

BRIDGING THE SKILL GAPS IN INDIA'S LABOUR MARKETS

Faculty Contributor: *Dr. Rupa Chanda, Professor*
Student Contributors: *Naveen Prashanth and Disha Gupta*

Teaser

Successive Indian prime ministers and political leaders have opined on the need for skill development of the Indian work force. A multitude of schemes have been set up, both by private and public sectors to meet ambitious skill development goals. However, do we understand the real challenges of bridging the skill gap in India? How can skill building be contextualized within the labor market scenario, economic structures and demographic profile of our country? What remains to be done to create a skilled workforce that achieves individual success and contributes to national development?

Abstract

“Our strength in the next few decades lies in the availability of a vast youthful workforce. But we cannot simply rest with this advantage of demography. The youth have to be suitably skilled to help realize the demographic dividend.”

- Hon. President Pranab Mukherjee

This article illuminates the existing skill development infrastructure in India. It begins with analyzing the current labor market trends on the supply side and a tabulation of high-growth sectors that will drive employment from the demand side. An in-depth analysis of the current initiatives by various players has been done and challenges identified to bridge the supply-demand gap. The recommendations that follow call for a close collaboration between the industry, the government and the training centres to promote effective skills delivery.

Introduction

Skill development is an imperative for our country at this point for several reasons. India is set to grow ‘younger’, with ~63% of our population being in the working age group by 2022ⁱ. This demographic will be actively looking for jobs, and can potentially drive domestic demand if they enjoy good economic status. Ironically, several developed nations are set to expect a manpower shortage simultaneously - forecasted skilled manpower shortages in US and UK are to the tune of 19 Mnⁱⁱ workers collectively. This creates opportunities for overseas demand for our youth resulting in higher remittances for the economy and improved standards of living.

Despite the widely acknowledge benefits, our country is woefully under-skilled. Of the nearly 400 Mn workforce in 2010, only ~10% of the workforce receives some kind of trainingⁱⁱⁱ. Skilling capacity at our institutes is also inadequate - about 12 Mn^{iv} join the workforce every year as against a capacity of ~ 4Mn^v, which also is under-utilized. This contributes to the large scale

'informalization' of our economy, with ~93% of our workforce^{vi} employed in low quality jobs and in uncertain employment conditions. These seemingly counter-intuitive trends are analyzed in detail in this article, with an eye towards issues that plague the low and semi-skilled sectors in India.

Analysis of Current Labor Market Scenario

India's labor market can be characterized by three related and distinguishable mega trends. Firstly, the labor intensity in the agricultural sector in India is very high, compared to other sectors. As shown in Exhibit 1, this space is characterized by 'disguised unemployment' as it absorbs ~58% of our labor while contributing only ~14% to national GDP. This sector experiences low wages, under-productivity and poor competitiveness due to over-employment and under-skilled workforce.

Secondly, informalization extends to other industrialized sectors also within our economy. The share of informal employment in the organized sector has increased by ~45%^{vii} from 2005 to 2010. On examining the 14 subsectors within the economy, it can be observed that construction, textiles and transportation show maximum informalization^{viii}. This is consistent with the studies that have shown a strong positive correlation between the level of formalization and the level of skill required to perform tasks. India's labor force possesses low education levels, though the scenario has been improving in the recent past with initiatives like Right to Education. As shown in Exhibit 2, about 29% of the workforce is not even literate and 24% had education up to primary level.

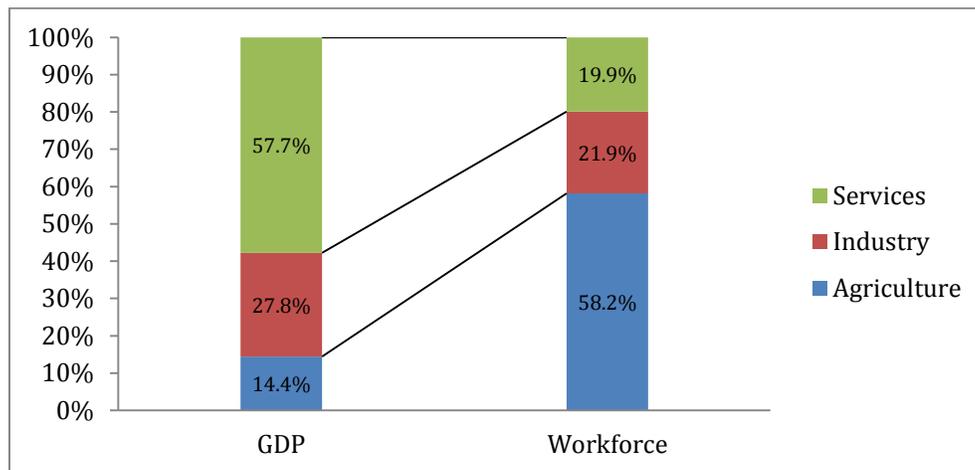


Exhibit 1: Sector-wise labour distribution^{ix}

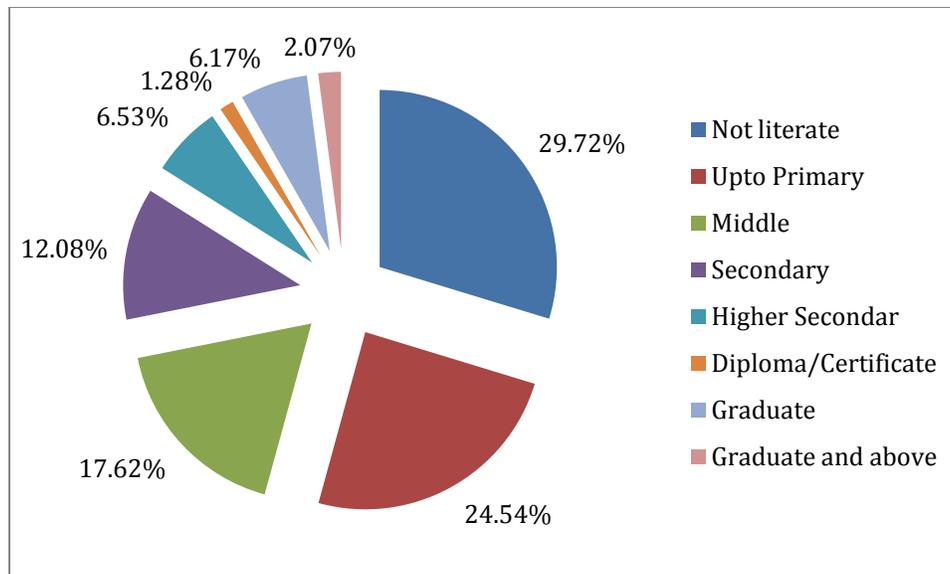


Exhibit 2: Education levels of the workforce^x

Analysis of Current Skilling Initiatives

As shown in Exhibit 3, in India, skill delivery primary takes place through professional technical institutes, vocational schools, specialized institutes for technical training and industry led apprenticeship programs. In this light, the subsequent sections take a close look at some of the government and private initiatives that aim to train 500 million youth by 2022^{xi}.

Institution	# of Institutions	Capacity (in million students)
Polytechnics	1200	0.5
Industrial Training Institute (Govt. Run)	2271	0.48
Industrial Training Institute/Centres (Pvt.)	8073	0.98
Public & Private establishments	20000	-

Exhibit 3: Training capacity in India^{xii}

Overview of National Skill Development Corporation (NSDC)

The NSDC is a public-private partnership with the government of India holding 49% stake and the various industry associations like Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce and Industry (FICCI) and Associated Chambers of Commerce and Industry (ASSOCHAM) holding 51% stake^{xiii}. With a mandate to train 150 million by 2022, it has partnered with 62 training bodies (as of May 2013) and has trained ~650,000 trainees across India^{xiv}. It actively engages with the key stakeholders by creating training capacity, setting standards and curriculum, developing a policy framework to encourage vocational training and undertaking a

media campaign to encourage participation. It funds its partners with the help of loans, equity and grants which it receives from private entities, donors and State/Central governments.

Apart from NSDC, the government has also set up Industrial Training Institutes (ITI) primarily to address manpower requirements for technology and industrial growth of the country. With the changing industry trends, the government is looking at private partnerships for ITI up-gradation, introducing Centres of Excellence to provide multi-skilling courses and training new trainers to meet the growing demand. Initiatives like Modular Employability Scheme and Apprenticeship Training Scheme provide an opportunity for workers who need to certify their informally acquired skills and for ITI graduates to earn while they learn.

Overview of Private Sector Initiatives

When it comes to skilling, the private sector is not far behind. Companies have come up with various models, both for-profit and not-for-profit, to address the nation's skilling needs. NIIT has been a stalwart in the for-profit space providing training and training solutions in a host of courses related to information technology, banking and finance, etc. In the non-profit space, B-Able provides training to under educated youth whereas Tata Group caters to the socially and economically disadvantaged through social partnerships and in-house training. Companies like IL&FS and NIIT are rapidly adopting technology, for example V-SAT based training, for effective program delivery and using social media platforms to acquire students.

Other than imparting training to the youth, the private sector is also engaged in improving visibility in this space. By publishing reports such as 'Knowledge paper on skill development in India' by FICCI, 'India Skills Report' by CII, etc. these associations demonstrate to industries about productivity gains through skilling and hence subsequent need to pay higher wages to those employees.

Challenges with our Skill Development Initiatives

Despite significant progress and achievements in the skill development arena from public and private sector initiatives, the sector is plagued with several challenges. The thorough analysis of the various challenges is followed by recommendations from our side.

Attitudinal Challenges

One of the foremost challenges with skill building is the 'free-rider' problem. Skill development can be viewed as a public good marked by under investment by its stakeholders (trainees, employers and the government). Further, societal pressures lead youth to pursuing formal academic degrees due to their more prestigious stature, even though experts opine that the bottom 20% of engineering colleges are most likely paid lesser than top graduates from training institutes. Also, training institutes focus heavily on functional aspects while personality building aspects (team work, communication and entrepreneurship) receive lesser attention. The employees are hesitant to pay a price premium for these under-prepared employees, furthering the negative incentives towards skill acquisition.

Thus, it is important to develop a signaling value in vocational degree. The government should expand its efforts towards introducing vocational education at an early stage in a student's life and remove the associated stigma. Awareness campaigns through a variety of mediums (e.g. radio, newspaper advertisements) will improve enrolment in these courses. Also, giving recognition and rewarding the best in the profession, in skilling centres and through skills fair, will motivate and hence improve the image of vocational training in the students' minds. Introduction of soft-skills courses will adequately prepare the candidate to command a wage premium over informal labour.

Leadership Challenges

Several experts believe that top level leadership plays a vital role in determining the success of skill development efforts. Our public sector institutes lack the dynamic leadership necessary to effect infrastructure up-gradation, sync syllabus strongly with industry requirements and generate awareness of vocational education benefits amongst students. Further, nearly 17 ministries^{xv} are involved in skill building initiatives marked by poor policy alignment between these bodies. Skill building, being on the concurrent list, also faces regular misalignment between state and center objectives.

Thus, linking education and skills via joint programs of the Ministry of Human Resource & Development (HRD) and labour will provide clarity of direction to the executing bodies and avoid bureaucratic hurdles. Top talent for leadership roles can be attracted by offering better pay and independence in decision making. This would motivate ITIs/ITCs to engage more effectively with industry and provide a rich training experience to students. Also, NSDC should move from an in-house to a third party performance assessment of its partners and give a rating to the centres, incentivizing them to outperform each other.

External Challenges

Limited progress has been made in integrating skills-based training at the school level. Developed European countries (Germany, Switzerland and Finland) have well established framework to introduce vocational education at a young age. While some initiatives have been undertaken in Karnataka, this remains a big area of concern. Further, the legal regime in this country poses impediments to reaching potential in skill building. The 45 Central Acts and 150 State laws^{xvi} that directly deal with labor rights lead to heavy complexity and impose severe constraints on employers. For example, a company with more than 100 employees cannot fire wage laborers for any cause other than criminal misconduct^{xvii}. Legislation governing apprenticeship is also rigid, involving regional approvals, forms submission at different time intervals making the process very tedious.

We believe that legislations should be made in favour of a skilled economy. This requires the government to relax the hiring and firing policies for industry. This will not only enable accountability in the workplace but will also encourage competition to acquire skills to stay relevant in the market. Further, the procurement policy for government contracts could mandate 'hiring a fixed percentage of skilled & certified workforce' by all the vendors to ensure certified skills gain value in the labour market.

Delivery Challenges

There is a dire shortage for trainers to execute India's skill development ambitions, with NSDC estimating that ~7 lakh teachers^{xviii} and trainers will be incrementally needed in the period 2008-2022. Further, retaining existing teachers is difficult since it is not seen as a lucrative career option. Lack of standardization across courses, informational asymmetry and industry-curriculum misalignment are some of the other challenges that plague delivery of skill education.

We suggest that teachers should be encouraged to handle more responsibility. Providing the trainer access to updated material will ensure match of industry needs with pedagogy. Involvement of teachers in placement preparation process will incentivize the teachers to enhance their soft skills and other pedagogy skills. In order to boost training capacity, retired personnel from the sector can be targeted. This will enable the students to learn from the vast experience of these people.

Conclusion

Our analysis has clearly identified the challenges being faced by the various stakeholders in the skill development space and has put forward recommendations to overcome them. Any initiative in this space, from the government or the private players, needs to encompass all the stakeholders in the process, ensure collaboration between them, backed by sound policy decisions on labour laws and policy alignment between the various ministries. Hence, we believe that skilling is joint responsibility of both private and public sector and each should leverage their expertise to come together and create a holistic skill environment for the country's youth.

Key words

Skill Development, India, Informalization, NSDC, Government, Challenges

Authors

Dr. Rupa Chanda is a Professor in the Economics & Social Sciences Area at IIM Bangalore. She holds a PhD in Economics from Columbia University and a BA in Economics from Harvard University. She can be reached at rupa@iimb.ernet.in

Naveen Prashanth (PGP 2013-15) holds a Master's degree in Metallurgical & Materials engineering from Indian Institute of Technology, Madras and can be reached at naveen.prashanth13@iimb.ernet.in

Disha Gupta (PGP 2013-15) holds a Bachelor's degree in Chemical engineering from Indian Institute of Technology, Guwahati and can be reached at disha.gupta13@iimb.ernet.in

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