and the employer to the effect that each of the parties can save a maximum of 5% of the pay in their respective accounts. A total of up to 10% of the total pay can be saved for the purposes of further training. The amounts saved should then be used mainly for continued wages payment during the training. The deposits made by the employer can only be used if the further training is undertaken with the agreement of the employer, or if the employment relationship is ended either through redundancy or death. Employees can, however, use the savings in their own accounts as they wish and also keep them after the end of the employment relationship. Similar models have since been developed and introduced by various companies, such as Bonniers, the large book publishers.

To summarise these findings, educational saving does not seem to play an important role in the future of financing adult learning.

#### **4.2.2.4 Tax subsidies**

According to Barr (1998), tax deductions are a must if income is taxed, as otherwise government would appropriate part of the private returns to education and training. Tax-subsidies concern approaches where expenses for training and further training can be deducted from taxation<sup>31</sup>. A principle question is when a tax deduction can be called a subsidy. Is this already the case, when a tax deduction is applied or only if the value of the tax deduction is higher than the cost? A Cedefop study argues that a tax education is to be considered an incentive only if the deductible rate is above 100%, which would mean that the number of countries applying tax incentives is rather limited and covers Austria in particular. If the requirements are lower, most countries would apply tax incentives.

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<sup>31</sup> For a more extensive review and discussion see also Dohmen 1999a as well as Cedefop 2009c.

**Austria** applies a model where companies and private individuals can deduct training expenses from their respective tax assessment base as income-related costs or business expenses.

Companies can deduct training expenses for their employees from the assessment limit for contributions to income and corporate tax under the precondition that the further training advances their employees' occupational skills. This advanced training must therefore be related to the practised occupation. Companies can apply for tax exemptions for internal and for external training and further training.

Applying the **tax exemptions for external training**, a total of 120% of further training expenses can be deducted from the assessed taxable income; i.e. 20% more than was spent. The company can also use the so-called 'training premium' as an alternative to the external amount deductible for training. The training premium of 6% of total training and further training costs is credited to the tax deposit account. The training premium is to be preferred to the external amount deductible for training if the company's tax progression is under 30%.

Since 2003, company-internal training and further training measures have also been able to be deducted from tax as an internal amount deductible for training. Maximum expenditures of € 2,000 or € 1,000 (courses that are not held for more than four hours per day) can be deducted, so the internal amount deductible for training is a maximum of € 400 or € 200 per calendar day. There is no alternative training premium for company-internal expenditure.

Employees can retrospectively deduct income-related or operating costs from their income tax or employee tax assessment, as long as the vocational training and further training supports their occupation.

It must however be taken into consideration that – other than with most funding models – not only the course fees, but also the costs of learning materials, travel and accommodation count as tax deductible expenses. The amounts that can be deducted from tax as further training expenses are thus often larger than the expenses refunded through other funding measures.

38.33% or 50% of the course costs paid by private individuals are reimbursed through a tax credit under certain preconditions. As with all tax regulations, a basic prerequisite for the application of this regulation is that the taxpayer earns an income and that it is above the tax-exempt limit, which presumes a monthly gross income of € 1,130. The tax relief also increases with increasing income.

With regard to **Germany**, expenses for training and further training are treated differently. While further training expenses can be completely deducted as income-related costs without restriction, in principle, training costs entailing external accommodation can only be deducted as special expenses up to an amount of € 920 and € 1,227, respectively. The actual tax relief depends on the individual marginal tax rate, i.e. it is a maximum of 42%. This means that of € 1,000 a maximum of only € 420 can be reimbursed through reduced taxation payments, the remaining € 580 must be privately financed. For those on low incomes, this tax relief is reduced to null. The use of tax regulations for this purpose therefore favours participation in training that increases with (taxable) income because those on low incomes or without income who incur corresponding expenses are indirectly disadvantaged. Companies in Germany can also deduct their company-related training expenses from their tax.

Over some time, the **Netherlands** applied a model where higher rates could be exempted from tax if employees aged 40+ underwent training. However, it turned out – although this increased participation rates of the target group remarkably – that this was only due to a postponement of training for those in their late thirties.

In conclusion, it can be stated that the deduction of individual training expenses from tax is basically advisable so as to avoid distortions in comparison with other investments and because the state also taxes the returns from the (further) training, i.e. income (see Dohmen 2003), although in total relative slight incentives to invest in training are thereby provided. Evaluations from the Netherlands, especially those surveying employers and companies, show that they are mainly regarded as windfall gains. The reason may be that those who decide about participation in further training make this decision according to other criteria than the criteria that an accountant might apply (Oomens 2003).

A core issue concerning the assessment of tax incentives is that the net effect increases with income levels, i.e. deduction is higher for those with higher income and less for those with lower income. In fact, this results in lower net costs for those with higher income supporting that participation in adult education positively correlates with increasing income. This can be considered an adverse effect of tax incentives.

This suggests that additional measures need to be implemented to complement financing through taxation, e.g. income-related grants'.

#### **4.2.2.5 *Excursus: Individual drawing rights***

Individual drawing rights are so far a theoretical discussion, but for reason of completeness the idea is presented briefly within the box:

### **Individual drawing rights**

The financing model of individual drawing rights has been introduced by Rehn (1982, 1983) into the debate on financing alternatives in the field of lifelong or recurrent education which is a broader concept of learning including adult education. The central idea of the model is a kind of income-transfer-system similar to social security systems (organising e. g. unemployment, health and care insurance). With regard to adult learning it would aim at providing a combined system of financing and regulations which allows to structure the allocation of time after finishing compulsory education with regard to work, learning and leisure over the lifespan on the basis of the largest possible degree of freedom of individual choice. The intention to maximise individual choice between phases of learning, working and enjoying leisure time over the life span according to ones own preferences would require a great variety of work time patterns which would allow for this recurrent change between work, learning and leisure. The current discussion of annual work time accounts, educational leave, sabbaticals, individual learning time accounts, qualification companies as well as the ongoing debate on learning impositions for recipients of social transfers indicate movements towards that direction, but do not always coincide with Rehn's goal of maximum individual choice. Financing adult education within this system would happen by means of income contingent dues (a certain percentage of gross income) paid by the employed and the employers (the contributions by the employers would surely be a point of controversy!), but also by the civil servants and the self employed in their individual drawing rights account. The state would have to take over the dues for persons who are unintentionally out of work (the unemployed, parents during the family phase and persons during military service). Each individual could draw on his or her account up to the actual credit amount and even beyond (by a kind of loan) as long as the size of the loan remains within the limits of the total contributions which can be expected until retirement. Here again, a controversy might come up as to the question whether the loan should be given against an interest and whether the interest rate should be subsidised by either the transfer funds or by the state for certain income groups. Specific incentives for learning could be built in the system by offering "extra" drawing rights in the case of steering individuals into specific learning subjects in order to fill specific shortages of knowledge and skills in the employment system.

Being attractive at first sight, the attractiveness suffers from a second sight. As the size of the drawing rights depends directly on the size of the personal gross income, the economic ability to afford learning activities (or sabbaticals or leisure time) will be distributed as unequally as the incomes themselves. Without any further incentive in favour of participation in learning it seems very likely that the individual preferences towards learning and competing activities (sabbaticals, leisure time, and early retirement) will differ dependent on social background. An unequal ability to pay and a differing educational demand behaviour, which is biased by social background, is linked to the risk of producing societal underinvestment in adult education, which would then be in danger to produce societal underinvestment in adult education. It seems necessary to think about restricting the space of individual choice as such that at least the use of the drawing rights would be limited to learning activities, and that for low income individuals as well as for members of education distant social milieus the state should provide financial aid and incentives. A remaining unsolved problem refers to the question of how the financing model should cope with different prices of different adult education programmes.

### **4.2.3 Employer financed adult education**

#### **4.2.3.1 Paid and unpaid training leave**

In 1974, the International Labour Organisation (ILO) released convention C140 on paid educational leave (PEL). According to a Cedefop report from 2005, the convention was ratified by 32 countries worldwide. In the European Union, only around fifteen Member States have ratified the convention:

**Figure 4.2: Ratification of C140 in Europe**

<b>EJ Member States</b>			
Hungary	10.06.1975	Poland	23.04.1979
Sweden	23.09.1975	San Marino	19.04.1988
France	20.10.1975	Finland	24.02.1992
United Kingdom	04.12.1975	Slovenia	29.05.1992
Netherlands	14.09.1976	Czech Republic	01.01.1993
Germany	30.11.1976	Slovakia	01.01.1993
Spain	18.09.1978	Belgium	12.01.1993

Source: <http://ilolex.ilo.ch:1567/scripts/convde.pl?query=C140&query0=140&submit=Display>

**Training leave**

As noted earlier, another important resource is time. Formal or non-formal learning can happen during leisure time or during work time (or both). Some countries have passed laws on educational leave already in the 1970s in order to provide work time for learning. These laws usually guarantee the right of all public and private employees to take leave for educational purposes during working hours. To qualify, an employee must have worked for his company for a certain time span. The right to educational leave usually covers all types of education – general, vocational and that provided by trade unions. The employees usually have the right to leave if they meet the requirements, however have to negotiate the point in time and the conditions of leave. The right to return to their jobs (i.e. the same status and income) is included. During the leave, as a rule, wage and salaries are maintained by the employers while the outlays for learning are borne by the labour agency or some other parafiscal fund.

Nevertheless, educational leave, paid or unpaid, exists in some form in most countries. Even Ireland and United Kingdom, where so far no comprehensive legal framework for educational leave exists, have examples of such practice. Despite the fact that the ILO convention has been ratified in the United Kingdom, this has not been followed up by legislation, a voluntary approach is preferred. In Ireland, educational leave is applied in an unregulated way both in the civil service and private industry - especially in larger companies, banks, IT companies. The educational leave issue in Ireland is being viewed in a positive way by both trade unions and national authorities. The civil service officially encourages the taking of educational leave although it has no regulations in place, and the IBEC (Irish Business and Employers' Confederation) has brought out guidelines on the practice for members to use if they wish. The White Paper on Adult Education also makes an aspirational reference to educational leave, while the Task Force on lifelong learning set up under the tripartite Programme for Prosperity and Peace, is examining access to education and training, in particular issues such as fees and educational leave.

Also in the Swedish lifelong learning LLL system the legal right to leave for employees wanting to take education or training is offered, providing people with the necessary time to attain education and training. This "right to leave" was introduced in the mid 1970s but is surprisingly little used and known. Less than 1% of the working population seem to have used this possibility on an annual basis. It was also indicated, from the Employers federation to OECD researchers, that a certain "stigma" is associated with this arrangement; applying for educational leave will in many cases be read as a sign of "exit" from the enterprise. In a setting of lifelong learning, where individuals will be expected to move from work to education and back

again more frequently than what is the case today, there may be a reason to look into a revival and revitalisation of this "old" arrangement.

In Belgium, during paid educational leave, full-time employees have the right to be absent from work, while retaining their normal pay or wage, for a number of hours which corresponds to the number of hours comprised by the courses being attended (vocational training or general education) and for which an annual maximum is fixed by the law.

Employees who wish to exercise their right to paid educational leave inform their employer in writing and indicate their envisaged absences.

The overall organisation of paid educational leave within each enterprise is arranged by the works council or, where no works council exists, by agreement with the "**union delegation**" or the employees in general. It's planning takes into account the work-organisation requirements of the enterprise as well as the interests and individual circumstances of each employee.

This planning may not impede the right of employees to exercise their right to paid educational leave in travelling to courses, attending courses and, where applicable, returning to the workplace after courses and sitting examinations.

In the event of disagreement, the case is submitted to the employment and labour inspectorate of the Ministry of Employment and Labour, which first attempts to conciliate and, if this fails, issues a decision on the matter.

The Ministry of Employment and Labour reimburses the employer for pay and social security contributions for employees who take paid educational leave, to the following extent: 50% in the case of vocational training and 100% in the case of general education.

The cost of reimbursing all courses is met by a budgetary fund under the Ministry for Employment and Labour, contributed to by the State and those employers who are likely to employ persons taking leave.

The employers' share is collected through a special contribution paid to the social security collection agencies, set by Royal Decree for repayment of expenses not covered by the State subsidy.

Employers may annually recoup the cost of remunerations and social contributions related to paid educational leave from the Ministry for Employment and Labour, on the condition that leave was granted in full respect of the legal and statutory conditions.

A worker on leave is entitled to the continued payment of his normal salary at the usual times. The normal pay was limited to a certain amount, which is annually adjusted to the wage index. The effect of this ceiling is not to bar access to paid educational leave for any worker who receives a higher rate of pay, nor to prevent the employer should he feel it fit to pay a higher amount for the leave. It is a limit which affects the reimbursement paid by the Ministry of Employment and Labour.

In Germany, twelve out of the sixteen states (Länder) have legal regulations concerning paid educational leave for workers and employees. Those states without legal regulations are Bavaria, Saxonia, Baden-Württemberg and Thüringen. As neither a nationwide continuing education or training law nor a national educational leave law exists in Germany, each of the twelve states has introduced different regulations beyond a common basis and philosophy. As in Sweden, in Germany the overall utilisation of paid educational leave is very low. It is estimated that about 2% of the workforce takes advantage of PEL on average. PEL as well as LTA's are two instruments of supporting LLL whose potential seems not at all to be exhausted all over Europe.

#### 4.2.3.2 *Learning time accounts*

The empirical evidence on learning time accounts is very poor. Few countries present information about that issue, and if they do, the data are rather old. A recent study by Heidemann (2009) about LTA's in Germany conducted for the Hans-Böckler Foundation concludes that even in Germany there are no specific LTA provisions, neither on a legal basis nor on grounds of agreements within companies between employers and employees. If time accounts are used at all for learning, these are WTA's, but the extent of use is negligible. Furthermore, all of these agreements stem from the 1980s and 1990s.

In addition, France has regulations for learning time accounts, which does not seem to have been evaluated yet.

##### **Learning time accounts**

The relationship between work time, leisure time and learning time is a crucial point of debate when it comes to adult education. Learning time accounts (LTA's) can be an attractive solution to the allocation of time problem because learning time creates opportunity costs either for the learner, for the employer or for both. LTA's tie in nicely with existing work time accounts and adult education rights (e.g. expressed by educational leave). Work time accounts (WTA's) are a basis for variable handling of agreed regular working time. Between agreed bandwidth, the regular working time can be portioned in different ways. Overtime worked can be booked as time credit, a deficit of working time may be booked as time debt. LTA's can be linked to WTA's. Working time credits could be transferred to LTA's or already existing credits of learning time could be booked to the LTA's. These credits may stem from the educational leave law or from bargaining agreements between employer associations and unions or between employers and employees on the company level. The utilisation of the LTA's could be restricted to certain types of learning, depending on the negotiations and on the mutual interests of the employees and the employer. Even though LTA's take care of the opportunity costs of the learning time, the financial needs have to be covered by financial resources. It should be clear that LTA's are, if at all, used only in the context of vocational continuing training in firms. Nowhere did we find any hint that LTA's might be used for the purpose of non-vocational adult education.

## 5 SUMMARY

Reviewing the preceding observations, training vouchers or learning accounts in recent years are among the most important and applied instrument. Most western and south-western European countries have implemented them in one form or another. The related financial funding amounts are usually comparatively small and the number of participants who can be involved also seems limited – which is also, however, due to the fact that the trials mainly involved model programmes or programmes with limited budgets.

The inclusion of certain disadvantaged target groups (educationally deprived groups, SMEs), who are in particular reached at a disproportionately low level if they are not specifically addressed, is regarded as a particular challenge in this context. Despite this failing, most approaches seem to have had quite a significant mobilising effect. At the same time these mobilising effects must be contrasted with windfall gains, which can probably not be prevented, but could be limited by subjecting funding to certain prerequisites, e.g. limited income, low initial level of education and/or no participation in training over a certain period. There may be a trade-off between targeting disadvantaged groups and the size of the programme; thus, targeted programmes may never be judged to be “successful” due to number of participants. Their measure

of success would be the share of lowly qualified prepared for or kept within the labour market. The examples from the various countries also show that it is possible to fund specific target groups if the funding modalities are specified accordingly.

In addition to targeted addressing, suitable marketing and personal relations (PR) strategies, in particular information and counselling are of central importance in reaching disadvantaged target groups. The vouchers or learning accounts should only be able to be used with recognised institutions, to prevent misuse and insufficient quality in the provision of services.

Most of the other financing schemes examined are of minor importance in an international context as far as adult learning is concerned; this applies to savings plans for training in the true sense, but also for tax incentives, paid training leave or learning time accounts. Past experience has shown that 'real' saving for education is hardly ever achieved and that such schemes are also unsuitable for fundamental reasons. Despite several starts in this direction, only Austria is currently trying this type of approach and it does not seem to be fulfilling expectations at all; financing higher education through loans, which are granted immediately when the contract is signed, is the core issue to signing contracts.

Allowing tax deductions would seem to be systematically advisable so as not to discriminate against investment in further training as compared with other investments, but they entail on the one hand some windfall gains, e.g. if only certain target groups "gain" from tax incentives and on the other hand low levels of mobilising effects. They also promote a participation in further training that is correlated with income. Tax incentives are particularly inappropriate when disadvantaged groups should be targeted, as they often don't earn an income beyond the tax threshold.

Experience shows that further training loans are also used comparatively little, but have been able to mobilise larger amounts and could therefore be a good complement to other forms of funding for the (pre-)financing of cost-intensive measures. These could especially be considered to enable participation in training that is not directly in the public interest but which could otherwise not be undertaken due to the participant's lack of income and assets.

Although often relative comprehensive for employees, the paid training leave seems to be of minor relevance as the participation rates are very modest, i.e. at one or two percent, if at all. Documentation of learning time accounts is very limited.

**Glossary**

AE: Adult Education

AES: Adult Education Survey

CVTS: Continuing Vocational Education and Training Survey

ECHP: European Household Panel survey

IBEC (Irish Business and Employers' Confederation)

ICT: Information Communication Technology

ILO: International Labour Organisation

ISCED: International Standard Classification of Education

LLL: Lifelong Learning

LFS: Labour Force Survey

GDP: Gross Domestic Product

PEL: Paid Educational Leave

SME: Small and Medium-Sized Enterprises

VET: Vocational Education and Training

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