

# **Funding and Stakeholders Roles in the Development of Apprenticeship: What can be learnt from the experience of other countries?**

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**Paper presented within the Symposium “Developing not Overthrowing-Lessons in policy learning to Improve Work-based learning in Lithuania, at the European Conference on Educational Research, ECER 2012-Main Conference on “Emerging Researchers’ Conference” (Network 2: VETNET), University of Cadiz, Cadiz (Spain), 18-21 September 2012**

## **Abstract**

*One of the most challenging and crucial fields for development of apprenticeship in Lithuania is funding. Transparent division of responsibilities in funding based on the interests and long term benefits to the stakeholders presents real challenge in the case when there are no traditions and experience of private funding or co-funding in VET. It may require developing a set of different co-funding solutions or mechanisms. Development of apprenticeship funding system may require proceeding on the basis of step by step piloting/testing stages for the adaptation, or, in certain cases, it might be necessary to construct more adapted packages based on inter-complementary instruments. Stakeholders and the social partners must be involved in the development of the apprenticeship system in Lithuania. Employers and trade unions are at the point of production where much of the learning will take place and employers define the labour market needs that must be addressed in designing the curriculum. Apparent good practice from the benchmark countries demonstrates the potential for the social partners to establish networks and structures of cooperation and partnership that cover very wide fields of apprenticeship training, from the development of vocational profiles and curricula to questions of funding and quality assurance.*

## **Introduction**

The funding and co-funding arrangements constitute one of the most important and challenging issue in the process of the introduction and development of apprenticeship in Lithuania. As there are no established traditions and experiences of private funding or co-funding of VET in Lithuania, this may require developing a set of different co-funding solutions or mechanisms adapted to the receptivity contextual preconditions for identified transferable effective practices from the benchmark partner countries. Consequently, the development of apprenticeship funding system may need proceeding on the basis of step by step piloting/testing stages for the adaptation, or it might be necessary, in certain cases, to

construct more adapted packages based on inter-complementary instruments. The social partner and other concerned stakeholders have to be involved and play an important role in the process of the development of the apprenticeship system in Lithuania.

The identified examples of effective practices in the benchmark partner countries demonstrate the potential role to be played by the social partners in establishing networks and structures of cooperation and partnership that cover very wide fields and actions connected with of apprenticeship training programmes, ranging from the development of vocational profiles and curricula to the issues of funding, co-funding and quality assurance.

In this context, this paper integrates within the framework of the research outcomes of the LLP-Leonardo Project “DEVAPPRENT (2010-2012) - Development of apprenticeship in Lithuania referring to experience from Germany, France, UK and Netherlands” (Devapprent Consortium, 2011 & 2012). It is an exploration of what can be learned from the experiences of the benchmark partner countries (DE, FR, NL and UK) for the introduction and development of funding and co-funding instruments of apprenticeship in Lithuania through the following sections:

- Comparison of identified and analysed approaches and practices for funding apprenticeship;
- Transference feasibility of identified effective funding and co-funding approaches and practices of apprenticeship;
- Recommendations for the introduction and development of transferable approaches and practices for funding apprenticeship in Lithuania.

### **Comparison of identified and analysed approaches and practices for funding apprenticeship:**

The comparison and analysis of the identified examples of funding approaches and practices in the benchmark partner countries (Germany, France, Netherlands and the UK) revealed that they are, on the whole, characterised by the existence of some similarities and differences. In this connection, all identified and comparatively analysed approaches in the benchmark partner countries can be grouped into two basic categories of funding and co-funding arrangements (Devapprent Consortium, 2011 & 2012):

- Funding arrangements connected with the on-the-job part of apprenticeship training: They concern the apprentices' wages (basically taken in charge by employers), including in most cases the State and/or regional authority subsidies, tax/social security contribution exemptions, encouragement bonuses/premiums to actively involved employers.
- Funding of the in-the-school part of apprenticeship: This includes taking in charge the costs connected with training (training staff wages), used materials and equipments, tutoring and assessment.

However all funding and co-funding arrangements falling within the range of these two basic categories, are mainly undertaken and implemented on two basic levels: national level and regional, sectoral and company levels.

First, on national level, it is common to find funding and co-funding arrangements packages connected basically with financing the in-the-school part of apprenticeship training with the aim of achieving two interconnected basic priorities:

- Promoting and widening accessibility to apprenticeship among different groups of the population, especially disadvantaged people without or with low initial vocational qualifications;
- Ensuring high quality of training through apprenticeship with the aim of meeting the employability requirements in the labour market.

However, there are differences in the nature and contents of these funding and co-funding arrangements. These include for instance the following practices: the tripartite Federal pacts in Germany; the apprenticeship tax levied on companies in France and the Netherlands; the funding of in-the-school tuition fee through the Government funding agencies in the UK; the State contribution to apprenticeship training costs incurred by the employers in the Netherlands; granting social contributions/tax payment exemptions (including granting encouragement premiums/bonuses) to employers effectively recruiting via apprenticeship in France.

Secondly, regarding the funding and co-funding arrangement practiced on a decentralised level (i.e. on regional, sectoral and company levels) within the benchmark partner countries, they usually concern both: on-the-job and off-the-job parts of apprenticeship training. At this level, the involved stakeholders include basically the enterprises, employer organisations, sectoral funds/bodies (including different chambers) and the regional authorities. The identified cases of effective practices at this level include basically the following interesting examples:

- The employers' payment of the wages of on-the-job apprentices: this example is a common practice within basically all the benchmark partner countries: Germany, France, Netherlands and UK.
- The sectoral research and development funds (O+O) in the Netherlands;
- The sectoral pact agreements for funding apprenticeship within the German chemical and machinery production industries;
- The French regional funds for apprenticeship and CVT financing.

All these effective funding and co-funding arrangement practices on both national and decentralised levels are facilitated by the existence of well developed and functioning networks with a long tradition of cooperation and partnerships between all involved stakeholders in the apprenticeship system. In this connection, it is important to underline that the networks and structures of cooperation and partnership of stakeholders within the benchmark countries, especially Germany, France and the Netherlands are based on a long tradition of social partnership and cover a very wide range of apprenticeships fields, which go from the development of vocational profiles and curricula design to dealing with the issues of funding and quality assurance. However, it remains that each of these countries has its own specificities concerning the involvement of stakeholders, namely:

- Sectoral collective agreements based on the principles of self-organisation and subsidiarity predominate in Germany and the Netherlands to ensure coherent shared influence between the state authority and the labour market stakeholders;
- The inter-professional and sectoral bargaining agreements with stronger State involvement and influence in terms of management and regulation of social partnerships in apprenticeship;
- Liberal approach towards stakeholders' involvement in apprenticeship, which does not include binding collective agreements as it is the case in the other three benchmark countries (Germany, France and the Netherlands). It is more based on a relatively high level of interactivity between the employers and the trade unions at the enterprise's level, especially in connection with the organisation and funding of apprenticeship.

In all these cases, labour market stakeholders have real representative power with clearly expressed interests in the field of apprenticeship and its funding.

### **Transference feasibility:**

Concerning the transference feasibility of identified examples of effective funding and co-funding approaches and practices of apprenticeship to Lithuania, it is based on taking into consideration two sets of context related influencing factors: contextual transference constraints and receptivity facilitating factors (Devapprent Consortium, 2012).

#### ***Contextual transference feasibility constraints:***

The identified examples of effective practices in the four benchmark partner countries (Germany, France, Netherlands and UK) have to be adapted to different cases of the contextual receptivity constraints in the recipient country (Lithuania). In this connection, the identified factors to be taken into consideration in the transference feasibility to the Lithuanian context include basically the following:

- The existence of underdeveloped networks of potentially involved stakeholders on national, sectoral and regional levels, including their limited experience and financial capacities in funding/co-funding apprenticeship.
- Absence of long lasting and effective mechanisms and measures of public-private co-funding of the initial VET. This is basically due to the other related hindering factors namely:
  - The domination and concentration of the public (state) funding in the school-based IVET;
  - Lack of understanding of the importance and necessity of private co-funding for the development of high quality apprenticeship amongst the employers;
  - Lack of supporting legal and fiscal measures (exemptions, privileges) as the current legal basis and tax system do not encourage and motivate enterprises to take responsibility of co-funding IVET, including apprenticeship;
  - Economic and financial weakness of many industrial and service enterprises (especially SMEs).
  - Financial weakness and lack of financial and economic autonomy of employers' organizations and business structures, as in the most cases these structures have very small budgets limited basically to maintaining the main functions and coordinating activities.
  - Very limited financial and economic capacities of population to participate in the co-funding of apprenticeship ;
- The resistance of the local enterprises to investment in IVET through apprenticeship related funding and co-funding instruments such as contributing to the payment of apprenticeship tax or to the apprentices' wages. This is basically due the existence of a high rate of workforce emigration which increases the risk that their investments in apprenticeship will not be rewarded with sufficiently stable supply of skilled workforce.

#### ***Receptivity supporting factors***

By contrast, the other factors to be also taken into consideration in the adaptation of transferable effective experiences and practices to the Lithuanian context constitute what can

be considered as receptivity supporting factors. They include the following basis facilitating factors:

- Promoting accessibility to apprenticeship and ensuring high quality of provided apprenticeship meeting employability requirements within the labour market are the basic priority aims set for the introduction and development of apprenticeship in Lithuania. These assigned objectives to apprenticeship system are more or less compatible with those identified in the benchmark countries.
- Recent reform in Lithuania introduced the legal framework concerning the possibility for VET schools to become public entities with the involvement of enterprises as stakeholders or co-owners. In this connection, there are some examples where the establishment of such public owners with the participation of companies as stakeholders leads to significant increase of co-funding and investment from the side of involved enterprises.
- The observed recent increase in the flows of foreign investment and the establishment of subsidiaries of foreign enterprises in Lithuania can be considered as a receptivity supporting factor. This is mainly due to the fact these foreign enterprises are usually more open to initiatives of funding and co-funding of apprenticeship.
- There are some observed changes in the attitudes of local enterprises concerning investment in apprenticeship, caused initially by factors such as intensive emigration of skilled workforce, might encourage employers to search for ways to compensate these losses of skilled human resources.
- The existence of relatively well established institutional setting based on more or less centralised state governance of public finances, is more favourable to the introduction, development and implementation of apprentices funding instruments more adapted to this situation. This situation might facilitate for instance the introduction of special apprenticeship tax levied on all registered enterprises (in terms of a reasonable percentage of their overall wage bill) as it is the case in France.

### **Introduction and development of apprenticeship funding/co-funding instruments in Lithuania: Recommendations**

The effective introduction and development of apprenticeship funding and co-funding instruments in Lithuania, based on adapted transferable examples of apparent “good practice” from the benchmark countries should take into consideration the practical contextual transference feasibility factors (receptivity supporting factors and their constraints). In this connection, the proposed recommendations include some primary guiding principles and a succession of practical introduction and implementation stages (Devapprent Consortium, 2012).

#### ***Guiding principles:***

- The first guiding principle consists of avoiding complete transposition of transferable apprenticeship funding/co-funding instruments identified in the benchmark partner countries into the Lithuanian context. As these transferable instruments are generally rooted into the tradition of their respective original contexts, their transference feasibility needs to be looked at individually (on the basis of case by case) in relation to their compatibility with the identified receptivity facilitating and hindering factors within different branches of activities on national, sectoral and regional levels within the Lithuanian context.
- Secondly, it should be proceeded in the introduction and implementation process, on the basis of step by step piloting/testing stages for the adaptation, the introduction and

development of funding/co-funding instruments taken/tested individually. In certain cases, it might be necessary to construct more adapted packages based on inter-complementary instruments.

### ***Introduction and implementation stages:***

Referring to some of the identified transferable cases of effective funding and co-funding practices from the benchmark partner countries, the effective introduction and implementation process can allow for exemplary step-by-step package options through the following basic stages:

#### **Stage 1:**

Taking into consideration the weakness and limited experience of funding/co-funding capacities of potentially involved stakeholders (especially social partners), it might be necessary to rely initially on a package of the State contribution to the funding of apprenticeship in its off-the-job and on-the job parts. Given that the State existing and potential funding should be optimised at this initial stage, the UK example based on combining “payment-per-qualification” and “payment-by-results” can be considered. The distribution of the State funding according to obtained qualification/results via apprenticeship is particularly interesting as it contributes to competition between stakeholders directly involved in its provision. This mode of distributing State funding might constitute a driving-engine for the development of apprenticeship at very initial stage of its introduction. However, concerning the crucial issue connected with the quality of provided apprenticeship through this instrument, it is necessary to develop adapted quality assurance criteria based on combining both quantitative and qualitative quality assessment of obtained qualifications/results. This is necessary in order to avoid down grading of the quality of provided apprenticeship as well preventing the development of a situation where apprenticeship becomes a source of making more profits at the expense of a real long-term investment in HRD. This might be dealt with through the development of referential (occupational and qualification) standards for all provided qualifications through apprenticeship to be rigorously respected by apprenticeship providers (apprenticeship centres as well as the enterprises). Moreover, this initial stage should also concentrate on the capacity building of sectoral stakeholders for more involvement in funding apprenticeship. This can be done by the launch of an active dialogue within the sectors through explaining the importance and potential use of the enterprise’ funding of apprenticeship and the State encouragement in terms of granted social security contributions/tax exemptions to employers effectively recruiting apprentices

#### **Stage 2:**

This second stage consists of undertaking a piloting version of the German tripartite apprenticeship pact within more developed and active sectors of activity to deal of with the issue of skill mismatching and shortage of skilled labour force. This can be completed by the State encouragement in terms of granted social security contributions/tax exemptions to employers effectively recruiting apprentices as it the case in France.

The tripartite apprenticeship funds can be established in sectors or regions (or both) and managed by the sectoral stakeholders under the supervision of state institutions. These tripartite funds could be based on contributions shared by both the state budget (50%) and the enterprises or sectoral employer organisations/bodies (50%). This funding scheme could exist as an alternative/complementary mechanism of funding used in parallel to an apprenticeship tax levied in those sectors which have specific (higher) funding needs

### **Stage 3:**

In this stage, a package consisting of levying an adapted apprenticeship tax as a percentage of each company's overall wage bill on all registered enterprises (with the exception of freelance individuals) as it is the case in France. This fiscal measure is more compatible with the Lithuanian existing institutional setting of more or less centralised state governance of public finances and IVET funding/co-funding.

This tax could be applied with diverse rates, including reduced rates which can be foreseen for enterprises investing in apprenticeship through the recruitment of apprentices and the appointment of apprenticeship masters/tutors. The exemptions of this tax can be foreseen for freelance individual professionals and for enterprises involved in the alternative schemes of funding.

The only problem with instrument in the present Lithuanian situation is the resistance of the enterprises to the introduction of such tax due to increasing loss of their skilled workforce through emigration. For this reason, the enterprises might, in return, require from State undertaking some legal measures to limit the flow of skilled labour force emigration (even if they can be in contradiction with the European legislation which encourages labour mobility). This legislation can be avoided by allowing the enterprises effectively active in apprenticeship to introduce voluntarily and on individual basis an "in-working pay-back clause" in the contract of the recruited apprentice to remain working within the same enterprise for certain duration after the completion of his/her apprenticeship.

### **Stage 4:**

Following the completion of the introduction of apprenticeship, the European Social Fund schemes can be also used for co-funding of apprenticeship at national, regional and sectoral levels, especially in cases of special apprenticeship training schemes connected with professional inclusion of specific categories of disadvantaged young people without/with low initial vocational qualifications.

### ***Lithuanian stakeholders' co-funding responsibilities after the introduction of apprenticeship:***

The Lithuanian stakeholders' funding and co-funding responsibilities after the introduction of apprenticeship system are expected to be distributed according to the field /type of apprenticeship training as follow (Devapprent Consortium, 2012):

First, concerning off-the-job training (courses and practical workshops) within apprenticeship centres/schools, all main related costs such as staff costs, facilities, provisions of training materials/equipments and teachers' training will be taken in charge by the State. The employers/enterprise and the sectoral organisations/bodies may contribute by covering the costs of different complementary measures and actions undertaken voluntarily on their level, such organising seminars for VET teachers/professionals, including supporting the acquisition of some relevant materials and equipments to the practical workshops/seminars.

Secondly, regarding the workplace on-the-job training, the stakeholders' co-funding responsibilities can distributed through a three-year-primary period (basically piloting period) and the next periods as follows:

- The state funding contributions during the three-year-primary period will include:
  - Granted exemptions of employer's social contributions connected with recruited apprentices and their apprenticeship tutors/masters;

- Income tax exemptions for apprentices and their supervisors (for the part of income connected with the time devoted to supervising apprentices).

After the three-year-primary period, the state contribution will be limited basically to certain encouragement measures, such as granting tax exemptions/bonuses to companies taking more than a certain defined number of apprentices and appointed supervisors.

- The employers' co-funding contributions will concern basically the payment of the apprentices' wages and their apprenticeship masters (net of the payment of the employers' social contribution and withholding income tax), including other incurred cost connected with the use of material/equipments within the enterprise. However, after the three-year-primary period, the employers are expected to take in charge the full wages of the apprentices and their supervisors including employers' social security contributions.
- The sectoral organisation/bodies may contribute after the introduction of apprenticeship by covering the costs of training and skill development of apprenticeship masters, including those connected with the organisation and quality assurance of apprenticeship training.



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