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**Leveraging the Demographic Dividend: The Role of Skills Training**

'The longer you look back, the further you can look forward.' Winston Churchill's quote has never held truer than now, as the axis of economic power begins to tilt back to Asia. Within the region, India held a special place centuries ago, and holds a special place now. Whilst India's success then was based largely on its world leadership in the areas of education, literature, medicine and science<sup>1</sup>, in the future, it may well be based on account of its unique demographic dividend, which, if leveraged fully, could see the nation return to its historical glory. India's abilities in these areas reflected in its overwhelming contribution to world GDP (33%), and, till as late at 1750, to global manufacturing (25%).

Region / Country	GDP in USD million (1990 \$ rate)
Total Western Europe	11,115
Eastern Europe	1900
Former USSR	1560
Total western offshoots	468
Total Latin America	2240
Japan	1200
China	26,820
India	33,750
Other Asia	16,470
<b>Total Asia (excluding Japan)</b>	<b>33%</b> 77,040
Africa	7013
<b>World</b>	<b>1,02,536</b>

Source: Angus Maddison (2003)  
 © M V Subbiah

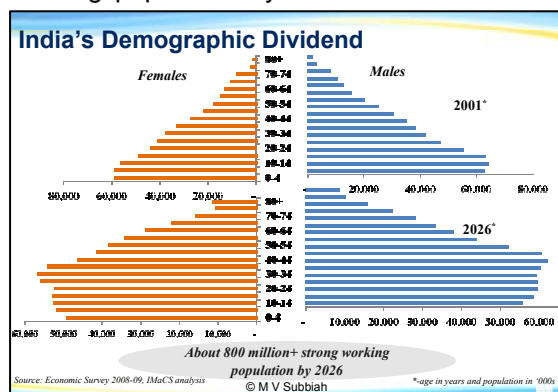
English historian Edward Gibbons' study in 1750 of the reasons behind the decline of the Roman Empire holds true for most nations even today. The steep decline of the manufacturing and services industries in the UK - which was where the Industrial Revolution first took root - is indicative. Many believe that the US, after a period of ascendancy dating back 200 years, could be at the start of its decline. India saw its cycle turn some 400-500 years ago and one may well be able to map its decline to the steps Gibbons attributed to the Roman Empire.

**Decline of the Roman Empire**

- From Bondage to spiritual faith
- From Spiritual faith to great courage
- From Great courage to Liberty
- From Liberty to abundance
- From Abundance to selfishness
- From Selfishness to complacency
- From Complacency to Apathy
- From Apathy to dependence
- From Dependence to Bondage

Source: Edward Gibbon (1776), The History of the Decline and Fall of the Roman Empire  
 © M V Subbiah

It is now time, though, for India to regain its lost glory by turning the cycle again. India's population is growing younger. Resultantly, its dependency ratio – the ratio of those aged 0-14 and 65+ to those between the ages of 15 and 65 – is falling. It is estimated that India will have an 800 million strong working population by 2026. Between now and 2025, the dependency ratio for Europe and North America will rise, much of Asia will remain steady, while India's **will fall from 56% to 47%**. This is a tremendous advantage, and a great opportunity.



**What is an opportunity however, could become a big risk.** If steps are not taken soon, both by industry and government, the economic and social ramifications of a young, aspirational population that cannot be gainfully employed due to lack of required skills could be of epic proportions. The war for talent in organised industry at the white-collar, but increasingly more so, at the blue-collar level is indicative of the gap.

<sup>1</sup> **The world's first University was set up at Takshila some 2,700 years ago, with students from as far away as Babylonia, Greece, Syria and China. Nalanda, established in the 5<sup>th</sup> Century BC, remained a world centre for education for centuries, before it burned down. India gave the world the concept of Zero; its Panchatantra formed the basis for Aesop's fables; its Arthasashtra is considered to be the world's first comprehensive book on economics and politics; and in the field of medicine, its system of Ayurveda has been practiced for millennia. At the height of its power, in the 12<sup>th</sup> Century, the Chola Dynasty ruled large parts of South-East Asia, and had Ambassadors to China.**

## THE OVERWHELMING NEED FOR FORMAL SKILLS DEVELOPMENT

The numbers are staggering, and the direction and pace at which education and formal skills training is imparted will define whether India's rising population will be its biggest opportunity or its biggest bane. It is important to note that **only 30-35% of the 800 million are expected to be employed by agriculture. The rest must be absorbed by other sectors.** India's current growth trajectory will require these workforces and in essence therefore, the jigsaw fits. Further, as the rest of the world ages (India's Eleventh Five Year plan estimates global manpower shortage to the tune of 56.5 million by 2020), Indian talent will be used and absorbed by the OECD and even Chinese economies.

Deeper analysis of the required skills and those currently existing however, throws up large gaps. At the most basic level, **the greatest challenge lies in the primary, secondary and higher secondary education space.** A 2007 McKinsey assessment indicates a steady fall in enrollment rates in older classes. Compared to 137 mn children in classes Nursery to 5, there were only 39 mn children in classes 9 to 12, and only 12 mn in college. Simply put, about 90% of the population drops out before the higher education stage. **In the absence of an all encompassing education system that changes these dynamics fundamentally, they need to be absorbed in sectors and vocational areas where higher education does not need to play a role.** Regrettably, that is not possible in the current make up of the country's skills development programme. Based on NSS estimates, the Eleventh Plan states that of the current workforce of over 300 million in the age group 15-30 years, only 2% has formal skills training (vs. 96% in Korea, 75% in Germany and so on), with another 8% reported to have received informal vocational training.

**The case for vocational skills development is strong also on other counts.** Only 15% of India's current working population is employed in factories and another 15% in offices and government offices. The bulk of the remainder are employed in agriculture, in the building and construction industries, and in informal employment sectors. A recent survey undertaken by the National Skills Development Corporation (NSDC), in conjunction with IMaCS, found an **unmet demand for 250 million trained people in 20 high growth industries and the unorganised sector (see chart) through 2022 – or 15-20 million people a year.** It is these workers whose skills must be developed or up-graded.

All said, the need for vocational training as opposed to heavy concentration on higher education and specialised skills, is immense.

Summary of Skill Gaps in India			
Incremental human resource requirement till 2022 in million			
Industry	Incremental requirement	Industry	Incremental requirement
Building and Construction Industry	33.0	Tourism and Hospitality services	3.6
Real Estate Services	14.0	Construction Material and Building Hardware	1.4
Gems and Jewellery	4.6	Chemicals and Pharmaceuticals	1.9
Leather and Leather Goods	4.6	Food Processing	9.3
Organised Retail	17.3	Healthcare	12.7
Textiles and Clothing	26.2	Transportation and Logistics	17.7
Electronics and IT Hardware	3.3	Media and Entertainment	3.0
Auto and Auto Components	35.0	Education and Skill Development Services	5.8
IT and ITES	5.3	Select informal employment sectors (domestic help, beauticians, facility management, security guards)	37.6
Banking, Financial Services, and Insurance	4.2	<b>Incremental</b>	<b>240 to 250</b>
Furniture and Furnishings	3.4		

Source: IMaCS analysis © M V Subbiah

## HOW MUCH HAS BEEN DONE SO FAR?

India's existing 'training landscape' comprises of over 5,000 ITIs (60% of which are privately run); more than 1,200 polytechnics; over 20,000 (public and private) establishments that provide apprenticeships; 10,000 schools for pre-vocational education; and 2,500 rural development and self-employment training institutes. By sheer numbers, that's impressive – in total, these organisations produce three million trained workers a year. As per the Planning Commission, however, **our requirements are four times that** – India needs 12.8 million trained workers a year if it is to sustain growth and manage its employment requirements. The quality of the workforce is also suspect and rules governing qualifications archaic, often taking much more time than required to put able people on the ground.

What is clearly needed is a larger role of the private sector that would bring with it quality and efficiency – and scale. Equally required is a systematic break-up of skills training into modules and a continuous methodology to upgrade skill sets and a monitoring of the entire process. This is where the National Skills Development Council comes in.

## AND WHAT THE NSDC AIMS TO DO

Established in October 2009 as India's first PPP in the area of skills development, the NSDC is a 49%:51% partnership between the government and the private sector. 25 firms and 8 not-for-profit associations have each invested Rs 5 million in the organisation, with the government investing the balance amount. The government has the right to nominate the company's Chairman and 3 Directors, while each of the other investors can appoint one Director. The intent is for the private and non-profit sectors to have the higher share of Directors on the Board.

The primary objective of the NSDC is to contribute 30% to India's overall target of skilling and up-skilling 500 million people by 2022, mainly through fostering private sector initiatives in this area. The intent of the NSDC is powerful and if executed, could be the catalyst that India needs.

1. The NSDC aims to **raise skill levels to international standards** through strong industry involvement, and by setting frameworks for standards and curricula.
2. It will **enhance, support, and coordinate private sector initiatives** for skill development through appropriate public-private partnership models, while striving for a strong operational and financial involvement of the private sector.
3. The Council will focus on **under-privileged sections of society** and backwards areas, to help move these sections out of poverty. Similarly, it will focus on the unorganised sector.
4. It will play the role of a 'market-maker' by bringing **financing or viability gap funding**, particularly in sectors where the market mechanism is missing or ineffective.
5. Finally, it will **prioritise initiatives that are 'multipliers'** or 'catalysts' rather than just one-off efforts.

In addition to the **unorganised sector**, the NSDC has identified **20 high-growth sectors** where skilled workforces will be required. Unlike any previous schemes of the government, the NSDC will **monitor progress through the entire life of any project**, with the eventual aim to become an accreditation body as well. To this end, the NSDC has been entrusted with the responsibility of creating **systems for Standards and Accreditation**, in order to enhance the quality of the workforce that finally emerges from our training systems. Other large gaps in the system are also sought to be plugged – the NSDC will create a **Labour Market Database** to map workforces scientifically, just as it will regularly conduct **skill gap surveys** in order for course corrections to be enabled real time. (The first of these has already been conducted. Critically, it has an eye on another area of massive shortage – trainers – and intends to create **centres to train trainers** as well. It is currently in the process of creating **sector-skills councils** under advice from the World Bank and other countries such as Australia, Canada and the UK.

The NSDC will focus equally on **encouraging entrepreneurship**. Its work with SEWA of Lucknow, a self-employed women's organisation with strong hand embroidery skills, is to enhance missing design capabilities. The holistic nature of the NSDC's approach is also evident in its **focus on 'soft skills' in the first 180-hour training modules** to drive discipline and work ethic. Equally, it aims to **map rural skill gaps as much as it does urban**.

The beginnings of the NSDC have been impressive, in terms of its structure, the speed with which it is moving, and the dead serious intent displayed so far. The need for such a body too, has never been more urgent. What remains to be seen is whether the other half – the private sector – will respond to what is undeniably a huge opportunity area, but also one where the needs of the nation have never been more urgent. Previous examples of low-cost, high-profit models such as the Aravind Eye Care system abound. Others, such as the Nokia plant in Sriperumbudur, illustrate what is possible with the right training to local populations. The question is – with aid and guidance from the NSDC – will the private sector pitch in, for self interest, and in the interest of the nation? In Mr Subbiah's words – will the private sector move from being Indra, to Vishnu? Always known to chase the goddess of wealth, Lakshmi in Hindu mythology, Indra was perennially unsuccessful as the goddess would always choose Vishnu. The reason was simple. While Indra focused on what was *'his'* and what was *'hers'* – in other words, what they could gain from each other – Vishnu focussed entirely on *'her'*. Similarly, firms today might look to earn fees from training programmes, or sales revenues from customers. They would be better served by focusing on the 'you' of the equation, which is employability. By making people more employable, the returns or wealth (i.e. 'Lakshmi') will come on their own.

*The contents of this paper are based on CEO Forum discussions with MV Subbiah, Chairman, NSDC*