

# **FINANCING TRAINING: INNOVATIVE APPROACHES IN LATIN AMERICA**

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## **1. Introduction**

Investment in human resources is seen as a critical factor in increasing economic performance and competitiveness as well as employment and social security, and in combating adverse social consequences of unemployment and social exclusion of certain groups of the population. Individuals are most employable when they have broad-based education and training and portable key skills, including teamwork, problem solving, information and communications technology (ICT), communication and language skills, and learning to learn skills. This combination of skills enables them to adapt to changes in the world of work. Initial training further develops employability by providing general core work skills, and the underpinning knowledge, and industry-based and professional competencies, which are portable and facilitate the transition into the world of work.

The persistent failure of government-provided training to produce the desired outcomes and respond to the needs of the market, and the failure of enterprises to ensure broad-based, equitable access to training opportunities are putting pressure on decision-makers to search for new training policies and governance structures. It has been increasingly recognised that the responsibility for HRD and training should be shared in partnerships between the State, enterprises, social partners and individual workers. The role of governments should be to determine the long-term objectives of HRD and to formulate policies, in collaboration with the social partners, that create the enabling environment for shared investment in, and provision of, training that is both effective and equitable. The social partners in many countries, particularly developing countries, need to improve their capacity to engage in meaningful dialogue on training. This need was widely recognised by the Committee of Human Resources, Training and Development (HRTD), during

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the General Conference of the ILO, meeting in its 88<sup>th</sup> Session, 2000, (para.19 of the Conclusions concerning HRT&D):

*“The social partners should strengthen social dialogue on training, share responsibility in formulating education and training policies, and engage in partnerships with each other or with governments for investing in, planning and implementing training”*

The paper will describe some innovative modes of financing initial training, based mainly on the Latin American experience. Since the early 1990s, and especially in the last years, financing of vocational training (VT) has become a priority and a central part of the public policy agenda in the region. There has been a proliferation of different suppliers (public and private) due to the inability of the traditional vocational education and training (VET) system to respond efficiently and timely to the economic and labour market demands. Some pioneering financing strategies (tripartite, bipartite, national and sectoral arrangements) are emerging in the region, as they seem to match changes in the structure of employment and in the type of demand for vocational training. These have been the result of increasing participation of diverse social actors in dialogue around vocational training issues in the region.

The first section of this paper examines changes in governance and the new roles and responsibilities assumed by the government and social partners for investing in vocational training, with special concern on the Latin American situation. In the second section the so-called Latin American model of vocational training, characterized by a funding mechanism based on levies or parafiscal contributions, is addressed. The third section briefly describes some innovative funding initiatives in the region based on the state budget and/or private budget. Examples of successful partnerships between government and enterprises, between workers and employers, between workers and government, or between government and the social partners are analysed in this section. Experience of other countries on co-financing mechanisms that support individuals' learning and continuing education is described in the following section. The final section raises the main features of the innovative funding approaches experimented by the Latin American (LA) countries in the last years.

## **2. Towards new roles and responsibilities:**

### **Governance and partners in training**

Policy-makers increasingly recognize that the responsibility for HRD and training should be shared in partnerships between the State, enterprises, the social partners and individual workers. This need has been widely recognized by several

international fora. The Cologne Charter of the Group of Eight leading industrialized nations (G8), in 1999, called for renewed commitment of all partners to lifelong learning whereby governments should invest in enhancing education and training at all levels; the private sector, in training existing and future employees; and individuals, in developing their own abilities and career. As expressed by the ILO constituents at the International Labour Conference, 2000, governments must always assume the primary responsibility for investing in basic education and initial training. Governments must also share the greatest responsibility for investments directed to combating social exclusion or discrimination by facilitating access to training opportunities for unemployed workers, women, and workers with disabilities and special needs. There is, therefore, an international consensus about guaranteeing universal access of all to, and increasing and optimising overall investment in, basic education, initial training and lifelong learning and training.

In LA, the democratisation of the region and the emergence and strengthening of organised civil society and its associated institutions has created a space for dialogue around public policies in general and vocational training in particular. Governments, through the Ministries of Labour (MOL), have placed vocational training as a central element of active labour market adjustment policies. Governments' financing of vocational training come under the umbrella of national action plans for employment. In this context, special secretariats or services to intervene actively in the formulation and implementation of employment and training policies were created. Significant measures towards unemployment alleviation, youth and other disadvantaged groups at high social risk have been taken since the early 1990s. In this way, a more dynamic structure for a public employment system, incorporating various representative sectors of society and featuring the financial resources available to support new and innovative initiatives in financing learning and training for work has been institutionalised in several countries (Box 1).

Individuals have increasingly been solicited to pay, wholly or partly, for developing their own skills. They have a major role in managing their own learning and investing in personal and career development. In this respect, government should also share responsibility in order to guarantee that access is not denied on financial grounds. With respect to the private sector, enterprises should share responsibility for, and invest more in, maintaining individuals' employability, especially with respect to workplace-based and continuing education, which can raise workers' employability and the competitiveness of enterprises. Enterprises have a critical role to play in work-specific initial training in order to make the transition from school to work easier. In several countries in the Latin American region, entrepreneurs have created their own training centres, as in the case of Brazil (Montes Claros), Peru (e.g. Maatsushita, EXSA, Entidades Financeras y Mineras) and Colombia (e.g. CENPAPEL).

**Box 1**  
**Examples of participation of Labour Ministry in VT**

In Brazil, the National Secretariat of Training and Skill Development (SEFOR) of the Ministry of Labour and Employment has implemented the National Plan for Worker Qualification (PLANFOR) since 1995. The Plan is funded with resources from FAT – Worker Support Fund, which is managed by tripartite Deliberative Council (CODEFAT). Although designed as a public policy instrument, having the EAP as the target population, PLANFOR sets up priorities in terms of participation and access to the Fund's resources. The Plan has explicitly sought to promote equal access for excluded and vulnerable groups in society by establishing targets for trainee participation by gender, race, ethnic origin, income and level of education.

In Chile, the National Service of Training and Employment (SENCE) operates under the authority of the Ministry of Labour, manages and regulates enterprises' training programmes and apprenticeship contracts. Since 1997, it also operates the National Training Fund (FONCAP) that finances training actions for disadvantaged groups such as women and the unemployed.

In Uruguay, through a negotiation initiated by the MOL with all political and social partners, the National Employment Direction (DINAE) and the tripartite National Employment Board (JUNAE) were created in 1992. This was a decisive step towards intervening actively in the formulation and implementation of vocational training policies. JUNAE administrates resources from the Labour Retraining Fund, which was also created in 1992. The Law 16.320 of November 1996 empowers the Board to finance training actions for different population groups, in particular low-income young people.

Employers' organizations can have an important role to play by voicing enterprise concerns and in influencing training policy and governance, drawing attention to the need for long-term investment in continuous training and encouraging learning within enterprises. In Latin America, private sector employers' organizations and sectoral chambers have increasingly been involved in the management and planning of vocational training activities. In recent years, several employers' organizations have taken over the management of former public vocational training institutions, as in the case of SENATI (Peru) and INFOCAL (Bolivia) created in 1996 by the Confederation of Private Entrepreneurs of Bolivia (CEPB). In Brazil, this has been the case since the creation of the SENAI-SENAC system in 1942 and 1946 respectively.

Workers' organizations and workers' councils can do much to ensure that their members have access to broad-based and portable skills training that enhance their mobility. They can also give a voice to those who are not formally employed – the unemployed, the self-employed, informal sector workers – and promote a learning culture among workers. In Latin America, these roles have been performed through the participation of trade unions in the directive bodies of VTIs, direct management of their own training institutions, and in tripartite advisory bodies created by the MOL in several countries (Box 2). Moreover, there are numerous examples where trade unions have initiated their own programmes to stimulate social dialogue around worker training. In Argentina, some of the more active trade unions have begun participating in **bipartite dialogue** with employers to establish worker training programmes at the sectoral level (Box 3) and regional level (Box 4). In Brazil, the three main central unions<sup>1</sup> developed institutional mechanisms to provide conceptual information on training issues to their members and carry out training programmes both at the central level or through their branch affiliates.

### **Box 2**

#### **The participation of workers in the management of training**

The two most representative examples in Latin America are the creation of the National Employment Board (JUNAE) in Uruguay and the Deliberative Council of the Worker Support Fund (CODEFAT), in Brazil. JUNAE is a tripartite body chaired by the Employment Director of the Ministry of Labour and Social Security of Uruguay, which manages and allocates resources from the Labour Retraining Fund. The Fund is constituted by contributions from employers, workers and the government for the training and retraining of persons with special difficulties to get a job, and laid off workers. The Board has various programmes directed to the unemployed, young people seeking for employment for the first time, and rural workers. The Fund also finances training programmes submitted by firms, or concerted in collective agreements. CODEFAT is a tripartite entity operating under the supervision of the MOL that, through the National Secretariat of Training and Skill Development Secretariat (SEFOR), manages the Worker Support Fund (FAT). The Fund is used to implement a number of training programmes within the broad framework of public employment policies.

<sup>1</sup> CUT (Trade Union Confederation), Força Sindical and CGT (General Workers Confederation)

**Box 3**  
**Collective Agreements by branch of activities in Argentina**

In 1996, an agreement between workers and employers of the plastic industry was set up to regulate the access of workers to technical and cultural training. The agreement encourages employers to provide technical education and sets up concrete incentives that must be granted to workers, i.e. paid leave and bonus of 10% on the daily wages. Similar collective agreements were set up in the services sector through which the parties recognize the need to establish financial arrangements for developing joint activities in the areas of general education and vocational training. In the insurance sector, a collective agreement was negotiated in 1992. An “Occupational Training Committee” composed equally by workers and employers was set up to propose guidelines on further training and retraining of workers. In the real estate sector, the collective agreement no. 306 of 1998 recognizes the right of workers to wage increase as a result of participating in training activities.

**Box 4**  
**Training and Vocational Education Council of Rosario and its Region (CCFP)**

At the regional level, the **Training and Vocational Education Council of Rosario and its Region (CCFP)** is an overwhelming example. It is a bipartite entity, made up of workers’ and employers’ organizations, to promote the improvement of the skill profile of all regional workers, both employed or occasionally unemployed. In the latter case, retraining is the goal. The Council was created in Argentina towards the end of 1997 with a view to reducing costs, improving the quality of training and promoting workers’ access to training. The CCFP is governed by a board of 14 members, 7 of which are representatives of trade unions, the other 7 of employers’ organizations. Through this initiative, workers and employers from different sectors or branches of activities, and a common region, define jointly training needs and decide on actions to be taken in this unique case in LA.

The roles of governments, enterprises and individuals are related to the mix of societal, business, competitiveness and individual objectives being pursued. Partnerships between government and enterprises, between government and the social partners, or between the social partners themselves can also assist in ensuring adequate investment. New alliances and forms of collaboration between different institutions and social actors are emerging in various countries around the Latin American region. These innovative approaches involve the State, enterprises,

trade unions and organizations of civil society in the task of exploring new avenues for the provision of “more and better” training.

### **3. The Latin American experience in funding VT**

The so-called Latin American model of VT is based on the proliferation of national-level public institutions during the period 1940 - 1970. Brazil pioneered this system by establishing SENAI in 1942. This model was marked by the characteristics of the development model adopted by most of the countries in the region at that time, i.e. the import substitution industrialization strategy (ISI), which concentrate power in the hands of the government's bureaucratic elite. In most of the countries, a national-level public institution was created, with statutory authority to impose levy on firms or with a firm claim on budget resources. In addition, the technical secondary educational institutes integrated into the regular education system and a few unregulated private training centres complemented the existing training offer/system.

Parafiscal contributions are the mechanism that originated the Latin American model of vocational training institutions, also called the “S” and “I” systems due to their similar acronyms.<sup>2</sup> In these systems, funds for vocational training come from levies on the payroll or parafiscal contributions from companies<sup>3</sup>. These taxes are levied specifically for vocational training, and they are almost always calculated as a percentage of the amount of the workers' payroll. In most cases, these levies have been assessed by public authorities in the form of compulsory taxes, or voluntary through industry groups as in the case of INFOCAL, Bolivia. Countries organize contributions differently, but the system usually covers all firms with more than ten workers and, in some cases, includes public companies and government bodies too. Sometimes workers also pay as in the case of the National Institute for Educational Cooperation (INCE) in Venezuela. The amount of the levy varies from 0.5 to 2 per cent of the payroll (Table 1).

<sup>2</sup> For lack of a better term we may call them the “S” and “I” systems (e.g. they are called SENAI, SENA, SENATI, SENAC, SENAR, SENAT and INA, INCE, INFOTEC, INATEC, INTECAP, INFOCAL, INSAFORP). (Annex 1)

<sup>3</sup> Argentina abolished the payroll tax in 1991 and replaced it by contributions from the central budget which have tended to diminish.

**Table 1: Some funding characteristics of training institutions in LA**

Country	VTI	Sources of Resources			Budget		
		Payroll tax (%)	Public budget	Others	Total Million US\$ (year*)	Per capita (US\$)	Total /EAP (US\$)
Bolivia	INFOCAL	1.0 (voluntarily contributions by private enterprises)	No		2.0 (2002)		
Brazil	S System SENAI	2.5	Yes	services	1.615(2002) 423 (2000)	151,1	5,64
Colombia	SENA	0.5(state enterprises) 2.0(private enterprises)			330.0 (2002)		
Chile	SENCE	eliminated	FONCAP (National Training Fund) since 1998	Tax rebate up to 1% payroll and sliding scale for SFs	122.0 (2000)	161.6	12.6
Costa Rica	INA	2.0 (manufacturing > 5 workers) 0.5 (agriculture > 10 workers)	Yes 1% income tax		43.8 (1998)	469.7	31.8
Dominican Republic	INFOTEC	1.0 (private and public)	Yes	Yes	11.3 (1998)	109.7	3.2
Ecuador	SECAP	0.5 (private, public and mixed enterprises)	Yes				
El Salvador	INSAFORP	1.0 (private enterprises > 10 workers)			5.2 (1998)	376.7	2.3
Guatemala	INTECAP	1.0 (public and private)	Yes		9.5 (1998)	77.0	2.8
Honduras	INFOP	1.0 (private and public > 5 workers) 0.5 (state institutions)			6.4 (1998)	169.6	3.4
Mexico	CONALEP	n.a.	Yes				
Nicaragua	INATEC	2.0	Yes		8.5 (1998)	157.6	5.2
Panama	INAFORP	n.a.	(15% Educational Security Fund)	n.a.			
Paraguay	SNPP	1.0	Yes				
Peru	SENATI	0.75 (manufacturing enterprises with > 20 workers)	No	Courses/services	22.6 (2001) 62.8% services 37.2 % payroll tax	453.3	2.2

Country	VTI	Sources of Resources			Budget		
		Payroll tax (%)	Public budget	Others	Total Million US\$ (year*)	Per capita (US\$)	Total/EAP (US\$)
Uruguay	DINAE/ JUNAE (1992)	n.a.	0.25% of the bipartite Labour Retraining Fund				
Venezuela	INCE	2.0 (private enterprises)	YES	Workers	157,0 (2002)		

Other examples

France	OPCAs <sup>2</sup>	1.5% enterprises with > 10 employees 0.25% enterprises with < 10 employees up to 1% public authorities (10.553 million ECU)	Central & regional government  (23.694 million ECU)	Enterprises Households	34.248 million ECU (1996)  1 ECU= 6.98 FF	n.a	
Spain	INEM FORCEM <sup>3</sup>	0.7% total payroll (0.6 % company + 0.1% employee)	General state budgets	European Structural Fund (ESF) Private	4.142 million ECU (1998)  1ECU = 167 ESP		

\* Year data available

<sup>2</sup> OPCAs: Authorized Joint Collection Agencies

<sup>3</sup> FORCEM: Foundation for Continuing Training (created in 1993): a joint, non-profit making and private body with national scope

In short, the Latin American employers' compulsory contribution to vocational training is at the same rate as in other more advanced industrialized countries. Compulsory levies in enterprises are the key feature of the French funding system for initial and continuing vocational training. All enterprises in the private and public sectors contribute with a levy of 1.5 per cent on the wage bill of enterprises with 10 or more employees and 0.25 per cent on the wage bill of enterprises with less than 10 employees. These contributions are collected and administered by a special agency, i.e. the "Organismes Partaires Collecteurs Agrées" (OPCAs-Authorized Joint Collection Agencies) and supervised by (GNC- Groupe Nationale de Controle) the National Supervisory Group. In 1996, enterprises employing 10 or more employees made an average contribution of 3.26 per cent, i.e. 50 per cent more than the statutory obligation. The amount of training provided increases with the size of the enterprises: 1.7 per cent of the wage bill for enterprises with 10-19 employees

and 4.9 per cent for enterprises with 2000 or more employees (CEDEFOP, 1999).<sup>4</sup> In Spain, through the tripartite agreement on continuing vocational training (ANFC - Acuerdo Tripartito sobre Formación Continua) signed in 1992, training activities are partly funded by the training levy paid by companies and workers who contribute with 0.6 per cent and 0.1 per cent of the total payroll respectively. The training levy is paid to INEM (The National Employment Institute), which transfers part of the levy relevant to continuing training activities laid down in the ANFC to FORCEM (Foundation for Continuing Training). In 1995, 828,399 persons participated in CVT (CEDEFOP, 2000).

With respect to the availability of economic resources and the levels of investment training, the “S” system in Brazil<sup>5</sup> has the highest budget, i.e., about US\$ 1.6 billion in 2002. SENAI’s budget in 2001 corresponded to US\$ 423 million (i.e. around 30 per cent of the whole system’s budget). SENCE allocated US\$ 122 million to carry out its training activities in 2000. In the Andean area, SENA from Colombia presents the highest budget, i.e. US\$ 330 million, followed by INCE (Venezuela) with a current budget of US\$ 157 million. Then, SENATI (Peru) comes with a total budget of US\$ 22.6 million in 2001. INFOCAL from Bolivia reported a budget of US\$ 2.0 million for 2002. It is interesting to notice that 63 per cent of the SENATI’s budget was due to the selling of services. Just 37 per cent corresponded to the payroll tax. In contrast, SENA’s budget is almost totally due to the payroll tax, actually 97 per cent<sup>6</sup>.

Among the Central American countries INA, from Costa Rica has a budget that represents more than 50 per cent of the total budget of the sub-regional institutions, and is almost four times higher than the budget of INFOTEP (Dominican Republic) and five times that of INTECAP (Guatemala). In 1998, INA invested US\$ 43.8 million in its activities. In terms of expenditure per capita, INA reported to have invested US\$ 469.7 per participant in 1998 while INTECAP only US\$ 77. However, Honduras and Nicaragua had invested around US\$ 160.0 per trainee in the same year. Although INA has the highest total budget in Central America, the number of hours per trainee is just a little higher than that of INFOP (Honduras) and INFOTEP (Dominican Republic).<sup>7</sup> The highest budget reported by INA may

<sup>4</sup> Enterprises are eligible to a five-year tax deduction scheme (the training tax credit - *crédit d'impôt formation*) if they have increased their training expenditure over and above the statutory obligation year on year. This deduction is made from the taxation payable by enterprises, i.e. from earnings or corporation tax.

<sup>5</sup> “S” system includes the following institutions: SENAI, SENAC, SENAR, SENAT (MTE/SSPE/DEQP, 2002),

<sup>6</sup> National reports prepared for the “Inter-American Tripartite Seminar on Training, Productivity and Decent Work”, Rio de Janeiro, 15-17 May 2002 ([www.cinterfor.org.uy](http://www.cinterfor.org.uy))

<sup>7</sup> Hours of training per trainee in 1998: INA (7.28); INTECAP (2.99), INFOP (6.96), INATEC (4.14), INAFORP (11.77), INFOTEP (6.25) (Rosal Garcia and Rodriguez Roman, 2001).

be, however, overestimated. As reported by Rosal Garcia and Rodriguez Roman (2001), a large part of the budget of this institution is directed to the purchase of equipment, materials and other facilities that do not appear in the institutions account as a separate cost category. This is a critical problem when attempting to compare expenditures in training among institutions. As informed by the Director of SENATI (Peru), 10.4 per cent (US\$ 2.0 million) of the institution total budget was spent in the purchase of equipment and building work in 2001.

In terms of the EAP, there is a great variation in their expenditures. In Central America, apart from INA that reported a corresponding expenditure of US\$ 31.8, the NVT institutions apply less than US\$ 4 per inhabitant. This is very low, especially in comparison with other countries such as Chile, for instance, where SENCE spent US\$ 12.6 in 2000. However, any attempt of assessing the performance of these institutions by comparing the above indicators would be very limited. These indicators cannot be considered in isolate and other parameters must be taken into consideration (e.g. participation rate) due to the institutional diversity in terms of size/budget, age and the socioeconomic context in which they operate. A few are very old like SENAI and SENAC in Brazil, created in the early 1940s, and others very young as INSAFORP (El Salvador), INATEC (Nicaragua) and INFOCAL (Bolivia) created in the 1990s.

Despite all budgetary diversity, there are some institutional similarities among them. Most institutions are subordinated under the Ministry of Labour, with a ruling body composed of public sector, private firms, and unions or workers' representatives. The exception is the case of Brazil, where the employers, through the National Federation of the Employers' Association of a specific sector, manage the resources and also run the corresponding VTIs (SENAI, SENAC, SENAT, SENAR). In other cases, they are private and non-profit institutions, managed directly by national or sectoral corporate chambers (e.g. INFOCAL, Bolivia) or by the entrepreneurs themselves who are also responsible for the design, development and evaluation of the training programmes (e.g. SENATI, Peru). In some cases, as in Mexico, the training system is dominated by a public vocational education institution (CONALEP) that owns and operates training facilities and programmes under the authority of the Secretary of Education. Though CONALEP's main source of resources is the public budget, it also sells training services to the private sector and the MOL. These autonomous or semi-autonomous VTIs are the crystallization of a policy of financing and allocating resources exclusively for training purposes. **They were used to both regulate the sector, and be the main producer of publicly financed vocational training.** In the context of the ISI strategy, these national-level public training institutions were able to meet the skills demand of the productive sector, whose technological dynamism was relatively low and protected from international competition.

During the 1980s and 1990s, far-reaching transformations have taken place in the structure of the economies and labour markets. Economic restructuring and trade liberalization have deeply affected enterprises in terms of both employment and human resources requirements, and speeded up the growth of a more modern and sophisticated services sector. New technologies and work organizations and practices have also contributed to the emergence of new occupations and non-standard forms of labour market insertion. Moreover, the growth of the informal sector in developing country in general and, in Latin America in particular, has also generated new challenges for the existing training institutions that were mostly oriented to provide initial training at work (apprenticeship) and training for employees to developed skills needed in manufacturing and traditional occupations. All these factors have questioned the capacity and relevance of traditional, centralized public training offers to respond to the new demands of the productive sector and the social needs of individuals.

Governments disturbed by the coercion of adjustment policies began to see training as a social policy instrument and, instead of being an operator of training to govern the training system by means of hierarchical or administrative controls, they became financial agents who establish clear rules for purchasing training, select the best bids and control the quality of the service offered (Moura Castro, 1997). Through programmes introduced by the Ministries of Labour and stimulated by certain incentives, i.e., public tenders and training services tax deductible, an overwhelming supply of providers both private and public started to grow.

Many VTIs have diversified their sources of revenue and adopted a decentralization strategy that is very much related to the upsurge of new providers of training, funding mechanisms and social partners participation in the local/sectoral management and funding of training programmes. INCE, for instance, has adopted a sectoral decentralization by constituting specialized training centers in areas such as metal work and clothes making. These centers are managed by the so-called "civil associations" which are composed of representatives of all partners of the specific sector. They are completely independent in programming their activities and using their financial resources and/or pursuing financial alliances with social partners at the sectoral level. INFOCAL has gone through a geographical decentralization that has facilitated a better response to the local needs. In Chile, tripartite Regional Training Councils were created to provide policy advise to the regional government. Also in the INA of Costa Rica, SENA of Colombia and INTECAP of Guatemala, among others, administrative and operational responsibilities have been handed down to their respective regional departments. In the case of Brazil as well, SENAI, SENAC and SENAR are following the same pattern. The high degree of autonomy enjoyed by their regional bodies vis-à-vis their National Directorates rests on local chambers of industry and commerce, which are responsible for managing and maintaining infrastructure and allocating resources of the re-

gional departments. Involving local entrepreneurs in managing the departments facilitates a range of cooperation and business initiatives with local authorities, trade unions and civil society organizations.

As part of the decentralization process, several institutions decided to diversify their operational mechanism as well. Instead of providing directly training through their own facilities, they decided to contract out the so-called “collaborator centers”. This has been the case of INFOTEP and other Central American institutions (INFOP, INSAFORP). In order to reach this category, public or private providers undergo for a voluntary assessment process that certifies them for the offer of a certain training programme, provided that they meet the requirements indicated by the Technical or Sectoral Committees. Once evaluated, the institutions receive the accreditation by the national institution that authorizes them to provide the training concerned. INFOTEP managed to transfer 35 per cent of its training activities to the centers and aims at reassigning about 75 per cent in the next years.

A summary description of their institutional characteristics can be found in Table 2.

**Table 2: Some Institutional Characteristics of VTIs in LA**

Country	NTI (initials)	Supervision	GB Structure	Decentralized	Main Operation Network/training facilities	
					Owns/operates	Contracting out/outourcing
Bolivia	INFOCAL	Confederation of Private Entrepreneurs of Bolivia (CEPB)		1 National & 9 Departmental Directories	Yes	Yes (public and private inst.) “Collaborator Centres”
Brazil	SENAI/SENAC	National/Federal Business Confederation		National Directories & State Departments	Yes	
Colombia	SENA	MOL	Tripartite	25 Regional administrative Units, 25 Units of Entrepreneurial Development and 25 Employment Information Centres	Yes 114 Training Centres	
Chile	SENCE	MOL	Tripartite	Regional Training Centres	No	Yes

Country	NTI (initials)	Supervision	GB Structure	Decentralized	Main Operation Network/training facilities	
					Owns/operates	Contracting out/outsourcing
Costa Rica	INA	MOL	Tripartite (Junta Directiva)	Regional Councils (created in 1994)	Yes 19 regional centers & 14 technological units	Yes (ONGs)
Dominican Republic	INFOTEP	Labour Committes Secretariat	Tripartite	Technical/Sectoral & Regional Training Centres	Yes ↓	Collaborator Centres & 35% private institutes (goal = 75%).
Ecuador	SECAP	MOL	Tripartite	Yes	Yes	
El Salvador	INSAFORP		Tripartite		No	Collaborator Centres (CC) & Enterprise Training Units (UCE)
Guatemala	INTECAP	MOL	Tripartite	Regional since 1999	Yes	Yes (experts, private centres)
Honduras	INFOP		Tripartite	sectoral	Yes	Collaborator Centers (CC) (public or private)
Mexico	CONALEP	Public Education Secretariat		Yes	Yes	
Nicaragua	INATEC (1991) (merge of the TE Syst (MED) & VT syst. MOL)	MOL	Tripartite	Sectoral Technical Committees	Technical Education and Training Centers	Public and Private Centres, enterprises
Panama	INAFORP	MOL	Tripartite	Yes	Yes	
Paraguay	SNPP	MOL	Tripartite	Yes	Yes	
Peru	SENATI	Entrepreneurs private sector	Tripartite	Yes	Yes	
Uruguay	DINAE/JUNAE	MOL	Tripartite	Yes	Yes	
Venezuela	INCE	MED		Sectoral ("Civil Associations")		

## 4. Innovative funding mechanisms

A multitude of funding arrangements has emerged in the region to cope with the new scenario where economic incentives can be used to create markets for services in areas that have traditionally been produced by the public sector. Despite the existence of the traditional public funding through the existing vocational training and technical education systems, new financing schemes have emerged and new actors appeared on the scene. Tax incentives, such as disbursement schemes, whereby the tax is collected from all enterprises, then disbursed back to some firms that meet training criteria; and exemption schemes, whereby firms are able to reduce or eliminate their payroll and other taxes to the extent that they provide acceptable training, are some examples. Other financing strategies, especially in the framework of the Ministry of Labour (MOL) or, in some cases the Ministry of Education (MED), that explore the role of private or public providers to support initial and continuing training are raised. The allocations of particular state budget or funds targeting special groups of the population are additional public financing sources for vocational training. The involvement of social partners through tripartite or bipartite partnerships for funding training is another emerging trend in the region.

Although these experiences are embryonic in most cases, they show the changing role of the government and the public vocational institutions in the process of funding. The innovative mechanisms are related to changes in the traditional dual role of the training institutions as **producers** and **regulators** of training and/or the role of the government from **operator and provider** of training, to **buyer** of training as a **financial agent**.

### 4.1 Tax rebate

In Latin America, the most radical change is observed in the case of Chile. In this country, parafiscal contributions were eliminated from the panorama of financing for vocational training. The Chilean model shows a clear differentiation of regulation and provision of training. The National Service of Training and Employment (SENCE) regulates the training system under the supervision of the MOL. It is the Ministry that sets up the rules and creates competitive mechanisms to purchase training. One of the distinctive characteristics of SENCE is that it is a pure **regulator** that does not own or operate training facilities. Law No.19.518<sup>8</sup> of 1997 empowers SENCE to administer an income rebate program (*franquicia tributaria*) for

<sup>8</sup> This Law governs the so-called “Learning Contract” for young people less than 21 years, establishing a maximum period of two years, with a training or apprenticeship plan devised by enterprises or technical training bodies, with in-plant training and/or related teaching.

firms that directly provide or contract registered providers to develop training programmes for their workers. The tax rebate is up to a maximum of 1 per cent of the firm's payroll, with a floor that benefits smaller firms. Firms present their training programs to SENCE and, if approved according to quality and relevance criteria, receive the tax rebate. This operational model makes full use of the variety of training providers (public and private) available in the market, and allows firms to choose the content of their training programmes according to their needs. Smaller firms that do not count with a managerial structure to design training programmes can use intermediate technical assistance institutions<sup>9</sup> or “brokers” to intervene with training providers and elaborate the plans. These actions also take advantage of the tax rebate incentive.

Another important reform of the Law 19.518 is the regulation of an apprenticeship contract that uses income tax rebate to subsidize training of workers before starting an employment relation and for a period of three months after separation of the worker. Since many workers –especially new entrants and the unemployed– cannot benefit from enterprises' training initiatives, SENCE administers a scholarship programme under which courses are auctioned to training providers in return for some guarantees of trainee success in finding jobs for which they have been trained.

Since 1998, SENCE has been operating the National Fund of Skills Development (FONCAP - *Fondo Nacional de Capacitación*), whose resources came from the national budget and are allocated to finance training actions for disadvantaged groups such as women, SMEs, youth, and programmes of labour reinsertion and apprenticeship. In 2000, the total budget of SENCE was about US\$ 122 million, 81 per cent of this amount corresponded to the tax rebate and applied to in-company training attended by 620.235 workers that corresponded to 11.53 per cent of the employed labour force. The remaining 19 per cent of the total budget operated by SENCE was directed to social programmes and disadvantaged groups (SENCE Anuario Estadístico, 2000).<sup>10</sup> The tax rebate scheme has become, therefore, the major mechanism of public training investment.

The contracting out training model was firstly experimented by the “*Chile Joven*” Programme in 1994 and became, since then, a trademark of operation of the training system (Box 5). By 1999, several countries in the region were using this model in the designing of Youth Training Programmes to provide initial training for first time jobseekers. Projects like “*Proyecto Joven*” in Argentina, the “*Subprograma de capacitación de jóvenes*” in Bolivia, “*Projoven*” in Peru and “*Projoven*” in Uruguay were targeted at this population. They usually offer short training periods (3-

<sup>9</sup> Technical assistance institutions (OTIRs) are non-profit organizations established for training and technology assistance by enterprises in specific sectors or regions.

<sup>10</sup> <http://www.sence.cl/estudios/anuario2000/ft/cuadro2.htm>

4 months) in various trades, supplemented by occupational guidance and internships providing initial work experience or pre-employment training. Moreover, this model characterized the **emergence of a system of tax incentives for VT in the region.**

**Box 5**  
**Chile Joven**

In 1994, the Government of Chile, with IADB support, started a special purpose programme for disadvantaged youth called *Chile Joven*. The programme was designed to address the problems of high unemployment and low labour market participation of youth. In this programme the Government sets up a fund, under the control of the MOL that finances the competitive contracting out of training services from public and private providers. The basic contract between the training fund and the provider establishes that the service provided will include classroom training, plus an apprenticeship in a firm where the trainees will develop practical expertise using the tools and equipment of an actual productive firm.

In 1995 a new rule was introduced in the programme by which the training provider would receive monetary compensation from the Government if the trainee obtained a job contract, instead of just an internship in a firm, at the end of the training period.

There is some information that Brazilian enterprises were also eligible for setting up exemption **agreements with SENAI** so that enterprises could deduct from their income tax bills twice the amount of their in-house and/or external training expenditures up to a maximum of 10 per cent of their taxable profits. It was found that just 1 per cent of the total number of taxpaying firms in Brazil took advantage of this incentive. Almost 70 per cent of them were medium and large companies that could cope with the complicated procedures for the preparation of training projects. Moreover, for many companies, the opportunity a tax rebate up to 10 per cent of their taxable profit was not an attractive venture. There were many flaws in the Income Tax Law whereby companies could evade taxes or reduce the real amount to be paid without using this incentive. Smaller companies whose amount of taxable profits was too small to benefit from income tax rebate were left out of such mechanism (Gasskov, 1994). This scheme was terminated in 1990 due to major economic reasons, i.e. budget deficit and inflation<sup>11</sup>.

<sup>11</sup> In Venezuela, in some sectors and under specific conditions, employers are allowed to deliver training directly to their employees and deduct the costs of such training from the total amount they would otherwise have to pay to INCE.

In comparison with the Chilean scheme, the Brazilian tax rebate scheme has been less effective, owing to, among other things, the lack of information about the system, unclear requirements, and complicated procedures in applying for exemption. Besides, the income tax system in Brazil provided opportunities for the evasion of taxes without having to use the tax rebate. This mechanism did not constitute an incentive for companies to invest in training. It seemed that tax rebates were mainly used by those enterprises that already had ambitious training programmes (Ducci, 1991).

As illustrated by the case of Chile, tax rebate schemes can be used to subsidize a wide variety of training actions, including those for disadvantaged groups of the population. Chile's experience shows that both equity and efficiency objectives can be served through simple financing mechanisms. It also shows that a friendly regulatory environment for private provision of training is sometimes more important than public funding per se that, in its turn, is often more important than public provision. Another advantage of this mechanism is that it produces little or no interference in the training decisions of firms and workers. Chile's experience illustrates that privately provided VET can be forthcoming in low- and middle-income countries if public mechanisms are used to encourage private provision. However, the lack of a central, regulatory institution that can set standards and produce curricula and manuals of the basic courses geared towards basic and non-specific skills is a threat to the successful implementation of the model. In the absence of strong regulations based on objective criteria about the quality and relevance of training programmes, this incentive may just be a waste of resources if firms and workers develop opportunistic conducts, especially in a context where the income tax system does not work properly.

#### **4.2 *The refunding of taxes***

In Colombia, the proposals for training submitted by the enterprises, workers or their respective organizations are evaluated by SENA through the National Directive Council (Consejo Directivo Nacional) and funded through a mechanism of payroll contribution reimbursements or "disbursement scheme". Once the proposal is approved, a contract is set up between SENA and the beneficiary. SENA assumes part of the costs of the programme which can amount up to 50 per cent of the total cost. This amount is disbursed back to the enterprise that has met the training criteria. The enterprises, whose programmes have been approved, are authorized to contract out to other public institutions or specialized institutes to provide the training required. They have a year to complete the training. In 2001, through the Programme of Continuing Training, 147 training contracts were signed with employers and 118,000 people from different enterprises, trade unions and enterprises' and workers' associations were trained. Seventy-nine contracts cor-

responded to enterprises from the service sector, 51 from manufacturing and 17 from the primary sector. During the period 1999-2001, SENA allocated resources of about US\$ 20 million to co-funding 413 training contracts that provided training to 600,000 workers employed in 1,200 enterprises in the country.<sup>12</sup> Last year, a study conducted by the University of Los Andes in Bogotá assessed several cases of enterprises' alliances of training for work. According to this evaluation,<sup>13</sup> the mechanism of payroll contribution reimbursement is very attractive to employers once it offers the possibility of orienting the training offer provided by SENA and others towards the specific objectives and priorities of the employers' associations and enterprises involved. In addition, they said that this is a means of using at least 50 per cent of their contributions to their own benefit and competitiveness. The study concluded, among other issues, that the programme has contributed to an increase in the training supply, improving the response to their needs, by opening the training market to other institutions and educational centres and allowing firms to choose the best available offer. This mechanism is an example of a new category of financing, i.e. the refunding of taxes, which up to now had not appeared in the regional panorama.

#### **4.3 State budget allocations in the framework of education systems**

In this model, financing comes from the national budget, from resources either of the central government or regional or local governments (in different combinations), and generally involves mechanisms for the transfer of resources from the central to the regional or local level. This category includes the experience of two countries, e.g. Uruguay and Argentina, which entrust to their educational system initial worker training which is oriented to labour market needs. In the case of Uruguay, a Technical Professional Education Council (*Consejo de Educación Técnico Profesional*) was set up. The University of Work (*Universidad del Trabajo*), its executive agency, provides basic and secondary technical education to youth coming to the labour market, and technical training according to the demand of the productive sector and social partners.

In Argentina, the old institutional vocational training institution, CONET, was dissolved and disappeared from the budget. Its training centres were handed over to the provincial governments and to the government of the city of Buenos Aires.

<sup>12</sup> SENA Report prepared for the Inter-American Tripartite Seminar on Skills, Productivity and Decent Work, Rio de Janeiro, 15-17 May 2002, and published by CINTERFOR ([www.cinterfor.org.uy](http://www.cinterfor.org.uy)).

<sup>13</sup> Facultad de Administración de la Universidad de los Andes: "Alianzas Empresariales de Formación para el Trabajo". Estudio financiado por la Fundación Antonio Restrepo Barco, Fundación Corona, Fundación FES y Consejo Gremial Nacional. Bogotá, agosto de 2001.

Instead, a National Institute of Technological Education (INET) was created to define policy at the national level and implement primary and secondary technical education. Also created was an advisory body of the Ministry of Education, the National Board of Education and Work that is composed of employers' and workers' representatives, as well as by representatives of the Ministries of Labour and Economy.

#### **4.4 State budget allocations in the framework of the MOL**

The Ministries of Labour in Latin America are becoming increasingly involved in the field of vocational training, not just in the definition of policies but also in the management of actions through the creation and development of institutions, directing bodies and services that deal specifically with vocational training in the context of active labour market policies. The importance of this new role can be seen from the large financial resources assigned to the implementation of various programmes and projects. These resources came from various sources, public funds for training established by law, extraordinary resources from the central government, unemployment funds, etc. A very important Latin American example of this type of funding is that of the MOL in Brazil due to the magnitude of the resources and for its coverage as an active public employment policy. In 1995, the MOL with resources of the Worker Support Fund (FAT- Fundo de Amparo ao Trabalhador) implemented the National Plan for Worker Qualification (PLANFOR).<sup>14</sup> These resources are calculated on the gross turnover of public and private companies and constitute the federal budget for the social protection of workers. The Fund is managed via a tripartite body operating at the federal level, the CODEFAT, the Deliberative Council of the Worker Support Fund, constituted by representatives of trade unions, employers' associations and the Government<sup>15</sup>. In this context, PLANFOR was designed not only as a "broad" training programme but, mainly, as a public policy strategy for employment and income generation. In this sense, the Plan articulates mechanisms that use FAT's resources such as the unemployment funds, micro credit, etc. with the aim of increasing employability, stability and income of workers; raising enterprises' productivity and competitiveness, as well as reducing poverty and inequality. Its strategy is to articulate the existing VET capacity and infrastructure to provide vocational training to at least 20 per cent of the EAP every year.<sup>16</sup> In order to reach this goal, PLANFOR is implemented in a

<sup>14</sup> MTE/SPPE/(DEQP (2002): "Educação profissional no Brasil: informe nacional": paper prepared for the Inter-American Tripartite Seminar on Skills, Productivity and Decent Work, Rio de Janeiro, 15-17 May. Available at [www.cinterfor.org.uy](http://www.cinterfor.org.uy)

<sup>15</sup> In 2001, the FAT's resources amounted to R\$ 4,5 billion. From this, about R\$ 500 million were allocated to PLANFOR

<sup>16</sup> It must be noted that Brazil has an EAP of 75 million persons over 16 years old. The objective of PLANFOR is, therefore, to improve the knowledge and skills of about 15 million persons each year.

decentralized way, through two major instruments: (i) the State Qualification Plans (PEQs), managed by the State Employment Secretariat and State and Municipal Employment Councils, also tripartite bodies as CODEFAT; and (ii) national and regional partnerships established between trade unions and employers' associations managed directly by the MOL and CODEFAT. By 2001, PLANFOR had trained 15.4 million workers (Table 3), with a total investment of R\$ 2.3 billion (approx. US\$ 1.1 billion) from FAT.

**Table 3: PLANFOR: Persons attended and investment done (1995-2001)**

Year	Trainees (thousand)		Investment (R\$ million)	
	PEQs	Partnerships	PEQs	Partnerships
1995	153	n.a.	28.2	n.a
1996	1037	5	217.1	3.0
1997	1885	117	320.6	27.0
1998	2012	309	326.9	82.0
1999	2015	648	247.9	106.0
2000	2546	875	304.3	132.0
2001	2885	715	335.7	146.0
<b>Total</b>	<b>12532</b>	<b>2669</b>	<b>1780.7</b>	<b>496.0</b>

With the view of applying FAT's resources, PLANFOR, despite being designed as a public, universal policy, and having the EAP as the target population, establishes priorities for access and support. The unemployed, persons at risk of permanent or conjectural unemployment, self-employed, cooperative workers, small and micro, rural or urban entrepreneurs compose its priority target group. For this group, 90 per cent of the training offers and 86 per cent of FAT resources are reserved. For the others, the corresponding percentage is to be defined at the local and regional level.

The design of PLANFOR as a public policy instrument under the umbrella of a national action plan for employment assures the sustainability of the programme through several partnerships with other agencies and public programmes in the areas of education, health, social assistance and human rights. Through this initiative, a network of VET in Brazil starts to emerge. The traditional VET institutions and a diversified number of agencies and actors integrate this network as listed in Table 4. In 2000, PLANFOR financed two thousand different providers. About 40 per cent of the total providers corresponded to new actors in the area of VET, i.e.

trade unions, NGOs, universities and other institutions. They received almost two-thirds of PLANFOR's total budget. The traditional providers, like the institutions of the "S" system, while having the highest number of institutions, received just one third of the resources in addition to their own budget based on the payroll contribution. This is conducive to the PLANFOR policy of strengthening collaboration with this segment of the VET network and stimulating the training offer.

This programme represents the emergence of a new institutionality in the area of VET in the region where the Government, through the MOL's new role, and the social partners are addressing, in partnership, the economic and labour market demands. This case also illustrates clearly that public policies for labour market adjustment have moved beyond passive measures such as unemployment insurance, to create a more dynamic structure for a public employment system, incorporating various representative sectors of society and featuring the financial resources available to support new and innovative initiatives.

**Table 4: PLANFOR 2000: profile of the executing agencies (%)**

Type of provider	Number of providers	Number of participants	Investment
"S" system & other employers' associations	51	26	29
Trade unions, centrals, & workers' organizations	8	25	26
NGOs	22	22	22
Universities, institutes, foundations	7	14	13
Technical schools	6	9	8
Other	6	4	4
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>TOTAL (absolute)</b>	<b>2146</b>	<b>3141</b>	<b>R\$ 394 million</b>

Through the combination of PLANFOR's funding mechanisms and other public and private funds, 17 per cent of the EAP participate in training programmes directly funded by FAT (5 per cent) and other agencies and funds (12 per cent) used by the national network of existing training institutions in 2001 (Table 5). The objective for this year is to train about 7 per cent of the EAP with resources from FAT and 13 per cent with other funds to reach the goal of upskilling 20 per cent of the EAP by the end of 2002.

**Table 5: Trainees funded by PLANFOR/FAT and the national network of VTIs (1995-2001)**

Year	PLANFOR/FAT		Net. VTIs		Total	
	Trainees (million)	% EAP	Trainees (million)	% EAP	Trainees (million)	% EAP
1995	0.1	-	3.4	5	3.5	5
1996	1.2	2	3.9	5	5.1	7
1997	2.0	3	4.5	6	6.5	9
1998	2.3	3	5.0	7	7.3	10
1999	2.7	3	7.7	9	10.4	12
2000	3.4	4	8.1	10	11.5	14
2001	3.6	5	9.0	12	12.6	17

In Mexico, since the mid-1980s, the Secretary of Labour finances and regulates two training programmes; the Programme of Training Grants for Unemployed Workers (PROBECAT) and CIMO which subsidizes on-the-job-training with emphasis on small firms. Although their funding and regulation is carried out by the national government, most of the operation is done by the State's Labour Secretariats in coordination with the private sector and workers' organizations. PROBECAT operates by contracting training courses with institutions that are usually public, and offers the beneficiary remuneration during the training period. It is aimed at retraining unemployed workers. They are trained in the institutions or in companies that, in exchange for access to the programme's resources, commit themselves to employ a certain proportion of trainees who complete the course. In the case of CIMO, the State does not provide training and counseling to firms directly, but acts as an intermediary between the offer of services and enterprises' demands and specific needs.

#### **4.5 State budget allocations through trade union activities**

In the region, **the trade union** movement has moved beyond the agenda of improving wages and working conditions as it recognizes that changes in employment and labour market conditions require participation in decisions related to training, employment and income-generating policies. In Brazil, various trade union initiatives have emerged since 1997 financed by government funds or by the unions themselves. One noteworthy initiative, created by the *National Confederation of Metalworkers – CUT*, is a programme for training and retraining that integrates

basic literacy courses and certification with initiatives for labour market insertion, while stimulating plant-level dialogue with management around restructuring and training issues implemented since 1997.<sup>17</sup> The programme acts closely with the unemployed, creating alternatives to the formal/official training courses. It is conceived as a course that, instead of training exclusively for production work, trains workers with a base on the principles of citizenship, and associating the acquired experience on the job with technical and formal knowledge (CNM/CUT, 1998).

The programme is financed by the FAT. The courses are organized in “nuclei”. Each nucleus is composed of two classes of 30 trainees and has facilities to use information and communication technologies. These courses are built around 14 modules totalling 700 hours’ duration, distributed over 12 months, and combine learning about technical and general knowledge. In addition to these learning activities, the workshops or “Pedagogical Laboratories” promote the articulation between education and work, including studies on alternative activities to generate employment and income, sustainable development with the participation of local institutions and the community. Since its implementation in 1997, 3,180 unemployed from the metal mechanic sector have participated in these courses. The Ministry of Education (MEC) provides certification for these courses. According to Law No. 9394 of 20/12/1996, MEC recognizes the equivalence of the general education provided by the Programme INTEGRAR to the formal education system and authorizes the State Federal Technical Schools to issue the certificates.

The *General Workers Confederation (CGT)* has also developed and implemented its own programme of professional education and training for youth and unemployed, workers in those sectors that are at risk, and employed adults.

#### **4.6 Bipartite funding of training by workers’ and employer’s organizations**

Vocational training has been gaining ground, not only as a requirement to keep up levels of productivity and competitiveness, but also as an essential element for a new relationship between employers and workers. Schemes of bipartite management and funding shared between companies and trade unions, at sectoral and regional level, have been increasingly established in several countries. They give employers and workers initiative and control over training, without state interference. They also allow for joint fund management by workers and employers and include cost-sharing arrangements between enterprises.

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<sup>17</sup> The INTEGRAR Programme illustrates the development of new methodologies of professional education based on the social dialogue and negotiated actions /issues related to training.

A case in point is the **Training Foundation for Employers and Workers of the Construction Industry** in Uruguay. This Foundation was created by an agreement subscribed to on 27 June 1997 by the workers' and employers' organizations of this sector. It is a parity body responsible for the management of vocational training, further training and occupational certification of construction workers at all levels. The aim of these activities is to improve competitiveness, job stability and labour relations among workers and employers. The Foundation carries out the evaluation and control of all activities it develops and funds.

In Argentina, the **Construction Workers' Union (UOCRA)** and the **Argentinean Chamber of Construction Industry (CAC)** set up the **Education and Training Foundation for Construction Workers**. The Foundation provides training and other activities to improve workers' education and their human and social development. These actions have to be approved by a bipartite committee and financed by the Research and Security Fund of the Construction Industry (FICS). This Fund was created in 1995 due to a reallocation of 3 per cent of the employers' contribution to the Unemployment Fund. Of this, 2 per cent is directed to the Fund and the remaining 1 per cent to the Statistical Institute of the Construction Industry (IERIC). The Foundation is the executing agency of the Fund. In the first quarter of 2001, \$ 465,270 was invested in the training of 638 workers. Other financial resources come from international organizations, e.g. the IADB, and from the MOL or MED, and the enterprises themselves. It should be noted that from the total activities funded by the Foundation during the period 1994-2001, i.e. 2,788 courses (and 47,808 workers trained), only 19 per cent of them were funded by public resources either from the national, provincial or municipal government.<sup>18</sup>

## **5. Other possible innovative and co-financing mechanisms**

Although these examples do not intend to provide a comprehensive picture of the diversity of training mechanisms being currently experimented in the region, they point out a number of public and private partnerships that can assist in ensuring "more and better" investment in training. They also illustrate the emergence of a new strategy that is becoming widespread in the region, i.e. the creation of training markets through incentives provided for contracting out training services. In this process, a multitude of training suppliers has appeared, both public and private, creating greater choice to users and individuals. However, in the LA region, contrary to what is happening in more industrialized countries, governments neither seem to be stimulating individuals to take responsibility for their own learning and share the costs, nor encouraging them to buy training services in the private mar-

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<sup>18</sup> Paper presented by the Executive Director of UOCRA at the Inter-American Tripartite Seminar on Skills, Productivity and Decent Work, Rio de Janeiro, 15-17 May 2002 ([www.cinterfor.org.uy](http://www.cinterfor.org.uy))

ket. In the OECD member countries, there has been an increase in interest in examining **how to strengthen the role of individuals** in financing their own lifelong learning and training. In December 2000, during the International Conference on “Lifelong learning (LLL) as an Affordable Investment” hosted by the OECD and HRD, evidence on recent experience with public and private initiatives by which individuals could leverage their investment in LLL were presented. Several countries have been developing policies to introduce **learning account type mechanisms** such as: savings accounts, insurance schemes, voucher systems, etc. and have taken a variety of pilot activities. This is a mechanism under which the costs of learning investments by individuals (investment paid out of savings or loans) are co-financed by public authorities or employers. Some examples of co-financing individuals’ learning activities are described in Box 6. It is clear that there is considerable variation in how different actors contribute to co-financing arrangements, how such schemes are administered, who participates in them, and what their effect is on learning behaviour.

Although this mechanism has been criticized because of some failures in its outcomes, especially in the UK case,<sup>19</sup> it is still considered an important alternative for co-finance lifelong learning and training activities. Learning accounts have the potential to provide the opportunity to combine the promotion of individual participation in learning and also act as a mechanism to manage co-financing of that learning, thereby enhancing its affordability and sustainability. Variants of this mechanism are being developed. Moreover, individual learning schemes or training mechanisms seem to be emerging as a common policy drive and financing instrument in the European countries (e.g. the cases of the Netherlands, the UK, the US).

**Training loans** are another possible instrument that could be used to stimulate learning beyond the formal years. Loans have an advantage over grants in the sense that they can be offered in partnership with private sector financial institutions and this public-private partnership reduces the cost to the public sector. However, as with the experience of the UK with the Career Development Loans (CDL), this scheme has not proved to be a means of financing the unemployed or the educationally disadvantaged on a significant scale. Higher socio-economic individuals were more highly represented in the successful applicant population than in the population as a whole. The UK experience with individual training loans suggests that these schemes need to be precisely targeted on individuals, who have not made training investment in the absence of subsidisation, to ensure that suppliers are indeed providing worthwhile training. Targeting those with low incomes, older persons, those with levels of formal education or those in certain

<sup>19</sup> Budget oversubscribed and issues of quality and misuse by small number of learning providers are some of the failures observed. In addition, the target group was not reached (Cheesman, 2002a).

sectors, should enable a higher level of subsidy to be delivered to the targeted group. In relation to programme design, emphasis should be given to monitoring and evaluation as an integral funding component (Verry, 2002). Once these pre-requisites are met this may be a promising scheme for providing individuals opportunities for work-related training elsewhere.

### **Box 6**

#### **Examples of innovative co-financing mechanisms**

- The U.K. Department for Education and Skills launched "Individual Learning Accounts" in September 2000 as a mechanism to assist individuals to overcome barriers to learning; a target of 1 million accounts was set. Under this programme, individual contributions of £ 25 were matched by state contributions of £ 150; employers were encouraged to contribute as well. The accounts were established to pay direct costs, such as course and exam fees, and learning material. The accounts were administered by the State. Following its launch in September 2000, the initiative proved very popular and quickly became oversubscribed. Accounts numbering 2.6 million were finally opened and the target of one million was achieved a year early. In November 2001, the strain on the budget, together with some serious mis-selling by a small number of learning providers, resulted in the system being closed down. A new account mechanism is currently being developed, building on the successful aspects of the original model.
- A Commission in Sweden proposed, in 2000, a National Individual Learning Account Framework (IKS- Individuellt Kompetenssparande) under which individuals and their employers could each contribute up to approximately 2000 EUROS annually. The state contributions would take the form of tax relief for training-related expenditure as well as means-tested contributions at the outset of the initiative. It was proposed that the accounts would be established to pay direct costs of learning, and to replace foregone earnings. The proposal of the Commission is currently under consideration by the Government; it intends to present a bill to the Swedish Riksdag (Parliament) in the spring of 2002.
- The Ministry of Education launched, in 2001, a series of eight pilot projects under which individuals, employers, and the State would contribute a combined total of about 730 EUROS to be used by an individual to pay for direct costs of learning. The pilots involve different contribution levels by the different parties. They feature different models for administration, with the accounts modeled by training institutions, a bank, and an employers' organization.

- Skandia Insurance Group in Sweden launched, as part of its insurance product line, a “competence assurance” scheme under which individuals can contribute up to 20 per cent of their salary into a learning fund, with the employer matching the contribution 1-1, up to a limit of one year’s salary. In the prototype version that was established in Skandia itself, a second component was added under which the company match was raised to 3:1 in the case of employees with low levels of qualifications. The funds pay direct costs of learning, and replace foregone earnings for persons pursuing full-time studies. When individuals and employers mutually agree to learning activities, both pay equal shares.
- In Canada, a broader concept of “individual development accounts” is being pilot tested in a programme **Learn \$ave/\$avoir en banque** that is funded by the federal Government and managed and evaluated by two independent organizations. Under the project, individual savings are matched 3: 1, up to a maximum of 1,500 CAD. The money can be used for learning activities of an individual or his/her family, and to capitalise their own small business. The accounts will be administered as “restricted savings accounts”.
- Still another variation on co-financing mechanisms is the HOPE Scholarship that the United States established in 1997 to reduce the cost of higher education to individuals and their families. Under the initiative, the federal Government grants a tax credit of up to US\$ 1,500 for the first US\$ 2,000 of educational expenses that are over and above those that are covered by other grants and scholarships. The provision covers only full-time studies undertaken in the first two years of tertiary education in an institution approved by the Government.

Source: Cheesman, K (2002b)

## **6. Conclusions**

These innovative funding approaches illustrate the changing role and responsibilities played by the government, the VTIs and the social partners in this area. Although they are still embryonic in most cases or unique in others, these experiences show a new path of institutional alliances and forms of collaboration among a broader range of social partners around financing of vocational training.

In the Latin American region, governments are less and less engaged in managing the training system by means of hierarchical and administrative controls and in directly providing training. Instead, they are focusing their activities on policy-making, quality control and regulation. Governments' new role as financial agents who establish clear rules for purchasing training, select the best bids and control the quality of the service offered is becoming a widespread tendency in Latin America. Increasingly, funding has been separated from execution and the dual role of the traditional public institutions as regulators and providers of training has also changed. Who provides the services is not necessarily the same institution or agency responsible for paying for the service. As a result of this process, a multitude of training suppliers, both private and public, appeared to compete for contracts. The case of Chile is a clear illustration of this phenomenon. There, the government declined to provide directly training services, delegating this attribution to the business sector and the market in general. Instead, government exercises control by means of funds and incentives through an institutional agency created to regulate the provision of training.

The involvement of social actors in dialogue around training issues is a growing characteristic of the VET system in the region. This has clearly contributed to influence training outcomes and expenditures. In some sectors, it is clear that companies or their associations are playing a more active role as investors and/or direct providers for their workers. In others, it is the workers who are taking the lead in this process and setting up partnerships with the government or with employers or both in a tripartite arrangement. There are examples where trade unions, or jointly with sectoral business associations, have initiated their own programmes to stimulate social dialogue around worker training and/or established their own training programmes and funding mechanisms. Therefore, although public investment continues to be directed to the traditional VET structure, it has diversified and stimulated, at the same time, the supply and demand for such services. Subcontracting of training services was authorized; tax incentives to enterprises such as reimbursement of training expenses or exemption schemes for financing vocational training have been set up. Several alliances and partnerships have been set up between the public and private sector, between workers and employers in order to design and fund training programmes or activities for meeting the demand of a specific sector or locality. The creation of a permanent fund as a means to foster

investment in training and increase resources has also occurred. These funds, as in the case of Brazil and Uruguay, are administered by a tripartite body and used by the government to support employment and training initiatives, thus mobilizing extra resources towards this end. This may be a particularly effective approach for other countries to follow.

A related issue of concern is whether such initiatives that receive financing in order to create and begin training activities have the potential to eventually become self-sustained via other sources of financial support. The integration of vocational training under the umbrella of national actions plans for employment and labour market adjustment policies, as in the case of PLANFOR (Brazil), allows the articulation of training activities with other public programmes and agencies in the area of health, education, social assistance and human rights, etc. contributing therefore to their future sustainability. Moreover, this case also illustrates that increasing investment in training can be fostered by recognizing that investment in VET can be a shared responsibility of both the public and private sector.

In the LA region, contrary to what is happening in more industrialized countries, governments seem neither to be stimulating individuals to take responsibility for their own learning and share the costs, nor encouraging them to buy training services in the private market. Several countries have been developing policies to introduce **learning account type mechanisms** such as: savings accounts, insurance schemes, voucher systems, training loans, etc. and have taken a variety of pilot activities. This is a mechanism under which the costs of learning investments by individuals (investment paid out of savings or loans) are co-financed by public authorities or the private sector. The experience shows that learning accounts have the potential to provide the opportunity to combine the promotion of individual participation in learning and also act as a mechanism to manage co-financing of that learning, thereby enhancing its affordability and sustainability. These mechanisms, though not yet experimented within the region, may be considered as a means of promoting continuing training to especially targeted groups. As said before, governments should create a general economic environment and incentives conducive to encourage individuals and enterprises to invest individually or jointly in education and training.

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**ANNEX 1****PAYROLL - TAX FINANCED INSTITUTIONS IN LATIN AMERICA**

<b>YEAR</b>	<b>ACRONYMS</b>	<b>NAME</b>	<b>COUNTRY</b>
1942	SENAI	National Industrial Training Service	Brazil
1946	SENAC	National Commercial Training Service	Brazil
1957	SENA	National Training Service	Colombia
1959	INCE	National Institute for Educational Cooperation	Venezuela
1961	SENATI	National Service of Occupational Training Industry	Peru
1965	INA	National Training Institute	Costa Rica
1968	SECAP	Ecuadorean Occupational Training Service	Ecuador
1971	SNPP	National Service of Promotion of Vocational Training	Paraguay
1972	INTECAP	Technical Institute for Training and Productivity	Guatemala
1972	INFOP	National Vocational Training Institute	Honduras
1976	SENAR	National Rural Training Service	Brazil
1980	INFOTEP	National Institute for Labour Training	Dominican Republic
1988	INFOCAL	National Institute of Training Skill Development	Bolivia
1991	INATEC	National Technological Institute	Nicaragua
1993	INAFORP	National Vocational Training Institute	Panama
1993	SENAT	National Transport Training Service	Brazil
1993	INSAFORP	Salvadorian Vocational Training Institute	El Salvador