



European Training Foundation



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Preliminary study of incentives for the development of
apprenticeship / dual education

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THE CONTENT OF RESEARCH

Chapter 1 introduces the role of incentives for WBL, in particular for the provision of apprenticeships / dual education.

Chapter 2 deals with examples of financial and non-financial incentives for apprenticeships / dual education in different countries.

Chapter 3 presents the current state of incentives in Armenia, and makes recommendations to support the further development of apprenticeship / dual education in the VET system.

INCENTIVE SCHEMES AND BALANCE OF WBL COSTS AND BENEFITS

- In general incentives are divided into two categories: financial and non-financial.
- To understand the financial or non-financial nature of incentives for apprenticeships / dual education, it is essential to first consider the cost-benefit ratio, as well as the impact of other factors on both demand and supply.

MAIN EXPENSES OF COMPANIES INVOLVED IN THE APPRENTICESHIP / DUAL EDUCATION

- a. Labor costs for students: salary, non-regular salary payments, other payments to be made by the employer.
- b. Labor costs for mentors: fees for full- or part-time trainers, wages to be paid to external instructors.
- c. Hardware and infrastructure costs: training equipment, machines, computers, tools, etc.
- d. Other expenses: administrative expenses for admission of students, insurance, transport, etc.

THE BENEFITS OF COMPANIES INVOLVED IN THE APPRENTICESHIP / DUAL EDUCATION

- a. Short-term benefits until the end of the study: the outcomes of the work of unskilled, semi-skilled and skilled apprentices.

- b. Long-term benefits may include:
 - savings in recruitment costs;
 - understanding the process: during the apprenticeship, students get acquainted with the work environment and functions;
 - effectiveness differences: apprenticeship programs give students an in-depth understanding of the work process;
 - reducing the risk of skills mismatch.

THE BENEFITS OF COMPANIES INVOLVED IN THE APPRENTICESHIP / DUAL EDUCATION - 2

- company-specific job skills: during the apprenticeship program, students who work alongside experienced staff and in a corresponding work environment acquire specific job skills, becoming a qualified workforce for the company;
- reducing the risk of a shortage of skilled workers;
- loyal employees (low level of frequent staff changes)
- increasing the company's reputation.

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- company size;
- profession and the sphere of economic activity;
- WBL duration;
- institutional context (e.g. minimum wage and collective agreements);
- simplicity and convenience of incentive schemes;
- providing financial and non-financial incentives.

WBL FINANCIAL INCENTIVES

- *Reduction of the tax base:* the reduction refers to the costs incurred for the implementation of the WBL, which are considered tax expenses, reducing taxable income.
- *Tax exemption:* refers to the abolition of specific income tax.
- *Tax credit:* direct reduction of tax liability according to the amount provided.
- *Tax discount:* tax exemption when some companies, at the initiative of the government, pay reduced tax rates and take advantage of lower rates.

WBL FINANCIAL INCENTIVES - 2

- *Subsidy*: subsidies cover many forms of financing, including direct payments, direct investments, and other special assistance that governments provide to companies so that they can reimburse the operational and management costs of the WBL.
- *Grant*: cash allocations that are usually pro bono but must be used for a specific purpose.

WBL NON-FINANCIAL INCENTIVES

- *Review of WBL programs:* balancing the needs of organizations and learners when determining the scope of apprenticeship / dual education.
- *Capacity building:* development of teaching and administrative management capacity of organizations, especially SMEs.
- *Initiatives aimed at raising the company's reputation:* valuing the social responsibility of organizations involved in WBL programs and boosting their reputation by contributing to sales.
- *Legislation:* require companies to accept apprentices or grant privileges to companies who are involved in apprenticeship / dual education.

CURRENT SITUATION IN ARMENIA

- At present, the legislation of the Republic of Armenia does not envisage targeted, financial, non-financial mechanisms that will encourage the involvement of employers in the provision of WBL, except for the indirect provisions enshrined in two articles of the Labor and Tax Code.
- Article 201.1 of the RA Labor Code stipulates: "The employer has the right to organize professional training of students or employees on a contractual basis in the organization or elsewhere for a period of up to six months, paying the apprentice a scholarship during the training, at least in the amount of the minimum monthly salary established by law."

CURRENT SITUATION IN ARMENIA - 2

- According to Article 121 of the Tax Code of the Republic of Armenia, "gross income shall be reduced by the amount of expenses incurred on the research and/or experimental-design works and services carried out by the taxpayer directly or on his / her behalf, during the fiscal year."
- Education, staff training (retraining) are also considered to be experimental design works and services.

FACTORS AFFECTING THE BALANCE OF WBL COSTS AND BENEFITS ԱՅՈՒ

- Company size: in 2017, 99.8% of all non-financial companies in Armenia were SMEs. Moreover, 94% of Armenian enterprises are micro-enterprises, where the total number of employees does not exceed ten. Out of the said number more than half (58%) are not employers.
- Economy and employment sector in which training is provided: about 87.5% of Armenian enterprises operate in the service sector, which accounts for almost 68% of employment, generating 60% of VA.
- WBL duration: although there is no legal definition for apprenticeships / dual education, the training duration for a three-year VET program is 34 to 40 weeks.
- Institutional context: there is no legal provision on student status as an employee, so companies have no obligation to pay students a minimum wage.

RECOMMENDED INCENTIVES FOR FURTHER DEVELOPMENT OF APPRENTICESHIP / DUAL EDUCATION

Incentive	Advantages	Disadvantages
Change in the structure of the VET mechanisms: allocation of financial means meant for internships to covering the expenses necessary for WBL implementation.	<ul style="list-style-type: none"> • Does not create additional expenses for the state budget. • Ease of application and control over the calculation of costs required for the implementation of WBL by profession. 	<ul style="list-style-type: none"> • Lack of methodology for calculating the costs required for the implementation of WBL by profession. • Risk of ineffective implementation of the WBL for the provided compensation, as is the case with the organization of the internships.
Targeted subsidies for WBL in priority sectors of the economy or in the fields with low labor force.	<ul style="list-style-type: none"> • Increase the motivation of SME involvement. • Are easy to use within pre-defined goals and criteria to be achieved in the given economic sector and region. • Contribute to the effective implementation of on-the-job learning and consequently, contribute to the development of apprenticeship / dual education culture. 	<ul style="list-style-type: none"> • In case of provision by different donors, there is a risk of duplication and inefficient use. • Some companies may be motivated mainly by subsidies to cover expenses, but not really contribute to the effective provision of apprenticeship / dual education.

RECOMMENDED INCENTIVES FOR FURTHER DEVELOPMENT OF APPRENTICESHIP / DUAL EDUCATION

Incentive	Advantages	Disadvantages
Capacity building among the staff of companies involved in organizing and providing apprenticeships / dual education.	<ul style="list-style-type: none"> Contributes to the development of on-the-job training skills and the administrative organization of apprenticeships / dual education. 	<ul style="list-style-type: none"> Difficulties in obtaining long-term liabilities for SMEs in an unstable economic context.
Legislative regulations related to public procurement procedures for granting privileges to companies involved in apprenticeship / dual education when concluding public procurement contracts.	<ul style="list-style-type: none"> Can effectively contribute to the involvement of companies from the priority sectors for the economic development of the country (tourism, IT, agriculture). 	<ul style="list-style-type: none"> May discriminate against SMEs when a limited number of experienced companies participate in the provision of apprenticeships / dual education. Need for SME discrimination monitoring and consequently, additional funding costs.
Operations aimed at improving the reputation of companies involved in the WBL.	<ul style="list-style-type: none"> Increase the reputation and image of SMEs, contribute to the creation of competitive advantages in the market. Contribute to the development of WBL culture. 	<ul style="list-style-type: none"> Create additional expenses for the state budget.

LITERATURE

- RA Labour Code, Article 201.1
- RA Tax Code, Article, 121, Part 6
- European Commission, 2019. Small Business Act for Europe, 2019 SBA Fact Sheet ARMENIA, p. 2 https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/sba-fs-2019_armenia.pdf
- OECD, 2018. Compendium of Enterprise Statistics in Armenia 2018, p. 12.
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