

## **Skills Development Landscape in India: Backdrop and the Policy Framework**

### Executive summary

- In July 2015, India's Prime Minister Narendra Modi launched what may arguably be the most ambitious skills development program in history - targeting the skilling of a work force of 500 million by 2022.
- India's ability to capitalise on a 'demographic dividend' is contingent upon a massive increase in investment in mass-manufacturing and upgrading a skills development infrastructure that is inadequate and outdated.
- One of the biggest challenges is addressing the legacy of planned development, and its manifestations in a supply-driven skills development program, and transforming it into a skills development program responsive to the needs of a market economy.
- The 2015 policy has resulted in a new administrative- and governance-structure for skills development programs.
- India will need to marshal resources from the private sector, civil society, international and multilateral agencies, and enter into bilateral agreements with external powers to achieve a measure of success in skilling its workforce

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## Introduction

India's growth trajectory has been unorthodox. Developing economies typically shift from agriculture to manufacturing as surplus is transferred from farms to investment in factories. From a predominantly agrarian base, the Indian economy, however, has been shifting to services, while manufacturing continues to lag (Table 1). The services sector contributes 60% of Gross Domestic Product (GDP), but employs just 34% of the workforce. India's buoyant Information Technology (IT) domain is globally competitive, accounting for 20% of the country's exports, but it employs just 3 million persons. 52% of the work-force still depends on agriculture and associated activities. However, mass-manufacturing alone has the capacity to absorb the large volume of labour that is displaced from the countryside. The services sector absorbs less labour for each rupee of investment.

Economic liberalisation in 1991 boosted growth. However, the main impetus came from the services sector, as manufacturing grew at a slow pace. The absence of jobs in manufacturing has left the large, growing labour force dependent on employment in services or on work that may be available in the informal sector.

	Value Added to GDP (%)			Share of Total Employment (%)		
	1951	1991	2011	1951	1991	2011
<b>Primary Sector</b>	59	29	18	72	66	52
<b>Secondary Sector</b>	25	29	23	11	14	14
<b>Tertiary Sector</b>	16	42	59	17	20	34

*Source: Planning Commission*

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No country with a large population base has developed without growth in mass-manufacturing. The ‘Make in India’ campaign is an articulation of the country’s efforts to transform an industrial structure operating well below its potential<sup>2</sup> into a ‘world class’ manufacturing base that could provide opportunities to its workforce, similar to those that China has created since 1978. The ‘Skill India’ program launched in July 2015 sets an ambitious target of imparting market-relevant skills to 500<sup>3</sup> million youth and workers by 2022.

A skilled, adaptable, and competitive workforce is central to India’s aspirations to evolve into a major manufacturing power. Outlined in this paper are India’s efforts to equip more youth with marketable skills by 2022. It provides an overview of the ‘Skill India’ program.

## **Skills Development**

Skills Development entails fostering the skill-sets that enhance employability and add value to the enterprise. The skills needed in an economy change over time with technological progress. The identification of skills likely to be in demand in the years ahead is important and challenging. There is no unique or universally accepted model of skills development. Workers acquire skills through apprenticeship programs designed in close collaboration between industry and secondary schools (Germany, Switzerland), training programs offered by public institutions (the United States, Canada), industry training organisations with government funding (New Zealand), through practical training embedded in school curricula (South Korea), and via curricula design through collaboration between industry, public authorities and training providers (Singapore).

The development of vocational and technical skills is important for two reasons. First, skilled workers tend to be productive and innovative, helping firms raise productivity, enhance competitiveness, and thus increase profits, investment and growth. The availability of a skilled

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<sup>2</sup> See ‘Industrial Development Report’ 2016, UNIDO. Statistics on per capita production of industrial goods, industrial exports, value added, reflect India’s under-performance in manufacturing

<sup>3</sup> The ‘500 million’ figure has been quoted extensively. Mehrotra, et al (2013; EPW, Vol 48)) estimate a relatively modest, albeit substantial figure of 291 million, including workers needing skilling, re-skilling or upgrading of skills.

work force attracts investment in higher value-added activities. Conversely a paucity of skills hinders efficiency, impairing prospects for employment and growth.

Secondly, historical experience shows that a skilled and employed workforce forms the crux of the nascent middle class, contributing significantly to rising incomes and increased purchasing power. Economies with skilled workers and a high labour-force-participation rate experience more equitable and sustainable growth.

Skills development, however, cannot be viewed in isolation. Skills are fundamental to, but not sufficient for gainful employment. Skills development programs must be complemented by economic growth and employment opportunities. The effectiveness of skilling strategies is contingent upon academic experience and cognitive skills developed during primary and secondary schooling.

## Skills Development in India

The magnitude of the challenge in India is unprecedented, compounded by the complicated environment faced by policy makers, enterprises, and youth. The ‘Skills India’ program envisages skilling, reskilling and upgrading a 500-million strong labour force by 2022. For mature workers, this may entail learning, unlearning and relearning strategies necessary with the advent of the knowledge economy. As Table 2 shows, 307 million existing workers and 119 new entrants to the labour force need to be skilled by 2022. The country’s vocational institutes and polytechnics currently train a maximum of 7 million workers annually.

Workforce	487 million
Of which workers in Agriculture	238 million
Non-farm workers	249 million
Formally trained workers	24.9 million (4.63% of work force)
Unskilled/skilled through non-formal channels	224 million

Annual increase in labour force	26 million
Annual increment to labour force (65% participation rate)	17 million
Number requiring skilling by 2022	119 million
Work force (farm and non-farm) requiring skilling	307 million
Annual skilling capacity	7 million

*Source: Table compiled from data in MSDE (2015)*

The challenge also provides a potential opportunity in the form of a ‘demographic dividend’. India is one of the ‘youngest’ nations in the world with 54% of the population below 25 and 62% of the population in the working age-group of 15-59 years.<sup>4</sup> Demographic projections suggest that by 2020 the average age of India’s population – 29 years – will be among the lowest in the world, comparing favourably with 37 years in China, 45 in Western Europe and 48 years in Japan. By 2020 India will have a ‘surplus’ of 47 million youth, while the rest of the world will face a ‘deficit’ of 56 million<sup>5</sup>. One in every four workers in the world will be Indian, offering an opportunity to supply skilled workers to labour-deficit economies across the world. To reap this ‘demographic dividend’ which is expected to last for the next 25 years, India needs to equip its workforce with ‘marketable skills and knowledge’. The challenge is magnified as only 4.6% of the total workforce in India has undergone formal skills training compared to 68% in UK, 75% in Germany, 52% in USA, 80% in Japan and 96% in South Korea. While there is debate on the exact quantum of the challenge, there is no disputing the fact that the range is of massive proportions (MSDE, 2015; Niti Aayog, 2015<sup>6</sup>).

India “*presently faces a dual challenge of severe paucity of highly-trained, quality labour, as well as non-employability of large sections of the educated workforce that possess little or no job skills.*” (MSDE, 2015). 48% of companies surveyed reported the challenges of hiring

<sup>4</sup> Data in this section draws on the Ministry of Skill Development and Entrepreneurship (MSDE) (2015) “National Policy for Skill Development and Entrepreneurship”

<sup>5</sup> Report of Education, Skill Development and Labour Force, 2013-14, Labour Bureau, 2014, Volume 2, pages 134-138, quoted in the Economic Survey, Vol 1, 2014-15

<sup>6</sup> Niti Aayog (2015), “Report of the Sub-Group of Chief Ministers on Skill Development” Niti Aayog. Government of India.

skilled workers as a serious constraint ('Talent Survey', Manpower Group, 2012). How does the economy expect to handle a challenge of this magnitude?

## **Governance and Funding**

In order to understand India's skills development programs, it is useful to examine the country's approach to development. The Second Five-Year Plan, launched in 1956, articulated the framework for industrialisation and modernisation of the newly-independent republic. India adopted an 'import substitution industrialisation' approach to development. Accordingly, high protectionist walls with tariff and non-tariff barriers were erected around industry. Sheltered from competition, firms had little incentive to reduce costs and innovate. Unlike firms in East and Southeast Asia that competed in open international markets, Indian firms catered to captive domestic markets.

The focus in the early years was on developing the 'commanding heights' of the economy – heavy industry producing universal inputs necessary for catalysing indigenous industrial development. The objective was to achieve self-reliance, especially in production of essential inputs, such as steel and cement deemed essential for industrial development. The Indian skills development landscape reflected an approach relevant to a centrally-planned economy. Skills needed for development of heavy industry were considered a priority. Worker training focussed on imparting skills in a limited number of areas conforming to Plan targets.

Skills development in India has been supply-driven. The earliest ITIs established in the public sector offered programs that catered to the needs of state-owned enterprises and the nascent private sector. In later years private vendors were encouraged to offer vocational education programs. The duration of the courses ranged from six months to three years. Vocational education was offered at two levels. Depending on the courses sought, the ITIs accepted students after Grade 10 or Grade 12. Vocational and technical education courses were also offered in the last two years of high school, albeit with minimal practical training.

The emphasis was on imparting basic industrial skills and meeting numerical targets. Administrators did not pay attention to systematic evaluation of the programs and feedback on

the performance of training-providers or on updating technologies. Monitoring and evaluation of programs were confined to ensuring that money was spent under specified norms. There was little engagement with the private sector though private vendors were active in establishing ITIs and offering skilling services. While the number of ITIs grew, the basic model remained intact until 2009.

In 2009, the Government of India formulated a National Skill Development Policy. The earlier policy was universally acknowledged to have failed to generate the skilled manpower needed for modern industry. The policy redefined the framework for skills development. The intent was to equip the young with knowledge and skills relevant to the changing marketplace. Learning would continue to be through the ITIs complemented by technical and vocational schools, polytechnics and specialised institutes. The mandate for administering vocational education and training in India lay with the Ministry of Labour and Employment and later with the Ministry of Human Resource Development.

To complement the 'Make in India' initiative, in July 2015 the Modi government initiated a 'Skill India' program. The policy document admitted that "India currently faces a severe shortage of well-trained, skilled workers. Large sections of the educated workforce have little or no job skills, making them largely unemployable." (MSDE, 2015).

Skills development was brought under the purview of the newly-configured Ministry of Skills Development and Entrepreneurship (MSDE). Availability of skilled labour was critical for the viability and success of the 'Make in India' initiative. The MSDE was entrusted with the responsibility "*for co-ordination of skill development efforts across the country, removal of disconnect between demand and supply of skilled manpower, building the vocational and technical training framework, skill up-gradation, building of new skills, and innovative thinking not only for existing jobs but also jobs that are to be created.*" (MSDE Web-site). The new framework allows for an enhanced role for the labour market and market-signals in determining the programs to be offered. A national Labour Market Information System (LMIS) will facilitate coordination between different players

The MSDE is assisted by its functional arms. As the nodal agency, the National Skill Development Agency is responsible for coordinating programs with state governments and for designing and implementing the National Skills Qualification Framework.

The National Skill Development Corporation (NSDC) was established in 2008 as a Public Private Partnership, with the private sector holding a 51% stake. It oversees all collaboration in skills development with the private sector and will provide funding through equity and debt instruments. In addition the NSDC works with the private sector to nurture Sector Skill Councils to guide skilling in specific sectors. The National Skill Development Fund, a public trust, functions as a custodian for all funds donated by the government, multilateral agencies, civil society and the corporate sector. Companies are allowed to earmark a proportion of their mandated expenditures on Corporate Social Responsibility for skills development and upgradation.

The institutional and the funding framework explicitly acknowledges that the skills challenge is beyond the capabilities and capacity of government resources alone. It seeks to marshal the private sector, civil society, international institutions, foreign governments and all other institutions with capabilities and resources in this domain. Unless India is able to attract investment in manufacturing and develop a skills base, the ‘demographic dividend’ could evolve into a ‘demographic drag’.

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