

Foundation Day Lecture

Economic Growth and Skill Development

by

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Chairman

Economic Advisory Council to the Prime Minister

December 18, 2010

TalentSprint

Hyderabad

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It gives me great pleasure to be in your midst this evening and to deliver the Foundation Day Lecture of Talent Sprint. True to its name, Talent Sprint has leaped forward to reach a position of significance within a period of two years. Your objective is to transform college graduates into skilled professionals and make them 'employable' in sectors such as IT and banking. I congratulate all of you who are engaged in this mission because it is precisely what the country needs today. You have shown that in this task of upgrading skills of the graduates, private sector can also play an important role. I shall take the opportunity that has been given to me this evening to say a few words on economic growth and skill development.

The Indian economy has done well in the recent period. Over the five year period, beginning 2005-06, the Indian economy has grown at the rate of 8.5 per cent per annum. This period includes the crisis affected year of 2008-09. In the current year, it is expected that the economy will grow between 8.5 per cent and 9 per cent. The growth rate of the manufacturing and the services sectors will be in excess of 9 per cent. There is no doubt that the Indian economy has moved to a higher growth trajectory. The expectation is that the Indian economy will grow at an average rate of 9 per cent per annum over the next decade and beyond. This will mean that by the end of the present decade, the size of the Indian economy will approach \$6 trillion and the per capita income may exceed \$4,000. Thus, this period will see the Indian economy transform itself into a middle income country. This fast rate of growth of the economy will require that we ensure a steady supply of skilled manpower in the sectors driving the growth.

We have today a large and expanding workforce and relatively less people of dependent age and are, therefore, strategically placed to reap “Demographic Dividend”. David bloom, the demographer from the Harvard School of Public Health was the first person to coin this term which implies that when young working age adults comprise a significant percentage of country’s population, national economy is affected in positive ways. Bloom estimates that the dividend in the US in the form of baby boom generation contributed 20 per cent of the nation’s GDP growth between 1970 and 2000. The Annual Report on Employment brought out by the Ministry of Labour of Government of India says “Currently, India is passing through an unprecedented phase of demographic changes. The ongoing demographic changes are likely to contribute to an ever increasing size of labour force in the country. The Census projection report shows that the proportion of population in the working age group (15-59 years) is likely to increase from approximately 58% in 2001 to more than 64% by 2021. In absolute numbers, there will be approximately 63.5

million new entrants to the working age group of 15-59 years between 2011 and 2016 and most importantly the bulk of this increase in the population is likely to take place in relatively younger age group of 20-35 years. Such a trend would make India as one of the youngest nations in the world. In 2020, the average Indian will be only 29 years old, compared to 37 in China and the US, 45 in Western Europe and 48 in Japan.”

As mentioned earlier, India has the potential to grow in a sustained way at 9 per cent per annum over the next two decades. The saving and investment rates exceed currently 35 per cent of the GDP. This would enable the Indian economy to sustain a growth rate of 9 per cent. Thus the macro economic parameters are favourable for achieving the growth rate of 9 per cent. But we have to guard ourselves against constraints that may come in the way of achieving this potential. Sectorally speaking, the two sectors which would need special attention are agriculture and infrastructure and within it more particularly power. A sustained

growth rate of more than 4 per cent in agriculture is necessary to ensure food security, reduce poverty and achieve more balanced regional development. Improving the productivity of agriculture has to remain one of our major concerns. Equally important is the growth in infrastructure and particularly power. The availability of power is fundamental to the growth of all other sectors of the economy. To maintain a rate of growth in power generation which is higher than that of the rest of the sectors is crucial. Our ability to add to capacity in the power sector has to be enhanced in a significant way. These apart, the availability of the skilled manpower is an essential prerequisite. Skill development programmes are very much needed not only to meet an overall target but also to close sector-specific demand and supply gaps. In the vocational training space NSSO data for 2004-05 show that only 2 per cent of people in the age group of 15-29 years have received formal vocational training and only 8 per cent have received non-formal vocational training. Many of the developed economies have 60 to 80 per cent as skilled workers. Korea has

as high as 96 per cent skilled work force. The present vocational training capacity at around 3 million falls woefully short of the 10 million plus additions to the labour force every year. Apart from the numbers, quality of training is another concern. India still lacks a national level accreditation body with broad based coverage of the various training institutions in the vocational training space which is important to ensure that credible and quality training is imparted. Presently industry is not a part of the skill development and hence the trainees are not able to acquire industry specific skills in the training institutions. In order to make the training demand driven and relevant to the industry, skill development systems need to be driven by the industry. Moreover the formal skill development system does not cater to the skills needs of the unorganized sector which accounts for a significant part of the workforce. A large number of traditional skills, which are of international standards, are passed down from one generation to another through informal training and there is a need to bring them into the formal system to enable certification.

There are several estimates of skill shortages in specific sectors and here I will only quote from two reports. The first report is by the National Skill Development Corporation which has estimated that in the period from 2008 to 2022, the Banking, Financial Services and the Insurance sector will have an incremental human resource requirement of 4.2 million people. The required skill sets will range from soft skills like communication and selling to hard skills like credit evaluation to risk and wealth management. The other report by Mc Kinsey for the off shoring business, which drove much of India's service sector revolution, estimates that despite having a large pool of young university graduates only a fraction of these are suited for work in multinational companies. The large variations in the quality of India's universities, poor English language skills and high rates of emigration have contributed to the talent crunch.

The Government of India had drawn up an ambitious national skill development policy in February 2009 to create 500 million

skilled people by 2022. Under the policy, the National Skill Development Corporation has been set up whose primary objective is to identify skill development needs, developing sectoral skill development plan and maintaining a skill inventory. Recently the Government has undertaken a comprehensive programme for modernization of ITIs which includes upgradation of infrastructure, introduction of new trades, revamping of syllabus and training of trainers.

In relation to skill development, there are thus four related issues. First and foremost, skill development is needed at all levels. It is needed both post-school and post-college. Vocational training needs to be blended with school curriculum. A significant number of students who graduate from colleges do not have adequate skills. This is true of even professional institutions like engineering college. The U.R. Rao Committee on Engineering Education laments about the poor quality of the engineering graduates. Thus skill upgradation has become necessary at all

levels. It can be done partly by improving curriculum and partly by introducing remedial programmes. There needs to be greater interaction between industry and the education system so that institutions of higher education can better understand the manpower needs of the market place and tailor their academic programme accordingly. Second, we need different types of institutions for upgrading skills. For improving technical skills needed by the various occupations, we need sector-specific institutions. For example, to modernize and improve crafts such as carpet making, handicrafts and handloom weaving, separate institutions need to be set up. For imparting skills in services such as banking, insurance and tourism, specialized institutions become necessary. Thus from the simple to the sophisticated, institutions of different types need to be set up. Third, technology will play an important part in the search for upgradation of skills. Technology will help to reach out to a larger number of people and at the same time, it is a very effective instrument of instruction. And fourth, training and imparting skills to the extent possible must be

combined with placements. The most successful institutions are those which are in a position to combine the two. Undoubtedly, as the economy grows, we will need more and more skilled personnel. Thus quantity is important. Equally important is quality. It is relevant to note that at present only one in four engineering graduates and only one in ten with generalized degrees are considered employable by the large companies.

The demographic window is open to us only for a short period and we need quick action on the ground to exploit its full growth potential. The private sector which is relatively more nimble and has its ear to the ground must partner the government in this endeavour. It is here that companies like Talent Sprint which can help the country to succeed in transforming the potential of the youth into a force which will propel us to a higher growth path. The partnership that you have with the IT sector and other fast growing sectors is fully aligned with the need of the hour. I wish you all the

success in this endeavour to sharpen the skills of India's youth and thus pave the way for sustained higher growth.