



INDIAN SKILLS
AND
EMPLOYMENT
CHALLENGES



Contents

Background	2
Executive Summary	2
Root-cause Analysis.....	3
Employment statistics - India Employment Report 2016 (Ajit Ghose - Institute for Human Development)4	
Structure of Indian Employment.....	4
India’s Labour Market report - McKenzie June 2017	5
CEO and Skills.....	5
ICSSR sponsored study March 2012	5
Employment challenge # 1 - too few jobs are being created	5
Employment challenges # 2 - graduate unemployment is the bigger issue.....	6
Employment challenge # 3 - structure of employment (data 2010 - ISSCR sponsored report).....	6
Employment challenge # 4 - sustainable employment	7
Trends in real wages and nominal wages in Indian manufacturing industry	7
Trends in minimum wages and skill premiums in AP	7
In Conclusion.....	8
Solutions to the skill and employment challenges - ROOT CAUSE - SOLUTION MATRIX	9
How do we reverse the trend?	10
Annexures.....	11
1. Article on Why Skills should be on the CEO table.....	11
2. Skilling Entrepreneurship -	11
3. Should Real Wages of Workers Go Up in Indian Manufacturing.....	11
4. SWI in MSME Brochure	11
5. McKenzie latest report on gainful employment.....	11
6. A Whitepaper on the BiFocal Model.....	11
7. A New Channel to meet all the three key conditions – Safe, Orderly and Regular – Migration for Work	11

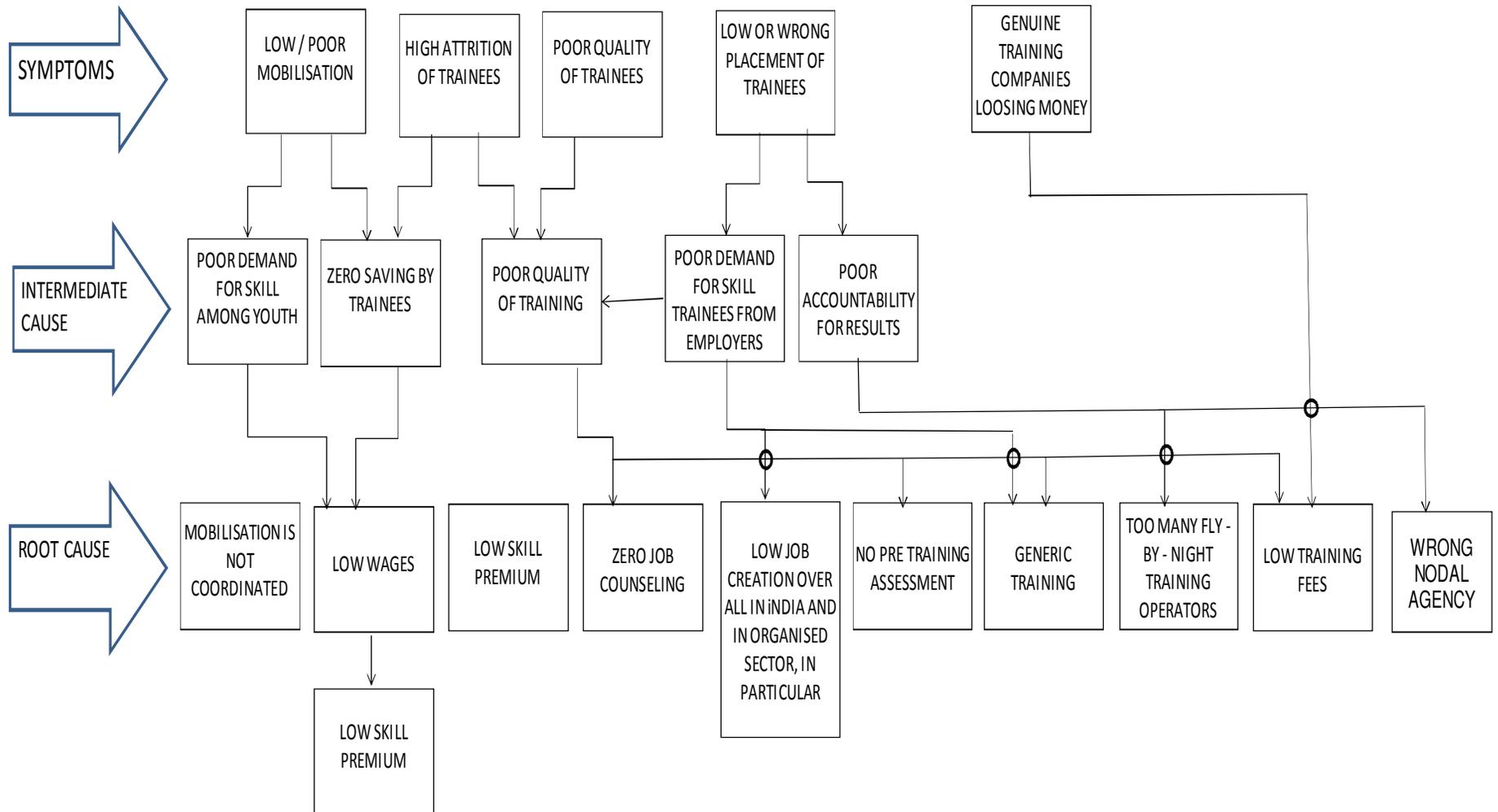
Background

- This is a complex issue. I am sharing my view - point and some useful reading material are attached to this presentation
- First step is to understand the root cause of the Indian skill challenge – our demographics and structure of employment. Solutions must emerge from the root cause. Pl see next slide which summarizes the root cause.
- The second problem is lack of timely and accurate data on employment. I have shared a few studies which I believe are reliable.

Executive Summary

- India is sitting on a time bomb. The demographics are working against the youth of India.
- We are producing less than 2 million jobs while we need between 8 to 16 million jobs. Even the jobs being created are not sustainable for the migrating youth because of low wages. We need to revise the minimum wages to make migration for jobs sustainable.
- Large manufacturing complexes are not creating enough jobs. Government cannot provide jobs. Only MSMEs can.
- We need urgent action to promote MSMEs – expansion of existing MSMEs, diversification of Existing MSMEs, encouraging experienced professionals to start new MSMEs are more important than startups in college campuses. A new initiative for “scale up India “is essential.
- Incentives to employment intensive MSMEs need to be protected, encouraged with incentives like “skill wage Subsidy”
- We need a separate ministry for new employment at cabinet rank at the center and in every state.
- Lastly, we have no option but to export manpower. To do that we need to create a large staffing company (like TCS for IT) for engineering technician and professionals
- Incentivize employers to take part in skilling the nation.

Root-cause Analysis



Employment statistics - India Employment Report 2016 (Ajit Ghose - Institute for Human Development)

- Latest reliable data is 2011-12 NSSO study
- As per in 2015/16, India has surplus manpower of 104 million who are willing to work if there is a right job (in age group 14 to 59), unemployed of 13 million seeking work. In addition, 6 to 8 million will join work force every year. Assuming we reach Lewis Turning point (when surplus and new entrants will all be employed) in 15 years from now, **we need to create 14 to 16 million jobs every year for the next 15 years. This looks impossible.**

Structure of Indian Employment

- Total Employed of 473 million in 2011-12 and growing at 2.4 million a year. Agriculture was losing 3.7 million jobs every year which is compensated by 4.7 million new jobs in non-manufacturing (mainly construction). Currently construction jobs have slowed down and **hence new job addition may be lower than 2.4 million per year.**

Sector	Employed in million	%	CAGR employment 2004/05 till 2011/12
Agri	232	49	(1.6%)
Manufacturing	60	13	1%
Non-manufacturing	54	11	8.8%
Services	123	26	1.3%
Total	473	100	0.5%

India's Labour Market report - McKenzie June 2017

- India's total employment grew from 455 million in 2011 to 463 million in 2015. Agriculture sector lost 26 million jobs while non-farm jobs grew by 33 million in these four years of which 22 million was from 2014 and 2015. Net growth was 8 million over 4 years or 2 million per year.
- Between 2011 and 2015, four non-farm sectors contributed bulk of jobs growth – trade and hospitality (15.6 million), construction (14.3 million) transport (5.7 million) and education and health (1.6 million) while rest of the sectors lost 4.5 million jobs
- **During the period 2013 to 2015, GDP grew by 6.7 % p.a. and jobs grew by 1.5% p.a.** mainly because of agriculture sector losing about 2% of the jobs and manufacturing showing marginal growth

CEO and Skills

- One of the key reasons as to why employers are not excited about skills is the lack of CEO involvement.
- **Please read my article on “Why Skills should be on the CEO table” in the annexures**

ICSSR sponsored study March 2012

- The long-term trend of a decline in the rate of employment growth is, a fact. This decline is despite acceleration in the rate of economic growth. Thus, when GDP grew at 4.7 per cent per annum during 1972-73 to 1983, employment growth was 2.4 per cent; GDP growth increased to 5 per cent; but employment growth declined to 2.0 per cent during 1983/1993-94; during 1993-94/2004-05 GDP growth accelerated to 6.3 per cent, but employment growth further declined to 1.8 per cent and during the 2004-05/2009-10 quinquennial, when GDP growth was as high as 9 per cent employment grew at an insignificant rate of 0.22 per cent!
- The declining trend in the employment content of growth is quite clearly seen in terms of the values of employment elasticity (ratio of employment growth to growth in value added)
- It was 0.52 during 1972-73/1983 declined to 0.41 in the next ten- ~ 6 ~ year period and further to 0.29 during 1993-94/2004/05. During 2004-05/2009-10, it declined to almost zero.
- **Conclusion:** GDP growth does not mean job growth. In fact, the opposite is happening

Employment challenge # 1 – too few jobs are being created

- Against 14 to 16 million new jobs needed, we are creating less than 2 million jobs every year.
- Agriculture sector is losing jobs rapidly and this is one of the main reasons form the low net job growth
- GDP growth is negatively correlated with job growth. The Employment Elasticity to GDP is very low for the economy.
- We must fix the agriculture sector issues and stop the job migration from agri to non-farm sector

Employment challenges # 2 – graduate unemployment is the bigger issue

- In 2015, 6.3 million graduated and 1.4 million post graduated. Assuming 1.4 million graduates join higher education, 4.9 million graduates and 1.4 million Post graduates will seek work, every year, from 2015.
- According to TMI analyses, new jobs for graduates will be mainly three sectors – IT/ITeS, BFSI and healthcare. Our estimate of new graduate jobs created is less than 0.5 million a year.
- Our unemployment problem is more severe at the graduate and post graduate level because they are not willing to do any job available. They want mainly government or IT jobs or graduate jobs only. New Government jobs are miniscule while demand is infinite.
- We are adding 5 to 6 million unemployed graduates and post graduates every year (6.3 million supply Vs 0.5 million demand)
- **Conclusion:** Government still believes that the non-graduate employment problem is more important and hence adding to the graduate woes by focusing on enrolment in higher education

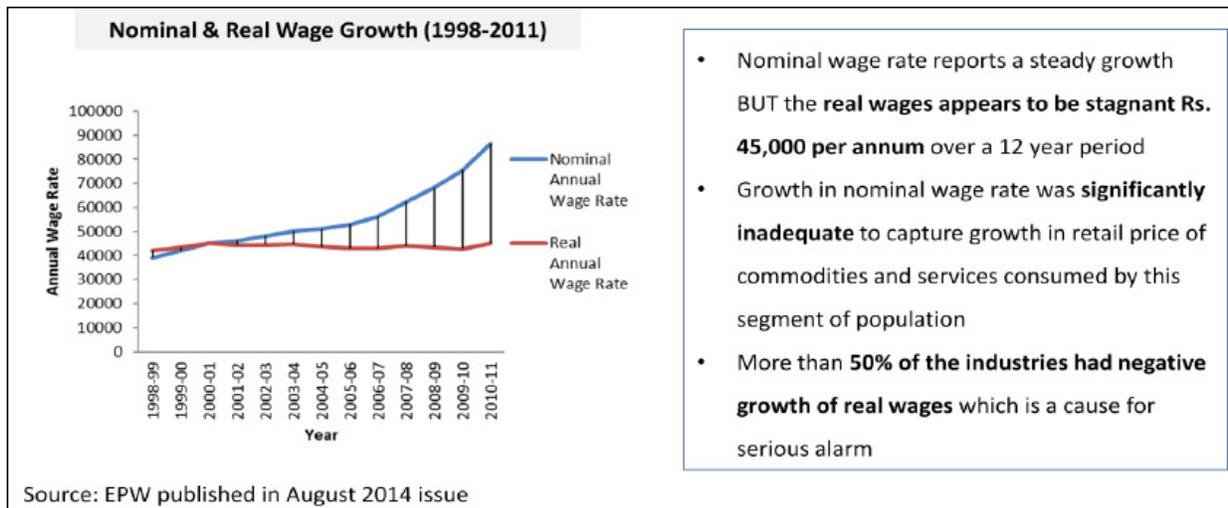
Employment challenge # 3 – structure of employment (data 2010 - ISSCR sponsored report)

- Out of 100 employed, only 16.63 are regular employees (approx. 79 million), over 51 are self-employed and the balance 33 are casual labour.
- Employment in the formal sector (employing over 10 workmen) was approx. 16% of which 50% was informal terms of employment. Hence only 8% of all work force have formal employment terms (38 million of which approx. 1.5 million are on staffing rolls). Of the 38 million 17 million are in Public sector and the balance 21 million are in private sector
- As per McKenzie report 45 million people have EPF accounts in 2017. Hence out of 79 million regular employees, only 45 million have EPF accounts
- Hence out of 470 million employed, only 21 million are in the private organized sector with regular employment terms (dream jobs for graduates). Manufacturing (50%), community social and personal services (22%), finance insurance and retail (10%) are the top 3 private organized sector employers.
- **Conclusion:** Our unemployment statistics are not useful because bulk of the people are self-employed or under employed or working in the informal sector where the employment terms including salary are adverse. We must create formal regular employment if we want to liberate our people from poverty.

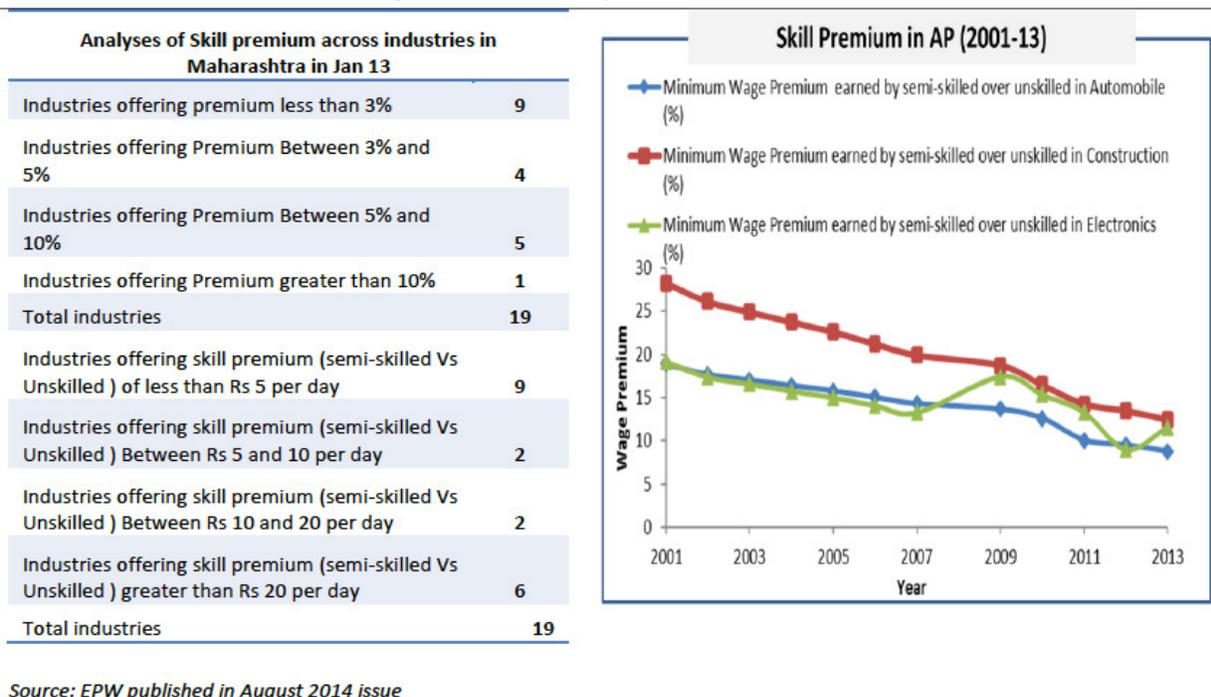
Employment challenge # 4 – sustainable employment

- Even the organized regular employers are exploiting the labour because supply is far more than the demand. EPW article published in July 2015 analyzed the average compensation of a factory worker across India and across industries.
- The data below is the result of huge data crunching

Trends in real wages and nominal wages in Indian manufacturing industry



Trends in minimum wages and skill premiums in AP

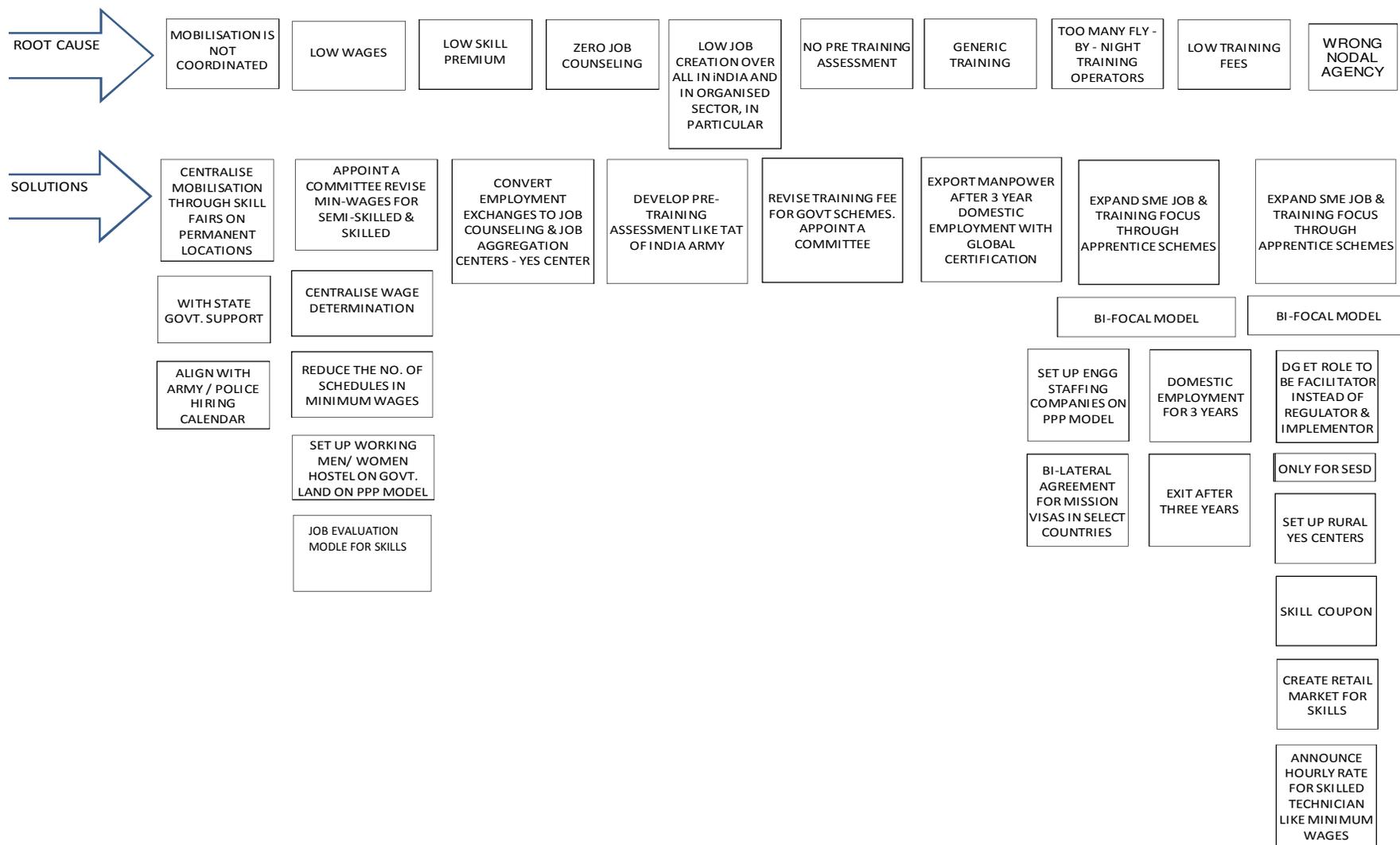


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In Conclusion

- Even in regular organized employment wages have been stagnant. There no skill premium. The main culprit is demographics – supply is far excess of demand.
- Most of the jobs are in places where people are not. Hence migration is essential. Wages are inadequate to support migration. Most people would go “out of pocket “when they migrate and hence cannot sustain the employment.

Solutions to the skill and employment challenges - ROOT CAUSE - SOLUTION MATRIX



How do we reverse the trend?

1. Create a demand for skills among youth by revising the minimum wage and enforcing it strictly. If we leave wages to the market, wage stagnation is bound to occur. Hence, wages must be regulated at the entry level through minimum wage regulations. Delhi government has notified a new set of minimum wages. This must be followed by other states. Create low stay options in employment centers. The idea is to create a saving potential while working
2. Incentivize and recognize job creators. 8 out of 10 jobs are in MSME sector. But MSME sector cannot absorb the increased minimum wages. So, provide wage subsidy for one year for every skilled hire in MSMEs. Wage subsidy for employment is the equivalent of investment subsidy for investment. Give an Inspection Raj holiday for five years for all MSMEs. Reduce the interest rate for working capital of MSMEs. Thus, neutralize the impact of minimum wage increase only for MSMEs. Large industrial employers can easily absorb the cost.
3. Encourage and incentivize labour productivity training in MSMEs like Singapore Government (<http://www.wda.gov.sg/content/wdawebiste/L102-ForEmployers/L223E-007EmployerBasedFund.html>). Encourage use of latest tools in work places by allowing subsidized import of latest technology which will make the Indian workmen globally competitive. Encourage global certification and training in one foreign language. Refund training and upskills costs incurred by MSMEs for global certifications.
4. Identify 10 countries with INDIAN skilled will be in demand both in the developing and the developed world. In developing world, identify manpower intensive structures like infrastructure, textiles, etc and provide bi-lateral credit and incentives for projects in these countries tied up with skilled manpower supply for 5 years. At the end of the period the Indian skilled manpower will train local youth and return. In developed world, sign up bi-lateral agreements for Indian skilled manpower to work on “project or time bound” visa in their countries to minimize “immigration challenges like the gulf countries. Set up a large engineering skill staffing company like TCS (which set up India’s first IT Staffing company in 1980s) to employ and protect these project visa personnel. The overseas work option after experience will drive the demand for skills among freshers.
5. Incentivize employers to replace their experienced manpower to fresh and trained manpower with demand driven skill programs. Employers will incur the cost of custom skill programs and claim as reimbursements when they induct fresh hires. The experienced manpower with global certifications will be shipped overseas on project visas explained earlier. The employers will also benefit because their wage costs will remain constant due to automatic exit of experienced workforce.
6. Lastly, create a Ministry of Job Creation at the cabinet rank at the central and state level. This ministry will focus on policies, regulations, incentives for new job creation and will give the “big employers” i.e. MSME sector, their due. Many countries have opted for Ministry of Labour & Employment model where the focus is on Labour advocacy and rights. This has put the ministry in adversarial position vis-à-vis employers. What we need is a ministry which is working for the employers. Jamaica has already created a “separate ministry” called “Ministry of Economic Growth and Job Creation”. We need to do the same. (Source: <http://opm.gov.jm/ministries/ministry-of-economic-growth-and-job-creation/>)

Annexures

1. [Article on Why Skills should be on the CEO table](#)
2. [Skilling Entrepreneurship](#) - Official document presented on skills and entrepreneurship recently when I was the speaker on civil services day by KPMG. Gives a broad understanding. But some of the root causes mentioned earlier by me are not covered. For example, compensation for skills [Background Paper – Skilling Entrepreneurship.pdf](#)
3. [Should Real Wages of Workers Go Up in Indian Manufacturing](#) - Article of EPW – a Research work on worker compensation.
4. [SWI in MSME Brochure](#) - Paper on skill wage subsidy for MSMEs.
5. [McKenzie latest report on gainful employment](#). [Indias-labour-market-A-new-emphasis-on-gainful-employment.pdf](#)
6. [A Whitepaper on the BiFocal Model](#)
7. [A New Channel to meet all the three key conditions – Safe, Orderly and Regular – Migration for Work](#)