

Financial Incentives for Companies' engagement in workbased learning

Marie DORLEANS, ETF Senior Specialist in VET Governance and Financing

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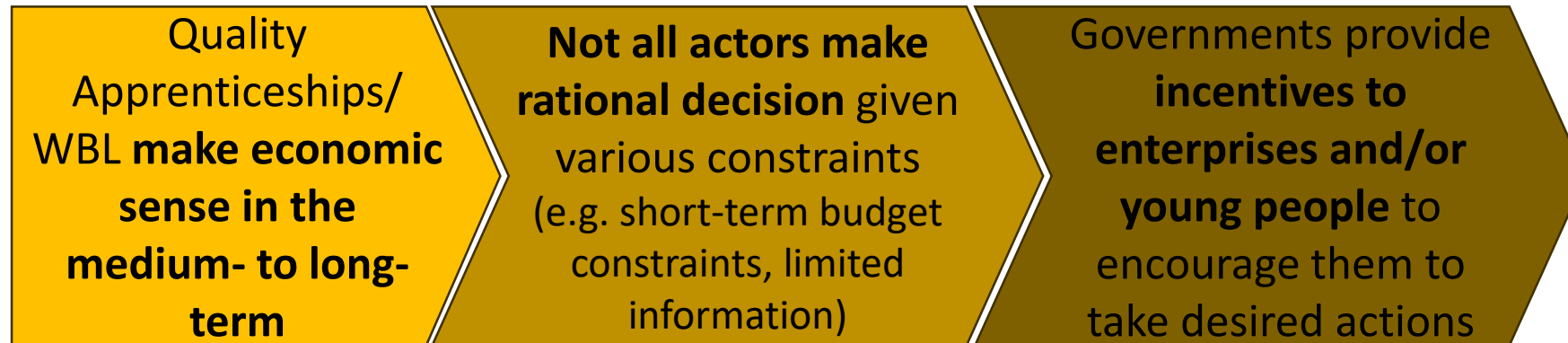
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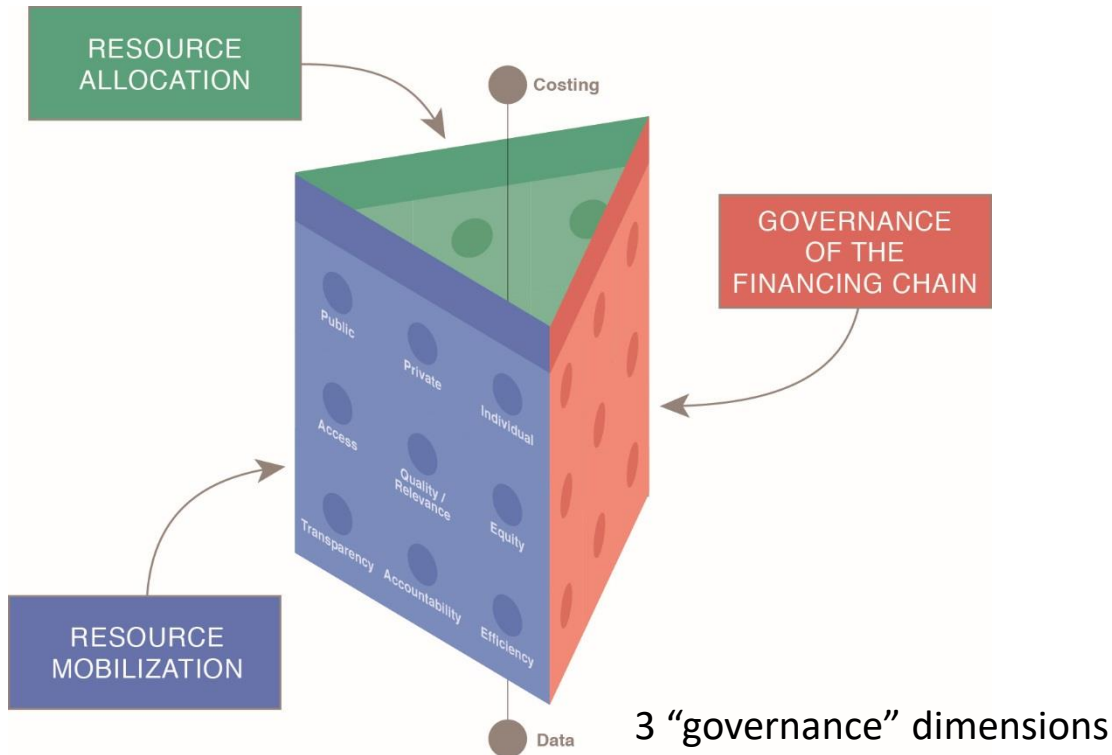
1.1 SHORT DEFINITION

A **financial incentive** is defined as: a monetary benefit offered ... to encourage behaviour or actions which otherwise would not take place. A financial incentive motivates actions which otherwise might not occur without the monetary benefit.”

- It is a **policy instrument** for the State.
- It can be stand-alone or linked to financial instruments such as levy-grant schemes or training funds.



1.2 LINK WITH ETF FINANCING PRISM



3 “governance” dimensions
(or entry points) to define
financing instruments:

- Stakeholders
- Policy objectives
- Working principles

- Financial incentives cross all aspects of the prism depending on their design and operation:
 - to encourage (rather than mandate) VET investments: they can operate in *lieu* of formal regulation and governance structures or *in addition* to existing policies to incentivise resource mobilisation.
 - to improve resource allocation (for example; linking the distribution of a training fund to specified priorities).



2. RATIONALE: JUSTIFYING RELEVANCE OF INCENTIVES THROUGH COST-BENEFIT ANALYSIS of WBL

GOVERNMENT

APPRENTICES

COMPANIES

from ILO



2. RATIONALE: JUSTIFYING RELEVANCE OF INCENTIVES THROUGH COST-BENEFIT ANALYSIS of WBL

APPRENTICES

Apprenticeship period

Post apprenticeship

Cost

- *Opportunity cost (i.e. lower wage) in case of employable youth*

Benefit

- Wage/stipend
- Social security coverage
- No fees to be paid for learning to acquire a qualification
- *Higher quality and relevance of training compared to school-based training*
- Higher wages
- *Enhanced employability*
- *Enhanced job satisfaction*

from ILO

RATIONALE: JUSTIFYING RELEVANCE THROUGH COST-BENEFIT ANALYSIS of WBL

GOVERNMENT

Cost

Apprenticeship period

- Subsidies and incentives
- Costs for public TVET institutions

Post apprenticeship

Benefit

- Tax revenue from apprentices (e.g. payroll, VAT)
 - *Savings on employment programmes (e.g. active labour market programmes) and benefits for unemployed people*
- Higher tax revenue
 - *Savings on employment programmes (e.g. active labour market programmes) and benefits for unemployed people*

from ILO

2. RATIONALE: JUSTIFYING THEIR RELEVANCE THROUGH COST-BENEFIT ANALYSIS of WBL

COMPANIES

Cost

Apprenticeship period

- Wages/stipend
- Social security contributions
- Time for in-company mentors
- Costs for training materials, space, equipment
- Costs for recruitment and administration

Post apprenticeship

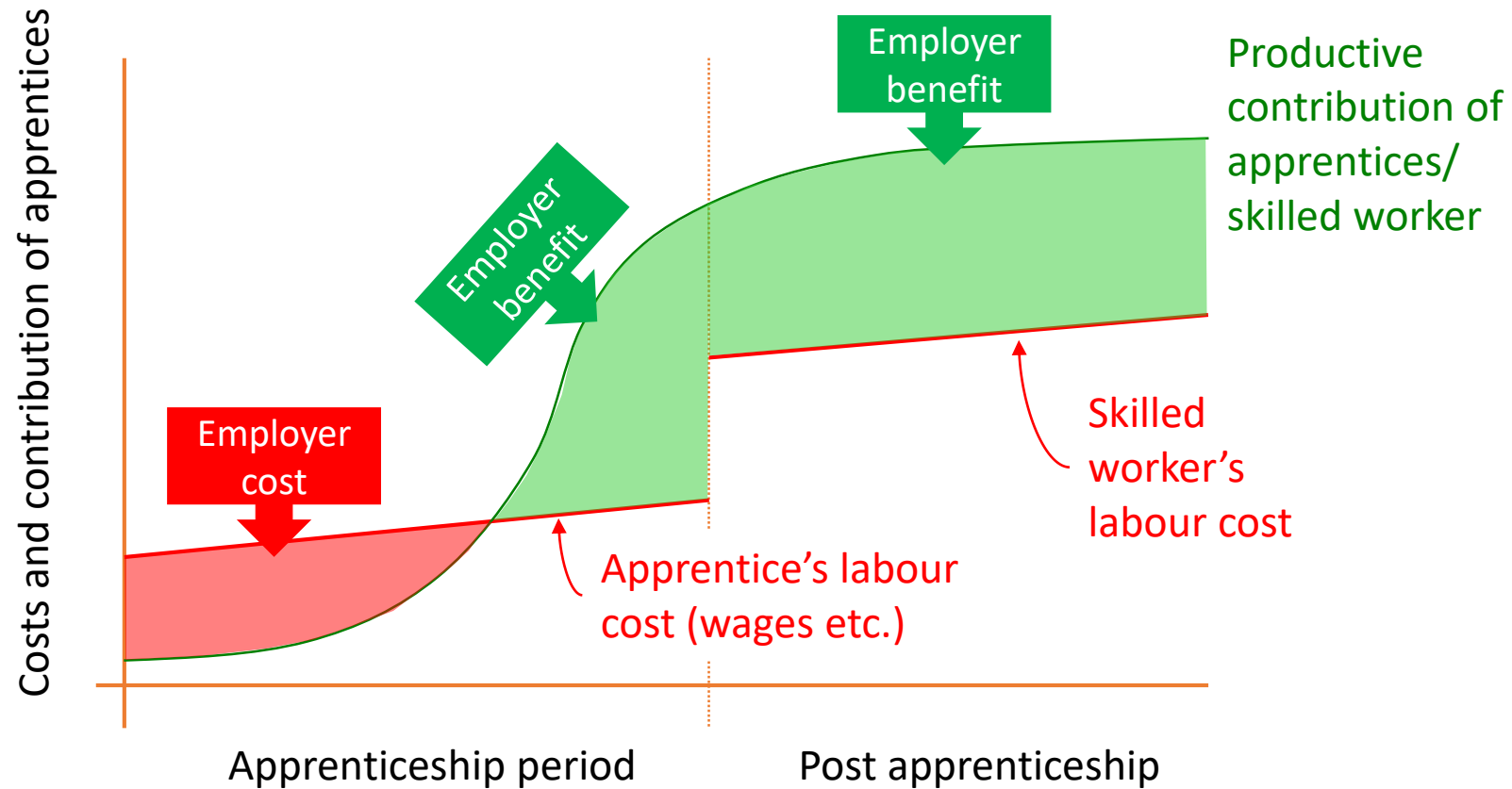
- Higher wages
- Higher social security contributions

Benefit

- Contribution to the production of goods and services
 - Subsidies and incentives
 - Payments from training funds
 - *Improvements in reputation, through participation in apprenticeship training*
- Higher productivity
 - *Savings from reduced labour turnover - recruitment and initial training costs*

from ILO

2. RATIONALE : A stylized model of cost-benefit of apprenticeships



Adapted from Lerman R. "Do firms benefit from apprenticeship investment?" / ILO

3. POLICY DIALOGUE and INCENTIVE SCHEME DESIGN

- **3 key issues to discuss with companies to secure the rationale for incentives:**
 - Respective VET responsibilities
 - How do the benefits accrue from VET investment ?
 - Are there obstacles to investment ?

- **3 shaping questions for government decision**
 1. What are the policy objectives? *Expected impact*
 2. Who/what is targeted by the incentive? *Eligibility criteria*
 3. What type of incentive ? *Application criteria*



3. POLICY DIALOGUE and INCENTIVE SCHEME DESIGN: defining the framework

The design phase needs to include agreement on:

- *Who pays (Stakeholder):* State, decentralized public authorities (e.g.:region)?
- *Priority policy objectives*
 - WBL: clear definition (scope, duration, alternance ratio, ...)
 - Final beneficiaries
- *Company Target of the incentives*
 - Selection criteria: Size (employees), economic sectors, geographical areas, profit, ...
 - NB: Cost of offering apprenticeship higher for small enterprises than for large ones.*
- *Transparent definition of incentives:*
 - Eligibility criteria
 - Application criteria



3. POLICY DIALOGUE and INCENTIVE SCHEME DESIGN: mapping their place

*What **place** and **importance** of incentives, in **articulation** with:*

- *Governance schemes for companies' mobilisation for VET (eg: sectoral or provincial public-private committees)*
- *Other measures promoting WBL ? (incentives for individuals...)*
- *Other financing instruments ? (training levy, training fund,...)*
- *The absence of a corresponding training tax/levy : a bottleneck ?*

!!! List and position the complementary measures/reform efforts

!!! Acknowledge that incentives alone cannot take up all WBL or VET challenges



3. POLICY DIALOGUE and INCENTIVE SCHEME DESIGN

2 MAIN TYPES :

- *Subsidies (direct – financial or in-kind, indirect-financial or in-kind)*
- *Tax relief (exemption, credit, allowance, deferral, social contribution exemptions)*
- + *Non financial incentives ...*

ELIGIBILITY CRITERIA- conditions under which to benefit from incentives

Eg: company target type + training delivery mode, training output, level of qualification...

APPLICATION CRITERIA – How the incentive will be deployed

- Cost earmarked - Eg: cost of training delivery direct/indirect), wages, social contribution
- Level of incentive
- Calculation method
- Time frame



4. SOME COUNTRY CASES



Austria : *Tax allowance for training and training tax credit*

- Goals:
 - To reward and encourage enterprises which spent funds on training their employees.
 - To benefit enterprises for the training they pursue as part of their day-to-day business.
- Applicability: Both taxes were operated at federal level through the corporate taxation system
- Objectives: Both the training tax allowance and tax credit were designed to increase continuing vocational education and training (CVET) for employees.
- Operation:
 - 9% Tax **allowance** introduced in 2000 for external training activities. Increased in 2002 to 20% and extended to in-company training. Target group : all company employees irrespective of their position, age, specific training needs, etc. The incentive took the form of an extra deduction from taxable profits, with not only the actual training expenses deducted from taxable income, but also an extra 20%.
 - Training tax **credit** introduced in 2002 to encompass enterprises with low profit levels unable to take full advantage of the allowance. Amounting 6% of the actual training expenses. The credit had to be claimed within the employer's tax return and was deducted from their tax liability
- Evaluation:
 - Main advantages: (a) low administrative/red tape costs for government as well as businesses; (b) no market related distortions; (c) The 6% tax credit (which is an alternative to the 20% extra tax allowance) is regarded as advantageous for startups in particular (young firms may not have profits).
 - The incentives were discontinued in 2016 for two reasons: a) They did not trigger sufficient additional investment; b) They provided windfall gains to enterprises (deadweight).



Ireland : *Training grants*

- Goals: To support enterprise development and innovation (higher exports and skilled employment) by overcoming market and capability barriers faced by enterprises in either locating or developing in Ireland (e.g. labour investment requirements).
- Applicability: Separate agencies exist to support foreign-owned enterprises in Ireland and domestic and foreign located Irish enterprises. Training grants form part of a wider business development agenda.
- Objectives:
 - Create incentives for enterprises to engage in additional upskilling activities for their workforce.
- Operation:
 - Enterprises apply for a grant based on discussion and a formal application process.
 - The application is reviewed by independent training advisors and the responsible government agency.
 - If approved, it is monitored with payments dependent on satisfactory completion.
 - Grants cover both direct costs (of e.g. trainer) and indirect costs (e.g. travel expenses).
- Evaluation:
 - Most grants are used for specific training in advanced economic sectors.
 - Participants were positive about training being treated as broader business development (although payment verification could be burdensome).
 - Evaluation pointed to a degree of deadweight (41%).



France: *incentives for apprenticeship*

- Goals: Develop apprenticeship as a response to high levels of youth unemployment
- Applicability: School-based apprenticeships and work-based training. The apprenticeship tax (0.68% of the payroll) is paid to a Joint Organization for the Collection of the Apprenticeship Tax (OCTA), which contributes it to the National Treasury (for the regional part) and to the training centres and schools.
- Objectives:
 - The policy objective relates to the training and integration of apprentices within enterprises and exceeding the legal regulations for employing apprentices.
 - To promote the apprenticeship contract among employers, multiple financial incentives have been put in place. The main two are the **apprenticeship allowance** (prime à l'apprentissage) – a minimum of €1,000 paid by a local authority (the regional council) – and the **apprenticeship tax credit**.
- Operation:
 - All enterprises (including public establishments) employing apprentices for at least one month can benefit from a tax credit. Employers receive EUR 1.600 per apprentice per year, or EUR 2.200 for disabled and low qualified apprentices. In addition to these subsidies, apprenticeship contracts are fully or partially exempt from social security charges, which are funded by central government.
- Evaluation:
 - *Not available.*



Other country examples (from AFD study, 2017)

- **Denmark:** employers are obligated by Law to pay a 250€/employee/year to an Employers' Reimbursement Fund: the resources are used to support firms that provide apprenticeship places
- **Thailand:** implementation of tax incentives, reaching 100% tax exemption for expenditures incurred by apprenticeship + guidelines to training centres to work collaboratively with the industry + flexibility to organize the alternance
- **Philippines:** recommendations to clarify and simplify procedures for MSMES to avail government incentives
- **South Korea:** teachers receive training to strengthen their field experience to help them work collaboratively with the industry
- **Laos:** some companies (such as Ford, Kubota, Toyota) offer equipment to training centres and ensure the training of teachers to make sure that the trainees receive relevant training on adequate equipment

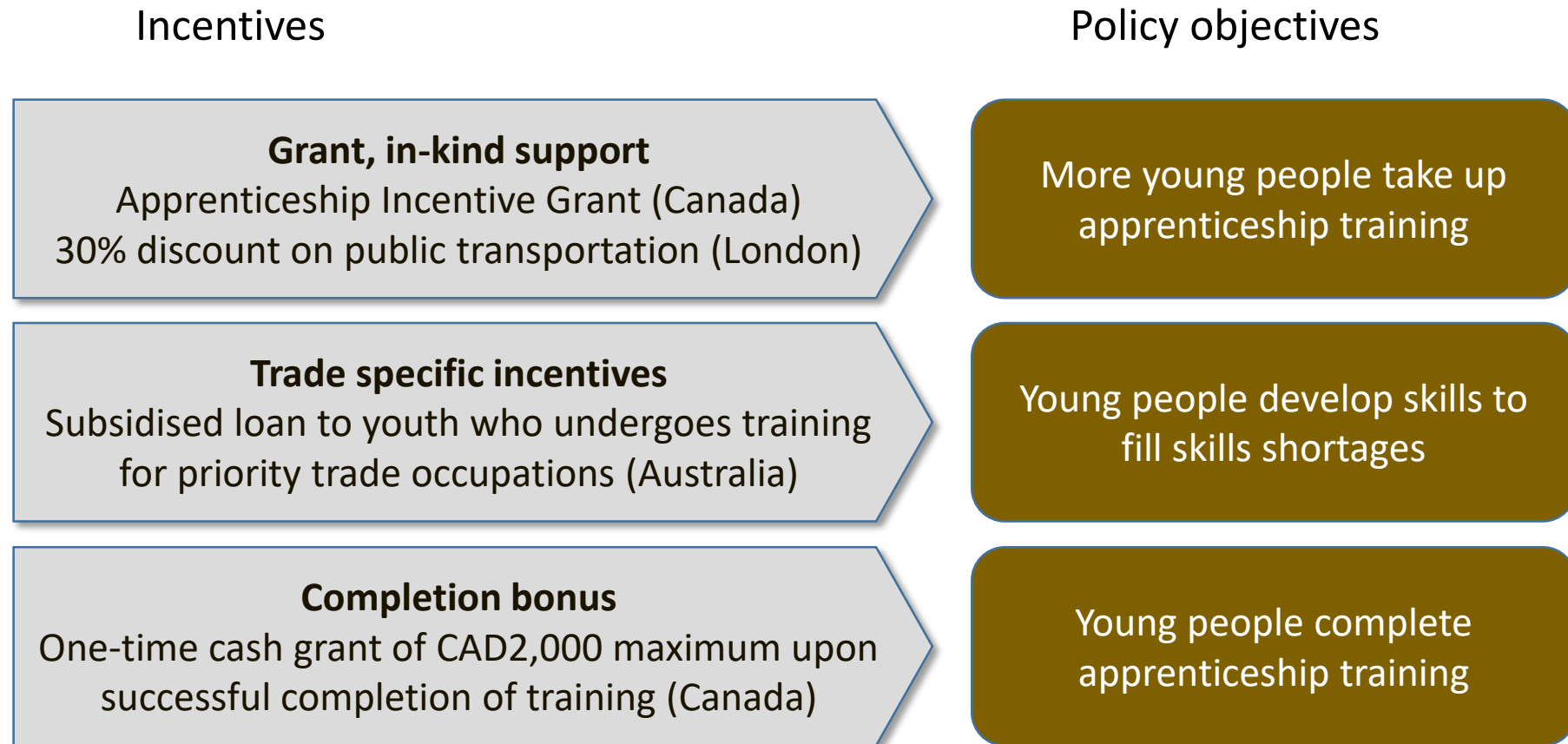


5. TO WRAP UP ... KEY SUCCESS FACTORS FOR AN EFFECTIVE INCENTIVES' DESIGN:

- ✓ Refine **cost-benefit analysis** by stakeholder
- ✓ Fit to **context** - – incl. Picture of the business sector / Company size matters
- ✓ Genuine **policy dialogue** - Make it a subject for discussion and agreement with social partners
- ✓ Clearly state the **priority objective**
- ✓ **Strike the right balance** between state interventions and employer initiatives
- ✓ Make it **simple for companies' use**
- ✓ Keep it **simple for State management** – incl. Link with the current financial system
- ✓ Not one solution: an « **incentive mix** », and a mix of reforms
- ✓ Foresee **review mechanism** for effectiveness/impact assessment



... AND CONCLUDE : keep in mind other possible incentives for WBL ... entrusted to individuals



Thank you for your attention !



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