CRITICAL REVIEW

OF PPP MODEL IMPLEMENTATION IN SKILL SECTOR

A Draft White Paper
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Critical Review of PPP Model Implementation in Skill Sector

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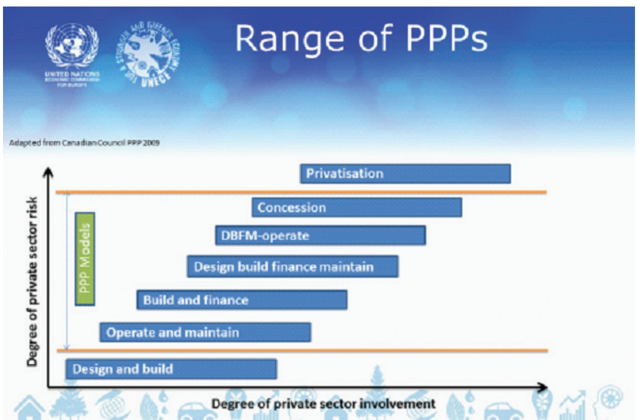
SECTION-1
Review of the PPP model implementations in India, especially in the skill sector

PPP model – Introduction

Public Private Partnership (PPP) is an approach used by the Government to deliver quality services to its population by using the expertise of the Private Sector. It is a contractual arrangement through which a private party performs part of the service delivery functions of the government while assuming associated risks. In return, the private party receives a fee from the Government according to pre-determined performance criteria. Such payment may come out of the user charges or through the Government budget or a combination of both.

The 'core' concept of a PPP, usually involves:

- A contract between the Government and a private company, under which:
- The private company is required to finance and build an infrastructure asset (road, school, university, training facilities, and subsequently –
- Maintain the asset, and usually operate some element
- of a public service, using the asset –
- In return for which the company is paid over a number of years for the cost of construction and the operation of the service, either through charges paid by users, or by payments from the public authority, or a combination of both. Such contracts are also sometimes described as 'Design, Build, Finance, Maintain, and Operate' (DBFMO) or 'Build, Operate, Transfer' (BOT).



Source: UN Economic Commission for Europe – Presentation on PPP – 2013

Note: Skilling PPPs are the highest level of PPP – DBFMO

In the 1990s, the phrase 'Public Private Partnerships' (PPPs) was adopted by Governments and institutions as a 'softer' alternative to the word 'Privatisation'; as a euphemism. PPP brings together the expertise of both the Public and Private Sector to expand the scale of infrastructure investments for public benefit. The key words are "expertise of both" and "public good".

There are two forms of PPPs. Firstly, concession contracts, where the company gets paid by user charges – for example in water services, or toll roads. The second type of PPP contracts is where the company gets payments from a public authority. Concessions can only be used where end-users are charged, whereas the second type of PPP can be applied to almost any element of public service, thus expanding the potential scope enormously. The concessionaire model works only when there is a shortage of materials or a resource. A good example of this type of PPP are the Telecom Operators where the "bandwidth" is a scarce resource. Another example is that of the mining industry where again, iron ore is a scare resource.

The skilling industry is a classic example of the second type where the company gets payments from a public authority. It is now an established convention that it is the responsibility of the Government to educate and skill its people. User charges in the context of skilling, is the collection of fees – entirely from students, which is not viable due to the economic status of the candidate, most of whom come from the poorest section of the society. The other user charge possibility is training fee recovery, in full, from the employer which is very nascent in India and hence not currently feasible. Hence presently, the payments for skill training are largely paid out by the Government.

Will PPPs lead to reduction in cost of operation?

A research paper published by David Hall (University of Greenwich) titled "Critique of PPPs" in October, 2008 listed the following myths about PPP models:

Table: Myths about PPPs

Does the PPP reduce Public Spending, Government subsidies, or user charges?	No. The public authority or users have to pay for the cost of building and the service whether it is done through a PPP or through the conventional option.
Does a PPP mean that the private company pays for the cost of infrastructure?	No. The cost of constructing the infrastructure has to be paid for out of public spending or user charges.
Does a PPP reduce the cost of running the service?	No. The cost of running the service is paid for out of Public Spending or user charges. And, empirical evidence shows that private companies are usually no more efficient than the Public Sector.

The above criticism of the PPP model claims that PPP models often do not lead to investment or cost reduction. This is probably valid for Western economies and more specifically to physical infrastructure creation and operation like toll roads. This however may not be valid for India and for the skilling industry. The Indian Private Sector can definitely reduce operating costs in skilling (as explained later). Nevertheless, in the skilling industry, PPP models cannot be justified ONLY on the grounds of lower cost of training, and we need more reasons.

Why the Government cannot be effective in implementing skill development in India?

One big reason is that the Governments are slow and tend to work in silos and often do not have the expertise to operate it. PPPs makes economic sense because it enables separation of jobs:

Everyone should only do what he is good at or in other words everyone should assume only the risk one specializes in; and Governments must step in to correct the market failures.

The justification for private players in skilling, therefore, comes from the following:

Skilling should lead to employment (over 95% of the jobs are in the Private Sector) or in MSME-entrepreneurship and the Government's competency to provide skill training for both these outcomes is simply not there. The failure of the Government Employment Exchanges is adequate proof.

The Government has failed in providing quality education in the primary, secondary, and tertiary education domains. More than 50% of the population send their children to study in private educational institutions at all levels, despite the higher expense.

Ideally, skills must be imparted and integrated with the secondary education system and the failure of the Government education system precludes the public skill system. In fact, the ITIs created and managed by the Government have failed miserably to provide employability to lakhs of students.

The skill training capacity required to skill 119 million plus Indians by 2022 (as per **Draft National Policy for Skill Development and Entrepreneurship 2015**) cannot be created by the Government quickly and effectively because scaling up requires innovation at all levels – business models, mobilisation, and delivery models.

Lastly, the Government procurement system is slow and often leads to substandard/outdated solutions/ vendors. For skilling/education to succeed, innovation is the key which the Government administrative system discourages.

Clearly, inability to execute quickly and in large-scale partly due to the lack of domain expertise is the first main reason for PPPs in skilling.

Is lack of investment capacity the reason for PPPs in the skilling industry?

If PPPs do not lead to operating cost reduction then why should we adopt PPPs? One of the biggest rationales, perhaps in favour of PPPs, is that the Government simply doesn't have enough money to put up the infrastructure. This is the main reason for PPP in creating public infrastructure like roads, airports, etc. Is this true for the skill sector?

How much investment is required for creating skilling capacity for 12 crore people in 7 years?

One of the key tasks before the new Central Government is to create skill training capacity for 12 crore Indians in the next 7 years, considering that we are already late in the skilling game, in order to reap the demographic dividend. Investment in skill training infrastructure varies, depending upon the location (rural infra costs much more than urban infra), the training focus (technical training requires more investment than skills for the service sector) and scale (bigger the scale, lower is the per capita investment). It is also important to note that the investment is required not only for training infra but also required for mobilisation infra, placement infra and most importantly Working Capital to run the skill operations. The total investment (fixed and working capital) required for skilling 1 crore Indians in 5 years will vary from Rs. 500 to Rs. 2,000 crores. Assuming Rs. 1,000 crores investment is required for training 1 crore Indians in 5 years, it will require Rs. 8,400 crores to train 12 crore Indians over the next 7 years. Can the Government find Rs. 8,400 crores to invest over 7 years? Yes, it can. So the reason that the Government cannot invest and create the skill infrastructure on its own is not really valid.

But considering the massive investment required in creating education infra in India – primary, secondary and higher education – this money may not be easy to allocate in the next few years. So definitely, the Government can do with private players investing this money. It is important to note that even if NSDC funds a part of this money, it is still a loan and not a grant and the private player has to start repayment after a 3-year moratorium. So, the investment risk has to be taken by the Private Sector.

Is the pay-out required for funding the skill training the second reason? How much is the pay-out required for skilling operating costs?

Now let's look at how much will it cost to skill 12 crore Indians in the next 7 years. The cost of skill training again depends upon several factors:

- The nature of the course: Technical courses cost more than normal courses in the service industry
- The location. Rural training costs much more than urban training because the batch sizes tend to be small
- Residential vs. Non-residential: Residential costs are essential in backward areas and can increase the training costs significantly
- Actual batch size: This is probably a major cost component because students tend to drop out after enrolment especially in long duration courses. Dropout of 5 out of 25 people can result in increase of training cost by 25%
- There are more than 28 cost elements which determine the cost and the pay-out for skill training mainly because the training partner's scope is very wide and includes mobilisation, placement, and post-placement also

  (List is enclosed in **Annexure 1**)
- Assuming a conservative pay out of Rs. 10,000 per person to be skilled, to skill 120 million Indians in the next 7 years, the Government has to pay out 1.2 lakh crores over 7 years or Rs.17,000 crores per year. This is a big amount even for the Government

So clearly, the second main reason for PPP in skilling is to minimise the skill pay-outs by the Government.

How can the Private Sector TPs reduce these pay outs?

By 2 means:

- By developing alternate revenue models including student, employer and corporate CSR pay-outs which will reduce Government pay-outs. (Many skill partners are already doing this right now in India)
- By reducing operating costs through innovative delivery models that use technology, superior training content, and operating efficiencies

But to achieve this, the following conditions must be met:

- Flexibility in delivery models: The focus should be on measuring and rewarding outcomes and the private player needs total freedom in training operations
- The Government has a huge idle infrastructure which can be used for skill training. It can also invest in the training equipment and offer it to private training partners on a 'pay-per-use' model so that the total operating costs are reduced
- Scale must be encouraged: Since every training partner cannot build in-house expertise in all aspects – mobilisation, training, placement, and post-placement, the larger training partners can be asked to build mobilisation and placement capacity for many training partners
- Students will pay for training, only if they receive a job at the right salary which enables them to save when they work. The living costs can be brought down through skill hostels set up by the Government on PPP models , whereby the Government provides land on long-term lease to private partners who can set up and run skill hostels
- A level playing field is required for developing alternate revenue models. For example, student-paid and employer-paid models cannot compete with 100% Government pay-out models. This means that the 100% Government pay-out models has to be restricted to skill training of people 'Below the Poverty Line' (BPL families) or for special circumstances. Students from other sections of society will have to make part-payment for skill training along with employers who hire them
- Elimination of poor quality training institutions: Early identification and elimination of fly-by-night operators through effective monitoring is essential for a free and fair market to emerge
- Training fee determination should be through

market forces and not by the Government. However, the Government can determine the Government pay-outs through transparent and practical costing models, which provides for adequate return on capital for the investors
- The role of Government and the private players should be clearly demarcated and both should work as partners rather than as adversaries. The Government should be a facilitator and regulator rather than a monitoring agency
- Payments to skill partners have to be on-time, failing which the Training Partner's cash flow crunch will shift the focus from quality training to cash flow management
- Employers will make part payment for the skill training only if the curriculum is customised for them so that the student does not need further training. Hence all The Qualification Packs and National Occupational Standards (NOS) should have a customer specific component, by design

A simple way to achieve some of the above is the skill voucher system

The skill voucher system

In this system, the Government determines the pay-out per student and hands over the skill voucher for the amount to an identified member of the family and the student can then get trained in any of the courses, in any of the authorised training centers and surrender the voucher for the specified value. The balance of the course fee will have to be paid by the student. The Training Partner can get the voucher cashed after submitting proof of the outcome specified.

The Skill Partners have to compete and offer courses which have large placement potential at attractive compensations. The delivery model is left to training institutions because the pay-out is linked to specified outcomes and not linked to delivery methods. The Training Partner will also have the choice of determining the course fee based on the efficiencies and business model adopted.

The student will judge and demand quality in training because he/she will bear the voucher as an entitlement and will have to pay extra. The employers will not patronise poor quality training institutions resulting in low placement and final shutdown of the Training Partner.

In short, the student and the employer judge the training institution on a real-time basis because they are in the best position to do so instead of any other third-party.

The payment system to the Training Partner is very simplified like a credit card system and can be managed by a third-party administrator (like MasterCard or Visa in the case of credit card payment).

The skill voucher value will vary and depend upon the candidate specifications – like economic and social strata, the location, and the educational qualification and even by the complexity of the course. The voucher value will be determined by an independent regulator based on the training cost structures and the Government policy on fee reimbursement percentage.

Learning from successful PPP case studies

An interesting study was prepared by the staff of the World Bank Group for the G20 Investment and Infrastructure Working Group in February, 2014 on the learnings from successful PPP studies which revealed the following:

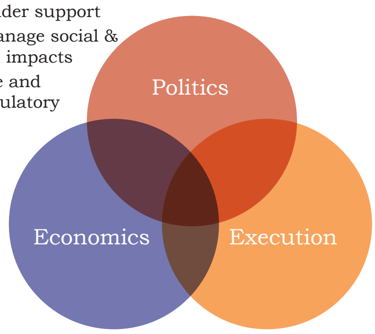
1. More than 60 PPP projects in over 35 developing countries were reviewed, spanning over the period of 7 years, representing approximately $10 billion in investment, and delivering improved services to more than 30 million people. The defining feature of all these projects was a long-term partnership between the Public and Private Sectors to deliver a public service, with some transfer of risk to the private partner.

2. Ranging from hospitals in Africa to toll roads in South America to Hydroelectric projects in Europe, and including both successful and failed projects, our case experience offers a rich and diverse array of lessons for anyone contemplating partnership between the Public and Private sectors. In fact, at the end of each project, IFC teams identified a handful of "lessons learned," which were compiled into a database of over 350 lessons and then systematically analysed. Review of other IFC projects further shaped this thinking.

3. Lessons fall into three broad categories: Economics, Politics, and Execution. These categories represent the 3 fundamental forces that drive the success or failure of PPPs. Economics, Politics, and Execution are the spheres of activity that countries must understand and manage if the projects are to be successful (See Figure). An understanding of these forces is grounded in real case experience over the past 7 years. From this experience, specific lessons have been identified within each of these spheres.

Figure: Framework for building successful PPPs

- Secure political champions
- Build stakeholder support
- Assess and manage social & environmental impacts
- Foster a stable and supportive regulatory environment



- Ensure sound economic fundamentals - PPPs cannot create economic miracles
- Structure a partnership that optimizes cost, quality and investor return

- Use a disciplined approach - time and complexity are your enemies
- Secure the right mix of global and local expertise
- Support a transparent, competitive bid process
- Plan for ongoing monitoring and review

The most important learning from the skill sector point of view is:

Structure the partnership to optimise cost, quality, and investor return – in other words, to achieve both the public policy and business objectives.

Implementation of PPP models in India

The Public Private Partnership (PPP) model of development is no alien concept to India. In the age of the Chola kings as well, the State used to give tax concessions and land grants to those who got tanks and canals built. Closer to our times, in pre-independence India, the construction of Indian Railways is a classic example of PPP in operation. Post-independence, given our explicit preference for the State-led development, PPPs took a back seat for some time.

However, after the economic liberalisation of the 1990s, PPPs are back with a new vigour. Thus, the Private Sector share in infrastructure expenditure has climbed from 21% in the 10th Five Year Plan to 33% in the 11th Five Year Plan and in the 12th Plan it is expected to be about 50%.

The recent PPP experience in India

Business Standard (July 6, 2013) wrote a powerful essay on the status of the PPP scenario prevailing in India:

"When it comes to PPPs, the country has invested the last decade-and-a-half in asset creation. So, a number of PPP concessions have been awarded in national highways and ports sectors. In the airports sector, private entities have developed metro airports at Bangalore, Hyderabad, Delhi and Mumbai through PPP concessions. In Railways, the concessions for the operation of container trains have been awarded under PPP. According to a World Bank report on private participation in infrastructure, private participation in 2011 was highly concentrated in just one country – India. The report ranks India as the largest market for PPP in the developing world. India alone accounted for over half of the total investments in new PPP projects in developing countries in 2011, when it implemented 43 projects which attracted a total investment of $20 billion. But this is only half the battle won."

The objectives of PPP according to the Government of India

The following excerpt (Source : Amrita Datta Economic & Political Weekly EPW August 15, 2009) from the Eleventh Five-Year Plan coherently summarises the State's agenda for furthering PPPs.

"The approach to PPPs must remain firmly grounded in principles which ensure that PPPs are formulated and executed in public interest with a view to achieving additional capacity and delivery of public services at a reasonable cost. These partnerships must ensure the supplementing of scarce public resources for investment in infrastructure sectors, while improving efficiencies and reducing costs... Public Private Partnerships must aim at bringing private resources into public projects, and not public resources into private projects (GoI 2007: 256).

There is also the acknowledgement in the plan document that unless governance issues such as those related to competition in service provision, collection of user charges, institutional capacity, regulation and dispute resolution, are adequately addressed, financing or mobilisation of sufficient resources for the requisite infrastructure investment may not be possible (Para 12.13, 292, ibid).

It is also pertinent to point out that while the policy document talks about improving efficiencies to reduce cost, it does not focus on the most important aspect – quality of the infrastructure or service. It has failed to recognise the fact that cost reduction cannot be at the cost of quality which will significantly upset the outcomes expected.

Business Standard article referred earlier continues:

"A closed approach towards renegotiating contracts and the failure to understand the meaning of 'partnership' are the main reasons why PPP projects haven't had a smooth run in India". The report adds: "The pull-out of Reliance Infrastructure-led concessionaire from the Airport Express Line of Delhi Metro – a showcase urban transport project, has once again put focus on PPP projects in India. GMR and GVK have walked out of recently-won mega-highway projects; the Gurgaon Expressway is in trouble and Delhi Airport has been shouting for resets. Adani Power and Tata Power are struggling to transform their imported coal-based projects into profit-making ventures on account of changes in input costs.

The Government forgets that the last 'P' of PPP stands for 'Partnership'. This means that it is the duty of the Public Sector partner to assist the other partner in ensuring that capital invested sees a fair rate of return

"The reasons for the failure of PPP projects in India are many, ranging from poor preparations, flawed risk-sharing, inappropriate business models, and fiscal uncertainties to vested interests leading to development of skewed qualification criteria," summarises Dipesh Dipu, partner at consulting firm Jenisse Management Consultants, as quoted by Business Standard. The above summary by Dipesh Dipu summarises the ills of PPP implementation in the skill sector and the evidence is presented later on.

Before we review the PPPs in skills, lets us study the performance of PPPs in education, a sector which is closely related to skills.

PPP in education

Amrita Dutta Writes in Economic And Political Weekly (Aug 15, 2009) "There is widespread recognition of Government failure in the delivery of education and PPPs are broadly seen as a solution to the problem. At the World Economic Forum, 2004, 54 participants involved in PPPs in basic education from various parts of the world reported the key obstacles of partnerships between Public and Private Sectors as 'capacity to negotiate with non-traditional partners', 'political will and public support', 'agreeing to key performance targets', and 'transparency and accountability between PPP partners'. These issues remain crucial in the Indian case as well, and PPP is not a panacea to solve the country's complex problems in the educational sector. Engineering education has been privatised two decades ago and the poor quality of the engineers India is producing is a clear evidence of the failure of PPP in higher education."

Implementation of PPPs in skilling

The concept and implementation of PPPs in skilling is still very nascent in India with diverse models being operationalised by multiple private players. Government policy regarding regulatory, legal and institutional framework is still evolving, with over 18 ministries of the Central Government implementing a vast array of projects under a wide range of schemes.

Many criticisms are levied against PPPs. Perhaps the biggest among them is that it breeds corruption and rent-seeking.

Another criticism levied against PPPs is that often the 'public purpose' in the PPP is pushed to the background and private operators work simply to maximize their own profits. Next, a case is made out that in PPP mode there is information asymmetry. Because the operator is closest to the project, he can take the Government for a ride.

A few of the above criticisms have been valid when one reviews the PPP model implementation in India till the birth of NSDC in 2009.

A successful PPP case study in Skilling – Govt. of Gujarat and INOX WIND LIMITED, Rohika

The Challenges

The Wind Turbine Blade manufacturing is in its infancy period and there are few players like Suzlon, Enercon (now Wind World), Kemrock, and Gamesha who are manufacturing blade. The manufacturing process, manual in nature, requires highly skilled manpower. There is rampant poaching leading to spiralling wage increase. INOX WIND LIMITED, Rohika, after setting its plant in Gujarat, found it difficult to increase production as there was continuous attrition. It was finding it difficult to man the additional manufacturing capabilities which it had installed as part of its growth plan.

Action Taken

INOX WIND LIMITED, Rohika and Industrial Training Institute – Modasa of Gujarat signed a memorandum of understanding (MOU) to incorporate Blade manufacturing process in the ITI – PPO (Plastic Processing Operator) Trade of GCVT Syllabus. The Managers of the Company became the faculty to impart training. The practical sessions are held in the Company. A batch of 50 can be trained in a 3-week programme.

Industrial Kaushalya Vardhan Kendra (IKVK) Scheme – The Company has started a 3-month approved training under this scheme in which 50% internal and 50% external candidates are trained in-house. After successful completion of the training, the GCVT arranges Test/Interview for skill certification by GCVT. The MOU is signed with the Department of Employment and Training, Govt. of Gujarat. The cost of training is reimbursed by the Gujarat Government. A batch of 40 is trained at a time. INOX WIND LIMITED, Rohika has now established a channel for acquiring trained technicians who are more engaged and loyal to the Company and also has been able to increase capacity by 50% last year. (More details of the case study is given in **Annexure 2**)

Conclusion

The INOX WIND LIMITED, Rohika experience is very positive (though the quantities are still very small) from the INOX WIND LIMITED, Rohika point-of-view. The Govt. of Gujarat has set the standard for their partnership approach with Corporates – who are the employers and beneficiaries of the skill system.

National Skill Mission and NSDC

The very concept of PPP in skilling got its renewed focus with the formation of the National Skill Mission and more importantly the incorporation of the National Skill Development Corporation (NSDC) as a PPP initiative with 49% equity from the Ministry of Finance and the balance 51% from Private Sector Institutions including Confederation of Indian Industries (CII), Federation of Indian Chambers of Commerce, and

Industry (FICCI), etc. The NSDC was given the mission of skilling/upskilling 150 million people by 2022 by actively pursuing Private Sector investment in the skills sector. NSDC offered long-term soft loans/ grant/equity and took upon itself the task of creating a skill eco-system which would support its mission of skilling/upskilling 150 million people by 2022.

In August, 2014, NSDC conducted a skill sector partner meet in which the following data was shared by NSDC: "In a short span of less than 5 years since NSDC has been operational, more than 2 million youth have been skilled, more than half of whom are gainfully employed today. NSDC has approved the setting up of 136 training organisations with the potential to train over 83 million people over the next 10 years. As of date, there are over 2,856 training centres, 1150 of which are mobile, covering 368 districts, i.e., over 50% of the districts in the country." In the same partner meet, the Minister of State for Skills and Entrepreneurship, Shri Sarbananda Sonowal said: "It is absolutely necessary to ensure that the industry be made a major partner in skilling India." – sounding an urgent note for the need for Private Sector participation in skilling India – both as employers as well as implementation partners.

PPP options in skilling

The width and depth of the skilling services has to be understood before we venture on to analysing the PPP options. Skilling industry service offerings (depth) can be categorised into (i) Infrastructural services, (ii) Support services, and (iii) Educational services; while the width of offerings can be categorised into the following broad sub-domains:

Sourcing and mobilisation: It is possible to create mobilisation partners on PPP mode. For example, the Government of Kerala and Karnataka are attempting to privatise and convert Employment Exchanges into Job Counselling Centres on PPP mode.

Skill training: Many of the Partners that NSDC inducted were private companies which set up 'for-profit' entities in skill development.

Assessments: Private assessment companies have entered the fray in skill assessments after the setting up of Sector Skill Councils

Placements: PPP models in skill placements are in their infancy. The TMI Group has set up JobsDialog, an exclusive platform for placement into the MSME sector, which is by far the largest hirer of fresh talent.

Post placement: PPP models for creating skill hostels to reduce the living expenses of the skill trainees are essential for success of the skill movement. The land for the hostels will have to be provided on long-term lease by the State Governments and the private partner will have to construct and run these hostels.

The risk profile varies for each of the above offerings and for each of the activities and it depends upon the experience and expertise of the service provider in the domain. Thus, the common sense approach would have been to implement the PPP model in each stage. This would have helped the training partners to first focus on training and expand their scope over a period of time into other stages. Unfortunately, due to paucity of time, skill training partners are forced to do activities at all stages and this has increased the risk profile of the training partner significantly.

Obstacles to PPP implementation in skilling

As cited earlier, many of the obstacles in implementing PPP in other sectors are also experienced in the skill sector. These obstacles are briefly discussed below:

Trust deficit between PPP operator and the Government

Reijniers (1994) argues that although combining the strengths of private and public partners is important, such partnerships can also be a source of conflict of interest. Private Sector orientation is that of achieving returns on invested funds, daring to take business risks, having to anticipate market and competitive developments and realising a corporate goal, whereas the Public Sector orientation reflects political opinion and political influence, formulation of legislation, regulations and authorities, democratic decision-making process, the minimisation of risk, and realisation of a social goal.

This trust deficit is responsible for the Government taking critical decisions without the active involvement and buy-in of the training partners, at every level. For example NSDA and NSDC, two apex bodies in skill development do not have adequate representation of Training Partners at the decision making or board level. This has resulted in the Government framing impractical policies, and this has impacted the performance of PPPs in the skill sector.

Failure to understand the meaning of 'Partnership'

Government officials at the operating level are yet to accept the fact that PPP is the only model to achieve the very daunting skilling targets and hence the training providers are not vendors but partners. It is very obvious that the training partners are the ONLY party that is investing in capacity building and taking the operating risk while all other stakeholders including the Government, employers and the students have minimal stakes. In addition, power struggles between different Government agencies as well as between the Private Sector and the Government is very common. Essence of any partnership is 'give-and-take' in a fair manner but this is not possible when the Government officials prefer a 'no contract deviation'-approach due to fear of anti-corruption bodies like Central Bureau of Investigations and Anti-Corruption Bureau and due to other vested interests. This also results in a flawed risk sharing arrangement where the risk of execution is entirely on the private partner but the rewards are not proportionate to the risk involved.

Poor preparations

India suddenly woke up to the reality of unskilled India and in a hurry to make up for the lost time has skipped several vital preparatory steps. Due to a variety of reasons, the skilling industry has quickly been pushed onto the highest level of private partnership wherein the Government's role is minimised to providing mainly to training fee reimbursement, long -term financing, and monitoring. This movement has happened without providing adequate time for both the stakeholders – Private and Government – to mature into a partnership mindset.

Lack of institutional capacity to monitor progress of projects at the State and at the Central level

There is lack of trained manpower at the operating levels in the Government with respect to expertise in monitoring and assessment of skill projects. This results in inordinate delays in clearance of skill projects and delay in payments.

A closed and 'one-sided' approach toward renegotiating contracts

Most of the skill training providers have horror stories to share on the 'one-sided' agreements and its interpretations. For example, when there is a delay in deliveries, the TPs can be penalised. But if payment by the Government, which is the essence of the contract, is delayed, there are no penalties on the Government. The bigger issue is in the definition of delivery which includes both outcome and inputs. For example, many of the skilling contracts of the Ministry of Rural Development has both output deliverables as well as specifications on the input – like training time, quality of training infrastructure, number of toilets, etc. This results in a peculiar situation where the payments are held up indefinitely for any minor infringement on the input side while the output has been met.

Shifting of goal posts

As mentioned earlier, the Private Sector in the skill sector has seen a continuous shifting of goal posts due to many reasons. One of them is a lack of understanding among the Government policy makers of the complexities and risks associated with each of the 5 sub-domains of the skill sector. A good example is this: It is obvious that the children entering the skill training system have suffered from over 10 years of a is the failed education system provided by the Government. The Government expects the Private Sector partner to skill them with technical, soft and life skills, in a very short time and ensure that they are employed and stay employed for at least 12 months, at 10% of the global training costs. The irony is that the Government is continuously adding to the responsibilities of the private training providers without adequate compensation for the risks involved, resulting in many of the large skill providers turning unviable.

'One-size-fits-all' approach

Due to the lack of appreciation of the nuances in skill training, the Government has adopted a 'one-size-fits-all' approach. Take for example the reimbursement of training fee adopted by the Government, which does not distinguish between skilling costs of urban and rural students. It does not recognise that the training duration for the same course will be far longer for rural India, with respect to rural school dropouts compared to the urban school dropouts.

Absence of an independent PPP regulator in the skill sector and dispute resolution mechanism

It is obvious that a stake-holder cannot be a regulator. A robust regulatory environment, with an independent regulator, and a dispute resolution mechanism is mandatory but does not exist today. Two of the key recommendations of a recent FICCI EY report titled "Accelerating Public Private Partnerships in India", were the need to develop sector-specific regulatory mechanisms and the creation of an independent Institutional Structure for handling PPPs.

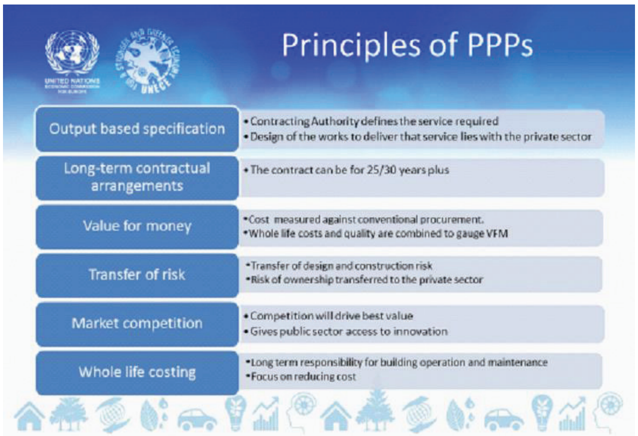
In conclusion

The Indian story on implementation of PPP models in airlines, airports, metro rail, power, road infrastructure and higher education have been disappointing, to say the least. Red-tapism, power struggles between different Government agencies as well as between the Private Sector and the Government are some of the reasons for the poor implementation of the PPP model. PPP models are difficult to implement and the odds are against its success, unless the PPP models are designed and executed in full. Part or poor execution of PPP models will lead to unsavoury outcomes.

Section - 2

How to make PPP models work in skilling?

The UN Economic Commission for Europe has suggested a framework to encourage PPPs (See the figure below)



Source: UN Economic Commission for Europe – presentation on PPP – 2013

The starting point is to redefine "outcome" and build an outcome-based fee system as suggested by the UN Economic Commission

Output-based specifications

What does this mean for the skilling industry? Clearly, there are two outcomes – gainful (sustainable) wage employment or gainful self-employment.

The output specifications for wage employment should be made in the context of the following ground realities:

- Students are not interested in long term courses and are keen on realising a job at the earliest. But these jobs must offer fair compensation and should lead to savings. So, the outcome for wage employment should be based on a candidate's ability to get a job at a fair compensation and employer-keenness to pay part of the training cost – which will establish the relevance of the skill training
- Employers are interested in the job productivity post-training instead of job knowledge or even generic job skills. Training courses should have an employer-specific custom content in addition to the NOS-based content
- Placement in MSME should be encouraged and redefine 'Placement'. TPs cannot create jobs, nor can it force the student to take up a job offer made to him. Hence an 'offer' made on fair compensation and fair employment terms should be considered as 'Placement'
- Employers and the trainees are responsible for retention and the Training Partner can only track but cannot control retention. Hence TPs should not be made accountable for job retention but should be asked to track and report on retention
- Outcome-based specifications for self-employment is more complex. Skill training is one aspect of successful earning in self-employment. Availability of finance, entrepreneurial ability, market linkage are the other aspects which determine success. So, the outcome cannot be based on incremental 'income'. Instead it should base on pre- and post-training enhancement in skill level. For example, if the pre-training assessment is that a trainee is at level 3 in the NOS (National Occupational Standard), then post-training, the level must be level 5 or more depending upon the duration and complexity of the course

Long-term contractual obligations:

The Government should provide long term contracts – 5 years and more and measure outcomes over a longer period. It is also important that there should be an in-built annual increase in fees to provide for inflation in input costs.

Value for money:

The efforts to achieve scale, quality, and sustainability in skill development will succeed only if the objectives of all the four major stake holders – the **trainee,** the **employer**, the **Training Partner** and the **Government** are recognised. In other words, all the stakeholders should find answers for "What's In It For Me?". Arriving at clear answers to these questions would help greatly in better analysis of the issues at the grassroots level and work out different options to scale up and attain global standards.

WIIFM for trainees

Trainees are worried about questions like: "Why should I spend my valuable time learning and getting certified?" This translates into concerns like:

- As skilled professionals they should be able to find a job with a fair salary and there should be adequate salary premium – at least 15% – post-training over unskilled
- Fair salary means that at the end of the month the trainees save some money especially when they have to migrate to a new city to get a job
- Today this is not true. In manufacturing, average worker salaries are stagnated at a very low unsustainable level and skill premium is very low (See **Annexure 3** for salary data growth of factory workers)

WIIFM for employers

Employers want to be convinced about hiring the trainees and they have questions like: "Why should I hire the trainee and pay him a premium salary?"

This will work when the productivity of the certified employee on the job is better than a non-certified employee from day one. At present, in order to improve productivity, the training has to be of high-quality and relevance, and more importantly, customised to the job role in any company.

The training needs to be narrowed, focussed on immediate productivity and skills required to do the 'day one job' and not on a broad spectrum of skills mandated by a SSC.

Bulk of the role-based training lacks quality and is generic and so the employer has to retrain the employee again, on the job. Even the QPs developed by the SSC are designed for the industry and not for the company.

WIIFM for Training Partners

Training partners are primarily concerned about: "Why should I invest and run this business?" This brings up the issues of perceived and actual value of training and relative ROI. It also has an impact on the external investor interest in the skill industry for expansion and growth.

- Today, most of the TPs are struggling for breakeven and there is no investor interest. This is because the training fee approved by the Government is too low and does not take into account the need for ROI and the operating realities
- For example, the training cost calculation done by the ministries to arrive at the training fees does not take into account the reality of low batch sizes, dropouts in training, failure percentage in assessments and the high cost of mobilisation. The government provides 10% administrative charges over variable cost of training which is supposed to cover interest, business acquisition, management overheads and ROI (See **Annexure 1** for the 28 cost elements of a typical TP)
- Also, the last payment which is more than the administrative charge is held back unfairly and is subject to penalties on a variety of grounds, pushing the business into unprofitable operations
- The existing Government system is designed to ensure that the TPs do not realise the full payment. (A relevant example is placed in **Annexure 4**) In this case National Urban Livelihood Mission (NULM) prepared guidelines for payment for TPs which was stringent as it is. The State Mission (in this case MEPMA Telangana) added even more stringent conditions to the scheme. While the NULM sanctioned Rs. 15,000 per trainee inclusive of Rs. 1,000 assessment fee, the MEPMA unilaterally reduced the fee to Rs. 13,000 exclusive of assessment fee, hereby reducing the payment by Rs. 1,000 per trainee for no specofic reason. In addition, MEPMA made 2 more modifications to the payment system. First, instead of 3 milestones-based stages for payment proposed my NULM, the State Mission made it into 4 stages. While the NULM made 50% payment compulsory, the State mission made it 50% to 60% with proportional 16% less payment at the NULM milestone of 50%. The net effect was as follows:
  - NULM budget was Rs. 14,000 per trainee, exclusive of assessment fee
  - The NULM 3-stage payment scheme reduced the maximum claimable amount to Rs. 11,184 (80% of the budget)
  - The State Mission added more stringent conditions which reduced the maximum claimable amount to only Rs. 9,063 (65% of the budget)
  - This is a classic case of intention vs. reality in the skill industry
  - To top it, the Government payment system is so one-sided with no penalties for delayed payment, that many TPs are spending more time collecting money than in training and cash flows have become unpredictable and unreliable
  - If the primary investor is struggling to make ends meet, why would new investors come in? This is something that requires immediate attention

WIIFM for the Government

The Government begins to question about the relevance of huge investments in skilling programs and seeks to justify the investments with tangible outcomes and results.

- The Government needs to get back the money through improved tax collections. If a skilled employee joins the industry, the industry flourishes, the employee flourishes, resulting in GDP growth and increased direct and indirect tax collection
- The trainee would go overseas and remit valuable Foreign Exchange for the country (like the Indians in Gulf)
- The money invested should come back as improved tax collections or in foreign remittances. However, in reality this does not happen. As the skill is inadequate, the employer and employee are not productive
- When the certified employee works like an unskilled employee and there is no incremental tax collection or if he or she does not get the right job and stays willingly unemployed, the purpose of skilling is lost

- Global mobility is limited to Middle East due to language and skill limitations

Transfer of risk:

Transfer of risk to the private players has to be compensated with appropriate fees, failing which the private players will not be able to attract fresh investment required for scale-up. Model contracts should be created by the Central Government which clearly demarcates the role of the Government and the PPP entity.

Market competition:

Ultimately, the market must answer questions like: "Which Training Service Partner should flourish?" and "Which shall die?"; "How much to charge for training?"; "What should be the duration of the training?"; "What should be the delivery methodology?"; etc. A transparent regulatory environment is essential for healthy competition.

Strong Independent skill regulators:

To make PPPs work, we need transparency in procedures and strong independent regulators. The regulator should be independent of the Government like a Telecom or Insurance regulator. The functions of policy planning, implementation and regulation must be separated from each other. It may also be a good idea to make these regulatory bodies report directly to the parliament or to the Skill Ministry. To check the information asymmetry problem, we need stringent third-party audits.

Partnership mindset:

A partnership and facilitator mindset from Government functionaries is mandatory. We need a sector developmental approach rather than an administrative mindset. Active involvement of stakeholders in policy-making is needed. Ensuring that dues are paid on time and without unfair deductions are essential but are not happening now. Strong presence of all the stakeholders, including Training Partners and employers (including MSME and informal sector) at the board and policy making level is essential for a partnership mindset.

What do PPP investors in skill sector want?

The Prime Minister is very clear. The 'Make in India' campaign can succeed only if India is skilled. To skill 25 crore Indians, the country needs to invest Rs. 25,000 crores for creating the mobilisation, training and placement capacity. This investment has to come through Public Private Partnership. Is the skill industry an attractive destination for PPP investment? In other words what must be done for PPP investment to happen in the skill sector?

5 things wrong with investment in the skill sector

1. Reliable revenue model – Reliable Government spend and active encouragement for Non-Governmental revenue models
2. Profitability – remunerative prices and low cost of operations
3. Predictability of bottomline – long term contracts with Government with committed spends; limited Government regulation on "how to deliver" and freedom to innovate and low-fixed cost operations
4. Scalability – large untapped 'natural' market for skills; scalable delivery model with large trainer and employee pool
5. Sustainable Cash Flows – Timely and predictable cash inflows, low risk delivery model

Unfortunately the skill sector fails in most of these parameters.

Let's examine why?

- The Government – the largest stakeholder, looks at the only 'doer' in the skill space – the Training Partner – with absolute mistrust, partly because of a significant number of unscrupulous training providers, who arrived, survived, and flourished in the past due to faulty Government bidding systems and monitoring, and vested interests
- Even though there are a large number of people to be skilled, there is no natural market since the salary post-training is unattractive and post-migration, the trainee goes out of pocket
- Government spends are unreliable and depend upon budgetary support both at the Center and at the State. For example, this year there has been an inordinate delay in announcement of skill programs like STAR 2
- Government payments are notoriously late due to poor Governance in payment systems and one-sided contracts
- Alternate revenue models are in infancy and are struggling to survive due to lack of a level playing field
- Employer participation is low due to poor track record of skill training companies and the inability of the Government agencies including Sector Skill Councils and Training Partners to engage with them
- Government fees are unremunerative because they are determined based on wrong assumptions. The 10% mark-up on costs is based in the NGO model rather than the PPP model
- Cost of operations are high due to low batch sizes and average student pass percentage, 'over-

specifications' on training, and poor collaboration among training partners and government stake-holders to share hard and soft infrastructure

- Fixed operating costs are very high due to Governmental policy insistence on permanent training centers at locations without adequate demand leading to low capacity utilisations
- Operating risks are very high since the training partners are expected to perform miracles – source candidates when there is no natural demand, train them more than required and as per impossible delivery guidelines, and place them in the organised sector when there is no job growth – and get paid a pittance

No wonder success stories are rare.

Is there any hope?
Yes.

- For the first time we have a Skill Minister who trusts the training partners implicitly and wants to change the system
- For the first time NSDC, the only semi-Government body which understands the skill sector challenges is being accepted openly at the policy making level
- For the first time, the new Government is focussing on the demand side and talking of job growth through 'Make in India'
- For the first time a big advertising campaign is being run to promote skill careers
- For the first time Training Partners' voice is being heard
- For the first time the Training Partners are realising the need to collaborate with each other and share their resources
- For the first time the Prime Minister is driving and championing the cause of skills
- And for the first time we have a PM who is "driving and driving the right things" in the skill sector

So there is hope.

Is it enough?

No. Urgent action is required immediately. Or else all of us will miss the demographic dividend BUS.

What can the Government do to encourage PPP in skilling?

- **Get the contract right:**
- Structure all contracts in skilling as per World Bank guidelines on PPP, with well-defined outcomes for wage employment and self-employment
- Institute different approaches and different policies for both. Even the skill regulator to have separate wings for self and wage employment Skilling
- Spell out well-defined roles for the Government, Training Partners (TPs), employers and job seekers. Government should privatise most of the tasks in skill development. (See **Annexure 5** for the framework) There 5 components to the skilling system - mobilisation, training, assessment and certification, employment, and post-placement support. The Government is effective on large-scale interventions and poor at micro-management. Hence, the Government should play an active role in mobilisation and in post placement.
- The Government should introduce delayed payment penalties including penal interest for Government fee payments
- Create a strong regulatory framework and conducive policies
- Incentivise domestic employers to own up the domestic employment eco system
- Focus on creating more jobs in the economy through employment-oriented policies
- Focus on export of Indian talent to other countries. (Job creation in India is inadequate to meet the quantum of youth entering the workforce)
- Be involved in promoting skill careers among youth
- Encourage Sector Skill Councils to revise the NOS (National Occupational Standards) in line with the compensation offered and trainability within cost and time budgets
- The Government should cut the cost of training by creating training infra and allow TPs to 'pay-per-use'. Here there is a great case study of the Gujarat Government with INOX WIND LIMITED, Rohika Wind and Gujarat Flouro Chemicals Ltd. on the CED model. As per this model, the Gujarat Government will create the capital infrastructure for skilling and INOX WIND LIMITED, Rohika will operate this infrastructure for skilling
- The Government will have to revamp the Minimum Wages Act to ensure that employers pay fair salaries and follow fair employment practices
- Bulk of new hires are in the MSME sector. This sector is sruggling for survival and pays poor wages for its workmen and reaps poor productivity. It should consider skill wage incentive for the MSME sector. Under this program, the MSME will be given a skill incentive on a 'pay-and-claim' model, if they hire skilled and certified workers and pay them fair wages inclusive of benefits like PF, Medical Insurance, etc. and a skill premium. The skill incentive will be Rs. 3,000 to Rs. 5,000 per month and will be claimable for 6 to 12 months, depending upon the nature of skill
- The Government has to part-pay for skilling and push the student and employer to pay the balance

- Incentivise the apprenticeship-based skilling in the MSME sector
- Strengthen third-party assessment process with technology
- Entrepreneurship thrives on innovation and every successful entrepreneur wants to be different from the other players. Since outcomes are well-defined, the differentiation will only be possible in the way training is delivered. Over specification on how the training should be delivered including duration of training, curriculum, attendance, etc. will lead to commoditisation and the exit of genuine Training Partners. Hence training delivery should be left to TPs
- The Goverment has to outsource the fee/coupon payment system and enforce contractual payment cycle time
- Fair pricing and acceptance of fair profit margins are essential to promote investment in the skill sector. Evolving market determination of pricing with strong oversight to prevent cartel pricing is required
- The Government should invest in skill hostels to increase salary savings post-employment
- Introduce skill vouchers to empower the student to choose the TP. Determine cost plus pricing models for skill vouchers – based on realistic costing. Encourage employers and students to pay the fee nett of skill voucher value
- Public funding for Working Capital on attractive interest rates and without collaterals for TPs should be available
- The Government should promote healthy competition and ethical and transparent operations through strong enforcement of regulations. Poor enforcement leads to exit of fair practice players and entry of unscrupulous players in the skill system

Annexure 1

28 Cost factors of a typical Training Partner (TP)

1. Community mobilisation
2. Pre-assessment and counselling
3. Quality course ware
4. Quality training infrastructure
5. Quality trainer
6. Quality TTT for each course
7. Quality assurance processes
8. Continuous formative assessment
9. Continuous trainee motivation during the course
10. Candidate dropout costs
11. Final assessment costs including fees
12. Final assessment coordination with third-party and candidates
13. Assessment failure costs because of success fee model
14. Placement management including placement dropout management
15. Low placement risk including litigation and refund
16. Post placement follow-up including post placement dropout management
17. Payment system management including AADHAR card
18. Payment delay and interest thereon
19. Payment risk including penalties
20. Equity and Working Capital fund raising costs
21. Working Capital funding costs
22. Failed candidate management including retraining and counselling costs
23. Management supervision
24. Business development costs
25. Return on equity
26. Inflation on all cost elements since course fee is fixed for a duration
27. Contingencies to cover change in NOS, SSC guidelines, assessment methods, payment system, etc.
28. Batch undersizing costs – last but not least, there is a big gap between batch sizes planned and actuals due to field realities which significantly alter the costing by a factor of up to 25% of the actual cost calculated as above

Annexure 2

Industrial Kaushalya Vardhan Kendra (IKVK)

INOX WIND LIMITED, Rohika Bavla, Ahmadabad.

INOX WIND LIMITED, Rohika has set up a manufacturing facility for Rotor Blade plant of WTG in 2010 at Rohika, Bavla, and Ahmedabad in Gujarat looking upon the huge potential of around 10000 kWh of Wind Mills installations. The State Government was also promoting the Renewal Energy sector but both the Industry and the Government felt that there is shortage of skilled manpower and there is no Curriculum or Syllabus available in the State, which can cater to the need of the skilled manpower required for Rotor Blade Manufacturing. The State Government felt that if they set up a new facility as per the industry needs, it will take time and money both. With this view, the Government of Gujarat decided to involve industries in skill development which will cater to their need as well as the general population of the State.

The Government initiated a scheme of IKVK. Under this scheme, INOX WIND LIMITED, Rohika signed a MOU with the Department of Employment and Training, Govt. of Gujarat on 24th February, 2014 in the presence of the then Hon'ble Chief Minister of Gujarat, Shri Narendra Modi.

Why IWL entered into MOU – The Wind industry was in an infancy period and there was a dearth of skilled manpower to cater to the needs of present and future expansion of the business. It was felt that without such training centers, the shortage of skill cannot be met. IWL first submitted a proposal on 17th December, 2013 to start an industry-specific course.

Based on the above request, the DET, Govt. of Gujarat has directed their local ITI to work with IWL and design a course. To work for this, a committee was formed consisting of IWL Experts and the DET/ITI team. After working jointly on this, a new syllabus was developed named as "Rotor Blade Technician (PPO)". This course was approved by GCVT, Gandhinagar.

To start this course the training centre was developed, having facilities like movable screen (so that training on the shop floor can also be arranged), multimedia, trainer having graduate Engineering background and 5 years' experience in rotor blade plant. After verification of the centre the Director of Employment and Training, Gandhinagar – authorized IWL, Rohika to start IKVK having a batch size of 40 candidates (50% Insider and 50% Outsider) vide their GR No. KVK/122014/14740/R (2) Dated 2nd September, 2014. As per the said order the Government will only reimburse the training cost @ rate of Rs. 25/- per hour of training. The Government will not provide any capital cost. All other infrastructure including the trainer, etc. is to be arranged by IWL. The assessment is conducted jointly by GCVT and Employment and Training department. 80% attendance is mandatory; also a candidate has to secure minimum 60% marks during assessment. The candidates after passing if absorbed as Junior Technician may get a salary upto Rs. 9000/- per month.

The first batch of 40 students was started on 1st October, 2014 for three months.

Looking upon the business need, the batch size of 40 candidates is too less and this needs to be increased urgently. We can mobilize candidates provided the following issues are taken care of.

The following challenges are there in increasing the batch size:

- The number of trainers and co-ordinators need to be increased.
- The space of the training room needs to be increased.
- If the number of outsider is increased the boarding lodging and transport facility needs to be arranged.

Since, Renewal energy is the solution to global warming, etc. hence there is an urgent need to develop a supply chain of skilled manpower in a time-bond manner, who can really contribute in the Wind Energy Sector.

Annexure 3

1. Low and Stagnant wages at the Entry Level

Reality	Root Cause
Low and stagnant wages at entry level resulting in very high cost of mobilisation	Poor minimum wages administration by the governing bodies

Source: EPW published in August, 2014 issue

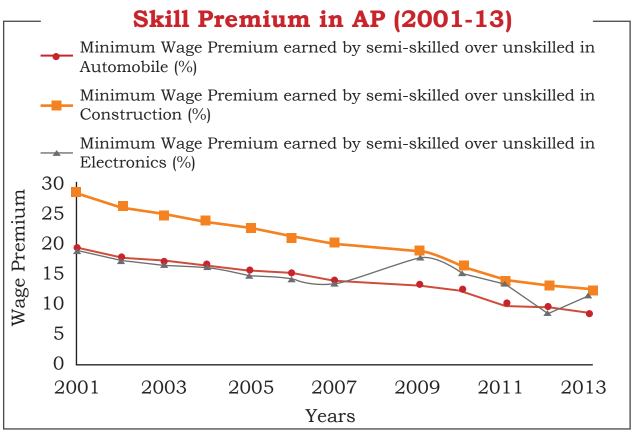
- Normal wage reports a steady growth but the **real wages appear to be stagnant at Rs. 45,000 per annum** over a 12-year period
- Growth in nominal wage rate was **significantly inadequate** to capture growth in retail price of commodities and services consumed by this segment of population
- More than **50% of the industries had negative growth of real wages** which is a cause for serious alarm

2. Low skill premium by the employer

Reality	Root Cause
Low Skill Premium resulted into lack of interest in training	• Employers willing to pay only when there is increase in productivity • Students want to go directly to job without training

Analyses of skill premium across industries in Maharashtra in Jan, 2013	
Industries offering premium less than 3%	9
Industries offering premium between 3% and 5%	4
Industries offering premium between 5% and 10%	5
Industries offering premium greater than 10%	1
Total industries	19

Industries offering skill premium (semi skilled vs. unskilled) of less than Rs. 5 per day	9
Industries offering skill premium (semi skilled vs. unskilled) between Rs. 5 and Rs. 10 per day	2
Industries offering skill premium (semi skilled vs. unskilled) between Rs. 10 and Rs. 20 per day	2
Industries offering skill premium (semi skilled vs. unskilled) greater than Rs. 20 per day	6
Total industries	19



Source: EPW, published in August, 2014 issue

- Skill premium (daily wage differential between unskilled and semi-skilled), in Maharashtra in Jan, 2013 is as low as Rs. 5 to Rs. 10 per day. This is clearly the reason why there is hardly any interest in skill training among the youth
- Skill premium over the 13-year period has declined in Andhra Pradesh for the Automobile, Construction and Electronics sectors

Annexure 4

Practical realities in realisation of payment from Government schemes – NULM scheme

Dated 15th of April, 2015
The Commissioner
Greater Hyderabad Municipal Corporation,
Hyderabad.

Dear Sir,

Sub: Urban youth skill training and placement – Telangana State – under GHMC – request – changes in MEPMA guidelines in alignment with NULM guidelines.

This is with reference to our discussions on training 3,000-5,000 urban youth under, NULM EST & P skill development program. We are seeking alignment with terms of engagement with VTP's as per guidelines of NULM to be able to complete the proposed targets within the stipulated timeframe.

Payment should be done in three instalments (30% against commencement, 50% against completion and certification and 20% based on placement and post-placement tracking) as proposed under NULM guidelines (ref. 3. Cost & Payment terms of Page 4 of NULM guidelines) and not 4 instalments as proposed in MEPMA terms (30% on commencement, 20% on completion and certification, 30% on placement and balance 20% post-placement tracking for 6 months). The above amounts should be paid for the entire enrolled candidates subject to 50% of the enrolled candidates being placed.

The table below illustrates in a nutshell how the 4 -stage payment proposed by MEPMA, makes the program unsustainable for VTP's.

Table 1

Fee payable/trainee under MEPMA guidelines: Rs. 14,000/- exclusive of assessment fee of Rs. 1,000 per trainee

Interest rate assumed per annum: 12%

S.No.	Activity stage	Candidates at stage	% Drop-out at stage	% Fee payable	Fee payable INR	Credit period	Fee net of int. cost	No. of candidates fee payable	Fee realised by VTP/100 trainees
1	Enrolment	100		30%	3900	-25	4007	100	400685
2	Classroom course completed	100							
3	OJT completed	90	10%						
4	Assessed and passed	77	15%	20%	2600	125	2066	77	158030
5	Placed	54	30%	30%	3900	175	3152	100	315205
6	Tracked after 6 months	27	50%	20%	2600	325	1211	27	32423
Total									**9,06,344**
Payment/Trainee									**9063**

Under NULM guidelines, there is a commitment for payment of Rs. 14,000 per trainee, while the MEPMA payment terms reduces it by 35% to Rs. 9063

We wish to bring to your kind attention the relevant extract on payment terms from NULM guidelines for EST & P programme:

Page 4 (extract from cost and payment norms): "NULM may design the terms of payment preferably in 3 or more instalments, i.e. 30:50:20. The first 2 instalments may be based on commencement of training, completion of certification of candidate and the last 20% may be paid on placement/enterprise development and tracking of candidates for 6 months."

Elsewhere in the same guidelines in page 7, the clause on post-training support, the guidelines specifies as follows: It is mandatory for the STP to provide placement for a minimum of 50% of trained candidates

Therefore, our proposed terms in line with the NULM guidelines are:

Payment in 3 instalments, 30% on batch commencement, 50% after assessment and certification, and 20% on placement and post placement support. The above amounts are to be paid for the entire enrolled candidates, subject to 50% of enrolled candidates being placed. The impact of these suggested revised guidelines are given in the Table 2 below:

				Under NULM guidelines fee calculation					
S.No.	**Activity stage**	**Candidates at stage**	**% Drop-out at stage**	**% Fee payable**	**Fee payable INR**	**Credit period**	**Fee net of int. cost**	**No. of candidates fee payable**	**Fee realised by VTP/100 trainees**
1	Enrollment	100		30%	3,900	-25	4,007	100	4,00,685
2	Classroom course completed	100							
3	OJT completed	90	10%						
4	Assessed and passed	77	15%	50%	6,500	125	5,966	100	5,96,575
5	Placed	54	30%	0%	-	175	-		-
6	Tracked after 6 months	27	50%	20%	2,600	325	1,211	100	1,21,096
Total									**11,18,356**
Total per candidate									**11,184**

As can be seen, even under the revised guideline the total pay-out will be only Rs. 11,184 which is still lower by 20% of the Rs.14,000/- budgeted, which will make it viable.

The full payment instalment should be against placement of 50% of batch strength as proposed in NULM guidelines (point 5.3 of guidelines in page 7) and not 60% as proposed in MEPMA guidelines.

Training duration should be measured not by number of days of training but by number of hours. The total number of hours will be in conformity with the training norms of NULM and MEPMA which is 430 hours of training including OJT. (ref clause 2.4 on course duration of NULM guidelines, page 3)

We request you to kindly take into account these factors that are borne out of 25 years of experience in this field and take a favourable view on changes sought to the agreement. We wish to reiterate here that we are seeking changes within the NULM guideline framework only.

Annexure 5
Role Allocation Matrix – Government, Private Sector, and Regulator

S. No.	Role	Infrastructure			Support			Core Delivery		
		Govt.	Private	Regulator	Govt.	Private	Regulator	Govt.	Private	Regulator
	Mobilization									
1	Regulatory changes for introducing skills in schools				√					
2	Career and job counseling in schools					√				
3	Employability Centers					√				
4	Mobilization fairs					√				
5	Advertising and skill promotion	√								
6	Integrating skills into curriculum				√					
7	Training mobilization								√	
8	Pre - assessment									
9	Pre-assesssment test regime				√					
10	Pre-assessment								√	
	Training									
11	Quality framework for Training Partners						√			
12	Quality framework for trainers						√			
13	Quality framework for content						√			
14	Rating of Training Partners					√				
15	Regulating the skill eco-system						√			
16	Monitoring the TPs				√					
17	Selection of partners				√					
18	Training fee regulation						√			

S. No.	Role	Infrastructure			Support			Core Delivery		
		Govt.	Private	Regulator	Govt.	Private	Regulator	Govt.	Private	Regulator
19	Training								√	
20	Training fee payment system					√				
21	Renting low-cost training infrastructure	√								
22	Low-cost funding for TPs		√							
23	Guarantee scheme for funding of trainees				√					
24	Funding of trainees					√				
25	Training fee reimbursement								√	
	Assessment									
26	Creating as Assessment framework for all training				√					
27	Assessment monitoring					√				
28	Assesssment					√				
	Placement									
29	Employer Buy -in				√					
30	Sector Skill Council regulation						√			
31	Sector Skill monitoring				V					
32	Minimum wage management				V					
33	Placement					V				
34	International Mobility Planning and Negotiation				V					
	post-placement									
35	Land for skill hostels				V					
36	Skill hostels at Employment Centers					V				
37	Family counseling for migration					V				
38	Migration Support Centers					V				
39	Post-placement tracking systems					V				

Annexure 6
Information Sources:

Many sources were used while developing this Working White Paper. The following were those sources were portions are reproduced in this paper. Acknowledgements are definitely in order.

1. UPSC essay: Is the Criticism that the PPP model of development is more of a bane than a boon in the Indian context justified – October 7, 2012

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