

# **THE FINANCING OF VOCATIONAL TRAINING IN LATIN AMERICA AND THE CARIBBEAN**

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## **Presentation**

This paper is a panoramic, and therefore necessarily superficial examination of the subject of the financing of vocational training (VT) in the Latin American and Caribbean region. From the descriptive point of view, the intention is to give an account of the different sources and kinds of financing which exist today in the region, and from the analytic perspective it seeks to identify the most significant trends in the ways in which the countries of the region are mobilizing public and private resources for this kind of investment.

The approach is essentially descriptive and qualitative, since the methodological complexity involved, and limitations on information available, rule out any quantification. For this reason, and because of the superficiality mentioned above, there is no comparative analysis of the sources and mechanisms of financing.

There has been no attempt to make an exhaustive list of all the mechanisms or all the institutions in the different countries. Whether a specific institution is mentioned or not depends exclusively on its usefulness as an example, and does not imply any evaluation. The author wishes to apologize in advance for any mistakes in denomination, interpretation or precision that he may have made concerning any specific country or institution.

With these reservations, this paper is presented to the seminar in the hope that it may help to spark an interesting debate. I wish to express my thanks to Cinterfor/ILO for the honour of being asked to prepare it.

## **I. Frame of reference**

The delimitation and analysis of this document's field of study calls for some prior remarks about recent developments in this subject in Latin America and the Caribbean.

### **1. Background and recent development of training for work in Latin America and the Caribbean**

In the second half of the 20<sup>th</sup> century, the region met the demand for training the workforce of its productive sector with two large public training systems, a) the vocational training institutions (VTIs), with tripartite administration, and financing from Parafiscal contributions, and b) technical-vocational education (TVE) within the formal education system. These two systems co-existed in most of the countries in the region, with one or the other predominating in each particular case. They were basically sufficient to meet the demands of the national economies, whose dynamic of technological change was not very intense because they were protected from the competitive pressures of international trade.

Both systems offered the opportunity for initial vocational training to young populations which had relatively low levels of basic education (up until the seventies, approximately, the entry requirement for both systems was five or six years of primary schooling). In both systems the training objective was eminently terminal, that is to say, they both led to an occupational definition which, for most workers, would remain unchanged throughout their productive lives. There was little demand for continuous training, and the only opportunities for this were either the internal route, promotion within the company, which was mainly connected with informal training processes, or the external route, formal education with the aim of getting a university degree, which was seen more as a generic mechanism of social mobility than as an opportunity to grow professionally inside the company or in the occupational field in question. In cases of promotion resulting from access to higher levels of formal education, the occupational field rarely corresponded to subjects studied. It was more common to rise in the occupational structure by changing company and/or occupational area. Direct efforts on the part of the companies, in which they themselves would implement a structured process to train their workers, were somewhat secondary, and limited to just a few conglomerates or big public or private companies. Informal practices predominated, and on the whole they did not involve large investment.

However, at the end of the century, a number of factors came to bear on the socio-economic configuration of the region, causing profound changes in the panorama of vocational training. From the *demographic* point of view, the delayed effect of

the high rates of population growth that prevailed between the fifties and the eighties created an enormous host of young people, and this put a lot of pressure on the traditional education systems and on the labour market, especially in urban areas. From the *educational* point of view, although the traditional systems expanded their capacity considerably they were still unable to meet this demand completely, and besides, they split into very differentiated quality levels. These two phenomena led to a massive inflow of young people who had very little education, if any, onto the labour market. From the *economic* point of view, the successive crises of the import substitution model and industrial restructuring for the transition to a more internationalised economy, have generated chronically high unemployment rates and a corresponding informalization of employment. From the *technological* point of view, the universal phenomenon of accelerated change in the processes and forms of the organization of production was also manifest in the region, this affected employment, and led to increased mobility and increased precariousness. From the *political-institutional* point of view, three particularly significant phenomena accompanied the great social changes caused by the factors above. These were the deterioration or even rupture of traditional institutional frameworks of social policy, the move towards more decentralized forms of political-administrative organization, and structural change in the balance between the public and private sectors providing social services.

All of this led to a serious crisis in the traditional systems of the TVE and the VTIs. The concept of vocational education was practically abandoned in most of the countries, and replaced by middle level technical education and its variants, such as middle level diversified education, or multivalent, etc. These names, and the constant reforms and counter-reforms in this field, are an expression of the sharp debate about the role this level of education should play in the educational and work trajectories of the population. That is to say, about its role as the terminal objective with respect to the labour market and/or its time in the propedeutic advance towards higher education. In any case, in most countries middle level technical education is relatively marginal; it is usually considered to have lower social and educational status, it is offered to social sectors with lower income and cultural capital, its quality is seriously questionable, and it is usually oriented to training for traditional occupations whose relevance in modern labour markets is debateable.<sup>1</sup>

There is also general discussion about the VTIs, and the crisis that the original model underwent when it had difficulties in adapting to changes in the socio-economic environment. This crisis was characterized by factors like inflexibility to organizational change, a tendency to bureaucratism, loss of contact with the productive

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<sup>1</sup> This without prejudice to recognition of the serious efforts which some countries have recently made in the definition and setting up of new middle level multivalent education.

sector, and loss of relevance when faced with the rapid changes taking place in the labour market.

What the VTIs offer by way of initial systematic training to produce skilled workers and middle level technicians runs into trouble when it comes to obtaining openings for work practice in firms. These are essential to its model of shared training, but unemployment rates among those who complete the process are relatively high. Not only do they find themselves in a market with low demand, but they also have to compete against people coming from general middle level education, and even against university graduates, whose real or supposed cultural capital is highly valued by employers.

The kinds of continuous training that VTI systems offer (generally called complementary or extension courses), were originally designed for adult workers who had not had systematic initial training, and who would now be able to gradually progress towards obtaining some occupational certification, or for trained workers who sought to move up the job scale by means of intermediate technological certification. But very often these systems were slowly losing their *raison d'être* because of the lack of transparent certification and selection systems, and a lack of remuneration in the labour market. There was also an excessive supply of new workers with better levels of formal education, and the wider the application of the system the more pronounced this problem became because there was no equivalent growth in demand, which was due to the well-known problems of stagnation in the productive sector. This situation meant that, for the purposes of analysis, the offer of the VTIs was often divided into "long courses" (those which led to systematic training to produce skilled workers or middle level technicians) and "short courses" oriented to more or less structured demand.

All this occurred in the context of the demographic and educational factors already mentioned, and the internationalization of the economy with its effects on technical change and management reorganization, and caused big changes in labour markets (which has been extensively analysed), in the role which education and training for work play in them, and in the diversification of the institutional bases of vocational training.

Some of the most significant trends in this field are; a) a growing appreciation of the middle and higher levels of formal education as requirements for labour insertion, and the corresponding devaluation of the traditional mechanisms of initial vocational training; b) a similar revaluation of post-secondary technological education, with the dilemma as to whether it should be a halfway house towards university education or a terminal phase oriented directly to work; c) generalized discussion inside educational systems about the necessity of increasing technological

input in basic and middle level education, and also about whether the differentiated lines of middle level technical education and general education should be kept separate, or should be integrated into one multivalent middle level education system; d) the pressure of company productivity and competitiveness levels, with its consequent effect on the rise in investment in continuing training by companies and workers; e) the explosion in the offer of work training, especially in the private sector, aimed at satisfying the needs of companies as well as those of workers, which brings about the emergence of a vigorous and still largely unregulated market of labour competencies; f) the proliferation of government programmes connected to the fight against poverty.

## **2. Current Panorama of work training in a broad sense**

The earlier changes, which have accelerated since the nineties, have led to the creation of a much wider, more complex and more diversified offer of training for work, which we define as **the totality of educational processes directed at creating or developing competencies that enable people to join the world of work and perform efficiently in it**. Included in this are middle level technical education, whether multivalent or diversified (a concept which has almost completely replaced vocational education), non-university post-secondary technological education, the different kinds of services offered by the vocational training institutions (VTIs), the increasing contribution of informal training (both commercial and non-profit making), and the training which firms provide for their workers when systematic processes require it<sup>2</sup>.

“Training for work” also alludes to the distinction between the concept of “training”, which refers to general training processes which produce basic and collateral competencies that are mainly applicable in the world of work, and that of “training for work”, by which we understand as training processes aimed at developing skills and specific occupational competencies both prior to or during employment, or in labour retraining. Another connotation is that training for work is an ongoing and cumulative process which continues throughout the productive life of the individual, nourished by basic training and by informal education.

Training for work is a broad concept, and it calls attention to a phenomenon which is very relevant to the objectives of our study, namely the rupture of the social differentiation which previously existed between general education and vocational training, although a lot of differentiated institutional compartments still exist. This compartmentalization no longer responds to any clear logic of the labour market, it

<sup>2</sup> To differentiate them from informal training, which arises spontaneously throughout production processes in every kind of company.

is usually just a manifestation of the atavistic interests of the bureaucratic structure of the State, specifically of the Ministries of Education and of Labour.

The fact is that, in the real social situation, this differentiation was never completely hermetic. Metaphorically speaking, the two worlds could be described as being separated by a more or less porous membrane through which some individuals managed to slip, but these transfers did not follow any systematic pattern of educational or professional development. The rupture in the differentiation between general education and vocational training has created large holes in the membrane, and consequently there are strong currents of movement going both ways, whose common denominator can be found in the concept of continuing education or training. This phenomenon, with all its importance and potential for enriching not only human capital but also the competitiveness of the productive sector, does pose methodological difficulties for analysts who tackle concrete subjects like the financing of vocational training. There is a dilemma between the wish to describe a phenomenon which is increasingly large and complex, and the pragmatic need to define a field of study with precision.

### **3. Operative delimitation of vocational training**

It is clear that the wide and diversified services which we refer to as training for work constitute a very complex and dynamic whole, and to study them would require greater range and thoroughness than is possible in this paper. Therefore, for the purposes of the present analysis, we shall restrict the definition of vocational training (VT) to the following services provided within training for work:

a) Vocational training which is offered by the VTIs in those countries which have different variants of this type of institution.

**b) Middle level technical education, diversified or multivalent, in the cases of countries in the region who, by cultural tradition or by a decision in educational policy, have not created or have abandoned the VTI model, and have therefore let their educational systems take charge of initial worker training oriented directly to the labour market, in ways expressly defined for this end.<sup>3</sup>**

<sup>3</sup> Strictly speaking we should include non-university post-secondary technological education systems, given that the most advanced reforms in middle level technical education in formal systems tend to define this modality as the first level of technological education, and on the other hand because the modalities of post-secondary technological education are playing an expanding role in the initial training of the new workforce, above all in the most modern parts of the productive sector. But the social-institutional complexity of this subject is impossible to grasp within the scope of this document.

c) In-company training, by which we understand the training employers offer their workers, so long as it is a structured processes, that is to say planned and directed to the company's own objectives of productivity and competitiveness. This may be implemented by their own organization or through specialized outside contractors.

d) Non-formal training can also be divided into two well-differentiated types; that offered by public institutions in the context of social poverty relief policies, and that offered by private entities responding to the dynamic of the market, and oriented to satisfying the demands of individuals and companies. These are generally short courses.

Note that in all the countries of the region, the first two categories correspond to institutional systems while the last two are very open social processes, although they might be, and in some cases actually are, incorporated into institutional frameworks. This state of affairs obliges us to make some observations about the concept of a 'system'.

#### ***4. The concept of a system, and the paradigm of national vocational training systems***

The concept of a system crops up frequently in the literature on technical education and vocational training. There is talk of "the educational system" when referring to an aggregation made up of all levels and all kinds of formal education, including the concepts of "system" and "sub-system" in technical education. The VTIs speak of their "system" when referring to their forms and mechanisms of service as a whole. In Brazil there is talk of the "S System", which includes all the institutions which have S as the first letter of their abbreviated name, and which have the same mechanisms of financing, or similar institutional structures (SENAI, SENAC, SENAR, SEBRAE<sup>4</sup>, etc.).

In the same way, in recent years the concept of a national system of vocational training has gone the rounds in various countries in the region. In practice, this label is more of a paradigm, more of a wish than a reality, although there are countries like Chile where the Servicio Nacional de Capacitación y Empleo (National Training and Employment Service) is based on a law which serves to integrate and regulate a very extensive group of actors and activities. The English-speaking Caribbean countries are another example, they have different kinds of technical education and training for work systems which are being integrated through standardization and the certification of qualifications, and it could be said that they

<sup>4</sup> Bear in mind that strictly speaking the SEBRAE is not a VTI, although it might run training activities as part of its business development services.

have come very close to this ideal. But in general, what we find in the different countries is a collection of technical education and/or training for work systems which each has its own organization and administrative structure, and its own specific financing mechanisms.

Therefore, it is as well to clarify that when we speak of an 'institutional system' in this paper, we are referring to an organization which has four well-defined structural components: administrative bodies, funding mechanisms, technical support and quality control organs (norms for structuring and certifying occupations, of curricular development, of the training of trainers, etc.), and its actual training agents, whether they are specialized bodies, public or private, or the companies themselves, etc.

Perhaps the most significant difference between the contrasting institutional systems, from the point of view of funding, is their degree of openness. Put simply, closed systems are those in which the actors are precisely defined by virtue of their operative specialization (for example training bodies or technical support organisms) or their characteristic beneficiaries, or in which the normative structure is markedly compulsive. Then, on the other hand, there are open systems, which allow great freedom as to the participation of providers of the service in question, fluidity of access for the beneficiaries, and a very flexible normative framework. Obviously we are talking about "ideal types", and in reality we find a *continuum* in which each specific case will be nearer to one end or the other. The educational system, by its very nature, tends to be of the closed type, while the paradigm of the national systems of vocational training discussed above, tends to the open type.

### **5. The question of financing**

An analysis of the financing of vocational training must consider the nature of a good which is both public and private at the same time, or which combines characteristics of both in different ways. In principle, public investment in this field carries with it outside elements which are sufficiently wide and which affect large population groups or the productive system in general. But it is also true that investment generates private benefits directly to the workers, by improving their employability and therefore their income, and to the companies by increasing their productivity. Therefore, it is universally recognized that employers and workers should contribute to the financing.

It is generally accepted that investment in vocational training constitutes a public good, and hence should be the responsibility of the State in cases where it generates competencies which contribute generically to the productivity of the work force and of the productive sector. It follows that the individual appropriation of its eco-

conomic returns is not direct or immediate, and that it comes more into the category of a private good the more directly it is linked to employment, to generating immediate returns which are appropriated by individuals and specific companies. It is also accepted that in the case of countries and populations that are relatively poor, public intervention also occurs and is justified by social equity.

But it is less usual to consider public investment in fomenting and developing institutional systems, especially in current development models, which are strongly inclined to the emergence of markets for vocational training. This subject will be discussed in greater depth below, and here it is enough to comment that the market does not function in an ideal way in any society, and even less so in developing countries, where various cultural, economic and institutional factors cause serious imperfections which distort the incentives for individual investment. The recognition of this situation serves to legitimate public investment aimed at creating institutional frameworks which would stimulate supply and promote demand (including by means of subsidies, for reasons of equity), and which would establish transparent regulatory mechanisms.

These kinds of considerations are linked to the question of systems. It is understandable that public institutions should tend to exhibit the characteristics of closed systems, while market models by their very nature have to be much more open, which paves the way for private investment. But, if we assume that it is in the public interest to strengthen and to regulate the two VT markets, this poses a difficult dilemma for public policy: should we ignore the markets and leave them to their own dynamic? Or should we incorporate free market providers into an institutional framework? In the latter case, how can we ensure that institutionalizing the market will not make it so closed that it strangles its own potential? And, on this last point, can existing institutional systems incorporate market mechanisms without themselves undergoing structural change?

Finally, in this examination of conceptual aspects of the financing of vocational training, two very relevant questions must be dealt with. The first has to do with the cost-effectiveness of public spending, and the second with the sources of state financing, which, in response to the universal dynamic of political-administrative decentralization, tends to involve different combinations of participation by central governments and regional or local governments, whose role is currently expanding. The two questions are closely connected. Insofar as the measurement of cost-effectiveness is not just a simple matter of financial analysis but rather has to do with identifying the most efficient mechanisms and providers of VT, it is essentially an indicator of responsibility, or, to be more precise, of accountability. On the other hand, one of the factors which weighs most in the appraisal of the decentralization of social services is precisely that the closer these providers are to the target population or to the social actors (businessmen and workers in the case of the VT), the

greater their potential to respond adequately to demand, and therefore the higher the level of accountability that they should have. It can be seen that these two points are central to the analysis of VT, both for systems that currently exist and when we consider the proposed paradigm.

## **II. Overview of the financing of VT in Latin America and the Caribbean**

We have already commented that vocational training institutions in Latin America are undergoing deep changes, which are a natural response to the profound transformations taking place everywhere in the world of work and production. In some sectors it is clear that companies are playing a more active role as investors and/or direct providers of training for their workers. New providers of training for work have emerged, private companies, renovated in-company training organs, training institutions initiated by management, centres of technological development which integrate innovation and technology transfer services by means of training, the non-governmental organizations who render services to marginal populations, etc.

The state agents connected with training for work have diversified, they are no longer just the ministries of education and the VTIs, but also new agents like the ministries of labour, the secretaries of social welfare, solidarity or social compensation funds, local government, etc., which have become public sources of finance, taking advantage of and/or stimulating the emergence of “training markets” which involve numerous public and private providers.

All this has brought the need to reform training for work systems into the discussion of public education and employment policy. As a matter of fact, this discussion does not come down to the question of “internal” reform in traditional systems of the VTI or TVE type, but raises the question of what roles the public and private sectors should play in the field of training for work, both from the perspective of public economy when it differentiates between the functions of public good and private good, and from concern for social equity in the interests of guaranteeing access to equal training opportunities for the whole population.

Bearing these points in mind, we will now present a review characterising the various ways of financing vocational training which exist today in Latin America and the Caribbean.

### **1. *Parafiscal contributions***

This is the mechanism which gave rise to the so-called “Latin American model” of vocational training institutions, the VTIs. In this system, funds for the VTIs come

from levies or parafiscal contributions from companies. These taxes are levied specifically for vocational training, and they are almost always calculated as a percentage of the amount of the workers' payroll. Contributions are organized differently in different countries, but the system usually covers all firms with more than ten workers, and in some cases public companies and government bodies too. The amount of the levy varies from 0.5 to 2% of the payroll.

Its basic characteristics are, a) its own legal capacity and administrative autonomy, b) a tripartite administrative structure (government, employers and workers), c) it belongs to the public administration, except in the case of Brazil, where the administration of resources and of the corresponding VTIs (SENAI, SENAC, SENAT, SENAR) is run by the employers, through the Federation of Employers' Associations.

The model of financing through parafiscal levies for specific purposes is the subject of a number of conceptual arguments which have, or could have, profound implications in the theory of public finance and in the administration of resources. First, there is debate as to the public or private nature of these funds. Parafiscal contribution is a technique of public financing which obtains resources from a specific sector of society for the self-financing and self-management of determinate public functions or activities which benefit the sector itself. Therefore it involves a mixed model at the meeting point between public authority and civil society, the former contributing its power to levy taxes and supervise, and the latter its management abilities.

It is precisely in the management of resources derived from parafiscal contributions that there are marked differences between the different countries. The Brazilians, who originated the system, have always administered these resources through private bodies, delegated by the State and the employers' associations of the sector in question. In contrast, all the other countries have public bodies with tripartite administrative mechanisms managing the funds. This reflects a double perspective; there is the principle of participation in the management of resources by those who provide them, which derives from parafiscality in general, and also the principle of the concentration of social actors, which belongs to the tradition of the ILO, a body which played a fundamental role in the construction and diffusion of the model.

This differentiation between the single case of one nation, Brazil, with its private administration, and the galaxy of examples of public administration continued for a number of lusters (5-year periods), but these organizations still had close cooperative links, and a corporate feeling among them all came into being, especially through Cinterfor/ILO.

However, as time passed, under the impact of the socio-economic and political-administrative transformations which occurred in the region, and as a result of their own organizational dynamic, a process of differentiation between countries and institutions appeared in the public sector. The result of this, seen from the perspective of the relation to other ways of financing vocational training, is that today the following groups can be identified:<sup>5</sup>

- Cases in which the parafiscal contribution has continued as the administering institution and retained its public character, and these are the majority. However, it is worth noting that in almost all cases there is a trend towards a revision of the role as administrator-executors, and an opening to the paradigm of “core” or “guiding” bodies in national systems of vocational training, although it is hard to judge (with the amount of information available for drawing up this paper) the amount of effective progress which each one of these has made in organizational restructuring, and to what degree it has opened up.
- Cases in which the systematic paradigm has already been incorporated into the law, making the VTIs in question the “guiding body” of the system. The INFOTEP in the Dominican Republic is a pioneer in contracting outside training services through “collaborative centres”. In Costa Rica, the INA has a legal mandate to organize and coordinate a national system of vocational training, and this has also moved towards decentralization by recognizing the collaborative centres.
- The case of the SENA in Colombia. Besides being defined as the guiding body of a national vocational training system, it is allowed by law to use up to 20% of its resources to stimulate efforts at continuing training in companies, through the mechanism of contribution reimbursements to those who show they have made their own investment of a certain amount and with specific characteristics. In practice, this mechanism might come to typify a new category of financing, the refunding of taxes, which up until now has not appeared in the regional panorama.
- The case of Chile. Here parafiscal contributions were eliminated from the panorama of financing for vocational training. Its administrative institution, the INACAP, still exists, but now transformed into a non-profit private corporation which competes in the market like any other service provider. This case will be re-examined below as an example of another, radically different model of public financing for vocational training
- Cases in which the institution of parafiscal contribution was maintained, but the administering body was redefined by law. In one case, Bolivia, the administra-

<sup>5</sup> Strictly speaking, the following is not a typification. The various cases share diverse categories so they are not mutually exclusive.

tion of resources was handed over to a foundation from the business sector, the INFOCAL. In El Salvador a new institution was created, the INSAFORP, and, although it is public, the management and labour sectors dominate its governing body. In Peru the SENATI has remained a public body, but the business sector is predominant in its administration.

- Finally in this group we come to the case of Paraguay, where at the end of last year the Sistema Nacional de Formación Profesional (National Vocational Training System) was created by law. It has a public and tripartite guiding body which administers the resources of the parafiscal contribution, while the SNPP, the original VTI, has become a “privileged” executor which automatically receives 50% of the resources of the contribution.
- In the same category of financing VT through parafiscal contributions, but with its own characteristics which will be commented on below, there is the more recent case of Jamaica, where the administration of resources was assigned by law to a private foundation which has tripartite management but is controlled by employers’ and workers’ representatives, the Heart Trust Fund.

It can be seen that the model of public administration of parafiscal contributions for VT has had a varied evolution, and two broad trends are evident. First, the devolution of administrative power, which had been gradually accumulating in public bodies, to the private sector (employers and workers), and second, the opening up of the respective institutional systems, by which the VTIs are renouncing all or part of their functions of direct rendering of VT services, and orienting themselves more to the financing of other providers, public as well as private, and to the regulation of the system itself. It remains to be seen how far this strategy of opening up has brought significant results, measured, for example, by the proportion of resources which are transferred to third entities.

The intense dynamic of change that took place in public institutions on the model of financing through parafiscal contributions indicates that this change is showing symptoms of crisis, which the pertinent literature usually attributes to the rigidity of the public administration and to its tendency to be co-opted in shady political deals.

## ***2. State budget allocations in the framework of educational systems***

In line with the operational framework we are using in this paper, we include in this category technical education and vocational training systems in countries which, because of cultural tradition or a decision on public policy, entrust to their educational system initial worker training which is oriented to the labour market in ways

expressly defined for this end, and in some cases the rendering of informal vocational training services as well.

In this model, financing comes from the national budget, from the resources either of the central government or of the regional or local governments (in different combinations), and generally involves mechanisms for the transfer of resources and competencies from the central government to the regional or local level.

This group covers Argentina, Uruguay and Cuba, each of which has its own specific characteristics. The cases of Trinidad-Tobago, Barbados, Surinam and Haiti can also be included in this category.

- In the case of Uruguay, a Technical-Professional Education Council (Consejo de Educación Técnico Profesional) has been set up, and its executive agency is the Universidad del Trabajo, UTU (Uruguayan University of Work). On the one hand UTU operates the line of basic and secondary technical education with a multiple perspective oriented to the training of the new work force who are coming onto the labour market, and of the other diverse lines of technical training linked to social actors and productive sectors.
- In Argentina, the old CONET was dissolved, and its vocational training centres were handed over to the provincial governments and to the government of the Autonomous City of Buenos Aires. To replace the CONET, the National Institute of Technological Education, INET, was created. It is responsible for technical-vocational training policy on a national level, and has been developing different kinds of primary and secondary technical education. At the same time, the Consejo Nacional de Educación-Trabajo, CoNE-T (National Board of Education-Work) was set up as an advisory body of the Ministry of Education, and is composed of representatives of employers, union organizations and the Ministries of Labour and Economy.
- Seen from the point of view of financing, Cuba combines two special characteristics derived from the ideology inherent in its socio-political system, which strongly promotes the connection between study and work. On the one hand, that general education and technical training are heavily monopolized by the State, and on the other that the sub-systems of general, polytechnic and work education are intimately connected, as can be seen from the primary school curriculum, which includes 480 hours of “work education”. One of the central objectives of the education system is to train a productive working class, and as a result around 50% of those graduating from the ninth grade go into technical-vocational education, whose curriculum and execution are developed in close co-ordination between the educators and the public employer organizations.

- The countries of the English-speaking Caribbean (Jamaica, Barbados, Trinidad and Tobago, among others) have recently made big changes in their systems of technical education and vocational training, under policies co-ordinated by the CARICOM. This was an effort aimed at integrating their traditional systems of technical education, which for the most part are derived from the model of the United Kingdom, with new much more flexible modes of training for work, which are market oriented and enjoy the close participation of the productive sector. Their basic characteristic is that they rest on national systems of occupational norms and vocational qualifications which also follow the British model. This marks a fundamental difference from the focus of the other systems in the different Latin American countries, which are geared more to integration in services offered.

The pioneer entity in this movement, the HEART Trust of Jamaica, is one of the National Training Agencies, NTA, which has been created in a number of these countries. HEART is an institution which comes under the Ministry of Education, and its connections with the business and labour sectors are coordinated through the National Council of Technical and Vocational Education and Training, known as the NCTVET. The analogous institutions and arrangements in Barbados and Trinidad-Tobago are in the province of the Ministries of Labour.

However, it is as well to bear the general context of middle level education in the region in mind, given that this level of formal education is in practice an important source of workers for the labour market. Analysts of the education sector have two big reservations about it; a) the revision of its traditional role as a stage in the propedeutic process of moving towards higher education, which no longer makes sense in the light of its relatively low coverage, its high drop-out rate, and the fact that only a small fraction of students really go on to higher education; b) connected to the previous point, doubts about the traditional differentiation between “academic” and “technical-vocational” middle level education, which have advanced to a reconceptualisation of middle level education as a phase for exploring the interests and aptitudes of the students, and for orienting them towards the selection of an occupation (or future professional identity), instead of continuing to serve as a bridge or obligatory step for entry into higher education.

### ***3. Allocation of the state budget in the framework of the Ministries of Labour***

The Ministries of Labour in Latin America and the Caribbean are becoming increasingly involved in the field of vocational training, not just in the definition of policy, but also in programmed action, which means the creation and development of institutions, directing bodies or services which deal specifically with vocational training in the framework of a resurgence of active policies in the labour market. The importance given to these policies can be seen from the large financial resources

assigned to the implementation of the various programs and projects. These resources come from a variety of sources, public funds for training established by law, extraordinary resources from the public treasury, unemployment funds, etc. Some examples of this are:

In Argentina, the General Employment Law (*Ley General de Empleo*) of 1991 gave the Ministry of Labour competence over training connected to employment policies, permitting this body to develop labour training programs and activities along two lines. The first of these is to attend the training needs of specific groups, for example young people with low incomes, and the second is to foster the institutional development of non-traditional training entities. The second line is an attempt to foment the association of different local social actors in the training area, which has given rise to experiments like “occupational workshops”. These are non-profit making institutions in private law, which the State helped to create and promote by co-financing their investment and operational costs. Another example is the “vocational training councils”. Both types are managed jointly by employers and unions.

The Mexican Ministry of Labour finances two especially significant programmes, a) the Program of Training Grants for Unemployed Workers (*Programa de Becas para Capacitación de Trabajadores Desempleados*), PROBECAT, which 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, who are trained in existing institutions or in companies which, in exchange for access to the programme’s resources, commit themselves to employ a certain proportion of the trainees who complete the course, and b) the Integral Quality and Modernisation (*CIMO, Calidad Integral y Modernización*), which aims at developing demand for training and counselling in small and medium-sized companies through mechanisms which mediate between the offer of services and the demands or needs of the productive sector, which in turn has to pay with their own resources a proportion (which increases over time) of the costs of these services.

To have an adequate idea of the importance of the financing effort which the Mexican Ministry of Labour is making on these two programs, we should keep in mind that they are part of the Modernization of Technical Education Project (*Proyecto de Modernización de la Educación Técnica y la Capacitación, PMETYC*), whose core strategy is the development of a national system of labour training, and which is the charge of CONOCER, a case which will be reviewed separately below.

Since 1992, the Ministry of Labour in Uruguay has, by law, had competence in the field of training for work policies and programmes, an area which previously belonged exclusively to the education sector. Its executive body for this is the Na-

tional Employment Bureau (Dirección Nacional de Empleo, DINA E). It is significant that the DINA E has not limited its activity in this field of work training to the promotion of specific projects, but has also acted through the creation of a National Training System (Sistema Nacional de Formación). In any case, its most important financial instrument is the Labour Reconversion Fund (Fondo de Reconversión Laboral), which receives contributions from firms and workers, and whose objective is to finance training programmes targeted on workers who have particular difficulties in entering the job market. Its administration comes under the National Employment Board (Junta Nacional de Empleo, JUNAE), a body with a tripartite structure made up of government, trade unions and employers' organizations.

The Labour Reconversion Fund is financed mainly by part of a tax which has a specific aim, so it is similar to a parafiscal contribution. It also includes a mechanism whereby companies which re-hire workers who have been re-trained with the Fund's resources have the right to reimbursement of their contributions to the Fund, which calls up (like in the case of the SENA mentioned above) the model of financial reimbursement, a model which up to now did not exist in the Latin America and Caribbean region.

Perhaps the most important example of this type, for the magnitude of its resources and for its range as a public employment policy, is that of Brazil, where certain fiscal taxes were created by constitutional norm. These are calculated on the gross turnover of public and private companies, and go to the federal budget for the social protection of the workers. The law which regulated these taxes in 1990 includes the allocation of these resources within public employment and incomes policy, and allocates them to the Worker Support Fund (Fondo de Amparo al Trabajador, FAT), which is administered by a body with a joint tripartite structure, the Deliberative Council (Consejo Deliberativo) of the FAT.

One of the programme lines of the FAT is investment in vocational training through the National Plan for Worker Training (Plan Nacional de Calificación del Trabajador, PLANFOR), and the medium term objective is to train 20% of the Economically Active Population (Población Económicamente Activa, PEA), every year. To reach this demanding goal, the PLANFOR strategy is to mobilize the National Professional Education Network (Red Nacional de Educación Profesional), and promote State Training Plans, PEQ.<sup>6</sup>

The PLANFOR is executed through the mechanism of "Sharing" with public or private training bodies, either individually and directly, or through national or pro-

| <sup>6</sup> PEQ is Portuguese. It stands for "Planos Estaduais de Qualificação".

vincial bodies. Among other objectives, this has the effect of supporting investment.

#### **4. Contribution incentives to companies**

In this mode of financing, the companies recover their training costs after presenting their tax returns. In the Latin American and Caribbean region this only occurs in Chile, where this so-called “tax exemption” has a maximum limit equivalent to 1% of total salaries. Companies are free to provide training themselves or to contract services from a wide network of providers, called Executive Technical Organisms (Organismos Técnicos Ejecutores), which are regulated by the National Training and Employment Service (Servicio Nacional de Capacitación y Empleo, SENCE), a branch of which depends on the Ministry of Labour. Activities which are funded through tax exemption may be the training of current company employees, prior training before a possible work contract comes into force, or training given up to three months before a contract ends.<sup>7</sup>

The case of Chile is very significant in that it is an expression of a State policy decision in two senses: first, it renounces direct provision of labour training services, delegating this to the business sector and to the market in general, and second, it exercises its public power in this field through financing and regulation (which supposes the creation of a true institutional system whose core is the SENCE), having built up over time great number of private offers of training services whose provision is very demand driven. One especially important result of the strategy of contracting and financing training services according to market forces has been the creation of a database of costs which, along with the evaluative results of the various programmes, is a clear signal to providers and consumers of these kinds of services.

Throughout the approximately 25 years of experience with the tax exemption system, the Chilean State has been making adjustments to the model, so as to correct undesirable trends, like the initial concentration of the use of tax exemption in the big companies sector and at the top and middle levels of the occupational structure. National, sectorial and company co-ordination mechanisms have been set up, which are aimed at balancing participation of the labour sector with that of the management sector.

<sup>7</sup> Bear in mind that, besides the resources from tax exemption, the SENCE also administers other programmes that are financed by the Fondo Nacional de Capacitación, FONCAP (National Training Fund), whose resources come from the national budget and are allocated with social and economic policy priorities in mind, along with an analysis of performance and of cost-effectiveness.

## 5. Special programmes of social investment

Faced with the chronic poverty of a large part of the population of Latin America and the Caribbean, a great variety of emergency social investment programmes have come into being, above all in recent years. These are aimed at confronting the high unemployment rates caused by restructuring in the productive sector, and financial adjustment and rationalization on the part of the State, which affected the whole region. Some of these have *ad hoc* administrative entities called funds or networks of social investment, and others have been united to existing institutions, like the Presidencies of the Republics, social welfare, youth institutions, etc.

The basic characteristics of these kinds of programs are, a) their temporary nature<sup>8</sup>, b) their high degree of targeting on especially vulnerable population sectors, c) their financing by bank credits from various sources, which reinforces the temporary nature mentioned above, and their strategic orientation to civil society, operational decentralization, opening to market forces, etc.

Their field of action is very diverse, but insofar as this study is concerned, specialized training programmes and the labour insertion of young people are directly relevant, as are the retraining of the unemployed, help for small businesses, and other forms of self-employment. Also relevant are activities which, from the perspective of gender or investment in human capital, are aimed at specific population sectors like women heads of households, and those which include elements of work training or help in the creation of small businesses. Many of these are carried forward by Ministries of Labour, and sometimes, when permanent institutional systems for vocational training are being developed from them, as in the cases of Mexico, Uruguay, Argentina, etc., the actual administration is handed over to these new bodies.

From the perspective of VT financing, the amounts of investment involved may be relatively important in their own time frame, but in the long term they are less significant as resources become exhausted, which often occurs when their international credit operation ends. However, it should be recognized that this temporary nature is inherent in the logic of social emergency, and they have often played a not unimportant role as a “laboratory” for new modes of financing. An example of this perspective is the case of the youth labour training programmes of the Young Chile (Chile Joven) type, which, when it spread to other countries associated with credits from the IDB (Inter-American Development Bank), has served as a vehicle

<sup>8</sup> It is this temporary nature, and their closer connection with public employment policies with stable institutional frameworks, which leads us to locate in a different category, that of public financing from ministries of labour, cases like the FAT/CODEFAT/PLANFOR in Brazil and the FRL/JUNAE in Uruguay, which share other characteristics of this kind of programme.

for market schemes for contracting services and, quite independently of other evaluations of the model in question, it broadens and stimulates the emergence of new offers, promotes the connection of trainers with firms, and increases public policy options.

## **6. Concourse of public financing in integrated multi-institutional systems**

Some countries in the region have succeeded in advancing towards the creation of technical education and labour training systems which involve different sources of public and of private financing, a subject we will return to below. What is interesting about this development is that each country seems to be constructing its own model by taking advantage of its traditions and available infrastructure, but finding new integration strategies which restructure elements that were previously isolated, and bring synergy to joint action, which is significant from a perspective of the analysis of the cost-effectiveness of additional investment.

We will concentrate on two cases whose integration strategy is to standardize and certify labour competencies, Mexico and the English-speaking Caribbean countries, Jamaica, Barbados and Trinidad-Tobago.<sup>9</sup>

The Project for the Modernisation of Technical Education and Training (Proyecto de Modernización de la Educación Técnica y la Capacitación, PMETYC) in Mexico is part of a national policy aimed at overcoming the problems of fragmentation in training for work, which have a long history in that country. It consists of four components, a) the development of a system of standardization of work competencies, which is the strategic core of the model, and whose execution is the responsibility of the CONOCER, b) the transformation of the offer of training which is run by the Secretary of Education mainly through the National College of Vocational Technical Education (Colegio Nacional de Educación Profesional Técnica CONALEP); c) the stimulation of the demand for training and labour certification, executed through the Integral Quality and Modernization (Calidad Integral y Modernización, CIMO) programme, and Grants for Training for Employees (Becas de Capacitación para Desempleados, PROBECAT) programme reviewed above, and run by the Labour Secretary, and; d) information, evaluation and studies, whose aim is to establish an information system which would allow follow-up and evaluation of the impact of the project as a whole, and coordinate studies and research which would provide feedback. The information system is particularly relevant to the question of institutional synergy and financing, because it acts as the interface between the different institutions of the educational and labour sectors of the Project,

<sup>9</sup> Brazil and Chile are other national cases which could be included in this category, although they have different strategies.

allowing for the exchange of information on the offer of trained workers, the demand for jobs, and the offer of training based on labour competency.

The English-speaking Caribbean countries have developed co-ordinating agencies for technical education and vocational training. These are called National Training Agencies, (NTA), and their objective is to reduce the skill gap by promoting a universal educational infrastructure. The NTA all share a common organizational design and strategic logic, based on the United Kingdom model. Their key orientation is the standardization of labour competencies, and this is regulated by a "National Council for TVET", NCTVET, which has a tripartite structure.

### ***7. Private financing of training. Investment in continuing training by companies and workers***

This section deals with private investment by companies and workers, the former in improving their human resources through training in or for the job in question<sup>10</sup>, and the latter as a strategy to increase their employability in an increasingly competitive labour market.

In the case of companies, we are talking about direct investment financed from their own resources. This is additional to what they pay in levies, taxes or parafiscal contributions, and to what they can expect to be reimbursed for later on. These investments may be made autonomously or as a contribution to associative schemes in which they are complemented by financing from public resources. In the case of workers we can include the direct cost paid by individuals or their families for private vocational training, whether this is initial or ongoing, and also the indirect costs of access to the public service in question, an expense which may be considerable for long courses of initial training.<sup>11</sup>

There is very little systematised empirical evidence on this subject, so analysis rests largely on fragmentary evidence and on the author's own impressions. But it is highly relevant if we consider it in the light of some of the points made in the frame of reference at the top of this paper.

Private investment in training on the part of companies:

<sup>10</sup> We are talking about training processes with a certain degree of structure, and leaving aside informal training which has always been associated with work.

<sup>11</sup> The concept of private expenses associated with access to public education has been dealt with in more depth by researchers in this area.

- This has to do with discussion of the double character of vocational training as a public good and as a private good, and it covers aspects such as the propensity of companies to invest in training that is specifically relevant to a particular work position. The worker, on the other hand, would be more interested in acquiring collateral competences which would tend to increase his mobility in the labour market.
  
- There is also the question of the structural heterogeneity of the economies in the region, which is reflected in the variety of positions that business takes when it comes to the implementation of technology and human resources strategy. Put simply, one is the situation of companies that, regardless of their size, find themselves in highly competitive chains of production or market segments, so they are obliged to invest in the training of their labour force, and another is the case of small and medium-sized industries of a more traditional kind, which can barely survive in the internal market and which depend absolutely on the public provision of training and above all on informal training in the workplace.
  
- Finally, this has to do with the propensity of companies to invest more in the continuing training of middle and high level staff, to the detriment of their operative levels, for which human resources strategy is usually based on selection criteria whose central requirement is general basic or middle level education, to be followed by informal training in the work place.

Private investment by workers has implications for the following questions, among others:

- In the first place, with equality of access it is evident that workers with more limited resources will have less purchasing capacity for these kinds of services, and that when they do seek training they run the risk of receiving services of inferior quality.
  
- Also relevant to this analysis is the problem of the relative weakness of trade union organizations in the region to tackle the subject of vocational training in political-institutional negotiating situations. They are even weaker when it comes to participating in the administration of bi- and tripartite bodies, and in what has to do with the technical aspects of concerting concrete training programmes. This weakness is partly a reflection of the difficulties which union movements have to face everywhere, difficulties which force them to concentrate their efforts on policy negotiations about salary claims and social benefits, matters whose results are felt immediately by the workers, and partly due to their lack of experience and knowledge in the management and direct implementation of vocational training. Except for very respectable cases in Brazil, Uruguay, Argentina and Mexico, programmes and institutions of vocational training belonging to union organizations practically do not exist.

These considerations open up a whole line of thought about the role of public financing and of its administrative and executive institutions as mechanisms to stimulate both types of private investment, the channelling of public resources to compensate for the lack of access of the most vulnerable sectors, the creation of transparent information systems to help service providers define products which will be relevant to the real demands of the work place and suitable for the conditions of the labour market, and the provision of informed decisions about the market.

To sum up, to reflect on the need to recognize, stimulate and intelligently regulate a market in labour competences, which would allow the development of a wide public and private, diversified, flexible and relevant offer, both to meet private demand and to act as executors of publicly financed programs.

### **III. Conclusions and recommendations**

The account we have presented of the panorama of the financing of vocational training in Latin America and the Caribbean shows that the countries of the region have responded to the challenges set by the transformation in production and economic internationalization with a big effort to diversify their institutional systems and funding mechanisms.

Some characteristics of this new panorama of the financing of VT in the region are the following;

- a) The diversification of public financing mechanisms. Besides the traditional systems of parafiscal contributions and the allocation of resources from the national budget through formal education systems, other methods like tax exemption and the remittance of contributions have emerged, which stimulate company investment in training. Besides this, ways of stimulating demand are beginning to take shape. These are currently still restricted to the field of management development services, but they are potentially applicable to that of worker training.
- b) Agents of public financing are also diversifying. They are no longer just the Ministries of Education and the VTIs, but also Ministries of Labour, secretaries of social welfare, solidarity and social compensation funds, etc.
- c) There are many publicly-financed programmes targeted to vulnerable sectors of the population, some of which are more integrated into public policy and stable institutional frameworks than others.

d) We can detect the existence of considerable private investment on the part of companies and workers, although this is severely segmented.

e) The emergence of a private offer which tends to be wide and diversified. This initially responded to private demand, but has now come to be recognized and mobilised by the sources of public financing.

f) As a result of the above, genuine markets in labour competencies are beginning to form, involving a lot of public and private service providers.

It is especially noteworthy that the diversity of mechanisms and sources of finance, which could easily fall into disorganized fragments, is in some countries gaining cohesion in integrated institutional systems in response to the local circumstances and dynamics, and the different traditions of each country. There are some common features: the renunciation of monopolies in the provision of services or on the part of any individual institutional system, the recognition and stimulus of a market of supply and demand, the retreat of the State into roles more centred on financing and regulation, and the search for synergic effects through the complementation of sources and service providers.

The scope of this study does not cover quantitative evaluation, so there are no conclusions about levels of investment, or if they are in relation to necessities. To estimate the extent of the resources involved, in the light of the marked diversity between financing mechanisms and between countries, presents exceptional methodological challenges which include the question of how necessity can be measured.

In any case, a pragmatic approach to the subject which is particularly appropriate to the characteristics of vocational training, is that a need exists when it is perceived as useful by its beneficiaries, in this case by businessmen (because of competitiveness) and by workers (because of employability). Any investment, public or private, which does not produce verifiable results on one of these fronts runs the risk of becoming a waste of resources.

With this in mind we can affirm that, before orienting public policy to widening or defending present levels of investment, there is an urgent need to direct efforts towards stimulating forms of organization, funding mechanisms and programmed practices which have proved most effective *vis a vis* the objectives of competitiveness and employability of vocational training. And one does not have to be particularly clever to identify these lines of action, they are those which characterize the most successful cases, both globally and in the Latin America and Caribbean region. They are:

- a) Stimulate processes which link together sources of financing and the provision of services, maintaining a high level of flexibility and diversity, but avoiding the extremes of fragmentation and monopoly.
- b) Concentrate public funding on VT programmes which are oriented to initial training or to structural re-training of the work force, and promote, facilitate and demand greater participation from private investment in processes of continuing training, in-company training, etc.
- c) Stimulate private demand for vocational training that is more directly linked to real production processes, that is to say in-company training.
- d) Stimulate private service providers that are oriented to the market and closely connected to the business sector, so as to increase their relevance and improve their cost-effectiveness.
- e) Stimulate effective and transparent mechanisms for regulating the quality and effectiveness of training markets, as well as those oriented to the standardization and certification of competences, self-administered by the sectors which benefit.
- f) Stimulate rigorous evaluation studies on the impact and analysis of the cost-benefit of the different kinds of services offered, and make the resulting information available to management and workers who take decisions about investment in vocational training.
- g) Promote the widening of the participation levels of the social actors, businessmen and workers, in the financial administration and programming of vocational training.

