



# Apprenticeships for Employment

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In Germany, Australia, Austria, and Switzerland, apprenticeships play a crucial role in young people with few or no qualifications securing employment. This is not the case in France, in spite of apprenticeship enrolment rising from 211,000 in 1992 to 405,000 in 2013. As it were, this increase is due in large part to the surge in young graduates, in particular those at the third level, while the proportion of apprentices without prior qualifications fell from 60% to just 35% between 1992 and 2010. And yet, it is precisely these young people that will benefit the most from apprenticeships in terms of employability.

In France, the work-based vocational training system is very complex, with a large number of stakeholders being involved. In addition to their poor coordination, not all of these agents share a common interest in promoting apprenticeships, in particular those geared towards young people with few or no qualifications. The French Ministry of Education plays a central role; however, teachers, career guidance officers, and families still fail to see apprenticeships as a positive career development. An additional shortcoming is the difficulty in setting up apprenticeship training that falls in line with the needs of business and professional bodies, given their limited input and role in the design of such qualifications. Professional qualification certificates do allow businesses to devise their own work-based vocational training, but their specificity and the token general education they provide means they can only fall under the realm of professionalisation contracts. By contrast, the substantial formal education component and examination component

of apprenticeships may be the cause of a high drop-out rate in vocational training among young people. Ultimately, neither businesses nor young people are able to make the most of apprenticeship schemes, which are seen as too demanding in terms of formal education training and too inflexible in terms of business needs, or of professionalisation contracts, which are often too specific to ensure labour mobility.

We recommend a thorough reform of work-based vocational training, rendering it more attractive to both young people and businesses. Governance of the system as a whole needs to be reviewed, with general guidelines being issued by a national body composed of representatives of professional sectors and of the Ministries of Labour and Education. Certification agencies would be in charge of quality control and of implementing subsidised training courses, while region authorities would handle the payment of subsidies. Under this system, apprenticeships and the professionalisation contract would be combined, as would be funding and tax collection. Finally, we propose focusing public resources on apprenticeships and pre-apprenticeships to boost the employability of young people with few qualifications, reducing the relative importance of formal education in the CAP curriculum (vocational training certificate), and promoting tutoring for apprentices. The apprenticeship tax must not be used to fund higher education establishments and research institutes, with alternate ways needing to be found as part of a broader reform of how these institutions are financed.

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## The French work-based vocational training system: Recent changes

In France, apprenticeships provide young people with general theoretical and practical training, with a view to obtaining a professional qualification as recognised by a diploma of vocational or technological training, a title of engineer, or any other title recognised by the French Ministry of Education. Apprenticeships are aimed at young people aged 16 to 26, although these age limits may be waived. Apprenticeships are not the only form of work-based vocational training, with professionalisation contracts also extending access to work-based vocational training that leads to a professional qualification. The contracts are aimed at young people aged 16 to 26, jobseekers aged 26 and over, and the recipients of specific allocations or contracts. The apprenticeship schemes fall under the authority of the regions, the State, and businesses, while professionalisation contracts are implemented by social partners.

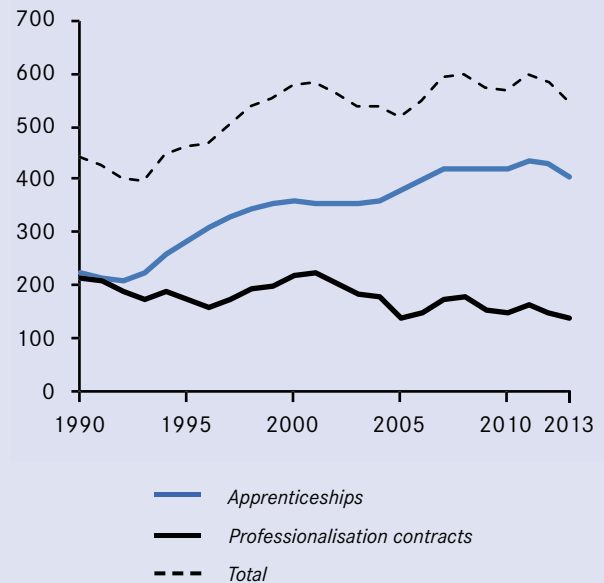
In theory, this division of tasks stems from professionalisation contracts being classified as part of continuing education and training, whereas apprenticeships are affiliated with initial formal education. However, the reality is one of blurred boundaries: a given qualification can be earned as work-based vocational training through either an apprenticeship or a professionalisation contract. Moreover, some apprentices will already have experience in the workplace, while professionalisation contracts are often entered into as a direct follow-up to formal studies. Thus, 80% of professionalisation contracts are taken up by young people under the age of 26, who could also have availed of an apprenticeship scheme.<sup>1</sup>

Apprenticeships and professionalisation contracts both specify the share of the training curriculum to be spent on formal education, with a higher requirement being placed on the former in return for the lower cost to businesses of hiring an apprentice (box 1).

### Significant growth in apprenticeships over the past 25 years...

Apprenticeships and professionalisation contracts, which fall under the heading of work-based vocational training, have been growing in France for around thirty years. Graph 1 shows that the number of people in work-based vocational training rose from 440,000 to 540,000 between 1990 and 2013. However, this number has fallen significantly since 2011. This decline can be explained by a number of factors: the abolition of the fixed compensatory allowance (see box 1) for businesses with more than ten employees (subsequently reintroduced for businesses with up to 250 employees) in 2014; the expansion of the 'jobs for the future' government-

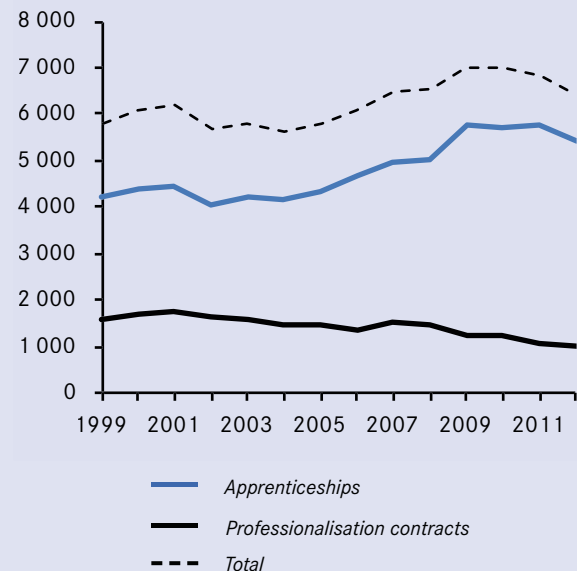
1. Number of trainees under apprenticeship and professionalisation contracts<sup>a</sup>, in thousands



Note: <sup>a</sup> Also includes 'contracts of qualification, orientation and adaptation' until 2006.

Source: DARES.

2. Expenditure on work-based vocational training programmes aimed at youths under 26 in thousands of constant 2012 euros



Source: DARES data.

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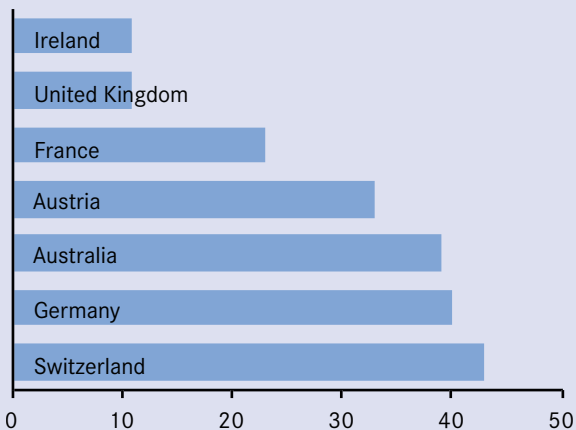
<sup>1</sup> Arrighi J.-J. and V. Mora (2010): "Apprentissage contre professionnalisation : un faux débat", *Bref du CEREQ*, no 276.

sponsored programme, which may have been at the expense of apprenticeships; the replacement of the Diploma of Technical Studies (National Vocational Qualification Level 2) in 2009 with the professional baccalaureate, which stipulates an apprenticeship of three years' duration, rather than the previous two years; the decline in economic activity in certain sectors, such as construction, which traditionally offered a large number of apprenticeships.

The growth of apprenticeship schemes witnessed in the last ten years is the result of generous government, regional, and business funding, which rose by 51% between 2000 and 2012, as shown in graph 2. Expenditure on professionalisation contracts, on the other hand, fell by around 600 million in constant euros between 2000 and 2012.

The growing apprenticeship numbers of the last twenty years have not however bridged the gap with other countries: the number of people in work-based vocational training (apprenticeships and professionalisation contracts) remains much lower than in those countries where young peoples' labour market entry into the is smooth and where work-based vocational training plays an important role, as shown in graph 3.

### 3. Number of employees pursuing work-based vocational training courses per 1,000 employees in 2008-2009



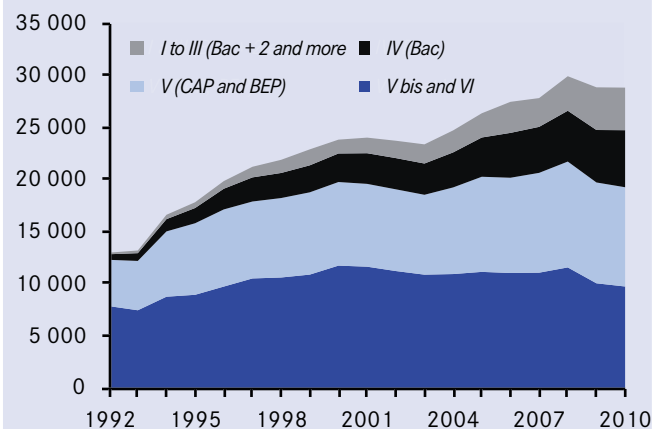
Source: *The State of Apprenticeship in 2010*, LSE.

### ... that has benefitted the highest qualification levels

Apprenticeship numbers have witnessed a sharp growth since the 1990s. However, the scheme's share has stagnated among those with the lowest qualifications (CAP, National Vocational Qualification level 1), while increasing sharply among those with higher qualifications. Thus, in 2011, two thirds of young apprentices had already acquired other qualifications before embarking on the apprenticeship programme, compared with one in two in 1992 (graph 4). Over

the period 2004-2010, the overall increase in apprenticeships hid a growing number of higher education apprenticeships (+ 24%) and a 6% drop in apprentices at CAP level or below (graph 5). Higher education now contributes over a quarter of total apprentices in France, compared to virtually none in Germany. While those in higher education may well benefit from undertaking an apprenticeship, the existing literature shows that apprenticeship schemes have a much greater impact on those young people who lack formal education (box 2).

### 4. Inflows of apprenticeships per year and per educational entrance level



Source: DARES data.

### Theoretical justifications for public intervention

Taking an economic efficiency perspective, one can put forward three arguments to justify public intervention in work-based vocational training.

First of all, without public intervention, practical skills (such as English-language proficiency or accounting skills), which are valued in various sectors and businesses, could fall to unsatisfactory levels. Indeed, in a world of flexible markets, employees will benefit most from acquiring a set of general skills: labour market competition will then ensure that they reap the benefits of such skills in full, as reflected in their salaries. However, with a large share of employees earning the French minimum wage, the acquisition of general skills does not necessarily translate into a higher salary, with the additional risk that credit market imperfections will impede personal investment in undertaking further training. As for firms, they have an incentive to fund specific training courses that are relevant to their own line of work; conversely, they will shy away from investing in their employees' general skills set, in particular if it contributes to their employees securing

## 1. Training, cost, and funding of apprenticeships and of professionalisation contracts

Under professionalisation contracts, vocational training must represent at least 15 to 25% of total working time (and at least 150 hours per year). The cost of providing this training is met by vocational training funds, via a 0.5% levy on the wage bill paid by businesses with more than 20 employees. For businesses with fewer than 20 employees, the levy falls to 0.15%. From 1 January 2015, this rate will remain at 0.15% for businesses with fewer than 10 employees, but rise to 0.3% for business with between 10 and 300 employees and to 0.4% for businesses with more than 300 employees (the “Sapin law” of 5 March 2014). Employers do not benefit from any special exemption on contributions, unless they recruit a job seeker over 45. Under the age of 21, employees on professionalisation contracts and who hold a diploma or a technological or professional title (Bac Pro, Bac technologique, BTS, DUT), level 4 or higher, receive 65% of the minimum wage (SMIC), while those without such qualifications receive 55% of the SMIC. Employees aged 21 to 26 on professionalisation contracts receive 80% of the SMIC when they hold a diploma or a technological or professional title level 4 or higher, and 70% if they do not. Employees over the age of 26 receive 100% of the SMIC.

Apprenticeships must provide for a minimum of 400 hours of training on average per year. In return, businesses are exempt from social security contributions: full exemption (bar insurance contributions for workplace accidents and occupational diseases) is granted to tradesmen and businesses with fewer than 11 employees; businesses with 11+ employees benefit from similar exemptions (bar contributions for housing and transport, contributions for wage guarantees, employers’ share of unemployment and pension contributions, and contributions for solidarity for

autonomy). Moreover, businesses receive a tax credit of 1,600 euros per apprentice and a fixed compensatory allowance of at least 1,000 euros per apprentice, paid by the region.<sup>a</sup> Apprenticeships are funded by the apprenticeship tax (0.5% of the wage bill), plus the contribution to the development of apprenticeships (0.18%) and, for businesses with 250 employees or more, the additional contribution to apprenticeships (CSA), which varies according to the percentage of their employees in work-based vocational training (apprenticeships, professionalisation contracts, international corporate volunteer programs, industrial training through research agreements) in terms of full-time equivalent employees according to a complex schedule. Funding is also received from the State in the form of exemptions from contributions and tax credits, and from the regions, which provide the fixed compensatory allowance. To the range of financial assistance outlined above should be added the lower wage paid by businesses to their apprentices, compared with employees under a professionalisation contract: unless more favourable contractual or collective arrangements are in place, compensation varies from 25% of the minimum wage SMIC (16 year old apprentice lacking formal qualifications) to 78% of SMIC (apprentice aged 21 and over). The salary of an apprentice can be calculated taking into account age, training program, and collective arrangements at [www.salaireapprenti.pme.gouv.fr](http://www.salaireapprenti.pme.gouv.fr).

<sup>a</sup> An apprenticeship premium of at least 1,000 euros is paid to businesses with fewer than 11 employees that employ apprentices. In addition, a grant of 1,000 euros is paid to businesses with fewer than 250 employees that employ their first apprentice or an additional apprentice. Go to [www.alternance.emploi.gouv.fr/portail\\_alternance/jcms/form\\_6175/couts-et-aides/quels-couts-et-queles-aides](http://www.alternance.emploi.gouv.fr/portail_alternance/jcms/form_6175/couts-et-aides/quels-couts-et-queles-aides)

employment with rival companies. The positive externalities generated by acquiring general skills (the dissemination of knowledge, greater employee mobility resulting in lowering the heavy drain on public finances that is unemployment) plead in favour of using public funds to subsidise training courses in the form of apprenticeships.<sup>2</sup>

Secondly, both business and employee have an interest in jointly financing the acquisition of specific skills (such as mastering the chemistry of haircare or the machining of metal parts): these skills are in the main useful in the business or sector in which they were acquired. To optimise the invest-

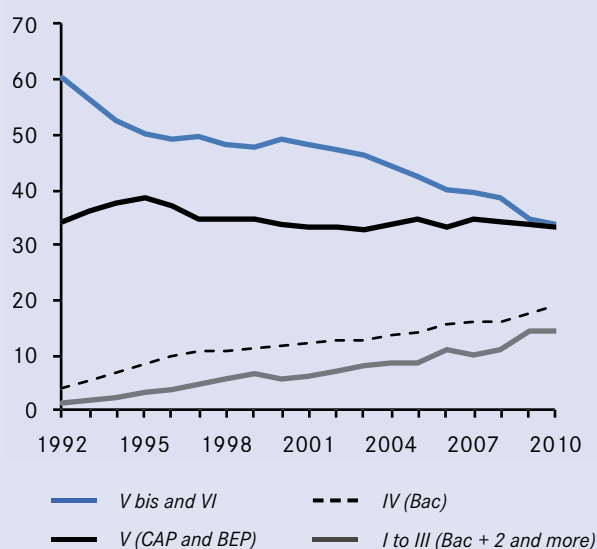
ment, employer and employee must nevertheless first come to an agreement on how to partition both costs and benefits. If no such agreement is found, one of the parties may have an incentive to under-invest for fear they will not recover their investment.<sup>3</sup> Securing these personal investments therefore renders public intervention worthwhile.

Finally, teaching methods vary greatly between apprenticeship schemes and the formal school system, with the former valuing skills that are more directly operational, be they general or specific. As such, apprenticeships can be suited to young school drop-outs, earning them a title or qualifi-

<sup>2</sup> On this, see: Becker G. (1964): Human Capital, The University of Chicago Press, 3<sup>rd</sup> ed.; Acemoglu D. and J.S. Pischke (1998): “Why Do Firms Train? Theory and Evidence”, *Quarterly Journal of Economics*, vol. 113, no 1 pp. 79-119; Acemoglu D. and J.S. Pischke (1999): “Beyond Becker: Training in Imperfect Labour Markets”, *Economic Journal*, no 109, no F112-F142; Decreuse B. and P. Granier (2010): “Compétences générales et compétences spécialisées : le rôle des frictions du marché du travail revisité”, *Revue Économique*, vol. 61, no 2010/3; Decreuse B. and P. Granier (2013): “Unemployment Benefits, Job Protection, and the Nature of Educational Investment”, *Labour Economics*, vol. 23, no C, pp. 20-29; Wolter S.C. and P. Ryan (2011): “Apprenticeship”, Chap. 11 in *Handbook of the Economics of Education*, vol. 3, Elsevier, pp. 521-576; Wasmer É. (2006): “Interpreting Europe-US Labor Market Differences: the Specificity of Human Capital Investments”, *American Economic Review*, vol. 96, no 3, June, pp. 811-831.

<sup>3</sup> This is the “hold-up” problem, as formalised by Grout P. (1984): “Investment and Wages in the Absence of Binding Contracts: A Nash Bargaining Approach”, *Econometrica*, no 52, pp. 449-60.

### 5. Number of incoming apprentices by their entrance qualification level as a % of the total incoming number



Source: DARES data.

cation and facilitating their labour market entry. However, as businesses have no reason to internalise this phenomenon, government authorities must intervene to develop apprenticeships aimed at young people with few or no qualifications inasmuch as dropping out of school, which is a factor in unemployment, has significant social costs.<sup>4</sup>

## Malfunctions in the French system

The French work-based vocational training system suffers from severe shortcomings, the first of which is the large number of stake holding agents: the French Ministry of Education, the regions, chambers of commerce, the State, the body collecting the apprenticeship tax (OCTA, *Organisme collecteur de la taxe d'apprentissage*), social partners, professional bodies, and businesses, to mention but a few. In addition to poor coordination, not all of these agents share a common interest in promoting apprenticeships, in particular if geared towards young people with few or no qualifications.

## A large share of apprenticeship tax revenue is not used to finance apprenticeships

In 2010, 38% of revenue from the apprenticeship tax was allocated to non-apprenticeship vocational and technological training<sup>5</sup> through the “out of quota” system; through this system, businesses are free to allocate part of the proceeds from the apprenticeship tax to either the apprentice training centre (CFA, *Centre de formation des apprentis*) or the training institution of their choice, provided that this institution is on prefectural lists. Earlier, we emphasised that many businesses have little interest in funding apprenticeships: this means they use the “out of quota” system for other purposes.

Recourse to the apprenticeship tax is an opaque way of financing higher education and research, and diverts resources away from apprenticeships. As part of a broader reform, institutions of higher education and research must be financed via means other than the apprenticeship tax, provided, of course, that existing levels of funding are maintained. With the “Sapin law” of 5 March 2014, the “out of quota” share fell to 23% of apprenticeship tax total revenue, down from 31%;<sup>6</sup> while this does cut funding to higher education, it is a positive development for apprenticeships. The fact remains however that state subsidies, allocated to employers at the regional level so as to boost apprenticeship numbers, are not earmarked towards those with lower qualifications: indeed, expenditure allocation is not in any way qualification-based.<sup>7</sup> A first step was taken with the 2014 Finance Act, as the 1,600 euros tax credit granted to employers is now exclusive to apprentices studying towards qualifications and titles equal to or below Bac + 2 (two years of Higher Education); this first step remains nevertheless insufficient.<sup>8</sup>

## Complex governance

Figure 1 presents an overall view of funding mechanisms for apprenticeships in 2010. It provides a glimpse of the complexity of the system, characterised by a large number of stake holding agents and intermediaries, resulting in high management costs and an inefficient allocation of resources.<sup>9</sup>

The “Sapin law” has helped reduce this complexity, lowering the number of bodies in charge of collecting the apprenticeship tax (OCTAs) from 140 to 40. However, the workings of the system, its overall management and its quality control

<sup>4</sup> For example, some works establish a causal link between youth unemployment and criminality. See Fougère D., F. Kramarz and J. Pouget (2009): “Youth Unemployment and Crime in France”, *Journal of the European Economic Association*, vol. 7, no 5, September, pp. 909-938.

<sup>5</sup> See Conseil national de la formation professionnelle tout au long de la vie (CNFTLV) (2012): *Report 2012*, p. 31.

<sup>6</sup> Total apprenticeship tax revenue comprises the apprenticeship tax (0.5% of the wage bill) and the contribution to the growth of apprenticeships (0.18%).

<sup>7</sup> The fixed compensatory allowance (ICF, *Indemnité compensatrice forfaitaire*, see box 1) is a lump sum that takes no account of qualification levels.

<sup>8</sup> Article 140 of Law no. 2013-1278 of 29 December 2013.

<sup>9</sup> See the report by the Cour des comptes (2008): *La formation professionnelle tout au long de la vie* and, in particular, section III, p. 61 et seq: *Le financement de l'apprentissage : des circuits complexes et peu transparents*.



## 2. The impact of work-based vocational training on employability

Empirical evaluations conducted in France and overseas show that apprenticeships (or work-based vocational training) are more effective in terms of access to employment than professional training in a school environment: for the same level of qualifications, apprentices secure higher wages and greater employability than non-apprenticeship education.<sup>a</sup> This finding is even more pronounced for those with few qualifications. Thus, Bonnal, Fougère, and Sérandon (1997)<sup>b</sup> have found that youth-centred programmes that combine training and market-sector employment are more effective at ensuring short-term employability, and that this impact is greater among individuals with few or no qualifications, and limited among those with qualifications.

However, apprenticeships, which generally focus on the acquisition of business or sector specific skills with limited transferability, are no panacea. Thus, according to Hanushek and al.,<sup>c</sup> apprenticeships boost employability at the early-stage of one's career, but tend to hinder it later on. General formal education allows individuals to be better equipped and to start again in another direction. The study by Hanushek and al. on 18 OECD countries

shows that this phenomenon is particularly pronounced in Germany, Denmark, and Switzerland, where apprenticeships are commonplace. In these countries, apprentices improve initial labour market prospects, but this impetus is offset by greater difficulties at the end of one's career. Excessive reliance on apprenticeships within the education system can therefore reduce adaptability to new technologies and growth potential.<sup>d</sup>

<sup>a</sup> See the analysis of different professional training systems by Eichhorst W., N. Rodríguez-Planas, R. Schmidl and K.F. Zimmermann (2012): "A Roadmap to Vocational Education and Training Systems Around the World", *IZA Discussion Paper Series*, no 7110. Evaluations of work-based vocational training take into account the fact that apprentices probably have individual characteristics distinct from that of other students, which can influence their professional futures independently of apprenticeships.

<sup>b</sup> Bonnal L., D. Fougère and A. Sérandon (1997): "Evaluating the Impact of French Public Employment Policies on Individual Labour Market Histories", *Review of Economic Studies*, no 64, pp. 683-713.

<sup>c</sup> Hanushek E.A., L. Woessmann and Lei Zhang (2011): "General Education, Vocational Education, and Labor-Market Outcomes Over the Life-Cycle", *NBER Working Paper*, no 17504, October.

<sup>d</sup> Krueger D. and K.B. Kumar (2004): « Skill-Specific Rather Than General Education: A Reason for US-Europe Growth Differences? », *Journal of Economic Growth*, vol. 9, no 2, pp. 167-207.

procedures are far from transparent due to the continued large number of intermediaries. Regional authorities allocate part of the revenue collected through the apprenticeship tax and provide funding of their own; yet their work is not sufficiently coordinated, be it between themselves or with local businesses and social partners. Some regions, for example, promote apprenticeships for low qualification levels while others promote those for higher education, yet the rationale behind these preferences remains unclear. Governance differs from region to region: in some cases, a predominant role is played by the partnership between the Regional Council and state services, while in others the partnership is between the Regional Council and social partners. These differences in governance influence the range of professional training options available and the opening and closure of apprenticeship structures.<sup>10</sup> Moreover, having multiple disparate sources of funding within a given region is not conducive to an efficient allocation of resources between the training institutions. This wide variety of situations, together with the lack of coordination between regions, renders the implementation of a national government policy on apprenticeships very difficult, if not impossible.

## The insufficient flexibility and quality control of the available range of professional training courses

The French Ministry of Education plays a central role in shaping the apprenticeship system, a uniquely French characteristic that has been reinforced by the "Guichard law" of 1971.<sup>11</sup> Apprenticeships offered at apprenticeship training centres fall within the jurisdiction of both regional and Rectorate education authorities; the cumbersome certification procedure<sup>12</sup> acts as a brake on the growth of apprenticeships, in particular at the lower qualifications levels. The heavy emphasis placed on the formal academic curriculum, with courses such as French and mathematics featuring prominently in the examination, in particular at CAP level, further complicates matters and partly explains the very high drop-out rate in vocational training (around 40% at CAP Level<sup>13</sup>). The French Ministry of Education, being too far out of touch with businesses, appears to have neither the means nor the inclination to offer young people professional training that sufficiently values practical and rapidly operational skills combined with cross-sector transferable knowledge that need not be general in the academic sense. In those countries where

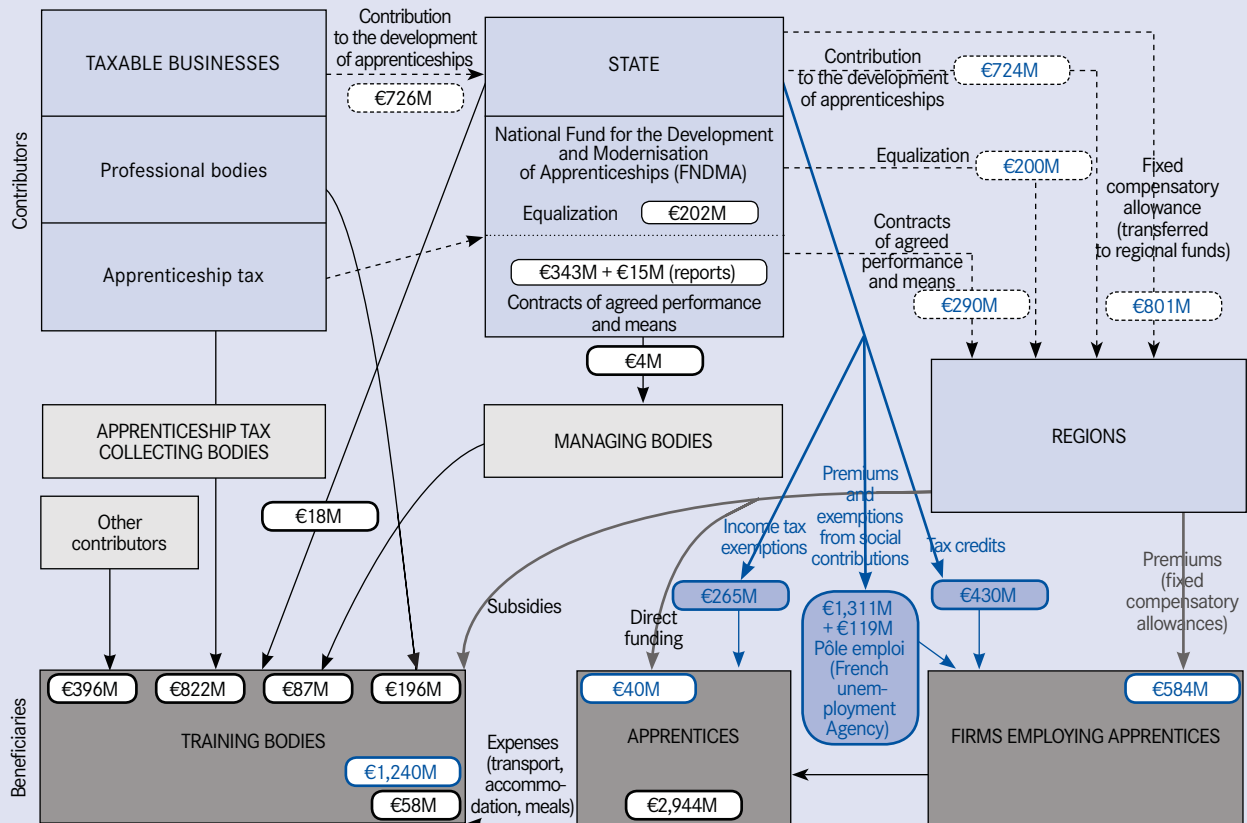
<sup>10</sup> Maillard D. and C. Romani (ed.) (2014): "Le développement des politiques régionales d'apprentissage. Regards croisés des acteurs dans trois régions", *Net.Doc du CEREQ*, no 118.

<sup>11</sup> On this, see the analysis of the different systems for professional training by Eichhorst W., N. Rodríguez-Planas, R. Schmidl and K.F. Zimmermann (2012): "A Roadmap to Vocational Education and Training Systems Around the World", *IZA Discussion Paper Series*, no 7110, Delautre G. (2014): "Le modèle dual allemand : caractéristiques et évolutions de l'apprentissage en Allemagne", *Document d'Étude de la DARES*, no 185, September and Moreau G. (2008): "Apprentissage : une singulière métamorphose", *Formation Emploi*, no 101, January-March, pp.120-33

<sup>12</sup> See, for example, the document published by the Rectorate education authority of the Academy of Strasbourg 6 May 2011: *Ouvrir une formation par apprentissage dans un EPLE*.

<sup>13</sup> Cayouette-Remblière J. and T. de Saint Pol (2013): "Le sinueux chemin vers le baccalauréat : entre redoublement, réorientation et décrochage", *Économie et Statistique*, no 459, pp. 59-88.

## 1. Financial flows for apprenticeship schemes in 2010



Source: Conseil national de la formation professionnelle tout au long de la vie (CNFPTLV).

apprenticeships play an important role, it is businesses, organised along sector or industry lines, that design most of the structure and content of professional training courses.

In addition, quality control procedures vary widely, with diverging criteria across regions<sup>14</sup> and across types of training courses (diploma, title, professional qualification certificate, CQP). In France, professional training courses are registered with the National Professional Certification Commission (CNCP)<sup>15</sup> and recorded in the National Directory of Professional Certifications. Qualifications granted by the French Ministry of Education and titles granted by the Engineering Accreditation Commission are extended automatic recognition and registration in the directory, which also includes qualifications granted by professional or private bodies. However, the Quality Evaluation of professional training courses and apprenticeships is unsatisfactory. In the

case of apprenticeship qualifications granted by the French Ministry of Education, this Quality Evaluation is conducted by the Academic Services' Apprenticeship Inspectorate (SAIA, *Services académiques d'inspection de l'apprentissage*). The quality of other titles and certifications is evaluated by the National Council for Lifelong Training (merged by the "Sapin Law" with the National Employment Council to create the National Council for Employment, Training, and Professional Guidance). However, this entity sorely lacks proper means of investigation.<sup>16</sup>

### Running the risk of being insufficiently attractive for both apprentices and businesses

Cultural factors unique to the French Ministry of Education,<sup>17</sup> added to apprenticeship opportunities being below expectations in a number of sectors, have meant that pursuing

<sup>14</sup> Maillard and Romani (2014) *op.cit.*

<sup>15</sup> In addition to its president, the CNCP, which was created by the Law of 17 January 2002, is composed of sixteen ministerial representatives, ten social partners, three elected representatives of consular chambers, three elected regional representatives, two qualified public figures, a rapporteur-general, and two assistant rapporteurs. These members are appointed by decree of the Prime Minister for a five-year renewable term.

<sup>16</sup> See Dubié J. and P. Morange (2014): "Évaluation de l'adéquation entre l'offre et les besoins de formation professionnelle", *Rapport d'information de l'Assemblée nationale*, no 1728, January, p. 42.

<sup>17</sup> See the report of IGAS: Desforges C., H. Martin, C. Ville, S. Dupays, M. Benac, J-P. Collignon and A. Plaud (2014): *Les freins non financiers au développement de l'apprentissage*, IGAS Report, La Documentation française, March.

an apprenticeship is a choice too seldom made. Training courses designed by businesses and industries alike, and which lead to CQPs, are left out of the apprenticeship framework, meaning that they cannot avail of the preferential treatment of apprenticeship schemes. They also suffer from being perceived by potential students as being too specific and offering rather limited training content (as little as 15 % of total time, *cf.* box 1). Finally, the inflexibility of wage-setting mechanisms for trainees' salaries (rising with age and qualification level (see box 1)) can act as a deterrent to employers. They will shy away from recruiting comparatively older individuals with no professional experience, and who as a result suffer from low employability.<sup>18</sup>

### For an effective work-based vocational training system

We have shown that the current system leads to a situation where a significant share of resources, that should have been allocated to work-based vocational training for young people with few or no qualifications, is diverted towards higher education courses, some of which even lack a work-based vocational training component. Moreover, under the current system, businesses find themselves unable to offer a sufficient number of work-based vocational training opportunities that are suited to their needs.

This situation is the result of a system that is excessively complex, opaque, and impossible to manage and that does not encourage agents to foster apprenticeships where they would be most socially useful. To reverse this trend, a simpler, more transparent system that encourages stakeholders to develop apprenticeships for young people with few or no qualifications must be put in place. One such system is illustrated in Figure 2: it simplifies the collection and allocation of resources and promotes the emergence of quality training courses that are suited to the needs of both businesses and young people with few or no qualifications.

### Simplifying tax collection and consolidating support grant mechanisms

Both apprenticeships and professionalisation contracts have their strengths and weaknesses: the former are inflexible and too formally academic in content, while the latter can be inadequate in terms of training provided. It would be desirable to merge them into a single system, both from the point of view of funding and from that of the standard of training provided. This would simplify the system and prevent abusive overuse of professionalisation contracts.

In the long-term, the apprenticeship tax should be levied through the existing network of collecting bodies (known as URSSAF), rather than through a specific body (the current OCTAs). All forms of funding for apprenticeships (apprenticeship premium, tax credits for apprentices, and bonuses for exceeding the quota of employees in work-based vocational training) should be consolidated into a single support grant that focuses on promoting apprenticeships. This grant could be easily fine-tuned so as to encourage employers to hire apprentices with few qualifications. The OCTAs would draw upon their skills in terms of training courses to conduct evaluations (see below).

The tax collected through the URSSAF network will be paid into a pooled fund and paid out to certified courses of work-based vocational training. To achieve this, support will be available from the National Fund for the Development and Modernisation of Apprenticeships (FNDMA, *Fonds national de modernisation de l'apprentissage*) and from the network of regional funds for apprenticeships and continuing professional training.<sup>19</sup>

**Recommendation 1. Merge apprenticeships and professionalisation contracts; consolidate funding into a single qualification-based grant; and simplify tax collection by replacing the OCTAs with the URSSAF network**

### Developing a common market for the certification of professional training courses

In countries where apprenticeships are commonplace, employers take on apprentices for two reasons: to avail of labour that is both cheap and trained on-the-job and to eventually recruit qualified company-trained employees upon the end of their apprenticeships. In these countries, companies play a leading role in the choice of training courses and of their content. This goes hand-in-hand with the need for a rigorous certification process, as the basis upon which the benefit of government grants depends. This principle should apply to the whole French system of initial and continuing professional training; at present, the reality is that the educational and financial assessments to which training providers are held do not in any way preclude their continued approval. Therefore, the objective is to put in place stricter criteria that are based in part on the labour market entry and labour market advancement of trainees.

<sup>18</sup> On this, see the interview with the president of the French Trade body (Assemblée permanente des chambres de métiers et de l'artisanat APCMA), CEREQ (2011): Bref CEREQ, no 293-2, October.

<sup>19</sup> At present, subsidies are pooled by the National Fund for the Development and Modernisation of Apprenticeships (FNDMA). The FNDMA aims to ensure the equalisation of CFAs across regions and the financing, with the help of regional authorities, of "contracts of agreed performance and means" in order to promote apprenticeships. The FNDMA's financial resources are provided by the Treasury's levying bodies and are intended for the regional funds for apprenticeships and continuing professional training.



Insights can be drawn from existing certification systems in other sectors (the auditing and certification of accounts, balance sheets, and financial products)<sup>20</sup> or in other countries for professional training (box 3). An effective certification system must in particular enforce the following principles:

- Public authorities must oversee the quality and contents of training courses on offer, having at heart the general interest and not vested interests;
- Businesses within each professional sector, and alongside other agents, must partake in content definition, given their privileged understanding of the demand side;
- Training content must take into account sectorial demand, yet also reflect sector-specific trends and encourage the acquisition of knowledge expected to prove necessary in the future.

Figure 2 describes a system that could satisfy these principles in the French case:

- Training providers receive a fixed-term (for example, three years) agreement from a certification agency, a prerequisite to qualifying for government subsidies. The aim is to put in place criteria that are partly based on trainees' labour market entry and advancement. Under this system, all training courses certified by an agency can qualify for government subsidies;
- Certification agencies can be either public or private. These agencies could be established by the tax-collecting bodies (OCTAs and OPCAs, *Organismes paritaires collecteurs agréés*) inasmuch as their personnel have the skills required to process certification claims. These agencies would themselves be accredited for a given period on a national level by a national commission made up of the following stakeholders: professional bodies, the French Ministry of Education, the Ministry of Labour, fully-qualified independent experts able to assess the needs of the labour market and the educational quality of training courses. The national commission could draw on support from the administrative structure resulting from the merger of the CNCP with the CNEFOP;
- For all certification requests, the national commission appoints an accredited certification agency. These agencies, whether they be public or private, compete with each other and their services cannot be requested several times in a row for the same case. Upon having been appointed by the national commission, the certification agency is remunerated by the training provider using a regulated price scale and in any case prior to delivering the certification decision.<sup>21</sup> Once certified, a training course is automatically eligible for government grants. This system greatly expands evaluation capacities (thereby speeding up the process) and prevents collusion between certifying bodies and training providers;

### 3. The certification of training in Germany<sup>a</sup>

In-depth analyses have been carried out in Germany to improve the quality of training given that, following the country's reunification, training courses had developed into a very large, unaccredited market. The methods used to accredit agencies and certify service providers, and which were put in place following the Hartz reforms, can serve as a source of inspiration for France.

Certification agencies are accredited after careful review of the resources implemented, of the organisation of the agency, and of the methodology used to certify training. This review is completed by a scrutiny mechanism, which focuses on the agency-certified service providers; the certifying agency can be sanctioned for awarding certifications too easily.

Certification criteria for service providers are based in particular on the following elements:

- The financial strength and good standing of the service provider;
- Labour market trends and training courses that reflect the fluctuating realities of labour shortage;
- The quality of instructors and of support functions (reception, follow-up, and possible housing for trainees).

For the certification of training courses, the German system uses the following criteria:

- The number and qualifications of instructors;
- Evidence of examination modules and qualification certificates for trainees;
- Expenditure per trainee;
- Time specifically dedicated to educational objectives;
- Placement in real-life professional situations as part of the training provided.

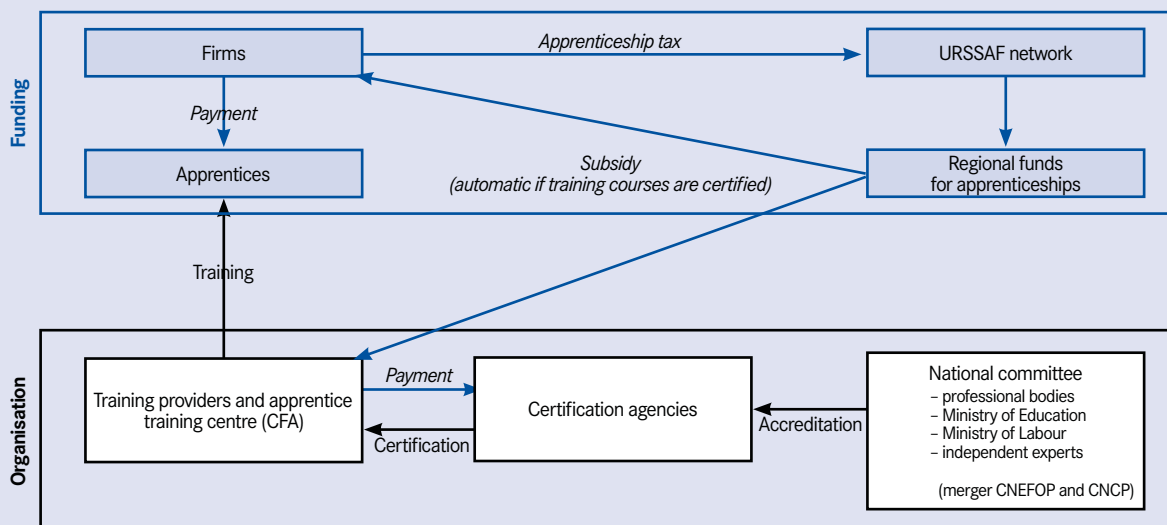
<sup>a</sup> See European Centre for the Development of Vocational Training (CEDEFOP) (2011): "Assuring Quality in Vocational Education and Training: The Role of Accrediting VET Providers", *CEDEFOP Reference Series*, no 9091.

- Certification agencies could also collect data, in particular with regards to the placement rate and labour market advancement of trainees, thus providing the national commission with crucial statistical information that would help determine the skills required in the labour market.

<sup>20</sup> Cf. Mathis J., J. McAndrews and J-C. Rochet (2009): "Rating the Raters: Are Reputation Concerns Powerful Enough to Discipline Rating Agencies?", *Journal of Monetary Economics*, vol. 56, no 5, July, pp. 657-674, or Wasmer É. (2011): "Asymétrie d'information et concurrence dans le secteur de l'audit", Chap. 2 in *Vers quelle régulation de l'audit faut-il aller ?*, M-A. Frison-Roche (dir.), European Commission.

<sup>21</sup> This system was suggested by Mathis, McAndrews and Rochet (2009) *op.cit.*

## 2. A new way of organising work-based vocational training



*Interpretation:* Blue arrows indicate financial flows; CNEFOP: National Council for Employment, Training, and Professional Guidance; CNCP: National Professional Certification Commission

*Source:* Authors.

The new system described in figure 2 has a number of advantages over the current one: tax collection and grant payments are greatly simplified, a nationwide accreditation commission acts as a national-level steering committee and businesses see their role bolstered by the French Ministry of Education losing its monopoly over the certification criteria for apprenticeships at lower levels of qualification. National-level steering is based on decentralised quality controls and on apprenticeships that no longer rely on the regions, but on certification agencies. In this context, regional authorities remain in charge of grant distribution to certified training courses via the regional funds for apprenticeships and continuing professional training. Moreover, certification agencies monitor the quality of training provided both within the framework of apprenticeships, but also within that of adult-focused training courses.

**Recommendation 2.** Introduce a single system for the certification of work-based vocational training through agencies contracted by a national commission that brings together all stakeholders (professional bodies, the Ministry of Education, the Ministry of Labour, and independent experts). This commission would be responsible for setting forth the schedule of training specifications and for formulating a genuine national policy for initial and lifelong professional training.

In order to arrive at a simple, transparent, and controlled system, such as the one suggested here, one must proceed in stages. A first step would be to provide businesses with greater flexibility by allowing professional qualification certifications, CQP (those which pertain to the national register for professional certifications, and therefore benefit from a nation-wide recognised label) to be undertaken within the framework of apprenticeships. This would open up training of an almost exclusively professional nature to apprenticeships, which is not the case at present, except for higher qualification levels. To benefit from the advantages of the apprenticeship framework, these CQPs must contain a minimum level of general training for professional purposes. As suggested in figure 2, the CNCP, which could perhaps be merged with the CNEFOP, could be the body that selects and determines the content of these training courses, with said training being certified by CNCP-accredited agencies.

### Optimising the additional financial contribution to apprenticeships

Besides the apprenticeship tax and the contribution to the growth of apprenticeships, businesses with more than 250 employees pay an additional contribution to apprenticeships (CSA, *Contribution supplémentaire à l'apprentissage*), the rate of which varies according to the percentage of their workforce in work-based vocational training (see box 1); by going through their OCTAs, these businesses can then freely allocate the proceeds of this contribution to the centres for work-based vocational training and the apprenticeship struc-

tures of their choice. By using bonuses and penalties, the CSA aims to encourage businesses to recruit work-based vocational trainees. However, this system does not encourage businesses to choose training courses that will improve the long-term employability of their employees. Linking CSA payments to the labour market situation of apprentices would act as an incentive for employers: for example, their CSA payment could be lowered if they employ the apprentices they have trained, or if their apprentices rapidly find employment with other businesses.<sup>22</sup> The idea is to ensure that businesses will take into account the cost of providing unemployment insurance to apprentices who, upon completing their training, are faced with poor labour market entry prospects. From this point of view, adjustable CSA payments would be part of a broader reform that consists of seeing one's social contributions vary as a function of the cost that employees impose on unemployment insurance upon their employment termination. Indeed, it would be advisable to set up variable rates for all unemployment insurance contributions.<sup>23</sup> In the case of the CSA, it would also encourage businesses to offer high-quality training to their apprentices.

However, imposing bonuses and penalties can encourage employers to recruit 'job-ready' apprentices, at the expense of those who need the apprenticeship system the most. Tackling this problem would require allocating more generous subsidies to the recruitment of individuals with few qualifications and of the long-term unemployed, encouraging employers to consider profiles that they deem riskier.

**Recommendation 3.** Adjust grants for work-based vocational training based on the trainee's qualifications; adjust employer contributions to work-based vocational training based on their trainees' labour market entry and advancement.

### Increasing resources and providing more extensive apprenticeship support to young people with few qualifications

Empirical studies suggest that businesses are very cost-sensitive when it comes to recruiting apprentices (*cf.* box 4), which justifies large government subsidies. Resources allocated to apprenticeships could be increased by reallocating part of the expenditure spent on the 'jobs for the future' government-sponsored programme towards work-based

## 4. The sensitivity of businesses to the costs and benefits of work-based vocational training

Research analysing the effect of apprenticeships on businesses has focused on Switzerland and Germany. It shows that an effective apprenticeship system lets firms recoup the investment they make when providing training to an apprentice. In Germany, apprenticeships tend to increase short-term profitability in commerce and construction; the reverse is true in the manufacturing sector, where profitability is lowered initially but increases in the post-training period.<sup>a</sup> The cost-benefit analysis of the apprenticeship period reveals, on average, net costs in Germany and net benefits in Switzerland. In the main, this can be linked to apprentices being given more productive tasks in Switzerland.<sup>b</sup>

Empirical results also show that businesses' use of apprenticeships is influenced by the associated costs and benefits. For example, Mühlemann and al.<sup>c</sup> estimate that a 10% increase in the cost of an apprentice induces a 4.5% reduction in the probability that a business will take on an apprentice. In this context, government apprenticeship grants generally have a positive impact, although this varies by sector and business.<sup>d</sup> In addition, grants would appear more effective at encouraging businesses to take on apprentices for the first time, rather than encouraging those that already use apprentices to hire more.<sup>e</sup>

<sup>a</sup> Mohrenweiser J. and T. Zwick (2009): "Why do Firms Train Apprentice? The Net Cost Puzzle Reconsidered", *Labor Economics*, vol. 16, no 5, pp. 631-637.

<sup>b</sup> Dionisius R., S. Mühlemann, H. Pfeifer, G. Walden, F. Wenzelmann and S.C. Wolter (2009): "Costs and Benefits of Apprenticeship Training. A Comparison of Germany and Switzerland", *Applied Economics Quarterly*, vol. 55, no 1, pp. 5-38.

<sup>c</sup> Mühlemann S., J. Schweri, R. Winkelmann and S.C. Wolter (2007): "An Empirical Analysis of the Decision to Train Apprentices: Labour", *Review of Labour Economics and Industrial Relations*, vol. 21, no 3, pp. 419-441.

<sup>d</sup> Brunello G. (2009): "The Effect of Economic Downturns on Apprenticeships and Initial Workplace Training: A Review of the Evidence", *IZA Discussion Papers*, no 4326.

<sup>e</sup> Mühlemann and al. (2007) *op.cit.*

<sup>22</sup> See Lemoine M. and É. Wasmer (2010): *Les mobilités des salariés*, CAE Report, no 90, July, La Documentation française.

<sup>23</sup> Blanchard O. and J. Tirole, (2003): *Protection de l'emploi et procédures de licenciement*, CAE Report, no 44, October, La Documentation française; Blanchard O. and J. Tirole (2008): "The Joint Design of Unemployment Insurance and Employment Protection: A First Pass", *Journal of the European Economic Association*, vol. 6, no 1, pp. 45-77, March; Cahuc P. and F. Kramarz (2005): *De la précarité à la mobilité : vers une Sécurité sociale professionnelle*, Report to the French Ministry of Economy and the Ministry of Labour, La Documentation française, June.

vocational training in the business sector; in particular, it could go towards funding pre-apprenticeship training<sup>24</sup> and towards grants geared at lower qualification levels. Moreover, apprenticeship tax revenue must go towards funding apprenticeship schemes rather than training courses pertaining to the technological and professional education system.

With regards to career guidance, it would be advisable to find ways to encourage local Youth Centres to steer young people towards apprenticeships,<sup>25</sup> as well as to use tutorials to better support apprentices. A controlled experiment shows that tutoring apprentices in France helps limit the number of apprenticeships terminated before completion.<sup>26</sup> The relative importance of formal education courses in vocational training curricula needs also be reduced in order to lower failure rates at lower qualification levels,<sup>27</sup> especially so at the CAP level.<sup>28</sup> One way to solve this problem would be to use a grading scheme that offers only bonus points on general education subjects, with students never being marked down.

High unemployment among young people with few qualifications in France means there is a need for a complete overhaul of the professional training system. As such, apprenticeship schemes, which have proven their worth overseas, must be thoroughly reviewed to render them more attractive to both young people and businesses. The main, if not the only, objective of a scheme focused on training young people with few or no qualifications must be in securing their labour market entry and in ensuring their lifelong employability. ●

**Recommendation 4.** Focus government resources on apprenticeships and pre-apprenticeships to promote access to employment for young people with few qualifications. Encourage stakeholders (the French Ministry of Education, Youth Centres) to be proactive in promoting this system. Reduce the relative importance of formal education courses in CAP diplomas, and promote tutoring for apprentices.

<sup>24</sup> Cahuc P., S. Carcillo and K.F. Zimmermann (2013): “L’emploi des jeunes peu qualifiés en France”, *Les Notes du CAE*, no 4, April.

<sup>25</sup> See in particular Martinot B. (2014): “Une nouvelle ambition pour l’apprentissage : dix propositions concrètes”, *Note de l’Institut Montaigne*, January.

<sup>26</sup> Bourdon J., C. Guégnard and C. Michot (2012): “Sécuriser les parcours des apprentis”, *Bref CEREQ*, no 301, November.

<sup>27</sup> For example, see the questions on the French exam for the 2013 exam session. According to the Ile-de-France survey CGPME (2014): *Clés de succès et facteurs de rupture en contrat d’apprentissage*, 40% of apprentices who break their contract cite the unsuitability of training provided by the CFA.

<sup>28</sup> Cf. Cayouette-Remblière and Saint Pol (2013) *op.cit.*



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