

## A Preliminary Assessment of Skills Development in India

### *Executive Summary:*

- *The Skills Development program in India faces formidable socio-economic, structural, and policy-induced challenges.*
- *The legacy of the ‘Planning’ era has rendered technical and vocational training institutes ill-equipped to deal with the challenges of an increasingly competitive marketplace.*
- *Manufacturing accounts for a relatively small proportion of India’s Gross Domestic Product (GDP); moreover, the period of rapid growth from 2004-2010 was a period of jobless growth.*
- *The youth view skills development as a losing proposition – an attitude engendered by an aversion to manual labour and low wages for the Industrial Training Institute (ITI)-certificate holders.*
- *Despite perceptions to the contrary, entrepreneurial activity in India is low by international standards*

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## **Response to Skills India Initiative**

The Indian Government's target of skilling and employing productively 500 million workers by 2022 does not afford it the luxury of time. Nor can the inherited legacy of decades of planned development be done away with overnight. With a young population and favourable demographic profile, India has a short window of opportunity to avail itself of the 'demographic dividend'. While it may be premature to assess the overall effectiveness of the policy framework, there are early indications about the response to policy as well as how legacy issues are addressed. The challenges can be classified as social, structural and those resulting from policy distortions.

### **Economic Challenges**

The biggest hurdle confronting skills development programs is the small role of manufacturing in economic activity, and a business ecosystem which, notwithstanding reforms over the past few years, continues to be inimical to investment in industry. Foreign investors prefer to wait and watch rather than commit funds to bricks-and-mortar projects. This is reflected in the low ratio between the funds actually invested and the funds pledged. Portfolio investments dominate the funds-flow into India – funds-flow that can be readily reversed.

A major concern for policy makers seeking to find avenues for productive employment for millions entering the labour force is the low employment elasticity. Between 2004 and 2010 when the Indian economy grew at the fastest rate in post-Independence history, the employment elasticity was 0.04, i.e., it was a period of near 'jobless growth'.

Onerous labour regulations that render retrenchment decisions extremely difficult have dissuaded small firms from registering as businesses and pushed the existing firms to use capital-intensive technologies and increase automation. However, without a significant scaling up of reforms and easing of conditions for doing business, there are few signs that this trend

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will change. In the current environment, prospects for significant increases in employment via industrialisation are bleak.

Stringent labour regulations are an important explanation for why 93% of the Indian labour force is employed in the informal sector. Outdated labour regulations act as a brake on labour market change as the incentives to recruit permanent workers are, at best, weak. Policy reform in this domain is challenging. Some sub-national State governments have begun to take initiatives to institute changes to the labour market regulations, with a view to imparting greater flexibility to the labour markets.

Firms in the informal sector are small, with fewer than 10 employees each. These firms prefer low-cost unskilled workers on short-term contracts. Despite the high opportunity costs of ‘informality’, as reflected in the inability to access formal finance or avail of government benefits, firms choose to remain in the informal sector. The small- and medium-sized enterprise sector is potentially a major recruiter of skilled labour. However labour market inflexibility and the high cost of doing business induce firms to remain in the informal sector, dampening employment prospects for skilled labour.

Contrary to perceptions engendered by the belief in a latent entrepreneurial spirit among Indians, because of manifestations of *‘jugaad’* (the ability to improvise in a challenging environment) and the national economic growth over the past two and a half decades, the level of entrepreneurship in India is lower than in many comparable countries such as South Africa, Thailand, Malaysia, Turkey and Brazil (GEDI, 2016)<sup>2</sup>. Barriers to entry, and more stringent exit barriers, deter entrepreneurs, depressing investment and the prospects for growth in jobs. However, a granular view predictably reveals significant differences across States.

## **Structural Challenges**

The target of skilling 500 million youth by 2022, while having an annual skilling capacity of just 7 million, is arguably the most ambitious such exercise in history. By mid-April 2016, the

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<sup>2</sup> Global Entrepreneurship Index: 2016, GEDI. Washington, D.C., USA

Ministry of Skills Development and Entrepreneurship website listed 249 training providers, 3,222 training centres, 5,570,476 people trained and 2,388,009 workers placed.<sup>3</sup> In recognition of the inadequacy of the existing infrastructure and the scale of the challenge, India's Prime Minister Narendra Modi announced, on 16 January 2016, that another 7,000 ITIs were to be opened over the next twelve months, nearly doubling the number of ITIs established in the country over the preceding six decades. The private sector and other interested parties will have to play a critical role in these efforts, as the government is already overstretched with challenges at the existing ITIs.

The ITIs suffer from a serious shortage of trained instructors. It remains a moot point how authorities will recruit trainers for the 7,000 new institutes to be set up during the current year. Establishing new ITIs is a daunting proposition, as aside from the shortage of trained faculty; the existing institutes are already confronted with a serious paucity of resources, outdated equipment, outmoded curricula, poor facilities, and negligible engagement with industry.

Unless partners from the private sector step in with credible marketable programs that address the constraints facing the existing institutes, the 'Skill India' initiative cannot live up to its expectations. The experience of the automobile sector, one of the few success stories of mass-manufacturing, shows that externalities generated by the growing automobile sector resulted in an increasing supply of skilled manpower through agents in the manufacturing supply-chain. State governments and the private sector played a critical role through provision of investment incentives and on-the-job training.

## **Social Challenges**

Despite a multitude of efforts, skills acquisition is yet to become aspirational among India's youth (Skill India, 2015). Manual labour has traditionally been held in low regard, and widely stigmatised too, in India. Most Indians have a strong preference for non-manual jobs in the organised sector. It is common to observe people spurning blue-collar jobs even if no other jobs are available. However attitudes are changing, especially in areas where industrial investment is taking root and rising wages are enhancing the appeal of employment in industry.

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<sup>3</sup> Data obtained from 'Skill India Portal' website <http://skillindia.gov.in/> on 19 April 2016

Students tend to see technical and vocational education training as a losing proposition with limited prospects for economic mobility. This stems from the low wages that the ITI's certificate- and diploma-holders earn, and the limited avenues for career progression. In areas where manufacturing jobs are not readily available, there is a strong preference for jobs in the public sector that provide employment security and other social benefits. However in areas where jobs affording a decent living are available and salaries and long-term employment prospects are favourable, attitudes are changing, and ITIs and other vocational education institutions are receiving applications from better-qualified candidates.

Recruiters often show a preference for school graduates over those with vocational and technical training, in large measure because of the sharper cognitive and analytical skills developed in mainstream schools. This is reflected in the market trends that show rising wages and an increased enrolment in schools, while the wages and enrolment for ITI's certificate- and diploma-holders have been static. Employers perceive ITI's certificate- and diploma-holders as lacking in technical skills. This reduces incentives to enter vocational education programs, resulting in the ITIs facing challenges of recruiting students.

After completing a course at an ITI, many students prefer to continue with studies in the belief that it would enhance earnings prospects in the future. A family would prefer to send a child to a private engineering college, though many of the new colleges barely function as teaching- or training-institutions. The focus is on clearing exams and getting a degree, rather than gaining practical experience. This is reflected in industry's perceptions. Studies indicate that employers find barely 25% of 'professionals' to be employable (Niti Aayog, 2015)<sup>4</sup>.

## **Differences across States**

States with substantial industrial investment offer much better prospects than those where manufacturing is lacking. The ITIs and polytechnics in the South, Maharashtra and Gujarat exhibit superior performances than their counterparts in other States. The former also tend to

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<sup>4</sup> Niti Aayog (2015), "Report of the Sub-Group of Chief Ministers on Skill Development."

have greater engagement with industry, often through public-private partnerships. Students from these ITIs have better earnings and career prospects. To meet labour needs, larger firms are going to distant ITIs to recruit workers. The higher salaries are also inducing youth to cross State borders in pursuit of opportunities.

## **Concluding Observations**

We live in a challenging period where countries can rapidly lose their competitive edge. Entrepreneurs and workers need to be able to adapt quickly to new technologies. Governments need to enhance the capacity and capabilities of ITI programs to adapt to changing market conditions, create a level-playing field and provide equitable outcomes. It is incumbent upon ITI programs to impart skills to use new and relevant technologies.

As the global economy integrates, the technology gap between the rich countries and developing economies with skilled scientists and engineers has narrowed, resulting in faster convergence between the developed economies and the open developing economies that have skilled workforces<sup>5</sup>. Economies and firms are able to sustain comparative advantage for ever shorter periods. Experiences in steel, automobile and semi-conductor industries over the past fifty years are testimony to this.

The remarkable growth experience of the East Asian tigers, and in recent decades, of China, shows how this is manifest in the faster rates of convergence among countries. In the eighteenth century, following the onset of the Industrial Revolution, it took the United Kingdom about 150 years to double its per capita income; at the turn of the nineteenth century the United States took slightly over 50 years to do so, in the early twentieth century Japan 33 years to double its per capita income; starting in the 1970s, South Korea, among the East Asian tigers, took 16 years; from the late-1980s, the Chinese saw their incomes double in 12 years. Following economic liberalisation in 1991, India was able to double its citizen's incomes in 16 years (Maddison, 2001)<sup>6</sup>.

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<sup>5</sup> The experiences of East and subsequently Southeast Asian economies is testimony to the contribution of 'openness', trade, investment and skills development to convergence

<sup>6</sup> Maddison, Angus. (2001). "The World Economy: A millennial perspective" OECD Development Studies Centre. OECD

Economies that are unable to generate jobs for trained youth are likely to encounter an increasing sense of frustration and disenfranchisement among the skilled unemployed, often resulting in increasing social and political strife. This has been witnessed repeatedly over the last several decades: in Western Europe during stagflation in the 1970s, in many parts of Latin America in the 1980s, in Brazil in 2015, in Tunisia and Egypt in 2011. Governments can play an important role in coordinating investments and worker-training, in tandem with the private sector. This may help address the ‘chicken and egg’ problem in skilling. What should come first – skills or jobs?

It is too early to assess the response to the Skills India initiative. It has triggered a sense of urgency in a setting where policy initiatives are generally implemented slowly. The implicit assumption underlying ‘Skill India’ may be described as ‘Have skills, Investment shall come’. This raises important questions about the underlying expectations, the design of the program, the critical role of complementary policies to attract investment in manufacturing, and expected outcomes. At this juncture, while there has been some progress, it is not clear how the recent initiatives have addressed the problems spawned by the earlier approach. The prognosis on skills development is a matter of concern, as the proportion of skilled labour has barely increased between the period of 2004-2005 and 2011-2012 – when the data was last collected.

As India opens up to an increasingly competitive and integrated world, the skills development initiative will assume greater urgency and significance. This is an area which requires answers to some basic questions: How do policy makers address the needs of hundreds of millions in the rural areas and those working in the informal sector? What can the government, industry and other interested stakeholders do to enhance the appeal and effectiveness of vocational education? Is skills development meaningful without policies to nurture entrepreneurship and investment? Should the government intervene through an industrial policy that can provide an implicit focus to vocational education programs? Research on these questions should help lend direction to the government’s initiatives in skills development.

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