Financing of (Dual) VET

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Presentation by Gunnar Specht & Clemens Aipperspach
PLANCO Consulting GmbH
Agenda

Part 1: Background & Fund Allocation Models
- Cost Drivers of VET
- Challenges | Approaches towards Sustainable VET Financing
- Models of Fund Allocation | Examples

Part 2: Involving the Business Sector in VET
- Direct and Indirect Participation in VET Financing
- Training Funds and Levy-Grant Systems

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Part 1: Background & Fund Allocation Models
Infrastructure
▪ Buildings (high space requirement)
▪ Equipment
→ High investment cost
→ Savings for re-investment required

Training Operation
▪ Training material & consumables
▪ Maintenance of equipment
▪ Power, water supply, internet, etc.
→ High running cost (technical trades)

Personnel
▪ Salaries, social insurance etc.
▪ Qualification and work experience
→ High teacher-learner ratio (~1:15)
→ Part of running cost

VET System
▪ Standard and curriculum development
▪ Education & further training of teachers
▪ Assessment and certification
▪ Regulating bodies | VET authorities

Cost Drivers of VET

High VET cost call for cost-sharing models
Fundamental Challenges of VET Financing

**Chronic underfinancing**
- State budgets alone not sufficient for high-quality training at large scale
- Revenues from fees must remain limited for social reasons
- Other revenue-generation by VET providers (e.g. through production) not enough to close financing gaps

**Inefficient & intransparent budget allocation**
- Cost structures widely unknown → weak financial planning
- Fund allocation to VET providers not sufficiently related to demand and performance
Approaches towards Sustainable VET Financing

**Fund Generation**
- Diversification of funding: state, enterprises, individuals, (donors)

**Participation of the Business Sector**
- Direct: Involvement in training delivery (dual VET)
  - dual VET reduces the cost burden of the state considerably
- Indirect: Payment of training levies

**Fund Allocation**
- Criteria: demand and training quality
- Mechanisms to avoid waste/misuse of funds, ensuring transparency
Key Message

Objectives of VET Financing:

- Increase VET **effectiveness** – employment impact of VET
- Increase VET **efficiency** – input-output ratio of the VET process
## Supply-side vs. Demand-side Financing

<table>
<thead>
<tr>
<th>Supply-side Financing</th>
<th>Demand-side Financing</th>
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</thead>
<tbody>
<tr>
<td>Financing of infrastructure, personnel, running cost</td>
<td>Financing of training costs through target group</td>
</tr>
<tr>
<td>➔ Ensuring availability of VET capacities</td>
<td>➔ Beneficiaries decide on fund allocation</td>
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<td>➔ Limited leverage for quality improvement</td>
<td>➔ Market-driven approach</td>
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<td>Examples:</td>
<td>Examples:</td>
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<tr>
<td>• Transactions to VET providers</td>
<td>• Stipends, scholarships,</td>
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<tr>
<td>• Tax reductions</td>
<td>• Student loans</td>
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<td>• Subsidized loans</td>
<td>• Training vouchers</td>
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**Forms of Fund Allocation | Definitions 1**
### Input-based vs. Output-based Financing

<table>
<thead>
<tr>
<th>Input-based Financing</th>
<th>Output-based Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing based on size, capacity or investment need of VET providers</td>
<td>Financing based on training results, e.g. capacity utilization, number of successfully graduated learners, employment rate, etc.</td>
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<tr>
<td>Scope and quality of training programs usually not considered</td>
<td>Requires effective control mechanisms, Risk of high entry requirements for learners to meet the funding requirements</td>
</tr>
<tr>
<td>➔ No incentive to involve enterprises in training</td>
<td>➔ «creaming effect»</td>
</tr>
</tbody>
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4 Basic Allocation Models

Decentralised Approaches
- highly Market-oriented
  - Demand-driven allocation through learners
  - Performance-based distribution to providers
  - Purpose-specific purchasing from providers

Centralised Approaches
- highly regulated
  - Budget-oriented distribution to providers
  - Centrally planned, input-based distribution to providers
  - Contract-based
  - Program-orientated

Input Orientation
- Learner-centered
- International Trend

Output Orientation
4 Basic Allocation Models

Decentralised Approaches
highly Market-oriented
- Demand-driven allocation through learners
- Purpose-specific purchasing from providers
- Performance-based distribution to providers
- Contract-based
- Learner-centered

Centralized Approaches
highly regulated
- Centrally planned, input-based distribution to providers
- Program-orientated
- Budget-orientated Funding
  State provides budget for investment & operational costs based on size/capacity of training institutes
4 Basic Allocation Models

Decentralised Approaches
- highly Market-oriented
  - Demand-driven allocation through learners
  - Performance-based distribution to providers
  - Purpose-specific purchasing from providers

Centralised Approaches
- highly regulated
  - Contract-based
  - Budget-oriented
  - Input Orientation
  - Learner-centered
  - Output Orientation

Budget-oriented
- Centrally planned, input-based distribution to providers

Program-orientated Financing
- State provides budget for investment & operational costs based on training results
4 Basic Allocation Models

Decentralised Approaches
- highly Market-oriented
  - Demand-driven allocation through learners
  - Learner-centered

Centralized Approaches
- highly regulated
  - Purpose-specific purchasing from providers
  - Contract-based Financing
    - Training providers compete for grant funds or training contracts
    - Challenge Fund supporting innovative approaches
    - Tendering for specific Training Programs (defined by ToR)

Input Orientation
- Budget-oriented
  - Centrally planned, input-based distribution to providers

Output Orientation
- Program-orientated
  - Performance-based distribution to providers
4 Basic Allocation Models

Decentralised Approaches
- highly Market-oriented
  - Demand-driven allocation through learners
  - Learner-centered Financing
    - Trainees select Training Providers; Payment through fees (support though vouchers, student loans, scholarships)
    - Impact on VET market development

Centralized Approaches
- highly regulated
  - Budget-oriented
    - Purpose-specific purchasing from providers
  - Contract-based
    - Centrally planned, input-based distribution to providers
  - Program-orientated
    - Performance-based distribution to providers

Input Orientation
- Learner-centered Financing
Output Orientation
Part 2: Involving the Business Sector
Increasing Business Participation in VET Financing

**Objectives**
- Overcoming chronic underfinancing of VET
- Increasing the ownership of the business sector
- General level: Improvement of VET relevance, quality & reputation of VET

**Options of Co-funding**
- Direct participation of enterprises in training delivery
- Indirect participation: Financial contributions (Training Levies)
Increasing Business Participation in VET Financing

**Option 1:**
Direct participation of enterprises in training delivery can be achieved if:

- Companies recognize a direct benefit
- Dual training concepts are available
- Companies are able to provide workplace training
Increasing Business Participation in VET Financing

Option 2:
Financial contributions (training levies)

may be accepted if:
- Earmarking of funds is secured
- Transparent fund management is ensured
- Companies receive compensation (Grants) for own training activities
- Business sector has influence on the VET system
Example of a TVET Financing System involving a Training Fund
Wrap-up & Take Aways
Wrap-up and Take-aways

VET Financing has high influence on VET efficiency and effectiveness
- Input-based financing secures basic VET capacities
- Output-based financing allows flexible adjustment of VET offers towards demand and quality

Strong participation of the business sector in VET financing is generally favorable
- Direct participation (dual VET) shall be the main objective
  -- Conceptual support and/or incentives might be required (→ e.g. Challenge Funds)
- Training Funds with Levy-Grant Systems can help to
  -- Generate sufficient funds on sustainable basis
  -- Ensure a demand-driven fund allocation (incl. dual VET)
Thank you for your attention

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