TMI GROUP

Telangana Today

ARTICLES ON EMPLOYMENT, SKILLS, EDUCATION AND GOVERNANCE AUTHORED BY

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ARTICLES ON
EMPLOYMENT

Telangana Today

T. Muralidharan

September 4, 2018

Karnataka minimum wage increase: A political gamble

The larger companies will make some noise, but will adopt it, because they have no choice and will start looking at productivity improvement and automation to compensate for the increase in costs. The MSME sector will be impacted.

Effective April 1, 2018, the JD(S)/Congress coalition government in Karnataka notified revision of minimum wages, which has triggered a big debate in the state. Here's all you need to know about the move, which has created furore.

What is percent wage Increase?

As per the notification, minimum wages went up across the board. The table below explains the extent of increase for the role of typist/data entry operator for Zone 1 (Bengaluru). The figures are in rupees per month.

	As on 1 April 2016	As on 1 April 2017
Basic	5590	5590
VDA (Variable Dearness Allowance)	2703	3070
Total	8293	8660
% growth over previous year		1%

The basic minimum wages are fixed every 3 to 5 years, while the VDA changes every 6/12 months. The basic wages were revised for this role on 1 April 2012 and thereafter the increase was only in VDA, which is supposed to correct for inflation. The basic wages were revised in 2018, wherein part of the VDA was also included. But the total salary increased by 55 per cent, as compared to 1 per cent increase the previous year. The increase in other roles is also significant - upwards of 30 per cent.

Code on Wages (CoW) Bill controversy

This increase comes in the context of the recent Code on Wages (CoW) bill presented in the parliament on 10 Aug 2017, by the then minister of State for Labour. This bill, yet to be passed by the parliament, was part of the BJP government's labour reform, which tried to set a National Floor Level for Wages (NFL) and National policy on minimum wages that are actually administered by the individual States. CoW attempts to rationalise and revise minimum wages upwards and created a lot of reaction from the employers, who thought (mistakenly) the National Floor Wage would be over Rs 21,000 per month. It was later clarified that the NFL was not specified in the CoW bill. Incidentally, the minimum wage for a government employee was revised from Rs 18,000 to Rs 21,000 per month, recently. But the minimum wages for employees in private employment are far lower and despite that most employers beat the system by paying even less than the minimum wages

Why Karnataka?

But before we discuss Karnataka, we must discuss Delhi. AAP Government scored the first goal for minimum wage increase. According to the March 3, 2017 notification, the minimum wages for an unskilled worker went up from Rs 9,724 per month to Rs 13,350, an increase of 37 per cent. The semi-skilled wages went up from Rs 10,764 to Rs 14.698 per month, an increase of 36.5 per cent. This, however, was stuck down on the 4th August 2018 by the Delhi high court, as the employers went to the court and claimed that they were not consulted adequately.

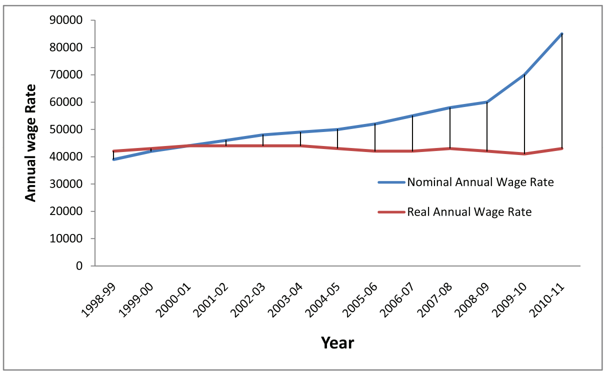
Karnataka has followed the Delhi AAP game plan to significantly increase the minimum wages. And it is a political gamble by the government. Karnataka was anyway struggling

to attract youth to non- IT jobs because the IT industry sets very high salary standards. So the big revision is a far easier matter for Karnataka than a state like Uttar Pradesh.

A big upward revision in minimum wages is long over-due

The graph plots the wages of the average factory worker. Nominal wage rate reports a steady growth. But the real wages appears to be stagnant Rs. 45,000 per annum over a 12 year period

A research paper published By Prof Bino Paul et al in Economic and Political Weekly (July 26, 2014 issue), revealed that the average factory worker's compensation - net of inflation - remained constant or was reduced, during the 12 year period between 1999 and 2012. During the same period, supervisor and managerial compensation went up by 200-400 per cent. Employers diverted the labour compensation to managerial compensation, because of demographics. Supply of unskilled and semi-skilled work force is far more than the demand.



This is the reason, why employers could manage to keep the minimum wages very low and even managed to pay less than the minimum wages. The demographic dividend is working against labour.

The minimum wages upward revision is essential for the skill movement.

In fact, the skill movement in India has suffered due to low minimum wages because it is not attractive to get skilled. On top of this, the skill premium - the difference in wages between unskilled and semi-skilled - is very low. For example, even under the new Karnataka Minimum Wages Notification for Shops and Establishments, the semi-skilled will get only Rs 45 per day (9%) more than the unskilled. So where is the incentive to get skilled?

Why now?

As it is elections time. For example, on August 8, 2018 'Beedi' workers staged an indefinite strike in Mangalore demanding the implementation of the minimum wages in 'Beedi' industry. Clearly, AAP and the coalition Government in Karnataka, would want to beat BJP in their game. Also minimum wages revision will also impact the MNREGA pay outs, and hence will have a huge rural and urban poor support. This means more votes in the next parliament elections.

What are implications for the rest of India?

The first party to propose the minimum wages increase was the CPM in its manifesto released in August 2014, which stated, "A statutory minimum wage of Rs. 10,000 per month linked to Consumer Price Index" is mandatory." Centre of Indian Trade Unions (CITU) has been demanding a minimum wage of Rs 15,000. After AAP and Congress/JDS coalition, all other parties will have to follow suit and I expect the BJP national government to also join the bandwagon. The Karnataka model will be adopted by all parties. The larger companies will make some noise, but will adopt it, because they have no choice and will start looking at productivity improvement and automation to compensate for the increase in costs. The MSME sector will be impacted. Those who can manage the local compliance authorities will get away by paying less than the minimum wages. Those who want to comply in MSMEs will suffer. The only solution is to provide Skill Wage Incentive (SWI) to MSMEs to compensate up to 25 per cent of the salary for all new employees for the first three years. Already the Central Government has started National Apprentice Promotion Scheme (NAPS) under which employers are paid directly Rs 1,500 per month for 12 months as an incentive. Central government is paying 12 per cent EPF contribution of employers for all new employment in the next three years. Hence, the MSME Skill Wage Incentive can be easily be implemented on similar lines and hence is a must for MSME compliance.

(The author is Chairman of HR services firm TMI Group)

Telangana Today

T. Muralidharan 5th June 2018

Averting the job crisis

Bulk of our 500 million youth is only partially employed and the reality for them is not very encouraging

Demographic dividend is defined by the UN Population Fund as "the economic growth potential that can result from shifts in a population's age structure, mainly when the share of the working age population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older)." In other words, when people in the age group 15-64 can work and pay for the non-working population of kids (14 or younger) or retired (65 or older), then the economy reaps a demographic dividend. This happens rarely in a country's history like India. The key words are 'can work'.

Reality Check

In January, the Chief Statistician of India projected a growth rate of 6.5%, the lowest in four years. The growth rate of agriculture has halved, rise in non-farm jobs is reducing, corporate investments in new projects slid to a 13-year low, exports have halved and 17 million people are entering the workforce every year, including 5 to 6 million who are exiting agriculture. The best estimate for new job creation is only 5.5 million jobs.

Moreover, 31 million people were unemployed as of March 2018 and another 6 million graduates were expected to pass out and enter the workforce in April. The bulk of our 500 million seeking work is only partially employed at very low wages. The reality for them is not very encouraging.

In such a scenario, India needs to do six things on a war footing. In a two-part series, we discuss the first two issues that need immediate attention.

Population Policy

The first action step is population management. We cannot provide employment to the 27 million kids born every year. Our biggest challenge today is our 1.35 billion population (2018) and the 15 million net addition every year. As per the 2017 revision of population estimates by the UN, India's population could surpass that of China around 2024, two years later than previously estimated, and is projected to touch 1.5 billion in 2030.

India was one of the first countries in the world to adopt family planning, back in 1952. Yet, 'population control' is a disastrous word in politics thanks to excesses during Emergency in 1977. Why? Because the electorate is believed to be averse to it. It is time it was brought back into national debate. China had a one-child policy and that changed its history. There should be a national all-party consensus. We need to actively promote the two-child per family policy.

Skewed population growth disturbs the balance in the country between North and South. Already people in South feel that their electoral voice is being diminished as North India is more populated. Even Prime Minister

Narendra Modi is soft-pedalling this crucial issue.

However, the debate has started. The Finance Commission determines how the tax revenue collected by the Centre is allocated among the States. Population is one of the major determinants to distribute these funds. Two days after a meeting of Finance Ministers from the Southern States that strongly objected to the Terms of Reference in the 15th Finance Commission, Modi was forced to concede that southern States like Tamil Nadu cannot be penalised for population control. This debate has to happen in every family and we have to keep religion out of it. Mass media like TV has to take this debate to all the families.

School Education Reforms

India runs one of the largest education systems in the world. Look at the key annual statistics: Grade 1 enrolment, 27 million, 5 million dropouts by the time they reach class 6, another 3 million dropouts before passing class 9 and another 8 million dropouts in class 9 and class 10. Only 11 million enter class 11. Of these, 8.5 million enter colleges and 6.5 million complete graduation or diploma.

The above outcomes tell you that 70% of our kids drop out of school. Why? Many reasons. We have put emphasis on quantity instead of quality on the belief that pushing all the children into schools and colleges will change their future. But if the school system is not managed well, the whole thing becomes a disaster.

The school system is driven by the government at multiple levels. First, 70% of children in the age group 6 to 14 study in government-run/supported schools. The government regulates the remaining 30% children's education in private schools through extensive oversight. Net result. Disaster.

Change Schooling

The role of government has to change dramatically from funding, operating, controlling and regulating this sector to only funding and regulating through an independent education regulator. First – the government should fund instead of running schools and hand over all the government schools to non-profit educational societies like Bharatiya Vidya Bhavan, Kendriya Vidyalayas.

Second, build residential schools for special sections of society like SC/ST population. These again should be run by independent non-profit societies because these children need both nutrition and education.

Third, the government should provide education coupons for each poor child (from the money saved by not running the schools). The family can use thees coupons to send the child to any school of their choice and pay the differential fee. Fourth, put quality of education on a par with school access. Affordability is important but if the quality of education suffers due to this, it is not worth it. Today, State governments are trying to cap school fees. This commoditises schools and discourages differentiation. Set the fees based on the cost structure required to run a quality institution.

Fifth, change the assessment pattern from the current objective type written exam to project submissions and publish the answer sheet and scores to prevent assessment fraud. The assessments should separate children who are academically inclined and suitable for higher education from those vocationally inclined. Set pass standards high and do not dilute them for political reasons.

Sixth, encourage children and their parents to opt for vocational education. Seventh, expose children to career counselling and encourage them to choose their career based on their aptitude and competence. Eighth, insist on transparency to prevent excessive profiteering by school owners.

Telangana Today

T. Muralidharan
6th June 2018

Gain from demographic dividend

We must facilitate over 23 million children to take an alternative path like vocational education to reap benefits

The current status of higher education is that there are just a few high-quality educational institutions like the IITs and IIMs but a large number of substandard institutions, which exist due to the wrong government policy of increasing the gross enrolment ratio (GER). Like schooling, the government funds, operates, controls and regulates instead of only funding and regulating the sector.

The GER should be determined by the demand for graduates from the job market. Instead, it is decided by the supply side. The erroneous government policies on increasing GER manifests in many ways. For example, the government conducts entrance exam for engineering and medical admission. Every year the government is forced to reduce the cut off marks to retain/ increase the merit list quantum.

What happens next? The quality students get admission into quality educational institutions. Those with poor ranks get allotted during counselling to poor quality colleges. So we have designed these children to fail at the admission stage itself. Parents mistakenly think that their child is smart because s/he got a rank and also believe that the college is good because the government has allotted. These students learn little and reality hits them and their parents when they pass out.

GER also drives the fees structure. India has one of the lowest fee structures in the world because the government puts affordability over quality of education. For example, the fee for BCom in a government college in Hyderabad is Rs 2,500 per annum (Osmania University) and Rs 26,000 per annum at a top private college run by a non-profit education society (Badruka College). Is it possible to provide quality teaching at these prices?

Higher Education Reforms

The government should exit running of government colleges and instead give college coupons to poor children from the money saved. First, increase the higher education fees based on the cost structure required to run a quality institution and then cap them at different levels based on a transparent quality grading. Second, subsidise college fees through increased scholarships to meritorious students and those from SC/ST background.

Provide easy educational loans at low interest rates and attractive repayment terms. This will ensure that students choose their college based on the quality standards and receive funding support from the government.

Third, entrance exams must measure and publish what they are supposed to do – to measure the aptitude and preparedness of the student to undertake the course and complete it. Do not dilute the cut-off marks for political reasons. Fourth, stop setting high goals for GER in higher education. Fifth, fund finishing schools to counsel and link students to the job market after graduation.

Vocational Path

With the proposed reforms in the school and higher education system, the students entering graduate colleges will decline. In my view, the total graduate in-take should come down to only 4 million per year for them to be employed or enter Masters education. This would mean that over 23 million children would need to find alternative paths. One of the alternative paths is vocational education.

The present ITI and diploma-based skill education has acquired a stigma and so, we need to change this paradigm. Many things have to be done. First, integrating vocational and academic systems through the National Skills Qualification Framework (NSQF), which will allow students to move freely from one system to the other. For example, you can get a carpentry skills certification and later on acquire a BA in carpentry skills.

Despite being notified in 2013, NSQF has not taken off. Worldwide, especially in Europe, this model is very successful. In China, students are exposed to vocational training at the secondary level (Class VII-IX). Chinese students are supposed to take the senior high school entrance exam 'Zhongkao' after Class IX. Their score determines whether the students should be given academic or vocational education. Usually, students with lower marks end up in the vocational secondary stream. As of 2015-16, net enrolment in vocational courses in India is only about 5.5 million per year, compared with 90 million in China.

We have to popularise the NSQF and vocational system through democratic means, i.e, we must reach out to parents via mass media to educate them on the futility of sub-standard graduate education. We have to create employment and self-employment models whereby the skilled workmen earn more than graduates.

But skill training alone is not enough. More than skills, apprentices learn about work ethic only on a live job. How does one do this? Through apprenticeship programmes. Our current apprenticeship programmes cannot provide live apprenticeship opportunities to millions of youth. We have to enable labour reforms for the MSME sector — the largest employer after agriculture — to embrace the apprenticeship programme. The new apprenticeship programme launched by the Centre is an excellent first step. But this requires scaling up in a big way and urgently.

Export Manpower

After people work for 4 to 5 years, they realise they are not able to grow. Many of them are in dead-end jobs — stuck in call centres, data entry jobs. So, there must be an 'upskilling' eco-system, including loans, training providers, assessment partners among others. The NSQF framework will play a key role here. The upskilling eco-system should also be designed for global placements. This is because we cannot create enough jobs in India and there is a shortage of skilled workmen in many countries.

We need to create structures, processes both in and outside India to enable the eco-system for export of experienced manpower on non-migration contracts. For example, Japan needs a lot of trained and experienced professionals in IT, nursing in view of the Olympics 2020. The salary level is equal to full-fledged employment after the first three years. Indians can work in Japan for a maximum of six years only. But once they complete the six years, they will be in demand in any Japanese company operating outside Japan.

Responsible Citizenship

The first five reforms are what the government can do. This last reform is at the citizen level. This means that every citizen must participate in the political process by voting and engaging with the government.

Only then can we rebuild every component of the supply chain of people assets – from birth control, right schooling, relevant vocational and academic education and the right employment practices. Failing to do so will result in the demographic dividend becoming a demographic disaster.

Telangana Today

T. Muralidharan 6th April, 2018

Tackle graduate unemployment

Our higher education system is converting workers to 'willingly unemployed' people and needs serious attention

Recently, a national newspaper published a story on graduate unemployment in Telangana with the headline 'Reality Check- Is TS job ready?' This article dwells on the real issues involved.

In the Southern States, the Greater Unemployment Rate (GUER) — unemployment of those actively seeking a job and those willing to work but inactive in the job market — between September and December 2017 was far higher among graduates than school dropouts. This is the conclusion of 'Unemployment in India – A statistical profile' – a report prepared by the BSE and Center for Monitoring Indian Economy (CMIE).

GUER percentage represents the percentage of persons unemployed as a percentage of those actively and inactively seeking work. For example in Telangana, 24.1% of the graduates seeking work are unemployed, which is 34 times the percentage of 'class 5 dropouts' unemployed. The story is no better in Tamil Nadu, where the Graduates GUER% is 14.3%, which is 10.2 times higher than GUER% for 'class 5 dropouts'. (See info graphics)

Why? Because graduates are too choosy and the demand supply-gap is the most adverse for them.

Why it's happening

This is a true story. In 2009, I went to a small village in Dausa district of Rajasthan, close to Jaipur, to study rural unemployment. I met the Sarpanch and asked him why the villagers do not invest in formal education for their children. The Sarpanch, Gangaram was a BA, and his brother was an MA.

The Sarpanch asked me to help them get jobs. When asked about their specialisation, both said they had taken Political History in Hindi medium. I told them it was a wrong choice unless one wants to be in politics. What Gangaram told me blew my mind.

The first bus from the village reached Jaipur at 10 am and the last bus left Jaipur for the village at 3 pm. In between those timings, Political History in Hindi was the only course available at the University. Further, shocking was that the brothers were idling in the village and refused to work in the fields or do any temporary work because they were graduates, while their entire family was at work! This was when I realised how our higher education system is converting workers to 'willingly unemployed' people and that attention to the Graduate segment is both critical and important.

Unrecognised Phenomenon

Correlation between employability and employment among policymakers, media and even international agencies is the root cause of this phenomena. The correlation between the above two is valid for countries where the demand-supply gap is narrow mainly due to their demographic profiles. In these European countries, the job and skill profiles are changing but the growth of population is low.

Hence, the belief that right skilling leads to employability, which in turn will lead to employment is true for them. This is not valid for India. In fact, it is the other way. But more on this later.

The second reason is the generic employability reports regularly published by agencies like Nasscom on employability of engineering and non-engineering students. These reports indicate that graduates are failing in their generic employability assessment and hence are unemployed.

Let me take you back to the newspaper story. Even here the journalist quotes extensively from another report published by a consortium of CII, UNDP and others titled 'India Skills Report 2018'. He quotes the results of generic employability tests done and concludes that skill deficiency is the cause for the graduates being unemployed.

All policy makers, politicians and even the media buy this narrative. The lack of basic skills is a problem for sure but this is only a small part of the problem and not the sole reason. I strongly feel that this wrong assumption is the root cause for our flawed skill policy.

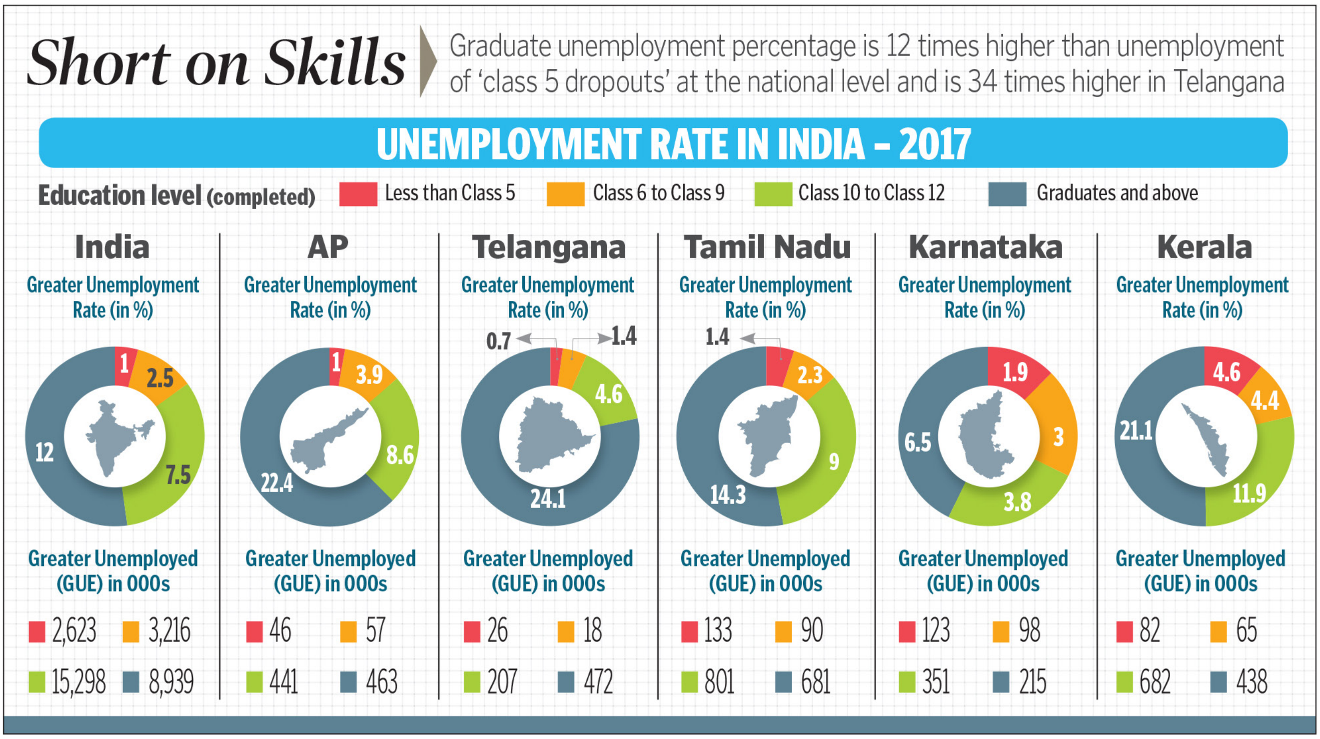
Why Do I Think So

Because skills can be taught in schools and colleges but can be grounded only in a live job. Here is another true story of Sashi, a Malayali graduate boy who came to Mumbai straight from Kerala. He could not speak Hindi or English. I helped him get a job because the family was desperate. He knew accounting in Malayalam and had never worked on a computer. Six months later, he was the darling of the company. He worked 14 hours a day, learnt English a bit, learnt how to use computer and spoke good Hindi. In two years, his salary was doubled.

The point is that the first job is the key to skills. Without a job, the skills are not grounded. So, any generic assessment of employability after college or any skill training has a very limited value. The real test should be to train a person on a specific job, let him/her work on a real job at any salary for three months and then assess the employability against that job.

The concept of generic employability is useful for high-end jobs like software or consulting but not for entry level back office or 'feet on street' sales jobs. We have demonstrated that graduates from towns can be trained and made employable for the entry-level jobs in two-three weeks. Over 25,000 graduates trained and placed by us bear testimony to prove it.

(The author is Chairman, TMI Group)



Telangana Today

T. Muralidharan 7th April, 2018

Beating the graduate glut

Since compensation is based on productivity, the skill ecosystem must focus on performance to get a better premium

Unemployment has three dimensions – Supply, demand and employment terms.

Let's first look at the supply of graduates (see Table 1). We are producing far more graduates than what we can employ. The HRD Ministry is responsible for improving the Gross Enrolment Ratio (GER) in higher education and they have done this diligently without studying the demand.

The GER in higher education is calculated as the total enrolment in higher education, regardless of age, expressed as a percentage to the eligible official population (18-23 years) in a given school year. It shows the general level of participation in higher education and this determines the capacity to be created.

The country's GER increased from 24.5% in 2015-16 to 25.2% in 2016-17, according to the latest edition of the All India Higher Education Survey. India aims to attain a GER of 30% by 2020. This would mean that our graduate passouts would increase by at least 25% by 2020.

Widening Gap

The second dimension is the demand for graduate jobs. Let's look at my research data on this, focussing at the entry level. (See Table 2)

Unemployment

Clearly, these were based on optimistic projections made before 2015 by KPMG for NSDC and other data. Even this report shows that only 3 million jobs would be created during the nine-year period 2013 to 2022 or approximately 0.33 million per year. Compare this against a supply of 6.45 million graduate passouts every year, which will further grow by 25% by 2020.

The third dimension is employment terms. Among the various employment terms, the most important is salary.

A TMI study in Patna a few years ago showed that unemployed graduates wanted Rs 35,000 per month to take up a job in Mumbai. Why? Two reasons. Lack of correct information about the cost of living in Mumbai. Bachelors can live from Rs 15,000 to Rs 1,00,000 per month in Mumbai. So where does this number Rs 35,000 come from? Mostly anecdotal evidence of a few. Second, the minimum wages are too low to cover the living costs, even if one were to live in Mumbai at Rs 15,000 per month.

Skill Advantage

The second expectation is better treatment than non-graduates. For example, minimum wages do not distinguish between a graduate and a school dropout. Graduates want a wage premium, which again is based on the wrong assumption. Across the skill ecosystem, there is a belief that skills mean a wage premium. This is not happening.

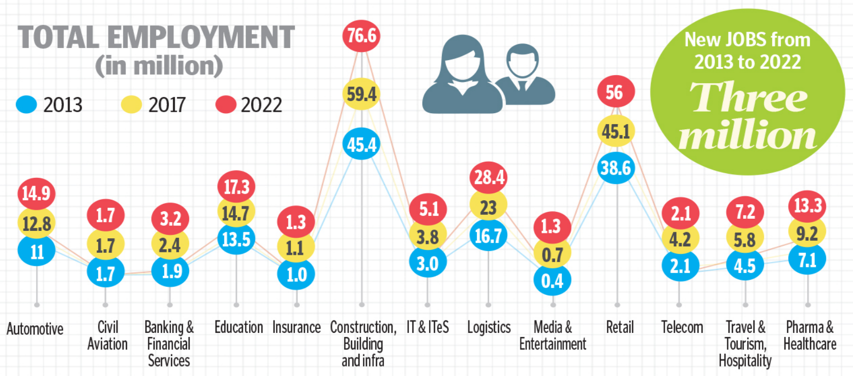
TABLE 1: GRADUATE PASSOUTS IN 2015-16 (in million)

All India	AP	Telangana	Tamil Nadu	Karnataka	Kerala
6.45	0.25	0.21	0.53	0.35	0.15

TABLE 2: GRADUATE & PG JOBS AT ENTRY LEVEL (in million)

DEMAND

Sector	2013	2017	2022
Automotive	0.09	0.11	0.12
Civil Aviation	0.01	0.01	0.01
Banking & Financial Services	0.78	0.98	1.30
Education	0.16	0.17	0.20
Insurance	0.48	0.55	0.63
Construction, Building and Infra	0.11	0.14	0.18
IT & ITeS	1.30	1.64	2.20
Logistics	0.02	0.03	0.03
Media & Entertainment	0.00	0.01	0.01
Retail	0.04	0.04	0.06
Telecom	0.14	0.29	0.15
Pharma & Healthcare	1.42	1.85	2.67
Travel & Tourism, Hospitality	0.01	0.01	0.02



For instance, in Maharashtra, the skill premium between unskilled and semi-skilled is non-existent. In 7 of the 19 industries we studied, the difference between the daily wage of a semi-skilled worker and an unskilled worker is below Rs 10 a day and the skill premium of semi-skilled vs unskilled is less than 5% (as of June 2017).

Skills are just a means but productivity is the outcome and the basis for compensation. However, graduates believe that passing the exam is skilling and hence they deserve a premium. The skill ecosystem also focuses wrongly on skills instead of productivity. Employers are unwilling to pay fair wages because of poor productivity when a person joins the first job.

This changes, however, once the individual demonstrates performance and productivity.

The misconception of higher cost of living and higher expectation of wages, unfortunately, is not addressed on campuses. Instead, the opposite happens. Because of campus placement, every student believes that s/he deserves the highest salary.

Job fairs are one place where they realise that they have little hope. For example, in one of the job fairs we conducted in Deoria in eastern UP last year, several thousand graduates competed for just a few jobs and the pent-up feeling of not getting a job was palpable.

The Solution

Supply Side

- Stop focus on increasing GER in higher education. HRD Ministry must align supply to demand. Focus must shift to quality. Allow unviable colleges and unviable courses to shut down
- Increase fee structure for better quality of teaching infrastructure, especially in non-engineering courses
- Higher tuition fee is a must to dissuade anyone joining a graduate college without the aptitude. Provide scholarships
- Encourage 'learn while you earn' programmes and subsidise and promote Open University education
- Introduce job counselling courses where the reality of job market is shared with students and parents

Demand Side

- Only MSMEs can provide employment to masses. Create a level-playing field and support MSME growth. Provide incentives like skill wage subsidy to encourage graduates to join this sector
- Export experienced manpower and replace them with skill certified fresh manpower

Employment Terms

- Revise minimum wages for semi-skilled and graduates
- Set up skill hostels at job centres so that the graduates can stay at minimum cost and thus do not go 'out of pocket' while working in their first job Concluded

(The author is Chairman, TMI Group)

Telangana Today

T. Muralidharan

28th Aug 2017

Avoidable row on New Wages Bill

It doesn't prescribe a National Floor Wage of Rs 18,000 per month that is fuelling the controversy.

Do you know that your barbers, workers of your club, etc, must be paid a salary above the minimum wages (MW)? And if it goes up, your bill will go up? If you are a worker in a company or a factory, do you know that your salary is linked to the MW determined by the government? If you are an employer and if you don't comply with this New Code on Wages (CoW) Bill, you can face prosecution? Read on about a new Bill that can affect us all — as employee, employer or customer.

On August 10, 2017, Minister of State for Labour Bandaru Dattatreya introduced a historic Bill — CoW Bill 2017 in the Lok Sabha. It is still a draft since Parliament is yet to pass this Bill. The Bill consolidates Minimum Wages Act 1948, Payment of Wages Act 1936, Payment of Bonus Act 1965, and Equal Remuneration Act 1976, into a single statute.

This is the first of the four major labour reforms being planned as part of the 'ease of doing business' agenda. The Ministry is also condensing 44 labour laws into four codes — wages, industrial relations, social security and safety, health and working conditions.

Unnecessary Frenzy

The Bill has created a media frenzy – by claiming that it will set a new single National Floor Wage (NFW) of Rs 18,000 per month (or Rs 693 per day assuming 26 days of earning per month), which means that the MW across all sectors, all States, would be above Rs 693 per day. This means almost doubling the current MW. While the employers welcome many aspects of the Bill, it faces stiff resistance on both the single NFW and its monthly value of Rs 18,000.

Employers believe this will prevent market forces from determining wages, thereby impacting competitiveness, profitability and even survival of enterprises, especially the MSMEs. The Retailers Association of India challenged the Rs 18,000 per month NFW incorrectly, because the government is yet to determine the amount.

In my view this controversy has taken the debate away from the core issue – the current MW regime is not working and we need to desperately correct it through a centrally-driven MW regime.

MW and NFW

The MW is a global practice to prevent exploitation of labour through payment of low wages and is championed by the International Labour Organisation. In India, the concept was first introduced through the Minimum Wages Act 1948.

The Labour Ministers Conference, 40 years later, in 1988 resulted in an addition of Variable Dearness Allowance (VDA) to the MW to address the issue of inflation. So there are two components to the minimum wage – a basic rate of wages and a special allowance or VDA. Some States announce these two components separately or merge it into one.

Determining MW

The MW are arrived on the basis of the following: first, arrive at a Living wage. Living wage is the level of income for a worker and his family of four (including two children), which will ensure a basic standard of living covering good health, comfort, education and contingency.

Second, arrive at the Fair wage. Fair wage is that level of wage that not just maintains a level of employment, but also seeks to increase the employment by keeping in perspective the industry's capacity to pay.

Lastly, arrive at the MW. Normally, the MW are between the Fair wage and the Living wage. There is a trade-off between what the worker needs and what the employer can afford to pay. It is my view that this trade-off has been against the worker.

MW set in two-stages

First, the Union Labour Ministry stipulates the draft MW for various sectors like agriculture and industry periodically (in three to five years), based on recommendations of the National Advisory Board and seeks objections and recommendations of the public and finally publishes the MW.

In the second stage, each State's labour department (as per recommendations of a State-level committee) is expected to translate these floor level wages and announce a minimum wage for each of the industries in the State, in each geographical zone, based on local conditions and as per guidelines specified in the Act.

In all these processes, the MW for unskilled is arrived at first and then extrapolated to semi-skilled and skilled categories based on the skill level and the arduousness required for the assigned job. Similarly the MW for various zones are extrapolated from the lowest cost zone. The real challenge has been both in determination and extrapolation of the MW at the State level and its poor implementation.

No Truth in Rs 18,000

The media focuses on the validity of a single NFW and why this amount of Rs 18,000 per month is too high. My detailed examination of the draft Bill, discussions with experts and Ministry officials confirm that there is no basis for these alarmist stories.

Firstly, there is no proposal for a single NFW across India. Clause 9(1) of the CoW draft reads, 'The Central government may, by notification, fix the national minimum wage provided that different national minimum wages may be fixed for different States or different geographical areas'. There is no reference to the single NFW of Rs 18,000 anywhere in the draft Bill. In fact, clause 9(3) clearly states, 'Central government, before fixing the national minimum wage may obtain the advice of the Central Advisory Board'.

This Board comprises employers, trade unions and independent members, who review data and recommend the national MW. This Board, which has 15 employer representatives, is yet to submit its recommendations. Hence, there is no basis for the Rs 18,000 per month NFW.

Current NFW

Based on the recommendation of National Commission for Rural Labour in 1991, the Government of India announced the national MW for agricultural/rural labour at Rs 35 per day, which was revised to Rs 100 per day in 2009, Rs 160 per day in 2015, and to Rs 176 per day from June 1, 2017 (for central sphere). However, these floor wages are non-statutory and advisory in nature and are not binding on the State governments. This is one of the root causes for the current state of affairs

What is new in CoW

Broadly three things. First, currently the applicability of the MW Act is restricted to a list of industries notified by the Central and State governments. This restriction is being removed. So every employee is covered except Apprentices and Armed Forces.

Second, currently employees with wages over Rs 18,000 per month are not covered. This restriction is also being removed. Every employee irrespective of salary will be covered.

Third, this Act will have statutory powers to align the State MW to the central stipulations and also give teeth to the implementation.

So, the focus should be on the following key questions – How are the MW implemented currently and what is its impact on wage determination? Is the employer focus on wages or productivity? Has the management passed on labour productivity increases as wage increases? Why do we need to overhaul the whole wage system?

We will deal with these questions in the concluding part of this article tomorrow.

(The author is Chairman, TMI Group, and Independent Journalist)

Telangana Today

T. Muralidharan 29th Aug 2017

Overhaul minimum wage system

The new Code on Wages Bill must address the key problem of inconsistent minimum wage determination by the States.

The controversy over the Code on Wages Bill has taken the debate away from the core issue – the current minimum wages regime is not working and we need to desperately correct it through a centrally-driven minimum wages regime. We explain some of the key concerns that need to be addressed. Minimum Wages (MW) are declared for three categories – unskilled, semi-skilled and skilled. Most States also declare MW for these three categories industry-wise and zone-wise. For example, the current MW of Maharashtra (from July 1, 2017) has 61 industries and for each industry, there are three zones and three categories.

An analysis of the MW in Maharashtra is very revealing:

• The MW vary from Rs 13,650 per month (Rs 550 per day for skilled category for construction industry) to Rs 9,022 per month (Rs 347 per day for skilled category for retail petrol pumps). There is a 51% variation for the skilled workmen category between construction and petroleum retail sector in the same zone.

• An unskilled construction worker earns 15% more than a skilled engineering worker or 28% more than a skilled factory worker, in the same zone.

• An unskilled club worker earns 3% more than a skilled factory worker in the same zone.

• A skilled factory worker in Mumbai (zone I) will get only Rs 600 per month more compared to a skilled worker working in a very small town (zone III)

• Even more shocking is the skill premium (difference between unskilled and semi-skilled for the same industry, in the same zone). For example, for engineering industry in zone 1, the skill premium works out to only 5% or Rs 500 per month (Rs 19 per day)

What is the core issue here? It is the way the MW are extrapolated across industries, across zones and across skill categories by each State.

Right Minimum Wages

The current way is to fix the MW of the unskilled worker in the lowest cost zone in the lowest paying industry and extrapolate the MW of all the rest. This is the crucial flaw that has resulted in the above anomalies.The correct way is to determine the MW of the semi-skilled category first, based on the norms and derive the rest. Why? Because it will incentivise the youth and the unskilled employees to pick up skills. The employer is happier to pay more to the semi-skilled and skilled because they are fewer in number and because there are ways to recover the wage increase through productivity training. While government undertakings and large corporate houses may comply with this norm, a large section of medium and large employers do not comply with MW. This has resulted in the actual wages being determined by market forces. In fact, one of the strongest arguments of employers is that any stipulation of MW will distort wages and that it must be determined by market forces.

Startling Findings

In an article published in the Economic and Political Weekly (July 26, 2014 issue), three authors (including me) clearly established three very little known facts after analysing voluminous data from government sources:

1. During the 12-year period from 1999 till 2011, the average factory worker's (the average worker earns much more than the entry level worker) real wages (after adjusting for inflation) remained constant at Rs 45,000 per annum. In more than 50% of the industries, the real wages declined.

2. The supervisor compensation, during a similar period, went up two to four times the labour compensation. Clearly, the managers managed to secure higher wage raises and hence dominate the manpower costs of the organisation

3. The study shows a very weak (12%) productivity-real wage linkage in Indian manufacturing. If productivity goes up by Rs 100, only Rs 12 was passed on to labour. It shows that productivity has gone up owing to the management focus on automation and technology. Managements willingly did not pass on productivity increases to labour.

Supply Exceeds Demand

While India's GDP growth is one of the world's fastest, employment creation in eight sectors, including textiles and automobiles, as per a 2016 Ministry of Labour report, was the slowest in seven years. Over 12 million Indians enter the workforce every year. Between 2011 and 2015, the number of agricultural jobs reduced by 26 million while non-farm jobs rose 33 million.

According to McKinsey Global Institute, the net growth in employment was a meagre 7 million over 4 years or less than 2 million per year. What happens when supply of onions far exceeds demand for onions? Onion prices crash. The same thing happens in the labour market as wage is the price paid for labour.

Analyses of past data validate the fact of wage stagnation and this is because of huge supply over low demand. Demographic dividend is the main cause for real wage stagnation. Most of the employers get away with paying lower than MW because of the desperation of the unskilled worker to find and keep the job.

Entry Level WagesIn manufacturing, the total manpower cost as a percentage of the total cost varies from industry to industry – from 6% in highly automated plants to 20% in labour-intensive industries like apparel. We need to estimate the entry level factory worker cost as a percentage of the total manufacturing cost after subtracting for supervisory costs, experienced worker salaries, etc, which may vary from 1% to 5%. Hence, a 50% increase in MW will only impact the total manufacturing cost by 0.5% to 2.5%. If the increase is mainly in the semi-skilled category, the impact will be far lower owing to fewer numbers. This can be offset by increasing productivity through skill training and tool kits. Most industries are impacted more by energy cost than entry level labour cost of semi-skilled manpower. So, the claim that MW increase will kill the industry is more emotional than factual.

Ensuring Compliance

If most enterprises are already beating the MW regime at the current MW, what will happen when the MW are revised significantly upwards? Surely, this is an area of concern. Firstly, there is a need to make medium and large employers and all employees aware of this new CoW Bill and the consequences of non-compliance. Employers must be asked to declare their compliance in their annual reports. Secondly, the Labour Ministry must set up a portal and activate call centres for MW complaints with time-bound investigation and publish their findings. This portal should also encourage compliant companies to share their experiences in improving productivity to offset the increase in MW and this will differentiate the compliant and non-compliant employers and quality labour will move to work for employers who comply with this.

Over a period, non-compliance will become more expensive than compliance. The MW need to be revised significantly upwards to offset the wage stagnation due to excess supply over low demand. The Central government must intervene in this since MW cannot be left to market forces and State's interpretation and extrapolation. However, the increase in MW should be in the semi-skilled category rather than unskilled wages. The CoW Bill can be used to strengthen the skill ecosystem. A strong CoW Bill along with fair MW is the need of the hour. Concluded

(The author is Chairman, TMI Group, and Independent Journalist)

Telangana Today

T. Muralidharan

15th Sep 2017

Cash in on Wages Bill

CoW Bill presents a great opportunity to correct wage stagnation and build demand for skills among youth

In my two-part article earlier in this column (on Aug 28 and 29 – telanganatoday.com), I had argued that the current minimum wages implementation has failed and the cost of this failure is being borne by workmen through stagnant wages for over 12 years because of our unique skill market conditions, where the supply far exceeds the demand.

The Code on Wages or CoW Bill presents a great opportunity to not only correct the wage stagnation but also to build a demand for skills as well as Recognition of Prior Learning (RPL) in skills among the youth.

Dipping Demand

The following are three reasons for low demand for skills among youth:

Wages are low: Most of the jobs are in cities and require youth to migrate. The current wages are not enough to cover their costs and hence most end up borrowing from parents and co-workers. This is the reason for low retention in post-skilling jobs.

Skill premium is low: According to the Maharashtra minimum wages notification effective July 1, 2017, the skill premium measured by the difference in the minimum wages for unskilled and semi-skilled (for example in the engineering sector) is as low as 5%. Obviously, there is no incentive to undergo skill training.

No employment preference for skill certification: Skill certifications have no legal standing vis-a-via employers and hence cannot be enforced. This is a big obstacle in drumming up demand for skills.

The RPL programme attempts to identify skilled craftsmen and youth who are not certified and encourages them to take an assessment and get certified by the Skills Ministry. This is also yet to take off for identical reasons cited above.

How CoW Bill Can Help

Step 1: Revise the minimum wages substantially for semi-skilled and skilled categories. The revision can be far less for unskilled.

The CoW Bill plans to revise minimum wages through a National Floor Level Wages (NFW) model and to streamline the extrapolation of minimum wages across sectors and geographies. A committee has been appointed to arrive at the NFW and it is believed that the NFW will be increased significantly to offset the low stagnant wages.

Though experts believe that market should determine the wages, I believe this is only valid in a perfect market. Let me cite an example where this wisdom has not been adopted but the results have been dramatic and beneficial to the nation — Dr Kurien and Amul decided that milk producers will create a producer's cooperative that will determine the prices and that the prices must be remunerative to the milk producers. This resulted in the Indian milk revolution.

The skills market is also imperfect. The supply is far more than the demand and will continue to be so because of the demographic dividend. So the wages, which are determined by the demand-supply gap, have stagnated.

The Minimum NFW

As per 7th Pay Commission report, the minimum salary of Central government employees may be raised to Rs 21,000 per month from the existing Rs 18,000 per month. It is an irony that the government pays its employees much more than the market. Though this is a data point, the new NFW has to be far less.

The current (effective July 1) minimum wages in Zone 1 for the unskilled category in Maharashtra varies from Rs 8,033 to Rs 12,450 per month.

The new NFW to be defined by the committee will be, in my opinion, somewhere between government employees' minimum wages and the current levels, at around Rs 14,000 per month. But there will be a lot of reactions against the upward revision on the grounds that the business cannot absorb this increase, especially the MSME sector.

So, the first step is to revise the NFW of only the semi-skilled and skilled upwards significantly. The NFW of the unskilled should be revised upwards at much lower rates than the semi- skilled.

For example, the minimum NFW can be fixed at Rs 14,000 for semi-skilled and the unskilled NFW could be at Rs 11,000 per month. The skilled NFW may be at Rs 18,000 per month. This will be acceptable to the employers because the semi-skilled and skilled numbers are very small compared with the unskilled numbers.

This will also create a skill premium of over 27% without upsetting the employers.

Step 2: Define skill certification as one of the indicators for semi-skilled and skilled wages in the CoW Bill, thereby legitimising the skill certification.

Skill certificate has to be at a level specified by the Skill Ministry (say level 5 of the National Occupational Standards for semi-skilled and level 7 for skilled). Automatically this will drive the demand for skill certification. A bigger benefit will be the demand for RPL.

Step 3: The CoW Bill should specify that inexperienced fresh students certified by the Skills Ministry will be paid 5% less than the semi-skilled. This will create a sustainable wage for the migrating skill certified students.

Step 4: Like skill certification, link apprenticeship programmes to semi-skilled status at the end of the first six months of the apprenticeship programme. This will mean that the government reimbursement under the apprenticeship programme will be at the semi-skilled wages. This will drive demand for apprenticeships among students.

Step 5: Ensure better implementation of the CoW Bill by encouraging skill students to share their compensation data online on the Labour Ministry portal. This will highlight the defaulter employers so that corrective steps can be taken.

Step 6: Initiate a Skill Wage incentive programme to refund 25% of the applicable minimum wages to SMEs who employ fresh certified skill trainees for a period of six months. The payment must be directly made to the employer similar to the current apprenticeship scheme. This will encourage the SMEs to employ fresh certified youth and give them six months to realise the full productivity.

The CoW is a golden opportunity that should not be missed.

(The author is Chairman, TMI Group, and Independent Journalist)

ARTICLES ON
SKILLS

Telangana Today

T. Muralidharan 30th May 2017

Go in for regular reskilling

Investing in the primary asset, which is oneself, is the only way to beat skill stagnation and stay employable

There has been a lot of anxiety in the IT industry about job losses. This time, the job losses are across levels but more at the middle and senior level than at the entry level. This has created panic among the industries dependent on the IT sector – specifically the real estate or the housing and the office space industry.

Why did this happen and where do we go from here? Let's start with Why.

Recently, I got a call from my ex-employee, who works with a top IT services company based outside India. He has been with this company for many years and now he wants to come back to India. Why? "Things have changed. Everyone at the top has taken the 'me and for myself' approach, leaving a lot of middle managers stranded. In the past, the top and middle management were one team and now it is 'either me or you'. The leadership has clearly crossed the 'Laxman Rekha' on compensation and rewarded themselves at the cost of rest. I am disgusted at the way things have changed so quickly."

The Reasons

So the first reason is that the top Indian companies, which portrayed one team spirit when they were winning, have changed and have discovered suddenly that the middle management was not adding value proportionate to the salaries paid.

There are changes in the post-Trump era. But this is not the only reason for this development.

Five years ago, the Indian IT industry faced a big change – SMAC. Four technologies – social media, mobile, analytics and cloud – were changing the face of IT. At that time, the challenge of obsolescence of the middle managers was met with strong company-driven learning programmes. This time around, the companies have given up and put the middle manager on notice.

Behind the Curve

Who is responsible for staying contemporary is the key question. Is the employee or the employer responsible for keeping the employee contemporary? Professionals have been spoilt for a long time by the employers who put all the investment and took all the risk. The average employee just sailed along.

Let me explain this a bit differently. When an IT professional joins the industry, s/he starts investing in assets such as cars, housing and high-end smartphones. When investing in these material items, are they aware that the primary asset that creates all these secondary assets also needs investment?

Clearly, the primary asset is 'oneself'. How many IT professionals invest a percentage of their salaries in skilling themselves – attending conferences, buying latest books and getting the latest certifications? This is often believed to be the employer responsibility. There are many who don't even invest in the latest laptop and expect the employer to do that. Even those who do invest in themselves, do they spend adequately?

In my opinion, every IT professional must keep aside 10% of her earnings every year for investing in own skill upgradations.

The second aspect is the role intensity. As one goes into middle management, the job becomes more and more transactional — of daily crisis management. Weekends are spent on meeting deadlines. Why does this happen? Because the quality of hires at the entry level has been falling and more time is sucked up in managing angry customers. Most US IT customers are unhappy with our quality and professionalism. This again puts a huge pressure on the middle management to 'hold the fort' with very little time for up-skilling. The net result – skill stagnation.

Possible Solutions

First, acknowledge the new reality that everyone has to take ownership for her own skill upgradations. Second, employers will become more and more mercenary. Third, the IT industry has to take part ownership for the current crisis.

If the employers sack employees with contractual motive, we will have a huge crisis in many homes with EMI default and family atmosphere becoming vitiated. IT professionals are more fragile than those from manufacturing or banking sectors. So a sudden discovery that one is not wanted anymore can be difficult to cope with.

Deferred Resignation

I have a suggestion – deferred resignation. The employees resign with a deferred date of 6 to 12 months. During the notice period, the IT employee will be on the bench for a change. Earlier, the bench was used before redeployment. Now the bench with half salaries for 6 to 12 months can be used to provide a graceful exit.

Employees can use this time to upgrade using company resources like online courses and even work as an apprentice on projects involving new technologies. The employee can also apply for internal job posting during the bench period. But they have to exit automatically if there are no absorptions at the end of the bench period.

Tenure System

All future hires, especially from Tier 2 and 3 campuses, must be on a contract basis for five years. This will put the ownership on the IT employee to stay contemporary. At the end of this first contract, only those who fit the future requirements will be converted into a long-term and permanent tenure.

The rest may get an extended contract or may have to leave. This is the most common practice among university professors in the US and keeps them on their toes. More importantly, this kills any complacency in the employee. The employee will also moderate asset purchases until tenure happens and hence won't be caught with sudden surprises like it is happening now.

(The author is chairman of TMI group and an independent journalist)

Telangana Today

T. Muralidharan 28th Sep 2017

Tasks for new Skill Minister

Time we stopped blaming the Ministry, NSDC and the mission, and focused on solutions.

Last week, I read an article titled 'Recovering from the train wreck', written by one of the editors of a leading business daily. I was very disappointed because the narrative is the same across mainstream media – Skill Ministry, National Skill Development Corporation (NSDC) and their training partners have let the nation down.

The Skill Ministry was created with a lot of expectations. Rajiv Pratap Rudy was appointed as the Minister of State with Independent Charge in 2015. But what did Rudy accomplish? To explain this, I would like to use the story of Edward De Bono in his book 'New Thinking for the New Millennium.'

There is a ship on high seas. A lot of things are going wrong. The pipes are leaking. The food is lousy. The generator is not working. The sailors are very grumpy and demotivated. There is a mutiny on the ship. Suddenly a new captain is airlifted into the plane. Everything changes. No leaking pipes. Food quality improves dramatically. The generator is fixed. The sailors are happy. But there is still one problem. The ship is still sailing in the wrong direction.

Rudy was a man in a hurry and fixed quite a few issues. But the direction was still wrong. Excessive focus was on the supply side instead of the demand side.

Conflicting Narratives?

One media view is that the skill targets are supply-driven and hence irrelevant. The actual skill is absorbed only in the first job and unless the student is employed within six months, the skill training goes waste. The economy is not creating enough jobs. Hence, why train when there are no jobs?

The opposite view is that job creation is not possible unless there are skilled people available. So skill first. Skilling empowers the youth and hence the Skill Ministry and the NSDC should have aggressive targets and achieve them. Otherwise, they will be deemed as failures.

Both these narratives are used by the media depending on the mood and propensity of the journalist who is writing the story.

So while half the stories kick the skill mission for the poor placement record, the other half is unhappy with the poor training record. Both of them gang up when it comes to quality of training and fraud by a few training partners and accuse NSDC and Skill Ministry honchos of this malaise.

Unfair Reporting

Let me explain why this is unfair reporting.

First, it is not the fault of the Skill Ministry that India is not creating enough jobs. Rather, it is the fault of the entrepreneurship model we are adopting wherein big investment is beautiful while small but with a big number of jobs is passe. Ever heard of partnership summits for SMEs?

Second, it is not the fault of the NSDC that 12 million people are joining the workforce every year. It is the result of the failure of our population control programme.

Third, it is not the fault of the NSDC that we have a few unscrupulous training partners who find ingenious ways to cheat. It is the fault of the Indian mindset that when it comes to making money, the means are not important but only the ends matter.

Our rich bureaucrats and politicians are shining lights of this philosophy. So why blame the NSDC when the unscrupulous training partners are also from our own society.

The 'Bakra'

Every journalist is looking for a 'bakra' to blame for all our failures and currently that bakra is the Skill Ministry, NSDC and training partners.

At the root of all this narrative is the core belief that skill training is a grant given by the government of India to training partners and if anything goes wrong, we have to blame the administrators and lynch the training partners.

Let's examine this core belief.

Grant to whom?

There are two beneficiaries of the skill system – the student and the employer. The student gets free skill training while the employer gets free trained resources to hire.

The training partner gets the training, mobilisation and placement expenses reimbursed and does not get free grant. This mindset, also prevalent among the bureaucracy, must change. So instead of controlling the training partner, it is time to manage the student and the employer.

The Solutions

How does one do that? Simple. Give every student a skill coupon (only one coupon per person in the entire lifetime) which s/he can exchange for training at any nominated centre in a skill course of her/his choice. The extra cost of training, if any, has to be borne by the trainee. This will make the trainee value the coupon like a cheque and choose the training course and the training partner with care. Most importantly, make the trainee own the training.

The second option is to add another programme to the existing Pradhan Mantri Kaushal Vikas Yojana (PMKVY). Introduce PMKVY PLUS Programme for MSMEs. Why MSMEs? Because it's only the MSMEs that create bulk of the new jobs. Under this programme, any employer can train as per his requirement and hire freshers and claim part of the training cost and part of the salary for the first six months from the government. This will ensure that the training is customised, employment guaranteed and retention-driven. Three birds with one stone.

Will the new Skill Minister do these two simple things? Will the journalists dig deeper into the ground realities and then write their piece? I really hope so. Otherwise, we will all miss our demographic dividend bus.

(The author is Chairman, TMI Group, and Independent Journalist)

Telangana Today

T. Muralidharan Tuesday, November 21, 2017

A market-linked skilling initiative

Government-defined training programmes need to give way to demand-driven and employer-paid skilling models.

Recent media reports have stated that the PMO has sought an exhaustive review of 34 key government programmes launched by it since 2014. Atop the list is STRIVE – a Skilling Programme of the Ministry of Skills and Entrepreneurship proposed with a massive outlay of Rs 2,300 crore. Why? Because it is not working.

Why is it not working? Because it is a supply-side model where people are skilled based on perceptions of market demand. However, the skilled workers are not in demand among employers or there are no jobs in the skilled domains. The key findings of the PMO are lack of market linkage and quality of training.

Is there a way out?

Yes. We can develop a market-linked quality Skilling model. A few skilling companies have already demonstrated demand-driven and employer-paid Skilling models, but this has not drawn the attention of the skill administration. Let's look at the solution starting with the basics.

Sharada Committee

The Ministry of Skill Development and Entrepreneurship vide its Order dated 18th May 2016 constituted a Review Committee for Rationalisation and Optimisation of the Functioning of the Sector Skills Councils (SSCs) under the chairmanship of Sharada Prasad, former DG, DGET, M/o LO&E, Government of India. The Committee submitted a comprehensive report in December 2016 that highlights some of the key challenges.

Challenges in Skill Ecosystem

The top challenges in skill ecosystem today according to the report are:

• Poor private sector employer's participation in skill programmes – There should be close interface of the vocational education training (VET) system with industry. The SSCs must become vibrant institutions of interface between the government, VET system and youth. The employers must own, finance and drive them to discharge their responsibilities efficiently and effectively

• Poor employment after skilling: Only 12.4% students are placed after skilling

• Low retention after employment

• Poor quality of training: There are no uniform VET standards in the country and. therefore, the skills imparted to the trainees are also not uniform

• Wastage of public money when the trainee is not able to get a job and use the skill: All employment exchanges in the country should be converted into state-of-the-art counselling, guidance and employment facilitation centres with modern technological tools

• Excessive dependence on a 100% grant model of public money: The commitment of industry towards training happens only when they contribute and are closely involved. This has resulted in maximising the beneficiaries by minimising the cost per trainee. Often the cost per trainee is not enough to provide adequate training

Causes of Poor Quality

Let's start with two root causes of poor quality of training. The specs of the training programme are defined by the donor – the government and SSCs, and not the beneficiary (the employer) often necessitating retraining by employer. Excessive checks and balances are required to prevent fraudulent training practices because only the government is paying. The PMKVY (Pradhan Mantri Kaushal Vikas Yojna) PLUS can address all these problems.

What is PMKVY PLUS

• Classic demand-driven skill model with stake for employer

• Co-pay system with employer and government contributing. The training cost can be decided by the employer, who will pay the difference between the total cost and the fixed government payout under the PMKVY programme

• Employer specifies customised training on top of SSC QP programme

• SSC, employer, training partner and Skill Ministry come together to offer the training specific to a job role for the specific employer

• It is a Skill-plus productivity model of training

How it Works

• SSC and Training Partner (TP) approach employers that they will offer 'day one' productive SSC certified employee provided they co-pay and pre-select employees for the skill training

• The TP will develop a customised training programme – based on the existing QP course for that role or create a new QP – in consultation with the SSC and the employer

• SSC will issue a new QP for this role

• The employer will hire the certified trainees at the end of the programme

• Employer will pay for the training to the TP and claim the government share only for candidates retained after three months of employment

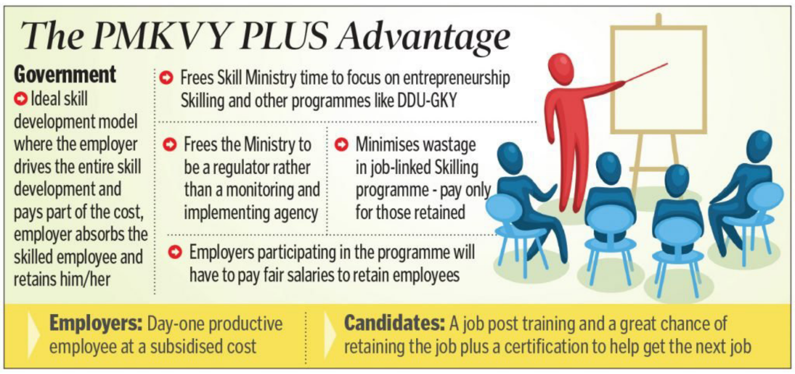
• In short, the employer designs the programme, pre-selects and counsels the candidate – executes through a TP, conducts quality assessments with the SSC help, certifies with the SSC and Skill Ministry, pays the TP and claims after three months for the retained candidates a share of the cost

Why custom-designed training — Productivity on the job requires customised training designed for productivity post training. Employers are willing to co-pay only if the induction training is also included and employer need not provide additional training

Why would employer co-pay — Because a productive employee is worth paying for and the co-pay amount will be lower than the cost of low productivity of the untrained employee

How big can this programme be — This can be a new programme aimed at graduate or the diploma /ITI segment, in addition to the existing PMKVY, Pradhan Mantri Khanij Kshetra Kalyan Yojana (PMKKY) and Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) programmes.

Many sectors where there is a shortage of productive employees will participate. Banking, insurance, financial services, healthcare, retail, manufacturing and assembly are some of the sectors. Roles ideal for PMKVY PLUS are sales, plant operations, customer service in the above sectors. The potential for coverage could be as much as a million graduates a year within 2 to 3 years. (See infographic for PMKYK Benefits)



• Employer will take responsibility for the quality of training and will choose the training partner

• Employer will be ensuring high certification and employment % by continuous evolution of the QP and the course

• Certification will be issued by SSC, Skill Ministry and the employer

• Employer will assess the candidates – pre-and post-training – in coordination with the SSC

Next steps

The Skill Ministry should initiate dialogue with select employers hiring large numbers in sectors including BFSI, electronic manufacturing, e-commerce and retail to co-develop this PMKVY PLUS scheme.

(The author is Chairman – TMI Group, Independent Journalist and co-chair Ficci-Telangana)

Telangana Today

T. Muralidharan February 22, 2018

Turning skill capital of world

Rely on a twin approach of short, customised training for domestic employability and a longer one for global skills certification

In the next decade, India will have a surplus labour force of 4-5 crore. India can bridge the global labour shortage if the youth are imparted the right skill sets — Prime Minister Modi said while launching the Skill India initiative in July 2015. He said if China is the world's 'Factory', India should be the world's 'Skill Capital'. Where are we against this objective in 2018? In my opinion, it is yet to take off because we have adopted a wrong approach. Here, I examine the reasons and propose a new approach to make it happen.

Export Manpower

Simple. We cannot create enough jobs every year for the 18 million people who are looking for non-farm jobs, including 12 million fresh youth joining the workforce on attaining the working age and over 6 million migrating from agriculture. Against this demand, we have created 2-4 million jobs a year. The Economic Survey 2018 forecast that India will add 7 million jobs in 2017-18. Even if we create 7 million jobs per year, we are still short by 11 million. So we have no choice but to export manpower.

Why Others Will Welcome

Simple. Demographics of the ageing population and changing dynamics of skill requirements. Traditionally, the Middle East and Africa are the destinations for Indian youth. Many new countries like Japan, EU, Germany, Australia and South America are ageing and are also not able to attract youth to certain skilled occupations due to poor employment terms. Even robots cannot kill the demand for these occupations in the next 10 years. So, these countries will have to relax their visa norms to attract foreign workers.

Japan, which is hosting 2020 Olympics, will need skilled manpower in areas such as construction and hospitality. It will amend its visa regime to allow foreign labour and over one lakh Indians are expected to be a part of the skilled workforce for the Games. Some 10,000 young workers from India will arrive in Tokyo soon under the Skill Development Ministry's Technical Intern Training Programme with Japan's International Training Cooperation Organisation. This is in addition to the workforce required to meet the on-going demand for people in certain occupations.

Current Approach

The current strategy is to identify youth, skill them and export them 'as is – where is'.

Many States have created government organisations (not PPP) to source and even train workforce prior to departure. They even provide consular support in the 'destination' country.

Unfortunately, this is not working because of three reasons:

- Government cannot operate with the agility of a private enterprise
- Current focus is on freshly trained skilled workmen whereas the demand is for experienced and globally certified workmen. Japanese apprenticeship model is very rare
- Role of export agent ends when a migrant worker lands in the 'destination' county and critical support system during the migrant's tenure is absent

Bi-focal Model

Is there another approach? Yes. Let me present my bi-focal model. In this model, skill training is divided into two phases — a short, customised training for domestic employability for freshers and a second phase, which will be long and lead to global skills certification programme for experienced workmen. India should export workmen after the second phase who will be replenished by workmen coming out of the first phase.

Domestic Employability Phase (Ph I)

Here the employer drives curriculum, quality norms and certification, pre-assessment and guarantees a job on course completion. Training will be short, since it will be customised for a single employer and a single job role. The training pedagogy will be focused on producing day one productive people. Employer must pay for sourcing and training costs while student should invest for his stay and living costs. Employer can claim refund for the costs from the government after a 90-day retention.

The government will provide subsidised accommodation by setting up (in PPP) working men/women hostels and expense support for first work month.

Global Skilling Phase (Ph II)

In this, sector skill councils will drive and define global skill standards. Training will be for over two years in eight quarters, for global certifications, in two or three stages. Employee pay hikes will be linked to sector skill council certification stages achieved during the two years. Skilled workforce will also be trained in English or one other foreign language essential for migration along with global skills in these two years.

Any skilled and experienced (with minimum two years of work experience) employee has the option to sign for the Phase 2 of the programme and must meet the pre-qualification criteria. Training will happen on employer premises or at the nearest global ITI centre. Government must invest in capital expenditure required for training and senior employees will be trainers. Employee and government will share the training costs. Employer will first pay for the training and claim the government share through skill refunds.

New Bodies

These two-phase solution requires a manpower export agency (see graphics for criteria). Besides, to implement the model, India will have to create an International Engineering Skills Staffing Agency (IESSA) exclusively for engineering skills workmen (see graphics on contours).

Is IESSA workable?

Yes. India's success in IT industry is due to TCS, which commenced as an onsite staffing agency for IT roles — crudely called 'body shopping' in the late 80s. Later, others like Infosys, Wipro and HCL mastered the art. Market valuation of TCS stood at Rs 6 lakh crore ($90 billion) in Jan 2018. IESSA valuation will also reach a billion dollar within 10 years and provide a handsome exit to investors.

IESSA for non-IT skills

We can replicate the IESSA model for skills in engineering, construction and services sectors like hospitality. Indian workforce has a great track record in the Middle East and hence migration or working outside India is not only socially acceptable but also preferred.

Two other things that must be done to implement the bi-focal model:

- Bi-lateral country level agreements: Government of India needs to negotiate with global skilled workforce programme/temp-migration through ILO and enable multilateral and country-to-country agreements to export manpower after Phase II training
- Large corporates must participate: They must join as investors and sign up for Phase II. The government can sign up a large number of big and MSME employers for this programme. The biggest benefit for the employers is salary capping. For example, if all workmen in a skillset after three years' exit after Phase II to IESSA and the exiting employees are replaced with entry-level fresh employees coming out of Phase I, then the salary of workmen will remain capped. This will make the employer more competitive. Unionisation issues will be minimised due to low residency of the workforce.

The government must move quickly if it wants India to become the skill capital of the world.

(The author is Chairman – TMI Group; participant – Global Forum for Migration & Development)

Telangana Today

T. Muralidharan

Date: 14th July 2018

Making apprenticeship scheme work

Rope in staffing companies and amend the scheme suitably to realise its true potential and spread its impact

It was reported recently that the government plans to execute the apprenticeship programme with private participation. This programme is currently being run by the Director General of Training under the Ministry of Skill Development and Entrepreneurship. But going forward, it would be run by NSDC and Sector Skills Council. Let's understand the scheme a little better.

Apprenticeship Scheme under National Apprenticeship Promotion Scheme (NAPS)

- 2.5-10% of company's workforce must be taken as apprentices
- They can be taken for a period of 1 to 3 years
- No job guarantees to be given by employer
- There is a separate budget for training of apprentices
- Government is willing to pay 25% of stipend subject to a ceiling of Rs 1,500 per month as a fee to the employer for training of apprentice
- Employers engaging apprentices under the Apprentices Act, 1961 are exempted towards contribution to EPF and ESI for apprentices
- Apprentices get the entire stipend in hand because there will be no deductions
- 40 sectors and 259 trades are covered
- Employer and apprentice must register on the NAPS portal
- Paperwork required to claim the stipend and participate in the scheme

Challenges in the model

There are many challenges in implementing the apprenticeship programme 'as is':

- The model envisages direct participation of employers. But many employers are reluctant to take on red tape and scrutiny that comes with any government scheme. Since the maximum apprenticeship number permitted is 10% of the workforce, the employer should have tens of thousands of employees for achieving the required number of apprenticeships to create internal team to manage NAPS
- Apprentices must be productive for employers to pay salaries/stipend
- This will also mean many smaller employers who employ hundreds or less of employees (99% of the employers are in this category) may not participate in NAPS
- Candidates do not want to take up assignment where the job is not guaranteed after apprenticeship. Outstation candidates also need support to settle in the city of work

Is there a solution?

Yes, there is a better way. Promote the apprenticeship scheme through staffing companies. The Indian Staffing Federation has predicted that the 2.1 million temporary workers in the organised sector will increase to 2.9 million workers by 2018, making India the third largest market in the world after China and the US.

The government of India is the largest employer of temporary workforce, followed by IT/ITeS and retail sectors. What's more important – the staffing companies can easily manage the paperwork required to implement the scheme. The current apprenticeship model completely ignores this approach. If public-private partnership must work, the staffing companies need to be roped in and the scheme amended accordingly.

Changes in staffing companies

The current apprenticeship scheme recognises only one party – the employer. In the staffing arrangement, there are two employers — primary and secondary. The corporate will be the primary employer (employer hereafter) and the staffing

firm will be the secondary employer. Hence, we need to modify the apprenticeship scheme for temp staffing intermediation. Some of the required policy changes are:

- Secondary employer (staffing firm) and the employer should be allowed to register under the scheme
- 10% cap for apprenticeship induction should be calculated as per the employee strength of the primary employer, not the staffing firm
- 25% of apprenticeship salary should be paid to primary employer
- Staffing firm should be allowed to do all the paperwork on behalf of the primary employer
- Allot PMKVY quota on appropriate job roles to the training partner appointed by staffing firm, if the trainee is not yet trained
- Staffing firm should manage the entire NAPS scheme process and documentation

Private sector participation

If the apprenticeship scheme must work, the primary employer needs to see value in it. Private companies will not give apprenticeship opportunities to candidates who are not productive. The next obvious question is, how do we devise a model, which is a win-win for all parties involved – the employer, apprentice and the staffing firm.

How does it work

- Corporate employer gives a contract for large apprenticeship — up to 10% of its workforce to staffing company
- Staffing company sources and trains them as per employer specifications and onboards them on their rolls
- Candidate joins as an apprentice on the staffing rolls of the staffing company for one year but works for the corporate employer
- Staffing company enrolls and trains the student under PMKVY, along with the apprenticeship
- The staffing company supports the apprentice with motivational and job-related training
- Employer hires productive apprentice on their rolls as soon as the productivity is met

Productive apprentices

Staffing company is responsible for making the apprentice productive. The apprentice should be trained as per employer specifications initially, which will be paid by the employer. After coming on board, the staffing company will identify the right skill training course and arrange for the training as per the NAPS. It will track the performance on the job and motivate the apprentice to reach the productivity norm at the earliest to enable the apprentice to join the employer as a full-time employee.

At the end of one year, many trainees would have joined the rolls of a corporate. Those who could not make it, would have a skill certification as per the NAPS and on-the-job training, which will help them find a job in the same industry. The staffing firm will also help them find a suitable permanent placement.

Why government must support

First, there will be better compliance. Second, the apprentices will be taken care better by the staffing company and will be enthused by the opportunity to become a full-time employee once they reach the productivity target. The staffing firm will provide the safety net as and when the apprentice quits the programme. It will ensure that the apprentices are enrolled in the skill training and certification process.

Why employer must support

The employer gets a productive apprentice because of the initial training and the continuous emphasis on productivity. Second, the additional cost of staffing will be set off by the stipend pay-out by the employer. The entire paperwork is outsourced to the staffing company. The employer will have to pay only for the initial hiring and induction training but the productive apprentice will be worth the extra payment.

Why students must opt

There are many students who are not fit "as is" and hence rejected by the employer are the first target. Then there are those in smaller towns who desperately need a job but are not employable "as is". This model enables the transfer to a permanent role once productivity norms are met and hence a candidate has a clear path to a permanent job.

(The author is Chairman, TMI Group)

ARTICLES ON

EDUCATION

Telangana Today

T. Muralidharan 11th Feb 2017

Flourishing for-profit private schools

Despite higher fee, these schools are a necessity till we develop alternatives.

Last week, we delved into whether the furore over school fee is justified. Taking it forward, in this second part, we look into whether private 'for-profit' schools are flourishing despite government and government-aided schools being affordable. How big is the private school sector?

According to a report by Ernst & Young — 'Private Sector's Contribution to K-12 Education in India', 25 per cent of all schools (Kindergarten to Class 12) in India are under private management. Their enrolment has crossed 40 per cent (urban and rural together) of the total enrolment. This number increases to 55 per cent when you look at only the secondary and higher secondary enrolment.

The Annual Status of Education Report 2016 points out that this is not just an urban phenomenon. Enrolment in private schools (age 6 to 14) even in rural India is increasing — from 18.7 per cent in 2006 to 30.8 per cent in 2014.

Every poor family spends a disproportionate amount of its earnings to send her child to a private school. Clearly, private schooling is big and is growing in both urban and rural India.

Government Spend

A study by Ambrish Dongre and Avani Kapur titled 'India's Spend on Elementary Education' states that the government (Central and across 16 States) median spend on elementary education (Class 1 – 8) works out to Rs 11,225 per student enrolled in 2011-12. This looks quite low because it is the average across India and across all types of schools in rural and urban areas. A better benchmark is 'government-spend' in Kendriya Vidyalayas that provide the best quality among government schools.

Elementary school education (Class 1 to 8) is free in KVs and is subsidised thereafter. The fee notified by the KV Sangathan is nil for these classes. From Class 9 to 12, a tuition fee of Rs 200-400 per month is claimed from boys. In addition, Rs 650 per month is taken for computers and Vidyalaya Vikas Nidhi, with exemptions for certain categories of students. The government expenditure per child in a KV was Rs 32,700 in 2015-16. Thus, the total cost incurred by parent and government together in a KV per boy student is around Rs 45,000 per year.

Hence, one of the real issues in government schools is the huge variation in the 'spend'. The schools set up by the Central government fare better compared with municipal schools because of higher spend.

The 7th Pay Commission announced in September 2015 has significantly improved the salary of Central government teachers. State governments like Telangana are following the same direction. However, teachers in private schools, especially those catering to the poor, are paid lower than the government teachers and this gap will further increase.

Lacking Motivation

The first reason for the poor motivation in government teachers is HR issues like slow promotions, no incentive for performance, irregular salary pay-out, poor health schemes and absence of 'need-based' transfers.

The second big reason is politics and bureaucracy in government schools. The teacher unions are a political force.

Bureaucracy de-motivates passionate teachers significantly. The third reason is the declining quality of student intake. For example, most of the poor parents want to join their children in English medium private schools.

Role of non-profit societies

Most private schools are run as a society/trust but many are run by 'for-profit' societies. Many of us believe that non-profit societies like Bharatiya Vidya Bhavan and DAV only should run schools. But, our exploding demographics mean that the demand for quality education far exceeds the supply.

Old non-profit societies like BVB and DAV started at a time when the land was not expensive. Some even got endowments or land from philanthropists or government. This is repeatable today only if the government gives land free on a long-term lease basis and gives grants. Even then, the non-profit educational institutions can only accommodate a few more schools and cannot meet the full demand.

So let us face it – the private 'for-profit' schools are a necessity unless we develop alternatives, including a new set of non-profit societies to substantially improve the government school system. Some more actions required include;

- Building the enrolment capacity of the 'non-profit' society schools
- Celebrating passion for teaching
- Encouraging technology-assisted teaching
- Encouraging peer and self-learning
- Shunning bureaucracy at all costs

Creating Quality Schools

Assess and divide government schools into two categories– performing or special category and non-performing schools. The government should invest and expand performing schools like KVs. It should encourage non-profit societies to maintain and operate schools independently. Non-performing schools can be handed over to performing non-profit societies on a long-term lease.

Encourage school and college alumni to take over schools. Students will get free education up to Class 8. Thereafter, they will pay a nominal fee as in KVs. The government will pay a fixed fee per student to the school. The fee must be determined with an incentive for hiring passionate teachers and rewarding them. It should be based on the cost incurred at quality schools like KVs.

Alumni Support

The IIMA Alumni Association, Hyderabad, took over a school three years ago, renamed it and runs as Udhbhav School at Rasoolpura here with 650 children from Class 1 to 10. This is with financial support from Coromandel International and other corporate employees. If not the infrastructure, at least the quality of education imparted is comparable to the best government schools. The key point is old institutions such as Grammar School or Osmania University have alumni of varied age groups and adequate volunteers.

But will teacher unions come on board? This is a big question. However, it is time the unions took a pro-active step before government schools become irrelevant. Instead of living under the threat of shut-down, it is better to embrace change now, protect the jobs and flourish under the new management.

(The author is chairman – TMI Group and co-chair, Ficci Telangana)

T. Muralidharan 18th Feb 2017

Arriving at a good school fee

Quality schools deserve a price premium and so the best way is to leave the pricing to the market forces

Price regulation is required if there is a monopoly, as it leads to price gouging. But private education is very competitive and parents have umpteen choices. As mentioned earlier, the E&Y report of March 2014 states that 25 percent of all schools in India are under private management, summing up to 338,000 private schools in 2011-12. In this concluding part, we look at the factors that decide fee and how to create a system that benefits all stakeholders.

Fee Factors

The cost per child depends on many factors with batch size and school infrastructure being the two biggest elements. A school with only 20 students per class will cost twice as a class with 40 students. Size determines teacher's attention. In a large class, the teacher has no time for each student and tends to focus on the bright kids. So, parents with children, who are laggards need to put them in schools with smaller batch size so that they get attention and pick up.

Expensive schools insist on a small batch to give every child a chance. So, the school fee is determined by its cost structure and pricing philosophy. But schools must spell out their fee structure before the parents commit. And if the parents still want to pay, why should others object?

Parents' Point

A few parents of children in private schools agree that they made a choice after receiving full information about the fee structure. But their main concern is fee increase. A child admitted to Class 1 will be in the same school till Class 10. Changing schools in the middle due to fee reasons is a challenge because the child will suffer. More importantly, good schools discourage admissions into Class 2 to 9. So, the parents demand schools to spell out the annual fee increase at the time of admission. They expect the schools at least to not increase the fee disproportionately and without justification.

The second issue is the value they get for the fee they had paid already. If the school is not delivering value, why should parents agree to a price increase?

But how does one calculate the value you get in school education? In my view, most parents

see value with the school as long as their child is doing well.

However, determining value at the time of admission is complex. Parents mostly rely on the information from other parents. And

this information is incomplete or biased. The admission process is also opaque. The parents are put to stress till the last minute and they succumb to pressure. They want admission at any cost. Once their children are admitted, the ball game

changes!

So one of the solutions we need is mobility across schools. The government should encourage creation of a portability platform where parents wanting to swap their children's school can connect and the schools should encourage this. This will put the school managements under notice.

Regulating Fee Hike

According to GO 91 of 2009, every school must submit its audited accounts and propose the annual fee for the next year based on the operating cost structure to the District Fee Regulatory Committee.

There are many models for fixing the annual fee. The most popular model seems to be the cost plus model, which calculates two types of expenditure – capital expenditure and operating expenditure. Capital expenditure includes investment in infra and operating expenditure includes all annual costs. The cost structure items will also vary from school to school. The capital cost recovery related items like depreciation and interest on loans will come down with time. Costs like salaries go up every year. So, the total cost will have to be calculated from year to year.

Auditing Costs

But even if each school audits its costs and submits a price to the District Fee Regulatory Committee, how will this Committee approve and on what guidelines?

If they insist on disallowing some costs or capping some costs, it becomes a matter of debate and litigation. The government is used to the NGO model – total cost plus an administrative charge – which is totally unacceptable in an entrepreneurship model. For investment to come in, the equity returns have to be attractive. Each entrepreneur needs freedom to differentiate from other schools, which means that the cost structure will change from school to school.

Quality schools deserve a price premium. One single cost structure, determined by a third party is a strict 'no-no' for private investments if new schools will have to be funded.

So, the best way is to leave the pricing to the market forces. Each school must share the pricing and inform the parents about automatic price increase year after year, right at the time of admission. The items of cost that are part of the automatic price increase will have to be spelt out by the school. Parents can calculate the future annual fee and take a call.

Regulate Beyond Normal

If the school wants a price increase beyond the automatic price increase, they need to submit their cost increase data to the District Fee Regulatory Committee, after publishing the data on their websites. Only the data on the cost items unplanned need to be submitted. The DFRC will intervene only if it feels that the price increase is unreasonable.

School portability, where students mutually exchange their school through an online portal, will put the schools in check. This online portal will also enable the former students to share the reasons for their exit and this will again put a lot of pressure on school managements to be reasonable.

(The author is chairman – TMI Group and co-chair, Ficci Telangana)

AN ARTICLE ON

GOVERNANCE

Telangana Today

T. Muralidharan 8th Jun 2019

Exempt skills training from GST

Treating it on a par with school or college education and not charging GST will attract youngsters

Prime Minister Narendra Modi while launching the 'Skill India Mission' on July 15, 2015, said, "If China is like a manufacturing factory of the world, India should become the 'human resource capital' of the world. That should be our target…" He also said that India has the potential to provide a workforce of 40-50 million to the world if the capabilities of the countrymen are honed through proper training in skills.

The Centre has announced a mission of skilling over 400 million people by 2022. Assuming an investment of Rs 15,000 per person, Rs 6 lakh crore would be required for it. The demand for skilled labour is estimated to be over 128 million between 2017 and 2022 in 34 sectors across industries, according to the Skill Development and Entrepreneurship Ministry's annual report for 2017-18. Over 18 million youth enter the workforce every year, including 6 million who exit agriculture in search of gainful employment. Clearly, skilling is a national priority.

There is a need to treat skill education on a par with school or college education for GST purposes. The rationale for concessional or nil GST for all forms of education is the same — it must be accessible and affordable to every citizen. Funding for skills training can be put into four categories based on who is paying – government, employer, student or through CSR.

1.Government-funded Skilling

The GoI has been funding skill training since 1948. But this grew rapidly after Modi's announcement of Skill India Mission. PM Kaushal Vikas Yojana was approved on March 20, 2015, with an outlay of Rs 1,500 crore. It was expanded to Rs 12,000 crore for 2016-2020, to impart skill training to one crore people over four years to be spent through the National Skill Development Corporation (NSDC). Apart from the Skills Ministry, 17 more Ministries were given budgets for vocational training. In the last five years, heavy investments have been made, and various programmes launched. The total sector outlay for 2017-18 was pegged at Rs 17,273 crore.

But the government-funded schemes had one fatal flaw. The two key stakeholders — student and employer — who employed the trainee had no skin in the game. The schemes' cumbersome checks and balances killed all incentives for innovation. The government cannot find the Rs 6-lakh-crore required to fund skilling. So these programmes cannot be sustained in the long-term and other funding models must be encouraged.

2. Employer-funded Skilling

Employers, especially in the Banking Financial Services and Insurance sector, skill and hire fresh graduates under their HR budgets. Since large employers hire mainly graduates, this funding model has been limited.

3. Student-paid Skilling

Millions of students in the IT industry pay for their own training. In fact, a large number of working professionals from the IT industry have to be upskilled in 'future skills' like Machine Learning, Artificial Intelligence and Data science in the next few years and these costs upwards of Rs 1 lakh per person. Many students will seek educational loans and, hence, this model will work only if the courses are aspirational and the salary after training is attractive to help them pay back the loans. But this is the best model in the long-term because the key beneficiary knows what is best for her/him.

4. CSR-funded Skilling

Companies must spend at least 2% of the net profit on CSR. CSR activities listed in Schedule VII of the Companies Act, 2013, include skill education and employment and livelihood support activities. The cumulative spending in the four years of FY15-18 has crossed Rs 50,000 crore, and includes Rs 34,000 crore by listed entities, according to a Crisil report. But the unspent amount is higher at Rs 60,000 crore during the same period underlining the need to improve the framework, says the report. This model has a lot of potential since the money available under CSR is bigger than government-funding

Sustainable Skill Model

In any country, school education and skilling are mostly funded by the government. This is because they are the foundation for human capital development. In a few countries like Singapore, the government even funds upskilling of working professionals. But our problem is the huge numbers to be skilled requiring Rs 6 lakh crore. How can India find this when we have to spend billions of dollars on defence, education, welfare and healthcare? So, any sustainable model for skill finding has to be a balance of all the four types of funding.

Current status of GST on skills

Government-funded programmes: Skill training undertaken by NSDC partners and implemented by NSDC under the Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) skill training programme are exempted under GST. But there are quite a few restrictions. First, only training partners of NSDC are exempted. Second, training should be approved and implemented by NSDC. Further, even if the government issues skill contracts without payment of GST, the GST on the inputs cannot be set off and hence training partners end up absorbing the GST on inputs.

Employer-funded programmes: These attract 18% GST but input credit is available. GST can also be set off against GST charged by employers to their customers.

Student-funded programmes: Educational services provided by an educational institution – pre-school to higher education – are exempt from GST provided it leads to a qualification recognised by law or an authorised vocational course. Interestingly, a few key inputs needed by educational institutions like catering, security, housekeeping, entrance test administration are also exempt from GST so that the input credit is minimised — because the input credit cannot be set off against nil GST rate on the output.

Unfortunately, training programmes, camps, yoga programmes and other events are considered a commercial activity and are liable for GST. Hence, student-paid models for skilling will be treated as training and subjected to a GST levy of 18% unless the course is approved under the National Skills Qualification Framework and is certified.

CSR-funded programmes: CSR payments are considered as grants and as such are exempt from GST. CSR grants can be given to only non-profit organisations with a three-year track record. Since skill training must result in placements in the private sector, many of the skill training partners are 'for-profit' entities as per the design of NSDC and hence cannot receive CSR grants directly. So many of the CSR contracts are treated as works (service) contracts attracting 18% GST. As per the works contract notification, four CSR services are specially exempted from GST, but skill training is not one of the four. Hence CSR-funded projects end up with 18% GST even though nil rate is applicable.

What's Needed

Skills education needs huge funding and the government needs to encourage all the four modes of funding. Skill education should easily be accessible at the lowest cost. So skill training should be treated differently from commercial training and must be exempted from the 18% GST. This will help skill trainees from the lower middle-class who self-fund. CSR funding can save the 18% GST, which will enable more beneficiaries. Inputs for government-funded skilling must be exempted from GST as in the case of school education. The alternative is to reduce the GST to 5% for all the four categories of skill funding to make the compliance easy. This will also allow claim of Inputs GST Credit for government-sponsored schemes.

(The author is Chairman, TMI Group and Member, National Board of MSME, Ministry of MSME)

Telangana Today

T. Muralidharan 28th May 2019

Consider GST amnesty for the upright

Confusion in GST laws, frequent changes and cumbersome processes make this necessary for genuine players

The Goods and Services Tax (GST) is an indirect tax (or consumption tax) on the supply of goods and services. It is a comprehensive, multi-stage, destination-based tax–comprehensive as it has subsumed almost all indirect taxes, multi-staged as it is imposed at every step in the production process (but is refunded to all parties at the various stages of production except the final consumer) and destination-based as it is collected from point of consumption and not of origin like previous taxes.

The GST regime, which took effect on July 1, 2017, is a welcome change for the economy in the long-term. In the short-term, however, it has created huge challenges such as confusion in the GST laws and problems in the portal. The first filing of annual returns for July 2017 to March 2018 for audit and assessment is due on June 30, 2019.

There is a need to not penalise genuine players and use the first year audit as a learning opportunity for all. The government should consider amnesty for genuine players with only procedural defaults.

Why Amnesty

With just 10 months between the enactment and the effective date, there was little time for businesses to understand nuances. There is a GST Council, consisting of States' and Central representatives to decide the GST rates through consensus –a huge ask in our federal structure. Industries faced challenges ranging from understanding concepts, managing complex documentation, unclear treatment of several common transactions to high rates of certain goods and services.

A major area of concern is the functioning of the compliance portal. Initially, there were dozens of detailed forms to be filled every month. There were glitches in the software and its processing capacity, which resulted in frequent deferment of due dates of returns in the initial months.

The GST regime has three taxes – IGST, CGST and State GST. These have major implications for the service industry requiring them to set up multiple GST registrations in each State. There were five GST slabs with confusing exemptions. The input credit was expanded from direct inputs to all inputs.

The GST Council reduced the GST rate for some items like tractor parts from 28% to 18% and fertilizer from 12% to 5%. The initial cut was for enterprises with a turnover of Rs 20 lakh per year, which on being too low was revised to Rs 40 lakh per year. Many small enterprises didn't have adequate computerised systems to match the strict data needs of the GST regime. Moreover, the procedure was so complex that in just the first 10 months, there were 357 amendments and as of May 1, 2019, this has reached 627. An unprecedented state of flux has prevailed.

Genuine Vs Frauds

Audit in indirect taxes plays the same role as assessment in Income Tax. Deficiencies are pointed out in an audit report and assessees are given an opportunity to comply, failing which a chargesheet is filed.

So for the assessees, it is an opportunity to get clarity on government policies and correct their internal systems for compliance; for the GST department, it's a crucial procedure to verify the self- assessment done by the assessee, to identify the gaps in understanding the rules between the assessee and the department,

to identify wilful defaulters to ensure their compliance and provide an opportunity to the assessees to correct their mistakes.

In any compliance audit, we come across three types of players:

• Mostly large companies that try to be 100%compliant because they account for everything in white money and want to be on the right side of law. They rarely default except when there is a genuine difference of interpretation.

• Many small and medium size companies that try to be 100% legal but are deficient on complying with procedures due to limited understanding. When procedures are cumbersome or changing continuously, they are lost and need guidance. These players account all their GST transactions in their books on time but miss out on their interpretations of input credit or supporting documents required to claim input credit. They have no intention to commit fraud. They correct their accounting and GST systems as soon as they realise their omissions from audit reports.

• The third are wilful defaulters. They do fraud transactions, create fictitious entries to align GST and Income Tax records to exploit the tax system. They are habitual defaulters and are on tax department radar. A review of past audit reports will easily identify them. The leadership of these companies attempt to cut deals with the department.

Dealing with Defaulters

The first two types are genuine long-term players. They would have accounted for the GST transaction in their accounting books and the input credit transactions would have been genuine.

Often the tax department treats the second and third type of players similarly, mostly in the following two ways. First make a deal — force the defaulter to admit default in part and let go of the balance default. The second approach is to threaten to treat them as habitual wilful defaulters with severe penalties.

The department heads, who come with IRS pedigree, many a time refuse to differentiate between wilful and non-wilful defaulters. It is a tragedy that the department supports wilful defaulters subject to making deals but does not help genuine players. So, the law abiding assessees pay the price while others get away. This must be corrected.

All the three types of players also delay their GST remittances due to the cash crunch. GST has to be paid immediately whereas the payment may be received over a period of 4-6months.

Helping Hand

• Treat defaults as genuine (unless proven otherwise) and hence defaulters as genuine

• Give opportunity to correct the mistakes without penalty

• Delayed payments and under payments are due to the state of flux. Waive interest on delayed payments or reduce to 6 % on a par with I-Trefund interest paid by government

• Provide 12-month instalment payment for delayed interest payment without penalties

• Based on the findings across multiple audits, identify common mistakes, issue circulars clarifying errors, initiate training for the assessee

(T Muralidharanis Chair and Sudhir VS is council member, FICCI Telangana)

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T. Muralidharan 15th Jan 2018

Questions that must not be ignored

It can't get more serious than four senior-most judges of Supreme Court publicly pointing to the survival of our democracy.

January 12, 2018, will go down as a historic day for Indian judiciary and Indian democracy. The four senior-most judges said many things and left many things unsaid. Their statements need to be read and understood in totality.

I have six key observations on the matter and let me raise them because, as the judges said, "it is a matter pertaining to democracy and hence it is of public interest."

1. Did these four judges err in going public?

Many have argued 'yes'. But I believe that they have not erred. Let's just imagine that these four judges were asked to decide on an important constitutional issue and all of them unanimously gave a judgement. Would we question their judgement? No. Because all of them have impeccable integrity, they are the senior-most and have applied their mind. Then, why are we questioning their judgement of going public?

I believe we are all scared that the institution that we hold sacred may not be as sacred. Already there are serious doubts about the integrity of other pillars of democracy — Legislature and Executive. Media, the fourth pillar media, is also being compromised. Judiciary is the last pillar standing. So, we don't want anyone to throw stones at it.

To me, when four senior-most judges of high integrity, one of whom is scheduled to be the next CJI, makes a judgment call to go public, I defer to their collective view. Instead of questioning their decision, we should probe what forced them to take this desperate step.

2. Why did they take this extreme step?

Many of us have said that this is unprecedented, unexpected and unwarranted. But don't these judges know what judicial impropriety is? Are we wiser than these four judges – remember, not one disgruntled judge but four judges of sagacity – believed it is a right step. Of course, they do know better and they also said that they are very much aware of the risk of going public. So why did they do it – risking retaliation by the CJI, executive, legal community and media? In my mind, the answer lies in what happened between the CJI and these four judges when they met on the same morning.

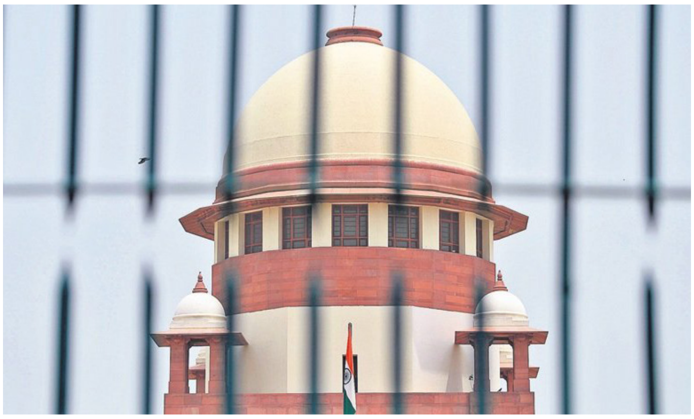
Imagine that you are the editor of a newspaper. In the morning, four senior-most journalists, who are highly respected, come to your office and point out that your editorial policy is biased and can impact the integrity of the publication. What would you do? Will you not recognise that it is a serious issue and promise to take corrective action and assuage their feelings?

But if you argue against them, then there can be only two reasons — either you are defensive because they are telling the truth or because you believe that your opinion is more important that the collective wisdom of the four. If you take the stand that you are the chief editor and claim that it is your right to overrule, what would your top journalists think? What conclusion would they reach? What action would they take? All these judges came to the same conclusion.

All these judges came to the same conclusion — when you are only the first among the equals, and when four equals tell you something is wrong and you deny it — that what they feared may be true.

3) Is this just an administrative matter?

Absolutely no. If it was so, why did Justice Chalameshwar use the words to the effect that democracy is in peril and that if they keep quiet, it will be akin to selling their souls? These are big words. Do remember that judges write judgements every day and words communicate



their judgement. Every word in a judgement is interpreted. So, the judge, being the senior-most, is aware of the meaning.

More importantly, does it mean someone is selling his soul? If the answer is yes, we have a very huge issue on hand.

4. Is assignment of cases linked to judicial independence and integrity?

Let's understand the deep implications of selective case assignment. First, the CJI has some interest in the case and wants some outcome. Second, the judges to whom it should have been assigned in the normal course, in the opinion of CJI, are either prejudiced or based on facts, are likely to give a judgement against the outcome the CJI wants. Third, and this is the most serious issue, is the judges to whom the cases are being assigned are malleable and can give favourable judgments.

Are the four judges pointing their fingers at the CJI or are they pointing at the judges to whom the cases are selectively assigned by the CJI? The implications are ominous to say the least.

5. Is the CJI interested in a particular outcome?

We go to court to seek justice hoping that our version of the case will be heard in an unbiased manner and the judge does not have any preconceived notion nor is prejudiced in favour of an outcome. This hope is the foundation of any judicial institution.

Is there anyone who is putting pressure on the CJI? Is the Executive behind this? If the Executive is behind it, how can they put pressure on the CJI who is independent of the Executive?

6. Is there any political conspiracy?

My God. The D Raja story is in bad taste, it should not have been aired. Can you imagine that a politically defunct CPI can influence four senior-most judges to defame the CJI? The insinuation made in the story must be condemned.

Let's hope and pray

The first serious outcome of last Friday's disclosure is the fracture of the five-member collegium, now divided one to four. How will the judicial appointments happen now? How will the CJI and the four judges work together hereafter?

All these questions are far more serious than the issue of administrative overreach by the CJI and I pray that the advice of senior advocates like Soli Sorabjee to put these matters under the carpet is ignored.

I also fervently hope that all the above uncomfortable questions are misplaced and there are simple answers to what happened — either it is an ego tussle between the CJI and the four judges or the CJI made an error of judgement on the seriousness with which the four judges perceived his actions. We pray that all five of them will have the sagacity to sit down, arrive at an acceptable conclusion and issue a clarification that answers these questions.

Any superficial clarification will only reinforce the public opinion that 'all is not well' with our judicial system. It will completely negate the extraordinary decision of these four judges to go public.

In fact, in other systems, like in the BCCI case, the Supreme Court insisted on a complete overhaul of the system. Now, we have a strong case for a complete overhaul of the judicial system of appointment of judges, allocation of cases, review of judgements, court budgets, fast-track court and case pendency. The best outcome would be if this incident triggers the appointment of a judicial commission to judge the judges and usher in major reforms.

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