

Zsófia LUX

Financing VET in Hungary

MAIN COST-SHARING SCHEMES

The Hungarian government and several other stakeholders do their utmost in the sake of a really good VET both for the young generation and the adults by a couple of financing mechanisms, though the efficiency of the support as a whole leaves doubts. Probably the greatest challenge of our VET is the presently low prestige of manual skilled work, against which we try to fight by making it attractive by introducing higher scholarship, advantageous conditions of employment, levy reduction possibility for employers, etc.

The primary sources of funding for the operation of VET come from the central budget and the budget of the school maintainers (local governments, churches, foundations, etc.), but there are other, cost sharing instruments which play a very important role in the financing and development of both IVET and CVET in Hungary.

Recent changes concerning the financing of IVET were related to the educational policy objectives of:

- (a) promoting workplace learning and in particular apprenticeship training (i.e. training based on a student contract);
- (b) adapting training provision to labour market needs; and
- (c) encouraging institutional concentration and optimising capacity utilisation.

The most important cost-sharing financing mechanisms in Hungary i.e. the **VET contribution** or payroll levy for legal entities, the operation of the **national training sub-fund** (within the Labour Market Fund) and the **grant system** are *strongly interrelated*.

In Hungary there are no sectoral training funds, but exists a national *Labour Market Fund*, which has several sub-funds (for employment, solidarity, training, wage guarantee, rehabilitation, operational purposes). Its income derives from various kinds of compulsory contributions paid by employers and employees, budgetary support and privatisation. Some of the sub-funds play very important role in financing VET provision and the development of both IVET and CVET, the development of vocational schools, etc. The right of disposal over the Labour Market Fund is at the Minister of Social Affairs and Labour who shares the exercise of these rights with the tripartite Labour Market Fund Governing Board and the Minister of Education and Culture in relation to the employment and the rehabilitation sub-funds. Allocation and tendering for the resources of the **training sub-fund** are assisted by the National Vocational and Adult Training Council and the Regional Development and Training Committees involving representatives of the social partners.

From the *employment and the rehabilitation sub-funds* of the Labour Market Fund – among others – financial support is given to unemployed people, people living with disabilities and other target groups to participate in training programmes provided by accredited adult training providers and the Regional Training Centres. Their support may include the *reimbursement of training costs, related expenses and provision of supplementary/compensatory payment for the duration of training*.

From the point of view of vocational education and training the training sub-fund of the Labour Market Fund plays the most important role. A particularly important source of the **training sub-fund** is the **VET contribution**, a kind of VET tax levied on enterprises amounting to **1.5% of total labour cost**. *Act LXXXVI of 2003 on the Vocational Training Contribution and Support for the Development of Training* regulates the conditions of the payment and the possible uses of the ‘VET tax’ paid by enterprises and the allocation of resources available for VET development from the training sub-fund of the Labour Market Fund.

VET contribution is not a new phenomenon in Hungary. It was first introduced in 1972. Since it has gone through several updatings, modifications, having different scopes and objectives, but it still has a decisive role in the financing of training related matters. This is an instrument by which enterprises contribute to the expenses of vocational training, as it is mainly them who benefit from an advanced level vocational education and training.

In the beginning it was only used in the interest of the apprenticeship training. From 2001 the scope of entitlement, the possible use of the money deriving from the training sub-fund was widened. Now it can be used also for the in-service training of VET teachers and trainers, for career guidance, pre-vocational education, professional grounding, etc. Recently an ever growing percentage of it is spent for co-financing EU supported VET projects and other VET programmes, like the so called “Vocational Training School Programme”, which has the aim to reform the vocational school system, to improve the quality of training and the job opportunities, as well as the career prospects of young people on the labour market.

The VET contribution provides a significant and reliable source of funds for VET. It played a particularly crucial role during the transition years (early 90’s) as other funding sourced collapsed or became uncertain. This levy accounts for almost one-third of total national expenditure of school-based VET. The amount of VET contribution can be allocated in various forms as regulated by legislation. Accordingly, enterprises decide themselves how they wish to allocate their VET contribution.

Figure 1 (see Annex below) illustrates the allocation (by the enterprises) of the VET contribution in 2008.

Allocation of the VET contribution can be realised by the following ways:

1. to provide **practical training** for VET students (based on cooperation agreements or student contracts; **100%** of their VET contribution can be allocated to expenses related to this). The funding of any practical training – mainly in the form of apprenticeship training on the basis of a student contract – provided by an economic organisation is ensured by the enterprise, which can then allocate a part or the whole of its vocational training contribution

to related expenses. As a further incentive, when apprentices' costs exceed the VET contribution enterprises can apply for the reimbursement of any expenses not covered by their vocational training contribution duty from the training sub-fund of the Labour Market Fund.

Figure 2 (see Annex below) shows the increase of the number of student contracts between 1998 and 2009.

In spite of the incentives some employers – especially small firms – are reluctant to take on apprentices and find it easier to contribute in other ways. Small Hungarian firms and branches of foreign firms offer relatively little workplace-based training.

2. to provide (either internal or external) vocational or foreign language **training for their own employees** (in the amount of at most **33%**, or in the case of micro and small-sized enterprises **60%** of their VET contribution);

Figure 3 (see Annex below) illustrates that large firms train most employees both in number and in proportion. 63% (22+41%) of them said that over 30% of their employees received training in 2008. Over 1/3 of micro-sized companies didn't provide training at all or provided to only max. 5% of their own employees.

Although we have no data about it yet, but due to the recent economic crises and programmes initiated by the government to support training – it is likely that – some companies spend more on the training of employees and allocate their vocational contribution duty to related expenses.

3. to offer **direct support to VET schools** (a maximum amount of **75%** of their VET contribution) or, since 2001 to higher education institutions (maximum **37.5%**) for practical training **development** purposes;

Fundamental changes have been introduced recently concerning the availability and use of development funds and the related decision-making processes. As of September 2008 eligibility to development subsidies and investment support from the training contribution is restricted to the maintainers of schools that are members of Regional Integrated Vocational Training Centres (TISZKs) with at least 1500 full-time VET students. The narrowing of the group of beneficiaries aimed to encourage the establishment of TISZKs, which adhere to the decisions of the Regional Development and Training Committees regarding training offers and appropriate shares of student enrolment.

4. to pay it into the **training sub-fund** of the LMF (up to 100%).

Allocation and tendering for the resources of this sub-fund are assisted by the National Vocational and Adult Training Council and the Regional Development and Training Committees involving representatives of the social partners. VET schools and HE institutions may apply for grant for investing in equipments to be used for practical training.

As Tables 1, 2 and 3 (see Annex below) show, the total amount of VET contribution has been growing steadily during the recent years. But as a consequence of the crisis in many sectors, the growing number of companies under bankruptcy or liquidation process and the rise of unemployment it is expected that in 2009 the VET contribution is going to drop. Less money is going to be paid into the training sub-fund of the Labour Market Fund as well, which will

result in less sources to support VET development programmes and less grant for investing in equipments for technical training.

Beside the above complex, strongly interrelated VET financing mechanism – as an incentive to support lifelong learning – there used to be available a **personal income tax deduction** opportunity (below an annual income threshold) for participants of adult training programmes. This was valid from 2003 until 31 December 2006 for participants of programmes which were provided by an accredited training provider. The amount of tax deduction was *30% of the training fee* but not more than HUF 60,000.-/EUR 236. It was very popular with those who participated in training. This tax incentive had to be abolished due to budgetary restraints as part of the measures taken to reduce the national budget deficit, and to comply with the objectives of the Convergence Programme.

Although some policy documents of recent years have referred to the need to assess the opportunities of introducing *learning accounts*, *vouchers* and/or saving schemes, currently there are no measures initiating any of these. The main problem expected to be with the voucher-scheme is the registration of individuals completing the training and the exclusion of abuses (exclusion of duplicate financing).

Payback clauses for individuals in Hungary are regulated by the Labour Code which applies to all employees. Besides this the Act on Civil Servants and the Act on Public Servants regulate the payback clauses for next employer within public institutions.

The Labour Code collectively entitles the employees to *unpaid leave* if the employee takes part in a so-called school-system based education or training. The employer is obliged to grant unpaid leave to the employee upon receipt of the documentation of the (licensed) educational or training institution. If the employee takes part in general elementary education, (s)he has the right for paid leave. The employee is entitled for (paid or unpaid) leave also in case of attending non-school based education and training only if the training is compulsory and regulated by specific legislation, or if (s)he enters into a "training contract" with the employer. The latter is always subject to the agreement of the parties concerned.

Annex

Figures and Tables

Figure 1. What VET contribution was spent for in 2008?

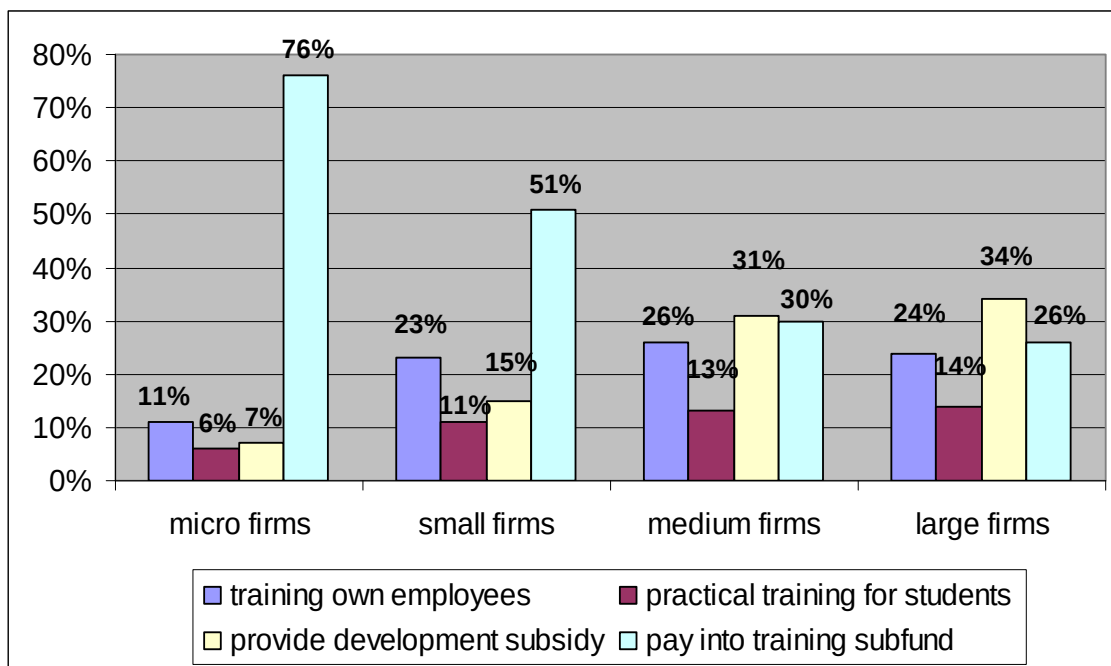


Figure 2. Number of student contracts 1998-2009

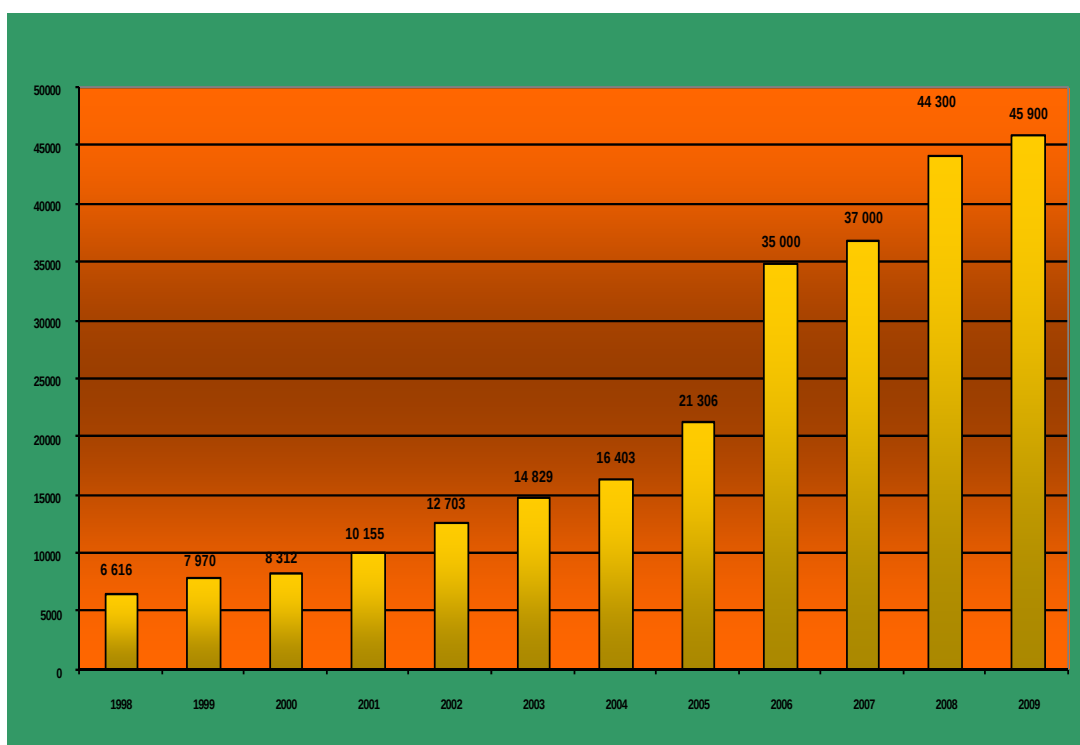


Figure 3. Training own employees in 2008

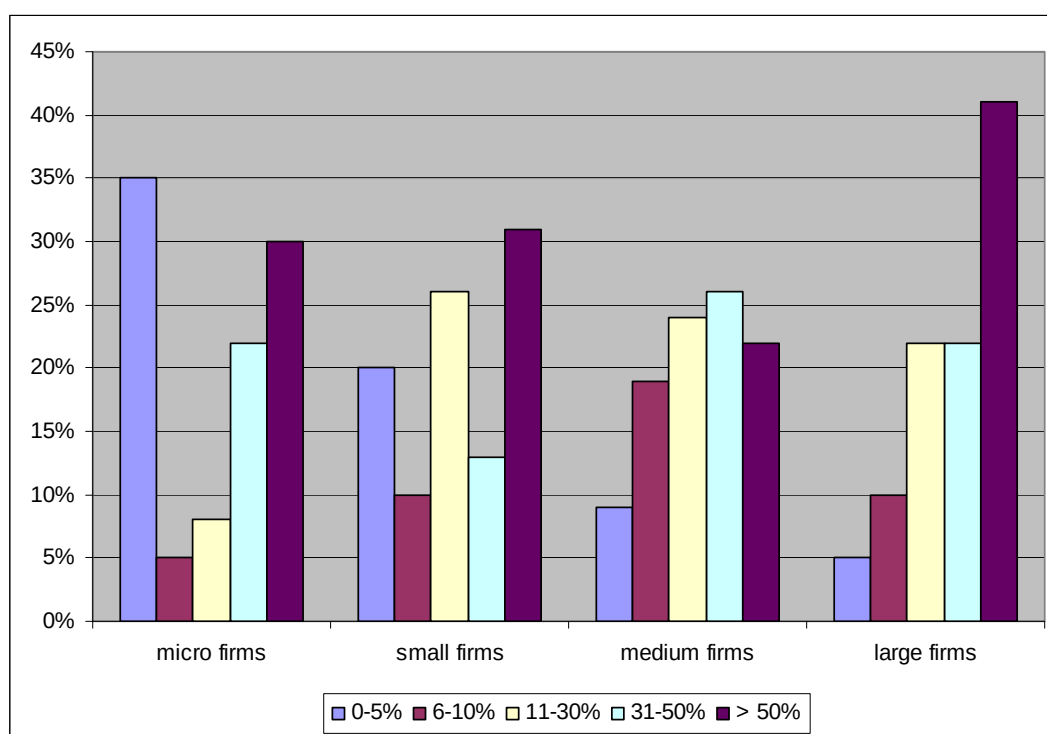


Table 1. VET contribution by purpose of allocation, 1998-2008 (billion HUF) [HUF 100 HUF=EUR 0.4]

Year	Practical training provision for VET students at enterprises	Development subsidy for		payment into the Training sub-fund of the LMF	Training provision for employees	Total
		vocational training schools	higher education institutions			
1998	5.7	n/a	-	8.7	n/a	14.4
1999	5.6	n/a	-	11.0	n/a	16.6
2000	5.5	n/a	-	13.3	1	19.8
2001	6.2	11.9	0.9	16.0	2.4	37.4
2002	6.9	12.5	2.3	18.6	3.4	43.7
2003	7.6	13.3	3.0	20.8	4.8	49.5
2004	8.0	12.4	3.3	24.0	5.4	53.1
2005	9.2	12.8	4.1	28.5	6.98	61.6
2006	11.0	12.3	4.4	32.3	7.80	67.8
2007	13.6	10.4	4.4	36.7	7.31	72.4
2008	16.1	10.7	4.5	42.1	7.8	81.3

Table 2. Distribution of the amount of the vocational training contribution by the purpose of its allocation, 2001-2008 (%)

Year	Practical training provision for VET students at enterprises	Development subsidy for		payment into the Training sub-fund of the LMF	Training provision for employees	Total
		vocational training schools	higher education institutions			
2001	16.58	31.82	2.41	42.78	6.42	100.00
2002	15.79	28.60	5.26	42.56	7.78	100.00
2003	15.35	26.87	6.06	42.02	9.70	100.00
2004	15.07	23.35	6.21	45.20	10.17	100.00
2005	14.94	20.79	6.66	46.28	11.33	100.00
2006	16.22	18.14	6.49	47.64	11.50	100.00
2007	18.78	14.36	6.08	50.68	10.10	100.00

Table 3. The increase of the vocational training contribution paid into the training sub-fund of the Labour Market Fund, 1998-2008

3Year	billion HUF [HUF 100=EUR 0.4]	% of 1998	Consumer price index 1998 = 100%	% of 1998 purchasing power parity
1998	8.7	100.00	-	-
1999	11.0	126.44	110.00	114.95
2000	13.3	152.87	120.78	126.57
2001	16.0	183.91	131.89	139.44
2002	18.6	213.79	138.88	153.94
2003	20.8	239.08	145.41	164.42
2004	24.0	275.86	155.30	177.63
2005	28.5	327.59	160.89	203.61
2006	32.3	371.26	167.16	222.10
2007	36.7	421.84	180.54	233.65
2008	42.1	483.91	191.55	252.63