

Sustainability of Public Financing of Skill Development Programs in India

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Abstract

The development in a country like India faces several deadlocks. One of these challenges is the lack of, or total unavailability of Skill Development programs, or improper infrastructure to deliver a quality program of one such kind. This prevents sections of the skilled workforce from accessing formal employment opportunities, utilizing their experience further taking up educational courses, and benefitting from other career progression opportunities available through the formal training system. While in the absence of any skill Development or skill improvement program, the unemployed population has been left at the mercy of fate and the efficiency of the working force is limited. In such a scenario, the potential of the people of the country is left untapped, and thus, wasted Therefore Public financing for skill development has become the need of the hour. However, the current skill development system in India is mainly financed by the government, which may not be sustainable and the most efficient way of spending public money. The purpose of this paper is to argue that this kind of large budgetary allocation from the government for skill development programs may not be sustainable in the long term or medium term due to increasing fiscal constraints of the state and its capacity to fund these programs will come under constant threat from other developmental priorities. In support of the argument, a causal analysis of the current skill development system in India is presented and a need for further study in the areas of cost-benefit analysis of the current model of public financing of skill development is suggested with the need to reimagine the current policy of public financing based on evidence from other countries. This Analysis is based on secondary sources of data and an extensive literature review of the subject.

Keywords – Skill Development, Sustainable Development Goals, Public Policy, Vocational Education, Private sector participation

1. INTRODUCTION

India is a middle-lower economy with perpetual improvement in human development indicators. It is also one of the largest economies growing rapidly in recent times. It has made significant progress in poverty reduction, education outcomes and improving the health of its citizens. As per The World Bank Reports, between 2001 and 2011, the GDP grew at an average of 7.5 per cent per year and at an average of 6.7 per cent since 2012 (2012 to 2016) (International bank for reconstruction and development IBRD, The World Bank Group Report, 2017). The growth of GDP was supported by increasing consumption in rural areas due to programs like MGNREGA, increased employment opportunities in sectors like construction, manufacturing, informal sector and service industries.

The last decade of growth and diversification of the Indian economy has changed the nature of the labor market. For the first time in India's history, more than 50 per cent labour force in employed in non-agricultural jobs. Due to the sustained growth of economy, the non-farm sectors have created more jobs than the farm sector. As data from the recent indicators can indicate that the shift of labor from traditional agricultural sectors to other diversified sectors of the economy is deeply affecting the skill set required by the labor market. In a way, it's also affecting the demand for unskilled and farm-based skills workers. As one of the World Bank reports anticipated "that there will be a further reduction in the share of the agriculture and low-skilled occupations (even though absolute numbers will continue to be large), while there will be a significant increase in the share of occupations requiring skilled labor" (IBRD, The World Bank 2017).

The need for skill development in India has two primary reasons. The rapid growth of last decade thus resulting in the structural changes from an agro-based economy to a manufacturing and service based one and as agriculture moves up to

higher-productivity one, the need for a higher-skilled labor force have increased. Evidence on the ground indicates the premium for lower-skill falls while the premium for upper or middle-level skill increases. As per the economic analysis, it is thus consistent with a “situation in which the supply of workers with lower levels of education is increasing faster than demand, whereas the demand for workers with secondary or tertiary education and training is outpacing the increased supply. The second reason-for the importance of skill development in India has its bulging youth population. India is at a unique point of its population growth; it has the opportunity to leverage demographic dividend. As per Ministry of labour and employment Government of India, It has more than 62 per cent of India’s population is in the working age group (15–59 years), and more than 54 per cent of its total population is below 25 years (Ministry of Skill Development and Entrepreneurship MSDE, Government of India (GoI) 2017). Government Planners estimate that approximately 12 million youth (age group 15–29 years) will enter the labour market every year for the next two decades. These young employable people will need employment, but they will need also need the skills required for the new types of jobs demanded by a constantly changing economy.

Given the above economic and social context, the Government of India has identified Skill Development as one of the priority sectors views as one of the most important pillars its national priorities. For the first time, it set up Ministry of Skill Development (MSDE) as a separate ministry in 2014 and articulated a comprehensive strategy which was outlined in the National Policy for Skill Development and Entrepreneurship (2015). The government also launched the National Skill Development Mission (NSDM) to create an end-to-end implementation framework that provides opportunities for quality short- and long-term SD, leading to productive employment and career progression that meets the aspirations of trainees (MSDE, GoI 2017).

NSDM was established to bring convergence and coordination between all efforts on skill development by federal government agencies, departments and various states government agencies and implementing partners. Its framework provides strategic direction to all concerned agencies to meet their goals and specific target for skill development. One on hand it provides strategic and operational direction to all stakeholder in the area of achieving the target for skill development. On the other hand, it also articulates the financial model for fast and efficient implementation and upscaling of skill development efforts in the country. Though in current context NSDM is a single agency in terms of operational convergence, standards and strategic directions, there are still five other ministries who operates skill development programs. The detail of these ministries is presented in the table.

Governments, each year, direct a large pool of public funds towards Skill Development. This funding is a part of budgetary support to the initiative which is regarded as one of the main developmental priorities of the nation. It is difficult to get per year budget allocation for all other five ministries for skill development program, the funding for MSDE has been reviewed since MSDE gets more than 90 per cent total yearly budget for skill development from Governments annual budget.

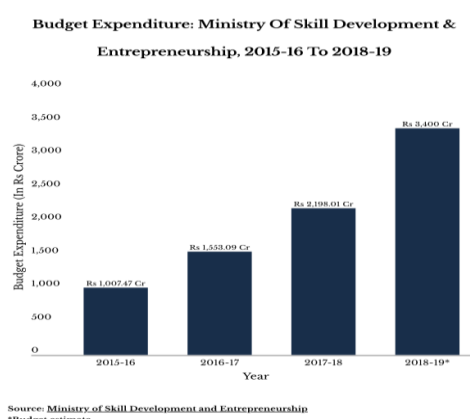


Table- 1 Budget Expenditure: Ministry of Skill Development & Entrepreneurship, 2015-16 To 2018-19(MSDE, GOI 2019)

The budget allocation for the skill development ministry in the last five years has witnessed considerable growth. So far, the financial investment by the government in skill development has been enormous but this kind of support from the government may not be sustainable due to the following reasons.

AVAILABILITY OF MONEY FOR LONG TERM FUNDING OF SKILL DEVELOPMENT

A skilled and employable human resource is a public good and government across the world have intervened to solve of the problem of low skilled manpower, and negligible skills among its human resources, however for long term sustainable financing support, it's not the only financial investment which matters it's also an institutional capacity of government organizations.

Federal and Regional government of India have made stupendous efforts to address the problem of India's skill development. As a part of National Skill Development Mission and through various other programs, governments(Federal + Regional) have supported private training companies, industries and individuals and institutions with more than 10 thousand crores in last five years (2015-2020) however "the target achieved by skill development ministry across sectors remains very low(Mallapur, 2019)

As one can observe from the graph above, that the financial outlay in terms of budgetary allocation to the Ministry of Skill Development and Entrepreneurship has seen a 237 per cent increase over the last four years, from Rs 1,007 crore (actual expenditure) in 2015-16 to Rs 3,400 crore (budget estimate) in 2018-19. Though in absolute terms this represents a fraction of large economy like India if we see the other important components in terms social and education sectors of Indian economy, this is a very large proportion of budgetary support allocated to the cause of skill development but the outcome does not justify the enormous expenditure. For example, The National Skills Development Corporation (NSDC) which was set up in 2008 as a public-private organization and now it has become one of the main agencies under revamped National Skill Development Mission to generate skilled manpower, create skill ecosystem in the country. It gives soft loans, equity and grants to private-sector training partners. Many of its initial loans of around Rs 1,500 crore – nearly equivalent to the cost of setting up an Indian Institute of Technology (Rs 1,748 crore) – were not paid back (Mallapur,2017).How long the government can sustain its budgetary outlays for skill development when desired outcomes are not optimal as there is always a competition for among ministries and sectors to obtain more share of budgetary outlays. The point is not the lack of money, ~~its~~ it is rather using ~~the~~ public money in the most effective way. This is also to be noted that tax and revenue income of government has been tight due to recent economic events like demonetization, high oil prices and GST implementation. All the latest development has constrained the government ability to increase the budgetary allocation for skill development. It was evident in the reduction in current year budgetary outlay where the government has reduced the budget for skill development in 2019-2020.

Institutional capacity to deliver- In the Indian skill development ecosystem, there are major challenges such as institutional immaturity, inefficiency, poor quality control, weak assessment framework, asymmetry of information in terms of robust demand and supply side matching. As World Bank rightly mentions that "The institutional setup under the NSDM is new and still fragile, leading to weak management, inefficiencies, and poor quality control" The newly set up Sector Skill council requires significant capacity development and building the intellectual capital of their human resources and the strong focus on the quality of work they do. Quality training and assessment of demand and a mechanism of robust labour market information system is missing or present in a very scattered manner. There are multiplicity and duplicity of processes, multi-layered and over imposed structures of old and new systems.

To strengthen the institutional capacity in delivering the skill development programs in the country, Government has obtained technical support assistance from the United Nations Development Program, International Labour Organizations, World Bank and Asian Development Bank. These technical support programs include the development of an institutional capacity to plan, coordinate. Fund, monitor and evaluation skilling programs and provide strategic inputs to the diverse activities and actors. Some of the other important elements of technical support also includes procurement support and forging a partnership with the private sector for greater developmental effectiveness.

The justification of public financing of skill development must come from the effective utilization and robust institutional delivery mechanism which is missing in India. Given the weak institutional capacity on skill development in India, experts and critics are questioning the large expenditure of budgetary outlay on skilling programs. In fact, the government has taken cognizance of the fact that only investing in terms of finance is not yield the desired outcome, rather it's the knowledge with money would full goals set by National Skill Development Mission.

Return on investment

As Jacob Mincer (Mincer,1975) has shown that the high economic return can be expected from investment on training since training is something which provides employable skills and certain types of knowledge which can powerful instrument in upgrading the human capital of the individual. It can also facilitate their entry to labor market, realign their skill sets to constantly changing realities of global workspace and improve their earning and livelihood.

The return on investment in skill development may be defined as training outcome which may help trainees get employment or placement at an enterprise or being able to generate sustained income. As World Bank identifies a key driver of economic return on skill development is the placement rate of trainees (IBRD, The World Bank 2017) i.e. employment outcome post completion of the training.

The objective of the skill development program of the Government of India is to provide wage employment. Though evidence is mixed on the fact that skill training would essentially lead to an increase in wages and definite wage employment. This particularly holds valid for India where the quality of training, updated curriculum, components of hands on practical training are not always present in all training programs. Additionally, many programs of Ministry of Skill Development and Entrepreneurship doesn't report on employment outcomes.

It may be noted that the current model of investment ~~on~~ in skill development in India is not optimal. In very crudest or journalist term one can say that a lot of the investments made by the government on various skill development program are going to the drain and its waste of public money. Government needs to review and address the major bottlenecks such as the delivery mechanism of the skill development program, asymmetry of information in labor market, low female participation in labor market and lack of private capital in skill ecosystem.

LACK OF PARTICIPATION OF PRIVATE SECTOR IN FINANCING OF SD PROGRAMS

Private sector financing in the development of skill development programs has been challenging in India. Though the government has been conscious of the fact that private sector participation is critical to the success of skill development in India. MSDE has established institutions such as National Skill Development Corporation and Sector Skill Council to mobilize private sector financing but the result on the ground is not very encouraging and one can say it has been mixed.

In 2009 India embarked on one of the very unique experiment to bring private sector financing to the skill development by setting up National Skill Development Corporation (NSDC). NSDC formed as a public-private partnership (PPP) in which government ownership is restricted to 49% of the equity capital, majority ownership of the NSDC rests with the private sector with the shareholdings equally dispersed among 3 National Industry Associations/Chambers of Commerce and 7 sector-specific industry organizations (Chenoy, 2013):

In the last ten years, since the creation of NSDC and SSC, government has been unable to design accountable, and incentivized mechanism to mobilize private sector participation. There are structure in place at the top level for example as mentioned in the above paragraph, NSDC is appropriate institutional arrangement but it has not yielded private sector investment in creation of infrastructure for skill development in the country or implementation of training program. Recent changes in the regulations in which Government has mandated companies to allocate 2 percent of their profits to address the sustainable development goal of India and its challenges. The real problem of lack of private sector participation in skill development program in India is oversupply of skilling programs and design of skill development is not taking consideration of demand side of economy.

Supply side driven nature of Skill Development Programs in the country

Current system of skill development in India doesn't have seamless system of Supply and demand integration. Though all programs are supposed to be demand driven but in practice it's the oversupply of training fund of government schemes, welfare programs at centre and state level which drives the implementation of training programs in the country. Lack of labour management information systems (LMIS), adaptability of training curriculum in changing labour market requirements, lack of employability skills among trained individuals are outcome of supply driven skilling system of India.

The supply side dominance of Indian skill development system has created serial trainers, i.e individuals who have got multiple training under various government financed scheme of skill development but not jobs. Private training operators report same individuals information to many department to claim training funds. As Indian government is streamlining its public welfare system by integrating Aadhar Based system to its social welfare system, the duplicating of trainees data may come to end soon. This duplication may prompt government to reduce its public financing and change the current model of funding to number of people (quantity) to real value added training (quality) which is valued by industry and private sector.

Conclusions

It has been argued in this paper that current system of skill development in India is primarily financed by government which may not be sustainable for long terms due to reasons economic argument in terms of return on investment on training, lack of private sector, supply driven nature of skill development. India's requirement of skilled workforce is huge but the current training capacity is low and quality is poor. Current funding of skill development programs in the country is insufficient but this funding constrain doesn't require more government support, rather it requires reimagination of revamped policy paradigm based evidences around the world. It requires new policy of financing skill development in the country. It must be noted developing countries like has many other sustainable development goals to be fulfilled such as health, nutrition, gender equality and livelihood. It has massive challenges in terms of human development therefore all of these challenges requires budgetary support, therefore current funding for skill development i.e. public financing of skill development in the country is not sustainable. International experience have shown that any financing for skill development can be sustainable provided it is private sector driven and industry ownership is the must to secure long term sustainable financing of the skill development programs. Many experts have argued that skill development requires strong financial support from government and problem of under investment and different stakeholders if addressed by creating an institutional mechanism with incentive to ensure private sector funds and ownership of the programs.

It's the troika of Individual, State and Industry, which make financing of skill development successful. Government must strengthen its role as regular, guarantor for people who can't afford skill training and become facilitator of strong institutional mechanism where private sector and industry owned the process and provide of skill development. Government's financing role must be limited to enabler for individual and industry rather than providing full financing and implementation with lack of efficiency effectiveness and quality as evident in current system. More studies are required to understand the cost benefit analysis and sustainability of current model public financing of skill development in the India.

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