

# High-level policy dialogue on Industry-oriented dual VET system in Indonesia

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Expert input on behalf of DC dVET



# Evidence from Indonesia 2021 / 2022

- **“Baseline study”**: short questionnaire and interviews among 23 companies in 4 sectors (hotel, wood processing, food & beverages, automotive) to get first impression on costs of internships and need for skilled workers
- **“Motivation study”** among 156 companies from 6 sectors (food & beverages, retail & logistics, furniture, automotive, textile, manufacturing) that currently offer internships (96) and those that do not offer internships (60) to assess more in detail why companies are hesitant to offer internships
- **Focus group discussions** with almost 40 training and non-training companies to deepen discussions on results from motivation study

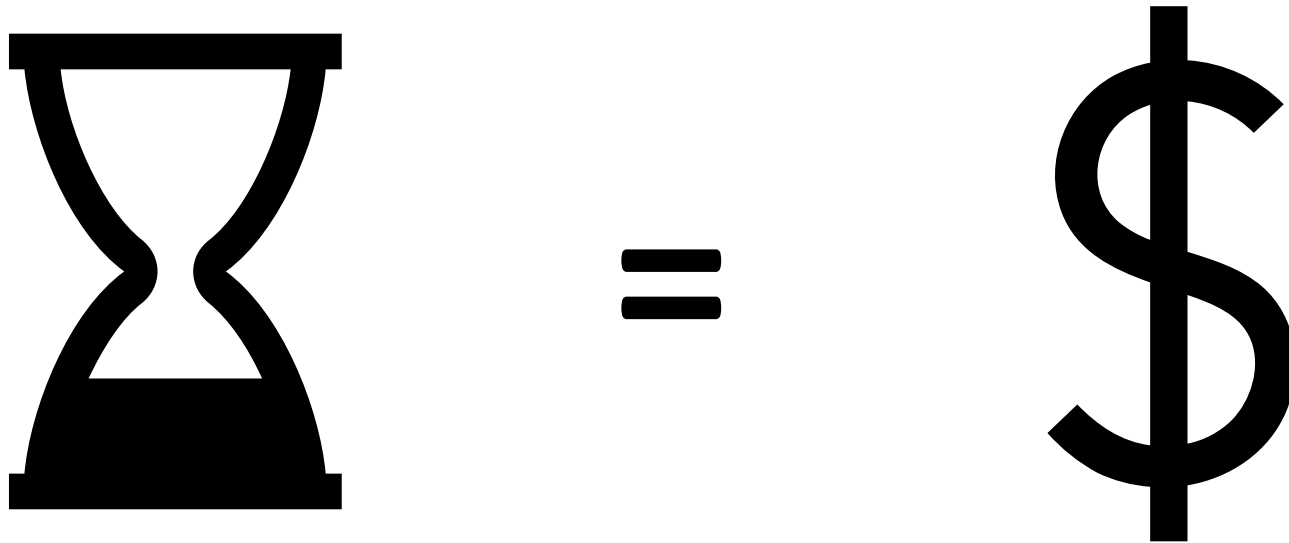
# Internships – A question of costs? How do we know, how can we know?

- The importance of particular factors, like costs of internships, for the demand of interns can only be assessed by looking at training and non-training companies – “we need a mirror to see our face”
- Large survey of companies that are currently training interns and companies that are not active (internal validity good – external validity limited)
- Although costs are highlighted – costs do not seem to be ***the*** factor that discriminates between active and inactive companies

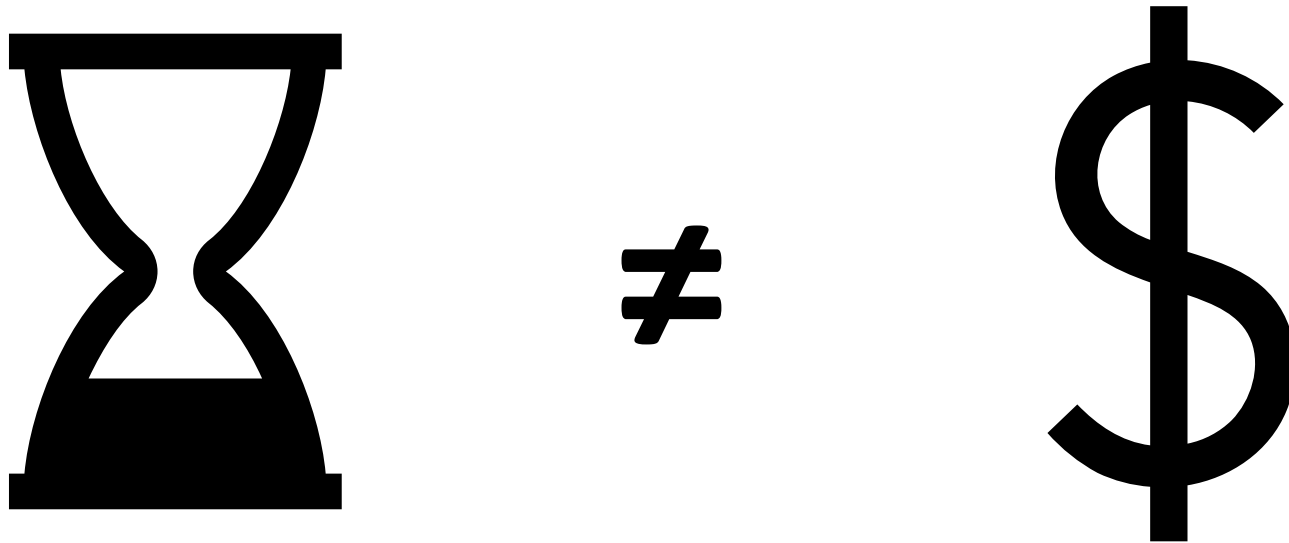
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- The limited importance of costs is further corroborated by three observations:
  - a. Many companies do not know the “tax deduction instrument” and in particular training companies do not see it as an important factor for the decision to train interns
  - b. Salaries of interns are considered to be the least important factor that would hinder the recruitment of interns
  - c. Finally, training interns does not come at high costs - anyway
- If costs are not important – what else might prevent companies from using interns?

Time – or the lack of it – correlates with the likelihood to hire interns



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# Time is always too little – the question is whether it is worth spending the time

- The answers of Indonesian firms corresponds to a pattern found elsewhere
- In Switzerland, observational and econometric simulation studies found, that training companies and non training companies would face the same costs but not the same benefits
- But there is one important difference: In Switzerland, firms do what they always do, but train to substitute regular workers by apprentices (*not cheap labor, rather win-win; regulations are needed*)
- Not training means: Not having enough work to substitute – this is probably not the case in Indonesia

# The lacking benefits of training

- In Indonesia, training should change the way firms produce and provide services by:
  - A) Being more productive: Doing the same in less time or with less workers
  - B) Producing higher qualities
- The mid-term benefits would be: Becoming more competitive due to lower prices (A) or better quality (B).



# The lacking benefits of training: Real or perceived?

- Realizing the potential benefits of training depends on:
  - A) Price elasticity of demand
  - B) Willingness to pay for quality
  - C) Level of salary for skilled and unskilled labor
- Questions to ask: Do consumers consume more when it is cheaper? Are customers who are willing to pay for quality buying Indonesian goods? Is skilled labor cheap and abundantly available?

# It takes time

- Moving from a low cost – low price equilibrium to the high cost – high price equilibrium takes time and a lot of investments in training (e.g. South Korea)
- But when it happens, value added of workers improves, salaries increase, living standards improve

# Are internships the solution?

- A better trained workforce eventually leads to these improvements, but are internships the right solution?
- In particular training companies complain about:
  - *Curriculas not aligned to business needs (school logic)*
  - *Better school education of applicants needed (interns are not ready to be used productively)*
  - *More-in kind support wished for (companies do not know how to employ interns productively)*

# Overall assessment

- Money – for once – is not the problem and tax deductions likely to be ineffective if firms do not see the benefit of training interns
- Using interns to improve the competitiveness of Indonesian firms needs:
  - Align internships better to firms needs (selection of students by schools, school curricula)
  - Help firms to realize short term benefits when training interns (pool efforts of firms – “competitors in business but allies in training”): creating an ecosystem of future talents
  - Joint efforts by firms and external partners create knowledge spillovers, e.g. *train the trainers*
  - Improve the effectiveness of governments investments in school education (e.g. Ireland, Finland)

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