

# Incentive Scheme for — Businesses

to Cooperate with VET Institutions – Policy Proposal



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# Incentive Scheme for Businesses to Cooperate with VET Institutions – Policy Proposal

## Description

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### Disclaimer

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# List of Abbreviations

<b>AI</b>	Administrative Instruction
<b>ALLED<sup>2</sup></b>	Aligning Education and Training with Labour Market Needs - ALLED Phase II
<b>AVETAE</b>	Agency for Vocational Education and Training and Adult Education
<b>EARK</b>	Employment Agency of Republic of Kosovo
<b>KCC</b>	Kosovo Chamber of Commerce
<b>MESTI</b>	Ministry of Education, Science, Technology and Innovation
<b>KSB</b>	Kosovo Skills Barometer
<b>ToR</b>	Terms of Reference
<b>VET</b>	Vocational Education and Training
<b>VTC</b>	Vocational Training Centre
<b>WBL</b>	Work Based Learning

# 1

## EXECUTIVE SUMMARY

In today's global competitive market, the term "knowledge economy" is no mere slogan. It points to the very real fact that economic activities are increasingly knowledge-intensive and that in this globalised world, success means being able to compete and stay ahead of the pack. High-skill economies will most likely attract and retain investment in industries with a strong future and growth. Therefore, creating an efficient and productive workforce and human capital development with lifelong learning culture and skills upgrade, embedded as part of working culture requires more than an adequate number of workers. People wanting work must be able to find rewarding employment, meet their career objectives and participate in the country's economic and social life. Successful countries in today's world recognise that investment increasingly follows the best available pool of skills and knowledge. On the other hand, cost competitiveness is essential but not enough. Such countries regard their people as the key competitive advantage and see education and skills at all levels as investments in the future economy and community.

Therefore, if Kosovo wants to stay competitive it needs to adapt to these trends and new realities. Nevertheless, Kosovo's employers and employees face a workforce dilemma. Analyses of the reports of major international organisations and in meetings with private sector companies indicated that the education programs (supply side) do not provide the skills needed by employers (demand side) so they could become more competitive and grow in today's market. Employers are nearly unified in their criticism of an education system that produces graduates with limited practical experience and no soft skills transferable to the workplace. This is mainly due to a lack of experiential education, competency-based curricula, pragmatic mentorship and career orientation, which fails to meet the needs of the business community. The burden often falls on employers to provide practical training, usually on the job. While in-company training is good practice, the scale of the skill gap requires a cost and internal training capability that many enterprises cannot afford, creating a disincentive for businesses to hire new employees. Improving the quality of Kosovo's labour supply will also encourage employment, especially in higher-productivity jobs needed to improve incomes and living standards. This is the main reason that the "Aligning Education and Training with Labour Market Needs - ALLED - phase II" (in further text ALLED2)" through its second phase of the project are focusing on creating an innovative structured approach based on the triple helix principle (structured public sector - academia - business cooperation) to build an education system, especially VET, responsive to the labour market needs and upskilling

and reskilling of future entrants in the labour market thus, contributing to economic growth and development and overall employability. Duality principles in vocational education and training (VET) have gained broad international interest for many reasons. One of these reasons and a prominent feature of duality principles in VET is the fine-tuned cooperation between the public and business sector in particular areas. One area is funding, where costs are typically shared between both sides; usually, companies bear the cost of practical (company-based) training, and the public sector funds public VET schools and the overall administration of a dual VET system. While in developed economies, companies pay the largest part of the total training costs in dual systems, the structure of enterprises in in developing economies (e.g. Kosovo) and their capacities do not promise the same involvement in VET. This leads to the question, "how can Kosova enterprises get engaged in a more structured cooperation with VET?"

In this regard, in order to approach the complex task of structured cooperation between VET and businesses/enterprises, the milestones in the process are:

- a) identify a set of incentives (fiscal, financial and non-financial) for host enterprises,
- b) pilot/feasibility check of such incentives in a trial period within one respective sector,
- c) support school-to-work transition of students by ensuring internships for students of ALLED2 supported schools with employers.

Hence, this policy proposal presents an inclusive methodology, including an analysis of the reports about the level of cooperation and communication of industry and education but, in order to have first-hand information, the expert team organised round-table events with all stakeholders from the supply (VET schools) and demand side (companies), intermediaries (non-formal training providers, professional association and government reps). Additionally, the methodology includes the presentation of selected cases of EU countries (Austria, Slovak Republic and Hungary), with a similar context to Kosovo, which has implemented a similar model of incentives and used as a learning model in developing country-specific incentives model.

A special section of this document included explaining the financial (fiscal and non-fiscal) and non-financial incentives and how they are used in the education context, with an impact on employability skills of VET students, and improved employment opportunities and upscaling of qualification.

After analysis of all available documents and exploring the main challenges that private sector and education face regarding the lack of cooperation, the expert team have come up with several financial (mainly fiscal) incentives (grants, tax waiver, subsidies, levies) and non-financial ones that could lead not only to more effective industry-education cooperation but also, new transformation model of Kosovo education system.



The paper concludes with ideas for pilot/feasibility check of the incentive scheme and the implementation strategies:

- Identify the suitable/appropriate sector from ALLED2 priority sectors to be as a pilot/feasibility check sector for the proposed incentive scheme;
- Identify the shortcomings, opportunities and possibilities of continuing the incentive scheme for other sectors;
- Organise a workshop with MFLT and other relevant stakeholders on the challenges for proper implementation of the incentive scheme;
- Outline a road map for the institutionalisation of the incentive scheme.

# 2

## BACKGROUND INFORMATION

The biggest concern of the country is the high unemployment rate (25,8%), especially among youth (around 50% on total unemployed people), which results in signals of the redressing of a significant need<sup>1</sup>. The share of youth not in education, employment or training (NEET) also reflects the challenges they face entering the labour market. The share remained relatively constant between 2012 and 2017, ranging from 30 to 35 percent, which indicates that around 1 out of 3 youngsters were not exposed to any upskilling and reskilling activities, not working and not looking for a job<sup>2</sup>. Given the lack of jobs for many young people, emigration is increasingly considered a viable option. A recent Gallup survey<sup>3</sup> on migration provides insights into the willingness of youth to leave Kosovo: The Youth Potential Net Migration Index estimates that if all 15- to 29-year-olds who desire to move in and out of Kosovo did so, the youth population would decrease by 48 percent. This rate is 42 percent of the total population and the highest in Europe. In addition, there is a gender gap in labour market participation for migrants across all WB6 economies. In this regard, amongst the highest gap is found from Kosovo migrants (83% for men and 46% for women)<sup>4</sup>.

The dilemma has impacted everyone in the country, contributing to lower overall economic growth. It is especially problematic for micro and small enterprises (MSMEs), which according to European Commission report (2020) make up of 76,2% of all employment in the country (and more than 99% of the total number of enterprises in the country)<sup>5</sup>. MSME size and limited capacity make their workers' skills, experience and multitasking capabilities much more critical for growth. Additionally, MSME's often lack the resources necessary to train and maximise the productivity of their staff effectively. As a result, sustained employment growth within Kosovo must include the development of a pipeline of skilled workers for microenterprises, including bolstering the capacity of small businesses to organise and train their workers. But on the other side, the report of

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<sup>1</sup> World Bank country-based Reports- Kosovo, 2022. Available at: <https://data.worldbank.org/indicator/SL.UEM.TOTL.NE.ZS?locations=XK>

<sup>2</sup> ETF-European Training Foundation Policies for Human Capital Development in Kosovo; An ETF Torino Process assessment, 2020. Available at: <https://www.etf.europa.eu/en/publications-and-resources/publications/trp-assessment-reports/kosovo-2020?page=3&pid=845afbd0-c4c4-44ca-b2f9-dde3aae73c6d> (Accessed May 2021)

<sup>3</sup> Based on Gallup surveys 2015-2017, Gallup Migration centers report three indices for 152 countries: the Potential Net Migration Index (Total PNMI), Potential Net Brain Gain Index (Brain gain PNMI) and Potential Net Youth Migration Index (Youth PNMI).

<sup>4</sup> OECD (2022), Labour Migration in the Western Balkans - Mapping Patterns, Addressing Challenges and Reaping Benefits

<sup>5</sup> European Commission Fact Sheet 2020 Kosovo; [https://neighbourhood-enlargement.ec.europa.eu/system/files/2019-11/sba-fs-2019\\_kosovo.pdf](https://neighbourhood-enlargement.ec.europa.eu/system/files/2019-11/sba-fs-2019_kosovo.pdf)

the World Bank points out that skill constraints affect all firms (not only the size), occupation type and sector. Depending on the specific position to fill, between 59 percent and 77 percent of hiring firms encountered problems because of applicants' lack of skills or experience<sup>6</sup>. Skill constraints affected all hiring firms but strongly affected large, dynamic and innovative firms.<sup>7</sup> Therefore, the firms that are more likely to be competitive and productive are also the ones facing the most significant skill constraints on recruitment. In some sectors, poor or outdated academic programs produce poor skills that companies do not demand.

However, the private sector has flaws and partially contributes to these deficiencies. Most entrepreneurs in Kosovo still see that there is a need for paradigm shift, especially in the knowledge-based industry, consider training current and future employees as a cost, not an investment for their long-term growth. Still, some companies neglect the role and importance of human capital in today's knowledge economy. The business owners in Kosovo have more affection for physical assets than their employees, even though there are positive cases and examples which should be followed. Despite the positive practices in different sectors in recent years, a general perception is that the training budget leading to productivity improvement is not widely accepted in the economy. With the current high number of job seekers, most companies base their competitive advantage on a low-cost structure for human resources rather than on investment in their human resources. Additionally, the mentorship and practical training of students is not a culture among private-sector companies therefore, it shows that there is a need for culture shift in this regard. The knowledge-based companies such as IT are ahead of the other sectors in recruiting interns; however, they do not have a clear development plan for students while on an internship in the company.

On the one hand, the workforce's supply side has problems. The country faces significant challenges to economic growth and the development of a skilled, modern workforce. Skill shortages and development are the most critical issue facing the Kosovo economy. In Kosovo, the vast majority of the unemployed are young people who completed their high school and/or University studies (mainly humanities and social studies). However, companies, when looking to hire employees, complain about the continuing/severe shortage of skilled and competent people. This suggests a disconnection between supply and demand; thus, a competitive workforce is not functioning, and where it does function, it produces results of unacceptable quality. According to the latest Kosovo Skills Barometer report published by the ALLED2 project (2021), this partnership is unsatisfactory because schools do not have a responsible person who works full time to develop partnerships with businesses. According to the same report, "the nature of

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<sup>6</sup> "Job Creation and Demand for Skills in Kosovo: What Can We Learn from Job Portal Data?" World Bank Group policy research working paper; June 2020

<sup>7</sup> More precisely, firms in the Business Services sector face recruiting constraints due to skills gaps more frequently than in other sectors. This is also true for large firms compared to smaller ones, for firms that invested in R&D and for foreign-owned firms compared to other firms. See World Bank (2019a)

cooperation between schools and businesses should be more related to practical work in businesses so that students can acquire knowledge, gain experience and develop their professional skills. At the same time, businesses will also benefit from this type of cooperation because they will be able to have first access to potential skilled labour and use these internships to screen best potential employees for their company.<sup>8</sup>

Especially this cooperation is more needed in the VET system, which is the focus of this policy proposal. About half of all students in secondary education are enrolled in a vocational program, and almost half of these are enrolled in economics and law or health programs.<sup>9</sup> These fields of study have offered few employment opportunities in recent years. Moreover, according to World Bank report on Kosovo, the students enrolled in vocational education and training perform worse in analytical skills—measured by numeracy, literacy, and problem-solving— than those in general education, and the gap is significantly larger in Kosovo than in OECD countries.<sup>10</sup> One Important reason for this result is a ruined image that VET has in all of the Balkan countries (incl. Kosovo) which results in enrolling primary graduates with poorer performance than their equivalents who enrol in Gymnasiums. This is due to the bankruptcy of traditional industries, loss of attractiveness of crafts and more employment opportunities for students with soft skills and all-rounders.

Anyhow, upskilling and reskilling remains as one of the main challenges for VET education system. Even though the public expenditures on education have grown in recent years from 3.3% of GDP (2007) to 4.3% of GDP (2020) and are catching up with regional averages, Kosovo spends less per pupil than most countries in the region.

Another critical factor of industry-education cooperation is the competencies students have when meeting the job requirements. According to the World Bank survey (2020) conducted with several Kosovo employers it results that based on their perception, the vocational training provided through ALMPs (Active Labour Market Policies) is often low quality and lacks relevance. The main challenges affecting the relevance and effectiveness of skill training include: (a) lack of regular assessment of labour market needs; (b) insufficient involvement of the private sector and social partners in the design and delivery of training curricula in developing smart VET; (c) lack of cooperation with businesses in the delivery of training (in 2016 for example, less than 100 trainees conducted part of their vocational training in companies); (d) lack of quality assurance mechanisms; and (d) lack of monitoring and evaluation (e.g., absence of systematic tracer studies)<sup>11</sup>. All of the above influence the smart planning for skilled labour so much demanded by the private sector companies.

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<sup>8</sup> REPORT 2019-2020 Based on the ALLED2 School Survey. Kosovo: Publication of "Aligning Education and Training with Labour Market Needs 2" project.

<sup>9</sup> Findings from Skills towards Employment and Productivity Survey; World Bank Report No: AUS0000290

<sup>10</sup> World Bank STEP survey; March 2019

Another concerning issue regarding education in the country is the gender gap. In Kosovo, gender gaps related to the levels of education are more comprehensive than in other countries in the region. The low level of education for Kosovo women and the large gap between men and women place Kosovo far behind the EU countries and its West Balkan neighbours.<sup>12</sup> The same is true for marginalised groups such as PWDs (People with Disabilities), students from rural areas and those with low economic status who have been traditionally excluded or discriminated against in the labour market.

In conclusion, deficiencies in basic soft and technical skills have been cited more often as a prominent barrier to the development of the private sector; thus, the impact is quite crucial. This will affect both the supply and demand of the workforce for employment generation. Educating and preparing youth for the labour market (hands-on training, internships and career development, entrepreneurial way of thinking and acting) is considered a proactive approach to development of skilled and competent employees. Supporting new entrepreneurs to integrate these talents and future employees in the companies will generate new jobs and increase the company's demand for career growth.

## **2.1 Rationale for Industry-Education Cooperation**

In industry-education cooperation, the decision-makers of education institutions and private sector companies are in unison that they need systematic communication, permanent dialogue and a coordination model since they are two hands of the same body which is sustainable growth and development of the society. However, in Kosovo, the lack of such cooperation results in no incentives provided by the government that could boost the dialogue and cooperation between the private sector companies and education institutions. On the one hand, companies claim that the entire financial burden falls on them. First, they claim that they are already paying various taxes, so additional cost not associated with their core business would hurt their financial results. Second, the additional informal training they provide is consuming their resources in time and money. On-the-job training is costly as external resources must be engaged, and the tab must be paid by the companies even though they are not the cause of this problem.

Furthermore, participation in training means absence from work which companies consider it as a cost and still not an investment in mid/long run as the missing employee needs to be replaced (due to structure of the economy, mainly MSME). Third, the internship is not widely utilised by companies because of the cost associated with their recruitment and their on-the-job training. Even though the benefit is mutual, the cost is not divided equally between the private sector and the government. Lastly, even if the

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<sup>11</sup> Making Employment Services and Active Measures Sensitive to the Needs of Young People Recommendations for Youth Employment Programs in Kosovo; World Bank report; January 2020

<sup>12</sup> The gap between the share of women and men with an education level below upper secondary, at 14 percentage points, is larger than in Macedonia (7 percentage points) and Serbia (3 percentage points). World Bank STEP survey; March 2019

companies agree to pay and cover the cost associated with the development of their future employees, there is no guarantee that the graduate will stay with them, meaning they can find employment elsewhere, which the companies consider being a sunk cost as the cost are borne by them and the benefits by the others.

On the other side, education institutions are not entirely motivated to improve the intensity of cooperation with private sector companies. Primarily because the current school funding model is not producing results, a tailored country-based model is provided<sup>13</sup> to resolve these issues. The current education system is not measuring the outcome (i.e. performance) of the teachers/professor but rather the output (the hours spent at school) of the staff. These practical on the job programs if organised systematically and institutionally can result in much better industry-education cooperation especially in achieving the following: (a) they provide students/trainees/graduates with an unique opportunity to participate in real professional situations and solve practical job-related problems; (b) they contribute to building technical and professional skills as well as soft skills relevant for the labour market as considered highly important by employers; (c) they are used as a platform for bringing companies, students and education institutions together to facilitate cooperation between stakeholders in order to improve curricula and education programs; (d) they provide trainees with references from the private sector that can signal capabilities, which may be especially important given employers' emphasis on work experience; and (e) they provide an excellent opportunity for students to get to know the future employer, while on the other hand helps employers to identify future employees. (f) Widening/contributing to student's career choice and (h) Contributing to students work culture within certain companies which is very important.

An estimated 60-70 percent of apprentices in the EU find jobs immediately after graduation<sup>14</sup>. However, to function well and give appropriate results, these arrangements need strong support from the government institutions and other relevant institutions, including three-party collaboration (e.g., company-student-school or company-student-employment agency), formal learning arrangements or learning plans, mentoring mechanisms, monitoring and evaluation tools and integration of the feedback of the private sector in the academic programs. There is significant scope for improving the performance of vocational education and training, which account for half of all students at the higher secondary level (grades 10-12). This will require smart planning through aligning the supply of vocational education and training with assessments of technical skill needs in the labour market, involving employers in the design and delivery of training curricula for the practical part, fostering cooperation with businesses in the delivery of training, strengthening quality assurance mechanisms and ideally, private sector companies' involvement in the student assessment.

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<sup>13</sup> Please check the document developed by Alled2 project: "Financial Planning for VET System in Kosovo – Proposal for Improvement"

<sup>14</sup> The effectiveness and costs-benefits of apprenticeships: Results of the quantitative analysis; European Commission, Employment, Social Affairs and Inclusion publication 2013

The involvement of firms in multiple dimensions of skill development systems is of utmost importance. Connecting employers, workers, education systems and students is essential to increase the relevance of school-based training. Collaboration can take different forms, ranging from public-private sector partnerships involving shared financing and management responsibilities to providing technology/equipment, jobs skill needs assessments, mentoring and career advice, partnerships around curricula reform, and work-based learning.

# 3

## THE BENEFITS OF STRUCTURAL INDUSTRY-EDUCATION COOPERATION

On-the-job training, internship placements and practical experiences are providing a significant impact in many EU countries. These concepts are valuable for the entire workforce development equations; however, below are given only some of the many benefits that these activities produce:

**a) Dual education is a success story:** The dual vocational training system was firstly implemented in countries such as Germany and Austria. Interestingly, these countries claim the lowest youth unemployment rate today in Europe. For example, in Germany, more than half a million companies train regularly after the principle of the dual training system and in Austria, which has only 8 million inhabitants, approximately 35.000 companies are open to young people as training sites. This shows not only socio-political responsibility but also that enterprises estimate the profit of dual education higher than the costs for it. Finally, it was the dynamism of the private sector on capacity development and creation of new culture that led to the successful VET model.

**b) The involvement of firms in multiple dimensions of skill development systems is of utmost importance.** Connecting employers, workers, education systems and students is essential to increase the relevance of school-based training. Collaboration can take different forms, ranging from public-private sector partnerships involving shared financing and management responsibilities to providing technology/equipment, job skill needs assessments, mentoring and career advice, partnerships around curricula reform, and work-based learning.

**c) Use the productivity of the trainees:** Trainees become more productive, and "learning on the job" becomes more critical, especially, as mentioned above, with the rapid speed of the technological development and rate of innovation the world is experiencing. Companies can use the talents of trainees already during the training. Usually, the training cost for an employee is compensated through increase of productivity of the employees and, in turn, the revenues that he/she brings to the company.

**d) Guarantee access to qualified employees:** Nowadays, the recruiting of skilled workers is a complex process. Nevertheless, the benefits of dual training programs for companies are that they can tailor the training to meet their specific needs, which can result in a better match between the skills of the trainee and the needs of the company. This can lead to increased productivity and efficiency, as well as improved quality of products or services.



**e) Culture of trust:** There is also something which is called mutual trust between companies when they recruit students and deliver a training program to them. It is general perception that other companies easily recognise the skills and competencies gained at these programs as they trust the quality of the content and the methodology of the program.

**f) Reduced costs for the integration of external skilled workers:** It is expensive and costly to search, to familiarise and to upskill workers. Companies that resort to apprenticeship systems save many of these costs because the recruitment of apprentices is favourable.

**g) Less errors:** During the training period, which lasts depending on the occupation, for example in Germany 2 to 3.5 years and in Austria 2 to 4 years enterprises get to know the trainee. This is time enough to check motivation and suitability. Expensive false miscasting is rare as to take external employees.

**h) Cost advantages by higher employee connection:** good care during the training generates identification with the company. The benefit for the enterprise is lower staff turnover.

**i) Improved image:** Enterprises engaged in dual vocational training enjoy a positive image in society as a result of their socially responsible activities in the society that is contributing to overall public good.

The chance to succeed in the competition for the young talents is increasing. This image component becomes especially important when the number of suitable applicants decreases for example, due to demographic changes.

Having said all of the above, it becomes imperative to suggest a model (financial and non-financial) that would give a new impetus to industry-education relations and intensify the cooperation between the human capital developers.

Based on all the available data, financial and non-financial incentives would improve the matching between the supply and demand, improve employability skills and create an ongoing dialogue between companies and education for the employment of current students and graduates.

By financial and non-financial incentives throughout the text, the following concepts will be used:

- **Incentives:** Any kind of stimuli intended to foster the engagement of the business sector in VET.

- **Grants:** Financial means used for defined purposes which do not have to be reimbursed.
- **Subsidies:** Many forms of funding, including direct payments, tax breaks, tax abatements etc., are usually provided to (partially) offset costs over a more extended period.
- **Levies:** (Usually compulsory) financial contributions by a company (e.g. to a training fund or a public body, such as an employer organisation).

Furthermore, evidence suggests that on-the-job training, through internships and other forms of practical training, can increase the relevance of skills and provide youth with experience and employment references. Internships and apprenticeship systems, as some of the used forms of practical training, are not so much developed in Kosovo.

### 3.1. Case Studies of Countries with Successful Implemented Model

To prove the relevance of this concept in this section, the following several examples of successful implementation of such financial schemes in the countries will be presented (Austria, Slovak Republic and Hungary)<sup>15</sup> that are similar to Kosova in terms of the size of the population, regional context and relatively similar socio-economic approach.

#### 1. Austria

##### *Austria's Subsidization Approach in Brief:*

Compulsory levy-based training fund: A combination of a basic subsidisation scheme (regressive over the training period) and additional criteria-based subsidisation (partial reimbursement of extra costs for training).

- **Direct Subsidies:** Since 2016, every training company receives a direct public subsidy for each apprentice. This basic subsidisation is linked to the apprenticeship wage and is regressive over the training period; training companies are reimbursed three monthly apprenticeship wages in the first training year, two during the second year and one in the third (and fourth) training year. The basic rationale behind this design is to compensate training companies for the low productivity of apprentices in their initial training years. Additionally, training companies may be eligible for criteria-based subsidies through grants<sup>16</sup>.

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<sup>15</sup> Dual VET system: Transfer of successful structures and guidance for implementing the dual VET system; Lifelong learning publication funded by European Commission

These incentives are earmarked to:

- *Foster quality*, e.g., through coaching, building training alliances, providing extra preparation for the final apprenticeship examination (FAE) or the qualification of trainers, and/or
- *Address specific target groups* and/or occupations, e.g., employing apprentices from inter- company vocational training centres, giving equal access to girls or providing training for inclusive/integrative programmes, etc.

The Austrian Insolvency Remuneration Fund finances both types of incentives. Traditionally, this fund pays outstanding wages in the case of company insolvency; consequently, it is financed entirely by companies themselves (0.35% of the total sum of wages is taken in form of a tax but is considered an investment for future programs that lead to upskilling and reskilling of students; 0.2% of which is earmarked for direct subsidisation of training companies). In essence, it is a compulsory training fund that redistributes part of the levies from all companies to those that train apprentices.

- *Indirect Subsidies:* Additionally, training companies get indirect financial subsidies by:
  - *waivers* in the area of non-labour costs, i.e., employers do not have to pay their part of social security contributions for sickness, unemployment and accident insurance for apprentices.
  - *tax deduction*, i.e., setting off training expenditure against revenue, which reduces the company's taxable profit.
- *Sector/Region Specific Training Funds:* In some sectors and/or regions, additional training funds exist:
  - Since 1982, in the construction sector, a third learning site, the so-called inter-company learning centres (BAUakademien), has been financed by compulsory levies for all companies in this sector.
  - In western Austria (Bundesland Vorarlberg), a voluntary training fund exists in the electro- and metal industry (VEM). All participating companies voluntarily pay a levy of 0.24% of the total sum of wages. Training companies get a one-off bonus for each of their successful apprentices in a skills competition.
  - Apprentices: In Austria, apprentices may also be eligible for personal subsidies. Funds finance these from the labour market policy budget.<sup>17</sup>

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<sup>16</sup> Companies have to apply for these criteria-based subsidies at the local apprenticeship offices. They have to prove their actual expenditure in order to receive partial reimbursement, up to a limited amount. [https://www.wko.at/service/bildung-lehre/Gesamtuebersicht\\_Foerderarten\\_lehre.html](https://www.wko.at/service/bildung-lehre/Gesamtuebersicht_Foerderarten_lehre.html).

<sup>17</sup> For details see <https://www.ams.at/unternehmen/service-zur-personalsuche/foerderungen/foerderung-der-lehrausbildung>.

## 2. Slovak Republic

Employers<sup>18</sup> are motivated to participate in VET by fiscal incentives in the form of tax exemptions. These are calculated per apprentice and fixed according to the extent of the provided work-based training. Most of the expenses are compensated by tax incentives (reduced tax base by €3.200 per apprentice for 200 - 400 hours of work-based learning per year or EUR 1.600 for less than 200 hours).

The training of instructors is provided without cost to companies and financed by the public budget and European funds (see [www.minedu.sk/data/att/8959.pdf](http://www.minedu.sk/data/att/8959.pdf); p. 12).

Additionally, since 2018, direct payments to employers providing practical training for students were introduced. Besides the tax exemptions, companies now get direct cash payments per student/year (€1.000 for SMEs, €700 for larger companies which provide more than 400 hours of practical training per year or €300 for companies which provide more than 200 hours and less than 400 hours of practical training per year). In the case of SMEs, direct payments can effectively complement the tax exemptions, as SMEs often cannot make use of exemptions (e.g. due to an already low tax base).

## 3. Hungary

Hungary's financial incentive model is based on normative subsidies<sup>19</sup>.

- **Basic Scheme:** Every company is obliged to pay a training contribution<sup>20</sup> (1.5% of its total payroll) to the training sub-fund of the National Employment Fund (Nemzeti Foglalkoztatási Alap, NFA), which is part of the national budget. Every training company then receives a normative subsidy<sup>21</sup> (the amount is occupation-specific and should mirror real cost levels; it is determined by the state, based on monitoring actual training expenses of companies). The following rules apply:
  - If the training contribution is lower than the received normative subsidy, the training company is free to use the difference as they wish,
  - If the training contribution is higher than the normative subsidy, the difference is paid (as a kind of penalty) into the training sub-fund (state budget), thus increasing the incentive to train.

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<sup>18</sup> Employer associations will certify employers in the dual system. Employers will be also subject to external control from the State School Inspection, as they will be responsible for the practical training of students

<sup>19</sup> Some general information: <http://www.cedefop.europa.eu/en/news-and-press/news/hungary-encouraging-apprenticeship-take-initial-vocational-education-and-training>; [http://observatory.org.hu/wp-content/uploads/2015/04/ReferNet\\_Apprentice%20ship\\_EN.pdf](http://observatory.org.hu/wp-content/uploads/2015/04/ReferNet_Apprentice%20ship_EN.pdf); p. 5.

<sup>20</sup> szakképzési hozzájárulás, SZH

<sup>21</sup> Basically, the state considers the amount of the normative subsidy to be the amount of money actually spent on the organisation of VET training in the given occupation.

This mechanism favours training companies with relatively few employees and a relatively high number of apprentices (as total labour costs will be relatively low and normative subsidies relatively high). Therefore, a limit of 12 apprentices at any time has been introduced for micro and small enterprises.

- **Extended Scheme:** Since the beginning of 2016, some training companies may be eligible for additional funding (i.e., extra normative subsidies) for:
  - **Instructors:** This subsidy is only available for SMEs and is linked to the number of apprentices (21% of the fundamental normative subsidy of each apprentice)<sup>22</sup>.
  - **Workshop maintenance:** Available for all training companies if they train 9<sup>th</sup> graders and if the workshop is exclusively for training purposes.
  - **Investments:** Available for all training companies according to the formula: average number of apprentices during a given year multiplied by the basic normative subsidy (the basic normative subsidy differs according to company size: 38% for micro companies [1-10 employees], 18% for small-sized companies [11-50 employees] and 9% for companies with more than 50 employees).

The same redistributive procedure as in the basic scheme from before 2016 applies; but for the extended scheme, the sum of all normative subsidies is considered.

- **Tax Allowances:** Companies providing practical training in VET can reduce their tax liability by the following formula: tax liability = (tax base - number of apprentices x 24% of minimum wage) x company tax-rate<sup>23</sup>.

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<sup>22</sup> In general: normative for an occupation = basic normative x occupation-specific factor. Basic normative subsidies are defined in the budgetary act, while specific factors are defined in decrees. Therefore, the latter mentioned are far easier to modify

<sup>23</sup> For companies who provide practice for students within the framework of the so-called cooperative agreement, the reduction factor is 12% (instead of 24% as for apprentices)

### 3.2. Comparison of the Presented Schemes

Apart from Liechtenstein, in one way or another, the member countries<sup>24</sup> of the DC dVET<sup>25</sup> provide financial incentives to training companies. They also have one thing in common - in none of the countries are the incentives high enough to cover all or most of a company's training costs, even if they have been designed as basic subsidisation. Whereas the primary purpose of Austria's approach is to give basic subsidisation to training companies as well as to foster specific goals within companies (for example, encouraging the training of specific target groups and enhancing the quality of training activities), most of the Swiss schemes concentrate on fostering apprenticeship training on a general level. The activities in Austria and Germany are the responsibility of and financed by employer organisations (such as chambers of commerce - IHKs) and therefore financed mainly by the general fees paid by the companies to their respective organisations. In this regard, Germany's financial incentives are directed much more to the demand side (i.e. apprentices), while on the supply side (i.e. companies), financial incentives focus on fostering training alliances and sector-specific additional inter-company vocational training centres.<sup>26</sup>

Newly established incentive schemes such as those in Hungary and the Slovak Republic differ significantly from those in the DCdVET countries. Generally, the financial subsidisation component in both countries is high (covering most company training expenses). The Slovakian approach grants considerable tax exemptions to training companies (financed out of national and EU budgets through Guarantee scheme by ESF)<sup>27</sup>, whilst Hungary provides direct financial subsidies through a complex training fund scheme (with compulsory employer levies). Both schemes try to provide additional direct support for SMEs.

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<sup>24</sup> Austria, Germany, Liechtenstein and Switzerland

<sup>25</sup> Donor Committee for Dual Vocational Education and Training <http://www.dcdualvet.org>

<sup>26</sup> Kurt Schmid (2019), Companies Engaging in Dual VET: Do Financial Incentives Matter? - ibw Austria - Research & Development in VET

<sup>27</sup> European Social Fund is Europe's main instrument for supporting jobs, helping people get better jobs and ensuring fairer job opportunities for all EU citizens. It works by investing in Europe's human capital - its workers, its young people and all those seeking a job.

# 4

## THE OBJECTIVES AND METHODOLOGY

Taking all into consideration, the mission of this policy proposal had the following overall goal: to diminish poverty through increased labour market participation and improved employability for the population in Kosovo.

Whereas the specific objectives of the assignment are the following:

- Review the challenges that enterprises face in their cooperation with VET providers.
- Assess the capacities of enterprises to engage in structured cooperation with VET.
- Support DVET/MESTI, MFLT and EARK to develop and select an efficient incentive scheme for enterprises for key sectors relevant to the market.

One of the activity's key outcomes is to support the structured cooperation between private sector/business community and VET providers, which meet the needs of the Kosovo labour market and industry.

In order to achieve the above-stated objectives, the methodology used is shown in the figure below.



Figure 1: The methodology of the activity

As it can be seen the recommended methodology included the following 3-phased approach divided in five activities:

## **1. Identification of main stakeholders**

In the consultation process, the companies from the priority sectors were selected by ALLED2, such as: mechatronics, energy, agriculture and food processing. These companies would give us a clear picture of the issues facing the demand and supply gap and provide recommendations on how to improve the current cooperation to integrate the youth in the employment opportunities of these companies and economic activity in the country. However, the authors added the wood and furniture sector as one of the most economic promising sectors for Kosovo with high absorption capacity for employment, transfer of practical KNOW- HOW of skills and competences and priority sectors for the government of Kosovo. The value chain from the demand side includes chamber of commerce, professional association and various business groups, and their voice represents not only those of individual companies but of a larger scale.

Besides the private sector as both, partner and beneficiary of suggested model, a very important stakeholder in the process are VET institutions. They are developing the future talents absorbed by the labour market and, thus, have an essential role in implementing the policies and programs identified in this policy proposal to have a more employable workforce in the future in Kosovo. However, such policies would not be possible without the intervention of the Ministry of Education, Science, Technology and Innovations as a strategic member of this group, ensuring that implemented policies would go all over to the core of the problem, the education level.

In the end, the Government of Kosovo is the main regulator of this dialogue that will monitor, supervise and measure the effects of such policies and replicate them in other domains of the economy if they produce results for what they are intended to.

## **2. In-depth study:**

This activity included data collection and information analysis. In order to understand the current model of industry-education cooperation in Kosovo, it was necessary to collect data and analysis of the current level of quality of education in Kosovo as well as practices of the current cooperation between the private sector and companies. It was imperative to analyse studies and publications providing answers to some of the following questions:

- What is the current level of education-private sector cooperation in the country? Furthermore, what are some of the main bottlenecks that prohibit further growth of these services in Kosovo? What are some of the institutional challenges that prohibit structural cooperation between VET institutions and businesses that may lead to dysfunctional employment/internship placements in Kosovo?



- What are some successful models of industry-education cooperation from the region or EU countries? These countries are the ones that are providing an incentive package to improve employment and increase cooperation.
- Which sector is more vibrant and can absorb new initiatives proposed by the project and the government? Which sector, if policy piloted, would have the highest impact in providing us with the cost-benefit value? Companies from this sector are the anchor ones who by implementing such initiatives, would have a value-added impact on other companies.

It is essential to mention that the focus of the research was on positive practices and potential bottlenecks that could have limited implementation before suggesting potential solutions and recommendations for specific solutions.

### 3. Workshops and Validation process

There are two workshops organised; the first one, with the private sector companies in selected sectors and intermediaries (training companies, donor community, NGO's etc) as one the catalyst of improvement of cooperation among the private sector. The second workshop was organised with VET school directors educating profiles for these sectors. Moreover, the final meeting with the legislators and government representatives supervises and monitors the entire process. During the workshops, a semi-structured questionnaire technique was used in conducting the interviewing, with a mix of closed and open-ended questions implemented to get as much information as possible.

Of course, it was not possible to invite and include all the companies from the three sectors; therefore, workshops following a specific methodology were organized:

- **Focus group workshop with the private sector:** Several companies were invited and attended the first workshop. The workshop's objective was to validate the findings from the desk research and get insightful information from the individual experiences of these companies when cooperating with education institutions and/or having interns in the companies.

Some of the issues identified by the companies during the workshops were:

- Lack of job-seekers/employees with relevant experience is the primary concern of the companies, the quality of formal education and training, the availability and cost of training and development of employees to integrate them into the workplace.
- Skills and working experience are primary constraints to recruitment, especially for occupations in demand by companies. A majority of firms attempting to hire workers reported having difficulty identifying candidates with adequate required skills or work experience.

- This suggests that skill constraints, especially for higher-skill occupations, are holding back the creation of better jobs in Kosovo. Whereas skill constraints affected all hiring companies, they had a stronger effect on those that attempted to hire in the past three years and on dynamic firms.
- When hiring new employees for higher-skill occupations, the companies place greater importance on cognitive and socio-emotional skills that usually affect productivity: conscientiousness, perseverance, problem-solving, numeracy, and the ability to work under stress (i.e., stress resistance). Companies of medium and low skills occupations also value interpersonal skills, reliability, problem-solving skills, and stress resistance. These general skills are more important for hiring decisions than job-specific technical skills in Kosovo. According to them, technical skills are tough to be taught in the education system and need to be provided through job experiences of present a specific methodology and work process the companies have in place, which depends on the tools, machines and assets they use.
- Nevertheless, it is not only the quality an issue; some companies in labour-intensive industries (agriculture, construction, tourism etc.) are suffering from the low volume and quantity of applications they receive for their job announcements. They claim that this is due to the "promised" employment with the public sector, which distorts the private sector by hiring the best candidates and ensuring sufficient numbers of applicants even to complete the employment opportunities they provide.
- As mentioned, the Kosova economy comprises more than 90% of MSME's, usually family-owned businesses with no human resource departments or mentoring capacities for students and interns. Thus, the government, besides financial incentives, must start a national mentorship program providing technical support for companies applying for financial support, but not only. Training and specific programmes for in-company instructors should be part of government support to support the structured cooperation between VET and private sector cooperation.
- Finally, many companies complain that the government is not providing any incentives (financial and non-financial) for companies to recruit interns while in the education process. They strongly believe that if there are such incentivised programmes, the companies would be more motivated to hire interns as the cost of recruitment, on-the-job training, monitoring and supervision of their work requires resources that smaller companies do not have, and such incentives could significantly offset the cost they face.

- **Workshop with VET institutions:** in order to have an overall evaluation the situation, a workshop with the decision makers of the main VET institutions in Kosovo was organised to analyse from their perspective on what they consider to be the bottlenecks of cooperation with the private sector and what are some of their suggestions and recommendations for strengthening such collaboration to have a bigger number of student taking internship opportunities and finding employment placements in the companies.

As in the workshop with the companies, the decision-makers of main VET schools also expressed their dissatisfaction with the current level of cooperation between the main actors as creators of the next-generation workforce.

Some of the reasons behind this low level of cooperation they indicate to be:

- The current financial model of the secondary education system, especially VET, is not rewarding cooperation opportunities with the private sector as there is no financial compensation for professors for extra activities and work in this domain.
- Even though some VET institutions have Career Centers, their technical capacities and financial resources are far from the desired level. Most of the professors working in these centres are there only to satisfy the engagement criteria to receive the salary and not because of performance or intentions to work with the private sector. Moreover, the VET institutions with somewhat functional career centers lack financial resources to compensate for their costs of field visits, joint activities with companies and other related expenses.
- In addition, even though Kosovo is implementing the international practices of the education system very rapidly, the internship is far from being a culture in the country. However, this domain has positive trends as companies request school recommendations for hiring students from their institutions. Nevertheless, the schools feel that this is not because of better planning of companies for human resources but because of the lack of candidates in many profiles, as mentioned above.
- Moreover, in regard to accident insurance provided to interns in case of accidents in the workplace it is worthy to emphasize that the fund currently exists within the Government of Kosovo. However, this fund is not fully operational and it needs to be functionalised to the best extent.
- As mentioned, most companies are family-owned, and the exchange of knowledge with an intern is limited as there are no established processes for this matter. Therefore, any financial and non-financial incentive must be complemented with technical support or guidance on how to integrate interns into the workplace,

- Finally, the culture of considering investments in human capital development as a cost instead of investment must change. Companies shall consider that investing in human capital development is the only viable solution for a small country with limited resources to improve its competitive position in the regional markets.
- **Workshop with the relevant governmental institutions:** Initially, contact with Ministry of Finance, Labour and Transfers was established to inform them about the process and importance of the proposal for the incentive scheme. The workshop with the policy makers and governmental officials from the reps of Prime-Ministers cabinet, Ministry of Education, Science, Technology and Innovation – MESTI, Ministry of Industry, Entrepreneurship and Trade – MIET and KIESA was organized on January 25, 2023 concluding the following:
  - The timing of such proposal cannot be better as there are two initiatives in process taken by Government of Kosova that are in line with empowering the role of VET and private sector cooperation: the first one is the committee that works on the initiation of dual education. One of the main elements of empowering VET is focusing on career education that is considered to start from the early stage in the primary education (VI grade) and tracking system of pupils/graduates that have completed internships. Second one is the development of youth guarantee scheme looking at upskilling and reskilling of youth to become more employable in the labour market.
  - The government is working on capacity building of newly established Career Centers in VET schools making it as a hub between for education-industry cooperation.
  - A comprehensive coordination of relevant government institutions working on such initiatives is needed in order to create appropriate implementing mechanisms to achieve the desired outcome.

#### **4. Assessment methodology:**

In order to provide suggestions and recommendations on future interventions in which financial and non-financial incentives would provide, an evaluation grid with five criteria was developed focusing on the following.

- **Impact** This criterion addresses questions like “Which of the presented models would have the best impact regarding the objectives? Who would benefit from this policy? What are the short-term results provided? Would the suggested model increase the structured cooperation between the industry and education, leading to more opportunities for internship/job opportunities for students/graduates? Is the model resulting in deficient skills improvements in the market?”

- **Evidence of Demand:** What are the successful demand-driven initiatives? Are any initiatives recognised and accepted by the market or the private companies leading to more efficient employment, skills improvement or better industry education cooperation? Which sector would provide the best results for better structured industry-education cooperation in case new initiatives are piloted? What is the absorption capacity of the companies in this sector?
- **Scalability:** The proposed incentive model must provide scalable activities so that multiple institutions benefit from its implementation. In addition, the suggested interventions piloted in one sector must be easily replicated in other sectors or economies of the country. These must not be stand-alone policies but should be integrated in the laws and regulations to incentivise industry-education cooperation. Finally, and more importantly, these activities must become sustainable in the medium and long term, i.e., not depend entirely on the incentives of the government or the donor community.
- **Time:** Time is one of the crucial factors for projects. The model must have innovative concepts in supporting the companies so that the interventions' deliverables reflect the market's immediate and ongoing needs.
- **Amount of investment required (budgeting):** The financial contribution of all partners is a must. The international donor provides only a fraction of the investment required, usually in technical expertise in suggesting the model. However, most of the fiscal and financial incentives and contribution modalities must come from the government and companies involved in the process.

## 5. Validation process

After the inclusive consultation with all sides of the workforce development equation, the final version of the policy paper will be compiled and presented to all stakeholders in May 2023. In this event, the consultant will present their findings, suggestions and recommendations on the issues discussed.

# 5

## INCENTIVES (FINANCIAL AND NON-FINANCIAL) FOR IMPROVED EDUCATION-INDUSTRY COOPERATION

### 5.1. Models of financial and non-financial schemes

As seen from the table below, there are a set of financial and non-financial incentives that will impact the better cooperation and coordination between the education and the industry. The usage of these mechanisms depends from the financial viability of the government and private sector companies to sponsor such initiatives, capacities of parties to cooperate for the implementation of these initiatives and their readiness to enter in such partnership that have long term effect.

Model	Mechanism	What?	When?	Who?
Financial	Grants	One-time non-returning financial support is usually to fulfil a specific need or achieve certain goals	Skills improvement and enhancements in specific topic or sector	<ul style="list-style-type: none"> <li>• Training companies,</li> <li>• Civil society organisations (CSOs)</li> <li>• Companies</li> </ul>
	Vouchers	Financial instrument provided to an individual to take or complete a set of training programs in the identified strategic area resulting in skills improvement or job creation	To reduce high unemployment and better transition from school to work	<ul style="list-style-type: none"> <li>• Unemployed</li> <li>• Graduates</li> <li>• Head-hunters and recruiters,</li> <li>• CSOs</li> </ul>
	Subsidies	Fiscal incentives are provided to partially reimburse the cost of on-the-job training or skills improvements program	Practical placements of students, skills improvement and job creation programs. Ideal for mentorship programs	<ul style="list-style-type: none"> <li>• Private sector companies</li> </ul>
	Waivers	Compared to subsidies, waivers are cost the companies are offsetting to finance specific program	Practical placements of students, skills improvement and job creation programs	<ul style="list-style-type: none"> <li>• Private sector companies,</li> </ul>
Nonfinancial	Career development programs	A program that focuses on the informal employability skills improvements of the VET students	Informal training programs offered to students	<ul style="list-style-type: none"> <li>• VET Schools</li> <li>• Career Centers</li> </ul>
	Career education courses	New career counselling courses incorporated into the existing curricula (core or elective) provided to VET students to be better prepared for the labour market	Provided to students as a course part of the curricula, which results in the development of individual career plans	<ul style="list-style-type: none"> <li>• Professors</li> <li>• Students</li> </ul>
	New Industry led education programs	New academic programs that focus on the needs of private sector companies are incorporated into the academic programs in the school	Avoid the unnecessary cost of training after the graduation of students	<ul style="list-style-type: none"> <li>• Anchor companies</li> <li>• Sector-based approach</li> <li>• VET Institutions</li> <li>• Students</li> </ul>
	Self-employment programs- Entrepreneurship	Self-employment programs that would empower students to create their own start-up	Job creation vehicle for students with a business idea	<ul style="list-style-type: none"> <li>• Students</li> <li>• Start-ups,</li> </ul>
	Volunteering programs	Volunteering of students in specific roles in non-business organisations (CSOs, NGOs, donor community, local government etc) in the society usually associated with soft skills improvements.	Exposure to practical training and working environment	<ul style="list-style-type: none"> <li>• Private Sector Companies</li> <li>• Public Institutions</li> <li>• CSOs</li> <li>• VET institutions</li> <li>• Students</li> </ul>

Tab.1: Description of financial and non-financial incentive programs

In order to describe the financial and non-financial models, the structure cooperation between companies and education institutions is important to explain the meaning of each incentive program and note the differences among each set.

The financial incentive among economists it is defined as "monetary benefit provided usually to encourage certain actions leading to a specific outcome that otherwise would not be possible<sup>28</sup>", On the other side, non- financial incentives are non-monetary activities resulting in the improvement of public-private cooperation (PPP) between VET institutions and private sector companies.

Most often, the financial and non-financial incentives lead to certain actions, an otherwise uncertain outcome.

Now, let us focus on financial incentives first. Financial incentives for companies' engagement in VET are usually policy instruments for the government to encourage certain action leading to more intensified cooperation between the industry and education through which a monetary benefit is provided.

Incentives can be 'stand-alone', or linked to financial instruments such as levy-grant schemes or training funds.

In this policy proposal, note that the following definitions were used:

- **Incentives:** Various financial and fiscal stimuli intended to improve the business sector engagement in VET.
- **Grants:** Financial means to achieve a specific purpose by those it is provided. The main difference with the other forms of financial incentives is that grants are not reimbursed or returned back to the provider of the grant but are money spent to achieve a purpose or objective by the recipient.

The most popular form of granting incentive programs are payments transferred to enterprises that finance specific training programs. The provider of the grant may decide to fully cover the cost of training or enter into a cost-sharing agreement with the recipient of the fund. However, if an enterprise receives public money, the amount should be kept separately in the company's accounting system for full transparency to the public.

Though, most common form of grants in all the countries when such incentives exist are funds paid directly to a training provider for specified courses for employees or co-financing mechanisms created between public and enterprise funding.

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<sup>28</sup> Companies Engaging in Dual VET: Do Financial Incentives Matter?; ibw Austria - Research & Development in VET, Kurt Schmid; 1st edition, Zurich 2019

- **Subsidies:** Direct payments provided by the government are usually given to (partially) offset costs over a longer period. Usually, governments use this type of financial incentive to support a strategic economic sector of the country or a traditional one (usually with the highest number of employees) that is going through economic turmoil.

There are two types of subsidies: direct and indirect. Direct ones are provided directly to the involved parties, and indirect ones are fiscal benefits to achieve an objective.

Possible direct subsidies for companies would be:

- **Basic subsidies:** partnering companies receive a portion of funds per placement (internship/ apprentice) or per completed training/certification program as indicated as it would be indicated in the regulation. Usually, the number of funds provided to companies differ on two criteria: first, duration of training (i.e. depending on the training period) and/or students/graduates contributing to productive work.
- **Criteria-based subsidies:** in this case, the companies engaged in cooperation with VET would receive subsidies if they meet specific criteria suggested by the government; if criteria is met, then, they are (partially) reimbursed for their investments. The primary aim is to foster training quality or skill improvement for specific job profiles and occupations needed in the economy.
- **Direct subsidies:** On the other hand, direct subsidies for the recipients of the in-company training (student/intern/apprentice) would provide:
  - Cash in form of stipend or scholarship provided by the government/companies to the interns to cover, for example, their living and transport costs associated with that on-the-job training or internship placement. Additionally, such funds are very good incentive to attract specific target groups from marginalised groups (such as females, ethnic minorities, social status etc.) to do internship/apprentice or follow specific on the job training.
- **Indirect subsidies:** Whereas best financial incentives for indirect subsidies include the following:
  - Skills development training program costs are considered expenses that are reduced from the company's tax on profit. Additional tax exemptions can be offered for certain investments that lead to human capital development indicated as a priority by the government.



Other less known forms of subsidies include the following:

- **Subsidies on awareness improvements:** Another incentive for companies engaging in cooperation with VET would be subsidies or preferable prices for their advertisement campaigns on public TV and other governmental media channels.
- **Subsidies for company promotion:** In addition, companies who actively engage in structured cooperation with VET are to be supported through different activities in KIESA to participate in different fairs and other promotion activities around the world promoting the company and its products.
- **Waivers:** These are payments, in the form of tax breaks, tax reductions etc., that are provided to stakeholders as a result of implemented policy.
- **Tax relief programs:** The most popular programs are tax relief programs provided to sector/companies that contribute to skills development of the next-generation workforce initiated by the government using the corporate tax or social security system, which results in a monetary benefit for companies.

Some of the most popular tax relief programs used in other countries are:

- *Tax exemptions or allowances:* An enterprise deducts, exempts, or claims an allowance on training expenses for VET students, deducted from their taxable revenue, thereby reducing their tax liability. The financial benefit is the marginal tax rate. It can apply to all training costs, direct and indirect, or be set as a percentage of training costs or as a maximum amount. It can be scaled to allow higher deductions for enterprise type, target group, type of VET and amount spent. The exemption amount can differ according to the type of enterprise, training, and participant.
- *Tax credit.* An enterprise applies a credit to its tax liability, lowering its tax bill. The financial benefit is the net tax reduction. The credit amount can differ according to the enterprise, training, and participant type.
- *Tax deferral.* Tax payment is deferred and later offset, for example, if training in one year is linked to capital investment in another. The financial benefit is the saved cash flow due to the postponement of the tax payment.

On the other hand, there are some programs that don't need financial incentives to produce results. However, it is important to have an implementation plan for the selected incentives to be integrated and fit to the new education strategy of Kosovo. Here is a brief description of the most important non-financial incentive which include the following programmatic interventions:

- **Career development programs:** the MESTI must start introducing the career development concepts in the early stage of the student's professional development. Currently the career center concepts exist in HEI- higher education institutions and in some regions in VET education but not on a large scale. However, there must be creation of proper career centers providing career development interventions focusing on employability skills trainings, career development and guidance and employment activities resulting in the creation of permanent dialogue between the industry and the education institution. This mission must be given to Career Centre created in each VET school, which must be appropriately staffed, adequately trained to deliver qualitative services and provide the necessary resources to bring the private sector into the world of learning.
- **Career education courses:** the difference with the above is that this activity results in the creation of transformation by intervening in the curricula of the learning/education programs. This would be possible only if career development courses are integrated and are part of the curricula allowing students to receive information and education about the career opportunities labour market to make better career choices. In contrast, the above activity is out of a class service provided to prepare students for internship and employment. These courses should be provided throughout the entire education level of students.
- **New industry-led education partnership programs:** Most of the issues are a legacy of the past and not resolved by training a certain number of participants because the VET system still needs to improve and adapt the employability skills delivered to students. Therefore, one of the strategic interventions noted also in the round tables with private sector is industry-education partnership programs which are cooperation between the anchor<sup>29</sup> companies (in one sector) and VET schools. The participatory companies must have the KNOW-HOW and willingness to share the knowledge with an education provider in designing the learning/education program that would make the students more employable after graduation. In addition, these learning/education programs must be accredited by the Ministry and approved by the sector representatives and agree on the certain percentages to be recruited once they go through the program.
- **Self-employment entrepreneurship program:** As is the case with career centres, governments needs to develop a strategy to support future entrepreneurs in starting up their businesses, thus reducing employment in the

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<sup>29</sup> Anchor companies are the leading companies in one sector a role they have based on the financial results (profit, turnover, and size) and KNOW-HOW which results in higher market share than the other competitors.

public sector. The support system could be anything from education to future entrepreneurs, incubation services, all a way to matching them with financial instruments for business start-ups.

- **Volunteering programs:** these programs are not very popular in Kosovo; however, the education system must redirect students to volunteer in the organisation by serving a cause that they believe represents their value system, career goal and professional development. Volunteering is also a good employment opportunity for graduates who do not see themselves in the private sector but want to build a career in civil society, NGO, or the public domain.

### **What are the policy objectives of the incentives?**

The impact and performance of the selected incentive model must be measured against the priorities of the government and fit the Kosovo context and capabilities.

- **Waivers** regarding non-labour wage costs, such as sickness, unemployment and accident insurance for interns, meals, transport to companies and back, etc. Such waivers would be:
  - *Social security exemptions, credits and/or deductions.* An enterprise reduces its social security liability for specified employees such as those attending training, apprentices, long-term unemployed, or recruits. The reduction can be a fixed amount, proportional, or based on a particular aspect of social security payments. The reduction can operate beyond the training duration.
  - *Other types of waivers, credits and deductions.* One example not covered above is public funding to subsidise other enterprise revenue-raising activities, such as issuing loans (including subsidised interest rates or extended repayment facilities). Another example is publicly funded consultancy services for business start-ups, entrepreneurs and restructuring companies. These examples may involve training provisions and are mentioned here as incentives applicable in a small number of cases.
- Companies offering on-the-job training and recruiting interns to have preferred treatment in public tenders.
- Financing activities that do not directly accrue to companies but foster initial VET in a broader sense (incl. promotion of VET, organising VET fairs or developing occupational profiles).
- **Levies:** Financial contributions (usually compulsory) to a company (e.g. to a training development fund or a public body, such as an employer organisation) that go to finance a bigger cause.

## Eligible costs covered by the models

One important issue of the authors and experts working in the field, is choosing the most appropriate type of incentive that would fulfil the objectives and targets but is linked with the costs that companies incur. These include:

- *Direct training costs*, e.g. for purchasing, procuring and providing training, internally or externally. This can cover a wide range of costs, including in-house trainer/instructor salaries, purchasing external training materials, and accreditation and certification costs.
- *Indirect training costs*, e.g., lost productivity; travel distance from/to the venue of on-the-job training; salary of trainees; and accommodation and subsistence payments, if required. Where there are tax deductions, this distinction is frequently used to deduct indirect and direct costs, especially for smaller enterprises and lone traders, where residential courses and accommodation costs are expensive.
- *Recruitment/salary/social security costs of trainees*, including apprentices and interns. This incentive would improve the number of placements of students/ graduates and job-seekers in private sector companies.

## Beneficiaries of the incentives scheme

The incentive scheme could be selected based on the economic structure of the country's economy; however, the benefits must address in resolving a specific issue for the country's economic development. Thus, the funds can cover the entire economy, specific underdeveloped regions, traditionally marginalised groups, and/or specific economic sectors:

- *Funds covering overall economy*: Companies from across sectors fulfilling specific criteria (e.g. size, revenues, no. of employees) benefit from the incentive scheme.
- *Regional development funds*<sup>30</sup>: Companies from all sectors in a specific region may receive the funds in order to remove any disparity in the economic development of the country,
- *Sector-specific funds*: Only companies from specific sectors selected as strategic by the government could be part of the incentive program. However, the sector must have high-growth prospects, provide know-how transfer, and have high absorption capacities in the next 5-year period.

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<sup>30</sup> Creating capacities for future EU membership of Kosovo and future possibilities coming through European Regional Development Fund (ERDF).

- *Target group-specific program:* marginalised groups such as ethnic minorities, women, and PWDs, that are traditionally excluded or discriminated against in the labour market could have special attention to benefit from such initiatives.

### **Implementation approach of Incentive Scheme**

When it comes to the implementation, there are various mechanisms implemented by the countries that have adopted this model; however, below are described the most common ones:

- **Informal Talent Management Programs:** These are initiatives by individual companies, especially those in knowledge-based industries, to create their own more or less structured, shorter or longer professional talent management programs. These programmes target employees with general skills rather than those with higher technical work skills. They are not dual, but they can be standardised, formalised and dualised. To this end, however, they will need inter-firm cooperation. In this situation where a firm has found its solution, inter-firm cooperation over the short term is not necessarily a given, and many firms need convincing.
- **Innovation-based companies:** Talent management programs initiated by individual companies has their limits. It can be too expensive and drain resources. Furthermore, the job training is not enough; thus, it needs to be complemented by systematic skills learning and theory. A single company's needs are often too little to justify implementing a company-internal introduction programme. In many places, also large multinationals belong to this category. They have a genuine business interest and tend to think beyond short-term, intra-company interests. They have the financial resources to bring to the table and the networks needed to implement changes. In the case of international businesses from countries with dual VET systems, they even bring experience and understanding of dual solutions to the table.
- **Professional Associations or Sector-based approach:** in countries with strong associations, business clubs or chambers of commerce, this is the ideal model for starting a dual VET programme. Which sectors or industries these associations include is only a secondary concern. It is important that these interest groups have recognised that limited recruitability of skilled labour is a common problem and that they are willing to find a solution together.
- **Innovative Training Institutions:** Innovative training institutes (e.g. training centres, vocational schools, private continuing education entities, or skills centres) can initiate dual VET if they have solid contacts in the industry and are sufficiently organised and independent. A condition for eventual success is that training institutes should coordinate with private sector partners on an equal footing and talk the same talk without compromising their educational policy objectives. However, these public training institutions need the infrastructure,

digital competencies and human resources to meet the demand for quality by the private sector. As long as national qualification frameworks target competencies and not training paths and fragmented, narrow skills, in theory, this model can be a valuable tool for accrediting of training curricula.

### **Main stakeholders of the Incentive Scheme**

The following institutions were identified as important stakeholders to implement the incentive scheme, such as:

- **Kosovo Chamber of Commerce - KCC** has a role to play based on the Administrative Instruction which already provides an important role to play.<sup>31</sup>
- **Professional/Sectoral Associations:** When sectors will be chosen to pilot or replicate a model professional association must be consulted as they are the source of knowledge on which skills and competencies are needed to stay competitive in the market.
- **Ministry of Education, Science, Technology and Innovation:** as the reforms in the education belong to the Ministry of Education, its representatives need to be included in decision making mechanisms for the implementation of such incentives.
- **Agency for Vocational Education and Training and Adult Education**
- **Ministry of Finance, Labour and Transfers:** it is very critical Ministry as designs the budget for all interventions including this one so, they need to understand the importance of such program that will have a spill-over effect in the entire society and economy.
- **Ministry of Economy as well as Ministry of Trade and Industry:** they represent the best interest of the private sector companies so, whenever new policies need to be adopted or current ones to be changed the Ministry must be included in creating a more enabling environment for them to grow.

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<sup>31</sup> Administrative Instruction on IVET (MESTI) Number 137, 2020.

# 6

## PILOT/ FEASIBILITY CHECK WITH A STRATEGIC SECTOR

### **6.1. Sector-based approach and target group-specific program**

A very important topic on the implementation of such financial scheme is whether to choose one strategic sector, then pilot it and then analyse the results of the impact that such incentives generate for the knowledge value chain or do it across the economy by choosing more holistic approach which means selecting the company that fulfils the criteria and not be hanged by the sector.

However, according to various models assessed and international practices on this issue, implementing incentive-based models to produce the best results it needs to be piloted in one specific sector initially and entire economy afterwards.

Some of the reasons for this sectorial approach are: first, the impact of such measure must be measured, e.g. jobs created, skills improved, abilities enhanced, and a sector-based approach is much easier to assess such impact. Second, the interventions must focus on the cost-benefit of the intervention, i.e., are the benefits of the measures greater than the effects of the taxes imposed on the private sector before the policy (model) is transferred to the entire economy? Third, special attention should focus on preventing any economic distortions created by such measures that can have adverse effects on the competitiveness of the economy. Fourth, and most important, piloting the policy's implementation to one sector before scaling it further would give the government enough learning points of what went well and what needs to be improved during the implementation process once it is replicated.

Therefore, assessing the country's economic development, it is easy to conclude that the manufacturing of the wood industry would be an ideal sector to pilot such an intervention for several reasons. First is the strategic sector of the government of Kosovo and the donor community in the country, and seeing its potential, it is becoming a comparative advantage of the country in the regional market. Second, according to the Kosovo government report in 2020 on the manufacturing industry, this sector has the highest growth potential, being one of the country's leading sectors for export activities. Third, companies' members of this sector have the know-how vital for skills development and knowledge sharing with others leading to spill over effects in the economy. Furthermore, it is becoming a sector with high absorption capacity for new employees and job seekers and an essential vehicle for existing career development.

In addition, besides the vertical sectorial approach, the government should focus on supporting horizontal activities encouraging the traditionally marginalised and/or excluded groups from labour market to have a preference in implementing such initiatives. As in other more developed economies, a targeted approach could be taken (for example, of integration of women or people from rural areas in the labour market), or preferential percentages (say at least 30%) must come from these disadvantaged groups (i.e., PWDs).

At annex 1 of this document, basic information is provided in relation to wood industry as one of the fastest growing industries in Kosova which can be used as one of the industries to pilot such incentives which shall produce highest impact and bigger benefits in terms of cost-benefit ratio.

## 6.2. Considerations to the Assessment Methodology

In order to select the best incentive policy scheme, re-valuation of the methodology is needed as presented at the beginning of this document. Therefore, the assessment methodology focuses on the following:

- **Evidence of demand:** the authors have been communicating with the management body of the professional association as well as member companies of wood producers and companies, and all of them had confirmed their support for such incentive first because of skill gaps that widely exists in the economy and wood processing businesses are not exclusion. Second, because of employee shortages all of the countries face including Kosova and lastly, to be able to meet and test its future employees through practical on-the-job training and internships.
- **Impact:** the implemented incentive would have a multiplier effect in Kosovo. It is forecasted that more than 50% of wood processors would hire up to 5 students/ graduates facilitating more than 2,500 placements in one year. A conservative forecast that 1/3 would turn into a full-time job leads to more than 700 jobs in this sector. Lastly, it is foreseen that these incentive programs would significantly impact the quality of job applications, enhancements of skills and competencies, improvement of productivity, etc.
- **Time frame and time limits.** A grant must distribute in advance of the training, whereas tax deductions and credits should be available at the end of the year after the expenditure has taken place.

Time limits. Deductions for targeted employees will have to be subject to a time limit on the available deductions at the end of the apprenticeship or specified point of employment.



- **Scalability:** Association of metal and plastic processors have agreed to closely monitor the impact and results of these policies and will join once the model has been proven.
- **Sustainability:** To have the sustainability of these initiatives, a new body (national agency) must be created to manage the process, as is the case in most of the EU countries, or to assign existing institutions with such tasks. This would not be possible without proper process management, monitoring and evaluation framework, and awareness among beneficiaries.

### 6.3. Suggestions for implementation of country specific incentive model

Based on the methodology outlined above and the current socio-economic context of Kosovo, the table below provides the set of incentives that would have the highest impact, produce the best results and achieve the desired outcomes. The table below provides the summary of these financial and non-financial incentives.

Model	Selected incentive	Specific measures	Need to resolve	Budget for the incentive
Financial	1.Grants	1.1. Grants programs for strategic interventions	<ul style="list-style-type: none"> <li>• Employment programs</li> <li>• Industry education cooperation,</li> </ul>	<ul style="list-style-type: none"> <li>• Based on the outcome (on the job training, partnership developed, new profiles supported etc)</li> <li>• Flexible funding (min and max. amount of fund must be specified)</li> </ul>
	2.Subsidies	2.1 Subsidies for internship placement 2.2. Subsidies for mentorship training 2.3. Scholarship for marginalised groups 2.4. Subsidies on exhibition activities in General and sectoral National Fairs	<ul style="list-style-type: none"> <li>• Practical and on the job trainings</li> <li>• Mentoring of students placed in the companies</li> <li>• Better integration of marginalised groups in the labour market</li> <li>• Promoting companies, which participate in structured cooperation with VET institutions.</li> </ul>	<ul style="list-style-type: none"> <li>• 1,035,000 euros/per sector</li> <li>• 25,000 euros</li> <li>• 310,500 euros</li> <li>• 30 euros per sq/m (max 10 sq/m per exhibitor; max 100 businesses per year) (30,000 euros per year)</li> </ul>
	3.Waivers	3.1. Tax exemptions 3.2. Tax credit 3.3. Tax deferral	<ul style="list-style-type: none"> <li>• Incentives for skills improvements in specific sector</li> </ul>	<ul style="list-style-type: none"> <li>• 1,125,000 euros</li> </ul>
	4.Levies	4.1. Sector-based revolving training fund	<ul style="list-style-type: none"> <li>• Up-skilling of VET students</li> </ul>	<ul style="list-style-type: none"> <li>• 600,000 euros</li> </ul>
	5.Vouchers	5.1. Coupon for unemployed	<ul style="list-style-type: none"> <li>• Reduce unemployment,</li> <li>• Job creation platform</li> </ul>	<ul style="list-style-type: none"> <li>• Around 5,000 euros for internship to job transition,</li> <li>• One average salary for recruitment services for the job posted</li> </ul>

Model	Selected incentive	Specific measures	Need to resolve	Budget for the incentive
Nonfinancial	6. Career development programs	6.1. Creation of VET Career Centres or service	<ul style="list-style-type: none"> <li>• Better career orientation and career guidance for students,</li> <li>• New services with the private sector,</li> <li>• Better information of students about the new occupations and professions in the market</li> </ul>	E ndryshueshme
	7. Career education courses	7.1. Professional Career Development course	<ul style="list-style-type: none"> <li>• New career education courses for lower secondary school students,</li> <li>• Career development plans for each student,</li> </ul>	
	8. Internship placements and apprenticeship programs	8.1. Compulsory internship for VET students	<ul style="list-style-type: none"> <li>• Acquiring practical skills and competencies as a result of internship experience in the company</li> </ul>	
	9. Mentorship program	9.1. Mentorship services for the internship placement	<ul style="list-style-type: none"> <li>• Development of the internship placement guideline to organise internships</li> </ul>	
	10. Awarding program	10.1. Most cooperative enterprises with IVET	<ul style="list-style-type: none"> <li>• Development of criteria for selection of best enterprises</li> <li>• Ceremony of appreciation from the Government</li> </ul>	
	11. Subsidised marketing based on public interest causes	11.1. Preferable prices for business advertisement campaigns on public TV and other governmental media channels	<ul style="list-style-type: none"> <li>• Qualifying companies which cooperate with VET institutions as beneficiary businesses to have preferable treatment on advertisement campaigns on public TV and other governmental media channels</li> </ul>	
	12. Preferential treatment on government tenders	12.1 Preferred treatment in public tenders.	<ul style="list-style-type: none"> <li>• Qualifying companies which cooperate with VET institutions as beneficiary businesses to have preferable treatment on selection criteria for public tenders. (i.e. 10-15% of points of the selection criteria)</li> </ul>	
	13. New Industry led education programs	13.1. Partnership programs between anchor companies (or professional associations) starting a new academic program	<ul style="list-style-type: none"> <li>• Matching the qualifications and knowledge of students with skills and competencies needed by the companies</li> </ul>	
14. Self-employment programs- Entrepreneurship	14.1. Business entrepreneurship programs for new job creation	<ul style="list-style-type: none"> <li>• Self-employment opportunities for students/graduates interested for start-ups</li> <li>• Stimulus packages for new business initiatives resolving one current issue that businesses face.</li> </ul>		

Tab.2: Proposed financial and non-financial incentive programs for Kosova enterprises to cooperate with VET

- **Financial and non-financial mechanisms**

Taking into consideration that the profit is not great value first, because the large share of companies does not report profit and second, because the majority of companies are small in size with limited profits, therefore, a combination of a few mechanisms must be used:

**1. Grants program:** as already explained above, a unique thing about this incentive is that a one-time non-returning fee is provided to the provider of the concept/service.

1.1 Grants are usually used to finance strategic interventions, not ongoing ones as other incentives. The government can design the strategic objectives of the grant program (such as: improving the cooperation between the industry<sup>32</sup> and education, creating new jobs in the economy, new skills for new jobs, and up-lifting initiatives) and invite service providers to submit their concepts in achieving these strategic objectives. It is difficult to estimate the nominative value of such a program as these are opportunity-based funds that remove a specific hurdle or bottleneck in the market. However, one approach the government can take is the backwards approach, meaning providing total value under this fund and inviting service providers to bid with their ideas. Once they receive the portfolio of proposals, then it can be decided how many initiatives should be financed in the same principle of operation as the donor community in the country.

Usually, the grant scheme is a financial platform used by donor community in one country however, foreign practices show that also governments are using such practice to invite civil society organization support them in finding solutions to a specific problem a country struggle with. The grants could be provided by both, central and local governments. Of course, depends from the issue and budget availability they can have different dynamics and expectations from this supporting facility.

To conclude, however, the granting scheme already exists and is implemented by various donor communities and international projects in the country. Therefore, it is probably more effective to coordinating such grants with the international community and donor organizations working and providing assistance in the same domain, which would lead to better industry-education partnership program, than initiating a parallel granting program initiated and financed by the government.

## **2. Subsidies:**

2.1. Subsidies for internship placements: this program must be available for companies offering internships (duration between 6 to 12 months) to young people without any apprenticeship position. The government pays a grant contribution in the amount of the lowest salary in the sectors (max. €231/month) to cover the transportation, food and

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<sup>32</sup> An industry is a group of companies that are related based on their primary business activities. In modern economies, there are dozens of industry classifications. Industry classifications are typically grouped into larger categories called sectors." We did not see it only as processing of raw materials and manufacture of goods. Usually the term industry refers to businesses coming from different sectors depending on the industry.

other incidental expenses. E.g. 50% or around 750 companies in wood production will hire at least one intern in one fiscal year, that means that 750 internship placements will be facilitated in one year. The total benefit provided to companies would be 750 internships \*230 Euros/month\* 6 months (average internship duration)- 1,035,000 Euros

However, closer consideration should be given to the various placements, the most popular ones being internships and apprenticeships (externships). Difference must be noted as the internships are usually practical programs helping students choose their future careers by moving from department to department in one company in an experience that should not be longer than 6 months. The objective of such internships is to see the work culture, experience work life and learn primary soft skills resulting from such experience.

2.2. Subsidies for mentorship training: The training of mentors<sup>33</sup> is provided without cost to companies and should be financed by the public budget. The cost of mentorship training is around 500 euros. The number of trainings provided by the government would be 15 participants (per training) equals 50 training sessions (800 companies) = 25,000 Euros.

2.3. Scholarship for marginalised groups: the suggested model must be inclusive and not exclusive. These schemes must incorporate "positive discrimination" or pro-active measures for marginalised groups (females, PWDS, ethnic minorities), and one idea would be for the government to insist that at least 30% of beneficiaries come from these groups. This way, traditionally disintegrated people or groups will be fully integrated into the labour market. The value of the scholarship should be in the value of the lowest salary in the sector + 100 euro/month for the person accompanying PWDS (only for this category).

If the logic of internship placement from the above is considered, then 30% of 750 internship placements is 225\*230 euros\*6months= 310,500 euros

2.4. Subsidies on exhibition activities in General and sectoral National Fairs: Promoting companies, which participate in structured cooperation with VET institutions. 30-euro subsidy per sq/m (max 10 sq/m per exhibitor; max 100 businesses per year). (30,000 euros per year).

100\*300 euros= 30,000 euros

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<sup>33</sup> Mentor is someone that supervises the work of the student for the entire period of his/her stay in the company. Mentors are two: one coming from the school and the other one in the company.

### **3. Waivers:**

3.1. Tax exemption: Employers are motivated to participate in VET by fiscal incentives in tax exemptions. These are usually calculated per internship/ apprentice and fixed according to the extent of the provided work-based training. Most of the expenses are compensated by tax incentives, and the amount depends on the duration of the internship. If on average, the internship/apprentice is 6 months long and the companies are providing a stipend in the amount of lowest salary in the sectors plus additional cost of resources for delivering on-the-job training than the total cost of integrating a student in the workplace is no less than 2,500 euros. This amount can be used to reduce the tax base by €2,500 per apprentice for 300 - 600 hours (6 months of the internship \*25 days/month \*4 hours per day= 600 hours of training) or €1.500 EUR for companies providing less than 300 hours of practical training. This logic is applied than for 750 companies \*1,500 euro= 1,125,000 Euro

It is up to the government to use the first criteria to deduct this amount right away when corporate taxes are paid or use other waivers, i.e., to provide tax credits for the amount or waive the payment for capital investments later.

Government can create a criteria-based application and could give priorities to individuals and groups that are under-represented in the labour market.

### **4. Levies**

4.1. Sector-based training revolving fund: The apprenticeship is a practical program focusing on skills improvement in the technical skills or profiles of occupations that student's study. In coordination with the professional association of wood processors, a list of main occupations and profiles must be developed and provided to apprentices who are the hardest to fill or have deficiencies in development. This would have an immediate impact on the improvement of education programs.

One way of having this training revolving fund is by voluntarily contributing companies' members in the wood production and processing sectors. All participating companies could voluntarily pay a levy of 1% of the total sum of all salaries each month. Then, training companies get a one-off bonus for each of their apprentices who are successful in a skills competition.

So, if the wood processing companies have around 5,000 employees and assume that they pay their employees on average 500 Euros gross, it equals 2,5 million euros/month and 1% of the total cost of salaries going to the fund or 25,000 euro/month or 300,000 Euro per year. If assume that all companies would voluntarily participate in the fund, the total burden for each company (up to 5 employees) would be 25 Euros/month or 300 Euros/year.

If the government sees it as an essential measure, it can use matching funds, and each 1 Euro provided by the companies to the fund government can match it with an additional 1 euro from public money. In that case, the total value of this fund would be 600,000€

**5. Voucher program:** In the past, voucher programs were usually used to finance the unemployed to improve their employability skills to find employment. For example, the World Bank, for a very long time, used this vehicle to finance the long-term unemployed people (from state-funded companies) for skills re-shaping for re-integration in the labour market as they were inactive for a more extended period. However, lately, this scheme is also used for graduates and marginalised groups that cannot find employment, and as a result, their professional abilities have been lost in value due to not working in the acquired profession for at least three years, or cannot continue employment in the acquired profession, due to medical conditions.

5.1. The unemployed receive the coupon, then choose an education programme and an educational service provider from the market list of licensed training providers. The training voucher – the money is transferred directly to the training provider: 50% of the training voucher sum before client's participation in training and 50% of the training voucher sum when training has been completed. During the training, unemployed people are provided with a monthly grant of €99.60, and they can also qualify for regional mobility compensations or around 5,000 Euros per job creation.

In addition to financial incentives, the government can implement various non-financial policies that require more time for implementation but would have more impact on transforming the new generation of workforce graduating from the education system.

**6. Career Development Programs:** Career Centres are non-academic units significant for the education institutions because they provide career counselling, career guidance and career orientation services to VET students. Moreover, they are the facilitator (bridge) between the industry and the educational institution and can play a very important role in supporting school to work transition (employment, internship, curricula revision, training etc).

**7. Career Education Courses:** anyhow, the Career Centres are working only with the students interested in these services; however, a career education course would allow the awareness of these services to be at a higher level for all students in the VET level. The course will increase the awareness but also the importance of having follow-up services in the Career Centres.

**8. Internship Placement and Apprenticeship program:** almost 65% of the jobs are not advertised (globally), so the companies prefer to hire from their network or someone they know. Almost 1/3 of all internship placements are turned into full-time jobs, so having a compulsory internship in VET will increase the probability of new job creation

due to previous experience and knowledge of the student with the company.

**9. Mentorship program:** a guideline (methodology) to explain the internship process would be a beneficial instrument for the family-owned and small companies in Kosovo. The guideline should explain the entire process: from the job description to the selection and recruitment of students to progress feedback the student needs to provide to academic and company mentors to evaluate the entire process. Only then can one use the process as a learning activity and introduce new activities and initiatives due to new bridges of communication between academia and the private sector.

**10. Awarding program:** the award program is a ceremonial activity in which the best companies and schools will be awarded for their cooperation capacity and impact they had over the programs. This ceremony is an appreciation for their support but also an promotion campaign for the others to join the program in the second cycle of the implementation.

**11. Subsidised marketing based on national interest causes:** Preferable prices for business advertisement campaigns on public TV and other governmental media channels. Qualified companies which cooperate with VET institutions to be considered as beneficiary businesses to have preferable treatment on advertisement campaigns on public TV and other governmental media channels.

**12. Preferential treatment on government tenders:** Applying preferential treatment for local firms which cooperate with VETIs, in public procurement. Qualified companies which cooperate with VET institutions to be considered as beneficiary businesses to have preferable treatment on selection criteria for public tenders. (i.e. 10-15% of points of the selection criteria).

This practice is commonly referred to as "local preference" in public procurement. It aims to prioritize local firms that partner with vocational education and training (VET) institutions in government contracts, based on the principle of responsible use of public funds. The idea behind this policy is to support local businesses and promote on the job training and development in the local community. Furthermore, point schemes are often used to allow numerous factors—not just the bid price—to be taken into consideration when awarding procurement contracts. Additional points can be awarded to bidding inclusive businesses and/or points could be awarded to any business that proves some degree of engagement with the VET via any contract or MoU's. Making these types of possibilities known and explicit in the policy instrument could help foster structured cooperation between industry and education.

**13. New Industry-Led Education Partnership Approach:** in company trainings are an excellent tool for upskilling and reskilling<sup>34</sup>; however, the only drawback is that they support only a limited number of trainees, and moreover, they do not resolve the core of the problem- students lacking the critical employable skills. Therefore, industry-education cooperation is needed. Here, anchor companies with KNOW-HOW resources and interest can partner with the institution in creating the program from the beginning by incorporating practical courses inside the curricula (academic program) and providing on-the-job training to students.

**14. Entrepreneurship programs are excellent initiatives for new job creation:** there is a significant number of graduates that are not interested in pursuing career in other companies but want to create their own start-up or work remotely for international markets (e.g. ICT). Therefore, the government should carefully analyse the creation of supporting environment by combining the incubation services, access to finance programs, and innovative platforms to support VET graduates interested in self-employment activities.

Moreover, the percentage of new start-ups (especially in ICT) in Kosovo is very high therefore, the government must find stimulus packages for these start-ups working in providing new ideas and solutions to these issues. This will not only help in bringing new value-added activities but also create a culture of cooperation between businesses and education from the early stage of business development.

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<sup>34</sup> European Commission, Executive Agency for Small and Medium-sized Enterprises, Schulz, C., Korte, W., Moghaddam, Y., et al., Skills for industry : upskilling and reskilling in the post-covid era : fostering new services and jobs creation : three scenarios for 2030 : final report, Publications Office, 2021, <https://data.europa.eu/doi/10.2826/59135>



# 7

## RECOMMENDATIONS

- **Responsible body for the implementation of the incentive scheme** - The implementation of incentives scheme for businesses is an important step in fostering structured cooperation between businesses and VET institutions. In order to enforce the incentives proposed there must be a body that will coordinate, supervise and monitor the implementation of such incentives. Based on the experiences of other countries that have implemented such scheme the following three entities can be considered: **first**, a specific office created within the Ministry (Finance and/or Education) with a role in executing the incentive schemes. **Second**, the inter-ministry committee including membership from the decision makers from all stakeholders which will be meeting periodically to ensure inclusiveness of the model. And **third**, an agency/organization with an executive power to lead the process and ensure the proper implementation of the model.
- **Draft an Administrative Instruction for the responsible body to implement the incentive scheme** - Drafting an Administrative Instruction from the line ministry to enforce the implementation of the incentive scheme can help to ensure that the responsible body/agency has the necessary framework and guidelines to carry out its responsibilities effectively. The administrative instruction should outline the specific responsibilities of the body/agency, including the allocation of funding, the development of guidelines for the implementation of incentives for businesses, and the establishment of partnerships with vocational education and training (VET) institutions. It should also outline the steps the body/agency will take to monitor and evaluate the effectiveness of its policies and initiatives, and to make adjustments as needed. Having a clear and comprehensive administrative instruction in place can help to ensure that the agency is equipped to implement policies that support the development of a structured and sustainable cooperation between businesses and VET institutions.
- **Dual education as part of a National Vocational Education Policy:** Official VET policies and strategies are conducive and often necessary for creating and strengthening the duality principles in the education system. State recognition and integration into official national systems, certification, and legal frameworks are critical components of a successful education transformation model, and the government should prioritize their development and implementation as part of its investment in education. Without these elements, the model is unlikely to

be widely adopted or effective in achieving its goals. If these critical elements are not in place, the initiatives taken to transform education will remain isolated cases rather than becoming models that can be scaled and replicated to have a broader impact. Dual education principles as part of state policy are a good starting point, but they are not enough without private sector engagement. Private sector engagement can take many forms, including the development of apprenticeships and other training programs, the provision of work-based learning opportunities, and the support of teacher training and professional development. The private sector can also provide valuable input into the design of the education system and help to ensure that it is aligned with the needs of employers and the current and future demands of the job market. Incentives for private sector cooperation can also be an effective way to encourage engagement, as they can provide companies with tangible benefits for participating in the education transformation model. The private sector must be an active participant in the education transformation process to ensure that the students receive the skills and knowledge they need to succeed in the modern workforce.

- **Inclusive, not exclusive approach:** It is very important that incentives for businesses are aligned with the economic development goals and agreed with social partners to have an inclusive model when specific incentives are chosen. In order to have an inclusive approach to education transformation, it's important for the government to recognize and build on the current training efforts and engagement of companies in cooperation with vocational education and training (VET) institutions. This recognition can also help to ensure that the education transformation model is responsive to the needs of the modern workforce and aligned with the goals of the private sector.

Incentives can play an important role in encouraging companies to engage in cooperation with vocational education and training (VET) institutions and in supporting the development of a well-trained and skilled workforce. The specific objectives of the incentives should be defined and aligned with the final beneficiaries, such as students, employees, and the wider community, and the type of training that is being incentivized. Some potential objectives and types of training that could be incentivized include:

- *Student/Employee training:* Incentives could be provided to companies that invest in the training and development of students/employees, such as offering on-the-job training programs, apprenticeships, and professional development opportunities.

- *Industry-specific training:* Incentives could be provided to companies that invest in training programs that are specific to their industry, such as offering specialized technical training, certifications, and workshops.
- *Research and development:* Incentives could be provided to companies that invest in research and development activities that support the development of new and innovative training programs and initiatives, with special focus on the skills development of students and employees.
- *Partnership with VET institutions:* Incentives could be provided to companies that establish partnerships with VET institutions to provide students with hands-on practical training and work experience.
- Incentives for education and training initiatives can also be aligned with broader social inclusion policies and efforts to support unemployed people in finding work. Some specific objectives in this regard could include:
  - *Supporting disadvantaged groups:* Incentives could be provided to companies that invest in training and education initiatives that target disadvantaged groups, such as people with disabilities, immigrants, and marginalized communities.
  - *Reducing unemployment:* Incentives could be provided to companies that invest in training and education initiatives that help to reduce unemployment, such as offering job training programs, apprenticeships, and work-based learning opportunities.
  - *Encouraging entrepreneurship:* Incentives could be provided to companies that invest in training and education initiatives that encourage entrepreneurship and self-employment, such as offering business start-up training and support services.
- **Combination of incentives:** The design of the incentive scheme should take into consideration both the governmental capacities and the absorbing capacity of the business community. A combination of financial and non-financial incentives can be more effective in promoting long-term engagement and sustainability of the education transformation model. Financial incentives, such as tax credits, grants, or subsidies, can provide immediate financial benefits to businesses and help to offset the costs of investment in education and training initiatives. However, financial incentives alone may not be enough to drive meaningful change and encourage businesses to participate. On the other hand, non-financial incentives, such as recognition, reputation, and access to resources and networks, can play a critical role in building a sustainable education transformation model. Recognition and reputation can help to increase the visibility of companies and their commitment to investing in education and training initiatives, while access to resources and networks can

help to build relationships and foster collaboration between businesses and VET institutions. By combining financial and non-financial incentives, the government can create a comprehensive and effective incentive scheme that meets the needs of both the public and private sectors, and helps to promote long-term engagement and investment in education and training initiatives. This will help to drive real and lasting change in the education system, and support the development of a more inclusive and equitable society.

- **Short-term incentives for long-term impact:** The cost of applying incentives for the government may be short-term, but the impact of these incentives on the education transformation model will be felt in the medium to long-term. To achieve a successful education transformation model, a multi-faceted approach is necessary. The transformation should not only focus on the content of education, but also on the delivery methods, teacher training, technology, and other factors. Involving stakeholders such as educators, students, and the private sector in the process of education transformation is important to ensure that the model is responsive to the needs of the society. With the right incentives, investments, and policies in place, it is possible to achieve a successful and sustainable education transformation model that benefits everyone in the society.
- **Inclusion of Adult education as a target group:** Like many countries in the former Yugoslavia, Kosovo faced significant challenges in transitioning from a traditional industrial economy to a knowledge-based economy, leading to high unemployment and difficulty for many people to find work in the new economy. Incentives could play a significant role in addressing this problem by including adults as a target group for retraining and reskilling efforts. This not only benefits the individuals who are able to find work, but also the companies and the wider economy as a whole, as the newly trained individuals bring new skills and knowledge to the workplace. Including adults in education and training initiatives is an important step in creating an inclusive and equitable education system that meets the needs of all members of the community and provides equal opportunities for learning and personal growth. By incentivizing companies to hire individuals who have undergone retraining and reskilling programs, the government can help to create a pathway for these individuals to enter the workforce and contribute to the knowledge economy.
- **Replication of the incentive scheme in other sectors of the economy:** Incentive schemes can play a key role in promoting cooperation between businesses and VET institutions, and should be designed to be flexible and adaptable to the changing needs of different sectors of the economy. By starting with a pilot program in one sector, the government can test the effectiveness of the incentives and make adjustments as needed before expanding the program to other sectors. It is indeed important to consider the unique characteristics of the Kosovan economy and the role of traditional

businesses (crafts and artisanal) and family-owned businesses in it. Encouraging strategic cooperation between these types of businesses and VET institutions can help to preserve cultural heritage and support the economic development of the country.

- **Career based services introduced in VET:** The relationship between VET institutions and the private sector is crucial for ensuring that the education system is responsive to the needs of the modern workforce. In addition, it is important that career-based concepts are integrated into the VET curriculum in order to prepare students for the job market and equip them with the necessary skills and knowledge for their future careers. This includes introducing academic courses that focus on career development and providing opportunities for students to participate in internship and training programs. Career Centre hub established within the VET schools shall serve as a platform for continuous engagement between the schools and the private sector. The Career Centre shall provide career counselling services, job placement support, and opportunities for students to network with industry professionals.

The vision of the school as an "Entrepreneurial community" is important as it promotes a new way of thinking about the role of vocational education and training. By giving the school autonomy and allowing it to engage in projects and partnerships with the private sector and the government, it becomes a hub of activity and a center for innovation and development. This will not only help to prepare students for careers in industry, but also help to build a stronger, more dynamic and sustainable economy. By fostering collaboration between the school, industry and government, the "Entrepreneurial community" model can help to create a virtuous cycle of growth and development that will benefit all stakeholders.

- **Participatory incentive model:** It is important to have a participatory incentive model in order to make sure that the incentives are aligned with the needs and goals of the businesses involved. This type of model allows for greater transparency and collaboration, and helps to ensure that the incentives are well received and have the desired impact. The process of consultation and communication with member companies is essential to ensure that a critical number of companies participate in the initiatives. This participation is crucial in order to achieve the desired results and impact. By involving the companies in the decision-making process, the government can ensure that the incentives are tailored to their specific needs and goals. It is also important to note that a participatory model allows for the continuous evaluation and improvement of the incentive policies, so that they remain effective and relevant over time. This type of model helps to build trust and confidence among all the stakeholders involved, and ensures that the incentives are well received and have the desired impact on the long-term success of the education transformation model.

- **Matching the supply and demand:** The government can facilitate the connection between the supply and demand of job and internship/apprenticeship opportunities in the country by developing a platform that provides such data. This platform can be beneficial for both the VET providers and the employers as it can help connect them with the right candidates who are interested in a specific field. It can also help employers find suitable candidates for their job openings and increase the chances of a successful match. Additionally, it can help increase the quality of the internships and apprenticeships as the matches are based on the skills and interests of the candidates and the needs of the employers. By partnering with private sector through match-making modalities, the government can ensure that the platform is effective and efficient in connecting VET providers and employers, leading to proper skills development and increased employment opportunities for young people in Kosovo.
- **Linking incentives scheme for businesses to cooperate with VET institutions with other governmental strategies:** linking the incentives scheme for businesses to cooperate with education institutions with the Strategy for industrial development and business support prepared by Ministry of Industry, Entrepreneurship and Trade can lead to a more comprehensive approach to promoting economic growth. This integration and harmonization between different governmental strategies and initiatives can lead to better outcomes and more effective use of resources. Moreover, by combining these efforts, the implementation and effectiveness of the incentives can be boosted, resulting in a more impactful and successful outcome. It is important for all stakeholders to work together towards this common goal to ensure the long-term success of the incentive program.
- **Donor coordination platform:** A donor coordination platform can be established to ensure that all the available funds in support to the incentive scheme are properly organized, coordinated, and utilized for maximum impact. This platform can be responsible for facilitating communication between the government and the donor community, and for ensuring that their activities are aligned and well-coordinated. By working together, the government and the donor community can maximize the use of resources and achieve better outcomes for the VET sector and the overall economy.

## **Annex 1**

### *Wood Manufacturing and processing sector - general overview*

The sector with the most rapid growth over the years in Kosovo is the wood processing sector. All the institutions measuring macroeconomic data that produce report and analysis are in the unison to consider this sector with high growth potential. A considerable number of companies moved from 'small' to 'medium' and 'large size'. Government and Lead companies have large operations and produce high-quality products, and they competently develop new products to address market trends. According to recent statistics (Kosova government, 2020), as many as 1,600 companies are reported to be operating in the industry. Depending on how broadly the sector is defined, government sources report that the sector has increased its turnover from €120 million (2018) to €250 million (2020) in aggregate sales and increased exports from 18 million in 2018 to 45 million in 2020, an increase of more than 150% only for two years.

Most companies in the sector are small, with 86.62% being micro-enterprises, 11,4% small ones, 1,75% medium and only 0,22% consisting of large enterprises.

Based on the 2020 data, the total number of employees was around 5,000. Kosovo wood processors have a large buyers base, mainly in Macedonia, Albania, Germany, the Netherlands, and Switzerland. However, over 80% of the sector's sales are domestic, contributing to import substitution.

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