

Building India's talent base

When India found itself at the 103rd position in the recent World Economic Forum ranking of 130 nations on the preparedness of talent, it was just another indication of the skills challenge. In just five years, the government's skill gap analysis report estimates that an extra 40 crore workers need to be skilled, reskilled or upskilled. The current official estimate is that slightly more than half a crore people are being trained annually.

Policymakers are responding swiftly. But with limited resources and time, which skills policies will make the biggest impact? New research commissioned by Tata Trusts and the Copenhagen Consensus Center for the India Consensus projects, 'Andhra Pradesh Priorities' and 'Rajasthan Priorities', helps answer that question for the two States.

No State has the resources to do everything. It is crucial to identify where decision makers can achieve the most good. The Copenhagen Consensus has worked with hundreds of stakeholders to identify the best policies in more than 40 different areas for each State, ranging from education and child marriage to agricultural performance and disaster management. Economists from India and around the globe are now analysing the costs, benefits and impacts of these policies.

In its totality, the new research will highlight for each State which policies can make the biggest difference for every rupee spent. But already the research casts a bright light on what can be done within a specific policy area. For example, three authors from the Sunay Policy Advisory have undertaken an analysis of three skills policies.

In Andhra Pradesh, the skills challenge is clear: more than 97% of the 21 lakh individuals expected to join the workforce between now and 2022 will be totally or partially unskilled according to the National Skill Development Corporation. To meet demand, Andhra Pradesh needs to skill about half its workforce (or 10.5 lakh people) entering the labour market by 2022. Andhra Pradesh has also undertaken an integrated skilling initiative, and the Andhra Pradesh State Skill Development Corporation (APSSDC) has been established as a public-private partnership with the hope of skilling two crore people in 15 years.

The new research can help policymakers by focussing on one important question: What is achieved with each additional rupee spent by A.P. on each skills policy?

The first policy examined is the provision of loan assistance to small- and medium-enterprises (SMEs) to encourage expansion and job creation. This may seem a roundabout route to upskilling, but as a powerhouse of SMEs (like many Indian States), Andhra Pradesh can create jobs by supporting their growth and development.

Research suggests that every rupee of loan will increase SME profit by about 0.89. Factoring borrowing costs, administration fees and default rates, it costs 16 for every 100 loaned. The researchers conclude that each rupee would generate benefits to the economy worth 5.6 — a solid return on investment.

But to compete on a global stage, Andhra Pradesh needs direct upskilling policies. One approach studied is apprenticeship schemes that combine vocational education with work-based learning. For the employer, the cost is 1.5 lakh, including salary, supervision, training and administration. The government spends another 0.2 lakh reimbursing employers and on marketing. The individual misses out on about 0.16 lakh in income during the apprenticeship. The total cost to everyone involved for one apprenticeship is approximately 1.9 lakh.

The employee receives a substantial income increase over her working life, worth about 11.2 lakh. The employer benefits to the tune of 2.2 lakh, by having a more productive and job-ready workforce, increased revenue, and savings from having to recruit. Total benefits are 13.4 lakh. Therefore, every rupee spent on a year-long apprenticeship programme is worth 7.2 to the A.P. economy. This is even stronger than supporting SMEs in generating societal benefits.

Finally, the authors look at expanding the current vocational training programme to incentivise more people to join. This is job-specific, technical and hands-on. A similar analysis is undertaken: this time, the cost for each apprenticeship, both public and private, is about 0.46 lakh.

The results are marked: an individual will earn 7.2 lakh more over her lifetime. This accounts for expected income growth as well as changing workforce participation and unemployment. The analysis reveals that benefits to society are 16 times higher than the costs. Spending 1 to generate 16 in benefits to society is a very compelling investment.

Demographics and economic realities differ for each State in India: research conducted for Rajasthan found that while skilling is broadly a good investment, the pay-offs are different. Vocational training, for example, has less of an impact than in A.P.

This research highlights the strong case for A.P. to invest more in expanding access vocational training programmes and the need to study the costs and benefits of skills policy options across India.

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