Opinion

THURSDAY, FEBRUARY 28, 2019

LAUNCH OF SHREYAS

Prakash Javadekar, Union HRD minister

"The education with skills is the need of the hour and the [new programme] will be a major effort in this direction to make our degree students more skilled, capable, employable and aligned to the needs of our economy"

Need to do more if FDI flows are to increase

In April-December 2018, inflows contracted by 7%; as a share of GDP, FDI fell from 3.4% in FY09 to 2.3% in FY19

GIVEN THE INDIAN economy's relative attractiveness vis a vis China in the last few years—lower wage costs and a strong technology sector—it should attract large FDI flows. The combined fresh inflows in FY16 and FY17 were a hefty $83.5 billion; in FY18 this was $44.9 billion—if reinvested earnings of FDI projects are added, the FY16-17 number rises to $115.8 billion and FY18 to $61 billion. However, the trend seems to have reversed because, at $33.5 billion in the nine months to December 2018, there has been a contraction of 7% year-on-year in terms of fresh equity flows.

Although the government has eased the investment limits, sectors such as defence haven't seen meaningful inflows. Foreign firms, it would appear, are satisfied with a 49% stake in a venture or a bigger one for bringing in state-of-the-art technology. By and large, it is the services space that continues to pull in the bulk of the investments and not manufacturing, although these nearly doubled to $17 billion in the five years to 2016-17. In fact, there has been an absence of momentum in the Make-in-India programme and, for that matter, in manufacturing in general. Bigger FDI inflows in defence would depend upon the pace of defence orders under the Make-in-India programme, but defence orders haven't gained pace under the NDA either.

A more lenient FDI regime is needed both for manufacturing and in areas such as multi-brand retail to spur job creation. But simply freeing up investment limits isn't enough, it must be easy to do business. When the UPA threw open multi-brand retail to global retailers, the response was less than lukewarm because of the several riders attached to the policy. Even otherwise, the rigid labour laws, poor infrastructure and the unstable regulatory environment seem to have hampered flows into industry; a good chunk of FDI has come into companies that are well-established and where regulation is relatively less important such as FMCG multinationals. The government needs to fix the problems on the ground and shrug off its conservative approach that limits investments. It is a pity global pharma majors aren't investing more in India's pharma sector given the large pool of scientists and science graduates. The sector pulled in less than $1 billion each in FY16 and FY17, lower than the $1.5 billion in FY15. The auto sector, too, saw just $1.6 billion in FY17 compared with $2.6 billion in FY16, although India has relatively cheap labour and also a big home market. The biggest amounts of FDI have come into the e-commerce space—$8 billion plus in 2018—leading to the creation of thousands of jobs. The inflows of this fiscal have been dominated by those in services, computer hardware and software, telecommunications and chemicals.

To be sure, fresh FDI inflows to India have nearly doubled over the past decade to $44.9 billion in FY18—$61 billion including reinvestments, that adds up to around 2.4% of GDP. But, given how local capital is limited, it is critical India attracts much more so as to reduce the dependence on fickle portfolio flows. Of the total net capital flows of $240 billion, estimated in the three years to FY18, close to 55% was FDI, the rest portfolio flows were both debt and equity. In the ten years prior to that, FDI accounted for less than 30% of the inflows. India's current account deficit widened to 2.9% of GDP from 2.4% in Q1FY19 and, worryingly, the relatively stable net FDI saw trailing twelve month flows dip to $28 billion. This cannot be good news.

Ban 'regulatory assets'

SEB turnaround aided by not paying gencos ₹1.4 lakh cr

THE LATEST SETS of data from the power ministry suggest that the sector has witnessed a smart turnaround, mostly because of the UDAY scheme introduced a few years ago. According to the ministry, the UDAY states have managed to cut their financial losses by a whopping 70%, from ₹51,480 crore in FY16 to ₹15,049 crore in FY18. Indeed, the ministry says, states like Andhra Pradesh, Chhattisgarh, Goa, Gujarat, Haryana, Himachal Pradesh, Maharashtra, Rajasthan and Daman & Diu have shown profits in FY18; Uttar Pradesh, Tamil Nadu, Punjab, Karnataka, Madhya Pradesh, Tripura and Manipur showed losses, but these were 50% lower than those in FY16. It is, then, odd that generating companies are unable to service their bank loans on time, and since they are on the verge of default—if not defaulted already—the government is trying to get the central bank to relax its classification norms for NPAs.

The reason for the coexistence of a turnaround with stressed gencos is that, with the state governments unwilling to hike electricity tariffs—and the so-called independent electricity regulators don't think they can order a tariff hike on their own—to take into account actual costs, the turnaround is a false one; indeed, much of the fall in losses is due to the UDAY scheme's insistence that banks cut their loan rates dramatically, from 12-14% to around 8% by substituting state-government bonds for SEB loans. Around 20,000 MW of the 52,000 MW of stressed projects are due to the fact that, with the SEBs not able to pass on costs, they have just refused to sign power purchase agreements with the gencos. Another tactic is to simply not supply enough power since, with a gap between costs and tariffs, each unit of supply means additional losses; that is why, power minister RK Singh has been pushing for making 24x7 electricity supply mandatory. Loss levels, ATC in jargon, remain very high and, as compared to the target of cutting this to 15% by March 2019, this was around 21% at the end of December 2018; each one percentage point reduction in ATC lowers financial losses by around ₹4,000 crore, so when ATC losses don't fall, the only way to keep SEBs solvent is to raise tariffs.

With ATC losses not falling fast enough—this involves going after power thieves and special police and courts—and the regulators not able to ensure regular tariff hikes, SEBs have opted for the easier option of not paying their dues. According to the power ministry data, SEB dues were around ₹14,600 crore for private sector gencos till the end of November 2018 and ₹21,600 crore for public sector generators like NTPC and DVC till the end of January 2019. It gets worse since there is this fiction called 'regulatory assets'. When an independent regulator knows it needs to raise tariffs so as to net, say, ₹100, but doesn't want to raise them—due to the state government indicating it will not allow it—it tells the genco to classify ₹100 as a regulatory asset; the genco will be given interest costs of, say, ₹8 per year, on this asset till the time tariffs can be raised to cover the ₹100. While it is obvious regulatory assets, like any IOU, have to be fully paid for within a few years, almost ₹60,000 crore of fresh regulatory assets were created in FY14-18, taking the total IOUs till date to as much as ₹1,35,000 crore. Instead of trying to persuade RBI to relax its NPA norms, the government needs to fix the power sector mess.

EducationHigh

The Delhi govt puts its money where its mouth is on govt education; other states and the Centre should take a cue

THE DELHI GOVERNMENT'S budget, as has been the case so far with the current dispensation, has a welcome focus on education. For the coming fiscal year, the government earmarked a whopping 26% of its total expenditure estimate for the sector—at ₹15,601 crore, it is up by nearly 40% from ₹11,300 crore last year. A major thrust in this education budget is rewarding children who have performed well. Students who have managed to procure more than 80% in their examinations will be given a scholarship of ₹2,500. Continuing the government's drive towards digital modes of learning, students who manage to score more than 80% in their CBSE class X board exams will also be given tablets of their own.

The Delhi government had initiated two programmes to boost learning levels, Mission Chunauti and Mission Buniyaad. The aim was to remedy the lack of basic reading and arithmetic skills in students up to the ninth grade by dividing students into two groups and holding their classes separately. The children in one group were given extra attention and monitored to ensure that their abilities improved. This policy of tracking—grouping students according to their perceived ability—permits pedagogy to be geared towards the differential learning levels of students and makes the process of imparting education that much more easier and, thus, effective. Schemes like these have propelled the attainment of students at government schools, leading to them improving their results in last year's class XII CBSE board exams from an 88.36% pass rate in 2017 to 90.64% in 2018 as also rapidly improving their reading- and math-based abilities as evidenced by the increase in learning outcomes that came about as a result of Mission Buniyaad last year.

SERVITISATION

THE NEW PARADIGM CALLS FOR AN INCREASED FOCUS ON DEVELOPING 'MASS SERVICES' AS THE DRIVER OF GROWTH AND JOBS

Rethinking the job paradigm

ARINDAM BHATTACHARYA

Senior partner and director of the BCG Henderson Institute. *Views are personal*

JOBS HAS BECOME the 'hottest' political battle as the Lok Sabha elections approaches, as media reports on jobs data from the NSSO survey, and earlier in 2017 from the labour ministry survey of establishments, point towards job-less growth. While the government has raised questions on the accuracy of data, the opposition has questioned government policies. To me, this is shooting down the messenger for the message. I believe that this data raises a different question of whether it is time to rethink the paradigm for job creation? To answer this question, we have to first de-average the India growth data to draw any conclusions, and, secondly, understand the structural shifts in global supply chains which impact every country.

Let us start with an important global trend. Since the industrial revolution in the mid 19th century, countries have followed the twin strategies of manufacturing growth and merchandise exports to create millions of new jobs. China is the latest example of the success of this strategy. However, this strategy is being disrupted by the emergence of the 'Industry 4.0' technologies in an era of growing economic nationalism as global supply chains morph into more of local/regional ones. Falling costs of robots erode the advantage of low labour cost-based global plants, making it more economic for global companies to set up smaller, automated plants closer to markets. At the same time, growth in consumption in emerging markets means that many of them can support full supply chains rather than depend on imports. This reduces merchandise trade flows, especially of intermediate goods and calls into question the future efficacy of manufacturing export-led economic (and jobs) growth strategies followed by developing countries.

Let us now turn to India. When we decompose the growth and employment data for India from the 1970s into its three components—total labour hours, capital stock and total factor productivity (TFP)—we find that, while most of the growth between 1970 and 1990 came from growth in labour hours, from the early 1990s (using the same data series) the capital usage started increasing sharply, compared to the increase in net labour hours. This resulted in a phenomenon called 'capital deepening' and India's economy became significantly more capital-intensive. This conclusion is supported by the slower growth of labour intensive sectors like textile/apparel, food and leather compared to capital-intensive sectors like chemicals/rubber, metals, metal products and machinery. Even in services, the less labour-intensive financial services sector has added more value than more labour intensive sectors like tourism, health, and education. Employment elasticity of manufacturing growth had started dropping, not in the last few years, but much before that.

This analysis leads to two critical conclusions. The first is the one which many experts have been pointing to for many years: reforming our labour laws which seems to incentivise the use of capital over labour. This becomes more critical as falling costs of automation and its increasing benefits makes this trade-off in manufacturing (and even services sectors) even more attractive. The second conclusion is perhaps more controversial—we need a new paradigm to think about jobs which is more aligned to the new realities of the 21st century with its structural shifts in global supply chains and the increasing economic attraction of automation.

> **As we enter the fourth industrial revolution, we have to necessarily 'reboot' our models if we have to deliver jobs with growth**

In this first of a two-part article, I want to focus on the second conclusion and present some specific ideas for a new paradigm on growth and jobs (and develop these ideas further in the second article). Let me first summarise the three important elements of the old paradigm, especially for developing countries. The first was the primary role of manufacturing and merchandise exports as the basis of growth and job creation. The second concerned the type of jobs—formal jobs, both blue and white collar, were highly desirable and formed the basis of a growing middle class. The third was on the type of companies: large companies were seen as more competitive and productive due to their greater scale and thus were seen as the big drivers of formal jobs growth.

Today, each one of these elements is getting radically disrupted. If we look at global trends, merchandise trade has been slowing down while services trade, and especially digital services trade, is growing several times faster as digitisation and cross-border data flows explode. If we look at growth patterns of industrial companies, we find that, while the growth of their physical products like plants and machines is slowing down, the 'servitisation' of their business has been accelerating. Finally, if we look at the type of start-ups, the fastest globalising companies today, or companies with the highest market caps, we find that they are all digital or digitally-enabled services companies. So the first element for the new paradigm is an increased focus on developing 'mass services' as the driver of growth and jobs in the 21st century, similar to the role played by mass manufacturing in the 20th century.

Secondly, we see dramatic shifts in the type of jobs which are emerging, with the growth of freelancers or the gig economy, as opposed to formal jobs. These type of jobs were virtually unknown when mass manufacturing took off as everyone wanted formal employment and are more difficult to measure (and perhaps partially explains the data challenges we face in India). Today, in the US, it is estimated that one in three workers are freelancers and many of them are supplementing their formal jobs. Estimates vary but some experts believe that this job category will cover more than 25% of all jobs in the next few years. There are many reasons for this growth, ranging from changing attitudes to full-time work to emergence of digital platforms that has helped build the e-marketplace for freelancers. Unfortunately, many policymakers and politicians sarcastically call this trend as undesirable 'uberisation' and point out its dangers compared to the safety of formal jobs. But should we not leverage this important global trend and make it much easier for such jobs to emerge if they are the natural development of the social and digital revolution taking place? Of course we will have to think how to make it win-win for all by re-thinking labour classifications, protecting freelancers from exploitation in an unequal power equation without destroying the economics, and setting standards for new cost-effective social security programmes for them.

The third pillar of the new paradigm is the significant shift from big to small companies that will drive growth and jobs in the future. In the era of mass manufacturing, we have grown up with the economic logic that size and scale drives competitiveness. Hence, most of the 'mind-space' of policymakers was taken up by large organised sector players. Digital technologies (digital platforms, e-markets, falling bandwidth costs, cloud storage, etc) have brought about fundamental changes in this economic equation favouring size/scale as they dramatically bring down transaction costs, increase access to global markets and customers, allow 'asset-light' business models to flourish and increase the importance of IP and talent for future value creation over physical assets. A small player offering a popular digital game downloaded from the internet can build a billion dollar global business in months rather than decades as Niantic, a small company on the west coast of US, did with its game PokemonGo. The present government has rightly emphasised the importance of start-ups and small/medium enterprises and launched a series of policy initiatives but there remain many challenges these firms face from access to funds to excessive regulatory burden.

Let me end this first part of the two-part article on jobs by emphasising that the three pillars of the old paradigm—manufacturing and merchandise trade, large scale formal jobs and large companies—are not suddenly redundant. They will continue to be important but, as we enter the fourth industrial revolution, we have to necessarily 'reboot' our mental models if we have to deliver jobs with growth. Otherwise, we will continue to shoot down the messenger for the message!

Unleashing $8 trillion of climate defence

In the past three years, sovereign wealth funds have invested a total of just $11 billion in renewable energy companies, green energy projects and climate-oriented debt, comprising less than 0.2% of their total assets

MARK GILBERT

Bloomberg

ON MONDAY, THE British Met Office recorded the UK's warmest winter day on record. In Chile, January temperatures in the capital city of Santiago beat the previous record by a full degree Celsius. Globally, the last five years were collectively the world's warmest ever.

The world is losing the race to curb carbon dioxide emissions. In 2017, output of the gases that contribute to global warming climbed to a record—as did the cost of insuring against natural catastrophes, which reached $350 billion. But a new report from the World Economic Forum, the group that hosts the annual Davos shindig, suggests that there's an underutilised pool of capital available to help tackle climate change—sovereign wealth funds (SWFs).

According to the Sovereign Wealth Fund Institute, more than 70 national funds control about $8 trillion of assets, with the bulk of their money generated by oil and gas income. Iceland is the latest nation seeking to establish a rainy day fund; it is planning to set aside $2.5 billion.

But figures compiled by the United Nations Environment Programme in December estimate that in the past three years, SWFs have invested a total of just $11 billion in renewable energy companies, green energy projects and climate-oriented debt, comprising less than 0.2% of their total assets. That is pathetic.

Globally, clean energy investment has topped $300 billion annually for the past five years, according to figures compiled by Bloomberg New Energy Finance. In Europe, investment in technologies from wind power to solar projects increased by 27% last year to more than $74 billion.

As the world moves away from fossil fuels, many of the nations that have tapped their natural resources to set up sovereign wealth pools risk being left with reserves of oil and gas for which demand is dwindling. The WEF argues that there is a "structural risk of not acting—namely that a global energy revolution leaves nations stranded and without the resource revenues needed to diversify down the road".

The UN study suggests that sovereign funds have been inhibited from developing greener portfolios because of a reluctance to forgo returns from the oil and gas industries. Norway's $1 trillion sovereign wealth fund, the world's biggest, has met with resistance since it proposed dumping all of its oil and gas stocks in 2017, saying that the nation was already vulnerable to oil-price volatility as western Europe's biggest exporter of crude. A report published in January recommended the Norwegian fund should allocate at least 5% of its cash to renewable energy infrastructure projects, arguing that such investments offer long-term growth potential, low correlation to other asset classes, and the prospect of enhanced risk-adjusted returns.

In a similar vein, the WEF study argues that sovereign funds are better placed than other potential investors to finance green energy projects. SWFs are "better equipped to take advantage of environmental, social and governance investment strategies than private counterparts, as they can better afford to wait to see the social as well as financial benefits of such an approach". They can also take advantage of longer time horizons than private investors, the WEF says.

But they risk being late to the party. In November, Carlyle Group Chairman David Rubenstein told a conference in Amsterdam that, as more investments are made to address global warming, the returns available will be boosted correspondingly. Around the world, the amount allocated by venture capital and private equity firms to clean energy projects jumped by 127% in 2018 to reach $9.2 billion, BNEF calculates.

While it may be politically difficult for some countries to wean themselves off their economic reliance on fossil fuels, enlightened self-interest suggests SWFs should do more to support renewable energy. Here is hoping that they do—for all of our sakes.

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LETTERS TO THE EDITOR

Mix caution with aggression

Recent political and socioeconomic moves on multiple fronts to tighten security, suppress internal conflicts in sensitive areas, discourage trade relations and disengage ties in various capacities are welcome tactful measures to seek attention of/support by international bodies, including the UNSC. Increased responsibility and preventive measures are the next steps. Authorities, in addition to perceiving sensitive matters cockeyedly, ought to enhance security on the border and be cognisant of additional surveillance needs. Superfluous attempts have failed to improve the long-term bilateral relations hitherto, as one-sided cordial gestures in the past have not been duly reciprocated. Continuance of robust governance coupled with a strategic approach to mix caution with aggression is the need of the hour to mitigate risks
— Girish Lalwani, Delhi

Indian documentary

The Oscar for the Indian documentary which showcased the fight of Indian women against entrenched patriarchal systems to secure their right to dignity and menstrual hygiene is indeed heartening for it would help make conversation about menstruation become more louder and public. Eliminating menstrual taboos which are restrictive and discriminatory through sustained awareness campaigns needs no delay
— M Jeyaram, Madurai

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The real reason behind low employment numbers

It would be proper to wait for the next round of the PLFS (2018-19) that is under progress and compare its findings with the results of the PLFS (2017-18) to make a more correct assessment of the employment rate in the country

AVIK SARKAR

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ILLUSTRATION: ROHNIT PHORE

LAST MONTH SAW a series of discussions related to employment numbers reported in the leaked Periodic Labour Force Survey (PLFS). I wanted to understand the underlying reasons and the validity of the numbers quoted in the media. I did not have access to the findings of the leaked report, so I looked at the survey methodology available in public domain and compared it to the methodology of the last Employment-Unemployment Survey (EUS) of 2011-12—both of which have been conducted by the National Sample Survey Office (NSSO) of the ministry of statistics and programme implementation. I further compared the methodologies across these surveys to ground realities in India, to identify the possible reasons for the low numbers that have been reported.

I found there to be a stark difference in the methods used to choose survey households. The PLFS is based on education level of households and the EUS is based on expenditure (urban) or livelihood (rural) of households. Any direct comparison of the survey results of the PLFS with the earlier EUS would lead to erroneous inference about the employment scenario. Further, the sample chosen in the PLFS was not quite representative of the underlying Indian population in terms of the achievement of secondary education leading to lower estimates for the population, labour force participation and employment. And here I will show you how that is the case.

The EUS

The EUS, which was last conducted during the 68th round of the NSSO for the duration July 2011 to June 2012, is a comprehensive survey providing a complete scenario of the labour force, across sectors like agriculture, industry, services, etc, in both rural and urban areas.

In any survey, a sample of locations are chosen judiciously to represent the entire country. For the EUS 2011-12, the selection of locations for First Stage Units (FSU) in the sample, urban and rural classification was made based on the data from Census 2001 and each town with a population of more than 10 lakh was represented as a separate group in sample locations. For the Second Stage Strata (SSS), the criteria for choosing households in both the rural and urban areas was household affluence, as shown in the accompanying table.

In rural areas, 50% of chosen households are those with principal earnings from non-agriculture-based activities. There was good representation of households with at least one member engaged in non-agricultural activities; for example, employed in formal/informal sector.

For urban areas, the Monthly Per Capita Expenditure (MPCE) available from the previous rounds of the NSSO household surveys forms the basis for selecting households. The MPCE considers the realities of that particular area based on the previous round survey (by the NSSO) leading to the criteria for selecting households. Household expenditure is a good proxy to ascertain earnings for households through employment (formal or informal). The sample also has good representation of the middle class engaged in gainful employment-related activities.

The PLFS

The PLFS, also conducted by the NSSO between July 2017 and June 2018, is the first to focus on a detailed overview of the labour market in India. It provides continuous update on the employment situation in India (quarterly for urban and yearly for rural areas). This survey has, for the first time, used the Computer Assisted Personal Interviewing (CAPI) method to capture data—a great step towards technology adoption. The sample size of various NSSO surveys are comparable and may assumed to be in line with the last EUS survey of 2011-12.

For the PLFS, the selection of locations in the FSU for urban and rural areas was done as per Census 2011 classification. Each census town with a population over 15 lakh was formed into a strata (group) for further sampling. The remaining towns were classified into three strata based on population: less than 50,000, 50,000 to 3 lakh, and 3 lakh to 15 lakh. The representative samples were then selected from each of these groups. Keeping in mind the population growth and constraint of similar sample size, it was a good decision to move the town population threshold from 10 lakh to 15 lakh.

But there is a major change in the criteria for the selection of households in the SSS for both rural and urban areas, based on the number of members in the household having general education up to secondary level (10th standard).

At first glance, the household selection criteria for the PLFS seems aspirational in nature, as the choice of households is dependent upon the education level of the household instead of the earlier criteria of affluence/expenditure. It is true that mostly formal or better-playing employment is linked to the education level of the household members and this move by the PLFS is really aspirational in nature. However, it made me wonder if this selection of sample based on the level of education is really representative of the underlying population of India.

I started by looking at the data on Census 2011 and found that the percentage of people above secondary level as of 2011 is quite low, at 21.51%, which goes further down to 15.3% for the rural population but has a healthy number of 35.24% for the urban population. Not all informal or daily wage employment requires more than secondary level education. A healthy literate level of 63.07% implies that a large portion of the population has basic literacy, which is what is required for daily wage employment.

Household-level secondary education was not readily available from Census 2011 or other data sources to my knowledge. For this, unit level survey data of the EUS of the NSSO 68 Round in 2011-12 was used to derive the estimates of the number of households with zero, one, two or more than two members having general education level above secondary level (see table).

Any direct comparison of the results of the Periodic Labour Force Survey with the earlier Employment-Unemployment Survey would lead to erroneous inference about the employment scenario

Thus, it can be seen that there are 66.42% of households (75.61% rural and 46.20% urban) with no family members with general education above secondary level. Whereas only 25% of households have been sampled based on these criteria, leading to a huge mismatch between the reality and the samples drawn. People from these households are mostly daily wagers or engaged in informal employment, which would also show lower employment estimates.

These numbers provided a good view on the education level of the people in India and showed that the stratification criteria used in the PLFS is not quite aligned to the secondary and above secondary levels of education in the country.

This under sampling, leading to under-representation of such households, is leading to lower estimates of the people for this group in labour force participation and employment rate. This is what is falsely coming through—lower employment numbers due under-representation of the population.

The percentages of households for the urban area, though far from the sample sizes are closer to the reality in urban areas compared to rural areas. It would be proper to wait for the next round of the PLFS (2018-19) that is under progress and compare its findings with the results of the PLFS (2017-18) to make a more correct assessment of the employment rate in the country.

Household selection criteria in EUS 2011-12

Rural	%	Urban	%
Relatively affluent households	25%	Households having MPCE of top 10% of urban population	25%
Of the remaining, households having principal earning from non-agricultural activity	50%	Households having MPCE of middle 60% of urban population	50%
Other households	25%	Households having MPCE of bottom 30% of urban population	25%

Household selection criteria in PLFS 2017-18

Rural	%	Urban	%
2 or more members above 10th Std	25%	3 or more members above 10th Std.	25%
1 member above 10th Std.	50%	2 members above 10th Std.	25%
0 member above 10th Std.	25%	1 member above 10th Std.	25%
		0 member above 10th Std.	25%

People and households based on education level

	% of people in India (Census 2011)		% of households with family members above secondary level (NSSO 68 Round in 2011-12)			
	Literate	Above Secondary	0	1	2	2+
Total	63.07	21.51	66.42	17.43	10.27	5.88
Rural	57.91	15.30	75.61	14.64	6.61	3.14
Urban	74.47	35.24	46.20	23.56	18.32	11.91

The tyranny of metrics

SEEMA BANSAL & SHOIKAT ROY

Bansal is director, Social Impact Practice, BCG; Shoikat Roy is an expert consultant in Education Practice

Why we learn nothing from the learning outcome data

THE PRINCIPAL SECRETARY of school education in a central Indian state faces a conundrum—elated at being placed in the top quartile in India in MHRD's annual National Achievement Survey (NAS), he has been replaced with a sense of despondency at being rock bottom in the recent ASER 2018 results. The secretary has the state's own learning data collected randomly across 1 lakh students in government schools—which is different from NAS and ASER. There is also a file on learning outcome data from Aspirational Districts collected by the NITI Aayog that is as yet unread on his desk—his fear that it will paint a fourth picture is not unfounded.

It is difficult for the secretary to decide which set of learning data is worth spending time on. NAS scores will determine funding under SSA, the Prime Minister will personally review Aspirational Districts improvement, while for the media and general public ASER is the flavour of the month. Not only this, the secretary also gets other rankings: NITI Aayog's SEQI, MHRD's PGI and Aspirational Districts delta rankings, among others. Each has similar but different takes on what is important in education and throws up a different set of ranks and priorities for his state.

How did we get here? A decade ago, the education sector witnessed a shift towards measuring learning outcomes in a standardised manner. At the time, the push to collect learning data was essential to understand and confront the depth of the learning crisis in India. But the need to assess and measure learning outcomes has been taken to an extreme today that renders the entire exercise futile. While the efforts are well-intentioned, they're creating more confusion than clarity. In the NAS data, for example, states like Kerala, Andhra Pradesh and Delhi have been ranked bottom, while Jharkhand and Rajasthan are closer to the top. ASER rankings show the polar opposite in many cases. NAS posits that an average grade 5 student scored 60-70% on a graded paper in Maths and Language, whereas ASER claims that in many parts of India a majority of students in grade 5 are not even familiar with basic Grade 2 competencies like subtraction.

One north Indian state, for example, claims that 70% of its government school students are at grade level according to its internal data, while ASER indicates that half its students are at least 2 to 3 grade levels behind in every subject. The ASER data itself throws up inexplicable results that limit decision-making on the basis of it. Several states have shown extreme swings in successive years in the same grades that seems nearly impossible. Thus, in the absence of disaggregated and transparent data to explore the potential causes, it is difficult to arrive at a nuanced action agenda.

Experts will argue NAS and ASER cannot be compared because of a significant difference in methodologies and sampling. It is possible NAS is skewed towards brighter students attending school, but it is unacceptable that multiple surveys are leading to two antithetical views of overall educational outcomes in a state. As a consequence of conflicting measurements and lack of quality data, the objective of index-based measurement systems—to prioritise and identify weaknesses for improvement—is largely a lost cause. Today, if any bandwidth is spent in states, it is on wondering "what really is the truth." Data-based learning assessments and rankings that should have been a clarion call to action for states have degraded into a source of frustration and cynicism, as well as the target of ridicule.

This is magnified by the significant transaction costs imposed on the system by such exercises. Internal studies estimate teachers spend 10-20 days of critical teaching time on conducting and uploading various types of assessments data; not to mention the costs borne by the administration in collating, analysing and reconciling. It is unacceptable this burden is not ameliorated by meaningful data-based insights and a clear action agenda to improve outcomes.

So what is the answer? It is critical that Centre, states and external organisations adopt a collaborative approach to measurements. All bodies must reconcile the definitions of learning outcome metrics and corresponding measurement tools and processes. While external approaches must be encouraged, the ecosystem needs to come to a common answer on what learning outcomes are to be measured, for what purposes (incentivisation, teacher training, accountability initiatives), and develop common approaches and best practices for accurate data collection and validation. Unless this is done immediately, the purpose of measuring learning outcomes will be completely lost.

Towards a sustainable UBI

Can PM-KISAN surmount implementation hurdles?

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IN THE ECONOMIC SURVEY 2016-17, Arvind Subramanian, the former Chief Economic Adviser, for the first time initiated a debate on Universal Basic Income (UBI) in India. In western countries, UBI is prevalent as existing social security measures are often inadequate to sustain the minimum standard of living by the poor people. In the West, UBI is not a permanent feature of public policy, as young people get jobs, at least in the upswing of the business cycle, while old and disabled manage their affairs with the available social security measures.

While presenting the Interim Budget, the Union finance minister introduced the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)—direct benefit transfer (DBT) of ₹6,000 annually to all farmers having land up to 5 acres. The scheme will cost ₹75,000 crore per annum and will benefit 12 crore small and marginal farmers. Although the amount is small, a good beginning has been made in the direction of UBI in India. Poor people certainly deserve support to live a dignified life. One has to introspect as to whether this has been introduced as most other schemes have failed to achieve their objectives.

UBI is distortionary even in the developed countries. While choosing between work and leisure, normal behaviour of the workforce is vitiated due to UBI. Persistence of UBI is a moral hazard problem that encourages substitution of leisure in place of work. Therefore, UBI is used sparingly, particularly when inequality is glaring, and poor people fail to maintain a minimum standard of living.

Barring very old and disabled persons, poor people prefer to earn and live with dignity rather than seek dole-outs. In this context, it is the responsibility of the government to create enough employment opportunities so that UBI is not required.

Indian conditions are much more complex than those in developed countries. Reliable data on employment are not available, leave alone data on disguised unemployment. Recently, there have been some moves towards social security measures in India. These are Ayushman Bharat, Fasal Bima Yojana, national old age pension scheme, etc. These initiatives are awfully inadequate and the coverage is abysmally low. Unemployment allowance is virtually not available to jobless persons. Government health insurance for the poor is limited to hospitalisation with a financial limit at ₹5 lakh per family. Private medical insurance is expensive and beset with corrupt practices.

Ideally, one should think of a robust social security system rather than spending large amounts every year imprudently on subsidies. The total amount of money spent on subsidies in the post-Independence period could have been sufficient to introduce a fairly good social security system. Despite the recent introduction of some social security measures, there is no commensurate decline in subsidies.

MGNREGA has been a good initiative to provide at least 100 days of guaranteed employment to the poor people in rural areas against the creation of assets. This could have solved the seasonal unemployment in rural areas.

Since the rural infrastructure is awfully poor, there is no dearth of projects that can be taken up under MGNREGA. Earlier, leakages from MGNREGA were large. This has been plugged due to DBT to beneficiaries by the government. It appears as if after the introduction of DBT, organisers of MGNREGA have lost all incentives to vigorously pursue the programme. The scheme is, at best, dysfunctional, leading to persistence of abject poverty and inequality in rural areas despite reasonably high GDP growth.

Farm distress in India is a complex phenomenon. The irony is that it has accelerated at the peak of the agricultural production. Farmers are up in arms as prices of farm products have fallen significantly during the last two years. Moreover, they hardly get around 25% of the price paid by urban consumers. This barely covers their cost of production. The root cause of the recent farm distress is, therefore, market failure, unlike crop failure earlier.

During the recent years, the government has taken several structural reforms to improve the efficiency of value chain in agriculture, such as Fasal Bima Yojana, electronic National Agriculture Market (eNAM), setting up of producers' companies with tax breaks, etc. It is best to review as to why these structural reforms are not working rather than introducing multiple schemes without a rigorous implementation strategy.

In India, the profit margin in farming has come down drastically due to low productivity and rise in input costs. On top of this, terms of trade have become adverse against farm products, which crippled the financial condition of farmers. Agriculture needs long-term solutions like investment in irrigation, building up of rural infrastructure, extensive use of post-harvest technology, efficient value chains in marketing of agricultural products, etc.

As a short-term solution to the enduring problem, many states have been offering farm loan waivers, which benefit big farmers more than marginal farmers. Landless labourers and share-croppers are left high and dry. This not only disrupts credit flows to agriculture, but also impairs the credit culture, forcing farmers to depend on the informal sector to meet their immediate financial requirements.

Can PM-KISAN surmount implementation hurdles? Given poor land records in the country, how quickly state administrations can prepare the list of beneficiaries and transfer the amount? How to ensure UBI to landless labourers, share-croppers? Is it a substitute for inefficient implementation of other reforms? Given the budget constraints, how long can the government transfer such funds to farmers without asset creation? In the absence of robust social security measures, is this also a suboptimal solution like farm loan waivers? Can interlinking of rivers—the flagship project—be undertaken urgently by using funds allocated for rural development, which would provide employment to a larger section of rural people?