

Enhancing Skills and Faster Generation of Employment

Enhancing Skills to Reap Demographic Dividend

Skill building can be viewed as an instrument to improve the effectiveness and contribution of labor to the overall production. It is as an important ingredient to push the production possibility frontier outward and to take growth rate of the economy to a higher trajectory. Skill building could also be seen as an instrument to empower the individual and improve his/her social acceptance or value.

The contemporary focus on skill building or skill development in India is derived from the changing demographic profiles in India vis-à-vis China, Western Europe, and North America. These changing demographic profiles indicate that India has a unique 20 to 25 years' window of opportunity called "demographic dividend". The demographic dividend is essentially due to two factors (a) declining birth rates and (b) improvement in life expectancy. The declining birth rate changes the age distribution and makes for a smaller proportion of population in the dependent ages and for relatively larger share in the productive labor force. The result is low dependency ratio which can provide comparative cost advantage and competitiveness to the economy. The "demographic dividend" accounts for India having world's youngest work force with a median age way below that of China and OECD Countries. Alongside this window of opportunity for India, the global economy is expected to witness a skilled man power shortage to the extent of around 56 million by 2020. Thus, the "demographic dividend" in India needs to be exploited not only to expand the production possibility frontier but also to meet the skilled manpower requirements of in India and abroad.

To reap the benefits of "demographic dividend", the Eleventh Five Year Plan had favored the creation of a comprehensive National Skill Development Mission. As a result, a "Coordinated Action on Skill Development" with three-tier institutional structure consisting of (i) PM's National Council (ii) National Skill Development Coordination Board (NSDCB), (iii) National Skill Development Corporation (NSDC) was created in early 2008. Whereas, Prime Minister's National Council on Skill Development has spelt out policy advice, and direction in the form of "Core Principles" and has given a Vision to create 500 million skilled people by 2022 through skill systems (which must have high degree of inclusivity), NSDCB has taken upon itself the task of coordinating the skill development efforts of a large number of Central Ministries/Departments and States. The NSDC has geared itself for preparing

comprehensive action plans and activities which would promote PPP models of financing skill development.

The three-tier structure has laid the institutional foundations for a more proactive role of public (Centre plus States) and private and third sector interactions and interfaces for harnessing the benefits of demographic dividend. It has also been able to focus on skill development through the creation of a coordinating mechanism. It has also made the issue of skill development as an important agenda for the Governments at Centre as well as States. It has articulated the importance of State Governments in the delivery of skill development. In this regard, various challenges on skill development that merit attention in the remaining years of the current Plan and the Twelfth Five Year Plan are presented below:

- 1) Government's preoccupation with providing and financing training has led to overlook its role in one key area- disseminating information about the availability and effectiveness of training programs. An important role that the Employment Exchanges, NCVT and the SCVTs could play is dissemination of information on the nature and quality of training particularly with respect to enrollment, institutional capacity, completion information and graduate follow-up data from all registered vocational institutions. This will enable the government and the stakeholders to see whether the system is responding to employers' needs and devise policies accordingly.
- 2) Whilst industry associations and individual employers are beginning to show interest involving themselves in the development and management of the ITIs, their involvement in the vocational training system is still at a nascent stage. Involvement of employers in management will see a major spurt only if the governments is willing to provide institutions greater autonomy. However, increased autonomy needs to be accompanied by greater accountability and performance must be measured on the basis of internal/external efficiency indicators.
- 3) The management of the Vocational Education and Training System is fragmented and shared between various institutions, especially the NCVT, DGET and the SCVTs. There is a lot of scope to improve coordination between them and improve their effectiveness through more functional partnerships.
- 4) There is a need to identify institutions to carry out impact evaluation studies/ tracer studies/ surveys of graduates from vocational institutes on a regular basis.
- 5) Since funding is largely restricted to publicly provided training, little attention is paid to financing as an innovative means to encourage good quality public / private / in-service training. Once an institution begins to receive funding, subsequent funds are assured regardless of the institution's performance. Student fees in ITI's/polytechnics go to the

State treasuries and hence, the training providers have very little financial incentive to improve efficiency and cater to the market requirements. Therefore, there is a need to re look at the funding of skill development activities.

- 6) Vocational training institutes should be given greater freedom in terms of resource generation (sale of production or service activities, consultancy) and in utilizing the proceeds for not only cost recovery but also incentivizing those who generate revenues.

Developing Efficient and Fair Labor Markets for All Categories of Workers.

In 2004-05, the total employment in the country was estimated at 459.1 million out of which 56.8 percent of workforce belonged to self employment, 28.9 percent to casual labor, and 14.3 percent to regular wages. About 8 percent of the total work force in India is employed in the organized sector, while the remaining 92 percent are in the non-formal sector. Employment needs to be generated in all the sectors, namely primary, secondary, and tertiary.

The quality of employment in organized sector is generally high though the scope of additional employment generation in this sector is rather limited. Significant employment generation is taking place in tertiary sector, particularly, in services industries. Self-employment and small business continue to play a vital role in this regard. It is, therefore, necessary to promote main employment generation activities like (a) agriculture, (b) labor intensive manufacturing sector such as food processing, leather products, textiles (c) services sectors: trade, restaurants and hotels, tourism, construction and information technology and (d) small and medium enterprises.

To develop efficient and fair labor markets for workers belonging to both organized and unorganized sector, the following areas require attention:

- 1) While flexibility (in term of size and type of workforce, duration of work and location of workplace) is required by employers to adjust to the changing market conditions, the workers need to be provided with basic security (in term of statutory compensation in the event of closure or retrenchment or layoff, unemployment allowance, retraining and redeployment facilities, access to social security).

This may require amendments to Industrial Disputes Act, 1947 and Contract Labor (Regulation and Abolition) Act, 1970 and strengthening of social security schemes for both organized (like Rajiv Gandhi Shramik Kalyan Yojana, facilities being provided by ESIC and EPFO etc.) and Unorganized (like Rashtriya Swasthya Bima Yojna, Aam Admi

Bima Yojana, Indira Gandhi National Old Age Pension Scheme, newly announced Swabalamban Pension Scheme etc.) sector workers.

- 2) Conditions of service for contract /casual workers need to improve.
- 3) Better enforcement of Labor Laws and Regulations and strengthening of the competencies of the labor administration.
- 4) Simplification and rationalization of labor laws without compromising the interest of workers.
- 5) Observance of core labor standards.

In the context of mitigating adverse impact of global economic slowdown, ILO has evolved "Global Job Pact" placing employment protection and creation at the heart of revival strategy through stimulus packages etc., which needs to be examined.

Improving Financial and Regulatory Ecosystem for the Growth of Enterprises.

A vibrant manufacturing, especially, Small and Medium Enterprises sector can play a key role in creating jobs and high economic growth. It has the potential to provide employment for the exceptionally large labor force that is still working in agriculture. Achieving and sustaining such growth and higher employment will require a boost in industrial and services growth, spurred by SMEs.

Several factors constrain the growth and competitiveness of Indian SMEs. Lack of access to adequate and timely financing is especially critical. Without it, borrowing becomes more expensive and profit margins are reduced, holding back the establishment of new units and the consequent increase in job creation.

The financing constraints can be attributed to a combination of factors that include policy, legal and regulatory framework (bankruptcy and contract enforcement), institutional weaknesses (absence of good credit appraisal), and lack of reliable credit information on SMEs.

It is, therefore, essential that regulations be made stable, predictable, and promote competition and investment. Excessive regulation can have the unintended effect of discouraging employment.

Sustainable Livelihoods for Alleviation of Poverty

This is the essence of inclusive growth requiring strong boost to various employment promotion schemes for those workers who are at the bottom of the pyramid such as:

- 1) Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), which provides a legal guarantee of at least 100 days of wage employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work.
- 2) Swarnjayanti Gram Swarozgar Yojana covering all aspects of self-employment such as organization of rural poor into Self Help Group (SHG) and their capacity building, training, planning of activities clusters, infrastructure development, financial assistance through bank credit, subsidy, market support, etc. The SGSY has been implemented in all states except Delhi and Chandigarh since 1999. It was primarily designed to promote self-employment oriented income generating activities for below poverty line households in the rural areas.

The scheme has been restructured as a National Rural Livelihood Mission (NRLM) which will function in a mission mode for target-based delivery of outcomes and follow a demand driven approach. The mission aims at reducing poverty through promotion of diversified and gainful self-employment and skilled wage employment opportunities to increase income of the rural poor on a sustainable basis. The mission will broadly adopt objectives such as universal social mobilization, formation of people's institutions, universal financial Inclusion, training and capacity building, enhanced package of economic assistance for setting up of micro enterprises and larger role for Self Help Groups (SHGs) level.

- 3) Swarn Jayanti Shahri Rozgar Yojana providing gainful employment to this urban poor.

A national Urban Employment Guarantee Scheme can be contemplated.

Innovative schemes to promote skill development like "Skill Development Initiative" (SDI), Kaushal Vikas Yojana (KVY) for setting up Industrial Training Institutes and Skill Development Centers in uncovered areas and skill development plan for districts affected by Left Wing Extremism, would help.