Assessing the enterprise’s economic and social benefits of apprenticeships: an exploratory approach for India

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Improved working conditions, safety and health, training and performance in SMEs: in search of a win-win scenario in developing and transition economies
9-10 May 2013, Geneva, Switzerland
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1. Apprenticeships: Some Developments

- Increased relevance as effective instrument to address youth unemployment

- Difference between traineeships-up skilling and apprenticeship is often blurring.
What Apprenticeships should be:

– Structured and formal, based in the workplace, transferable skills.

What Apprenticeships should not be:

– up skilling or accreditation for those that already have the skills to do the job.

– a vehicle for addressing employability skills for those entering low skilled jobs.
2. There is a business case and monetary benefit of Apprenticeship training: Some empirical findings from Canada, UK, Switzerland, Germany
Method used: Cost-Benefit Analysis

• **Earlier focus:** on gross costs of training: employers tended to overestimate effective costs of apprenticeship training

• **Recent focus of Apprenticeship:** promote a business case based on the net-benefit. An apprentice contributes productively and creates an additional (often monetary and qualitative) benefit for the company.

• **Methods:** survey of single firm that hires apprentices as basis

• **Benefit:** As productive contribution to the overall enterprise output and performance
Recent Cost-benefit analyses usually focus on the following parameters: (as per the Canada Case)

Costs to Company:
- Wages and Benefits
- Opportunity Costs: Mentor’s time
- Material Wastage
- Disbursement
- Administration

NetBenefit = Cost - Benefits

Benefit to Company:
- Revenue created by Apprentices
- Tax credits/subsidies

Legal Requirements
- Supervisor’s time ‘lost’ during production, Apprentices’ unproductive time’ waiting

Material Wastage
- Training material, Machine utilisation

Disbursement
- Costs incurred for registration and in-school training

Administration
- Incurred administrative costs

Revenue created by Apprentices
- Charge-out or mark-up rates and the total annual chargeable hours of work
  or: type of work Apprentices usually perform: assessment of the performance of an apprentice against a) an unskilled worker and b) a skilled worker

Tax credits/subsidies
Apprenticeships pays off! Some Empirical Evidence...

- In most enterprises, investment costs are re-covered within the training period itself (Germany, Switzerland, Canada, Australia etc.).
- Canada: in 66% of enterprises benefits exceeded training costs during the training period.

Cost-Benefit Analysis of Apprenticeships in Switzerland

- Apprentices cover all costs for training.
- 2/3 of researched (dominant) trades could recover training costs during the training period.

Apprenticeships are costlier in larger enterprises
Apprentices are more utilised for productive purpose in SMEs
\[\Rightarrow\] faster cost recovery in SMEs.

Source: Kosten der Berufslehre:bba.2680
3. There are other non-monetary rationales which speak for Apprenticeships: some research findings
### Government

- Increases employability of labour market entrants
- Reduces Skills Shortage in the Industry
- Increases overall productivity of enterprise
- Cost effective Training (costs shared with/borne by industry)

### Firms, which hire

- Larger enterprises
- Different motivations:
  - Cost-benefit
  - Non-monetary reasons
- Costs recovered during app. period
- Part of long-term HR plan to & and workplace culture
- Reduces turnover
- In-house training (Canada Case: internal trainers are +26% more productive than external trainers)
- Image and Reputation

### Firms, which do not hire

- Non-Compliance with legal requirements
- No Training personal and infrastructure
- Too costly
- Too time consuming
- Too specialised/ not enough to do
- Non-productive time
- Poaching

Source: Survey findings from Canada, UK, Switzerland, Australia, Germany
4. Purpose of the Study

‘Assessing the enterprise’s economic and social benefits of apprenticeships in India’
India’s Skills Challenge

• Significant skills shortages in all the growth sectors in India
• Lack of employability skills of graduates and 10/12 pass
• Demographic Dividend: in 2026, 64% of India’s population in the working age (15 – 64 years)
• Government’s target: skills for 500 mio people by 2025: apprenticeships a priority form to
  – a) close skills gaps and
  – b) increase employability of youth
India ‘s Skills Challenge contd.

• **Current Revision of Apprenticeship Act 1961:** removes existing obstacles (administrative, regulatory, limited trades/sectors, others) and outdated regulations

• **Less 20 per cent** of Indian domestic firms offer formal training, much lower than in many other emerging market economies.

• **Only 120’000 Apprentices/year** (Germany has 1 mio Apprentices)
Apprenticeship in India: some facts  
(recent IAMR Survey 2013*, 574 firms)

• **Highest incidence of Apprenticeship:**
  – Enterprises employing **100-499 employees (SMEs)**
  – Manufacturing & processing sector (slowest job growth).

• **Reasons for not hiring:**
  – Not applicable sector/trade
  – Perception of high costs/low benefit
  – Regulatory and cumbersome procedures
  – Low awareness (particularly in SMEs)

• **Current employment Scenario:** employment growth mostly informal (therefore less hiring of Apprentices?)

  -> **Most of the training is informal-on-the job (only 2% formally trained).**
However: 95% of training enterprises see benefits in having apprentices!

- 71% per cent did not face any difficulty in compliance with the Act.
- 58% of Enterprise engaged trainees in the production process.
- SMEs see Benefits in Apprenticeships!

Size-wise distribution of Enterprise by perceived benefit from the scheme

<table>
<thead>
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<th>Size</th>
<th>No benefit</th>
<th>Some benefit</th>
<th>Many benefits/highly beneficial</th>
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<tr>
<td>Small</td>
<td>5</td>
<td>49</td>
<td>46</td>
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<tr>
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</tr>
<tr>
<td>Average</td>
<td>4</td>
<td>46</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: IAMR 2010-11. IAMR (forthcoming)
Purpose of this study

Develop a business case for Apprenticeship in India:

- to get attention from enterprises
- to promote formal apprenticeships in SMEs and service industries.
- to increase the overall awareness that hiring apprentices means business!

But also:

- to initiate a process that sets the pace for closer collaboration between government and private sector on formal apprenticeships, which lead to transferability and employability.
- Contribute to the ongoing efforts to reform the status of apprenticeships in the country
5. What the study will include

• Develop cost-benefit approach

• To engage with Employer Associations/Training Providers/Government and Trade Unions

• Join planned ILO enterprise survey (Automotive and Mobile Handsets) in Chennai/Pune/Delhi with selected questions (hiring vs non-hiring)

• Pilot test cost-benefit questionnaire in SMEs, which hire apprentices in collaboration with ongoing projects
  – SCORE (light engineering): Chennai, Pune, Delhi
  – SkillSonics (technicians): Bangalore
  – Others
Thank you

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