

Public Procurement Can Promote Apprenticeships

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One of the instruments a government could use to promote the creation of apprenticeships is linking the award of public contracts to the condition that interested parties offer training to apprentices. This Policy Brief examines to what extent linking the award of public contracts to apprenticeship provision would in fact create additional apprenticeships and, if so, how many and of what quality. Empirical research shows encouraging results and some limitations.

Provisions that allow applying preferential treatment in the award of public contracts to firms that provide training to unemployed, disabled or young people can be found in many countries, including Belgium, Denmark, Germany, Ireland, Norway, Switzerland, and the United Kingdom. In fact, a recent EU Directive on the award of concession contracts specifically mentions the possibility to include award criteria that refer to training measures for young persons.

COULD WE EXPECT ANY IMPACT AT ALL?

It is not clear, however, whether such specific award criteria for public contracts create any additional training places at all, or if they simply give preferential treatment to companies which are already active in this respect anyway. Likewise, it is not clear whether companies which do not actively train do not do so because this would involve such high net costs that it would not be financially worthwhile, even if it were to improve the prospects of being awarded a public contract. There is also the fear that, even though the promotional instrument might attract some companies, the training might be of poorer quality. The companies might create apprenticeships simply to optimise their chances of scooping public contracts rather than to train future skilled workers.

While the impact of public award criteria has not been rigorously evaluated in most countries so far, we exploit the fact that public procurement rules vary

across Switzerland depending on the regulations used by the local governments. For the empirical analyses, we use data from a representative cost-benefit study of apprentice training in Switzerland from 2009 covering more than 12,000 companies.

BIG IMPACT ON VERY SMALL COMPANIES...

The empirical analysis shows, as expected, that the impact of apprentice training as an award criterion on the probability that a company will be active in training is greater for companies whose core business is covered by public contracts than for those where the award criterion only affects some of their activities. The average impact of the award criterion on the probability of offering apprenticeships is, depending on the scenario, between 10 and 35 percentage points. In other words, in the sectors involved between one tenth and one third of companies which are not active in training may be attracted to training apprentices by making this a condition for the award of contracts.

... BUT NO BROAD EFFECT

The statistically significant impact is, however, concentrated exclusively on companies with fewer than 50 staff (see Figure overleaf). The training probability of larger companies can probably not be influenced by this award criterion because companies of this size in Switzerland tend to be more active in training even without this criterion. And if they are not, this is for

reasons which are decisive in not offering training, despite this award criterion.

Although the impact on smaller companies appears quite substantial, it must be taken into account that the apprenticeship market as a whole can only be influenced to the extent that business activities are made up of public contracts. Additionally it has to be kept in mind that WTO rules do not allow to tie public procurement to criteria that would penalize foreign competitors from countries that do not have such a training system. This means that all public procurement above a rather low threshold value would already be excluded from such a policy.

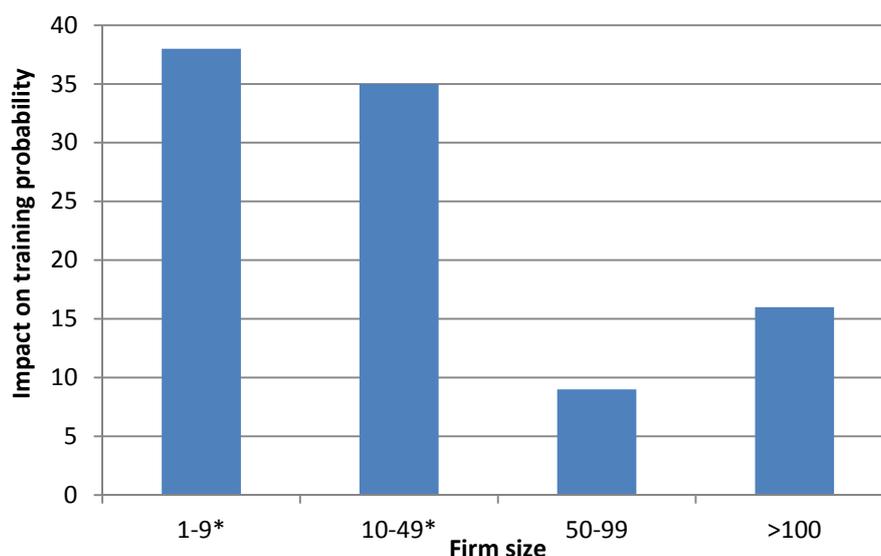
Based on our calculations, linking public procurement to the apprentice training criterion in the Swiss case would therefore influence the number of apprenticeships by a total of only around three to four percent maximum. On the positive side, however, it can be noted that irrespective of whether the company created the apprenticeship as a response to the award criterion or for other reasons, the analyses do not show any qualitative differences in the apprenticeships offered.

DISTORTIONS IN TIMES OF DECLINING NUMBERS OF PUPILS

In times of too few apprenticeships and high youth unemployment, even a three to four percent increase in apprenticeships would probably be welcome. Other countries are currently experiencing something of a battle for good learners, due to a decline in school-leavers for demographic reasons.

In such times, when companies willing to offer training are competing for scarce learners, making the award

Impact of apprenticeship criteria in public procurement on the training probability of firms by firm size



Impact of apprenticeship criteria in public procurement on the training probability of firms active in sectors affected by public procurement, by firm size (in percentage points). * Statistically significant effects at the 1% level. Source: see reference below.

of public contracts conditional on the provision of apprenticeships is not only unnecessary but could even be detrimental, for two reasons. First, it disadvantages smaller companies in the award of public contracts, as these are less active in training for economic reasons and are also in a poorer position than large companies when competing for learners. Second, the pressure to employ learners would rise above all in those companies and skilled trades where public contracts make up a large share of their business activity, but these are not necessarily the companies and professions in which learners have a future.

In view of these expected distortions on the apprenticeship market, this criterion should be employed only very selectively in times of a large shortfall in training places. Given the current situation, an introduction of such a criterion could therefore provide a good start in promoting apprenticeships.

For more details see: Mirjam Strupler Leiser, Stefan C. Wolter, Empirical evidence on the effectiveness of social public procurement policy: The case of the Swiss apprenticeship training system, [CESifo Working Paper 5119](#), 2014.