FICCI's

Agenda for Affirmative Action

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Federation House, 1, Tansen Marg, New Delhi – 110001

Table of Contents

FICCI

EXECUTIVE SUMMARY

- FICCI's preliminary analysis of the outcomes of the reservation policy in place in educational institutions and public sector jobs in India shows that participation rate amongst individuals belonging to the disadvantaged groups deteriorates as one moves up the educational ladder as well as the employment ladder in terms of skills demanded. These results are primarily due to the lack of focus on education and skill formation at the early stages of the educational process.

- **FICCI believes that further extension of the ambit of the reservation policy for additional segments of the society as well to additional institutions / sectors will not address the core issues.** A calibrated and long-term policy of educating and empowering these disadvantaged groups right from the lower rung of the educational ladder, implemented both in letter and spirit, only can help them move up the socio-economic strata, and also nullifies the need for reservations.

- **FICCI Survey on 'Affirmative Action and the Role of Indian Industry'**

  - FICCI conducted a quick survey on 'Affirmative Action and the Role of Indian Industry', amongst the CEOs of companies across the country as a part of FICCI's ongoing efforts to present the views of Indian industry on affirmative action to the government. The key findings of the survey are as follows:

  - When questioned about the companies willingness to consider / adopt an affirmative action policy where they can voluntarily give preference for employment / during recruitment to candidates who are from the socially and economically backward groups over equally competent general category candidates, the views were sharply divergent. **While 50 percent of the responding companies showed their readiness to adopt a policy of affirmative action, the other half declined to adopt such an action in their respective organisations.**

- **89 per cent of the respondents stated that they do not ask the candidates to furnish information about their caste background while recruiting employees in their organizations.**

- A substantial proportion of the respondents felt the immediate need for a policy of special training programmes and vocational training programmes, with adequate support from the government, targeting the candidates from the backward classes, right at the grass root level.

- Another major proportion of the **responding companies suggested that the government should introduce various incentive mechanisms for the companies voluntarily employing candidates from the socially and economically backward communities.**

- To generate employment amongst the backward communities some of **the participating companies favored entrepreneurship development as an alternative to reserving seats** for them in the private companies. *(Detailed survey findings in Annexure I)*

- **Based on the aforementioned findings of the survey, FICCI's analysis and extensive study of the past reservation policies in India and the international experience on Affirmative action, FICCI suggests the following comprehensive multi-layered affirmative action agenda to trigger a process of genuine socio-economic development amongst the hitherto disadvantaged sections of the society**.

1. AFFIRMATIVE ACTION FOR EDUCATION, SKILL FORMATION AND HUMAN CAPITAL DEVELOPMENT

- **Primary & Secondary level of Education -Tier I**

- **Prepare Children from Disadvantaged Groups for Entering Primary Levels of Education-** The government may consider providing comprehensive

childhood development services to the children from the less priviledged communities in India, much on the lines of the "**Head Start Programme**" administered by the Federal government of the United States. The head start programme which had a substantial role in empowering the minorities and backward communities in the United States, targeted children right from the pre-kindergarten level.

⇨ **Adopt a public-private partnership approach**-Government may consider adopting the **'Kerala Model',** which is a successful example of public-private partnership with a 'zero drop out target'. A time bound pilot project with FICCI could be started wherein FICCI would adopt 100 government funded schools in the districts with significant SC/ST population and would work towards improving the learning environment, infrastructure, teaching-learning process in those schools.

⇨ **Augment budgetary allocations for secondary education-** FICCI feels that there is a need to augment the budgetary allocation for the secondary level/pre-degree level of education, which constitutes the link between primary education and higher education and where the drop out rates are the highest.

FICCI suggests the government to **make the premier institutions of higher education like the IITs and IIMs self-financing and reallocate the resulting annual savings towards funding the support schemes for the secondary/pre-degree students** from the disadvantaged section.

➲ **<u>ITIs and Vocational Education (Workforce Development Programme)-Tier II</u>**

⇨ **FICCI believes that ITIs can play a pivotal role in the empowerment of SC, ST & OBCs and in creating opportunities for them**. ITIs are at an intermediary stage in equipping candidates with required skill-sets in a growing economy. (To capture the present state of affairs in these institutions, FICCI conducted a survey amongst the 100 ITIs, which have been identified by the government to be converted into centers of excellence with active participation of the industry.

⇨ The survey findings brought out certain key areas that call for focused attention of the government and the industry. Because of their importance in this context, we

have included the detailed report of the survey in Annexure II.). To strengthen the vocational training system in India, FICCI suggests the following:

⇨ **Focus on industry-institutional linkages** - Students of classes VIII - XII should be equipped with vocational training and schemes should be implemented to encourage students to join Industrial Training Institutes (ITIs) with assured employability after training through industry- institutional linkages. FICCI suggests that for skill formation and technical education, government should adopt the **German Model** – 40:60 in our ITIs and polytechnics – 40% on the plant floor and 60% in the classroom.

Members of FICCI have already opted for 15 ITIs under the Public Private Partnership programme mooted by the government and started working through the

Institute Management Committees (IMC). FICCI looks forward to participate in the public-private partnership programme in running another 100 ITIs and see to it that the students
of these institutions, including those from the disadvantaged groups, have the right skills that would help them in getting gainful employment.

Of the CBSE schools that offer vocational programmes at the 10+2 level, FICCI is willing to adopt 100 schools from various parts of the country and look after the development of SC/ST candidates in the same.

⇨ **Incentivise industry participation in training -** Fiscal incentives to encourage the Industry should be provided to set up the Training & Communication Centres (TCCs) attached to their factories & shop floor training to prepare SC/ST candidate for apprenticeship and successful placement.

➲ **<u>Higher education - Tier III</u>**

⇨ **Put in place a financial support system -** There is a need for the government to take a relook at the existing financial support structure for the students who gain admission in the higher educational institutions. If SC/STs are truly to be given a fair

chance in higher education, an improved system with more financial space and flexibility is called for.

⇨ To ensure that no deserving student in India is deprived of higher education for want of resources, the Comprehensive Educational Loan Scheme should be redesigned on lines with US and selected EU countries to allow for soft loans with student friendly terms and conditions.

⇨ **Introduce government funded programmes on the lines of Thomas R Pickering Foreign Affairs Fellowship Programme of the United States**-Federal government provides undergraduate and graduate funding to participants as they are prepared academically and professionally to enter the United State's department of State Foreign Service. The Thomas R Pickering Foreign Affairs Fellowship Programme encourages minority communities in United States historically underrepresented in the Foreign Service and students with financial need to apply. The government of India may consider introducing similar programmes for the underprivileged communities in India to enter the Public Services in India.

2. AFFIRMATIVE ACTION FOR ENTREPRENEURSHIP DEVELOPMENT

➲ **FICCI's suggestions for entrepreneurship development**

⇨ Results of the Economic Census 1998 show that of the 30.35 million total enterprises nearly 45% are owned by SC, ST and OBCs. Considering that nearly 83.3 million persons were working in all enterprises (30.35 million) and that nearly 80% of all enterprises were self-financed, government must focus on entrepreneurship development amongst the socially backward groups of the society.

⇨ **Employment generation through entrepreneurship development would far exceed the number of beneficiaries under a reservation regime** as the private organized sector accounts for just about 2.2% (9 million) of the total workforce. According to FICCI estimates, with an enterprise to employment ratio of 1:3, creation of 5 million new enterprises would result in generating 15 million additional jobs for

individuals belonging to the socially backward groups. **Entrepreneurship and self-employment among the weaker sections of the society should therefore be promoted through easy access to capital, technology and market distribution channels.**

⇨ **Ensure greater access to capital** – FICCI feels there is a strong need to critically evaluate the role of the credit delivery system especially with regard to those enterprises that are owned by the SC, ST and OBC. There is a need to **have a well-defined affirmative action policy for financial institutions** to supply adequate capital to such target groups for setting up businesses. US Government has several schemes targeted towards minority business, for instance:

- ❖ 7(a) and 504 Loan Programmes that provide loan guarantees to small business;
- ❖ Community Express Programme which combines small business loan guarantees with targeted lending by select banks; and
- ❖ Capital Access Programme (CAP) that allows a lending bank to make slightly higher risk loans than conventional underwriting.

⇨ **Extend preferential terms to the SC, ST, and OBC owned enterprises**-To encourage entrepreneurship among disadvantaged groups, one option is awarding of Government licenses and contracts to them. In fact, instead of 'price-preference' to public sector undertakings, preferential terms can be extended to SC, ST, OBC owned enterprises, which would go a long way to promote entrepreneurship among them.

3. AFFIRMATIVE ACTION THROUGH PROMOTION OF INDUSTRIALIZATION IN DISTRICTS WITH SIGNIFICANT SC / ST POPULATION

➲ FICCI hails the Government's initiative in promoting industrialization in the backward areas particularly those districts having significant SC and ST population.

➲ **All districts having a combined SC / ST population of more than 40% be made eligible for this scheme and incentives offered to industries be linked primarily to employment generation.** FICCI has identified 27 such districts and indicated the potential industries, which could be developed in these districts given their resource endowments. FICCI would like to partner with the government in developing

industrial base in these districts with a focus on the identified thrust areas specific to each district. Such an approach would also stem migration of labour from these areas to elsewhere. The districts along with the identified potential industries are presented in the table below.

Serial Number	Districts	State	Percentage of SC&ST Population	Potential Industries
1	Gajapati	Orissa	58.3	Forest based (paper & paper products, rubber etc), Chemical & allied (plastic, glass & ceramic)
2	Jharsuguda	Orissa	48.4	Mineral based (portland cement & pozzalana cement, fire clay, silica, dolomite, sponge iron etc), Metal & engineering (roof bolt, shaft cog, roller chain, pump spares etc)
3	Kalahandi	Orissa	46.3	Mineral based (graphite granite, bauxite, quartz, precious & semi-precious stones), Agro based (paddy, cotton, onion, groundnut, pulses), Forest based (sal & sial leaves, Harida, Bahada etc), Handicrafts (wood carving, stone carving, terracotta, cane & bamboo)
4	Kendujhar	Orissa	56.1	Mineral based (iron ore, manganese ore, chromite, quartzite, bauxite), Engineering & metal (automobile spare parts, fabrication work, almirah, trunks, boxes, grills & steel metal products), Chemical & allied (candles, bore metal, battery plates, lime powder, washing powder), Agro & marine based (processing of paddy, wheat, oil seeds & bakery products)
5	Mayurbhanj	Orissa	64.3	Mineral based (iron ore, china clay, quartz, asbestos, magnetite), Forest based (honey, gum, sal), Handicrafts (dhokra, stone carving, terracotta, bamboo arts)
6	Rayagada	Orissa	69.7	Mineral based (graphite, quartz, red oxide, granite, bauxite & manganese), Agro based (paddy, ragi, black gram, oil seeds, cotton, tobacco), Forest based (sal, tamarind, sial leaves, bamboo & medicinal herbs), Horticulture based (mango, pine apple, jack fruits etc), Handicrafts (lac products, bell

				metal products, paper machie, bamboo crafts etc)
7	Sambalpur	Orissa	51.5	Forest based (honey), Handicrafts & cottage Industry (fabrication, terracotta making, lathe work, brass & bell metal utensils etc)
8	Dadra & Nagar Haveli		64.1	Textile (spinning of cotton, micro yarn etc & processing, which includes texturising, twisting & weaving & knitting), Plastics (injection & blow moulded articles which includes industrial as well as domestic household products, furniture etc), Paper (sheets, rolls, paper tubes etc)
9	Dhemaji	Assam	52.6	Silk industry three different kinds of silk, Eri, pat & Muga), Agro based (rice, mustard), Forest based (bamboo)
10	Lakshadweep		94.5	Textile (fiber factory, coir production), Handicrafts
11	Dakshin Dinajpur	West Bengal	44.9	Agro & food based (rice bran oil, flour mill, tomato & other food products etc), Mineral based (fly-ash bricks, refractory bricks, mosaic tiles etc), Chemical based (poly pipe, polythene sheet, plastic products), Engineering based (automobile body building, lorry etc)
12	Gumla	Jharkhand	73.3	Forest based (wooden furniture, non-edible oil, herbal oil), Mineral based (stone crusher, chimney bricks), Agro based (edible oil crushing, spice grinding etc)
13	Ranchi	Jharkhand	47.0	Mineral based (alumina, sodium silicate, coal tar, heavy & light kerosene oil, lubricants) Engineering & metal based (machine tools & spares needed for the core sector industries, wire products, electric poles)
14	Korba	Chhattisgarh	51.5	Agro based (flour mills, rice mills, oil mills etc), Forest based (wood works, bamboo, ropes), Animal based (bone crushing, leather works, footwear, gloves etc)
15	Chandel	Manipur	92.1	Agro based (rice mills, saw mills, oil mills) Forest based (wood works),
16	Chhindwara	Madhya Pradesh	46.3	Forest based (bamboo, teak, tendu patta etc)

				Agro based (soyabean, wheat, sugar cane etc)
27	Dindori	Madhya Pradesh	70.3	Mineral based (bauxite, coal, okars, white ash etc), Handicrafts
17	West Tripura	Tripura	44.5	Mineral based (lignite, plastic clay etc), Handloom & handicrafts, Agro based (Jute, tea)
18	Sirohi	Rajasthan	43.9	Mineral based (portland cement, synthetic yarn, high tension insulators etc), Stone industry (marble handicraft items, ceramic glazed tiles, granite slabs etc)
19	Karauli	Rajasthan	45.5	Mineral based (china clay, white clay, sand stone, messonary stone, lime stone etc), Forest based (tendu leaves, gum, honey etc)
20	Udaipur	Rajasthan	53.9	Agro based (maize, wheat, sugarcane, barley etc), Mineral based, Cottage & village industries (handloom, recycled paper, edible oil, cosmetics, ayurvedic medicine etc)
21	East Garo Hills	Meghalaya	96.7	Weaving (Dakmanda, Daksaria, bedcovers etc) Sericulture (Eri silk, Muga silk), Handicrafts & cottage industries (carpentry, bee-keeping, cane & bamboo work, pottery etc)
22	West Khasi Hills	Meghalaya	98.0	Agro & allied services (paddy, maize, millets, ginger), Horticulture (orange, banana, pineapple, plum, pear & peach), Sericulture (mulberry, Eri, Muga)
23	Jaintia Hills	Meghalaya	96.1	Agro based (rice mill, turmeric & spices, betelnut preservation), Forest based (cane & bamboo)
24	Serchhip	Mizoram	98.1	Agro based, Forest based
25	Kohima	Nagaland	90.5	Forest based, Agro based, Handicrafts
26	Tirap	Arunachal Pradesh	83.8	Forest based, Agro based, Horticulture

➲ US Affirmative Action – Characteristics

- The present day forms of **affirmative action in the United States have evolved and matured through years of legal challenges and political litigations**, which have confronted various organizations and institutions from time to time.

- Affirmative action programs are **governed by a number of overlapping laws in United States.**

- The striking characteristic of the form of affirmative action in the United States lies in its **flexibility**. Institutions and organizations in the US have the liberty to tailor their own methods of abiding by the law while ascertaining affirmative action.

- **Affirmative action in the US is undertaken voluntarily** as can be seen in the case of private schools' admission goals, or in case of organizations to qualify for federal contracts.

- **United States has always disfavored the form of quotas to ascertain affirmative action.**

➲ **Affirmative Action in the US Educational System**

- The policy of **affirmative action in the US is synonymous with the process of empowerment of the target groups** right from the initial levels of human development.

- **Mechanisms are designed targeting the minorities and the less privileged sections of the American society, right at the pre-kindergarten or the primary / elementary and secondary school levels.**

- The most popular instrument in this process has been the federal program called the **Head Start Program,** which has provided comprehensive early childhood development services to low-income children since 1965.

- On similar lines other programs like the **Early Head Start Program** was also initiated to serve infants and toddlers who are too young to participate in regular head start program.

- The **Magnet or the Alternative Schools**, designed to encourage and promote elementary and secondary education amongst the targeted groups was also one of the major mechanism of giving equal and due advantage to the ethnic groups and the minorities who were other wise underrepresented even at the lower pedestals of the educational system.

- Nonetheless the universities in the United States have always abided by the voluntary ways of affirmative action by **tailoring the admission requirements in accordance with the demands of law**.

➲ **Affirmative Action In Employment**

- The instruments of implementing affirmative action policy in the US firms/organizations takes the form of various incentive mechanisms, like the **granting of federal contracts, entrepreneurship development programs and fellowships for the disadvantaged groups. In certain organizations including MNCs, the policies are tailored accordingly.**

- The Department of Labor's Employment Standards Administration's Office of Federal Contract Compliance Programs (OFCCP) is a catalytic organization in the American society to bring about anti-discrimination measures and ensuring affirmative action. It has **incentivised adherence to the policy of affirmative action** by making it a prerequisite for organizations to qualify for federal contracts.

- Good faith efforts in the United States include **expanded efforts in outreach, recruitment, training and other activities to increase the pool of qualified minorities and females.**

- The **actual selection decision is always made on a non-discriminatory basis and through the means of aggressive recruitment programs, mentoring, training, and family programs that work to recruit and retain individuals.**

- **Entrepreneurship development programs** like, The Minority and Small Disadvantaged Business Programs, have a substantial contribution in making the businesses owned by minorities in the United States competitive and viable.

- Federal assistance have taken a variety of forms, including **targeting procurement contracts and subcontracts for disadvantaged or minority firms, management and technical assistance grants, educational and training support, and surety bonding assistance.**

- Apart from the abovementioned programmes, special fellowships like the **Thomas R. Pickering Foreign Affairs Fellowship Program** have also played the role of great equalizers in the American society, by ensuring equity and participation amongst the minorities and ethnic groups in United States.

- Apart from the Government services **the top US firms also ensure affirmative action in their individual organizations, without implementing specific quotas** for the minorities or the other ethnic groups.

INTRODUCTION

'Affirmative action' as a practice has evolved and existed across nations and civilizations since decades. Only the nature and models of practicing 'affirmative action' have been different across various nations. Soon after independence, India chose to see it as government mandated preferential policies for government mandated preferred groups, and put in place a 'reservation policy' for people belonging to the Scheduled Castes (SCs) and the Scheduled Tribes (STs). The realm of reservation has ever since been widening to include not only the seats in the lower houses of both the central and state legislatures and civil services, but also employment opportunities in public sector units, government as well as private (aided and unaided) educational institutions.

The extension of the same process has recently brought in place the Public Policy which mandates reservation of 27% of seats for Other Backward Castes (OBCs) in centrally funded institutions of higher learning including the IITs and the IIMs from 2007 onwards. This is in addition to the already existing reservation of seats of 22.5% for the SCs and STs in such institutions. Further, the government is also toying with the idea of extending reservation in jobs for SCs and STs to the private sector.

Reservation of seats in higher educational institutions for socially and educationally disadvantaged groups is based on the premise that equipping individuals with the right skills and knowledge would help them in getting better jobs and thereby contribute to their social upliftment. Similarly, reservation in employment opportunities in the public sector was introduced to ensure fair representation from the reserved classes and provide them the starting point to move up the social scale.

While reservation, both in educational institutions and in public sector units, has benefited certain segments of the 'reserved classes', the efficacy of the concept of reservation in terms of 'greatest good for greatest numbers' and in terms of providing an enduring solution to the problem at hand needs to be tested empirically. It is also important to evaluate the concept of 'reservation' in terms of incentives it creates and the outcomes those incentives result in.

FICCI's preliminary analysis of the outcomes of the reservation policy in place in educational institutions and public sector jobs shows that participation rate amongst

individuals belonging to the disadvantaged groups deteriorates as one moves up the educational ladder as well as the employment ladder in terms of skills demanded. These results are primarily due to the lack of focus on education and skill formation at the early stages of the educational process.

In the light of the above, FICCI believes that further extension of the ambit of the reservation policy for additional segments of the society as well to additional institutions / sectors will not address the core issues. A calibrated and long-term policy of educating and empowering these disadvantaged groups right from the lower rung of the educational ladder, implemented both in letter and spirit, only can help them move up the socio-economic strata, and also nullifies the need for reservations. In such a course of action the US model can be emulated, which targeted the disadvantaged groups right from the pre-kindergarten stage (***Head Start Programme, No Child Left Behind Programme***), and succeeded in ensuring a healthy representation of all ethnic groups and minorities in the workplaces and higher seats of learning in the US, without compromising with meritocratic standards.

CHAPTER 1

AFFIRMATIVE ACTION FOR EDUCATION, SKILL FORMATION AND HUMAN CAPITAL DEVELOPMENT

1.1. An assessment of the educational status of the SC/ST population of India after over five decades of the constitutional amendment in 1951 that enabled the states to reserve seats for SC / STs in educational institutions, shows that their representation in India's educated population is still proportionately less than their share in the total population. **While SCs and STs together constitute 24.4% of the total population, they account for 19.2% of the total literate population of the country.** Moreover as we move up the education ladder, the Scheduled Castes and Scheduled Tribes representation goes down. **While the combined share of SCs and STs in the 'literate but below secondary' population stands at 22%, the figures for the categories of 'graduate and above other than technical degree' and ' technical degree or diploma equal to degree or PG degree' stand at 8.3% and 7.3% respectively**.

Table 1
Education Profile of the SC / STs vis-à-vis the rest of the population

Category	SCs (%)	STs (%)	Rest of the Population (%)
Total Population	16.2	8.2	75.6
Illiterate Population	19.5	11.1	69.4
Literate population	13.4	5.8	80.8
Literate but below secondary	15.3	6.7	78
Secondary but below graduate	9.6	3.5	86.9
Technical diploma or certificate not equal to degree	7.9	2.7	89.5
Graduate and above other than technical degree	6.3	2	91.7
Technical degree or diploma equal to degree or PG degree	5.4	1.9	92.7

Source: Census data 2001, as cited in the article by Bhanoji Rao in The Hindu Business Line, May 16,2006

The proportion of underutilized seats reserved for the SC/STs in the IITs and in the Delhi University for undergraduate, postgraduate and research courses also point to the severe under representation of these groups at higher levels of education. As against the 22.5% seats reserved for them, **in 2003-04, only 11.91% seats were filled up by the SC/ST students in the IITs.**

Table 2
Seat utilization by the SC/ST in the IITs

IITs	Year	Utilization of seats under SC quota (%)	Utilization of seats under ST quota (%)
Madras	2003-04	13.5	
Guwahati	2003-04		4.33
Delhi	2003-04	10.62	2.4
All IITs	2005-06	11.91	3.95
Madras	2005-06	14.67	
Guwahati	2005-06	15.05	

Source: Economic Times, April 10 2006

The share of SC and ST candidates in total enrolments across various programmes in Delhi University also shows a similar picture. In 2000-01, SC and ST candidates together filled up only 11.37% of the total seats for graduate studies while the figures for postgraduate and research courses were even less and stood at 9.40% and 3.77% respectively.

Table 3
Seats filled up by the SC/ST students in Delhi University for Higher Education

Courses	Total seats	Filled by SCs (%)	Filled by STs (%)
Graduate	68,09,100	8.37	3.00
Post graduate	7,58,000	8.00	1.40
Research	68,369	2.77	1.00
Total	77,33,612	8.18	2.00

Source: National Commission for Scheduled Castes and Scheduled Tribes, Sixth Report, 1999-2000,2000-2001 as cited in the article by Radhika Mittal and Cooshalle Samuel, Hindustan Times, May 1, 2006

The low enrolment ratio amongst the students from the Scheduled Castes and Scheduled Tribes at higher levels of education and a consequent under representation of these groups in the national pool of technical/non technical graduates is largely explained by the high drop out rates among these groups at the lower levels, especially at the secondary levels of education. In 2003-04, though the Gross Enrolment Ratio for

the SC students were 88.30% and 71.86% for classes I to V and classes VI to VIII respectively, the drop out rate among them was 59.42% for classes I-VIII and went up to as high as 73.13% for classes I-X. The drop out rates for candidates belonging to the ST category was even higher at 70.05% and 79.25% respectively.

Table 4
Dropout Rates among SCs, STs and Total Population (2003-04)

Category	Classes (I-V) (%)	Classes (I-VIII) (%)	Classes (I-X) (%)
Total	31.47	52.32	62.69
SCs	36.56	59.42	73.13
STs	48.93	70.05	79.25

Source: Annual Report 2005-06, Ministry of Human Resource Development

The above findings point towards the fact that though a substantial majority of the Scheduled Castes and Scheduled Tribes enroll for elementary education, due to the huge 'opportunity cost' involved, a small proportion of them can continue through the secondary level and reach the higher levels of education.

To ensure a proportionate representation of these segments till the higher end of the educational process, the government should focus on arresting the drop out rates among these groups at the primary and secondary levels through design and implementation of innovative incentive programmes. The government should also work towards improving the quality of education imparted at the schools through a public-private partnership approach.

Table 5
Seat Utilization Ratio for SCs and STs in Vocational Training (%)
(as on 30th June 2002)

	SCs		STs	
	% of total available seats	% of reserved category seats	% of total available seats	% of reserved category seats
Trade Apprentices	8.9	59.7	3.5	46.6
Graduate, Technician, Technician (Vocational) Apprentices	3.0	19.7	0.4	5.4

Source: As computed from Ministry of Labour's Annual Report 2002-2003

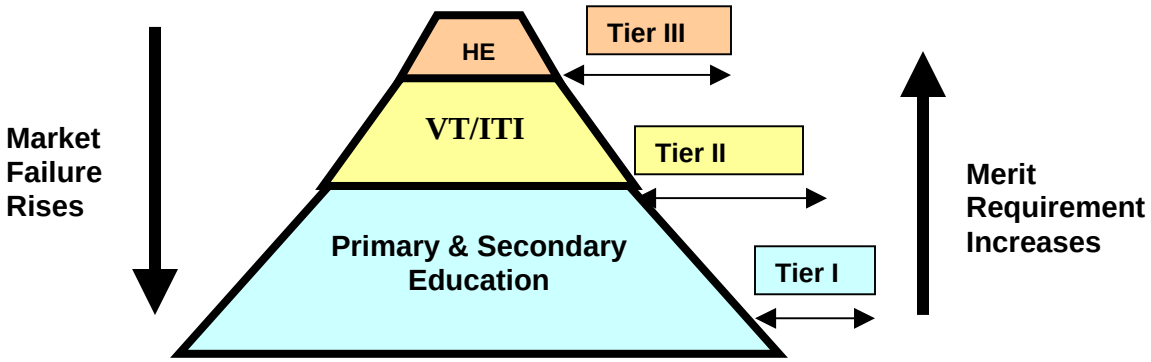
While participation of students belonging to the SC and ST category at the school level is abysmally low, the situation in various streams of vocational training is no better. The share of the SC and ST candidates taken together in the total pool of trade apprentices stands at 12.4%, when the same in the population of Graduate, technicians and vocational apprentices is only 3.4%.

The focus of the government should be on increasing the participation rate among the disadvantaged groups in education and training. **Vocational training should be provided to the discriminated groups to improve their productivity and income. This would also play an important role in broadening and improving employment and income opportunities for these groups.**

1.2. FICCI'S SUGGESTIONS

- FICCI suggests a careful review of policy as the past reservation policy in higher education institutions have had limited success in **addressing issues of access, equity and high dropout rates at all levels of education**. FICCI believes that the road-map for education reform should aim at expansion of supply of quality education at all levels along with appropriate financial measures for the disadvantaged section to deal with access & equity issues.

- **Any such policy change should consider the positive externalities and the high probability of market failure at the primary and secondary education level vis-à-vis increase of merit requirement in the higher education level**. FICCI believes that affirmative action policy should be graded with the level of education with a view to build capacities at lower levels to compete at higher levels. Facilities should be created for supplementary tutoring at different levels to enable deprived students to compete.



Education Pyramid

Suggestions for the Primary & Secondary level of Education (Tier I)

- **Adopt a public-private partnership approach -** To improve the quality of education imparted at the primary level, the government may consider adopting the **'Kerala Model' which is a successful example of public-private partnership with a 'zero drop out target'**. A time bound pilot project with FICCI could be started wherein FICCI would adopt 100 government funded schools from the districts with significant SC/ST population and would work towards improving the learning environment, infrastructure, teaching-learning process in those schools.

- **Augment the budgetary allocation for secondary education -** A look at the figures provided by the Ministry of Human Resource Development shows that the budgetary allocation for Secondary Education in 2005-06 was nearly one seventh of the allocation for elementary education (Rs. 11219.79 crore) and nearly one fourth of the allocation for technical education (Rs. 5800.50 crore) and stood at Rs. 1591.61 crore.

Table 6
Allocations for different levels of Education in budget 2005-06

Category	Total Budget (In Rs. Crores)
Elementary Education	11219.79
Secondary Education	1591.61
Technical Education	5800.50
University and Higher Education	2108.26

Source: Union Budget 2005-2006

FICCI feels that there is a need to augment the budgetary allocation for the secondary level/pre-degree level of education, which constitutes the link between primary education and higher education and where the drop out rates are the highest.

☞ **Widen the scope and reach of the incentive programmes** -To arrest the drop out rates in the secondary/pre degree level, the scope and reach of the existing incentive programmes/schemes need to be widened so that the benefits associated with continuation of education become truly attractive to the families of the students from the disadvantaged groups. This would necessitate augmentation of the funds allocated for the assistance schemes like the National Merit Scholarship Scheme, Navodaya Vidyalaya Samiti, Access and Equity etc. The National Merit Scholarship Scheme which aims at providing with financial assistance to the talented students at the post matric level on state wise merit basis, got a munificent sum of Rs. 2.24 crore in the 2005-06 union budget. The allocation for Access with Equity Scheme was only Rs. 9 crore. Along with increasing the allocations for these schemes, the government may consider initiating government sponsored coaching schemes for the secondary level students from the disadvantaged section to enable them to compete in the higher secondary examination as well as in the entry examinations for medical, engineering and other technical education. **FICCI suggests the government to make the premier institutions of higher education like the IITs and IIMs self-financing and reallocate the resulting annual savings towards funding the support schemes for the secondary/pre-degree students from the disadvantaged section.**

- **Identify and support meritorious students belonging to the disadvantaged groups-** Talent search at the tenth standard level should be conducted to identify meritorious students from deprived segments, induct them for two years of rigorous teaching/coaching to help bring them into the mainstream. Number of Navodaya Vidyalayas started with the objective of nurturing talent from rural areas should be doubled. There is also an imperative need for **developing 'bridge schools'**, where students, who may have missed a few years of education, can enroll themselves and can bring themselves upto the levels required for entering mainstream education.

Suggestions for the ITIs and Vocational Education Level (Tier II)

- **Strengthen industry linkage-** Students of classes VIII - XII should be equipped with vocational training and schemes should be implemented to encourage students to join Industrial Training Institutes (ITIs) with assured employability after training through industry- institutional linkages. For skill formation and technical education, the government can adopt the '**German Model'** - 40% on the plant floor and 60% in the classroom in the ITIs and polytechnics.

- **Adopt a Public-Private Partnership (PPP) model**-Public-Private Partnership (PPP) model should be adopted for improving the syllabus, upgrading the existing course and introducing new relevant courses in ITIs. It is generally seen that in the ITIs and other vocational training institutions the course curriculum is detached from the needs and requirements of the industry. Further, due to lack of any hands on experience, the candidates coming out of these institutions have to be retrained by industry before they can be gainfully employed. FICCI suggests that for skill formation and technical education, government should adopt the German Model – 40:60 in our ITIs and polytechnics – 40% on the plant floor and 60% in the classroom. For making such an initiative successful, industry is ready to fully partner and cooperate with the government. In their attempt to overhaul the course curriculum and provide commercial connectivity with the real world, members of FICCI have already opted for 15 ITIs under the Public Private Partnership programme mooted by the government and started working through the Institute Management Committees (IMC). Industry members are looking at enhancing the number of seats in the ITIs as well as introducing short-term modular courses of three to six months duration as such steps would help a larger number of individuals. FICCI members can adopt 100 more ITIs to benefit a larger number of

students. Of the CBSE schools that offer vocational programmes at the 10+2 level, FICCI is willing to adopt 100 schools from various parts of the country and look after the development of SC/ST candidates in the same.

- **Link up vocational training with higher education** - Clear pathways should be created, which can enable the student to move from vocational training into higher education following the model adopted by countries like Australia, China, Germany and many other western countries.

- **Encourage private initiatives -** Efforts by private bodies like Alumni Associations of IITs should be encouraged to develop a corpus and set up educational & training institutes to train and educate the children belonging to weaker sections and help them integrate into the mainstream.

- **Incentivise industry participation -** Fiscal incentives to encourage the Industry should be provided to set up the Training & Communication Centres (TCCs) attached to their factories & shop floor training to prepare SC/ST candidate for apprenticeship and successful placement.

FICCI Survey on 'The State of the Industrial Training Institutes in India'

FICCI has been actively involved in the industry-government consultative mechanism for improving the health of the ITIs in the country. FICCI conducted a survey amongst the 100 ITIs, which have been identified by the government to be converted into centers of excellence with active participation of the industry, to capture the present state of affairs in these institutions so that the key areas that require focused attention of both the government and the industry can be brought out. The survey which saw participation from 69 out of a total of 100 ITIs to which the questionnaire was administered brought forward several issues that need to be looked into if the ITIs of the country are to turned into institutions with the right and effective connectivities with the commercial world.

The survey revealed that while the situation with regard to physical infrastructure and availability of power supply in the country's ITIs remains comfortable, it is factors like non-availability of computerized numerically controlled machines (CNC), inadequate supplies of raw material and lack of focus on staff training and development that are the key impediments in the way of strengthening these institutions. Further, the fact that nearly 77% of the budget of the ITIs is on average allocated for salaries when viewed in conjunction with the reported shortage of staff indicates that we have a difficult task at hand i.e. to control the budget spent on salaries so that additional funds are available for purchase of machinery, raw material and staff development as we go ahead and take steps to address the problem of staff shortage. Another area that deserves attention of the government is the under utilization of seats as reported by 51% of the participating institutions.

FICCI believes that the trades presently being offered by the ITIs in the country need to be assessed in terms of the national and local industry requirements and that trades that limit the scope for job opportunities after completion of the course be replaced by those that are responsive to the emerging labour market needs. (Detailed survey findings in AnnexureI I)

Suggestions for the Higher Education Level (Tier III)

- **Design an effective access policy** - Effective access policy should be designed to expand the supply of good quality institutions and ensure that social circumstance or financial deprivation does not prevent students from getting the best education available in the country.

- A sustainable and viable financial model should be promoted by the government to meet the cost of reserved seats in private unaided higher education institutes.

- **Reframe the Comprehensive Educational Loan Scheme** -There is a need for the government to take a relook at the existing financial support structure for the students who gain admission in the higher educational institutions. The government may draw lessons from the USA and the EU countries, where an effective financial support structure has been made an integral part of the higher education system to ensure increased access to higher education.

The educational loans in India are provided by the public and private sector banks under the Comprehensive Educational Loan Scheme framed by government of India in consultation with the Reserve Bank of India. The following table shows the shortcomings of the current Indian scheme. On all relevant parameters, the current Indian scheme clearly turns out to be the weakest in the benchmark as compared to the US and EU countries. If SC/STs are truly to be given a fair chance in higher education, an improved system with more financial space and flexibility is called for.

Table 7
Overview key variables for financing students in higher education for selected countries vis-à-vis India

Country / Parameter	U.S.	England	Netherlands	Germany	India
Interest Rate	5-9%	3.2%	2.74%	3.22%	10.25-11.75%
Borrowing Limit	For graduates: USD 138500 For undergraduates: USD 46000	For loans to cover fees: USD 21,250 (approx.)	USD 50,320 (approx.)	USD 35,000 (approx.)	For studies in India: USD17,000 (approx.)

	USD 46000	(approx.) For loans to cover living costs: USD 31,200 (approx.)			For studies abroad: USD 34,000 (approx.)
Payback Period	From 10 to 30 years, depending on the amount of debt and the repayment option chosen	25 years	15 years	20 years	5 to 7 years
Security	Nil	Nil	Nil	Nil	Collateral in the form of a third party guarantee for loans above USD 9,025.27
Margin	Nil	Nil	Nil	Nil	Above USD 9,025.27 for studies in India: 5% Studies abroad: 15%

To ensure that no deserving student in India is deprived of higher education for want of resources, the Comprehensive Educational Loan Scheme should be redesigned on lines with US and selected EU countries to allow for soft loans with student friendly terms and conditions. Following practices in US/ EU, all students should be able to borrow money up to an amount that is needed for expenses on fees, housing, living costs and additional study costs against a concessional rate of interest to be paid back over a period of 20 years starting 3 years after graduation. Collateral and margin have to be done away with.

Financial Support for Higher Education-The US and EU Experience

Federal Student Aid is an integral part of America's post secondary education system. With the objective to benefit all eligible American students, the financial assistance programmes administered by the US Department of Education comprise the nation's largest source of student aid. During the year 2004-05 school year they provided approximately $ 74 billion in new aid to nearly 10 million post secondary students and their families (1).

The three most common types of financial support schemes offered by the US Department of Education are grants, loans and work-study. For most students who receive a financial aid award from their college, part of their aid package includes either the subsidized or unsubsidized loan. Virtually all students enrolled at least half-time may borrow either through William D. Ford Federal Direct Loan Programme, which is funded by the federal government or through Federal Family Education Loan (FFEL) Programme, wherein private lenders provide federally guaranteed funds. Parents may also borrow to pay education expenses for dependent undergraduate students through either of these programmes. Subsidized loans are awarded by the U.S. Department of Education on the basis of financial need of the applicants. If a student is eligible for a subsidized loan, the government pays the interest on her loan while in school and for the first six months after she leaves school. Depending on the financial need, the student may borrow subsidized money for an amount up to the annual borrowing limit for her level of study. Grants are awarded only to students having exceptional financial need. The amount of grants primarily depends on the cost associated with the programme under consideration and the enrollment status of the student.

Financial assistance programmes offered to post secondary students in most EU countries include grants and soft loans. While EU countries typically offer a relatively high amount of grants funded by the government of the respective country, which are usually allocated to students based on family income, a typical financial aid package received by a European student also includes an educational loan, either provided by the government or by a commercial lender. These loans are offered at interest rates lower than the market rate of interest. While all eligible students can apply for the grants and soft loans, the maximum amount of allocation typically depends on the factors like the living situation and the household income of the student, dependency status of the student, total cost of education, type of education and level of performance. (Detailed study in Annexure III)

CHAPTER 2

AFFIRMATIVE ACTION FOR ENTREPRENEURSHIP DEVELOPMENT

2.1. Tenth plan estimates show that the total workforce in the country is about 406 million. Of this, while 19 million are employed in the organized public sector (a sector already covered by reservation), 9 million are employed in the organized private sector. With the organized private sector accounting for just about 2.2% of the total workforce, extension of reservation to this segment would not result in benefiting the millions which otherwise are employed in the unorganized sector. While employment statistics presented below only put things in perspective, the more important argument against job reservation in the private sector lies in the realm of the incentive mechanism that the concept of reservation creates for different stakeholders – private sector recruiters, members belonging to the preferred groups and members belonging to the preferred groups and members of the non-preferred groups.

Table 8

Employment in organized public and private sector

	Organized public sector	Organized private sector	Total workforce
Employment (millions)	**19**	**9**	**406**
Percentage of total workforce	**4.7**	**2.2**	**100**

The experience of public sector units, central and state government departments in recruiting individuals from the preferred groups shows that many a time the reserved seats remain unfilled because of non-availability of suitable candidates - a problem encountered more at the level of Group A and Group B posts. Further, several special drives have to be launched for finding candidates from the preferred groups as the reserved quotas have to be complied with, failing which action can be taken against officers responsible for recruitment. It is also important to note that recruitment in public sector units, central and state government departments is based on examination results and the candidate's meeting the minimum eligibility criterion, which is often lowered for candidates belonging to the preferred groups. It can be argued that when in normal course suitable candidates from the preferred group are not available, the private sector

would have to spend extra time and money just to comply with the regulation and in the process recruit individuals who may not be fully qualified.

According to the Economic Census 1998, the total number of enterprises in India, inclusive of both agricultural and non-agricultural enterprises (other than crop production and plantation), were about 30.35 million. Out of 30.35 million total enterprises, 17.71 million (58.3%) were located in rural areas and remaining 12.64 million (41.7%) in urban areas.

Out of 30.35 million total enterprises, 26.87 million (88.6%) were engaged in non-agricultural activities while the rest 3.47 million (11.4%) were engaged in agricultural activities other than crop production and plantation. Thus, agricultural and non-agricultural enterprises were found to be in the ratio of 1:8.

More than 70% of the total number of enterprises was own account enterprises (21.38 million). The remaining, numbering 8.97 million, constituted the establishments.

Table 9
Enterprise distribution between rural and urban areas

	Rural areas	Urban areas
% of all enterprises	58.3%	41.7%
	Non-agricultural activity	Agricultural activity
% of all enterprises	88.6%	11.4%
	Own account enterprises	Establishments
% of all enterprises	70.0%	30.0%

Source – Economic Census1998

About 28.53 million enterprises, constituting 94.0% of the total, operated under private ownership. The number of enterprises that were self-financed came to a whopping 24.39 million, which is about 80.0% of the total of 30.35 million enterprises. Total number of persons working in all enterprises was of the order of 83.30 million. About 76.55 million workers constituting 91.9% of total employment worked in non-agricultural enterprises and only 8.1% worked in agricultural enterprises; about 38.7% were engaged in own

account enterprises and the rest 61.3% in establishments. Hired labour of nearly 43.3 million formed a sizable proportion (52%) of the total employment.

The non-agricultural enterprises were grouped into 13 major activity groups in this survey. Results show that 'Retail trade'; 'community, social & personal services' and 'manufacturing' were the three most important activity groups in terms of number of enterprises. These three activity groups together shared more than 84% of the total enterprises. The activity group 'retail trade' has dominated all other groups with 39.8% share. This was followed by activity groups 'community, social & personal services' and 'manufacturing' sharing 24.0% and 20.6% of the total enterprises respectively.

The ownership pattern of the enterprises presented in the table below shows that nearly 50% of the enterprises in the rural areas are owned by SC, ST and OBC. In the urban areas this figure is close to 37%. Further, the nature of enterprises varies and includes construction, manufacturing, wholesale trade, retail trade, transport, restaurant and hotels, communications etc.

Table 10
Enterprise distribution under social group of owner

	Rural	Urban	Combined
SC	**9.0%**	**5.8%**	**7.7%**
ST	**5.2%**	**2.3%**	**4.0%**
OBC	**36.0%**	**29.1%**	**33.1%**
Total	**50.2%**	**37.2%**	**44.8%**

Source – Economic Census 1998

The ownership pattern when seen in the light of the facts that nearly 80% of all enterprises (30.35 million) covered in the survey were self financing, 88.6% were engaged in non-agricultural activities and that 94.0% operated under private ownership, clearly points out what the public policy objective of the government should be with regard to promoting the social and economically backward sections of the society.

2.2. FICCI'S SUGGESTIONS

- **Promote entrepreneurship and self employment amongst the disadvantaged groups**- Government must focus on entrepreneurship development and here it needs to

critically evaluate the role of the credit delivery system especially with regard to those enterprises that are owned by the SC, ST and OBC.Employment generation through entrepreneurship development would far exceed the number of beneficiaries under a reservation regime as the private organized sector accounts for just about 2.2% (9 million) of the total workforce. As against this if one were to assume that of the 83.3 million individuals employed in all enterprises 45% (corresponding to the ownership pattern) were employed in enterprises owned by SC, ST and OBCs, then total employment in enterprises owned by socially and economically backward sections of the society would amount to 37.5 million. The employment figure of 37.5 million corresponding to 13.6 million enterprises owned by SC, ST and OBCs shows that every enterprise is associated, on an average, with 3 workers. With an enterprise to employment ratio of 1:3, it can be said that creation of 5 million new enterprises would result in generating 15 million additional jobs.

- **Ensure greater access to capital -** FICCI believes that what the country needs most is not reservations but developing and encouraging entrepreneurship. Designing programmes that help the growth of more enterprises and also ensuring good health of those already existing is called for. FICCI suggests that entrepreneurship and self-employment among the weaker sections of the society should be promoted through easy access to capital, technology and market distribution channels. There is a need to have a well-defined affirmative action policy for financial institutions to supply adequate capital to such target groups for setting up businesses. Let us look at the global experience. US Government has several such schemes targeted towards minority business, for instance:

  - 7(a) and 504 Loan Programmes that provide loan guarantees to small business;
  - Community Express Programme which combines small business loan guarantees with targeted lending by select banks; and
  - Capital Access Programme (CAP) that allows a lending bank to make slightly higher risk loans than conventional underwriting.

- **Extend preferential terms to SC, ST and OBC owned enterprises -** To encourage entrepreneurship among disadvantaged groups, one option is awarding of Government licenses and contracts to them. In fact, instead of 'price-preference' to public sector

undertakings, preferential terms can be extended to SCs and STs, which would go a long way to promote entrepreneurship among them.

CHAPTER 3.

AFFIRMATIVE ACTION THROUGH PROMOTION OF INDUSTRIALIZATION IN THE DISTRICTS WITH SIGNIFICANT SC/ST POPULATION

3.1. FICCI hails the Government's initiative in promoting industrialization in the backward areas particularly those districts having significant SC and ST population. FICCI is strongly of the view that the people who are underprivileged should be given desired focus. While formulating any scheme to promote industrialization in the backward areas with substantial SC and ST population, FICCI would like to submit the following suggestions for consideration of the government.

3.2. FICCI'S SUGGESTIONS

☞ All districts having a combined SC / ST population of more than 40% be made eligible for this scheme and incentives offered to industries be linked primarily to employment generation. According to the 2001 census there are in all 110 such districts in the country (complete list in Annexure III). FICCI believes that new industrial units planned in these areas as well as those existing units that are planning substantial expansion, defined as 'increase in installed capacity by at least 50%', should be incentivised. It is important that the said benefits should be provided for those units that start commercial production before 31st March 2010.

☞ FICCI has urged the government in the past that whenever any incentive has been provided in the law, the sunset clause should be incorporated. The sunset clause should be reviewed and if need be extended further if the desired objective is not achieved by that time. For the same, the following suggestions are for consideration.

⇨ **Tax incentives under Income Tax Act 1961** – Section 80 IC has been inserted in the Income Tax Act from the assessment year 2004-05. The said incentive has been provided in the states such as Sikkim, Himachal Pradesh and Uttaranchal and North Eastern states i.e. Arunanchal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura. While formulating any scheme for promoting the regions as stated above, **it is important that the benefit under Section 80 IC should be provided.**

At the time, when the government intends to promote capital investment and **industrialization in the country, they have provided 'Investment Allowance'** in the

Income Tax Act. Introduction of such benefits in the Income Tax Act during the period 1977-78 to 1989-90 gave a major boost to overall investments. Gross Fixed Capital Formation went up by over 6 percent from 18.4% of the GDP at market prices in 1977-78 to 24.5% of

the GDP at market prices in 1989-90. Taking a cue from this, **since the intention now is to promote industrialization in districts with significant SC / ST population, the government may consider introducing a concept of 'Employment Creation Allowance'**. The deduction under this provision could be 100% on the amount paid as wages for a period of 5 years. **Wages may include basic pay, dearness allowance and other cash benefits given to workers on whose behalf PF and ESIC contribution is paid. It is very important that this incentive may be made available to all units that have a wage / total cost ratio of more than 40%.**

For **research and development**, which is the need of the hour, the government may provide weighted deduction of 150% for units set up in such areas and undertaking research and development activities in all sectors of the economy.

- **Excise duty exemption -**To attract entrepreneurs to set up units in such areas, it is very important that 100% excise duty exemption should be made available for at least 5 years from the date of commencement of commercial production for all new units / existing units undertaking substantial expansion and modernization in all districts with a combined SC / ST population of more than 40%. This would reduce the cost of the projects and entrepreneurs would take interest in setting up projects in such areas and would provide employment to local people – the underlying objective of the government. **However, this incentive may be made available to all units where the final product involves at least 40% value addition.**

- **Customs duty exemption -** On the lines and objectives of Excise duty exemption, the government should exempt Customs duty for at least 5 years for all new units / existing units undertaking substantial expansion and modernization in all districts with a combined SC / ST population of more than 40%. It is important that Customs duty exemption may be provided **on all types of goods** including capital goods (new and

second hand), raw materials, semi-finished goods, components, spares, goods and materials used for making capital goods etc.

This incentive may be made available to all units where the final product involves at least 40% value addition.

⇨ **100% deduction for capital expenditure on infrastructure -**Capital expenditure incurred by industrial units for creation of social and economic infrastructure should be eligible for 100% deduction for a period of 10 years**.** Further, the government may consider providing up to 20% of the total project cost as **viability gap funding** to the industrial units in these areas. The government may also consider permitting duty free import of material used in the setting up of and operation and maintenance of such socio-economic infrastructure facilities. The term **'infrastructure facility'** for the purpose of the Income Tax Act should read as follows:

❖ The scope of section should be widened to include **social infrastructure** like health, education, cultural and recreational infrastructure (hospitals, health centers, schools, crèches and other educational institutions, community facilities, religious, cultural and social welfare centres, stadium including gardens, parks etc.) **Economic and commercial infrastructure** - include office complex, shopping complex, tourism infrastructure and technology parks etc., public sector agencies, corporate offices and corporate enterprises, private sector agencies.

❖ **Utilities** - fire station, police station, telephone exchanges, Electrical stations, banks etc.

⇨ **Availability of funds at lower cost** – The government may consider providing funds at lower cost particularly for working capital purposes. FICCI is of the view that the **funds should be made available to industrial units located in these districts at a rate that is at least 3% lower than the rates charged from normal units for a period of up to 10 years after commencement of commercial production.** The government may also consider charging **lower rate of interest for loans taken for purchase of land** for setting up new industrial units in such areas. It is equally important that the **stamp duty** should be exempted in such areas for purchase of land.

⇨ **Capital investment subsidy -** The government may consider offering a **subsidy at the rate of 20% of the investment in plant and machinery** subject to a maximum of Rs. 50 lakh to new industries located in these districts and those planning substantial expansion and modernisation.

⇨ **Transport subsidy –** Similar to the scheme introduced in July 1971 to promote industries in hilly, remote and inaccessible areas, the government may consider coming out with a scheme to subsidise the transportation cost for industrial units located in the districts with a combined SC / ST population of more than 40%. **Subsidy ranging from 50% to 90% on transport cost incurred on movement of raw materials and finished goods from designated rail heads / ports upto the location of the industrial units and vice-versa for a period of 5 years from the date of commencement of commercial production may be provided by the government.**

☞ **FICCI has identified the potential industries, which could be promoted in a select 27 of the 110 SC/ST dominated districts based on the core competencies of the districts.** FICCI would like to partner with the government in developing industrial base in these districts with a focus on the identified thrust areas specific to each district. The districts along with the identified potential industries are presented in the following table:

Table 11
Potential industries in some districts with high SC/ST concentration in India

Serial Number	Districts	State	Percentage of SC&ST Population	Potential Industries
1	Gajapati	Orissa	58.3	Forest based (paper & paper products, rubber etc), Chemical & allied (plastic, glass & ceramic)
2	Jharsuguda	Orissa	48.4	Mineral based (portland cement & pozzalana cement, fire clay, silica, dolomite, sponge iron etc), Metal & engineering (roof bolt, shaft cog, roller chain, pump spares etc)
3	Kalahandi	Orissa	46.3	Mineral based (graphite granite, bauxite, quartz, precious & semi-precious stones), Agro based (paddy, cotton, onion, groundnut, pulses), Forest based (sal & sial leaves, Harida, Bahada etc), Handicrafts (wood carving, stone carving,

				terracotta, cane & bamboo)
4	Kendujhar	Orissa	56.1	Mineral based (iron ore, manganese ore, chromite, quartzite, bauxite), Engineering & metal (automobile spare parts, fabrication work, almirah, trunks, boxes, grills & steel metal products), Chemical & allied (candles, bore metal, battery plates, lime powder, washing powder), Agro & marine based (processing of paddy, wheat, oil seeds & bakery products)
5	Mayurbhanj	Orissa	64.3	Mineral based (iron ore, china clay, quartz, asbestos, magnetite), Forest based (honey, gum, sal), Handicrafts (dhokra, stone carving, terracotta, bamboo arts)
6	Rayagada	Orissa	69.7	Mineral based (graphite, quartz, red oxide, granite, bauxite & manganese), Agro based (paddy, ragi, black gram, oil seeds, cotton, tobacco), Forest based (sal, tamarind, sial leaves, bamboo & medicinal herbs), Horticulture based (mango, pine apple, jack fruits etc), Handicrafts (lac products, bell metal products, paper machie, bamboo crafts etc)
7	Sambalpur	Orissa	51.5	Forest based (honey), Handicrafts & cottage Industry (fabrication, terracotta making, lathe work, brass & bell metal utensils etc)
8	Dadra & Nagar Haveli		64.1	Textile (spinning of cotton, micro yarn etc & processing, which includes texturising, twisting & weaving & knitting), Plastics (injection & blow moulded articles which includes industrial as well as domestic household products, furniture etc), Paper (sheets, rolls, paper tubes etc)
9	Dhemaji	Assam	52.6	Silk industry three different kinds of silk, Eri, pat & Muga), Agro based (rice, mustard), Forest based (bamboo)
10	Lakshadweep		94.5	Textile (fiber factory, coir production), Handicrafts
11	Dakshin Dinajpur	West Bengal	44.9	Agro & food based (rice bran oil, flour mill, tomato & other food products etc), Mineral based (fly-ash bricks,

				refractory bricks, mosaic tiles etc), Chemical based (poly pipe, polythene sheet, plastic products), Engineering based (automobile body building, lorry etc)
12	Gumla	Jharkhand	73.3	Forest based (wooden furniture, non-edible oil, herbal oil), Mineral based (stone crusher, chimney bricks), Agro based (edible oil crushing, spice grinding etc)
13	Ranchi	Jharkhand	47.0	Mineral based (alumina, sodium silicate, coal tar, heavy & light kerosene oil, lubricants) Engineering & metal based (machine tools & spares needed for the core sector industries, wire products, electric poles)
14	Korba	Chhattisgarh	51.5	Agro based (flour mills, rice mills, oil mills etc), Forest based (wood works, bamboo, ropes), Animal based (bone crushing, leather works, footwear, gloves etc)
15	Chandel	Manipur	92.1	Agro based (rice mills, saw mills, oil mills) Forest based (wood works),
16	Chhindwara	Madhya Pradesh	46.3	Forest based (bamboo, teak, tendu patta etc) Agro based (soyabean, wheat, sugar cane etc)
27	Dindori	Madhya Pradesh	70.3	Mineral based (bauxite, coal, okars, white ash etc), Handicrafts
17	West Tripura	Tripura	44.5	Mineral based (lignite, plastic clay etc), Handloom & handicrafts, Agro based (Jute, tea)
18	Sirohi	Rajasthan	43.9	Mineral based (portland cement, synthetic yarn, high tension insulators etc), Stone industry (marble handicraft items, ceramic glazed tiles, granite slabs etc)
19	Karauli	Rajasthan	45.5	Mineral based (china clay, white clay, sand stone, messonary stone, lime stone etc), Forest based (tendu leaves, gum, honey etc)
20	Udaipur	Rajasthan	53.9	Agro based (maize, wheat, sugarcane, barley etc), Mineral based, Cottage & village industries (handloom, recycled paper, edible oil, cosmetics, ayurvedic medicine etc)

21	East Garo Hills	Meghalaya	96.7	Weaving (Dakmanda, Daksaria, bedcovers etc) Sericulture (Eri silk, Muga silk), Handicrafts & cottage industries (carpentry, bee-keeping, cane & bamboo work, pottery etc)
22	West Khasi Hills	Meghalaya	98.0	Agro & allied services (paddy, maize, millets, ginger), Horticulture (orange, banana, pineapple, plum, pear & peach), Sericulture (mulberry, Eri, Muga)
23	Jaintia Hills	Meghalaya	96.1	Agro based (rice mill, turmeric & spices, betelnut preservation), Forest based (cane & bamboo)
24	Serchhip	Mizoram	98.1	Agro based, Forest based
25	Kohima	Nagaland	90.5	Forest based, Agro based, Handicrafts
26	Tirap	Arunachal Pradesh	83.8	Forest based, Agro based, Horticulture

CHAPTER 4

AFFIRMATIVE ACTION IN USA

Affirmative Action in USA

Definition: **"*Employment and Educational programs required by federal statutes and regulations designed to remedy discriminatory practices in providing opportunities to minority group members; i.e., positive steps designed to eliminate existing and continuing discrimination, to remedy lingering effects of discrimination, and to create systems and procedures to prevent future discrimination; commonly based on population percentages of minority groups in a particular area. Factors considered are race, color, sex, creed, and age."***- West's Encyclopedia of American Law (2nd Edition, Volume 1)

The journey of affirmative action from its heyday to the present reflects great changes in the United States. A common principle is that both for admissions and employment, affirmative action programs such as targeted recruitment and goals are encouraged to remedy past effects of discrimination; quotas are disfavored in the US.

Affirmative action in the US is undertaken voluntarily as can be seen in the case of private schools' admission goals, or in case of organizations to qualify for federal contracts. But United Sates has always disfavored the form of quotas to ascertain affirmative action. Affirmative action programs are governed by a number of overlapping laws in United States. Some of the laws governing affirmative action in the US are -

- **The "equal protection clause" of the Fourteenth Amendment of the United States Constitution, which applies only to public institutions and which prohibits discrimination based on race or sex.**

- **Title VI of the Civil Rights Act of 1964 prohibits race discrimination in any program receiving federal funds. This law applies to both admissions and employees. Violations can result in withdrawal of federal funds or suits by private individuals.**

- **Title VII of the Civil Rights Act of 1964, which prohibits employment discrimination based on race, color, religion, sex or national origin by any employer with 15 or more employees; as amended in 1972 it applies to public and private educational institutions.**

- **Title IX of Education Amendments of 1972 prohibits sex discrimination in all educational institutions that receive federal funding.**

- **Executive Order 11246 requires federal contractors to adopt and implement "affirmative action programs" to promote attainment of equal employment objectives.**

- **Many states have laws that are similar to Title VII or Title IX. In some instances, state laws provide broader remedies or more expansive coverage to protected groups.**

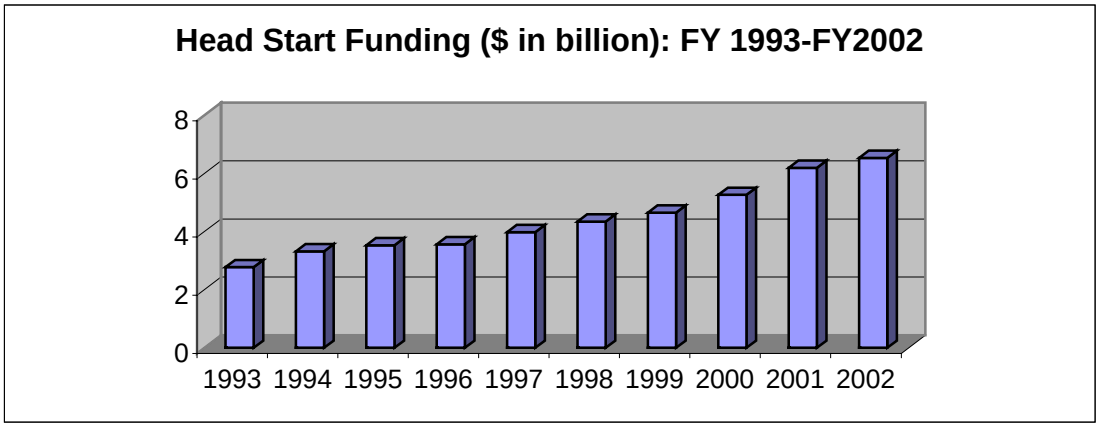
Affirmative Action in the US Educational System

United States has adopted a holistic approach towards ensuring affirmative action in the educational system. The policy of affirmative action in the US is synonymous with the process of empowerment of the targeted groups right from the initial levels of human development. Mechanisms are designed targeting the minorities and the less privileged sections of the American society, right at the pre-kindergarten or the primary / elementary and secondary school levels. It is this process of strengthening the less privileged at the grass root level that has increased the competitiveness of the American youth from the minority communities, which is reflected in the increasing number of enrollments in colleges and universities across United States.

Affirmative Action in Pre-kindergarten/Primary and Secondary Schools

The most popular instrument in this process has been the federal program called the Head Start Program, **which has provided comprehensive early childhood development services to low-income children since 1965. Services provided to**

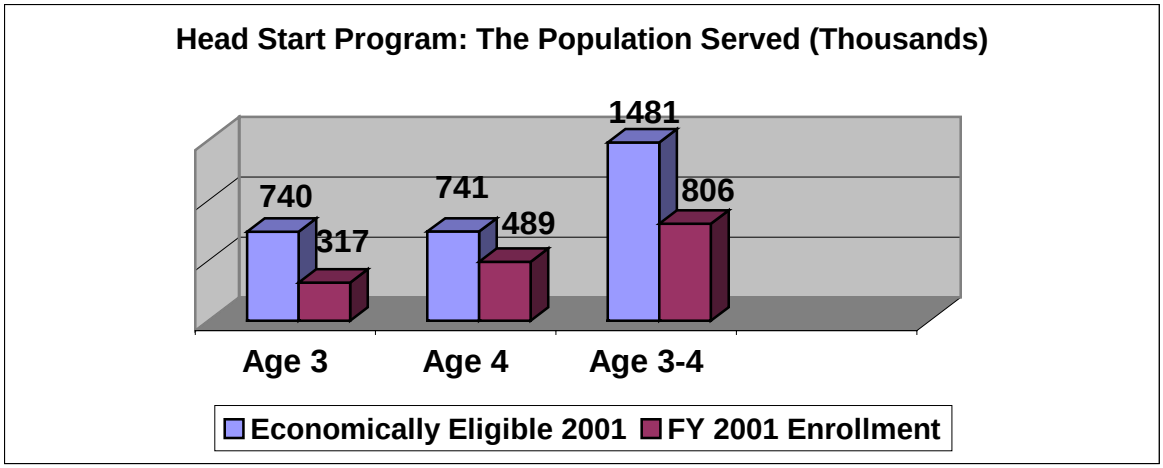
preschool-aged children includes child development, educational, health, nutritional, social and other activities. These services are intended to prepare children to enter kindergarten and to improve the conditions necessary for their success in later school and life. The Head Start funds are provided directly to local grantees, rather than through states. Programs are locally designed, and are administered by a network of about 1,500 public and private nonprofit agencies. In FY2001, Head Start funded enrollment for 905,000 children.



Source: Congressional Research Service - The Library of Congress February 5, 2005, based on the data from the Head Start Bureau

The funding for the head start program has substantially surged over the years from an amount of US$ 2.776 billion in 1993 to US$ 6.538 billion in 2002, and this increased amount of funds have been used both to expand the number of children served and for the quality improvement activities.

The table below gives the total population served by the Head Start Program from amongst the population of economically eligible candidates. Estimates of economic eligibility are based on the percentage of children living in families with annual income below Federal Poverty Income Guidelines or in families receiving Temporary Assistance for Needy Families (TANF), in 2001. It is evident from the figures that the Head Start program has served a significant proportion of the total economically eligible students in all the age groups ranging from 3 to 4, for the randomly chosen year 2001. The trend has been almost similar over the past few years too.



Source: Table prepared by the Congressional Research Service (CRS) using data from the March 2002 Current Population Survey (CPS). Head Start enrollment estimates are based on data and estimates from HHS

On similar lines other programs like the Early Head Start Program **was also initiated to serve infants and toddlers who are too young to participate in regular head start program. The law required that a part of the total Head Start funding be set-aside for the Early Head Start Program.**

The Magnet or the Alternative Schools**, designed to encourage and promote elementary and secondary education amongst the targeted groups was also one of the major mechanism of giving equal and due advantage to the ethnic groups and the minorities who were other wise underrepresented even at the lower pedestals of the educational system. These schools aimed at academic desegregation and focused on equity, have diversity as an explicit purpose.**

Higher Education and Affirmative Action in US

The policy of affirmative action extended itself with much greater force and effectiveness in the higher education scenario or the college admissions in the US. The present day forms of affirmative action have evolved through years of legal and political challenges, which have confronted these universities from time to time. Nonetheless the universities in the United States have always abided by the voluntary ways of affirmative action by tailoring the admission requirements in accordance with the demands of law. Worth mentioning in this context are the two historical judgments by the Supreme Court.

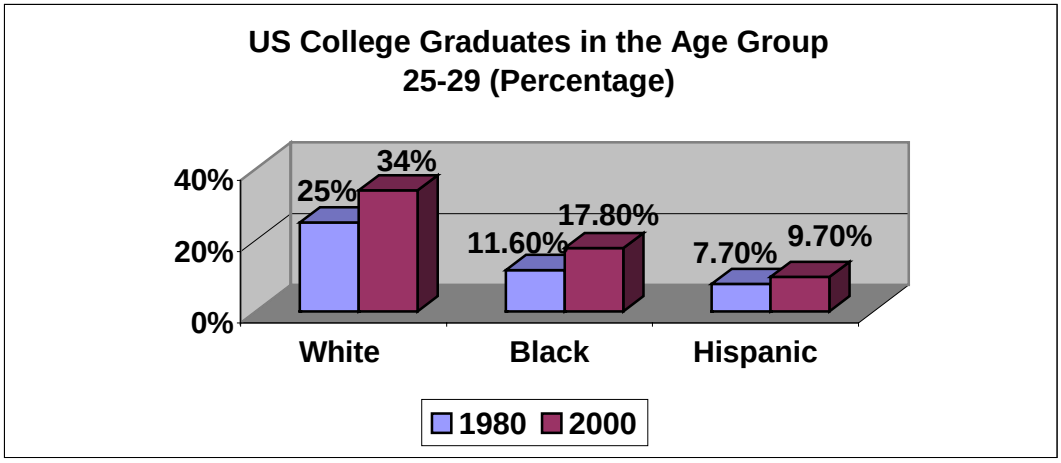
- Regents of the University of California v. Bake, 438 U.S. 265 (1978) **– In this case the Supreme Court argued that though Universities may practice race conscious affirmative action for purpose of enhancing educational diversity, the following constraints must have to be observed –**

  a) Racial quotas are not allowed
  b) All students must be evaluated according to common standards, by common admission committee
  c) Race may not operate as an overriding factor, but only as a "plus" on a par with "a range of factors a university properly may consider in attaining the goal of a heterogeneous student body."

- The University of Michigan Law School's, Grutter v. Bollinger et al, 97-CV-75928-DT (E.D. Mich., 2001) – **Some of the arguments which resulted from the case are –**

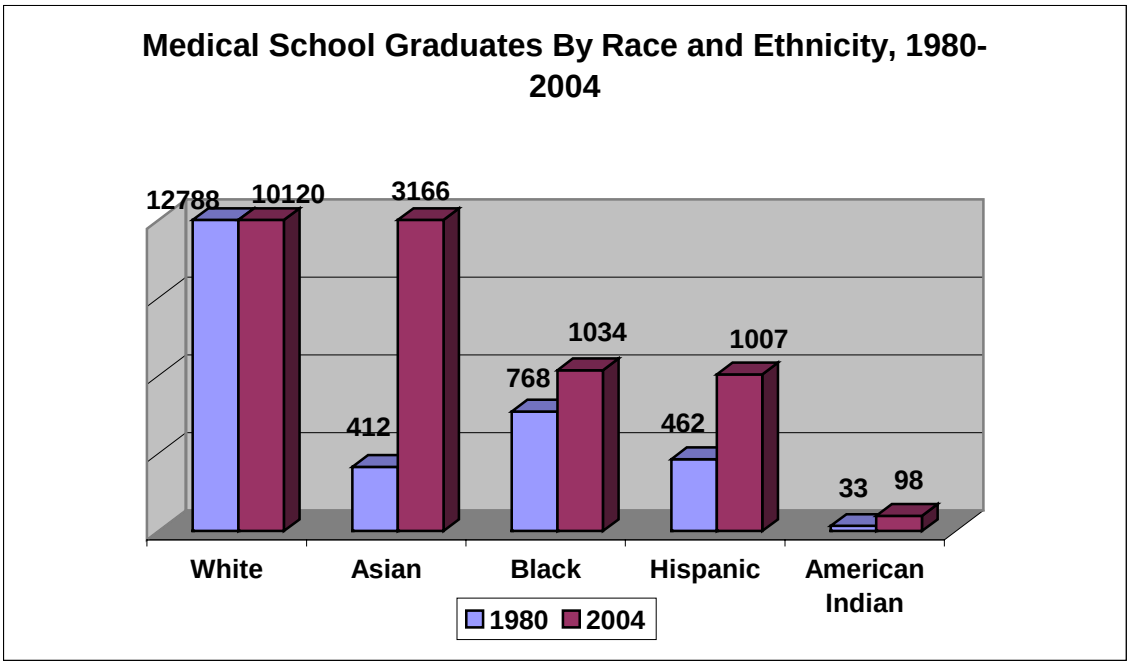
  a) The policy had no time limits
  b) It was functionally indistinguishable from that of a quota in weighing race too heavily in admissions
  c) Failed to consider race-neutral alternatives to achieving racial diversity

Amidst these legal cases, which have confronted the Universities, the policy of affirmative action in US and the various mechanisms used have benefited the minorities over the decades. The policy and the tools of ensuring affirmative action have led to an overall increase in the number of college graduates from the Black American and the Hispanic American communities. The figures below restate this fact.



Source: U.S. Department of Education, "Digest of Education Statistics," 2001 edition.

Even in the high end specialized courses like medicine, there has been an upsurge in the number of students from the minority communities in the US. The figure below shows that the proportion of minority groups in the overall pool of medical school graduates has risen steeply from 1980 to 2004.



Source: 'Changing the face of American Medicine' by Kendra Hamilton from Diverse Issues in Higher Education, Oct 20, 2005

Affirmative Action In Employment

The instruments of implementing affirmative action policy in the US firms/organizations takes the form of various incentive mechanisms, like the granting of federal contracts, entrepreneurship development programs and fellowships for the disadvantaged groups. In certain organizations including MNCs, the policies are tailored accordingly. In general the method of reservation or quotas fro the targeted groups are disfavored.

Incentivisation

The Department of Labor's Employment Standards Administration's Office of Federal Contract Compliance Programs (OFCCP) **is a catalytic organization in the American society to bring about anti-discrimination measures and ensuring affirmative action by enforcing plans required to qualify for federal contracts. These plans enforced by OFCCP acts as an incentive mechanism for the contractors/organizations, since a failure to abide by the same debars them from qualifying for the federal contracts.**

The major laws that OFCCP enforces include -

- **The Executive Order 11246, as amended**
- **Section 503 of the Rehabilitation Act of 1973, as amended and**
- **The affirmative action provisions (Section 4212) of the Vietnam Era Veterans' Readjustment Assistance Act, as amended**

The aforementioned laws, taken together, ban discrimination and require Federal contractors and subcontractors to take affirmative action to ensure that all individuals have an equal opportunity for employment, without regard to race, color, religion, sex, national origin, disability or status as a Vietnam era or special disabled veteran.

Good faith efforts in the United States include expanded efforts in outreach, recruitment, training and other activities to increase the pool of qualified minorities and females. The actual selection decision is always made on a non-discriminatory basis and through the means of aggressive recruitment programs, mentoring, training, and

family programs that work to recruit and retain individuals**. OFCCP efforts have benefited real people through systemic contractor investigations and through partnerships with private industry and state and local agencies.**

"Affirmative action is not preferential treatment. Nor does it mean that unqualified persons should be hired or promoted over other people. What affirmative action does mean is that positive steps must be taken to provide equal employment opportunity", believes OFCCP (EEOC, U.S. Labor Department, Pub. No. 2850, Making EEO and Affirmative Action Work 8 [1993]).

Entrepreneurship Development

Policies like, **The Minority and Small Disadvantaged Business Programs**, have a substantial contribution in empowering the minorities in the United States. This has long been the policy of the Federal Government to assist minority and other "socially and economically disadvantaged" small businesses become fully competitive and viable business concerns. Federal Procurement Process has been largely instrumental in allocating federal assistance and contracts to foster disadvantaged business development, under these programs. **Federal assistance have taken a variety of forms, including targeting procurement contracts and subcontracts for disadvantaged or minority firms, management and technical assistance grants, educational and training support, and surety bonding assistance.**

Employment Linked Fellowships

Apart from the abovementioned programmes, special fellowships like the **Thomas R. Pickering Foreign Affairs Fellowship Program** have also played the role of great equalizers in the American society. This particular program exemplifies the host of other similar measures undertaken by the US government to ascertain a fair representation of the minorities, ethnic groups and the other disadvantaged groups in the US government jobs. The Thomas R. Pickering Foreign Affairs Fellowship Program is funded by the United States Department of State. The Department of State seeks a Foreign Service that represents America in world affairs with citizens who reflect the diversity and excellence of American society. **The program seeks to recruit talented students in academic programs relevant to international affairs, political and economic**

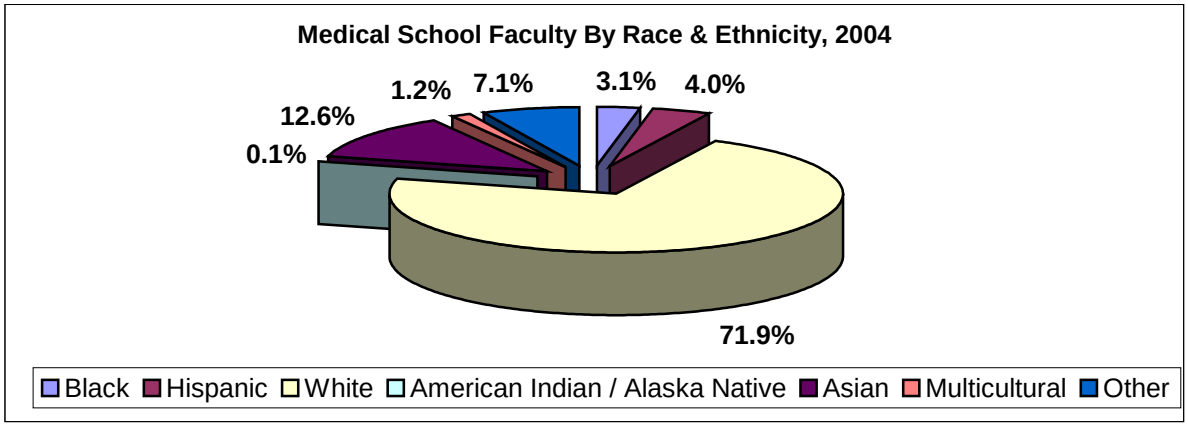
analysis, administration, management, and science policy, from all ethnic, racial and social backgrounds, who have an interest in pursuing a Foreign Service career in the U.S. Department of State. The Program develops a source of trained men and women from academic disciplines representing the skill needs of the Department, who are dedicated to representing America's interests abroad.

Voluntary Affirmative Action in US firms/Organizations

Apart from the Government services the top US firms ensure affirmative action in their individual organizations, without implementing specific quotas for the minorities or the other ethnic groups. Some of the top US firms who are minority votaries are –

- **Dell Inc**
- **Xerox Corporation**
- **Procter and Gamble**
- **Motorola Corporation**
- **Johnson and Johnson**
- **Lockheed Martin**
- **IBM**
- **Chrysler Corporation**
- **Bausch & Lomb**
- **Colgate-Palmolive**

Similar has been the case with regards to the appointment of faculties in schools and colleges. Affirmative action policies, without considering any form of quotas or setting aside of seats, in the institutions in the US thrive to ensure fair share of all ethnic groups and minorities in there faculty population. The phenomenon is reiterated by the fact that in the year 2004 the Association of American Medical Colleges (AAMC) faculty roster showed the total number of medical school faculty members were 114,087. Of these, 71.9% were White, 12.6% were Asian, 4.0% were Hispanic, 3.1% were Black, 0.1% was American Indian/Alaska native and others comprised 7.1% of the total strength, which included Native Hawaiian/Other Pacific Islander etc.



Source: 'Changing the face of American Medicine' by Kendra Hamilton from Diverse Issues in Higher Education, Oct 20, 2005

The facts and the statistics stated above gives enough evidence that the American Society has kept enough premium on the policy of Affirmative Action in the fields of education as well as employment, since decades. The history of American Affirmative action and its evolution waded through a host of legal, social as well as political challenges. The approach of ensuring equality in the American society has been holistic and the policies and instruments have been carefully designed in a calibrated way, under pre-defined time frames. The toil and the exercise in implementing these affirmative action measures in the United States have already started paying dividends. The number of minorities and ethnic groups are increasing exponentially, be it the pay rolls of government organizations/MNC or the student's registers of the US schools, colleges and universities. Though dedicated towards eliminating inequality in the society they have always avoided the concept of reservations and quotas and so worth observing would be the

mechanisms that have earned United States this iconic seat, in the field of affirmative action and its successful implementation.

FICCI

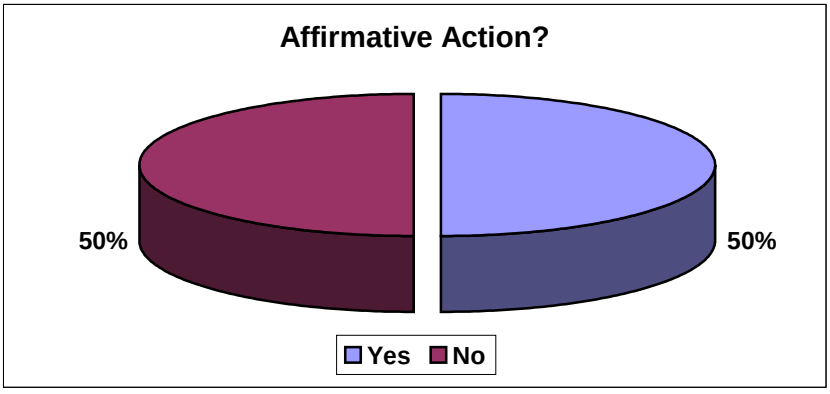
ANNEXURE I

FICCI SURVEY ON AFFIRMATIVE ACTION AND THE ROLE OF INDIAN INDUSTRY

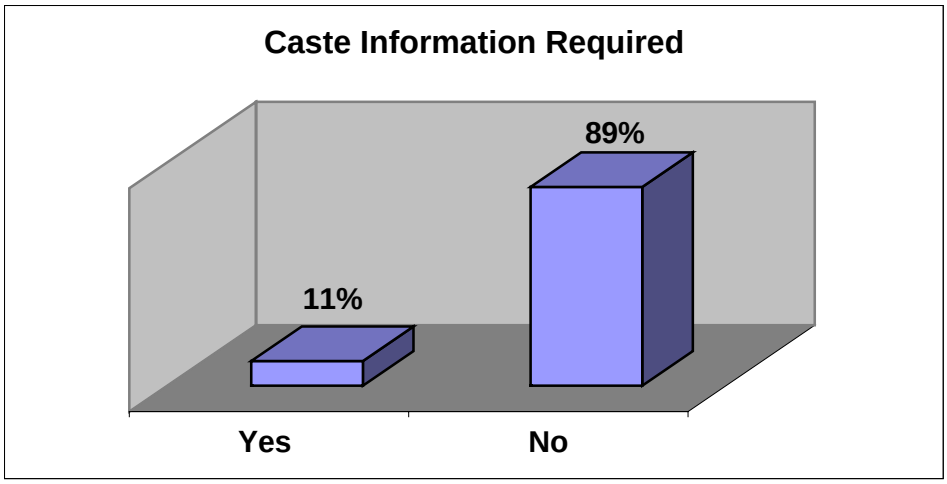
FICCI conducted a quick survey, “Affirmative Action and the Role of Indian Industry”, among the CEOs of various companies, as a part of FICCI’s ongoing efforts to present the views of Indian industry on ‘Job Reservation in the Private Sector’ to the government. The present survey elicited responses from 60 companies with a wide geographical and sectoral spread. The turnover of the companies that participated in this survey ranged from Rs. 2 crores to Rs. 2000 crores. Respondents to the survey represent a wide array of activities and include sectors like textiles, heavy equipment and machinery, paper, jute, glass, plastic, metal and metal products, chemicals and fertilizers, FMCG, consumer durables, hospitality, travel and tourism, auto and auto ancillary, steel and cement.

Survey Findings

When questioned about the companies willingness to consider / adopt an affirmative action policy where they can voluntarily give preference for employment / during recruitment to candidates who are from the socially and economically backward groups over equally competent general category candidates, the views were equally bifurcated. While 50 percent of the responding companies showed their readiness to adopt a policy of affirmative action, the other half had declined to adopt such a policy.



A whopping 89 per cent of the respondents stated that they do not ask the candidates to even furnish information about their caste background while recruiting employees in their organizations. Only 11 per cent of the responding corporates considered it necessary for the employees to provide information regarding caste background during recruitment.



Suggestions by Corporate India

- A substantial proportion of the respondents felt that selection of candidates for employment should be devoid of any form of reservation and should be based on merit irrespective of caste. They felt the immediate need for a policy of special training programmes and vocational training programmes, with adequate support from the government, targeting the candidates from the backward classes, right at the grass root level. These training programmes would prepare them for the competition they face in recruitment process, felt the corporates.

- Another major proportion of the responding companies suggested that the government should introduce various incentive mechanisms for the companies, voluntarily employing candidates from the socially and economically backward communities. The participating companies suggested incentives like tax concessions and price incentives amongst others.

- To generate employment amongst the backward communities some of the participating companies favored entrepreneurship development as an alternative to reserving seats for them in the private companies.

FICCI

ANNEXURE II

FICCI SURVEY ON
'THE STATE OF INDUSTRIAL TRAINING INSTITUTES IN INDIA'

FICCI

Section 1 - Introduction

To achieve international competitiveness in the present era of globalization, businesses require a skilled workforce that is responsive to emerging market needs and is equipped with knowledge of advanced technologies. On the other hand, for the youth of the present time to get gainful employment, it is crucial to acquire skill sets with strong labour market linkages. Meeting these requirements critically depends on a country's endeavour towards developing its skill-pool and bringing in modern technologies in the vocational training system of the country.

As India integrates itself with the world economy, which is largely driven by knowledge and skills, there is an imperative need to take a re-look at the existing state of affairs in the skill imparting system of the country. The ability of Indian industry to benefit from globalization hinges on its success in benchmarking itself to the international standards in terms of price, quality, safety and productivity, which in turn is contingent upon the availability of a globally competent labor force. The employment statistics of the country also underscores the need to develop market driven skills amongst its potential labour pool. During 1994 to 2000, growth rate of employment in the country was less than the growth rate of labour force, indicating an increase in the rate of unemployment. **Up-gradation of the technical education and skills development system of the country, which is the principal provider of technicians and skilled workers, should thus form the core of the human resource development strategy of the government, which in turn would help meet the twin targets of enhancing competitiveness of the Indian industry and creation of job opportunities for the youth of the country.**

Section 2 - Vocational Training System in India – An Overview

☯ Management Structure of Vocational Training System

Vocational training in India is offered through public Industrial Training Institutes (ITIs) as well as private Industrial Training Centers (ITCs). Under the Constitution of India, vocational training is a concurrent subject of both Central and the State Governments**.** While the development of training schemes, evolution of policy, laying of training standards and norms, conducting of examinations, certification, etc. are the responsibilities of the Central

Government, the implementation of the training schemes largely rests with the State Governments**.**

The Central Government is advised by the National Council for Vocational Training (NCVT), a tripartite body having representatives from employers, workers and Central / State Governments. Similar councils known as State Councils for Vocational Training (SCVT) are constituted for the same purpose by the respective State Governments at state level.

☯ **Principal Training Schemes**

The principal training schemes operational under the Directorate General of Employment and Training, Government of India (DGE&T, GOI) for the Industrial Training Institutes and the Industrial Training Centers are the Craftsmen Training Scheme (CTS) and the Apprenticeship Training Scheme (ATS). The CTS provides medium to long-term institutional training to produce semi-skilled / skilled workers for industrial employment, while the ATS is a combined training programme that offers both institutional and on-the-job training with the graduated apprentices being considered as skilled.

⇒ **Craftsmen Training Scheme**

Craftsmen Training Scheme (CTS) was initiated in the year 1950 by the Directorate General of Employment & Training (DGE&T) with an aim to impart skills in various trades through the Industrial Training Institutes to meet the skilled manpower requirements for technology and industrial growth of the country. Presently 107 nationally recognized trades are offered through the CTS, with 36 new trades introduced **in 2003.**

The period of training for various trades under this scheme ranges from six months to three years and the entry qualification varies from 8th to 12th class pass, depending on the requirements of training in different trades.

At the end of the programmes, trainees appear for the All India Trade Test (AITT) conducted by the Directorate General of Employment & Training (DGE&T) under the aegis of NCVT and successful students are awarded the National Trade Certificate (NTC), which recognizes them as semi-skilled craftsmen.

⇒ **Apprenticeship Training Scheme**

Recognizing the need to supplement the training imparted at the training institutes with training in actual workplace, the National Training Scheme was introduced in 1959 on a

voluntary basis. Apprentices Act was enacted subsequently in 1961 and was implemented in the year 1962.

103 subject fields have been designated for the category of Graduate & Technician apprentices and 95 subject fields have been designated for the category of Technician apprentices.

Entry qualification for the apprenticeship training varies from standard 8th to 12th class pass, with the period of training varying from six months to four years depending upon the trade. The NCVT conducts All India Trade Tests (AITT) for trade apprentices and successful trainees are awarded the National Apprenticeship Certificate (NAC).

- **Recent initiatives to strengthen vocational training system**

With the objective to upgrade the vocational training system in the country, the Directorate General of Employment & Training (DGE&T) in the recent past has taken a wide range of initiatives that focus on the qualitative improvement of the prevailing system as well as aims at integrating the country's potential labour force into the system to a larger extent. Some of the steps taken are mentioned below –

1) Establishments of new ITIs in the North Eastern states and Jammu and Kashmir.
2) Introduction of multi-skill courses in selected ITIs consisting of one-year broad based basic training followed by specialized modules as per the needs of local industry.
3) Opening of Vocational Training Centers (VTCs) at Block level in States / Union Territories.
4) Ten new courses with strong industry linkage approved for introduction in the ITIs.
5) Up gradation of ITIs into Centers of Excellence.
6) A trade in emerging area of Information Technology namely 'Information Technology & Electronics System Maintenance' (ITESM) introduced under the Craftsmen Training Scheme.
7) Introduction of externally aided projects for reforms and improvements in Vocational Training Services rendered by State Governments

8) Special drive launched during 2004-05 to identify establishments in private sector which should have been covered under the ATS – 5414 new establishments were identified and brought to the notice of the concerned State Apprenticeship Advisors subsequently.

Section 3- Survey background and sample profile

Hon'ble Union Minister for Finance, P. Chidambaram, while presenting the Union Budget 2004-05, announced *"In order to produce technicians of world standard, Government proposes to launch a programme in the Central sector to upgrade 500 ITIs over the next 5 years at the rate of 100 ITIs a year. Appropriate infrastructure and equipment will be provided, the syllabi will be upgraded and new trades will be introduced. This is an area where I welcome Chambers of Commerce and Industry to join hands with the Government and create a public-private partnership model for designing and implementing the scheme."*

Following the announcement made by the Finance Minister, the Directorate General of Employment & Training (DGE&T), initiated the consultative mechanism with Industry on efforts that need to be made for strengthening the vocational training system in India. It was decided that in the first phase 100 ITIs spread across the country would be taken up and converted in centers of excellence. FICCI has been actively participating in this Industry-Government consultative mechanism and the present survey has been conducted with the view to assess the existing state of affairs in terms of infrastructure facilities, training and staff related issues in the 100 ITIs identified for upgradation in the first phase. We hope that the results of this ground level survey and the direct feedback received from the participating ITIs would help identify the elements that need to be focused upon in the larger framework being drawn by the government for strengthening the vocational training system in India.

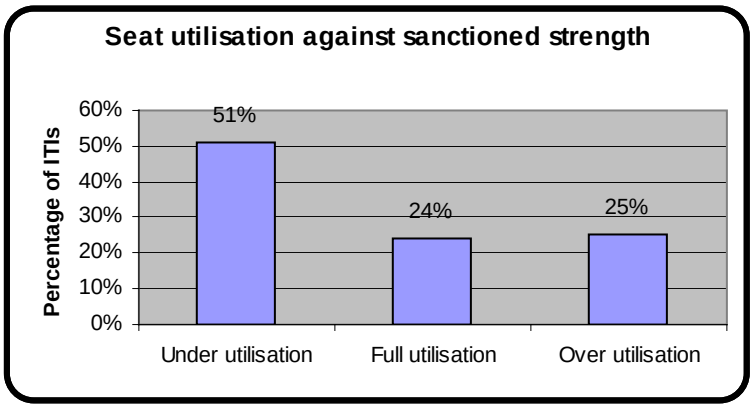
The survey elicited response from 69 ITIs out of a total of 100 ITIs to which the questionnaire was administered. The survey responses represent a wide geographical spread with 48% of the responding institutes representing North India, 25% from the Western part of the country and the remaining 27% from the Southern region. However, the Eastern region remained unrepresented due to lack of responses from the institutes from the region.

Section 4 - Survey findings

4.1 Seat utilization in ITIs against sanctioned strength

The survey conducted by FICCI revealed that for majority of the Industrial Training Institutes, the enrolment of students in the last academic year has been below the sanctioned strength

for admission. A majority 51% of the respondents to the survey reported a less than hundred percent utilization of the sanctioned student strength. While in case of 24% of the institutes the seats were fully utilized, another 25% had an over utilization of the same.



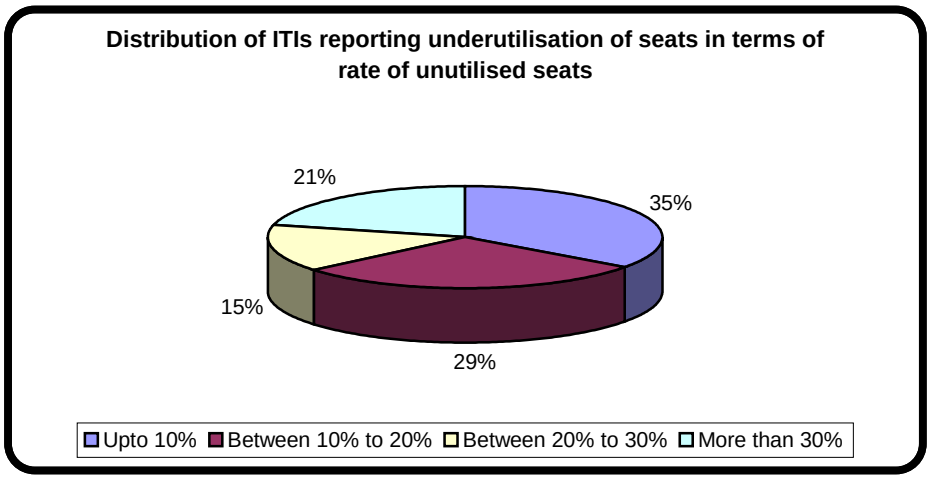
A region wise analysis of the responses in this regard shows that it is the Southern and Northern region of the country, where underutilization of seats in the Industrial Training Institutes featured as a worrying factor. While a majority 61% of the institutes from the Southern part of the country reported underutilization of seats, it was closely followed by the Northern part where 53% of the institutes reported the same problem. As against these high numbers in the Southern and Northern regions, about 38% of the participating institutes from the Western region responded likewise.

Seat utilization against sanctioned strength – Regional picture

(Percentage of ITIs)

Region	Under utilization of seats	Full utilization of seats	Over utilization of seats
South	61%	33%	6%
North	53%	10%	37%
West	38%	31%	31%

While the proportion of ITIs, especially from the Southern and Northern regions, reporting underutilization of seats is in itself very high, the acuteness of the problem is brought into sharper focus when we look at the rate of unutilized seats as a proportion of total sanctioned strength. Of the 69 participating ITIs nearly 35 reported underutilization of seats. The following chart shows the percentage distribution of these 35 ITIs in terms of the rate of unutilized seats.

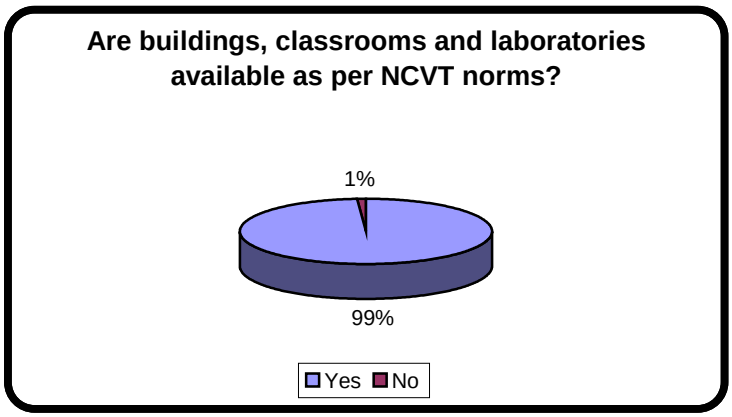


As the above chart shows, the rate of unutilized seats is not confined to just single digits. While in case 35% of the ITIs reporting underutilization of seats, the rate of unutilized seats was in the range of up to 10%, in the case of the remaining 65% of the ITIs this rate was reported to be in double digits. The fact that nearly 15% of the ITIs had vacancy ratio between 20% to 30% and another 21% reported vacancy rates upwards of 30% is a serious cause for concern.

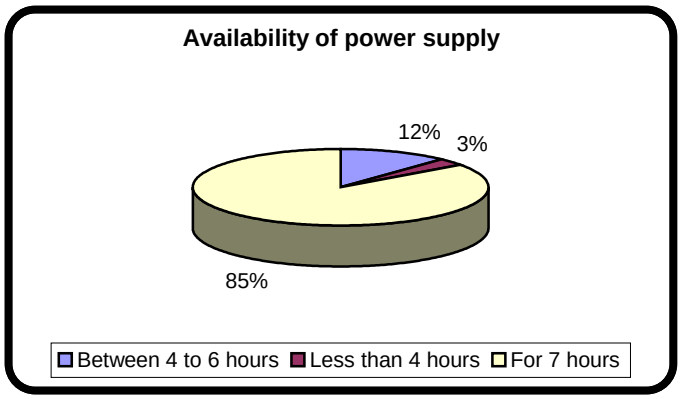
The issue of reported gap between the sanctioned strength and the filled seats needs to be looked into by the policy makers so that the reasons for the same can be identified and appropriate remedial measures can be taken. FICCI's preliminary investigations suggest that the low utilization of seats in a substantial number of institutes is indicative of the fact that the basic industrial trades offered by these institutes are becoming increasingly unattractive for their limited scope in terms of creating job opportunities.

4.2 Infrastructure related issues

⇒ Physical infrastructure: As far as the condition of the physical infrastructure in the Industrial Training Institutes is concerned, the survey revealed a bright picture. When asked about whether they have building, classrooms and laboratories as per the norms laid down by the NCVT, a whopping 99% of the respondents were affirmative in their response.



⇒ **Power supply:** Power is a critical factor to ensure uninterrupted practical training schedules in the Industrial Training Institutes, which depend heavily on the electrical machinery used for instructions. Of the 69 ITIs surveyed, a substantial 85% of the respondents reported to have uninterrupted power supply between 9.00 am to 4.00 pm during the working days. While for another 12% of the institutes power supply is available for 4 to 6 hours a day, an insignificant 3% said to have power for less than 4 hours per day.



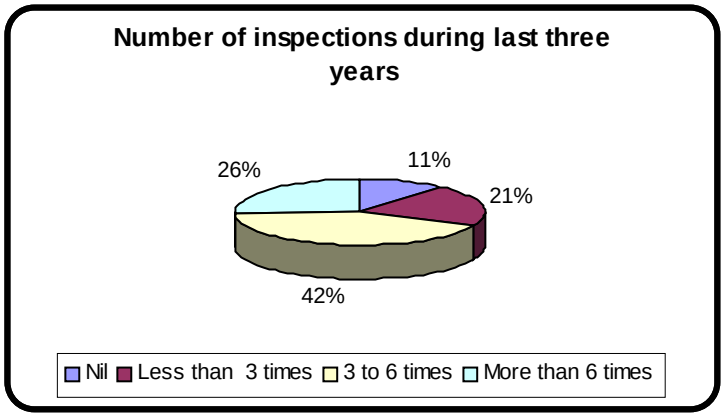
The institutes having power for less than 4 hours a day were not able to meet the practical training requirements of the trainees as per norms laid down by the NCVT and cited non-availability of power as the main reason for this shortfall.

With regard to power load sanctioned, an overwhelming 84% of the institutes covered in the survey, reported that the power load sanctioned for their respective institutes was either equal or above their power load requirements. For the remaining 16%, it was below the required level.

4.3 Inspections / Supervision

When asked about the number of inspections carried out in the institutes by the directors during the last three years, 11% of the institutes replied that not a single inspection was done

during the period with 21% reporting to have less than 3 inspections over the period. While 42% had inspections between 3 to 6 times over the last three years, 26% of the institutes had been inspected more than 6 times.



A region wise analysis of the responses revealed that it is the Northern region where inspections by designated authorities are not being carried out as per the NCVT/SCVT norms with 43% of the institutes reporting nil or less than 3 inspections during the last three years. While 28% of the institutes from the Southern region reported likewise, only 12% of the institutes from the Western region reported to have nil or less than 3 inspections during the last three years.

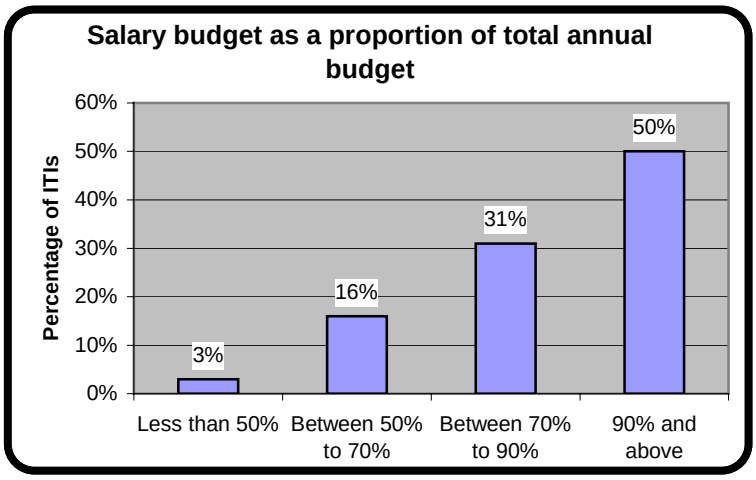
Number of inspections during the last three years – Regional picture

Region	Nil or less than 3 times	3 to 6 times	More than 6 times
North	43%	47%	10%
South	28%	28%	44%
West	12%	50%	38%

(Percentage of ITIs)

4.4 Budget allocation – The surveyed institutes were asked to provide detailed break-up of their annual budget under the heads of salary, building repair, buying equipments, raw material, staff training and development and other major expenses.

An analysis of the responses in this regard revealed that disproportionately large amounts of the funds were allocated for salary payment to the institute staff. For 50% of the participating institutes salary outlay for the year 2003-04 accounted for more than 90% of the total budget allocation.



A detailed analysis of the budget of the participating ITIs shows that two key areas namely purchase of raw materials and staff training & development are severely neglected if one were to go by the allocations made under these heads. The table on the next page clearly brings out the highly skewed nature of the expenses towards salaries.

Budget allocation under different heads

	Number of ITIs with an allocated amount in the year 2003-04	Proportion of ITIs with an allocated amount in the year 2003-04	Average proportion of budget allocated in the year 2003-04
Salary	**63**	**100%**	**77%**
Building repair	**16**	**25%**	**7%**
Buying equipments / machines	**36**	**57%**	**5%**
Raw materials	**60**	**95%**	**6%**
Staff training and development	**19**	**30%**	**2%**
Other major expenses	**48**	**76%**	**6%**

Notes –

1. The above table is based budgetary allocation for the year 2003-04.

2. Data for budgetary allocation for 2003-04 was provided by 63 ITIs out of the 69 ITIs that participated in the survey.

3. For the purpose of computing the average proportion of budget allocated under each head / category only the ITIs that had made allocation under the respective heads in the year 2003-04 have been considered.

As the above table shows nearly 77% of the budget of ITIs is on average allocated for salaries, leaving precious little for other expenses.

Another important finding to be noted is that while nearly 95% of the ITIs had allocated money for purchase of raw material used in the machines and equipment, the average proportion allocated under this head was a meager 6% of the budget.

Expenditure on staff training and development, which is an important area for any educational institution, was also found to be lacking in the ITIs surveyed. As the table shows, only 30% of the ITIs had allocated budget for staff training and development in the year 2003-04. Further, the average proportion allocated for staff training and development was a miniscule 2% of the total budget.

4.5 Training related issues

⇒ **Trades available** – The survey conducted by FICCI revealed that the number of trades offered by the participating ITIs ranges from 2 to as many as 38. While the ITIs at Baleraich and Bhiwadi offer only 2 trades, ITI Aundh, Pune and ITI Kubernagar, Ahmedabad have 38 trades to offer. This when seen in the light of the fact that the total number of government approved trades is 107, shows that there exists a major deficiency in terms of the capability of the ITIs to ramp up their scale and offer new and more market oriented courses.

Feedback obtained by FICCI shows that a majority of ITI courses are in basic industrial trades, such as electrician, fitter, welder, wireman, mason etc while the non-traditional trades responsive to the emerging labour market needs such as commerce, insurance, personal services and IT related trades remain underrepresented. Given the existing excess supply in the labour market for the basic trades, encouragement to the ITIs in offering non-traditional courses would be of strategic importance to make the ITIs in India effective in imparting skills with strong labour market linkages.

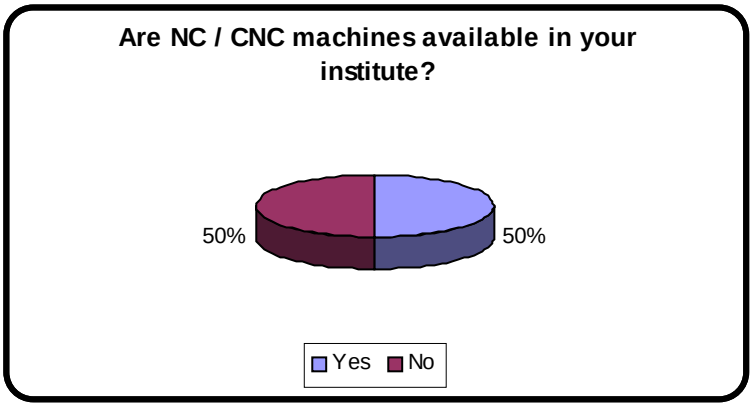
List of trades offered by the surveyed ITIs

Trade	Proportion of ITIs offering the trade
Electrician	86%
Turner	79%
Welder	79%
Machinist	71%

Fitter	71%
Motor mechanic	71%
Refrigerator & air conditioner mechanic	57%
Electronics	57%
Wireman	50%
Computer Operator & Prog. Assistant	43%
Grinder	39%
Sheet metal Worker	39%
Stenography	39%
Carpenter	36%
Instrument mechanic	36%
Information Technology	36%
Mechanical m/c tool maintenance	29%
R&TV	29%
Diesel mech.	29%
Plastic processing operator	29%
Plumber	21%
D/Civil	21%
Cutting, sewing	21%
Tool and die mechanic	18%
Moulder	18%
Millwright	18%
Painter	18%
Mason	18%
Surveyor	18%
Draftsman mechanic	11%
Secretarial practice	11%
Desk Top publish Operator	7%
Foundry man	7%
Mechanic Maintenance Chem. Plant	7%
Dress making	4%
Hair & Skin Care	4%
Clock& watch	4%
Photography	4%
Driver cum mechanic	4%
Data Entry Operator	4%
MOCES	4%
Mech.medical electronics	4%

Industrial Automation	**4%**
Auto CAD	**4%**
Personal Computer Maintenance	**4%**
Analog and Digital Electronics	**4%**
Wireless Operator	**4%**
Attendant Operator Chemical Operator	**4%**
Mechanic Tractor	**4%**
Armature Motor Rewinding	**4%**
Certificate in e-commerce	**4%**
Certificate in software programming	**4%**
Two wheeler repairer	**4%**
Horticulture	**4%**

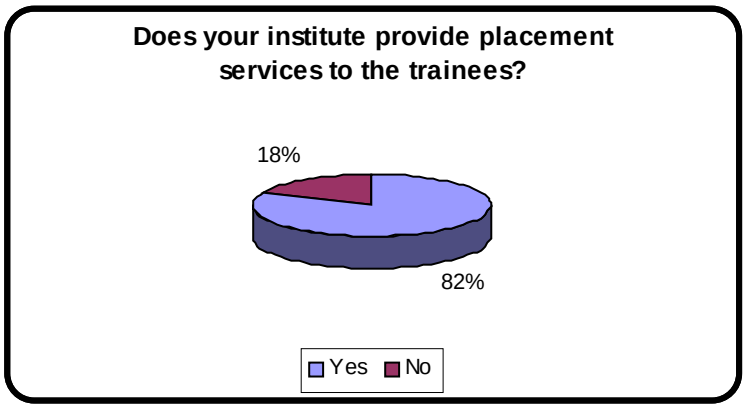
⇒ **Availability of machines** – While in majority of the Industrial Training Institutes surveyed 70% to 100% machines required for the trades offered by the institutes were available, the number of machines not in working conditions as a proportion to the machines available in the institutes ranged from 1% to as high as 53%.



In order to make the trainees familiar with the advanced technologies, there is an imperative need for the institutes to have Numerically Controlled / Computerized Numerically Controlled (NC/CNC) and automation machines. In the present survey an attempt was made to find out status of availability of such machines in the ITIs surveyed. The responses received show that while half of the institutes have NC/CNC and

automation machines the other half do not have these machines. The non-availability of NC/CNC machines is acting as serious impediment to align the training provided by these institutes with the emerging market needs.

⇒ **Placement services** - A majority 82% of the institutes reported to have placement services in place in their institutes for the graduate trainees, while in the remaining 18% of the institutes, the trainees are not provided with such an opportunity.



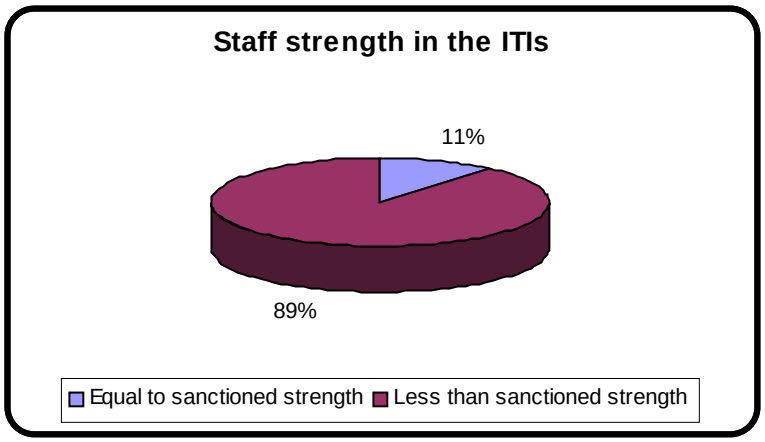
All the participating institutes from the Western region reported to have placement cells in their institutes. The trainees are mostly employed by various manufacturing industries under the scheme of ATS. Some of the institutes like the ITI Mahad, have set up Common Facility Centres in their respective institutes with the facility services being provided to the trainees from outside. Job opportunities, as reported by some of the respondents, are often provided to the trainees by the local industries directly through the Institute Management Committees (IMCs).

⇒ **Hours of practical training** – Nearly all the training institutes responding to the survey reported to have met the practical training requirement of the students. Of the total 2184 hours of training per year including both theoretical and practical schedules, hours of practical training per year is required to be 1456 hours as per the NCVT norms. Only an insignificant proportion of institutes were unable to meet this requirement with shortage of electricity and shortage of raw materials being the most important factors behind the shortfall.

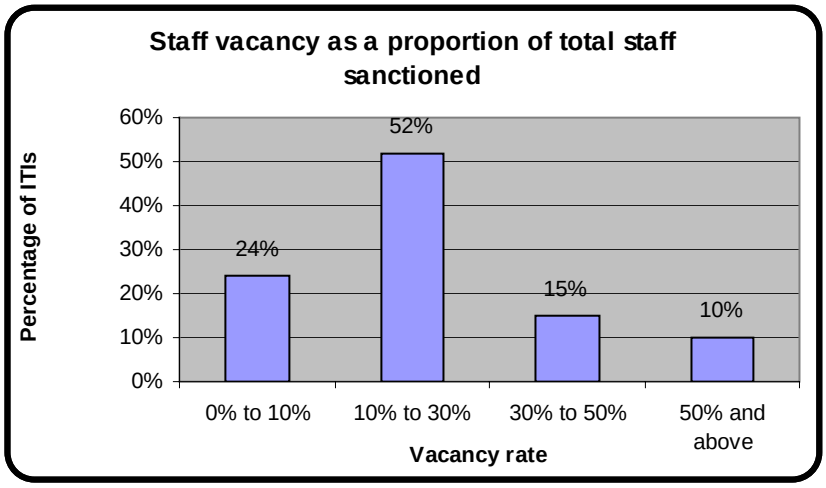
4.6 Staff related issues

⇒ **Availability of Staff** – Shortage of staff has emerged as a serious cause for concern for the Industrial Training Institutes in India with a whopping 89% of the participating ITIs

reporting to operate with staff strength less than the strength sanctioned for them by the NCVT, DGE&T.

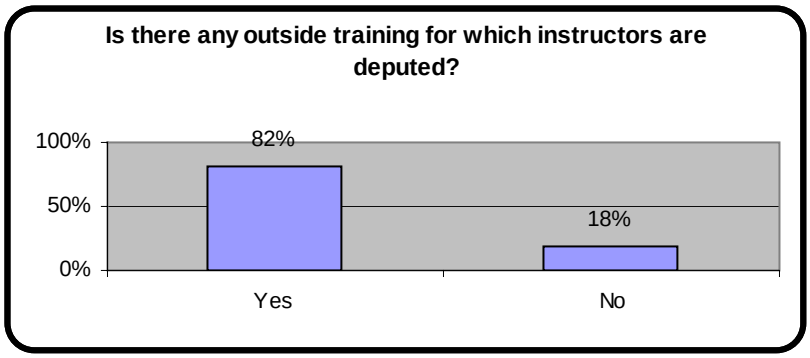


Staff vacancy as a proportion of sanctioned staff strength remained within 30% to 56% for a quarter of the surveyed training institutes. While a majority 52% of the respondents had 10% to 30% vacancy in their respective institutes, for another 20% institutes the sanctioned staff seats were either filled completely or the vacancy as a proportion of total sanctioned strength was less than 10%. It was the Northern part of the country where the training institutes were suffering the most due to shortage of technical staff.



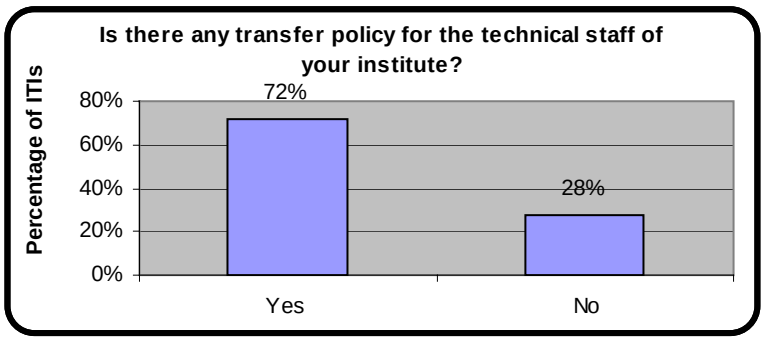
In order to qualify as an instructional staff at the ITIs, it is essential to have a NTC/NAC in the concerned trade or diploma in engineering with a CTI in the concerned trade. Almost all the institutes reported that the instructors in their respective institutes meet the prescribed criteria.

⇒ **Outside training for teaching staff** – Training for the instructors is essential for making them aware of the technological changes that are taking place in the industry. Advanced training is provided to the instructors by the Advanced Training Institutes through a one-year programme with the training modules involving trade technology, engineering technology and training methodology.

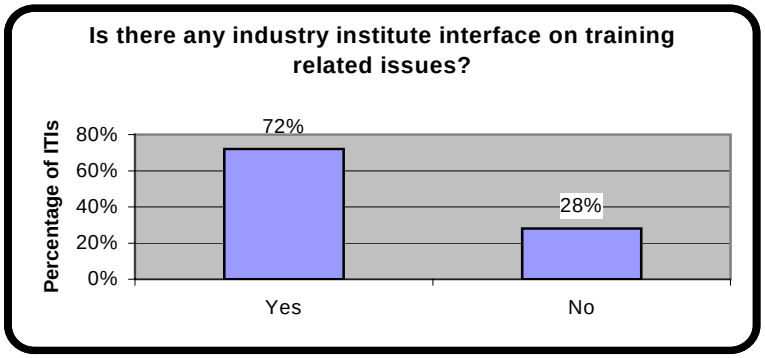


Although 82% of the participating institutes in the present system reported to have outside training for which instructors are deputed, no technical staffs were deputed for outside training in the remaining 18% of the institutes surveyed. Some of the institutes reported to have refresher courses for their instructional staffs. Outside training for the technical staffs should be made mandatory to upgrade the quality standards of training imparted by these institutes.

⇒ **Transfer Policy for the Technical Staffs** – Introduction of courses catering to the local industry needs replacing of basic and standardized industrial trades with new trades having strong industry demands, which in turn calls for replacement of instructors. A majority 72% of the institutes reported to have transfer procedures in place for their technical staffs, the responsibility of staff transfer being with the director of vocational education training at the respective regional offices.



⇒ **Interface of trainees / instructors with the industry** – A substantial 72% of the institutes reported to have interface with industry on training related issues. While some of the institutes arrange regular industrial visits for the final year students, industry experts in specific fields are also invited to deliver lectures to the students in the institutes.



Industry institute interaction is facilitated to a great extent through the Institute Management Committees having representatives from the industry. A number of institutes have signed Memorandum of Understanding with different industries for interface of the instructors and trainees with industry. In the Industrial Training Institute, Hosur, the following developmental activities are being carried out, as part of IMC activities –

- ✠ Deputing trainees for in-plant training to industrial establishments.
- ✠ Imparting special training programmes on topics like JIT, Industrial safety, TPM, TQM, TEI, 7QCTOOLS etc by a team of instructors trained by industries.
- ✠ Conducting student development programmes which eminent managers from the industry address.
- ✠ Deputation of instructors for advanced training at industrial establishments shop floor.

Section 5 - Suggestions

☞ The present survey points to a demand supply mismatch in the provision of vocational training in the country. Amongst the surveyed institutes, while there were institutes with underutilized seats, over-utilization of seats was also reported by a number of institutes. The government should look into this matter and reorient the training system so as to meet the excess demand for training in some areas by lending support for expansion of the institutes where demand for seats exceeded the sanctioned strength and introduction of new trades having greater employment potential in the institutes where seats were

underutilized, which could prove instrumental in drawing more students towards the skill imparting system of the country.

- The survey revealed an acute shortage of staff amongst the Industrial Training Institutes. This has been one of the underlying factors behind the under performance of the institutes in terms of hours of practical training provided to the trainees, high student-staff ratio and poor quality of training. This calls for immediate attention on the part of the DGE&T, Ministry of Labour. DGE&T should work towards ensuring better staff strength in the institutes through massive recruitment of instructional staffs in the near future.

- The government could incentivise introduction of new trade courses in the ITIs. This would help bridge the gap between the skills imparted by the technical training system with the changing skill requirements of industry.

- The survey also pointed to the lax monitoring system prevailing in the vocational training system in the country, which was captured by the responses pertaining to the number of inspections during the last three years in the institutes. There were institutes where no inspections at all had been undertaken during the period along with institutes where less than three inspections took place during the last three years. This when juxtaposed with the fact that the survey was conducted amongst the institutes poised for becoming

  centers of excellence in the future, indicates an even more dismal picture of the overall scenario in this regard. The government should thus take steps necessary to put in place an effective and vigilant monitoring system to ensure improved training offered by the institutes.

- To strengthen industry linkage, some of the suggestions that have come up in the survey include the following –

  - Industrial visits of at least three weeks for the final year trainees should be made mandatory for all trades.
  - Industries should be associated to design need based short-term courses in the ITIs.
  - Industry should come forward to solve the shortage of raw material problem of ITIs by giving job work to the ITIs.

- Non-availability of automation machines and NC/CNC machines featured as a serious impediment for the institutes towards becoming more responsive to the emerging technologies. Ministry of Labour should extend financial support to make the machines

  affordable for these institutes. This would be instrumental in establishing a demand oriented training system in the country.

- Some of the other suggestions put forward by the training institutes in the present survey include the following -

  - Extent of functional autonomy to the institutes needs to be increased, flexibility in curriculum design needs to be integrated as a part of the system.
  - IMCs must be given more power to strengthen the training programme.
  - Syllabuses of most of the trades need to be updated and brought in line with the industry requirements.
  - There should be enough training imparted to the institute instructors for providing quality and sufficient practical training.
  - More emphasis should be given on the training of the staffs and the training courses should be more practical oriented.
  - Continual up-gradation and timely replacement of the machines is needed.
  - The topics on soft skills, life skills should be included in the syllabus of all the trades.
  - Steps should be taken to map the local industry requirements and course offering should be aligned with the same.
  - The testing and certification norms should be strengthened and brought in line with the global standards so that students passing out of Indian ITIs are eligible to gain employment even overseas.

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ANNEXURE III

FICCI STUDY ON - RESERVATION IN PRIVATE SECTOR HIGHER EDUCATIONAL INSTITUTIONS - FINANCING FRAMEWORK FOR STUDENTS

1. Reservation in Education: A Hollow Promise?

Recently, the Indian Parliament has passed the 104th Constitution Amendment Bill, which provides reservations for the socially and educationally backward classes, besides the Scheduled Classes and Scheduled Tribes, in all private aided and unaided educational institutions. The passing of this Bill signifies a big change, as it is the first time that unaided private institutions (excluding minority institutions), which do not receive government funding, are under the purview of the State. By passing the amendment, states are allowed to enact quota laws for socially and educationally backward classes or for SC/STs in unaided private educational institutions.

The move by the GoI to allocate a fixed number of seats to backward classes and SC/STs in private sector institutes, is however not accompanied with an adequate plan to back up these reservations financially. As course fees and additional costs of studying, especially in private institutions, can be substantial, the lack of financial support to backward classes and SC/STs severely impedes their ability to actually take up the seats reserved to them.

For reservation in education not to become a hollow promise, an adequate financial support structure for education of backward classes and SC/STs is of crucial importance. So far, the financing of educational needs of students in India has been left to the banking sector, with public sector banks increasingly offering student loans to allow poorer students to realize their educational capacities and ambitions. The terms and conditions of these loans however make this system highly ineffective for truly supporting meritorious students from backward classes and SC/STs in taking up the seats reserved for them.

2. Financing of Higher Education: The Indian Case

The Government of India, in consultation with the Reserve Bank of India and the Indian Banker's Association, has framed a Comprehensive Educational Loan Scheme, aiming to ensure that no deserving student in India is deprived of higher education for the want of finances. The scheme covers most graduate, post-graduate and professional courses in schools and colleges (engineering, medical, veterinary, law, dental, management etc.) both

within and outside India. Since the scheme was introduced in 2001, popularity of education loans has risen sharply. During 2004-2005, the 27 PSU banks together had sanctioned 1,69,768 fresh loans for a cumulative amount of Rs. 3,525.91 crore, against 1,07,929 fresh loans amounting to Rs. 2,032.94 crore in the year before.

The most important features of the scheme are as follows:

- The scheme envisages loans up to Rs. 7.5 lakh for studies in India and up to Rs. 15 lakh for those studying abroad. (However, based on the nature of the course and the needs of the student, individual banks offer a higher amount on a case-to-case basis. State Bank of India, for example, has a cap of Rs. 10 lakh on educational loans for inland studies and Rs 20 lakh for studies abroad);

- For loans up to Rs. 4 lakh, no collateral or margin is required and the interest rate is not to exceed the Prime Lending Rates (PLR), which stood at 10.5% at the end of 2005. For loans above Rs. 4 lakh, collateral security is needed and the interest rate is not to exceed PLR + 1;

- The loans are to be repaid over a period of 5-7 years, with provision of a grace period of one year after completion of studies or six months after securing a job, whichever happens earlier;

- Education loans allow the borrower to reduce tax liability, although the 2005-2006 budget has reduced the extent. Where students were earlier allowed to deduct up to Rs. 40,000 from their total income for the years towards servicing of the principal and interest of the loan for eight years from the time of the first deduction, under the changed (2005) tax laws, deduction is only allowed on the interest portion of the loan. Under the changed tax regime, the deduction is not subject to any limits, but the repayment of the principal amount will not be taken into account for the tax benefit;

- Margin:

Up to Rs. 4 lakh	Nil
Above Rs. 4 lakh, studies in India	5%
Studies abroad	15%

- Security: Upto Rs. 4 lakh: No security

Above Rs. 4 lakh and upto Rs. 7.5 lakh: Collateral in the form of third party guarantee. (The bank may waive the third party guarantee if satisfied with the net-worth/ means of parent who would be executing the document as 'joint borrower').

Above Rs. 7.5 lakh: Collateral security of suitable value or suitable third party guarantee along with the assignment of future income of the student for payment of installments;

- Expenses that can be considered in relation to the loan include: fee payable to college/ school/ hostel, examination/ library/ laboratory fee, purchase of books/ equipments/ instruments/ uniforms, caution deposit/ building fund/ refundable deposit supported by institution bills/ receipts, travel expenses/ passage money for studies abroad, purchase of computers if essential for completion of the course, other expenses required for completion of the course.

Although the educational loans scheme is especially designed in order to 'ensure that no deserving student in India is deprived of higher education for the want of finances', there exist several pitfalls in the scheme that make it inadequate to ensure participation of backward classes and SC/STs in higher education through the means of reservation. The main drawbacks of the scheme are in the fields of margin / collateral and interest rates / payback period.

Margin / Collateral

The margin and collateral which are required for taking up an education loan above Rs. 4 lakh, are likely to pose heavy constraints on the ability to do so by students from backward classes and SC/STs. The purpose of reservation in higher education is to help meritorious, usually poor, students from backward groups of society getting a seat in higher education.

Paradoxically, the requirements for even acquiring financial support to take up that seat, in the form of education loans, are not aligned with the social and economic background of these students.

For borrowing over Rs. 4 lakh, a *minimum* of Rs. 20,000 (5%) has to be coughed up as own contribution to the finances. Also, the likelihood for students from backward classes and SC/STs of finding a third party willing to guarantee their education loan, seriously has to be questioned.

Interest rates / payback period

The scheme for education loans in its current form creates a very heavy burden to pay off the loan, which might well be *too* heavy for graduates from backward classes and SC/STs, for whom additional financial means are usually very limited.

The high numbers of defaulting students in the past have made education loans a relatively risky undertaking for banks, resulting in high interest rates. The current 10.5% PLR that is charged on loans for domestic studies (even higher interest rates apply on loans for studying abroad) stand in no relation to the housing loans and car loans that are available at 8-8.5%. The repayment that starts 1 year after ending the course or 6 months after getting a job (whichever is earlier), and lasts for 5-7 years after the first repayment, is likely to become a very heavy burden in comparison with the average salary during the initial years after graduation. Although a graduate from a high-quality private educational institution can most likely look forward to a good salary in the long term, this is by far not necessarily the case in the shorter term with graduate salaries staring from Rs. 15,000-20,000. Especially medical students, who earn only very little money until completion of their MDs, are unlikely to carry the heavy financial burden of education loan paybacks independently. As financial help from outside (parents, family, third parties) is especially scarce in the case of backward classes and SC/STs, these groups can not be expected to be able to take up costly education loans in fear of excessive financial burdens in the future.

As a result, the educational loan scheme that constitutes the prime means for Indian students in need of financial support for completing their higher education, is not in line with the GoI's policy of reservation of seats in private sector higher education institutes for students from backward classes and SC/STs, as it does not accommodate for the specific social and economic background of these students. By not offering the adequate financial support, the benefits of reservation in education are therefore likely to remain merely a hollow promise.

3. Financing of educational needs: the US/ European case

A detailed overview of the different forms of funding of higher education and terms and conditions can be found in Appendix 1. A short summary is given below.

➲ Financial Support Schemes for post secondary education in the US

Federal Student Aid is an integral part of America's post secondary education system. With the objective to benefit all eligible American students, the financial assistance programmes administered by the US Department of Education comprise the nation's largest source of student aid. During the year 2004-05 school year they provided approximately $ 74 billion in new aid to nearly 10 million post secondary students and their families (2).

The three most common types of financial support schemes offered by the US Department of Education are grants, loans and work-study. For most students who receive a financial aid award from their college, part of their aid package includes either the subsidized or unsubsidized loan. Virtually all students enrolled at least half-time may borrow either through William D. Ford Federal Direct Loan Programme, which is funded by the federal government or through Federal Family Education Loan (FFEL) Programme, wherein private lenders provide federally guaranteed funds. Parents may also borrow to pay education expenses for dependent undergraduate students through either of these programmes.

Subsidized loans are awarded by the U.S. Department of Education on the basis of financial need of the applicants. If a student is eligible for a subsidized loan, the government pays the interest on her loan while in school and for the first six months after she leaves school. Depending on the financial need, the student may borrow subsidized money for an amount up to the annual borrowing limit for her level of study.

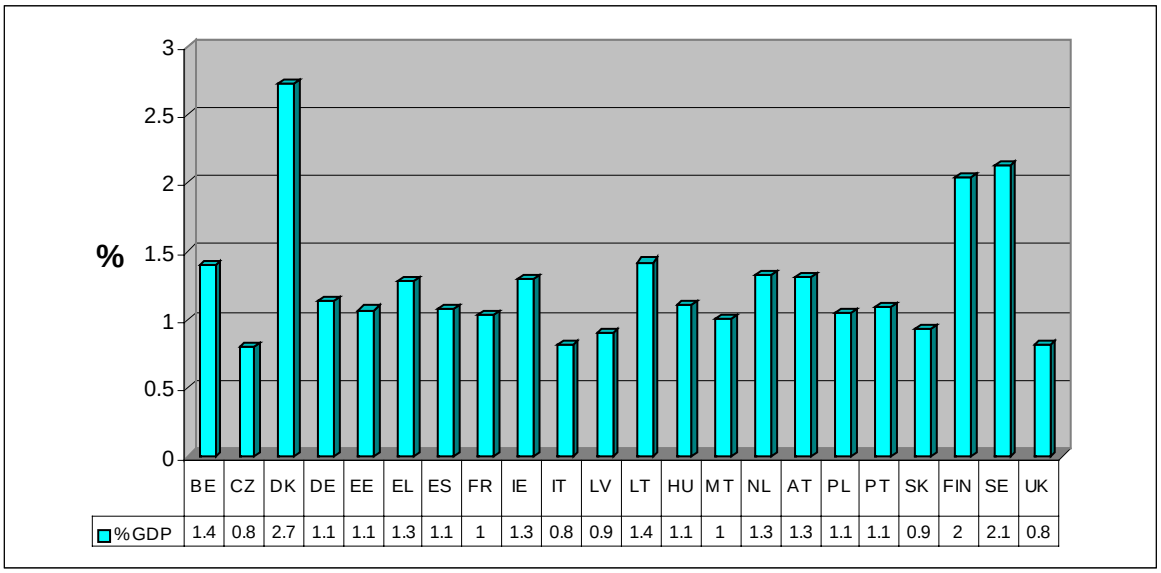
Grants are awarded only to students having exceptional financial need. The amount of grants primarily depends on the cost associated with the programme under consideration and the enrollment status of the student.

[2] Source: US Department of Education website, http://www.studentaid.ed.gov

➲ Financial Support Schemes for Higher Education in selected EU countries

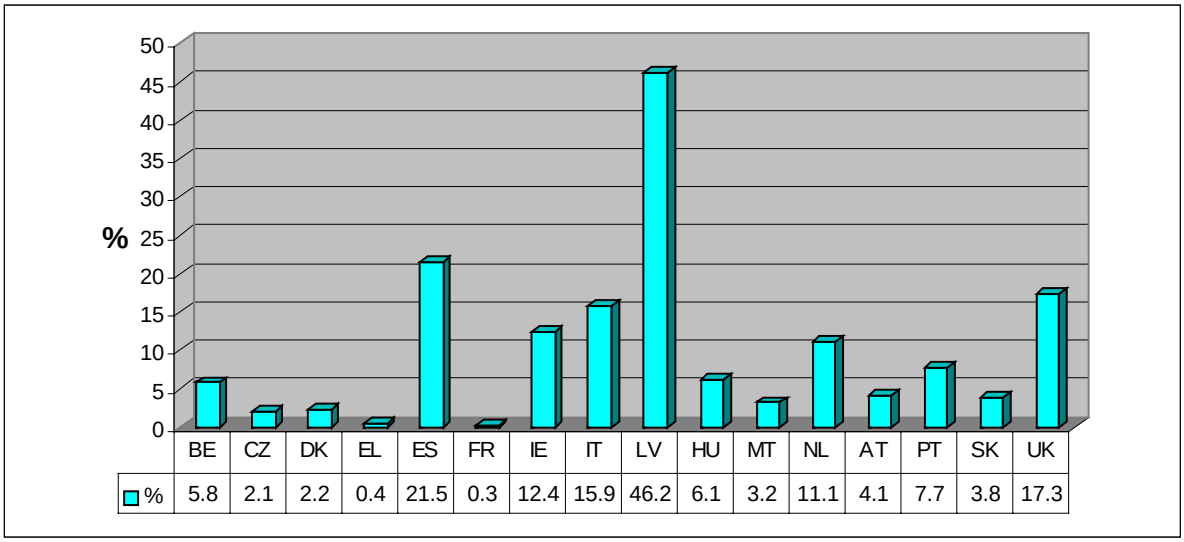
Sources of funding of higher education in the European Union can be broadly grouped into two: public and private sources. Public sources come from central, regional and local authorities while private sources refer to funding by students (and their respective households) and non-governmental bodies such as foundations and charities. The relative importance of each of the sources (public and private) varies from one Member State to another. There is a policy of free higher education in some Member States (e.g. Denmark, Finland, Germany and Sweden), while in most other Member States students have to pay tuition fees. Public expenditure on higher education varies between approximately 0.8% and 3% of GDP (figure 1), and the percentage family income spent on higher education however remains relatively low (figure 2).

Figure 1
Public expenditure on higher education as % of GDP



Source: EUROSTAT UOE Data Collection, taken from European Research Associates (2004), "The Financing of Higher Education in Europe", available at www.europa.int/comm/education/policies/2010/studies/financing1_en.pdf

Figure 2
Payments by households to higher education institutions as a % of total income received in 2001



	BE	CZ	DK	EL	ES	FR	IE	IT	LV	HU	MT	NL	AT	PT	SK	UK
%	5.8	2.1	2.2	0.4	21.5	0.3	12.4	15.9	46.2	6.1	3.2	11.1	4.1	7.7	3.8	17.3

Source: EUROSTAT UOE Data Collection, taken from European Research Associates (2004), "The Financing of Higher Education in Europe", available at www.europa.int/comm/education/policies/2010/studies/financing1_en.pdf

Financial assistance programmes offered to post secondary students in most EU countries include grants and soft loans. While EU countries typically offer a relatively high amount of grants funded by the government of the respective country, which are usually allocated to students based on family income, a typical financial aid package received by a European student also includes an educational loan, either provided by the government or by a commercial lender. These loans are offered at interest rates lower than the market rate of interest.

While all eligible students can apply for the grants and soft loans, the maximum amount of allocation typically depends on (a selection of) the following factors:

- ✓ The living situation and the household income of the student
- ✓ Dependency status of the student
- ✓ Total cost of education
- ✓ Type of education
- ✓ Level of performance

A majority share of financial support offered in European countries comes from central Governments, as opposed to Regional and Local authorities (table 1).

Table 1
Breakdown of public expenditure on scholarships and grant as % of total expenditure on student aid in 2001

Member State	Central	Regional	Local
Austria	99.5	0.5	0
Belgium	89.7	10.3	0
Czech Republic	85	0	15
Germany	32.1	58.9	9.0
Denmark	78.6	0.1	21.3
Estonia	100	0	0
Greece	100	0	0
Spain	95.6	4.4	0
Finland	100	0	0
France	100	0	0
Hungary	100	0	0
Ireland	22.1	0	77.9
Italy	64	36	0
Latvia	100	0	0
Lithuania	100	0	0
Malta	100	0	0
The Netherlands	100	0	0
Poland	98.7	0.6	0.7
Portugal	100	0	0
Sweden	100	0	0
Slovak Republic	100	0	0
United Kingdom	0	0	100

Source: EUROSTAT UOE Data Collection, taken from European Research Associates (2004),
"The Financing of Higher Education in Europe", available
from www.europa.int/comm/education/policies/2010/studies/financing1_en.pdf

4. Lessons to be learnt

When summarizing the information gathered in Appendix 1 and described in section 3, table 2 instantly shows the shortcomings of the Indian scheme for the financing of higher education. On all relevant parameters, the current Indian scheme clearly turns out to be the weakest in the benchmark. If SC/STs are truly to be given a fair chance in higher education through the means of reservation, an improved system with more financial space and flexibility is called for.

Table 2
Overview
Key variables for financing students in higher education for select countries

Country / Parameter	U.S.	England	Netherlands	Germany	India
Interest Rate	5-9%	3.2%	2.74%	3.22%	10.25-11.75%
Borrowing Limit	For graduates: USD 138500 For undergraduates: USD 46000	For loans to cover fees: USD 21,250 (approx.) For loans to cover living costs: USD 31,200 (approx.)	USD 50,320 (approx.)	USD 35,000 (approx.)	For studies in India: USD17,000 (approx.) For studies abroad: USD 34,000 (approx.)
Payback Period	From 10 to 30 years, depending on the amount of debt and the repayment option chosen	25 years	15 years	20 years	5 to 7 years
Security	Nil	Nil	Nil	Nil	Collateral in the form of a third party guarantee for loans

					above USD 9000 (approx.)
Margin	Nil	Nil	Nil	Nil	Above USD 9000 (approx.) for studies in India: 5% Studies abroad: 15%

Source: FICCI Compilation

5.Suggestions

- To make the reservation of seats in private educational institutions a valuable promise and effective mechanism for better integration of students from SC/STs and backward classes, the Government of India should provide an adequate scheme to these students to finance the substantial (opportunity) costs that are related to studying. This scheme has to take into account the specific social and economic background of these students.

- As commercial banks by nature operate from a profit-angle and handle specific terms and conditions when it comes to –high risk- student loans, which negatively impact the effectiveness of the current scheme, the provision of student loans cannot be solely left to this sector and has to be funded by the Government.

- As the current student loan scheme does not meet the specific social and economic background of students from SC/STs, the new Government- scheme should –following successful practices in US and selected EU countries- allow for soft loans with student friendly terms and conditions. Moreover, grants should be provided to meritorious students with weak financial means.

- Following practices in US/ EU, all students should be able to borrow money up to an amount that is needed for expenses on fees, housing, living costs and additional study costs against a subsidized interest rate, to be paid back over a period of 20 years starting 3 years after graduation. Collateral and margin have to be done away with. For students from backward classes and SC/STs, grants should be made available to all students from these

classes who are admitted to the reserved seats and a family income below a relevant threshold level.

- The grant scheme benefiting students from low-income families should not be restricted to only students from SC/STs, but should be extended to benefit all students from low-income families for whom the (opportunity) cost of studying is too high in relation to the finances needed for study.

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Appendix 1: Overview financing of students in higher education England, Netherlands, Germany & US

Country	Type of finance (grant/ soft loan/ commercial loan)	Name program	Amount/ interest rate	Eligibility criteria	Calculation based on:	Funded by:
England	Grant	Tuition Fee Grant (no longer valid for students enrolling from 2006 onwards)	Up to maximum tuition fee (per year): 04/05: £1150 05/06: £1175 06/07: £1200	All English students can apply, allocation based on household income. EU students living in England 3 years prior to the start of their course can apply.	If household income (05/06): •<£22,010: grant covers full cost fees • between £22,010 and £32,744: partly contribution to fees, on a sliding scale. •>£32,745: no grant For independent students: Full grant if income <£10,250. If more, fees to pay: £45 plus £1 in every £9.50 that your income is over £10,250	Central government
	Grant	Higher Education Grant (for students enrolled from 2006 onwards: Maintenance Grant)	Students currently enrolled, up to (Per year): 04/07: £1000 Students to enroll from 2006 onwards, up to: 06/09: £2700	All English students can apply, allocation based on household income. EU students living in England 3 years prior to	Dependent on household income (05/06): • <£15,580, entitled to full grant, • £15,580-£21,565, receive part of the grant •>£21,565, no	Central government

				the start of their course can apply.	grant Extra grant available for students with disabilities, children, dependent on additional costs incurred and, except for disabled students, on household income.	
	Soft Loan	Student loan for fees (available from 06/07 onwards)	Students currently enrolled, up to (per year): 04/06: £ nil 06/07: £1000 Students to enroll from 2006, up to: 06/09: £3000 Interest rate is linked to rate of inflation and stand currently (05/06) at 3.2%.	All English students can apply, allocation based on household income. EU students living in England 3 years prior to the start of their course can apply.	Dependent on fee charged by university.	Central Government
	Soft Loan	Student loan for living costs	Up to (per year): 04/05: £4095 05/06: £4195 06/07: £4405 07/08: £4405 08/09: £4405 Interest rate is linked to rate of inflation and stand currently (05/06) at 3.2%.	All English students can apply, allocation based on household income. EU students living in England 3 years prior to the start of their course can apply.	Dependent on living situation and household income: • £4,195 for students living away from home • £5,175 for students in London and living away from home • £3,320 for students living at home. 75% of the max loan is available to all eligible students regardless of	Central Government

					any other income they have. Whether you can get any or all of the remaining 25% depends on your income and that of your household.	
	Commercial Loans	e.g. Barclays Career Development Loan	£3000-£8000 Interest rate: Interest-free for up to 1 month after end of course (paid by Government for that period), at end of interest holiday of 13 month rate is 12.9%.	- 18 years or over - resident in Great Britain - Have unlimited right to remain in UK and intend to work in EEA once finished	Based on amount required, with maximum £8000.	Bank, Government
Netherlands	Grant	Student grant	Basic grant (max. 4 years, per month): Living without parents: €248.48 Living with parents: €89.24 Additional grant (max. 4 years, per month): Living without parents: €227.77 Living with parents: €209.17 Grant has to be repaid at 2.74% interest if studies are not completed within 10 years.	All Dutch students between 18 and 34 years old, or EU citizens registered in Netherlands for more than 5 years, studying at accredited Dutch higher educational institute. Additional grant provided depending on parents' income.	Basic grant: based on living situation (with/ without parents) and type of higher education followed. Additional grant dependent on income parents and type of education followed.	Central Government
	Soft Loan	Student Loan	Maximum amount per month: €266 while receiving grant. After 4 years, when grant is no longer received, borrowing up to	All Dutch students, or EU citizens registered in Netherlands for more than 5 years, studying at	Maximum to be borrowed dependent on living situation student, health insurance costs and type of education	Central Government

			€796.31 per month for 3 years. Interest rate: 2.74%, repayable in 15 years after completing course with minimum of €45.41 per month.	accredited Dutch higher educational institute. Security not required.	followed.	
	Commercial Loan	e.g. ABN AMRO Master Student Loan, Postbank Student Loan	E.g. ABN AMRO Master Student Loan: €5000-50.000 at 9% interest rate. Bachelor-loan up to €5000 at 7.3%-9.2% interest rate.	Any student in accredited higher education aged 18-33, Master Loan also applied to studies abroad and a BA degree is required there. Security not required.	Maximum amount calculated based on type of education followed. Master Loan dependent on fees/ living costs institution.	Banks
Germany	Grant/ loan (note: university fees in Germany are zero. Although this is likely to change soon, they will remain relatively low, around EUR 500-1000 per semester)	Federal Training Assistance Act (Bundesausbildungs-forderungsgesetz, 'Bafoeg')	Monthly stipend of max. €377 for students living with parents, and €466 for students not living with parents. Half of the stipend is an interest-free loan (maximum payback: €10.000), whereas the other half is a grant.	Every German student studying in Germany can apply. Allocation however depends on income-criteria and good progress in your studies. Bafoeg is available for a wide range of studies, ranging from a young age to university level.	Dependent on personal income, parents' income and income husband/ wife and considering students with children. Payback sum reduced for participants with income under €960 per month (adapted rates for participants with children), for excellent students finishing early and for politically convicted people of the former DDR.	Federal Government
	Soft Loan	Bildungskredit	Amount to be borrowed up to □7200, paid in	German citizens pursuing a degree in higher education or	Fixed payment of €300 a month for 24 months.	Federal government

			24 monthly installments of □300. Interest is based on 6-month EURIBOR rate plus 1% administration costs, and currently stands at 3.22%.	doing a study-related internship. Also available to foreign students/ trainees who have German spouse/parent, or EU citizens registered in Germany. Security not required.		
	Commercial Loan	e.g. Citibank Student Kredit	€1500-€50,000 at an interest rate of 5.5% onwards			
US	Grant	**1. Federal Pell Grants** (For undergraduate students)	USD 400 to USD 4,050 per student per academic year	To receive the grant a student has to be • US citizen or eligible non citizen • Enrolled at least half-time in a degree or certificate programme • Enrolled in a college or university that participates in the Federal Student Aid Programs • Not defaulted on previous student loans • Agrees to verify income information, if requested • Does not owe a repayment on a federal grant	The maximum amount depends on • Financial needs • Costs of attendance • Enrollment status • The programme under consideration	US Department of Education
	Grant	**2. Federal Supplemental Educational Opportunity Grant** (For undergraduate students)	USD 100 to USD 4000 per student per academic year		Same as above	US Department of Education

	Soft Loan	**3. William D. Ford Federal Direct Loan Programme**	Maximum amount that can be borrowed: 1st year: $2,625 2nd year: additional $3,500 Graduate & Professional students: $ 8500 per year	Same as above	• Financial needs • Grade level	US Department of Education
	Soft loan	3.1. Subsidized Direct Stafford Loan (For graduate and under graduate students) 3.2. Federal Perkins Loan (For graduate and undergraduate students)	Interest rate is variable with a cap of 8.25% Up to $ 4000 for each year of undergraduate study Interest rate is fixed at 5% Cumulative limit: Dependent undergraduates: $ 23000 Independent undergraduates: $46000 Graduate:$138500	Same as above Same as above	Financial needs	US Department of Education
	Soft loan	3.3. Unsubsidized Direct Stafford Loans (For undergraduate and graduate students)	Interest rate is variable with a cap of 8.25% The yearly limit on a PLUS loan varies with the cost of attendance and any other financial aid received	Same as above	Dependency status of the student and the programme of study under consideration	US Department of Education
	Soft Loan	3.4 Direct PLUS Loan (For parents of undergraduate students)	Interest rate is less than 9% Cumulative limit: Dependent undergraduates: $ 23000 Independent undergraduates: $46000 Graduate:$138500	Same as above	• Costs of attendance • Total amount of other financial aids received by the student	US Department of Education
	Commercial loan	**4. Federal Family Education Loan (FFEL) Programme** 4.1. FFEL Stafford				

	Commercial loan	Loan (For graduate and under graduate students) 4.2. FFEL PLUS Loan (For parents of undergraduate students)	Interest rate is variable with a cap of 8.25% Less than 9%	Same as above Same as above	• Financial needs • Grade level • Dependency status of the student • Costs of attendance • Other financial aids	Banks Banks