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UPGRADING THE SKILLS OF THE LOW-QUALIFIED: A NEW LOCAL POLICY AGENDA,

An Exploratory Report

This report was carried out by the LEED Programme as part of Activity 1 (Decentralisation of Employment Policies, Local Partnerships and Governance) of its Programme of Work. It is submitted to the Committee for comments and suggestions.

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INTRODUCTION: FROM LABOUR MARKET INTEGRATION TO EMPLOYMENT SUSTAINABILITY - LOCAL POLICIES FOR 'SKILLS-UPGRADING'

1. Throughout the 1990s, the rising concern with long-term unemployment and social exclusion led various OECD countries to make an increasing use of active labour market policies (ALMPs). These measures include placement, counselling, job subsidies, training and assistance to self-employment (while passive policies refer to unemployment benefits). Essentially, ALMPs aim to re-integrate the long-term unemployed into the labour market and to develop the employability of workers in order to improve their productivity and make the labour market more efficient. In recent years, a focus on labour market integration of disadvantaged groups increased in the context of mounting pressure to contain welfare costs and improve the efficiency of public services. The consensus emerged that job placement would offer the most effective answer to social exclusion and that a job would be better than no job at all as it would give people the opportunity to enhance their employability skills (see Layard, 1996). The old dichotomy between active and passive labour market policies became less relevant as several countries moved towards a 'welfare-to-work' approach, essentially centred on job placements and outcomes that made benefits conditional to acceptance of the jobs or training opportunities on offer (Lødemel and Trickey, 2000; Barbier, 2001). Unsurprisingly, this policy resulted in more people placed into jobs. Simultaneously, sustained economic growth and strong demand for labour facilitated the re-integration into the labour market of many workers with low qualifications and poor work experience.

2. This apparent macro-economic success overshadows several crucial issues. First, spatial and sectoral disparities across and within industrialised nations have meant that low-skilled entrants and returners in the labour market have not always been placed in, or obtained rewarding jobs with opportunities for progression on the career and pay ladder. Secondly, both market and institutional failures have meant that this segment of the workforce has not benefited from substantive human capital improvements *in spite of being in employment*. These market and policy trends have major implications for both job sustainability and mobility. There is evidence that welfare-to-work participants have often been recycled from employment back into welfare and experienced a 'revolving door syndrome' (Sunley et al, 2001). A further problem is that the nature of the employment gained by former welfare recipients has exacerbated labour market inequalities across the workforce and across territories. Some even refer to a 'social proletariat' (Byrne, 1999) or a 'contingent workforce' (Peck and Theodore, 1998, 2000) to describe all those groups excluded from or within changing forms of the wage relationship. A growing concern is that workers with low educational levels and poor work experience will be badly hit as the economy slows as they will be the first to lose their jobs. Those living in depressed local (rural or urban) labour markets are doubly exposed to an economic downturn as vacancy and mobility rates tend to be lower than in buoyant areas (Green and Owen, 2001). Thus there is a risk that they become long-term unemployed again.

3. The spatial patterns of employment change are compounded with a temporal dimension. During an economic downturn, individuals are more likely to sustain their employment position if they possess high levels of human capital, which is in turn acquired through education and on-the-job training. Yet Sakellanis and Splilimberg (2000) show that movements in and out of higher education in the U.S. are linked to the business cycle and argue that more evidence is needed as to whether this also applies to on-the-job training since the latter 'constitutes a very large part of investment in human capital, and its cyclical properties have received even less attention than those of education' (page 249). Moreover, skill

shortages tend to be higher when the economy is booming and labour demand rises. However, even when growth is sluggish, skill mismatch and shortages seems to persist as employers report increasing dissatisfaction with workforce skills and competencies and demand highly-trained technicians, professionals and managers. At the same time, they often lack the willingness or capacity to invest in the training of secondary sector workers (Brown et al, 2001; Campbell et al, 2001).

4. It is often argued that, during economic recoveries, more efforts towards upgrading the skills of the incumbents on the labour market are required. Important social and economic benefits can be derived from measures promoting mobility and employment sustainability through investment in vocational education and training and additional ‘soft skills’ support. Broadly speaking, this type of policy intervention contributes to the process of economic adjustment. In particular, it helps new and disadvantaged labour market participants diversify their qualifications and skills, improve their productivity, and move to better jobs. As a result, these workers are in a less vulnerable position when unemployment rises again and less likely to re-enter a spell of inactivity. Secondly, evidence from both the US and the UK show that many individuals who move from welfare to work remain in poverty because earnings alone prove insufficient to meet family needs (White and Forth, 1998; Bartik; 2001). The high incidence of poverty among working households thus suggests that policies emphasising job placement must be supplemented by *measures that improve employment retention and enhance movement up job ladders* (OECD *Employment Outlook*, 2001). Thirdly, employers faced with skill shortages and skill gaps also gain from measures to upgrade the skills of their local workforce. This was confirmed by several examples of partnerships recently set up to better co-ordinate training services and adapt them to local business needs (OECD, 2001a). Finally, a strong local and regional skills base favours territorial competitiveness (OECD, 2001e). This final premise is at the centre of this report.

5. The expression ‘skills-upgrading’ is used in this report to refer to measures seeking to improve the human capital of economically disadvantaged workers. The closest concepts are *workforce development* (WfD) and *upskilling*. The next section provides some useful definitions.¹

Some definitions

What is workforce development?

6. This is a term for training and skills development used especially in the United Kingdom and in the United States. It sits between training (which has a narrow focus) and education (which is broad) and corresponds to the employability strand of ALMPs. The definitions below suggest that it is firmly grounded in business need. Workforce development consists of:

‘activities which increase the capacity of individuals to participate effectively in the workplace, thereby improving their productivity and employability’ (Performance and Innovation Unit, 2001, p.3).

‘the training and development employees (and potential employees) receive that is relevant to the workplace. This includes both on-the-job and off-the-job training, and can be recognised in formal qualifications, and in internal qualifications (which may or may not be accredited to external standards). Workforce development can include academic, subject based training; but more typically covers more work-related, vocational training – from general communication, people and management skills to sector, industry and firm specific skills.’ (Westwood, 2001, p.4).

1. For a more detailed definition of the target group, see Chapter One.

What is upskilling?

7. The concept of *upskilling* is slightly more complex since it can refer to both a process and a policy. This first interpretation of upskilling is based on the ‘learning-by-doing’ hypothesis. The assumption is that workers ‘naturally’ learn from their exposure to new technology and from social interaction in the workplace (OECD, 2001e). Here upskilling is directly opposed to the notion of *deskilling* whereby the process of industrial restructuring renders ‘old’ firm-specific knowledge and skills obsolete (see, for example, OECD, 2000a, Chapter One). In other instances, upskilling is used as a synonym of skills-upgrading.

Three issues must be stressed:

1. First, while upskilling is workplace related, it are not necessarily provided on-the-job. While work-based assessment is a frequent technique, local training organisations may provide classroom or other off-the-job activities. Moreover, the objectives are not merely to equip workers with (formal) occupational skills, but also with informal ‘social’ skills.
2. Secondly, while there are strong overlaps between what upskilling and *lifelong learning* initiatives are seeking to achieve, the latter embodies a broader educational and time perspective. Lifelong learning ‘embraces individual and social development of all kinds and in all formal and informal settings, including at home and in the community’ (McKenzie and Wurzburg, 1998).
3. Moreover, WfD and upskilling do not appear to be exclusively concerned with low-qualified workers since the literature does not systematically emphasise the need to target this group. To avoid any confusion, this report uses the expression ‘skills-upgrading’ to describe measures designed for economically disadvantaged adult workers. The underlying rationale is that this policy can help the target group achieve *employment sustainability* and *upward mobility* in the labour market.

Employment sustainability and upward mobility

8. The concept of *employment sustainability* denotes a policy goal defined as the ‘maintenance of a stable and upward employment trajectory in the longer term’. Achieving employment sustainability is more than just getting a job and can also be more than staying in the same job with the same employer. It involves a continuous and uninterrupted period of employment without drops in earnings or a rapid return to benefit claiming (Kellard et al, 2001). Employment sustainability is therefore related to several further concepts which reflect medium term goals: *employability* (the presence of skills and assets and how they are used), *job stability* (recognising the relationship between the characteristics of the job and the job holder), *job retention* (the ability to remain in work when circumstances change) and *job mobility*. *Occupational mobility* refers to progression in pay, responsibilities or status, whilst *geographical mobility* refers to a person’s disposition to move to a new location to gain employment or to remain in employment.

Tackling disadvantage in skills acquisition: institutional and local challenges

9. Since skills-upgrading occur in different learning, training and educational settings, a variety of cultural and institutional shifts and reforms may be required. For example, advocates of lifelong learning are seeking to understand how to ‘inculcate the zest of learning’ amongst individuals (see OECD, 2000b; Parnham; 2001). Moreover, with the move from a qualification to a competency-based industrial production system in which employers determine the reconstruction of the wage relationship (Paradeise and Lichtenberger, 2001; Reynaud, 2001), the structure of rewards and recognition is changing

dramatically. Delivering diplomas for its own sake will undermine the capacity of individuals to find employment and progress within the labour market. Advanced economies are now dominated by service sector industries where the ability to communicate is central. Educational and training establishments are thus increasingly challenged to adjust their practices to anticipate future skills requirements. Schools, for example, are becoming an essential vehicle for the early immersion during childhood in foreign languages and IT environments. During adult life, work-based learning is critical and employers face the task of identifying their skills need and diversifying their human resource practices. Community colleges also need to change the structure and content of their programmes, the scale of which has rarely been appropriate to the task of preparing individuals for middle-skilled jobs (Grubb, 2001).

10. If issues surrounding skills-upgrading, workforce development and lifelong learning have gained pro-emergence in recent years, the questions of *who* is to benefit from these programmes and *how* they are to be delivered have received insufficient attention. First, while the need for skills development appears to be widely acknowledged, less emphasis has been given to low-wage and low-skilled workers, or former welfare recipients, arguably because their employment situation is not perceived as necessitating urgent political action. Programme beneficiaries tend to be broadly categorised as belonging to the ranks of the unemployed – and especially the long-term unemployed – or as being ‘in employment’. The dichotomy in the categorisation of the target group has implied a strong division of responsibilities for provision, with the former assigned to public sector or voluntary sector agencies, and the latter to employers. The institutional responsibility for the ‘grey’ supply of labour remains unclear. This ‘grey’ supply encompasses all those workers who hold an intermediate or ‘looser’ relationship with the labour market. They may be in an out of employment, at risk of losing their job, or unable for various reasons to move up the job ladder, i.e. in precarious employment contracts.

11. Finally, for measures to effectively address skills gaps and meet employer demand, i.e. to maximise their economic development potential, it is argued that delivery is best formulated locally. Indeed labour markets are essentially local in their nature and regulation (Martin, 2000) and one set of policies which may work in one particular area may not be appropriate elsewhere. The effects of economic restructuring are relatively uneven across national boundaries. Governments in many OECD countries have increasingly come to realise such disparities and devolved powers accordingly (OECD, 2001g). They have also encouraged the public employment services to redefine their role and modernise their services (OECD, 2000). One of the recent strategies has been to promote the formation of local partnerships (OECD, 2001a). It is observed that many initiatives are designed and supported at the local or regional level. This is due to the fact that local and regional authorities, community groups, and of course employers themselves, implement various innovative projects to offset the negative externalities of productivity gaps in their local economies. It follows that, as for ordinary labour market policies, skills-upgrading goes along with decentralisation and local management trends and implies varying degrees of policy emphasis, as well as spatial disparities in outcomes.

Aims and Structure of the report

12. This report is a ‘fact finding’ exercise. It explores the various efforts made by policy-makers and labour market agents to upgrade the skills of workers who, for various reasons, find themselves in the lower echelons of the labour market.

13. Chapter One identifies the group of people who are most likely to benefit from skills-upgrading and explore some of the key trends in this area. Chapter Two concentrates on the national picture and identifies the main intervening actors, tools and instruments relevant to this policy area in the light of selected experiences. Chapter Three takes the analysis a step further to analyse the extent to which programmes and initiatives are integrated in local development concepts. On the basis of the findings, the conclusion summarises current knowledge gaps and raises a number of avenues for further research activities.

CHAPTER ONE: SKILL DEFICIENCIES AND TRENDS IN SKILLS-UPGRADING

Introduction

14. Before embarking upon an analysis of the policies implemented to upgrade the skills of economically disadvantaged adult workers from a cross-national, national or local perspective, a first important task is to identify and explain the economic and social needs these policies seek to address. The types and levels of skills demanded by employers and those supplied by economically disadvantaged workers must be explored so as to determine the degree of mismatch between these two factors. The literature often refers to the 'low-skilled', the 'low qualified', the 'low paid', or the 'working poor', yet such references remain somewhat elusive. In other words, it is crucial to define who may be regarded and classed as an 'economically disadvantaged' worker.

15. The first section of this chapter will seek to pinpoint the characteristics of the target group and to gauge its specific needs in relation to its position in the labour market. The second section will provide a brief overview of the changing and varying demand for skills. Finally, the third section will assemble a set of stylised facts and review some of the key trends that have occurred in OECD countries in relation to policies for upgrading the skills of the defined target group.

Defining 'economically disadvantaged' workers

16. An accurate definition of the target group is open to debate. A broad interpretation of economic disadvantage may focus on immigrants, adults with disabilities, women, young people or elderly workers. However, whilst acknowledging this sociological dimension, here we consider low skills and the resulting weak position in the labour market (reflected in low pay and/or low tenure) as salient indicators of economic disadvantage. The literature on low skills and low pay often mentions the problems related to measurement which prevent analyses to fully capture this segment of the workforce (OECD, 1999a). Whilst it is relatively straightforward to identify the low-paid, the same does not apply to the low-skilled. It is therefore necessary to use a set of proxy measures. Below are four categories and proxies which may be used to distinguish 'economically disadvantaged workers':

- Low earners: income is usually below the median rate of pay. For example, earnings are less than two-thirds of the median (see OECD, 1997a, 1997b);
- Former welfare recipients: relevant data is often difficult to obtain. Employment flows do not differentiate between categories of workers, and the monitoring of individual destinations by the PES is often patchy. Monitoring tends to be exclusively carried out for the purpose of ad hoc programme evaluation, e.g. a subsidised employment programme. Small-scale experimental studies and profiling exercises - such as those carried out in the United States - also offer a complementary but more limited source of measurement;

- The low-qualified: educational attainment tends to be used as a criterion, e.g. the completion of upper secondary education; qualifications frameworks often draw five successive levels of vocationally-related qualifications beyond entry-level.²
- The low-skilled: the most common criteria tend to be the lack of basic skills. I.e. literacy and numeracy and ‘core’ or ‘key’ skills, which include motivation, confidence, communication, as well as the willingness to learn and to travel. Surveys and in-depth interviews may help identify the presence of such skills.

17. However, the above categories cannot be treated equally, especially when future employment dynamics are taken into account. For example, earnings may not represent a reliable source of information as low-paid workers are not necessarily low-skilled. If one takes a dynamic view of low pay, these jobs may be stepping stones towards rapid earning growth for young people with good educational credentials (OECD, 1997b). However, low-paid women, older and *less-educated workers* are significantly less likely to climb the earnings ladder. These workers become trapped in the low wage labour market, a market characterised by a growing share of workers with below-poverty hourly wages and high turnover between employment and non-employment (Kaye and Smith Nightingale, 2000). In contrast to middle or highly skilled low-income workers, low-qualified or low-skilled workers are more likely to remain low-paid as they are perceived by employers as being relatively less ‘employable’. In fact, the skills demanded by employers are more readily related to an ‘employability’ criterion than to a ‘knowledge’ criterion (see Hillage and Pollard, 1998).³ It has been noted that skills are merely one of the four facets of ‘knowledge’ (OECD, 2001d, p.18) described below:

- Know-what: refers to knowledge about ‘facts’;
- Know-why: refers to knowledge about principles and laws in nature, human kind and society;
- Know-how: refers to skills (i.e. ability to do something);
- Know-who: involved the social ability to co-operate and communicate with different kinds of people and experts.

18. Since skills appear to correspond to the ‘know-how’ dimension of knowledge, it is therefore *the ability to perform tasks* in the workplace that skills-upgrading seeks to address. On this basis, it is thus evident that the aim is not to improve cognitive and academic abilities, but essentially ‘doing’ abilities.

19. It has recently been stressed that *the lack of basic skills* (without which specific workplace related skills cannot be performed accurately) is a crucial measure of economic disadvantage in the labour market (Campbell et al, 2001; Innovation and Performance Unit, 2001). Literacy and numeracy are crucial components of human capital (OECD, 2000a, p.61; 2001d, p.18-19). In England, seven million adults lack basic skills. One in five adults within the workforce are ‘functionally illiterate and as high as one in four are functionally innumerate’, i.e. their basic skills are below those expected of an average eleven year old (Westwood, 2001, p.8, Innovation and Performance Unit, 2001, p.21). The OECD’s International Adult Literacy Survey (IALS) defined literacy as ‘the ability to understand and employ printed information in daily activities, at home, at work, and in the community –to achieve one’s goals, and to develop one’s

2. For example in the UK: Level 1= foundation level (corresponding to GCSE grade D-G), level 2= intermediate level (GCSE grade A-C); level 3= advanced level (A level or baccalaureate); levels 4 and 5 correspond to higher level qualifications.

3. For this reason, this report distances itself from the discussions surrounding the so-called “knowledge economy”.

knowledge and potential' (OECD, 2000, p.x).⁴ Five levels of literacy were defined against which workers were tested. The survey found that even the most economically advanced countries had a literacy skills deficit. Between one quarter and three quarters of adults failed to attain Literacy Level 3, which was considered as a suitable minimum skill level for coping with the demands of a modern labour market. Of course, there were some marked variations in literacy attainment. Some countries had relatively high percentages of their adult workforce (over 15 per cent) with very rudimentary literacy skills (level 1). These included Canada, the United States and the United Kingdom. In contrast, countries such as Denmark, Germany, Norway and Sweden had lower proportions of their citizens with poor literacy (see Table 1).

Table 1. Literacy attainment in IALS countries

< 15 per cent of the population at rudimentary level	> 15 per cent of the population at rudimentary level	
Denmark	Australia	New Zealand
Finland	Belgium	Poland
Germany	(Flanders)	Portugal
Netherlands	Canada	Slovenia
Norway	Chile	Switzerland
Sweden	Czech Republic	United Kingdom
	Hungary	United States
	Ireland	

Source: OECD (2000).

20. The IALS also emphasises that *individuals with low literacy face an increased likelihood of being unemployed*. The incidence of unemployment was twice as high among adults with low skills than among adults with medium to high skills. Only in countries such as Norway, Switzerland, and the U.S., the risk of unemployment amongst the low skilled was low because the overall level of unemployment was low. Moreover -and this is particularly relevant for this report - those with low skills reported finding themselves without work more often even if they had found employment during the year. In other words, the lack of basic skills directly impinges upon employment sustainability. Low-skilled workers are more vulnerable to an economic downturn. Smith and Woodbury (2000), for example, show that low-wage jobs are the first to be cut during a recession. During the recession of the early 1990s, nearly one million jobs with an hourly rate below \$5.15 (€5.85) were lost. The drop was particularly marked in occupations traditionally considered low-skill, such as sales, clerical, household and personal services. These types of occupations tend to be concentrated in specific industrial sectors, e.g. health, retail and hospitality, and in depressed urban areas (Holzer, 1996) which suggests that sectoral and geographical targeting might be particularly salient.

21. Moreover, the IALS and other surveys clearly demonstrate that high levels of literacy and numeracy as associated with a wage premium. For example, Moser (1999) shows that 49 per cent of those with low levels of literacy and 55 per cent of those with low levels of numeracy earn less than £9,000 (€ 14,615) per annum compared to 23 per cent of those with high levels of literacy and 16 per cent of those with high levels of numeracy. Thus, upgrading basic skills can contribute to career progression.

4. The IALS was a large-scale co-operative effort by governments, national statistical agencies, research institutions and the OECD. A total of 23 countries were surveyed. Data was collected in three waves between 1994 and 1998.

Changing Skills Requirements and Skill Shortages

22. The rapid changes in the global economic environment have induced a variety of new developments in the workplace, among them the growing use of technology (especially information and communication technologies), changes in human resource practices, and the growing competitiveness of product markets.

23. In the past twenty years, OECD countries have experienced a marked shift in employer hiring away from less-educated toward more educated workers. Whilst this trend is now widely reported, it is often argued that it is not matched by the design of effective education and training programmes. This is because of the lack of solid evidence on demand-side characteristics such as job availability and locations, and employer skill requirements and perceptions (Holzer, 1996; Campbell et al, 2001). Whilst the third chapter of the report will return to the local policy implications of skill deficiencies, debates at the national policy level have stressed the danger of a productivity gap. In Britain, for example, it has been estimated that the productivity gap caused by the lack of basic skills amongst the adult population is costing the country an annual £10 billion (€16.25 billion) loss (Convery, 2001).

24. That skill gaps and shortages result from market failure is undisputed. Since skills-upgrading involves significant training requirements, it is by nature an investment, and for various reasons, such as the fear of poaching, or poor management strategies, many employers - especially SMEs - are either unable or unwilling to bear the related cost (Booth and Snower, 1996). Employers opt for low value-added products and low-skilled methods of production. As a result, workers perceive little benefit in upgrading their skills and remain trapped in low-skilled, low-paid employment. These two mutually reinforcing economic failures are known in the literature as a 'low-skill/low-wage equilibrium' (Finegold and Soskice, 1988).

25. Moreover, incentives to invest in formal education diminish at an increasingly rapid rate as a function of age, reflecting a shorter period to amortise investment costs and higher costs in terms of foregone earnings (OECD, 2001f; Social Research and Demonstration Corporation, 2001). Adult workers are thus even more at risk of being trapped in low-skilled employment when compared to their younger counterparts.

26. Governments are increasingly realising the importance of these failures and are bringing about several institutional changes to refocus their active labour market policies on skills acquisition and lifelong learning (OECD, 2000b). For example, the creation of the National Skills Taskforce and the Learning and Skills Council (LSC) in the UK in April 2001 or the recent transfer of competencies for vocational and educational training from the Employment Ministry to the Education Ministry in Denmark illustrate this 'educational turn'.⁵

27. Despite well-known caveats⁶, industrial surveys provide some indication of the requirements and attitudes towards skills-upgrading. Individual countries carry out a number of surveys in which partly

5. The LSC was established under the Learning and Skills Act 2000 to replace the Further Education Funding Council and the 72 Training and Enterprise Councils (TECs). It became fully operational on 2 April 2001, and is responsible for planning and funding post-16 learning including further education, work-based training for young people, adult and community learning, but excludes Higher Education. Its head office is based in Coventry and it has 47 local arms. See <http://www.lsc.gov.uk>. In the case of Denmark, this institutional change appears to be linked to a broader modernisation of the PES which involves a privatisation of its placement activities.

6. These include the difficulty in obtaining decent time series that would highlight cyclical properties and the likely bias or incomplete information provided by respondents. Therefore, surveys based on employers' own perceptions of skill deficiencies must be treated with caution as they will understate the full extent of the problem.

cover some skills-related issues.⁷ For example, the British Employer Skill Survey (ESS) provides an analysis of the extent, causes and implications of skill deficiencies in England (see Hogarth et al, 2001).⁸ The survey makes a clear distinction between two different kinds of skill deficiency:

- *recruitment difficulties* in the external labour market, focusing on reported *hard-to-fill vacancies* which are skill related. The latter are referred to as *skill-shortage vacancies*.
- internal *skill gaps*, that is, a divergence between firms' current skill levels and those which are required to meet firms' business objectives. These are measured by questions about the lack of proficiency of current staff.

28. The distinction is important as it implies that employers will consider different types of occupational categories, hence different type of workers according to the reported skill deficiency, possibly denying access to skill-shortage vacancies to their internal or local pool of disadvantaged labour.⁹ The ESS 2001 finds that skill shortage vacancies are predominantly located in professional, associate professional and technical and skilled trade occupations. Internal skill gaps are identified and recognised as such by employers but the report also points to the fact that *some skill gaps may go unreported or may be 'latent'* in nature, taking the form of unrecognised deficiencies in the skills required to compete effectively in today's world markets. This points to the aforementioned problem of incomplete or inadequate self-assessment by employers. The ESS showed that one in ten employers perceived a skill deficiency. Seven per cent of establishments reported an internal skills gap; 803,000 employees were estimated to be below the desired proficiency for their jobs at the time of the survey.

29. The type of skills sought by employers for internal skill gaps tended to lean more towards generic skills than is the case for skill shortage vacancies. Communication skills were required for 41 per cent of all internal skill gaps, and team working, customer handling and technical/practical skills cited for around a third each of all internal skills. Training was commonly cited as a response to skill deficiencies by employers (e.g. a response to 72 per cent of internal skill gaps) and also as a cause of internal skill gaps in particular ('failure to train and develop staff' was cited as a cause of a third of all internal skill gaps). However, when asked about barriers faced in maintaining fully proficient staff, the most frequently cited barriers were a lack of time for training (31 per cent of establishments), a lack of cover, and a lack of funding for training (both 23 per cent). It is thus apparent that training, and thus the ability to upgrade skills, is both a factor in the *cause* and *solution* to skill deficiencies.

Trends in skills-upgrading

30. Whilst Chapter Two will provide a more in-depth analysis of key national policies and initiatives, the following section seeks to assemble a number of stylised facts to show the extent to which economically disadvantaged workers tend to benefit from skills-upgrading initiatives. Skills-upgrading is examined both in terms of employer human resource management (HRM) practices and in terms of public

7. In Britain, some relevant surveys would include e.g. the *British Quarterly Economic Survey* or the *CBI Industrial Trends Survey (ITS)*. The latter was first introduced in 1958 but only covers manufacturing firms. *The Skill Needs in Britain Survey* was carried out annually between 1990 and 1998 on behalf of the former DfEE and was based on 4,000 telephone interviews. It was then replaced by the *Employer Skill Survey (ESS)* in 1999 which represents the most up-to-date source of information.

8. The employer survey was restricted to England. It was establishment based and consisted of a total of 27,031 telephone interviews. All business sectors (public and private) were covered.

9. Moreover, anecdotal evidence suggests that employers will prefer to recruit from further afield for professional, technical and managerial vacancies instead of drawing from the internal or local pool of disadvantaged labour.

policy (PES) provision. In the absence of a large-scale employer survey across OECD countries, individual country surveys were reviewed in an attempt to infer common trends. The most widespread feature concerns the difficulties for economically disadvantaged workers to access skills-upgrading due to several barriers, including the low supply of work-based training by employers.

Organisational practices: inequalities in access to provision

31. The reviewed literature and surveys show ample evidence of a preference amongst employers to devote training budgets to their primary core of workers (see, for example, Giraudie and Terrenoire, 2000; Saurug and Seiler, 2000). Westwood (2001) reports that in the UK, managers and professionals or those with a degree are up to five times more likely to receive work based training than people with no qualification and/or in an unskilled job. There is a strong correlation between participation in training and education. A quarter of those with degrees questioned in surveys have typically participated in training in the preceding four weeks compared to only four per cent of those with no qualifications (Machin and Wilkinson, 1995). Moreover, a report by Bernard Brunhes Consultants in France finds that access to vocational and training provision remains quite unequal despite an overall increase. Whilst over 50 per cent of those in managerial and technical professions do benefit from training measures, only 27 per cent of semi-skilled workers and 17 per cent of unskilled workers are offered training (Giraudie and Terrenoire, 2000). A survey of Austrian SMEs carried out in the region of Graz shows that less qualified staff are often unaware of the training and development opportunities available to them. Some even feel that permanent or better qualified staff are more likely to receive it. Moreover, the decision to arrange training tends to be taken at managerial level, in many cases without employee involvement in the process: less than half of the workers were consulted regarding their own training arrangements (Saurug and Seiler, 2000).

32. Low skilled adults working for small employers are particularly disadvantaged since access to training is related to the size of the company. Large organisations tend to have well-structured in-house programmes which facilitate access. In France, 45 per cent of those working in large enterprises participate in training programmes against 8 per cent of those working for enterprises employing 19 workers or less.¹⁰ Almost all UK organisations employing over 500 employees provide some form of training. This compares to 59 per cent of companies with less than four workers, and 33 per cent providing off-the-job training (see table 2). The relatively low figure in the case of off-the-job training reflects the conflict over the time required for production and the time required for training. In particular, SMEs lack the capacity to offer short-term or day releases (Grefte, 2001, p.168). On average, 41 per cent of employers provide off-the-job training which matches a French *employee* survey carried out on behalf of the *Fédération de la Formation Professionnelle* in September 1999: 41 per cent of employees questioned reported having benefited from training outside the workplace.¹¹ In addition, the type of training offered to staff is also related to the size of the company. The Austrian survey shows that if on average almost 43 per cent of employers were offering IT related training, only 31.9 per cent of companies employing less than 9 staff, and 70.9 per cent of those with over 50 employees offered saw a need to invest in IT skills for their staff. Personal development was also offered by 41.8 per cent of large firms, against 14.5 per cent of smaller firms. Small firms were more likely to invest in vocational courses such as hairdressing, carpentry or cooking (Saurug and Seiler, 2000).

10. Less than 19 employees= 8%; 20 to 49 employees= 12%; 50 to 500 employees= 31%; over 500 employees= 45% (the data relates to 1995 and is extracted from the "fiscal statements" n°2483 by the CEREQ (Centre d'Etudes et de Recherche sur l'Education et les Qualifications, see <http://www.cereq.fr>).

11. 606 adult workers were questioned by IFOP on behalf of the *Fédération de la Formation Professionnelle*, a lobby group which represents over 300 private training providers. See www.ffp.org/pages/sondages/frameset_sondage.html

Table 2. Work-based training in the UK, 2000

Size of establishment (No. of employees)	Off the job %	On the job %
1-4	33	59
5-24	54	81
25-99	78	89
100-199	92	94
200-499	96	93
500+	98	92
Total	41	66

Source: Performance and Innovation Unit (2001) p.23; Campbell et al (2001), p.126

33. In addition, there have been alarming reports of employers, particularly in the retail sector, using low-skilled employees to facilitate their own absence from the workplace. For example, a young person employed under the New Deal for Young People (NDYP) complained that she received no supervision as she was left by herself in the shop¹²:

'I was left by myself up until 7pm from 9am. It was like 'I'm just popping out' but then you'd never see him and he used to ring at quarter to seven asking 'is everything all right?' Basically, he just couldn't be bothered (interview, 4 August 2000).'

34. While it would of course, be ill-advised to draw general conclusions from the above type of anecdotal evidence, the quotation illustrates the danger of employer disengagement from responsibilities towards their employees, including a sense of responsibility for developing their skills. Part of the policy answer, may then consists of influencing or, to a certain extent, rectifying employers' organisational practices.

Skills-upgrading as a component of ALMP

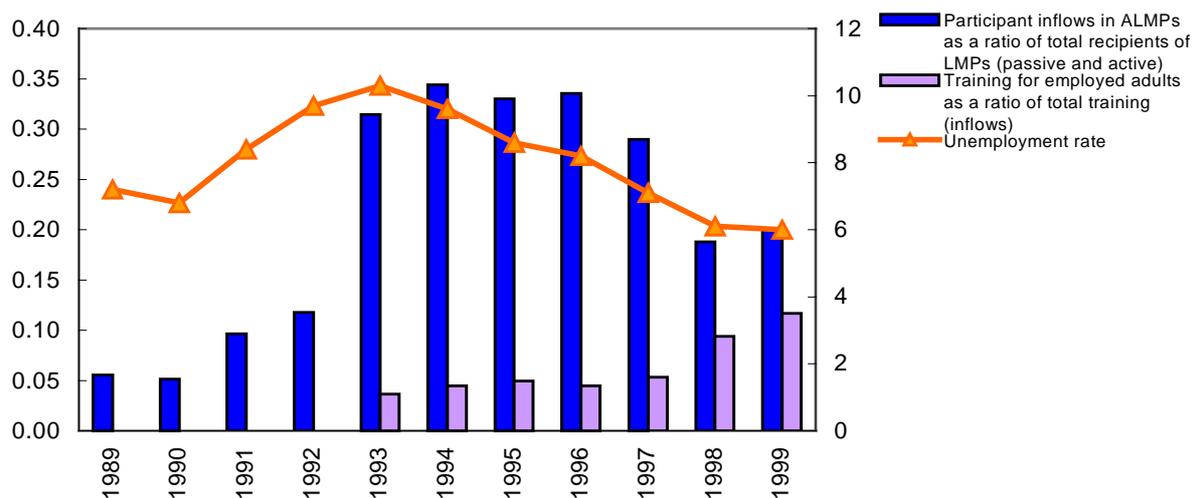
35. Since this report is essentially concerned with public policy intervention, the remainder of this chapter focuses on skills-upgrading as part of the overall trends in ALMP spending. As skills-upgrading does not correspond to an official ALMP category, categories of labour market training appear to be the closest proxy measure that could be used. However, training represents an imperfect variable for various reasons. First, some measures that may contribute to skills-upgrading such as mentoring or motivational programmes may not be included. Secondly, categories of training activities are often irrelevant to the issue of skills-upgrading for the low-qualified. For example, the time series on labour market training in the LMP (Labour Market Policy) database held by the OECD's Directorate for Education, Employment and Social Affairs (DEELSA)¹³ are broadly sub-divided in two categories: training for unemployed adults and those at risk (of unemployment) on the one hand, and training for employed adults on the other. This categorisation does not allow for a close examination of efforts towards the defined target group, as it may figure in either category. However, in the first instance, it helps examine how policy emphasis on training relates to the economic cycle.

12. From the author's interview transcripts for the Research Project "The Geography of Workfare: Local Labour Markets and the New Deal". See Sunley et al (forthcoming).

13. The OECD database on labour market programmes is used amongst others for the annual OECD Employment Outlook and provides data for seven standardised ALMP categories: 1) Public employment services and administration; 2) Labour market training; 3) Youth measures; 4) Subsidised employment; 5) Measures for the disabled; 6) Unemployment compensation; 7) Early retirement for labour market reasons.

36. Following the hypothesis of policy responsiveness to the economic cycle, it was assumed that the number of unemployed recipients of ALMPs would be higher in a period of high unemployment; in contrast, greater emphasis would be given to training for employed workers when official unemployment decreases. This appears to be the case. The example of the UK shows that in inflow terms, the ratio of employed workers benefiting from training over the total recipients of training markedly increased in 1998 and 1999, when the rate of unemployment was at its lowest, at approximately 6 per cent (see Chart 1).

Figure 1. Unemployment, ALMP and training in the UK, 1989-1999

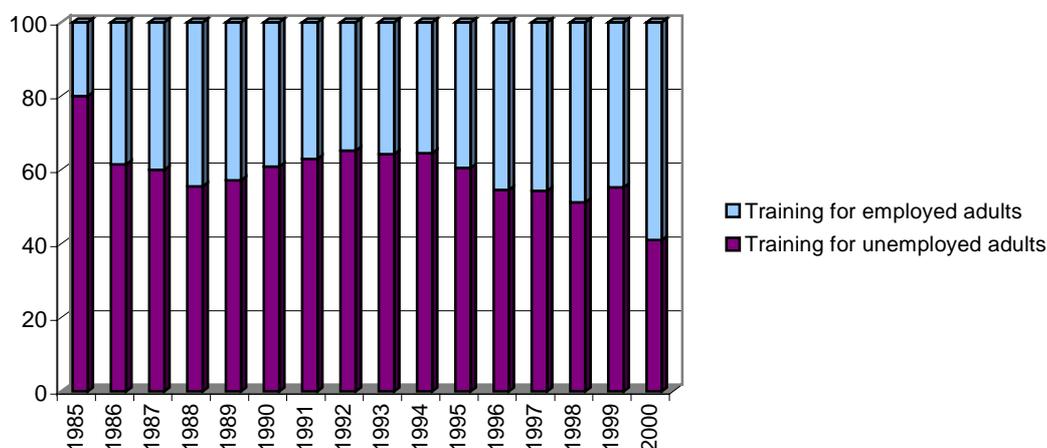


Source: OECD/ELS LMP database

37. In the OECD as a whole, the share of employed adults entering training has risen relative to that of unemployed workers. In 1985, the share of participant inflows in training (measured as a percentage of the labour force) was 80:20 in favour of unemployed workers. In 2000, it was 60:40 in favour of employed workers (see Chart 2). Nonetheless, this changing relationship is not mirrored by expenditure levels in relation to GDP. In contrast to spending on ALMP and total expenditure, the expenditure on training remains relatively marginal (see table 3). Of course, one cannot jump to the conclusion that since more employed workers have benefited from training in recent years, the target group has consequentially also been upskilled. As already argued, survey evidence seems to suggest the existence of a wide gap. The question as to whether an increased effort towards the target group has occurred remains open as long as the actual content of the 'labour market training' category is not examined more closely.

38. The LMP database is currently being revised in a joint effort between DEELSA and Eurostat. The aim of this review is principally to overcome some of the limitations of the current database by introducing more detailed categories regarding target groups and expenditure. This revised database is still being updated and is only used in an experimental fashion. It currently covers the period 1997 to 1999 and is hence suited for cross-sectional as opposed to longitudinal analyses. All the major official PES measures and programmes in the 16 European OECD countries are contained in the database, which amounts to a total of over 400 items. The most representative examples of measures are given in Annex 1. It is then possible to search for specific target groups such as 'youth' or 'immigrants/ethnic minorities'. A category defined as 'employed at risk' allows a distinction between reintegration policies designed for the unemployed and long-term unemployed and other types of preventive measures. A careful review of the measures offered to this target group and to the unemployed was therefore undertaken to identify the extent to which the low-paid and the low qualified have benefited from nationally designed labour market policies.

**Figure 2. Composition of training in the OECD
(unemployed and employed adults in %), 1985-2000**



Source: OECD/ELS LMP database

39. This examination showed that very few national measures are specifically designed to upgrade the skills of the low-qualified. Information provided by national administrations¹⁴ confirmed that the 'employed at risk' category cannot be used as a proxy for the target group. Indeed, this category as defined in the database is quite heterogeneous. For example, in the UK, only disabled workers are taken in consideration. In most other countries, the employed at risk tend to be those facing the collective risk of unemployment because their current employer is undergoing restructuring or closure. The French *cong  de conversion* (retraining leave) is a good example of an allowance covering part of the employee's salary and training costs to facilitate job search, counselling and retraining, but of course, the rationale is not linked to the individual need for skills upgrading. In fact, the individuals concerned may already be well-paid and qualified.

40. Moreover, the examination led to the conclusion that at present, the national PES policy frameworks do not have specific policies for the defined target group, although some measures are available to them by default. Skills-upgrading covers a complex policy package made up of various educational and training elements. The measures available through the PES essentially fall under the category of *continuous vocational training*. Unless they are offered to unemployed job seekers, these schemes are rarely financed through national PES monies (they do not fit within the traditional logic of unemployment insurance and compensation) but rather through earmarked structural and community funds such as those of the European Union. The ESF is undoubtedly a central policy instrument. The cross-national comparison is thus dependent on the inclusion or non-inclusion of ESF-related measures in the LMP database. Out of the 16 countries, seven countries have included measures available to the low-qualified, most of which fall under the remit of the ESF (see table 4). Further clarification is needed as to why the other nine countries have not listed ESF measures in the database, as we know that even if this instrument has been used to varying degrees, projects have been implemented in all the EU countries.

14. Austria: Michael F rschner and Martina Berger, Delegates to the LEED Committee, Ministry of Economy and Employment; Denmark: Jan Hendelewitz, Vice-Chairman of the LEED Committee, Public Employment Service, Storstr m region, and Hanne Weise, Ministry of Employment; Belgium: Ann Van Den Cruyce, LEED Delegate, Ministry of Employment, Flanders.

Table 3. Expenditures on ALMP and training (percentages of GDP) in selected OECD countries, 1993 and 2000 compared* (per cent)

Country	Training for unemployed adults and those at risk		Training for employed adults		ALMP		Total expenditure (active and passive)	
	1993	2000	1993	2000	1993	2000	1993	2000
Denmark	0.37	0.66	0.1	0.18	1.74	1.54	6.68	4.51
France	0.38	0.25	0.05	0.03	1.27	1.36	3.2	3.12
Korea	0.01	0.06	-	0.03	0.1	0.46	0.69	0.55
USA	0.04	0.04	-	-	0.21	0.5	0.79	0.38
UK	0.14	0.04	0.1	0.1	0.58	0.37	2.18	0.94
Germany	0.52	0.34	0.03	-	1.58	1.23	4.1	3.13
Sweden	0.72	0.3	0.03	0.01	2.94	1.38	5.67	2.72

* 1999 for France and UK

Source: OECD/ELS LMP database

41. The descriptions available for each of the measures identified as relevant to skills-upgrading state the following:

42. The Finnish and Italian measures corresponds to *training activities under ESF Objective 4*. These are aimed at the staff in SMEs and business starters. Training is targeted to those who face the risk of becoming unemployed, those who are less trained, ageing and or whose *skills are lagging behind*. So the aim is also to prevent unemployment and to adjust the labour force to structural changes. Funding from the company is required. Training should be *tailored to the needs of the SMEs* and it should also be *as individual as possible*. The training is usually planned jointly with the project promoter/training institution, and the company whose staff is being trained. Individual guidance and counselling should be provided for those who are less trained. The training can be combined with various activities such as estimations of working ability, rehabilitation and improvements in working conditions. Courses typically last for a period of one week. These measures tend to be financed both through central government and the ESF.

43. While Austria and Greece also used the ESF, they preferred to emphasise the ADAPT initiative (which ran between 1995 and 2000). Together with other initiatives such as EMPLOYMENT, ADAPT was part of the European Union's Community Initiatives that complemented the ESF Objective 4. The initiative was designed to make a highly specific contribution to the drive to modernise and update the capacity of European companies and workers in the face of change.¹⁵

15. The objectives were 1) to accelerate the adaptation of the workforce to industrial change; 2) to increase the competitiveness of industry, service and commerce; 3) to prevent unemployment by developing the workforce through improving their qualifications, their internal flexibility and ensuring greater occupational mobility and 4) to anticipate and accelerate the development of new jobs and new activities, particularly labour-intensive ones. This includes exploiting the potential of SMEs. For more information about ADAPT, see <http://www.adapt.ecotec.co.uk>

44. The Portuguese measure (*bolsas de formação da iniciativa do trabalhador*) aims to improve the employment prospects of *persons in employment* and of the unemployed through full-time or part-time training. In the allocation of the grants, priority is given to workers employed in sectors, regions or individual enterprises undergoing a crisis or *low-skilled workers*. Workers who are employed are not required to interrupt their employment in order to participate in the training scheme; they continue to receive their wage for the duration of the training. The average duration is 4,5 months. This skills-upgrading initiative is jointly financed through the ESF and the PES.

45. Sweden is the only country with relevant measures not financed through the ESF. Its two measures, the Adult Education Initiative (*kunskapslyftet*) and the Special Training Grants (*Särskilt utbildningsbidrag* or UBS), are both financed through central government. Moreover, these measures are available to both unemployed and employed workers.¹⁶ All municipalities take part in the Adult Education Initiative which began on 1st July 1997 and set to continue until the end of 2002. The twin objective is to raise educational levels and to reduce unemployment. The development and renewal of the form and content of adult education is also one of the initiative's aims. The initiative is primarily aimed at unemployed adults who lack three-year upper secondary qualifications, but *employed workers whose qualifications are lagging behind are also eligible*. The special training support (UBS) is a study support obtainable for persons aged between 25 and 55 lacking upper secondary school qualifications. *Both employees and unemployed persons can apply for the grant*. In the case of employed persons, they must have been gainfully employed in Sweden on at least half-time basis for no less than five years. Care of a child or children under the age of eight is equated with gainful employment for a maximum of two years. For an employee to be granted UBS, the employer is obligated to replace the employee with a long-term unemployed during the same time as the employee is studying. Studies on UBS can be either full or part-time and last for up to 12 months.

46. It must nonetheless be stressed that the above measures were all implemented in the second half of the 1990s, the period which the database refers to. Given the current changes within the structure of ESF, notably with the introduction of the new community programme, EQUAL (see next chapter), it will be necessary to clarify whether similar measures are currently being implemented or in preparation. Close co-operation with delegates to the LEED Programme and other officers in national administrations would help update and complete the above data, particularly with regard to expenditure. For example, Austria's most up-to-date list confirms that three items can be classed as available to the target group. These again fall under the category 'training for employed adults within the framework of the ESF' (*Qualifizierungsförderung für Beschäftigte im Rahmen des ESF* or *QfB*). One of these measures is implemented under the ESF Objective 1, and a second under the ESF Objective 3. QfB is seen as a preventive target group approach; it focuses on women, elderly low-qualified men and is combined with a further element, namely counselling of the employer (*Qualifizierung für Betriebe im Rahmen des ESF*).

16. Further clarifications concerning the split between employed and unemployed recipients would help provide a more accurate picture.

Table 4. The relative significance of skills-upgrading in the European OECD

Country	Skills-upgrading measures in the LMP database: yes/no
Austria	Yes*
Belgium	No
Denmark	No
Finland	Yes
France	No
Germany	No
Greece	Yes*
Ireland	No
Italy	Yes
Luxembourg	No
Netherlands	No
Norway	Yes
Portugal	Yes
Spain	No
Sweden	Yes
United Kingdom	No

*ADAPT

Source: OECD/ELS LMP database

47. One solution to the problem of evaluation would be to implement a new panel survey for economically disadvantaged workers across OECD member countries, possibly in co-operation with DEELSA as this type of cross-national activity would be a lengthy and time-consuming process. The Korean Labor Institute (KLI), which is currently attempting to improve its monitoring systems has expressed an interest in co-operating with the LEED Programme on this issue.

Summary

48. This chapter has shown that more efforts are needed across advanced OECD countries on skills upgrading for the low-qualified. These policy efforts would help counterbalance employer bias towards those with already high levels of skills and qualifications. Basic and core skills should receive special attention. In terms of country comparisons, the LMP database is potentially a useful instrument to gauge national efforts on skills-upgrading, but unfortunately, current methods for data collection do not give much visibility to measures for economically disadvantaged adult workers. The data currently available suggests that this group has not been regarded as a priority within the national framework designs of ALMP and that the recognition that it might be in need of palliative measures has been poor. A first interpretation could be that public agencies have concentrated their efforts on the reduction of unemployment and that the responsibility for upgrading skills has been left with employers and workers themselves. This would be problematic given that employers' own efforts in this area have not changed the fundamental inequalities in access to education and training.

49. A second interpretation would consist in arguing that the lack of data specifically related to skills-upgrading undermines the visibility of the measures that actually exist at the national and local policy level. If it remains currently impossible to compare the relative efforts of member countries both in terms of beneficiaries, and in terms of expenditure, this is most likely due to the complexity of this policy area which straddles multiple instruments and multiple sources of funding. Thus, the next chapterd turn to an exploration of employment actions carried out at national and local level to detect skills-upgrading initiatives and to identify how they are implemented in individual OECD countries.

CHAPTER TWO: THE POLICY CONTEXT

Introduction

50. This chapter is about policy, and in particular about how policy-makers seek to tackle the barriers confronting the acquisition and provision of skills amongst the economically disadvantaged segment of the workforce. The previous chapter has shown that efforts on skills upgrading are difficult to measure in quantitative terms. It is hence necessary to examine how far national policy frameworks contain adequate measures. Some sociologists have demonstrated that there is a diversity of vocational education and training policy frameworks adopted by industrial countries, which they have sought to capture using the concept of 'national skills development systems' (see Crouch et al, 2001). While this approach provides important and broad insights on the institutional determinants behind the emergence of a learning society, the focus is not on the normative issue of how the failure to update the skills of low-paid and low-skilled workers may be corrected.

51. This chapter will attempt to identify some key mechanisms for upgrading the skills of economically disadvantaged workers that have been implemented in several OECD countries. In particular, it will identify where countries have developed noteworthy skills upgrading experiences, tools and instruments, and discuss the role of the actors involved in the process.

52. Labour market policy analyses commonly make a distinction between measures directed at the demand side (employers) and the supply side of the labour market (workers). Hence, the first section explores the incentives offered to employers whilst the second section discusses those that have been implemented to specifically promote the demand for skills and facilitate their acquisition amongst workers. The closing section will argue that despite this apparent dichotomy, some linkages appear to emerge.

Employer-oriented strategies

53. There are two broad type of interventions in this area, which are more complementary than opposed. The first one is a direct form of intervention seeking to change training practices from *within* the workplace. This consists of encouraging employers to reconsider their investment in training, usually by offering them financial incentives in the form of allowances and subsidies to train their workers. The second approach is more indirect and external to the firm. It is based on the recognition that employers are not isolated but need to draw on additional resources and infrastructures. In this case, policy-makers are more 'hands-on' as they will develop the conditions for the provision of effective educational and training solutions. They will, for example, attempt to influence the local provision of appropriate training courses from above.

Direct incentives: encouraging employers to train internally

54. Much has been written on the subject of subsidies, especially wage cost subsidies to employers. Training allowances can in some cases be complementary to incentives already granted for the labour market integration of unemployed job seekers and aim at giving an extra boost. For example, employers who recruited a young person under the New Deal for Young People were offered a training allowance of £750 (€1,215) in addition to a weekly wage cost subsidy of £60 (€97). There have been great discrepancies in the use of the allowance by employers. Some employers have from the onset limited the costs and the type of course offered to their workers whilst others have used the allowance to top-up their own investment in their new recruit. Employers usual behaviour towards training must receive special attention and a fuller evaluation of potential deadweight is in any case necessary before governments decide to offer training subsidies.

Moral incentives and policy advocacy versus legal obligations

55. 'Corporate social responsibility' is the new buzzword to describe the many social and environmental objectives of the firm (OECD, 2001h). The 'responsibility to workforce development' may be seen as part of this agenda. For example, the U.S. Workforce Investment Act of 1998 offers a pathway to create systems change. This legislation emphasises employer engagement, integration of workforce resources and long-term retention outcomes. However, it has been argued that in the absence of formal enforcement rules, this state 'leadership' merely amounts to guidance on policy options, although several Workforce Investment Boards (area-based partnerships responsible for co-ordinating federal and state labour market policies) have made attempts to engage employers (Giloith, 2000). A further example is the UK 'Investors In People' standard. This is a checklist of evidence that employers can offer to show that they are undertaking a series of organisational and employee development measures (see annex 1). It is a voluntary scheme, but successful completion of the exercise leads to accreditation of the organisation as an 'Investor in People' organisation. The scheme is marketed to employer as a means to achieve improved earnings, productivity and profitability but it does not specify the precise learning measures that should be taken, nor does it focus on the training and development needs of individual employees. The standard was introduced in 1991 but steps have been taken to develop it internationally by establishing strategic partnerships to influence governments, employers and social partners.¹⁷ In 2001, 24,000 organisations were recognised as Investors in People (covering 24 per cent of the UK workforce). Investors in People UK which is responsible for the promotion, quality assurance and development of the standard maintains close links with a range of regional delivery partners, National Training Organisations (NTOs) and professional and educational institutions.

56. Of course, there are cases where governments may feel that discrete employer incentives and advocacy will not suffice to offset market failure and will prefer to introduce an obligation to train staff via legislation. This is the case of France where the law on continuous vocational training of 1971 established an individual entitlement to training. The law imposes a training levy on employers which amounts to 1.5 per cent of their payroll costs (Santelmann, 2001).¹⁸ However, a focus on the economically disadvantaged is not explicit in the law and it does not prevent employers to spend disproportionately on courses for managers and other already well-educated groups. On the whole, the French system poses little controversy. The very similar Australian Training Guarantee Scheme faced strong opposition from employers' organisations and was suspended in 1994, after only four years (Stevens, 2001, p.485).

17. For example in Australia, Bermuda, Chili, Denmark, Finland, France, Germany, the Netherlands, New Zealand and Sweden.

18. Before 1991, this legal obligation was restricted to companies employing over 10 staff and was then extended to smaller companies. Employers pay their contribution to mutual funds such as the fond d'assurance formation (FAF) or the organismes paritaires agréés du congé individuel de formation (OPACIF), which implies that some redistribution occurs between firms.

Putting employers at the heart of the educational infrastructure

57. Of course, all countries have a well-developed institutional infrastructure for vocational and educational training (VET) made-up of both public and private sector colleges and educational providers who offer courses to young people and adults. These providers often tend to offer a whole range of courses, ranging from mainstream further education and vocational training to short training courses and retraining packages for unemployed and socially excluded people. They thus cater for various needs and groups. In Denmark and Sweden, there is a well-established infrastructure of schools for adult learning (AMU and VUC) which are used in relation with vocational learning, career development breaks and job rotation schemes (see next chapter).

58. The allocation of funds and the requirement for auditing training standards means that some degree of centralised management is necessary. Public sector bodies such as the Labour Market Training Board (*Arbetsmarknadutbildningen* or AMU) in Sweden, the Learning and Skills Council (LSC) in the UK or the *Agence pour la Formation Professionnelle des Adultes* (AFPA) in France are key actors. Their main task is to commission training from a range of providers through extensive regional and local networks.

59. Some governments have felt that these labour market training boards and agencies must be complemented by further national agencies with a more explicit focus on industry needs. This role may involve skills analysis and forecasting, as well as drawing up strategic workforce development plans. In the UK, this task was endorsed by the NTO (National Training Organisations) Council, which ceased to exist in March 2002 and was replaced by the Sector Skills Development Agency.¹⁹ SSCs Trailblazers have already been launched in five sectors: retail, land-based industries; audio-visual industries; apparel, footwear, textile; oil and gas extraction, petroleum refining and distribution, chemical manufacture). SSCs are led by employers whose remit is to ensure that skills provision is designed to meet sector needs and to promote best practice sharing and benchmarking. John Healey MP, Minister for Adult Skills, argued that:

'Sector Skills Councils will be at the centre of a new demand-led strategy to engage more employers – large and small – in meeting the skills and productivity challenge. We will expect employers running SSCs to build strong strategic alliances with other partners, in particular the Learning and Skills Councils and Regional Development Agencies' (see DfES, 2001, p.24).

Sectoral employment development programs

60. Sectoral employment development programmes target a particular industry—and a set of occupations within it—in order to place disadvantaged people in high quality jobs. These programmes are distinct in that they attempt to change employment practices within their industry sector and produce wider effects on the local economy (Zandniapour and Conway, 2001). Sectoral programs are generally key players in the targeted industry in which they work and influence industry practice on behalf of low-skilled or otherwise disadvantaged workers by pioneering labour-based innovations that benefit industry and workers. Sectoral employment projects utilise a range of strategies to achieve these ends—including operating education and training schemes, running for-profit businesses, forging institutional links with educational institutions, employers, unions and associations, advocating for policy changes, and providing services to firms within the industry. Sectoral programs intervene on both the supply side of the labor market—by providing high quality, sector-specific training to workers or potential workers—and on the demand side, by working closely with employers on productivity, competitiveness or other business issues.

19 . See <http://www.ssda.org.uk/>

With an estimated 31,000 organisations, the United States certainly has the most developed infrastructure of intermediaries.²⁰

61. In the European Union, the ADAPT programme contained a strong employer focus since its aim was to engage and retain the commitment of SMEs in training and support measures. Within ADAPT, each member state set out its priorities in its so-called 'Operational Programme'. A review of the OPs suggests that while all countries emphasised SME support and development in some form or another, some countries explicitly saw ADAPT as a means to improve the skills of the low-qualified. The Portuguese OP states that 'action is to be targeted on improving the currently poor levels of basic training and qualifications in the labour force' and the OP for Ireland drew attention to low levels of training investment in Irish companies, to the poor existing systems for in-company training, to the need for multi-skilling and innovative approaches to the delivery of training, to the absence of training in very small companies and to the lack of links between companies and education and training institutions.

62. It is important to bear in mind that horizontal and national guidelines will impact upon the formulation of projects and preparation of bidding documents and thus shape to some extent the local dimension of upskilling presented in Chapter Three.

Worker-oriented measures

Financial incentives

63. A broad understanding of policy intervention could of course include the fiscal dimension, especially since low income and poverty represent the most obvious obstacles towards skills acquisition. In its latest Employment Outlook, the OECD (2001) argued that governments should strengthen incomes policy measures for the working poor. These fiscal measures that 'make work pay' include e.g. the *Prime pour l'Emploi* in France, Earned Income Tax Credit in the United States, Working Families Tax Credit in the United Kingdom.²¹ This approach is essentially redistributive but remains untargeted since there is no guarantee or control that low-paid workers will use their additional income to improve their human capital as opposed to using it for other consumption items. Indeed, a laboratory experiment was conducted in Canada to test whether low-income people can be encouraged to save money to increase their human capital showed that given the choice, individuals generally preferred to take cash rather than delay consumption (Social Research and Demonstration Corporation, 2001). Asset-based policies and educational vouchers such as Individual Development Accounts in the United States and Canada and Individual Learning Accounts (ILAs) in the United Kingdom seek to address this problem by relating cash incentives to the enrolment on a training or educational course. However, even high levels of reported enrolment do not guarantee a genuine take-up and successful outcomes. Indeed, the closure of the ILA programme on 23 November 2001, after just over one year of existence following allegations of theft and fraud indicated that once again, accountability is a crucial issue (see also OECD, 2001a). Additionally, if in the short run, income gaps can be partially reduced, in the long run, these incentives may be insufficient if jobholders perceive themselves to be trapped in dead-end jobs (Giloith, 2000, p.341).

20. Thanks are due to David Balducci from the U.S. Federal Department of Labor for providing this information. Nonetheless, caution is required with estimations of intermediaries as the majority may essentially target unemployed workers without addressing incumbent workers.

21. These may be combined with child care and transportation subsidies.

The time to train: Job Rotation and Employee Development Schemes

64. Very often, staff development and skills-upgrading is a question of allowing employees the time off work to complete the necessary activities. The job rotation scheme common in Sweden and Denmark (see Keane and Corman, 2001) is often cited as a successful model. This activation scheme allows wage-earners to attend an educational and training course during a paid leave period of up to a year and be replaced by an unemployed person who is then given the chance of returning into ordinary employment. The employer, in co-operation with the PES sets up a training plan for the currently employed and combines this with special training programmes for the unemployed person hired as a substitute. However, it is much more common in large organisations and rarely benefits -contrary to popular belief- low-qualified workers. Moreover, the reduction of unemployment has meant that its use has decreased in recent years. In Denmark, like in many other countries there are concerns that otherwise successful instruments are not benefiting the least qualified.²²

65. Moreover, the Employee Development Scheme (EDS), which was initially developed in the automotive sector, was estimated to be used by 1,500 UK employers in 2001 (Berry-Lound et al, 2001). This scheme provides employees with opportunities for personal development not directly linked to their current employment but which complement existing workforce development activities. EDS are open to all employees and provide funding to access external courses or offer in-house learning facilities. The level of workplace support ranges from simple schemes with annual budgets for out-of-hours employee learner support, geared predominantly at access to further and community-based education to more comprehensive programmes, combining a range of internal learner support, counselling and provision, with financial support for off-site provision and study programmes. The biggest take-up remains, once again with organisations employing over 200 employees, especially in manufacturing and public services (Lee, 2000) so that EDS do not appear to be within the reach of those employed in the low-wage service economy.

Offering flexible learning environments

66. While time release is crucial, providing the most adequate space for skills acquisition is also an important feature of effective programme design. It was argued above that an effective infrastructure of employer support is paramount to engaging employers into skills related programmes. This argument is of course, also highly relevant to employees. Vocational guidance and counselling are amongst the official ALMP instruments and all countries are supposed to offer such services through publicly funded career centres that can be accessed informally. But services are often shallow and standardised upon the assumption that clients are necessarily unemployed job seekers. In addition, while private advisory services are usually available, the low-qualified are unlikely to be able to afford the related cost.

67. Formal learning environments such as classroom-based courses tend to represent a disincentive towards skills acquisition by low-qualified workers. This is why successful solutions are those aiming to change individual behaviour by providing unconventional learning environments that fit the learning styles of low-qualified workers. This may trigger a willingness amongst individuals to contribute to their own personal development. Such issues have been underlined in the US and British workforce development debates as evidence shows that there is a high population of persistent non-learners. Bearing in mind the characteristics of the target group, it is difficult to convince low-paid workers, who are rarely offered the time by their employers to attend courses during the normal working hours to commit both their own time and financial resources when they are struggling to make ends meet and fulfil their family commitments. Moreover, there may be a certain amount of hostility towards conventional learning environments as low-skilled workers have often been failed by the schooling system.

22. Thanks are due to Hanne Weise from the Danish Ministry of Employment and Jannie Buch Nielsen from the PES Storstrøm region for useful discussions.

68. The national policy level can provide the impetus by raising awareness of the importance of individuals skills acquisition. It can also create some instruments with local branches that learners will be able to draw upon when attempting to engage in skills upgrading activities. This was the thinking behind the University for Industry created in 1998 as the UK government's flagship for lifelong learning. It is a partnership between government and the private and public sectors. Within a year of becoming fully operational in October 2000, it had created with its partners *learnirect* - the largest publicly-funded online learning service in the UK.

69. The University for Industry is presented as the modern twenty-first century version of the UK's Open University. Ufi's objectives are that by 2005, *learnirect* will have turned into a household name and a high street brand for learning for all British citizens (see the Ufi's Strategic Plan 2002-2005, <http://ufild.co.uk>). It defines its mission as consisting of partnership work to boost people's employability, and organisations' productivity and competitiveness by:

- inspiring existing learners to develop their skills further;
- winning over new and excluded learners;
- transforming the accessibility of learning in everyday life and work.

70. 'Flexible learning' is the University for Industry's central concept: amongst its many 'pledges' to the learners, it is committed to offer the time, place, pace and style of learning that responds to the needs of economically disadvantaged workers.

Customisation: in-work support measures and after-care

71. The recognition of the diversity of obstacles facing low-skilled job seekers has led many PES to adopt individual case management (OECD, 2001c) where individuals are offered the support of personal advisers and coaches. This was for example the case in the British New Deal for the Unemployed and Employment Zones initiatives. Such advisers are expected to develop a personal rapport with their clients which will enable them to achieve an effective job match. Whilst this approach has generally been regarded as innovative, its two major weaknesses were the pressure underpinning the low quality of referrals and the lack of post-placement support by advisers, both driven by a target oriented policy from head office (see Nativel et al, 2002). While the so-called 'New Deal Two' which includes soft skills and occupational skills pilots (see Andersen et al, 2001, Irving and Slater, 2001) has sought to improve retention through more attention given at the quality of submissions, post-placement skills support and training is once again absent.

72. This problem can be partly remedied through intensive in-work mentoring. Mentoring is a voluntary-based scheme and is grounded in the idea of providing individuals with a role model. For young people, the mentor is often someone who will help them overcome barriers, increase motivation and help formulate a vocational project. As part of a public policy tool, mentoring can be integrated to a labour market programme offering in-work support. The manager of a mentoring programme in Birmingham, England provided evidence that the mentor was often in the position to help former welfare recipients stay in work, when conflict emerged with their employers.²³ This form of 'pastoral' mentoring where young people are paired with an adult is relatively new. More traditional occupational mentoring which pairs adult workers (a highly skilled, highly experienced mentor with a lower-skilled, less experienced worker) is of course particularly relevant to help the defined target group further their careers. This type of

23. Interview with Val Walwyn, Co-ordinator of the Birmingham New Deal Mentoring Project, 10 May 2000.

arrangement must however be an integral part of organisational practices and supported by human resource managers so that objectives and monitoring of progress may be formalised. It remains difficult to gather evidence as to how many such programmes exist in individual countries, especially since they are often provided on an individual basis and go unreported or unobserved. Mentoring appears to be more formalised in large public sector organisations, such as hospitals and universities are more likely to have formal arrangements to pair individuals. A recent study found that mentoring increased the likelihood of staying in work by 65 per cent (Kellard et al, 2002).

Advocacy groups and the social partners

73. In many instances, national skills initiatives may emanate from corporatist organisations (Crouch et al, 2001). This is the case with the American National Skill Standards Board, a coalition of business leaders, labour, employee education and community and civil rights organisations created in 1994 to build a voluntary national system of skill standards, assessment and certification systems. Its broad aim is to enhance the ability of the U.S. workforce to compete effectively in a global economy.²⁴ In a similar vein, the National Organisation for Adult Learning in the UK is an advocacy group with 260 corporate members (essentially educational providers) which seeks to support and increase the total numbers of adults engaged in formal and informal learning in England and Wales. It also endeavours to take positive action to improve opportunities and widen access to learning opportunities for those communities under-represented in current provision.²⁵

74. Finally, it must be stressed that many initiatives with an employee focus tend to be promoted by trade unions who see the establishment of career ladders and work-based training as central to their remit (Giloith, 2000). Even in countries such as the United States and the United Kingdom where the decline of union membership has been relatively marked, unions with a strong leadership such as the AFL-CIO in the U.S. are pressing for a 'high road' economic development route (AFC-CIO, 2000, see also <http://www.aflcio.org>). The TUC in Britain has a comprehensive skills policy which includes a union learning fund from which monies may be drawn to set up specific projects, notably through the field action of 'learning reps'. For example, a basic skills course was pulled together by technicians union, BECTU, and the English National Opera in London in the year 2000. This scheme allowed ENO staff working in wardrobe and front of house, technicians and stagehands to get a chance to brush up on their communication skills, and take part in basic computer training. In Sweden, the Swedish Metal Workers' Union is currently lobbying for the incorporation of a skills fund to be incorporated in new employment contracts.

Towards a multi-faceted approach?

75. This chapter has provided a brief overview of the major and most common measures to upgrade the skills of the low qualified. This indicates that there is a variety of employer and employee strategies concerned with skills and that various actors, other than government have a voice at the national level. If most of the existing programmes and tools appear to be formulated in isolation, there is a strong complementarity between demand and supply-side oriented measures. In some instances, this complementarity is more explicit in policy design, as in the case of sectoral intermediary programmes.

76. Nonetheless, national policies may overlook that employment retention and sustainability is strongly related to other localised issues that affect people's daily lives, e.g. housing, transport, and social

24 . See <http://www.ussb.org>

25 . See <http://www.niace.org.uk>

services such as child care. The emphasis financial barriers overlooks that individuals may be prevented from engaging in their own self-development for a variety of reasons such as mobility, social and family commitments. Employers may be prevented from offering training because they cannot devise new product and service development strategies and face barriers to market entry.

77. Thus, the question of whether workforce development as a strategy should be seen as a panacea to productivity problems must be raised. It has been pointed out that there is a danger in pursuing workforce development as a single strategy. 'It is appealing to believe that there might be a single solution to workforce underdevelopment. But as with any kind of economic development, experience shows that multiple solutions are needed, which work on the many dimensions of the problem, reinforce each other over time and combine generic tools with specific ones targeted at the very distinct needs of different types of firm or sector' (speech by Geoff Mulgan, Director of the Performance and Innovation Unit quoted in Westwood, 2001, p.13).

78. A multi-faceted approach becomes, as for many other socio-economic issues, a matter for the local scale of policy intervention.

CHAPTER THREE: SKILLS-UPGRADING AND THE LOCAL SOCIO-ECONOMIC CONTEXT

Introduction

79. There is great geographical diversity in the supply of and demand for skills (Green and Owen, 2001). There are indeed strong discrepancies in employer demand according to location. In buoyant labour markets, skill and labour shortages tend to co-exist. In cities where unemployment is virtually nil, employers in the low wage sector, particularly in the catering, hospitality and retail industries find it difficult to attract welfare-to-work candidates because of the low status and lack of progression associated with the vacancies on offer. At the same time, the high-tech and financial services sectors report that vacancies cannot be filled because of the perceived lack of candidates with appropriate technical skills and qualifications (Sunley et al, forthcoming). Thus, skill deficiencies are more acute in certain industries and in certain local areas. An economic development stance on skills-upgrading is hence necessary, bearing in mind that even buoyant local economies employ low skilled workers, and that this segment of the workforce is the least mobile. In contrast, highly skilled workers are not only more likely to train off-the-job, but they also tend to attend tailor-made courses in remote locations (Santelmann, 2001) bringing back with them the skills gained elsewhere. But the economically disadvantaged cannot avail themselves of such opportunities and are highly reliant on the local supply of skills. Thus, the local challenge is to combine the target group focus with an industrial, enterprise-led approach. This localised form of workforce development is referred to as 'job-centered' or 'targeted economic development' (Gilothe, 2000)

Targeted economic development: pooling local training expertise and learning potential

80. The previous chapter has argued that measures directed at employers and workers cannot be implemented in isolation from each other and that a tendency towards policy integration appears to be emerging. It is often argued that the regional and local scales are conducive to effective learning and innovation. This is partly because individual and organisational learning reinforce each other (OECD, 2001e) but also because public policy programmes and initiatives in the social policy and economic development fields can be pooled through partnership efforts (OECD, 1998; 2001a). National actors can set the policy and accountability framework, but it is at the local scale that agents can draw on relevant knowledge and expertise to define the most relevant skills strategies for their territory. A common argument concerning the decentralisation of training is that the content of the courses must be tailored to match rapidly changing local business needs (Grefe, 2001). Furthermore, policy makers responsible for individual learning are required not simply to fulfil the demands for knowledge/skills of *existing* production of goods and services, but also the significantly different demands for *future* production. Policy makers are hence confronted with difficult analytical issues in respect of predicting these future demands in the context of the region's relationship with the shifting conditions of the national and global economic environment (OECD, 2001e).

81. It is however striking that this *needs assessment* is difficult to put into practice. Educational establishments such as colleges are often unaware of business needs and do not tailor the training courses according to local employer demand. One of the major obstacles to this 'organisational learning' is that training providers often lack the necessary remit and resources to take a holistic and flexible approach,

even when they operate within the framework of a partnership, such as in the British New Deal programme. For example, a college representative in Edinburgh argued that²⁶:

'We would like more direct links to employers. Okay, give us a great big database if that's possible, but it's not focused enough (...). It would be much better if they could come to us in the reverse order and say 'this is the areas where jobs are available, this is where the demand is'. So therefore we could marry that back with the courses that are on offer and route clients into the courses that would lead to jobs and if they could give us the employer contact where the demand is and we would forge the contact from there, it would be much more beneficial throughout the whole process. Unfortunately it tends to work in stages and each person's concerned with their own stage of events rather than having the holistic approach from start to finish. We all deal with our own little bit and you tend to forget what's happened to them before they come to you and what happens to them after (interview, 22 January 2001).'

82. Specific agencies with a remit to devise local skills strategies can help respond to this problem and provide the impetus. The LSC with its 47 local branches is an interesting example that would require further research and analysis. At the time of writing, local Councils were in the process of carrying out an assessment of the skill gaps in their area which will help them target provision at current and future skill needs. By March 2002, most LSCs had produced their local strategic plans. A review of these documents indicates that there is great emphasis on encouraging greater education-business links and sectoral approaches. Moreover, specific targets concerning increased efforts in the proportion of the workforce receiving work-based training and employers receiving training, as well as an increase in the number of employers recognised as investors in people have been set.

83. Even if the political responsibility for designing programmes is often with local authorities, training institutions such as community colleges and intermediary providers have shown that they can be major drivers of skills upgrading, particularly in rural or distressed areas (Regional Technology Strategies Inc., 2001). Traditionally, they have a 'passive' delivery role but may also initiate the design and conduct of innovative projects, especially if they can bid for funding. However, training organisations often report concerns over attracting the necessary resources to implement innovative individualised courses for low skilled incumbent workers. Indeed unit costs for such courses tend to be much higher since only modest economies of scale can be achieved.

Local practices: some recent evidence

84. This section examines the ways in which individual skills upgrading may be combined with local economic development, particularly with SME-oriented planning and organisational improvements. In other words, this section seeks to show how localities can reconcile the two apparently disjointed logics of individual and business development. Two rather different models are examined in turn: first, the ESF (ADAPT, EQUAL) which provides a local design, but based on regional guidance and a transnational input, and second, the sectoral intermediary model, which is more common in the United States, and is more grassroots based than the ESF model.

Using the ESF

85. As argued, an important issue for the local provision of skills is that of *resource allocation*. Chapter One showed that public resources for active labour market policies tend to be concentrated in

26. Author's interview transcripts. See previous notes.

traditional reintegration programmes. In the European Union, resources from the European Social Fund (ESF) helps regions and localities fund programmes to upgrade the skills of economically disadvantaged workers. For example, the EQUAL programme was introduced in 2000 to test and promote new means of combating all forms of discrimination and inequalities in the labour market, both for those seeking work and for those in work. EQUAL is distinguished from the former ADAPT and EMPLOYMENT community programmes which it replaces and the mainstream Structural Fund programmes by its thematic approach to testing new ways of delivering policy priorities in the framework of the European Employment Strategy (EES).²⁷ More precisely, it operates in nine thematic fields, eight of which are defined in the context of the four pillars of the EES: Employability, Entrepreneurship, Adaptability and Equal Opportunities. The ninth covers the specific needs of asylum seekers.

86. The most relevant EQUAL themes to employee retention and progression are Themes E and F, both of which have been defined in the context of the Adaptability pillar. The strategic objective of Theme E is to test innovative approaches to attract non-traditional learners to improve their basic and new skills and the strategic objective of Theme F is to promote inclusive working practices and adaptability including work/life balance and the use of ICT. Both the objectives have the potential to impact on the defined target group.

87. Project promoters who are referred to as Development Partnerships (DPs) bid for EQUAL funding under particular themes, rather than the focus being target group driven. DPs have a local, regional or even but more rarely, national focus. In the UK, there are 77 DPs (see <http://www.equal.ecotec.co.uk>). A close examination of the DPs priorities under each of the EQUAL theme indicates that 20 DPs have emphasised themes E and F. A further area of research at the local level would be to identify other DPs in the EU that have emphasised these themes and conduct of survey of all the DPs to explore the features of the various projects being implemented. This would involve exploring in what ways it is differing from its predecessor, ADAPT.

88. What has been learnt from the ADAPT programme is that despite its common guidelines, there is the opportunity to tailor it the learning and skills needs of diverse European regions and localities. Over thousand projects have been implemented across the EU between 1995 and 2001. These initiatives have highlighted that marketing to employers is a first important step towards improving the business training and learning culture. One such project which was presented as exemplary in the UK in terms of engaging SMEs, *Learning North East*, is presented in Annex 3. Generally speaking, ADAPT projects have used the traditional business links networks, trade associations and the like. But by widening the net, projects have also been able to work with more specialist or niche organisations. They have for example worked with trade unions in the creative industries, minority ethnic business networks, music unions representing a significant number of freelance members, business clubs, community groups, refugee groups, the prison service, the careers service, co-operative associations, industry bodies and supply chains. Such networks, which include organisations working directly with specific target groups, usually understand better the needs of these groups. Importantly, working with such networks lends credibility to a project. Collaboration also helps in developing business support as a whole, by encouraging the sharing of experience and good practice among business support agencies. Of course, an important challenge is to present the case to employers that not only managerial staff must be nurtured into learning, but that the learning culture must be extended to *all staff*.

27. See http://europa.eu.int/comm/employment_social/equal. Many thanks are due to Antoinette Smallman, EQUAL Support Manager at Ecotec for additional information regarding this programme.

Sectoral Intermediary Projects

89. Chapter Two showed the increasing significance taken by intermediary organisations offering a sectoral development approach. Whilst the overall principles are the same, the models vary greatly at the local level since the major objective of intermediary organisations is to respond to local skills shortages. The development of intermediaries has been particularly significant in the United States and in the United Kingdom.

90. The Aspen Institute's Sectoral Employment Development Learning Project (SEDLP) which ran between April 1997 and December 2001 evaluated six major U.S. sector programmes in quantitative and qualitative terms (see Zandniapour and Conway, 2001).²⁸ The study found that most participants were of prime working age, with the average age of survey participants being 34. Nearly all respondents (96 per cent) had some work experience and reported, on average over 12 years on the labour market. Respondents were clearly economically disadvantaged, with average and median annual earnings of \$8,941 (€10,190) and \$4,742 (€5,400) respectively. While the majority of the participants were non-incumbents workers, 23 per cent of the respondents were incumbent workers. For these workers, participation in a sectoral training programme yielded an average hourly increase of \$0.75 (€0.85) that is from \$11.42 to \$12.17 (€13 to €13.87). For non-incumbent workers, the wage increase was more marked, from \$7.32 to \$9.65 (€8.34 to € 11) which represents an increase of \$2.33 (€2.66) per hour. Moreover, a large majority of participants reported increased levels of job satisfaction and a willingness to enrol in other training or education courses in the future. The study also showed that job hoppers achieved higher levels of employment retention than those who preferred to stay with the same employer. This outcome suggests that sectoral programmes also succeed in encouraging participants to plan their own career progression and to display mobility in the labour market.

91. The six programmes included in the SEDLP evaluation employ a range of strategies and work in a variety of industries such as carpentry, construction, clothing, machining and metalworking, health and business. Typically, these programmes offered courses to both incumbents and non-incumbent workers and the courses ranged from 10 days to four semesters. The average duration was 12 weeks. The most comprehensive programme, Project Quest is presented as a model to be emulated (see Annex 4). Training in this programme takes one to four semesters to complete. This project also resulted in the highest earning increases amongst the six project studied. In comparison to the five others, it had the lowest rate of non-completion (78 per cent), but most respondents stated that they had only abandoned the programme on a temporary basis (on the grounds of family or health problems) as opposed to dropping out altogether.

92. The sectoral intermediary model has recently been replicated in the United Kingdom, although such organisations are currently less common than in the US. When they exist, they tend to have a strong bias toward pre-employment preparation for welfare-to-work participants. This is for example the case of car manufacturer NISSAN based in Sunderland. The company has developed a close and exclusive partnership with an intermediary, the Automotive Sector Strategic Alliance (ASSA) which provides customised training to individuals looking to train as automotive engineers for NISSAN (see OECD, 1999b, pp.102-103). Nonetheless, at present, the logic tends to lean towards satisfying local skill shortages as opposed to skill deficiencies. Other sectoral models created with the cooperation of local employers such as the financial sector intermediary project in Edinburgh which brings together ten local banks and insurance companies or the NEC-Airport agency project in Birmingham (Nativel et al, 2002). At present, most organisations of this kind in Europe still adopt the intermediate labour market (ILM) model whereby skills and training are essentially provided as a pre-employment exercise or combined with alternative

28. The six projects were Asian Neighbourhood Design in San Francisco, the Garment Industry Development Corporation in New York, Focus Hope in Detroit, the Jane Addams Resource Corporation in Chicago, the Paraprofessional Healthcare Institute in New York and Project Quest in San Antonio.

forms of employment for the socially excluded (see Spear et al, 2001). More research is needed to establish whether these intermediary organisations are continuing to offer after-care services once participants have been placed in jobs with the participating employers.

Skills-upgrading and Lifelong Learning: cross-cutting links

93. As argued earlier, the boundaries between skills-upgrading and lifelong learning are fuzzy and many of the new initiatives relevant to this report can be found in the framework of lifelong learning. This is demonstrated by the case of the Gnosjö region in Sweden which is currently setting up an initiative known as the System for Lifelong Learning Project. This is a partnership between four municipalities, a bank, employers, the County Administrative Board, the County Council, the County Employment Board and the Swedish Institute for Working Life.²⁹ At the centre of this project is an emphasis on skills as opposed to formal qualifications, the aim being to change the skills profile of the region. This is to be achieved through a method described as Strategic Skills Planning (SSP). This method consists in establishing skills targets for the region, identifying what abilities are needed to achieve the target and to what level they are needed in each area. The requirement profile is then compared with the individual's current skills level in order to determine the skills gap. The skills gap is analysed and only then are the appropriate measures designed and implemented. Subsequently, the measures should truly reflect the individual's needs. They may include a variety of learning packages from teaming up with a colleague to studying at university.

Further research needs

94. The evidence collected for this report suggests that the institutional mechanisms applicable to the local supply and demand for skills-upgrading varies quite significantly across OECD countries. Despite limited cross-national efforts to monitor skills-upgrading, many relevant instruments and initiatives exist both at the national and local level of intervention. It is possible to identify variations in terms of the actors and resources mobilised to respond to skills gaps and needs. However, *it is currently impossible to reach any conclusive evidence as to the relative effectiveness of these local mechanisms.*

95. Thus, it will be necessary to carry out case studies in various locations to provide a reliable in-house evaluation. This will help determine the extent to which skills gaps and needs are identified by individuals and employers and the extent to which different public agencies and provider organisations are effective at tailoring the supply of programmes, as well as how demand and supply are matched locally.

96. More specifically, the interviews will seek to respond to the following objectives:

- *Identification of skills gaps, skills shortages and skills needs.* To what extent are actors able to recognise such gaps and which are the contributing factors? In the case of lack of awareness, what are the preventing factors? Does the identification depend on local labour market conditions (for example, are skills shortages more readily identified in buoyant areas? Are skills gaps more readily identified in sectors or firms with strong labour unions?), or does it depend on individual circumstances and preferences (high degree of concern or responsibility by employees and employers)?
- *The design and strategic dimension of skills upgrading.* Who in a local labour market is in charge of formulating strategies and designing measures for skills upgrading? Which specific

29. See <http://www.iuc.gnosjoregionen.nu>

packages are designed in local areas and which factors influence the framework design? Does a strong national workforce development policy have some bearing on the quantity and quality of skills-upgrading projects being formulated (e.g. through more resources being made available)? Have certain potentially relevant projects failed from been considered or have some been tried without success because of a lack of interest or resources? Are skills-upgrading measures designed as part of wider programmes? If this is the case, what are the particular linkages to the economic development and social inclusion agendas?

- *The implementation and delivery of skills upgrading.* When specific projects and initiatives are implemented, how is provision organised? What is the most common and most unusual type of provision? Which type of obstacles are faced in the task of implementing and running skills provision?
- *The effectiveness of skills upgrading.* Which impact do measures have in terms of employment sustainability, improved pay and career progression, business development (skills needs met), individual development, improving the effectiveness of other ALMPs, organisational learning?

97. Interviews will need to be conducted with four types of respondents: (1) local representatives of public agencies (local authorities, training boards, PES); (2) human resources managers or company directors; (3) training providers and educational establishments; and (4) recipients. Table 5 provides a preliminary list of topics and areas to be covered during interviews. It must be stressed that the objective being to provide a comprehensive picture, the four categories of respondents may provide answers relevant to more than one of the above objectives. For example, while the effectiveness of skills upgrading is more likely to be analysed using data from recipients and employers, training providers or public agencies may also provide additional relevant information.

98. The conduct of the interviews will be based on initial contacts and meetings with local representatives of public agencies. These will help establish the type of action initiated by the public sector. Additionally, these meetings will help to draw a list of potential employers and providers to be interviewed. Ideally, interviews with employers should attempt to cover different sectors of industries and establishment sizes. Those with providers should include 'traditional' community colleges, as well as smaller intermediary organisations. To avoid the problems of a biased sample, employee interviews will be designed in co-operation with national administrators and carried out in co-operation with statistical agencies.

Table 5. Preliminary interview schedule

Type of interviewee	Factor/ Topic	Data to be collected
Interviews with local authorities and PES representatives	Significance of skills-upgrading and 'targeted economic development'	<p>Is skills-upgrading and important strand of employment and economic development policy? Reasons for this emphasis (or lack of emphasis)?</p> <p>Has there been a recent shift of emphasis (if so, why)?</p> <p>Why type of public resources and actors are being mobilised?</p> <p>Is skills-upgrading designed as a stand-alone programme or integrated in a wider social inclusion or economic development programme? (What are the reasons for this choice?)</p>
Employer interviews	Type of firm, training and skills-upgrading offered to employees	<p>Creation, size and activities of the company</p> <p>Split between various categories of workers (according to qualifications and status, i.e. permanent or non-permanent)</p> <p>Staff turnover</p> <p>Proportion of total staff that has benefited from training last year?</p> <p>Proportion of low-qualified, low income staff that has benefited from training last year?</p> <p>Type of training offered to staff and duration</p> <p>Provision of training: in house or external?</p> <p>Special schemes: mentoring, etc?</p> <p>Expenditure on training</p>
	Motivations and attitudes to training	<p>Is training regarded as a necessity?</p> <p>Is the cost seen as prohibitive?</p> <p>Does the organisation make any efforts to enquire about training available locally?</p> <p>Does the organisation carry out any skills assessment needs either internally or externally?</p> <p>Skills assessors/advisory firms: is the organisation likely to use them to carry out skills audits?</p> <p>Is the organisation willing to work in partnership with local agencies and intermediaries?</p>

Type of interviewee	Factor/ Topic	Data to be collected
Interviews with educational establishments, training providers and intermediaries	Nature of the provider and provision offered	<p>Date of creation of organisation</p> <p>Status of organisation: (private, voluntary, public agency)</p> <p>Skills supply: Nature of provision offered: vocational courses, counselling, basic skills, etc?</p> <p>Usual/most common client group: young people, adult returners, etc (split between different categories)?</p> <p>Emphasis of provision: provision for non-incumbent or also for incumbent workers (split?)</p>
	Dynamics of the provision for employed individuals	<p>Evolution of demand: has there been an increase in the proportion of incumbent workers and in particular, low skilled workers amongst the client group?</p> <p>Nature and content of the provision: what are the type of courses demanded by this group and the mix between various types of skills provision (academic, vocational, or core skills) ?</p> <p>Demand impetus: who has arranged the provision (individuals, employers, PES or other)?</p> <p>Have steps been taken to directly engage or work with employers?</p> <p>Have steps have been taken to adjust provision to the needs of the target group?</p> <p>If so, have obstacles been encountered?</p>
	Monitoring of outcomes	<p>Does the provider carry out any monitoring? If not, consider the importance of this issue (past attempts and future willingness to do so).</p> <p>If monitoring carried out, which specific tools (questionnaires, etc) have been developed and provider satisfaction?</p> <p>Completion of courses: drop-outs? If so, what are the most common reasons?</p> <p>Employment retention and progression: evidence of improved pay and working conditions.</p>

Type of interviewee	Factor/ Topic	Data to be collected
Interviews with the recipients of skills-upgrading	The experience of skills-upgrading	Prior work experience and qualifications Type of training received and levels of satisfaction
	Outcomes	Evidence of improved pay and career progression? Evidence of improved motivation and job satisfaction

CONCLUSIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

99. This report has demonstrated that at the national level, policies to upgrade the skills of economically disadvantaged workers have on the whole been relatively insignificant as an ALMP instrument and that such measures have been overshadowed by the concern with labour market reintegration of the displaced or long-term unemployed workforce. In recent years, government emphasis on WfD and skills-upgrading has become particularly strong in the United States and the United Kingdom. This is probably due to the fact that unemployment is relatively lower than in many OECD countries and that a more significant proportion of the workforce are 'working poor' as a result of recent labour market reforms and emphasis on 'work-first' principles. Spending on programmes emphasising access to middle-level jobs appears to have received less attention than those devoted to entry-level jobs and this can largely be explained by the overall economic climate. In a period of economic recovery, when unemployment slows, more efforts appear to be made for those in employment overall. The lack of coherent and harmonised data (particularly of time series) makes it difficult to gain conclusive evidence. This is in itself indicative of the lack of priority in monitoring this particular employment policy area.

100. As a policy agenda, measures to upgrade the skills of the economically disadvantaged have emerged alongside those related to lifelong learning. This shows that skills upgrading is more part of an 'education' agenda than an employment policy agenda. However lifelong learning focuses entirely on individual needs and often misses the link to employer demand. As a result, the local economic development dimension is not integrated in the design of lifelong learning, and vice-versa.

101. Employers demand and business needs are key factors to consider as far as the skills-upgrading agenda goes. The initial cost of implementing training and skills-upgrading packages unsurprisingly remains a major barrier for employers, and part of the policy answer may consist of providing some financial incentives in the form of training allowances and grants. However, employers may over or underestimate the effort required from them. One of the major messages of this report is that employers are often reluctant to pursue skills investment strategies or unaware of internal skills deficiencies. This is particularly widespread amongst SMEs in the low-wage sector that arguably are using high turnover of low-skilled staff as a source of comparative advantage. Indeed these types of companies are rarely integrated in international product markets and prefer to compete on costs. Policy may therefore need to be linked more strongly with product and service development strategies for small firms.

102. There is a plethora of work-based instruments aimed at staff development such as EDS and job rotation schemes, but their use is highly dependent on a positive economic climate. Moreover, they essentially benefit 'core' employees. Thus the challenge is to develop a culture of workforce training and education in locations and sectors where this is particularly weak. It will be particularly important for local policy-makers to work in tandem with employers in a much more intensive manner than they have done for 'traditional' types of active labour market programmes. Given that the skills-upgrading agenda is less related to the usual tasks of the PES, other agencies such as the Sector Skills Agencies and the LSCs in Britain will play a leading role. New types of services may be offered to employers to help them improve their organisational practices. These could include collective tailor-made training packages to create or develop existing inter-firm networks or proposing free advice and audits by external consultants on skills development.³⁰ These actors would study the feasibility for introducing mentoring and other skills transfers initiatives between various members of staff, pairing for example an experienced member of staff with a low skilled person. This would involve equipping staff with new competencies and reorganising internal activities in an attempt to transform the enterprise culture.

103. In the European Union, a transnational instrument, the ESF, appears to have been the principal tool for innovative local projects with a skills focus. More generally speaking, and including evidence from the United States, various local community initiatives and workforce development projects have been established, where sectoral workforce development programmes and intermediaries have played a significant and active role. Projects have either been driven by educational establishments, such as local colleges and universities, municipalities, the social partners, or voluntary organisations. There hence seems to be a potentially strong local institutional framework and the relative factors leading to an emphasis on skills-upgrading, their impact and outcomes for individual workers and local labour markets must be explored in greater depth, notably through local case study visits.

104. Sectoral intermediaries are emerging as key actors of the new local workforce development agenda. Evidence, particularly from the United States points to their positive employment and career effects for economically disadvantaged workers. More research should be conducted to examine the extent to which such actors are present in other OECD countries, as their objectives and methods are very distinct from the majority of community employment and training programmes conducted in the social economy.

105. Moreover, there are signs that the provision of educational and training itself is changing with the emergence of e-learning and the individualisation/customisation of training programmes (OECD, 2001c). Digital resources could thus, if mobilised effectively at the local level, provide an additional medium for the flexible learning required by the target group. However, access to resources such as computing equipment and learning environments (which may be restricted by geographical distance and the lack of time granted by employers) is likely to prove a crucial issue.

106. A number of methodological and policy recommendations emerge from this report:

- Commitment by national authorities and employers to recognising the diversity within their workforce and the growing significance of contingent work and inequalities in access to skilled employment;
- Recognition of the barriers faced by economically disadvantaged workers in the acquisition of skills;

30. Such services are of course already used and paid for by large organisations.

- This recognition should lead to the development of stronger public policy and business strategy frameworks, for low skilled and low income workers, possibly entailing some institutional innovation and reform;
- Harmonisation of labour market policy statistics relating to the target group should be further strengthened to facilitate cross-national comparisons;
- Worker profiling may be necessary to establish the potential benefits of greater spending on skills-upgrading programmes. Statistical profiling methods are well-developed in the United States but have essentially been applied to the unemployed, i.e. to the identification of those who are unlikely to re-enter employment without assistance. This has led to rapid and targeted referrals to job-search assistance measures. Such identification techniques could also be used with the aim of employment retention and career development. A corollary issue would be the identification of the agencies best placed to provide profiling services to employers. Many consultancies and advisory firms are already offering various skills assessments, planning and organisational development services;
- At the local level, the conditions for the successful implementation of programmes, including the ESF community programmes such as EQUAL, and initiatives led by various actors from the non-profit and the private sector, should be explored in greater depth and in a comparative approach through a programme of case study visits; this programme would assess the role of skills-upgrading initiatives in wider local or regional development strategies;
- Reform and innovation in the local supply of skills (i.e. the question of whether local training providers are attempting to tailor courses to business needs) should be a key element of the local evaluation;
- Evaluation of the impact of skills-upgrading projects on the local economy, and in particular the economic development and social inclusion outcomes (e.g. analysis of improved earnings, satisfaction amongst the workers and improved business performance should be conducted as part of this activity);

107. Finally, the necessity to foster labour demand policies as opposed to a single focus on supply-side measures as often been underlined (see Bartik, 2001; Sunley et al, forthcoming). However, to date, labour demand policies have mainly emphasised three aspects of the labour market: public sectors jobs, wage subsidies and anti-discrimination laws. A vigorous debate on whether targeted allowances for upgrading the skills of the economically disadvantaged and ensure sustainability of re-integration should receive more attention as a facet of labour demand policies still remains to be conducted. It is indeed acknowledged that skills-upgrading is desirable and that the local scale is the most appropriate for implementing it. Yet the question of *who is to pay*, or more precisely how the costs ought to be shared between employers, workers and the community at large, remains unsolved.

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ANNEX 1: KEY MEASURES CONTAINED IN THE OECD LMP DATABASE*

Aid to childcare institutions
Aid to educational and training institutions
Bad weather compensation
Bankruptcy compensation payment
Counselling and vocational guidance for job seekers with special needs or facing discrimination (young people, women, refugees, ex-offenders, drug dependants, etc)
Early retirement allowance
Educational and vocational guidance
Job creation (employment promotion in the non-market sector, sheltered employment, pool jobs, etc)
Job search assistance
Job rotation schemes and career breaks
Maintenance income / unemployment benefits
Mobility and travel allowances
Occupational mobility - course cost and course related cost (for unemployed individuals)
Placement services
Pre-employment training
Recruitment and wage cost subsidies to employers
Redundancy payment
Retraining leave/allowances
Running costs of employment offices
Sabbatical leave
Short-time working allowance
Subsidies to employers
Subsidies to municipalities
Support for enterprise creation
Support for the extension and restructuring of enterprises in sectors undergoing a crisis or decline
Tax exemptions to employers
Training activities under the ESF
Training courses for unemployed managerial staff
Unemployment benefit after parental leave while undergoing training

* Note that these measures are the most common across member countries. They are either 'passive' as in the case of maintenance income or 'active' as in the case of training activities.

ANNEX 2: THE INVESTORS IN PEOPLE STANDARD

Principles	Indicators	Evidence
<p>Commitment</p> <p>An Investor in People is fully committed to developing its people in order to achieve its aims and objectives</p>	<p>1 The organisation is committed to supporting the development of its people</p>	<p>Top management can describe strategies that they have put in place to support the development of people in order to improve the organisation's performance</p> <p>Managers can describe specific actions that they have taken and are currently taking to support the development of people</p> <p>People can confirm that the specific strategies and actions described by top management and managers take place</p> <p>People believe the organisation is genuinely committed to supporting their development</p>
	<p>2 People are encouraged to improve their own and other people's performance</p>	<p>People can give examples of how they have been encouraged to improve their own performance</p> <p>People can give examples of how they have been encouraged to improve other people's performance</p>
	<p>3 People believe their contribution to the organisation is recognised</p>	<p>People can describe how their contribution to the organisation is recognised</p> <p>People believe that their contribution to the organisation is recognised</p> <p>People receive appropriate and constructive feedback on a timely and regular basis</p>
	<p>4 The organisation is committed to ensuring equality of opportunity in the development of its people</p>	<p>Top management can describe strategies that they have put in place to ensure equality of opportunity in the development of people</p> <p>Managers can describe specific actions that they have taken and are currently taking to ensure equality of opportunity in the development of people</p> <p>People confirm that the specific strategies and actions described by top management and managers take place and recognise the needs of different groups</p> <p>People believe the organisation is genuinely committed to ensuring equality of opportunity in the development of people</p>
<p>Planning</p> <p>An Investor in People is clear about its aims and its objectives and what its people need to do to achieve them</p>	<p>5 The organisation has a plan with clear aims and objectives which are understood by everyone</p>	<p>The organisation has a plan with clear aims and objectives</p> <p>People can consistently explain the aims and objectives of the organisation at a level appropriate to their role</p> <p>Representative groups are consulted about the organisation's aims and objectives</p>

ANNEX 2 (continued)

Planning (continued)	6 The development of people is in line with the organisation's aims and objectives	The organisation has clear priorities which link the development of people to its aims and objectives at organisation, team and individual level People clearly understand what their development activities should achieve, both for them and the organisation
	7 People understand how they contribute to achieving the organisation's aims and objectives	People can explain how they contribute to achieving the organisation's aims and objectives
Action An Investor in People develops its people effectively in order to improve its performance	8 Managers are effective in supporting the development of people	The organisation makes sure that managers have the knowledge and skills they need to develop their people Managers at all levels understand what they need to do to support the development of people People understand what their manager should be doing to support their development Managers at all levels can give examples of actions that they have taken and are currently taking to support the development of people People can describe how their managers are effective in supporting their development
	9 People learn and develop effectively	People who are new to the organisation, and those new to a job, can confirm that they have received an effective induction The organisation can show that people learn and develop effectively People understand why they have undertaken development activities and what they are expected to do as a result People can give examples of what they have learnt (knowledge, skills and attitude) from development activities Development is linked to relevant external qualifications or standards (or both), where appropriate
Evaluation An Investor in People understands the impact of its investment in people on its performance	10 The development of people improves the performance of the organisation, teams and individuals	The organisation can show that the development of people has improved the performance of the organisation, teams and individuals
	11 People understand the impact of the development of people on the performance of the organisation, teams and individuals	Top management understands the overall costs and benefits of the development of people and its impact on performance People can explain the impact of their development on their performance, and the performance of their team and the organisation as a whole
	12 The organisation gets better at developing its people	People can give examples of relevant and timely improvements that have been made to development activities
Source: http://www.iipuk.co.uk		

**ANNEX 3: A SKILLS-UPGRADING PROJECT UNDER ADAPT:
THE UNIVERSITY OF SUNDERLAND - *LEARNING NORTH EAST* PROJECT**

Learning North East was an ADAPT Round 3 project which ran between 1999 and 2001. It was built on the first Ufi pilot in the UK, conducted by the University of Sunderland in 1997-1998. Made up of a wide public-private sector partnership with a total budget of £8.9 Million (€ 14.4 Million), this is a good example of a large scale project which successfully used a strong branding and marketing strategy to engage SMEs and drive demand for learning at a regional level.

The project worked hard to develop a 'Learning North East' brand. In particular, a high media profile was maintained using events, articles and adverts. By utilising the branding and an inclusive partnership approach, as well as developing short 'bite-sized' learning packages, the project generated around 5,000 SME registrations across the region. This project's distinctiveness is its innovative use of a network of Learning Advisers.

After initial interest had been expressed by an SME, a Learning Adviser was assigned to them. The Learning Adviser then arranged to visit the SME in order to establish personal contact at an early stage and assess their needs. At this stage SMEs were encouraged to talk about relevant training they required, although no formal training needs analysis took place. Suitable training was then identified, with free tasters of the materials being offered to the SMEs. *Learning North East* placed emphasis on courses and materials which were flexible, short and which addressed a specific business need.

Developing an ongoing relationship with the SME via the Learning Adviser was then viewed as being crucial to maintaining their interest. After completion of taster courses, Learning Advisers continued to encourage SMEs to appoint 'learning champions' within their company and to also take further courses from the project. The Learning Advisers also set out all the ESF information requirements from the start, so that this would not cause problems later on.

Learning North East has shown that a large scale project can employ targeted marketing and branding to attract SME interest initially, but then follow this up with personal contact using Learning Advisers to ensure the SMEs remain engaged in the project. This model therefore seems to be an excellent hybrid which combines the use of a high profile marketing campaign with the level of personal contact necessary to ensure the learning process is continued within the SME.

Source: Adapt Support Unit, Ecotec. See also: <http://www.learning.org.uk>

ANNEX 4: PROJECT QUEST (SAN ANTONIO)

Project Quest (Quality Employment through Skills Training) based in San Antonio, Texas is a nonprofit organisation established in 1992. It grew out of a social compact among employers, workers and the community at large. Two of San Antonio's leading community organisations, Communities Organisation for Public Services (COPS) and the Metro Alliance provided the impetus and helped to develop a broad base of support for the programme, which included community colleges and other coalitions.

Project Quest has developed training projects that prepare low-income individuals for middle-level professional and technical occupations in a range of selected industries, including health care, financial and IT services. Examples of targeted occupations include e.g. licensed vocational nurses, surgical technician, electronics technician, aircraft engine mechanic, information system specialist, and computer network administrator.

The services offered to employers include some assistance in analysing the skills required to succeed in specific occupations. The services offered to participants consist of an evaluation of aptitudes and interests, using state-of-the art assessment tools. Candidates are then matched with jobs for which they are best qualified. This is followed by employer-driven, certified training in the necessary technical skills. This formal vocational training is coupled with support services and comprehensive counselling to help individuals develop life skills and competencies.

The whole duration of the training programmes offered by Project Quest takes from one to four semesters.

Source: <http://www.questsa.com>