International Labour Organization

Skills for prosperity indonesia

▶ ILO Brief

Technical Note on Skills Development Funding (SDF) in Indonesia

March 2023

Global practice summary, consultative workshop findings, and recommendations

Background

In 2022, the government of Indonesia issued Presidential Decree No. 68 / 2022 on the Revitalization of Technical Vocational Education and Training (TVET). This addresses the national priority for a coherent human capital development strategy to drive the inclusive and sustained economic growth required to achieve the 2045 ambition of becoming a high-income economy. The subsequent regulations issued by the Coordinating Ministry for Human Development and Culture Nos. 5 and 6 / 2022), describe the organisational structure for the establishment of a National Coordinating Team for Revitalization of Vocational Education and Training (TKNV) for the implementation of the Presidential Decree, along with the National Strategy (Stranas Vokasi) and Action Plan assigning roles and responsibilities of the major stakeholders.

mong other goals, the published strategy aims to increase private sector financing for TVET, which is detailed in the Stranas Vokasi Action Plan under Strategy 8: Strengthening funding schemes to support efficient, effective, and demand-based implementation of TVET.

ased on ILO's ongoing technical contributions into the development of this national strategy under the Decent Work Country Programme Indonesia 2020-2025[1], and the foundational work for the development of Sectoral Skills Committees in selected maritime sub-sectors developed under the Skills for Prosperity Programme, funded by UK,[2] the Ministry of National Development Planning (Bappenas) requested the support of ILO to instigate an exploratory workshop to facilitate a dialogue between TKNV representatives and industry stakeholders.

This technical note brings together a summary of relevant global insights, taken from two studies of skills development funding mechanisms in over 70 countries; along with the findings from the consultation workshop facilitated for government and industry representatives in December 2022. The note builds on the framework of Goals, Persons in Charge and Relevant Lind Ministries set out in the Stranas Vokasi, and concludes with recommendations toward further skills development funding (SDF) concept development and implementation consistent with this strategy.

1. Introduction to Skills Development Funds (SDFs)

SDFs are dedicated funds that exist often outside of normal government budgetary channels.[3] They are an increasingly popular tool present in about 70 countries. SDFs can be set up as national or regional and covering multiple (or all) sectors, or they can be sector or industry-specific, designed to support a particular sector (e.g. tourism, extractive industries, renewable energy, etc).

SDFs can be financed by employer levies, public subsidies, donor financing, or a combination of these approaches. Levy-financing remains the most important and predictable source of sustainable financing for SDFs, and levy-financed SDFs are present in at least 70 countries around the world.

1 ILO Decent Work Country Programme Indonesia 2020–2025 https://www.ilo.org/jakarta/whatwedo/publications/WCMS_757814/lang--en/index.htm , 2020.

2 ILO Skills for Prosperity Indonesia https://www.ilo.org/jakarta/whatwedo/projects/WCMS_761369/lang--en/index.htm , 2019.

3 This high-level summary draws on two recent global reviews: ILO (2023) Global Literature Review on Financing Mechanisms for Improving Social Inclusion in Skills and Lifelong Learning Systems (Robert Palmer). UNESCO (2023) Global Review of Training Funds. Spotlight on Levy-Schemes in 75 Countries (Robert Palmer)

Most Levy-financed SDFs have multiple purposes. However, following are the most common purposes of levy-financed SDFs include:

- to incentivise the training of employees in levypaying firms;
- to fund special training initiatives which don't necessarily benefit levy-paying firms directly (e.g., the training of disadvantaged and marginalised groups; the training of unemployed persons, especially youth; the training of workers in the informal economy);
- to fund initial TVET in delivered in public instutions.

2. Global insights and good practices on the introduction of levy-financed SDF

The following insights are taken from practices in over 70 countries globally, and include relevant practices and lessons learnt that may be applicable in for the development of industry-financed SDF initiatives in the Indonesian context.

- **Where the SDF is planned to be established as levy-financed, or there is a future intention for it to be levy-financed, employers need to be heavily involved in the process of determining the fund purpose and objectives.** Without employer engagement and agreement, employers will likely just see a levy-financed SDF as an irrelevance and the levy simply as another form of taxation.
- **Levy-based funds that allocate a leading governance role to employers tend to be successful.** However, the simple presence of a substantial representation of employers on an SDF board does not automatically lead to a more effective SDF. What is needed is combination of employer representation, employer voice and a good level of autonomy. A majority of levyfinanced training funds have a tripartite governance structure, with government, employers' organisations and workers' organisations represented.
- **Transparency of levy collection, administration and disbursement needs to be ensured so thatlevy payers (and other stakeholders) know how much funds are collected, and where and how they are spent**. Transparency gives levy payers greater confidence and trust in the operation of the SDF. A number of SDFs exhibit a good level of administrative transparency with regular annual reports containing annual (audited) financial statements (e.g. Australia, Benin, Brazil, Botswana, Canada (Quebec), Republic of Cyprus, El Salvador, France, Ireland, Jamaica, Malaysia, Mauritius, Namibia, Peru, South Africa, United Kingdom, Zambia). Several SDFs in Latin America go further by including a "transparency portal" on the SDF website, which contains more detailed financial and other data.
- **The efficiency by which an SDF is managed is also likely to have a strong influence on the extent to which levy payers support the fund.** SDFs that show high administrative costs are likely not operating efficiently and the reasons behind this should be examined so that more levy funds can be spent on the purpose for which employers pay them; to support training.
- **Conflicts of interest that inhibit the effective governance of SDFs should be avoided.** In some cases, the organization managing the SDF is also the levy collector, spender, provider of training, and regulator of TVET (this is the case in Malawi, Morocco, Namibia, United Republic of Tanzania).
- **Monitoring and evaluation systems in SDFs need to be strengthened and efficient.** This includes: i) the fund itself (for example, efficiency of the application processing, time taken to process and pay a claim, and the uptake rate - the percentage of levy-paying firms applying for available training grants); ii) the training funded (e.g. completion rates, pass rates, repetition rates and dropout rates).
- **There is no ideal levy rate that countries should aim for, since so many determining variables are country specific.** This said, a majority of national SDFs have payroll levy rates of 1-2%, and many sectoral SDFs have a rate of less than 1%. It is good practice to build in a periodic review mechanism of the levy rate and adjust the rate (in agreement with levy-payers) to ensure that the training is neither underfunded nor leads to large surpluses
- **The process of collection and SDF distribution should be clear and transparent and should not be diverted to other purposes**. The majority of levies for SDFs around the world are collected by social security or tax collection agencies. They key issue is that there is a good level of transparency in the way levies are collected and in how much levy funds have accrued. Good practice is to remit, in full, all collected levies, minus any agreed collection fee (typically about 1%), to the SDF

- **The use of clear funding windows resourced by a dedicated percentage of the collected levy promotes clarity, transparency and accountability.** Funding windows are simply dedicated 'pots' of funding that are intended for particular purposes; e.g. there might be funding windows related to the training of workers in levypaying firms, another window to finance initial TVET, and another to support the training of unemployed youth. Linking the overall purpose of the training fund to clear funding windows is also important, so that it is clear how the SDF purpose (e.g. incentivising employers to train their workers) relates to the disbursement approaches.

- **Some level of cross-subsidization is both common across levy-financed SDFs around the world and contributes to valuable social and national objectives.** In this context, crosssubsidization refers to using a proportion of collected levies to cross-subsidize training that does not directly benefit the levy-paying firm. Such an approach can enable national or sectoral training priorities to be addressed, and it can support the training of disadvantaged groups (e.g. of workers in the informal sector) or of small enterprises that have not contributed to the levy. Dialogue with levy-paying partners is essential to agree on what level of cross-subsidisation could be mutually acceptable.

- **An alternative (or additional approach) to levy cross-subsidisation is blend of public or donor funding with collected levy funds to finance equity-related objectives.** Governments or donors can make grants to training funds to finance skills and lifelong learning that promotes social inclusion. In Malaysia, for example, the government makes grants to the HRDC (which is financed by levy financing) to support the training of disadvantaged groups via HRDC. In Madagascar, donor funds are used to support social training objectives, while levy funds support levy-paying firms' training

3. Developing SDF for the Indonesian context

The Stranas Vokasi Action Plan includes the establishment of SDF mechanisms as a policy commitment under Strategy 8: Strengthening funding schemes to support efficient, effective and demand-based implementation of TVET. The published strategy indicates the ministries to be involved in this implementation, which include: Bappenas, Ministy of Finance, Bappenas (MoECRT), Ministry of Manpower (MoM), Ministry of Home Affairs and the National Research and Innovation Agency (BRIN). Indonesian Chamber of Commerce (KADIN), Local and Provincial Government and relevant line/sectoral ministries also have a role in facilitating and piloting approaches.[4]

There are number of imperatives related to skills and lifelong learning in Indonesia that signal that a new approach to skills financing is needed.

- **At least 2.9 million new young people are entering the labour market in Indonesia each year.** Will this contribute to a demographic dividend or a demographic disaster? Key determinant factors will be the skills these young people will enter the labour market with, as well as the kinds of opportunities there are for upskilling and reskilling once they enter the labour market.

- **Shifts in employment due to automation and digitalization lead to a reskilling and upskilling urgency.** McKinsey & Company (2019)[5] estimate that 23 million jobs will be lost by 2030, while 27-24 million new jobs will be created over the same time period. The issue, of course is that these are different jobs requiring different skills which need to be planned through the Indonesian skills system.

- **Indonesia has the second lowest rate in the world of in-firm training.** Less than 8% of firms offer formal training in Indonesia compared to an East Asia and Pacific regional average of 35%. Understanding why this is, and to what extent it is to do with a general lack of financial incentives for investment (ADB, 2021[6]; World Bank, 2019[7]) is important. This would have direct relevance for a future SDF if the objectives were to include incentivisation of infirm training. An alternative reason for the low incidence of in-firm training may be the heavy reliance on short-term contracting in the Indonesian labour market, often of low-skilled individuals, which results in both employers and employees being discouraged from investing in upskilling. On the employer side, the prospect of only retaining an employee for a short period means that the cost of training may outweigh the return on this investment (Allen, 2016).[8] On the employee side, workers may lack motivation to invest in skills training as they see few opportunities for career progression (ADB, 2021)[9].

4 See Stranas Vokasi Action Plan Strategy 2.4: KADIN plays an increasing role in supporting TVET Funding

5 McKinsey & Company, *Automation and the Future of Work in Indonesia. Jobs Lost, Jobs Gained, Jobs Changed*, 2019.

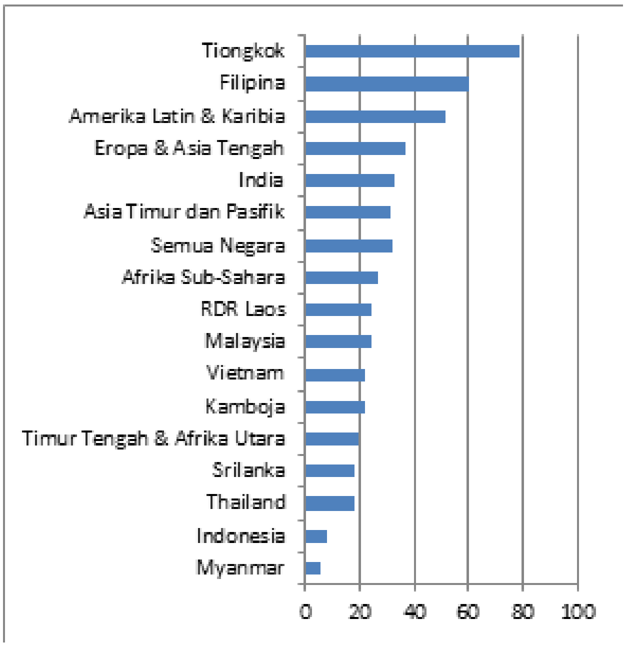
6 Asian Development Bank, *Reaping the Benefits of Industry 4.0 through Skills Development in Indonesia*, 2021.

7 World Bank, "*Indonesia Skills Development Project*", Dokumen Informasi Program Tahap Konsep, 2019.

8 Allen, E, *Analysis of Trends and Challenges in the Indonesian Labor Market* (Asian Development Bank, 2016).

9 Asian Development Bank, *Reaping the Benefits of Industry 4.0 through Skills Development in Indonesia*, 2021.

Figure 1. Percent of firms offering training – selected Asian countries and regional averages (latest years)



Source: www.enterprisesurveys.org (10.12.22), Indonesia data from 2015

4. Inputs from consultation workshop on the Introduction of SDF in Indonesia

Bappenas and ILO jointly facilitated a consultative workshop on 15 December 2022 in Jakarta. At least 20 different organisations were represented, with participants including Bappenas, Ministry of Manpower, KADIN; and industry, worker and academic/ skills representatives from the maritime and tourism sectors. These included the Indonesia Shipbuilding and Offshore Association (Iperindo), the Consortium of Indonesian Manning Agency (CIMA), PT ABUBA, the Indonesia Hotel & Restaurant Association (PHRI), Surabaya Shipbuilding State Polytechnic (PPNS) and Indonesian National Movement for Competency (GNIK) among others. The selection of the maritime and tourism sectors reflects ILO's ongoing engagement with these indusctsectors on the topic of skills. This group therefore provided an body of participants who are cognisant of the skills challenges of their sector and government policy direction at the national level.

Lokakarya konsultasi tentang SDF pada 13 Desember 2022

The consultative workshop took place in two parts:

- Capacity Building and information sharing of global practice in the development of SDFs
- onsultative workshop with facilitated discussions and information capture exercises.

Key findings from the information capture exercises are as follows:

- **Industry participants were open to the concept of an SDF, including that it might be levyfinanced.** There was discussion among this group that it could make sense to have an SDF that was multi-purpose, including incentivising industry to organise training for their employees (upskilling), strengthening training institutions so that they deliver more industry-relevant initial TVET (skilling), and the development of skills for disadvantaged and unemployed persons (reskilling).
- **There was a high preference that SDFs should be organised and administered on a sectoral basis.** This was due to the very different skills responses and rates of change experienced by key industry sectors. This organisation would complement the sectoral approach advocated in the Stranas Vokasi. It was also noted that pilot projects may be trialled in sectoral geographic clusters, for example Special Economic Zones; or around Super Priority Tourism Destinations.
- **In terms of governance, there was a general preference for the sectoral SDFs to be independent of government,** and to have boards that consisted of employers, government and other representatives (e.g. training providers, However, it was noted

that the key functions (such as levy collection) should be provided by government.

- **In terms of resourcing the sector SDFs, as noted above, there was general acceptance that a levy instrument could be used, but also agreement that it would be appropriate for some public funds to contribute to the SDF** (e.g. to expand training offerings financed by the SDF that have more equity-related objectives). Additionally, some participants noted that there should be external financing sought from development partners to contribute to the sector SDFs. It was noted that some employers are already involved in training their staff or offering internships; in this instance, it might be worth exploring a levy-exemption approach (in addition to levy-reimbursement) whereby companies that are already training their own staff (to a specified level) are partially exempt from levy payment (e.g. such firms pay a reduced levy rate).

- **For SDF allocation, multiple funding windows could be introduced in sector SDFs,** to support infirm training, initial TVET and the training of disadvantaged persons

- **Transparency and accountability (of levy collection, allocation, expenditure and tracking) were noted among the key overall concerns that stakeholders had about an SDF approach.** To mitigate this, it was suggested that SDF(s) should be independent, have transparent and clear standard operating procedures, have good monitoring and evaluation (also with transparency), strong transparent reporting and a good communications strategy

- **Data availability was also raised as a concern as the lack of it makes it harder to identify, anticipate and prioritise skills needs accurately; and to target and reach certain groups with the SDF.** This aligns with another key of the Stranas Vokasi Action Plan on the need for strengthened Labour Market Information Systems (LMIS.[10]

5. Recommendations toward SDF concept development and implementation in the Indonesian context

Based on the above, ILO provides following recommendation for government of Indonesia to take forward the implementation of SDFs in Indonesia within the National Strategy.

- E**tablish a dedicated SDF Working Group (WG), Terms of Reference (ToR), and clear responsibilities.** The WG should include representatives from Ministry of Manpower, Bappenas, Ministry of Education, Culture, Research and Technology, Ministry of Finance and KADIN. This would be consistent with the Relevant Ministries identified in the Stranas Vokasi Action Plan for this task. A clear process framework needs to be developed by government, perhaps using a high-level Responsibility Assignment Matrix (RACI Matrix) with named individuals and institutions (Fig. 1).[11]

Figure 2. Example of heading in a high-level RACI Matrix

Task description	Respon-sible	Account-able	Consulted	Informed	% progress	Due date	Status	Comments

- **Undertake capacity strengthening of key national decision makers involved, so that the process of developing an SDF in Indonesia is informed by international good practice and lessons learnt.** While there seems to be an interest and engagement in the topic of an SDF, national stakeholders appear to have a long way to go in developing the needed understanding so that they can contribute effectively to the dialogue and make informed decisions on its establishment. The ILO International Training Centre in Turin offers a number of capacity strengthening courses, in-person and online,

10 See Stranas Vokasi Strategy 1: Developing an up-to-date and comprehensive labour market information system for describing the labour structure, labour characteristics, labour supply and demand in a comprehensive manner.

11 The acronym "RACI" refers to the different types of responsibility: responsible, accountable, consulted, and informed.
- The individual(s) with responsibility for the task or deliverable is typically responsible for developing the deliverable or completing the activity.
- The accountable party is typically the person or group responsible for ensuring the work is complete and suitable. This is usually someone with signature authority or the decision-maker.
- Consulted individuals are those from whom feedback and input should be solicited.
- Informed persons are those you simply want to keep in the loop. These individuals do not have to be consulted or be a part of the decision making.

including on 'Skills Development Financing'[12]. One option could be to arrange for experts to deliver training in person in Indonesia to key national decision makers.

- **Conduct/commission a systematic analysis of national, provincial and sectoral financing mechanisms in Indonesia.** It is important to document what is already there, the extent to which it is working as shown by evaluation evidence on efficiency and effectiveness, and how it might relate to an SDF in future.

- **Undertake a thorough consultative process to ensure that employers and other key stakeholder voices inform the design and development of an SDF.** Such a process could include a representative survey of employers (for example within the priority sectors or pilot scopes identified) as well as face to face consultations around the country. As per the Stranas Vokasi, KADIN's membership and regional reresentation may provide an infrastructure and local connections to support this process.

A full national implementation would require a series of in-person consultation events to engage with stakeholders from the 38 provinces across Indonesia, including significant support and coordination across national and provincial government; KADIN and other industry representative groups; and other stakeholders including worker representatives and academic/ training providers. This would require significant planning and resource. A phased approach would provide the opportunity to learn and improve the model throughout the implementation.

The following questions may be used as a basis for formulating SDF design and consultation activities:

- **Purpose**: What should be the purpose of the sector-based Skills Development Fund?
- **Governance**: How should the sector-based SDF by governed (and by who?)?
- **Administration**: How should the sectorbased SDF be managed/administered (and by who)?
- **Source of funds**: How should the sectorbased SDF be resourced? Government (national/local)? Employer levy (what type? what rate? what threshold?)? Development partner support? All of the above?
- **Who pays**: Where a levy arrangement is agreed, which employers (e.g. of what size) should pay this?
- **Fund collection**: How should the source of funds (including employer levies) be collected/transferred to the SDF (and by who)?
- **Fund allocation**: How should the sectorbased funds be allocated? To whom? Where? Which sector(s)? Will there be a specific allocation to support disadvantaged persons?
- **Fund disbursement**: How should the sectorbased funds actually be disbursed? By what mechanisms (e.g. grants, loans, reimbursement etc)? Will some of these mechanisms be specifically be designed to promote social inclusion? What criteria will be used and who will decide?
- **Transparency and monitoring arrangements**: What reporting arrangements would be needed for financial contributors (TKNV, industry, development partners etc) to see how funds are allocated and utilised?

- **Build confidence and trust, especially among formal employers who might be expected to be future levy-payers, in the process of designing an SDF in Indonesia.** This was an issue identified by key government stakeholders. A well thought out and thorough consultative process should go some way to build confidence and trust in the process of designing an SDF in Indonesia. Additionally, a good communications plan would be needed to inform (and convince) those formal employers, who were not directly consulted, that the SDF design process was thorough, and that the voice of employers had been involved in dialogueand implementation processes from the start.

- **Pilot the design and implementation of sector training funds,** starting with those sectors where there has already been some movement towards the creation of sectoral committees which has been initiated in several sectors. These include shipbuilding, international logistics, seafaring, hotel and tourism, etc.

- **Link the process of the 'establishment of Sectoral Committees' (action 2.5.1, Stranas Vokasi PMK 6) with the 'development of a skill development fund (SDF) scheme' (action 2.4.1, Stranas Vokasi PMK 6).** With SDFs based on a sectoral approach, these two actions in the Stranas Vokasi can be developed in parallel to realise synergies.

12 ILO International Training Centre Turin, 2023. *Financing Skills Development Training Course* https://www.itcilo.org/courses/financing-skills-development

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