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RECENT DEVELOPMENTS IN
THE UNORGANISED RURAL
NON-FARM SECTOR

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The definition and description of the unorganised rural non-farm sector fail to convey the character of these small, mainly owner-operated enterprises and the circumstances within which they operate. To take care of these lacunae, the first part of this paper presents a view from the grass roots, based on village surveys conducted in 1992 and again in 2002. The second part relies on official data, mostly on employment and gross value added, generated by the periodic National Sample Surveys on Unorganised Enterprises. These data tell the larger story of employment trends, wide inter-state labour productivity disparities, and the restructuring of the unorganised sector in India in recent years.

I. INTRODUCTION

In India, practically all employment in rural areas comes under the purview of “unorganised sector” comprising small, private enterprises that do not maintain regular accounts and are not subject to any legal provisions like labour standards, etc., although they are supposed to pay minimum wages..

In employment terms, the unorganised non-farm sector is the fastest growing sector in rural areas. But in terms of income generation, the performance of unorganised sector enterprises has been far from impressive. By the late 1990s, more than 90 per cent of all Indian workers were employed in the unorganised sector. But they produced only 60 per cent of national income. Organised, formal sector workers, on the other hand, accounted for less than ten per cent of all workers. Yet they generated the remaining 40 per cent of national income.

Thus, today, low labour productivity is the main problem of these small business enterprises. The low labour productivity and high costs per unit of output are also the reasons why many small enterprises in the unorganised sector tend to lose business to their larger, more efficient competitors in the organised sector.

Historically, these relatively larger, organised sector units – which use a more sophisticated technology – are located in market towns or on the periphery of larger cities. With locational advantage and the use of higher technology, they have been able to reduce costs per unit of output much faster than the more isolated, tiny and predominantly owner-operated rural units, which typically employ only rudimentary technology.

As Simon Kuznets’s pointed out, the result is that over a period of time and in the normal course of events, there is “a marked reduction in the share of individual enterprises and own-account workers in the labour force”. Kuznets mentions manufacturing and trade specifically as activities where the small, unincorporated firm, historically, tended to give

way to the larger corporate units. It is also worth mentioning that in rural India, these two types of enterprises – unorganised manufacturing and trade (in that order) – have been the two non-farm activities which have employed the largest number of people, at least till recent years. During the period 1985 to 1995, however, unorganised manufacturing employment declined in rural areas, and employment in trade stagnated. Thus, by the mid 1990s, services overtook trade as the second largest unorganised non-farm sector activity in rural areas.

Given the low productivity of most of these enterprises, and their uncertain future, it seems rather odd that two official committees – the Ahluwalia and the Gupta Committees – concluded that in India's new market-oriented rural economy, most of the additional jobs would have to be generated in the unorganised sector of the economy.

But can the unorganised non-farm sector in India carry the burden of providing productive employment to an expanding population, as suggested in these documents? The evidence (presented in the second part of this paper) indicates that in India, in recent years, the unorganised sector is just not growing fast enough, especially in rural areas. Moreover, even in some sub-sectors, where employment growth rates are respectable, labour productivity growth has been negative. This does not augur well for the sustainability of an employment policy which relies on the unorganised sector, almost exclusively, to generate jobs.

So what exactly are these unorganised sector units?

The official documents give a very dry and general definition, which says that the unorganised sector includes units whose “activities or collection of data is not regulated under any legal provision, and/or those which do not maintain regular accounts.”

Most of these are what we call “own-account” enterprises. These are owned and operated without the help of any regularly employed, hired workers. In the case of unorganised rural manufacturing units, in 1994--5, about 85 per cent were own-account units. Their average size, typically, is less than two people. But there are much larger units. In the case of manufacturing, the unorganised sector includes all units using power and employing less than 10 workers, or not using power and employing less than 20 workers. Thus, there is an unambiguous ceiling on size. But in the case of other sectors there is no common upper boundary, defined in terms of number of workers, technology in use, or any other criterion. Instead, the National Sample Survey falls back on its underlying controlling consideration, namely, the need of the Central Statistical Organisation for data on income generated. This is stated fairly bluntly in the 1991--2 report on unorganised sector service enterprises. The primary purpose in defining the scope of the survey on the unorganised service sector was, in the words of the report, “to catch all institutions for which no regular accounts were available”.

As such in some cases, what is allowed into the category “unorganised enterprise” is counter intuitive. For example, in the case of trade, the sales shops of Delhi Cloth Mills, Bombay Dyeing and Bata Shoes are mentioned specifically as coming under the purview of the unorganised trade segment. The definition and description fail to convey the character of these small, mainly owner-operated enterprises and the circumstances within which they operate.

To take care of these lacunae, the first part of this paper presents a view from the grass roots, based on village surveys conducted in 1992 and again in 2002. The second part relies on official data, mostly on employment and gross value added, generated by the periodic National Sample Surveys on Unorganised Enterprises. These data tell the larger story of employment trends, wide inter-state labour productivity disparities, and the restructuring of the unorganised sector in India in recent years.

II. SECTION ONE: THE CHARACTER OF RURAL UNORGANISED SECTOR ENTERPRISES AND THEIR ECONOMIC CIRCUMSTANCES

1. The Character of Rural Unorganised Sector Enterprises

One of the shortcomings of the official definition, and the official data, is that it fails to convey the character of these small, mainly owner operated enterprises. Also, not surprisingly, the official data fails to capture the crucial, qualitative ground realities. As a result, even otherwise well-informed people, familiar only with the official data, tend to visualise something much more sophisticated than what actually exists.

To correct such mistaken impressions, a description is needed to fathom the real concept of the rural unorganised sector.

This description is based on some of the qualitative, as well as quantitative findings from village level field surveys. They were first conducted in 1992 and then again in 2002 in two quite different kinds of regions. One set of four villages was studied in Nalgonda district of Andhra Pradesh, and another set, also of four villages, in Rohtak and Jhajjar districts of Haryana.

The Nalgonda villages are subject to drought and are relatively poor. The Haryana villages are comparatively more prosperous. To illustrate: the value of crop output per farm worker in the Haryana villages is about three times more than that of the Nalgonda villages.

The first point that is brought home by time spent in these villages is that rural non-farm enterprises and employment development is not at all synonymous with “rural industrialisation”. Most rural units are not engaged in manufacturing, even of the artisan type. The majority of the units and workers are involved in retail or wholesale trade, hotels and restaurants or services, with a few in construction and transport. Of the entire set of non-farm enterprises, manufacturing units are among the least dynamic. In rural areas, the number of enterprises and the number of workers has tended to decline. This is partly because of sluggish local demand for their products. It is also because rural manufacturing units commonly face major problems with respect to local infrastructure. Inadequate and unreliable electricity supply, no telephone landline, bad roads and no bus service, separately or in combination, condemn rural units in many regions to operate with rudimentary, non-mechanised technology coupled with high transaction cost.

Secondly, about 90 per cent of the enterprises and 80 per cent of the workers belong to the “own-account” enterprises category. This means that these units operate entirely on the family labour; no regularly hired workers are employed. In the relatively backward villages of Andhra Pradesh’s Nalgonda district, the proportion of own-account units in 2002 was as

high as 97 per cent. Even in the Haryana villages it was 83 per cent. (These figures, it may be noted, are consistent with estimates based on official NSSO data.)

In both regions, the scale of operations is very small, even by the standards of urban unorganised sector units. On an average, rural unorganised sector units employ less than two persons. (This figure is also consistent with estimates based on official NSS data.) Another indicator of scale is the value of productive assets. Although the range was very wide – Rs. 500 to Rs. 3 lakhs – the average present value of the tools, equipment, furniture and fixtures of these enterprises was in the vicinity of only Rs. 5,000 in 2002, in both regions.

Income earned, however, varied widely between the two regions. In the Haryana villages, the average income (Rs. 33,204) earned from the enterprises was more than twice the income earned (Rs. 14,766) in the Nalgonda, Andhra Pradesh, villages. This large inter-regional difference in average income earned is partly due to the widely differing standards of technology in place in the two regions.

In Nalgonda, in 2002, less than 25 per cent of the enterprises used motorised equipment of any kind. In the Haryana villages, on the other hand, 68 per cent of the enterprises used some sort of motorised equipment. The absence of a reliable, regular electric power supply in the Nalgonda villages was primarily responsible for this adverse situation. In the Nalgonda villages, the locals get 3-phase power for only two hours a day plus 2-phase power for 6 hours, not counting unscheduled power cuts.

The most striking feature of rural unorganised sector units, however, relates to the character of these enterprises – how they operate in the circumstances in which they are placed. They do not operate in the kind of market assumed by most neo-classical economists.

For example, one of the basic assumptions of neo-classical economics is that small business enterprises take decisions independently. That is, the entrepreneur decides what to produce, when to produce, and how much to produce. But in our village surveys, we found that, even today, close to 75 per cent of entrepreneurs do not take production decisions independently. That is, somebody else decides what to produce, and/or how much to produce, and when. And in Indian village conditions, there is nothing unusual or peculiar about this.

Almost all of these people are running units which produce goods or services on the basis of orders received from customers. Most of them are tailors and carpenters; some are grain mill operators who grind whatever quantities are brought to them by customers. Moreover, some blacksmiths, potters, dhobis and other categories of service sector workers continue to operate under the *jajmani* system, especially in Nalgonda.

Moreover, in trade, in some Nalgonda villages, the practice of barter persists. People barter rice for other commodities (for example, cigarettes), and they barter other commodities (for example, a few tomatoes) for rice. At the same time, the vast majority of traders in both regions acquire their inputs and stocks independently, although about 28 per cent of the shops in Nalgonda and about 10 per cent of the shops in Rohtak and Jhajjar districts are tied or linked in some way to particular suppliers, usually because of debt or credit links.

In short, there exists a substantial set of enterprises which are not entirely independent decision makers, and some clearly work within precapitalist structures. Most of them own their own premises and the tools of their trade, but many do not provide their own raw materials, nor do they own the output of their labour – the customer owns it.

Another important characteristic of unorganised sector rural business operators is that many of them are engaged in multiple economic activities. For example, some agricultural labour households in Nalgonda district make and sell baskets during the slack season. They carry them by bus to sell in nearby market towns, such as Kodad or Suryapet. Members of cultivating households may also run a retail shop. But in Haryana, most non-farm business operators have no direct, personal links with agriculture, although other members of their households may have such links. However, many in Haryana run two distinct non-farm businesses – such as the retail trader who also operates a nearby flour mill, or the rope making enterprise whose owner also has a cycle repair business.

In Nalgonda, the people who are involved in multiple activities are commonly poor people. For them, the non-farm enterprise is part of a survival strategy. Even with multiple activities, many remain below the poverty line. In Haryana, people involved in multiple activities are more likely to be relatively prosperous business people who have invested in a second line of business. Most of them have no personal connection with agriculture, and very few have below poverty line incomes.

2. Income Levels and Poverty among Non-farm Business Households

(a) Income Levels

Average non-farm business income in Nalgonda district is just a little over half of what it is in the villages of Rohtak district. In Nalgonda, the vast majority of enterprises earn less than Rs. 15,000 per year. Units generating incomes of more than Rs. 50,000 per year are rare in Nalgonda, but relatively common in Rohtak. At the other end of the income spectrum, in the Rohtak villages, cases of entrepreneurs earning less than Rs. 5,000 per annum are unusual, while such cases are common in Nalgonda. One of the reasons for this inter district earnings disparity is that for many Nalgonda entrepreneurs, the non-farm business is not their sole activity. For some, the business merely serves to supplement family income from other sources. For others, work in the enterprise is either part-time but on a regular basis, or only seasonal. Such part-time or seasonal enterprises are very common in the Nalgonda villages, but rare in Rohtak and Jhajjar. The income evidence is presented in Table 1.

Table 1
Incomes from Non-farm Enterprises: Averages and Percentage Distribution by
Income Class, Nalgonda and Rohtak Villages (2002)

| Income Class (Rs.) | Nalgonda Villages (%) | Rohtak Villages (%) |
|----------------------|-----------------------|---------------------|
| 1 | 2 | 3 |
| 1. 5,000 and below | 22.47 | 1.66 |
| 2. 5,000 to 15,000 | 46.69 | 10.27 |
| 3. 15,000 30,000 | 20.99 | 51.24 |
| 4. 30,000 to 50,000 | 7.15 | 21.72 |
| 5. Above 50,000 | 2.70 | 15.11 |
| Average Income (Rs.) | 14,776 | 33,204 |

These averages, however, conceal significant differences as between different kinds of business. See Table 2.

All the eight surveyed villages had manufacturing, trade and service enterprises, together with people engaged in artisan activities. Of these, manufacturing units commonly earned the most, while artisan units earned the least. Trade was the most lucrative activity in one village and ranked second in five. Service enterprises earned the most in two villages, ranked second in one, and came in at third place in two.

Some villages do not have any enterprises engaged in repairs, construction or food processing. These are the only other activities which ever rank in the top three income earning brackets. Construction businesses do well within the Haryana villages but poorly in Nalgonda. The premier position of food processing and sales in Nalgonda is due to a single restaurant and hotel on the main highway. It is equipped with outdoor tables under decorative umbrellas and a valiant attempt at landscaping. Independent fishing and animal husbandry activities -- independent in the sense that people who catch and sell fish or raise sheep and goats for sale are not involved in cultivation at all -- which exist only in the Nalgonda villages, produce meagre returns to the labour and have modest amounts of capital invested in them, as you can see in Table 2 under "activities allied to agriculture". Table 2 provides estimates of the average earnings in different lines of business.

Table 2
Average Earnings in Nalgonda and Rohtak Survey Villages by
Type of Business (2002) (Rs. In current prices)

| Type of Business | Nalgonda Villages | | Rohtak Villages | |
|-------------------------------------|-------------------|----------------|-----------------|----------------|
| | Rank | Average Income | Rank | Average Income |
| 1. Food Processing Sales | 1 | 36,000 | 7 | 19,999 |
| 2. Repair Enterprises | 4 | 15,966 | 4 | 31,849 |
| 3. Service Enterprises | 5 | 14,732 | 5 | 30,077 |
| 4. Trading Enterprises | 3 | 16,307 | 3 | 34,078 |
| 5. Manufacturing Enterprises | 2 | 22,881 | 1 | 60,174 |
| 6. Activities Allied to Agriculture | 6 | 9,627 | - | - |
| 7. Artisan enterprises | 7 | 7,363 | 6 | 23,699 |
| 8. Construction enterprises | 8 | 6,992 | 2 | 34,122 |
| All Types of Business | - | 14,776 | - | 33,204 |

(b) The Influence of Membership in Scheduled Tribes and Castes

In both regions, certain categories of enterprises are virtually monopolised by the non-SC, non-ST groups. (See Table 3.) These include food processing and sales, repair enterprises, manufacturing units, and in the Nalgonda villages only, construction businesses. Artisan activities in Nalgonda are dominated by members of Scheduled Tribes (ST). Service and trading enterprises are somewhat more equally distributed across social groups, although the non-SC, non-ST groups operate the decisive majority of enterprises, particularly in the Nalgonda villages.

Scheduled Castes (SC) are well represented only in the Rohtak villages, where they operate 27 per cent of the general enterprises, 36 per cent of artisan enterprises and a clear majority of the construction businesses (Table 3 gives the figures).

Table 3
**The Prevalence of Members of Different Social Groups in
Specified Lines of Business: Nalgonda and Rohtak Villages (2002)**

| Category of Activity | Nalgonda Villages | | | Rohtak Villages | |
|-------------------------------------|-------------------|------|---------------------|-----------------|---------------------|
| | ST | SC | Other Social Groups | SC | Other Social Groups |
| 1. Food processing and sales | - | - | 100.00 | - | 100.00 |
| 2. Repairs | - | - | 100.00 | 8.03 | 91.97 |
| 3. Services | 9.00 | 3.36 | 87.63 | 35.72 | 64.28 |
| 4. Trade | 14.26 | 8.14 | 77.60 | 26.74 | 73.26 |
| 5. Manufacturing | - | 2.27 | 97.73 | - | 100.00 |
| 6. Activities allied to Agriculture | 28.94 | 7.24 | 63.82 | - | - |
| 7. Artisan enterprises | 81.65 | - | 18.35 | 39.43 | 60.57 |
| 8. Construction | - | - | 100.00 | 59.35 | 40.65 |

Note: 1. Rows add to 100 per cent.

2. In Rohtak district, caste could not be determined in 1.05 per cent of the cases.

To appreciate just how extensive is the participation of SC members in non-farm activities in the Rohtak-Jhajjar villages, these figures may be compared with their share in population, which is only 26 per cent in this region. Most of these people come from households which were agricultural labour households, by main income source, as recently as 1992.

Thus in India, at least in Haryana, there is evidence that an additional 'social group' dimension may need to be added to Kuznets's account of the transitions associated historically with "modern economic growth". In a relatively prosperous state, Haryana, Scheduled Caste workers are moving out of agricultural labour and other traditional occupations, and entering into other non-farm sector activities, where most of them are counted as among the self-employed.

(c) Poverty Outcomes by Social Group

Clearly, the adequacy (or otherwise) of the typical non-farm business household's income from all sources needs to be assessed separately for members of Scheduled Tribes, Scheduled Castes, and "other" social groups.

The poverty ratios in Table 4 demonstrate that the social group to which an entrepreneur belongs makes a tremendous difference to the probability that he or she will be poor.

Because the Scheduled Tribe entrepreneurs in Nalgonda are heavily concentrated in artisan activities and in activities allied to agriculture – activities which typically bring in particularly low incomes – Nalgonda's Scheduled Tribe non-farm business households record by far the highest incidence of poverty.

Furthermore, for most people who run non-farm businesses and are engaged in multiple activities, the non-farm business is their main activity. However, for a significant few in the Nalgonda villages – nearly 9 per cent of all non-farm entrepreneurs – the non-farm business is only a secondary activity. In both cases the same question arises – What other work do these people do?

Table 6
Distribution of Non-Farm Business Operators Belonging to Specified Social Groups According to the Character of their Secondary Activity (or Activities) when the Non Farm Enterprises is the Main Activity (or Activities) Nalgonda and Rohtak (2002)

| <i>Character of Secondary activity or Activities</i> | <i>Nalgonda Villages</i> | | | | <i>Rohtak Villages</i> | | |
|--|--------------------------|--------|--------|-------------------|------------------------|--------|-------------------|
| | SC | ST | Others | All social groups | SC | Others | All social groups |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1. Cultivation | 37.47 | - | 32.76 | 33.16 | 17.09 | 28.32 | 27.53 |
| 2. Agricultural labour | 58.62 | - | 36.78 | 42.46 | - | 1.39 | 1.29 |
| 3. Casual Non--farm Labour | 3.90 | - | 1.80 | 2.40 | 35.78 | 9.03 | 10.92 |
| 4. A Second Non-farm Enterprises | 8.86 | 100.00 | 25.05 | 22.42 | 47.12 | 61.18 | 60.19 |
| 5. Salaried Employment | - | - | 5.51 | 3.59 | - | 1.30 | 1.21 |
| 6. A pension is a Supplementary Income Source | - | - | - | - | - | 1.22 | 1.13 |

Note: 1. Columns may add to more than 100 per cent in cases where an entrepreneur reports more than one secondary activity/income source.

2. The number of SC entrepreneurs reporting a secondary activity in Nalgonda is too small for the percentage figure in column 3 to be treated as representative.

In Nalgonda, the vast majority is involved, one way or another, in agriculture – either as cultivator or as agricultural labourer. This applies to members of both Scheduled Tribes and “other” social groups. In the Rohtak villages, on the other hand, the vast majority is working in the non-farm sector, either as casual non-farm labour or in a second non-farm enterprise. (see Tables 6 and 7.)

In Nalgonda, the main difference between people belonging to Scheduled Tribes, on the one hand, and “other” social groups, on the other, is found in the class composition of the workers in these two broad sectors. Most of the Nalgonda ST non-farm business operators (by main activity) work as agricultural labourers on the side, although as many as 37 per cent are engaged in cultivation as self employed workers. For the “other” Nalgonda social group also, agricultural labour accounts for the single largest subgroup among secondary activities, and cultivation come a close second. Thus, in the Nalgonda villages, working as hired labour for others is the lot of well over 60 per cent of Scheduled Tribe entrepreneurs who run a non-farm business as their main activity, while the majority (about 58 per cent) of the people belonging to the non-ST, non-SC group work only for themselves, either as self employed cultivators or in a second non-farm enterprise.

In the Rohtak-Jhajjar villages, a second non-farm enterprise is the dominant secondary activity for everybody – for 61 per cent of the “others” category and for 47 per cent of the Scheduled Caste entrepreneurs.

Among non-SCs, another 28 per cent is involved personally in cultivation. In addition, less than 10 per cent works as casual non-farm labour. Among Scheduled Caste business operators, only 17 per cent reported cultivation as a secondary activity, and more than one third worked as casual non-farm labour.

However, the most striking feature of the array of secondary activities in Rohtak is that no Schedule Caste non-farm business operator reported working as an agricultural labourer at all, although a couple of “others” did so. In short, in Rohtak, the SC non-farm entrepreneurs, even more than members of “other” social groups, have severed their ties with the class of hired farm labourers, although some retain their links with agriculture via self-cultivation. Details can be seen from Table 6.

About 9 per cent of Nalgonda workers run a non-farm enterprise only as a secondary activity. The vast majority of them had worked in agriculture as their main activity. In the case of ST workers, half had cultivation as the main activity, and another 25 per cent worked as agricultural labourers. Among “others”, nearly 82 per cent worked as agricultural labourers. Figures are given in Table 7.

Table 7
**Distribution of Non-farm Business Operators belonging to Specified Social Groups
According to the Character of their Main Activity when the Non-Farm
Enterprise is the Secondary activity: Nalgonda Villages (2002**

| Character of Main Activity | Nalgonda villages | | |
|----------------------------------|-------------------|---------------|--------------------------|
| | <i>ST</i> | <i>Others</i> | <i>All Social Groups</i> |
| 1 | 2 | 3 | 4 |
| 1. Cultivation | 50.00 | 12.95 | 19.35 |
| 2. Agricultural labour | 25.00 | 81.83 | 72.01 |
| 3. Casual Non--farm Labour | - | - | - |
| 4. A Second Non-farm Enterprises | 25.00 | - | 4.32 |
| 5. Salaried Employment | - | 5.22 | 4.32 |
| 6. All Main Activities | 100.00 | 100.00 | 100.00 |

Note: No Rohtak non-farm business operator reported that his/her non-farm business constituted a secondary activity.

To sum up: Two separate, but intersecting categories are evident here. The first is shown to be a region specific phenomenon. In Nalgonda, most non-farm business people are still personally linked to agriculture by their involvement in farm work. In Rohtak-Jhajjar, most are linked only to other work in the non-farm sector. Thus, we can think of the Haryana village entrepreneurs as being in an advanced stage of disengagement from agriculture, and those of the Nalgonda villages as being in the early stages. In the Rohtak-Jhajjar villages, the SC entrepreneurs have moved further along the road away from agriculture, partly because

many of them do not possess any land, and partly because some of those who do own some land have chosen to lease it out. The second is a matter of class and its substantial intersection with membership in ST, SC or “other” social groups. The two “classes” identified are in principle the hired labourers, on the one hand, and the people who own and operate non-farm or farm businesses, on the other. Most members of this second set are the petty self employed, but some of them hire labour on a regular basis.

In Nalgonda, 63 per cent of ST non-farm business operators do some work as hired labourers, mostly in agriculture. See Table 6. Only 39 per cent of “other” non-farm business operators do so.

In Rohtak, 36 per cent of SC entrepreneurs also hire out their labour, but only 10 per cent of “other” entrepreneurs do so. Thus, the vast majority (89.5 per cent) of people belonging to “other” social groups in the Haryana villages are self-employed people in both their main and their secondary activities. The corresponding figure for “others” in Nalgonda is only 57.8 per cent, but even this is considerably above the figure for Scheduled Tribe entrepreneurs.

In short, people belonging to the ST and SC social groups, who run non-farm businesses, commonly have one foot in the “hired labour” group and the other in the “self-employed” category. The majority of people belonging to the non-ST, non-SC social group, on the other hand, also belong typically to the set of petty producers who operate their non-agricultural, and/or their agricultural activities mainly with their own and family labour.

These caste-class, agriculture-non-agriculture configurations make the tracking of transitions in rural India rather more complicated than they might be elsewhere.

Finally, because of the persistent overlap between social group on the one hand, and class on the other, people who might like to appeal politically to those working in the rural non-farm sector on economic (or other) issues may need to keep the following three things in mind.

Firstly, in some regions the majority of non-farm business operators is personally involved in agriculture;

Secondly, in both prosperous and poor regions a substantial proportion of non-farm business people is personally concerned about issues of employment, wages and working conditions in the hired labour market because they also work as hired labourers; and

Thirdly, only in places like Haryana can you appeal to village non-farm entrepreneurs, in particular the non SC-non ST ones, on the basis of issues which concern mainly or only non-farm business operations.

SECTION TWO: WHAT THE OFFICIAL DATA TELLS US

1. Employment and Labour Productivity

In the report to the Planning Commission titled *The Restructuring of the Unorganised Sector in India* (2003), covering 15 major states in India, two features of the development of the unorganised non-farm sector are highlighted.

The first is the finding that during the period covered (roughly 1978--9 to 1996--7), employment growth rates in unorganised sector enterprises fell, most conspicuously in units

located in rural areas. This deceleration was led by manufacturing. In rural manufacturing alone, more than 4 million jobs appear to have been lost between 1984--5 and 1994--5.

Unorganised transport was the only sector to record continuously rising employment growth rates throughout the 1980s and into the 1990s. And, in general, the sub sectors which account for relatively small shares in unorganised enterprise employment are the ones which achieved the most rapid rate of employment growth – transport, artisan activities, services and hotels and restaurants.

Thus, from the late 1970s to the mid-1990s, the number of additional jobs created in the unorganised sector came down from period to period. The decline in the absolute number of jobs created was steepest in rural areas. Table 8 shows the absolute number of jobs gained or lost in each period.

Table 8

**Estimated Absolute Number of Jobs Gained or Lost in Unorganised Segment Enterprises,
by Sub-sector: Rural, Urban and Total (R+U): 1979-80 to 1984-85, 1984-85 to 1990-1
and 1990--1 to 1994--5**

| Location and Period | Manufacturing | Trade | Hotels & Restaurants | Transport | Services | All Sub-sectors |
|---------------------|---------------|-----------|----------------------|-----------|-----------|-----------------|
| Rural | | | | | | |
| 1979-80 to 1984-85 | 11,691,675 | 2,641,617 | -68,011 | -611,116 | 289,275 | 13,943,441 |
| 1984-85 to 1990-91 | -2,169,537 | 1,954,258 | 223,782 | 567,979 | 3,232,422 | 3,808,903 |
| 1990-91 to 1994-95 | -1,978,885 | -60,667 | 198,675 | 1,042,680 | 3,433,912 | 2,635,715 |
| Urban | | | | | | |
| 1979-80 to 1984-85 | 3,773,662 | 1,431,109 | 259,131 | -29,682 | 1,929,005 | 7,363,225 |
| 1984-85 to 1990-91 | 167,114 | 1,309,683 | 635,205 | 379,169 | 1,160,719 | 3,651,891 |
| 1990-91 to 1994-95 | -185,267 | 1,044,328 | 277,877 | 392,949 | 961,457 | 2,491,343 |
| Total (R+U) | | | | | | |
| 1979-80 to 1984-85 | 15,465,337 | 4,072,726 | 191,120 | -640,798 | 2,218,280 | 21,306,666 |
| 1984-85 to 1990-91 | -2,002,423 | 3,263,941 | 858,987 | 947,148 | 4,393,141 | 7,460,794 |
| 1990-91 to 1994-95 | -2,164,152 | 983,661 | 476,552 | 1,435,629 | 4,395,369 | 5,127,058 |

Note: These absolute numbers are based on common year estimates.

The second feature relates to labour productivity.

In India, labour productivity (GVA per worker), particularly in rural unorganised sector enterprises, is abysmally low. In the mid-1990s, only one substantial sector (trade) and three minor sub-sectors (i. transport, ii. banking, financial and legal services iii. Warehousing) generated levels of gross value added per worker as high as Rs. 1,000 per month on 1993-4 prices.

Together, these sub-sectors accounted for less than 30 per cent of all employment in the rural unorganised segment. In sub-sectors accounting for the remaining 70 per cent of employment – the rural unorganised enterprise sector, namely manufacturing, restaurants and hotels, and the rest of the service sector – the average labour productivity is too low to sustain the typical worker without resort to other sources of income. These figures are, however, all India averages, which conceal large and persistent inter-state labour productivity disparities.

In India's unorganised sector, inter-state disparities in labour productivity are gigantic, and in all sub-sectors except trade these disparities have tended to increase in the long run. In manufacturing, which employs the largest number of people, productivity in the top state Haryana is now roughly ten times of what it is in Orissa. In trade, which is the activity with the smallest regional labour productivity differences, gross value added in Delhi is three times of what it is in Bihar. The gaps between the top and the bottom states in the case of transport, restaurants and hotels, and services stand between these two extremes – with the top states achieving productivity levels from 4.6 to 6.6 times of the levels recorded in the state where labour productivity is lowest.

In three sectors – restaurants and hotels, transport, and services – the widening of inter-state disparities has been a continuous process. In manufacturing, inequalities peaked in the mid 1980s, and then fell to levels which still remained above the initial position in 1978-9. This sequence – a period characterised by widening disparities, followed by some years of convergence – occurred in unorganised trade as well, but in this case inter-state inequalities declined sufficiently after the mid 1980s, to produce a reduction of productivity disparities over the long run.

Among all unorganised sectors covered in this exercise, however, the most shocking increases and inter-state labour productivity disputes have taken place in services, which has been, for most of this period, the third largest employer in the unorganised sector. In this case, inter-state variations in per capita income is the factor which best explains inter-state differences in labour productivity, suggesting that productivity levels in the unorganised services sector are regionally, and possibly locally, determined.

Disparities in rural non-farm casual labour wage rates reflect the same regional realities, but are not so large. This may be because casual labourers are more mobile geographically as well as across alternative kinds of activities than are the self-employed owner-operators of rural non-farm business enterprises.

2. The Restructuring of the Unorganised Non-farm Sector on Recent Years

The time series data also shows that four historically significant kinds of changes characterise the recent restructuring of the unorganised non-farm sector in India. They are: (i) a proportionate shift of enterprises and employment from rural to urban areas, in a number of key sectors; (ii) a decline in the relative importance of family-operated own-account enterprises and workers, and a corresponding rise in the share of larger units, employing one or more regularly hired workers; (iii) an expansion in the share of units using chemicals and metals based inputs and motorised equipment, and a decline in the share of units relying on organic raw material traditionally produced in rural areas; and (iv) as we have seen, the widening of inter-state labour productivity disparities.

(a) The Shift from Rural to Urban Locations

The major sectoral readjustment involves very small scale manufacturing, whose persistence in rural areas may have reflected, in part, isolation and lack of access by

consumers to commodities not produced locally, and in part the effects of promotional and protective legislation, whose objective, in the first instance, was to provide food, cloth and agricultural implements through labour intensive local production in units which would be safeguarded from “intensive competition by large scale manufacture.”

At the all-India level, over time, there appears to have been a negligible increase in the rural share of employment in traditional manufacturing, and a small fall in the rural share of employment in modern manufacturing. The sectors where rural India’s share in employment has clearly gone up are wholesale trade, transport, and storage and warehousing. In retail trade, rural areas’ share has been more or less stable, while in both hotels and restaurants, and in services, the share of rural areas has gone down.

The all-India figures, however, conceal the important fact that the majority of states experienced very large reductions over time in the relative importance of rural employment in unorganised sector units. These states are listed by sub-sector in Table 9. The states where the rural share in employment went down by more than 20 percentage points are underlined.

In most states, unorganised sector employment became increasingly urbanised in all economic activities except wholesale trade and transport where the trend was in the opposite direction. In wholesale trade, rural areas’ share in total employment rose by more than ten percentage points in Bihar, Gujarat, Madhya Pradesh, Uttar Pradesh and West Bengal. In transport, a substantial increase in rural areas’ share in employment was the rule in all but two states: Delhi and Gujarat.

There were exceptional states, however, where rural areas’ employment share expanded in other sectors. In Madhya Pradesh, for example, rural areas’ share in retail trade employment increased significantly. Similarly, West Bengal stands out as the only state where the rural share in service sector employment rose by as much as ten points. On the other hand, in manufacturing no state recorded an increase in rural areas’ share of as much as ten percentage points; and in hotels and restaurants, there was no state in which rural areas’ share went up by even as much as five percentage points.

But these are the only two unorganised sector activities in which recent employment growth was concentrated in rural areas. In other activities, the states where rural areas’ share rose at all are typically the populous but economically and/or socially relatively backward states: Bihar, Orissa, Rajasthan and Uttar Pradesh in the case of manufacturing. Of the BIMARU states, Madhya Pradesh is an exception in the case of manufacturing, but in the case of trade, employment has become distinctly more ruralised in recent years.

There is, thus, in most sub-sectors a distinct regional pattern to the urbanisation of non-farm employment in the unorganised sector. The urbanisation process dominates in the western and north-western states, plus Tamil Nadu, conspicuously so in the two sub-sectors providing the largest number of jobs to rural people – manufacturing and retail trade.

Table 9
**States Where the Rural Share in Unorganised Segment Went Down by More than
 Ten percentage Points, by Sub-sector**

| Sub-sector | Period | States |
|--|--------------------|---|
| "Traditional" manufacturing (based on organic raw materials) (6 out of 15) | 1978-79 to 1994-95 | Gujarat, Haryana, Madhya Pradesh, Maharashtra, Punjab, and Tamil Nadu |
| "Modern" manufacturing (based on inorganic raw materials) (8 out of 15) | 1978-79 to 1994-95 | Andhra Pradesh, <u>Gujarat</u> , <u>Haryana</u> , Karnataka, Madhya Pradesh, <u>Maharashtra</u> , <u>Punjab</u> , and <u>Tamil Nadu</u> |
| Wholesale trade (4 out of 15) | 1979-80 to 1996-97 | Gujarat, Haryana, <u>Kerala</u> , <u>Orissa</u> (In three states rural areas share in total employment rose by more than 20 percentage points. These are Bihar, Madhya Pradesh and West Bengal) |
| Retail trade (7 out of 15) | 1979-80 to 1996-97 | Andhra Pradesh, Haryana, <u>Kerala</u> , Maharashtra, <u>Orissa</u> , Punjab, Tamil Nadu |
| Hotels and restaurants (8 out of 13) | 1979-80 to 1993-94 | Andhra Pradesh, Gujarat, Haryana, Maharashtra, Orissa, Rajasthan, Tamil Nadu |
| Services (4 out of 15) | 1979-80 to 1991-92 | Bihar, Delhi, Maharashtra, Punjab |
| Mechanised transport (None) | 1988-89 to 1993-94 | None (In seven states the share of rural areas in total employment rose by more than 20 percentage points. They are Andhra Pradesh, Haryana, Karnataka, Kerala, Orissa, Rajasthan, West Bengal) |
| Non-mechanised transport (2 out of 15) | 1988-89 to 1993-94 | <u>Delhi</u> , <u>Gujarat</u> , (In 7 states the share of rural areas in total employment rose by more than 20 percentage points. They are Andhra Pradesh, Haryana Karnataka, Kerala, Orissa, Rajasthan, West Bengal) |
| Services incidental to transport | 1988-89 to 1993-94 | Bihar, <u>Haryana</u> , Kerala, <u>Madhya Pradesh</u> , <u>Rajasthan</u> , Uttar Pradesh |

Note: 1. In two states, Delhi and Punjab, no data is given for recent years because of small sample size in rural areas; that is, too few cases turned up in the NSS sample.
 2. In each of Storage and Warehousing and communications, state level data is available for a single (recent) year only.

(b) The Decline in the Share of Family Operated, Own-Account Enterprises

The character of the unorganised segment is gradually changing. In all the sub-sectors, except trade and possibly rural restaurants, the small family operated businesses have been losing ground to the somewhat larger establishments which employ one or more regularly hired workers. The decline in the share of own-account enterprises in all enterprises, in workers and in gross value added in both rural and urban services and transport is substantial. The same holds for urban own-account manufacturing units and employment in them and for urban restaurants and hotels. But rural own-account restaurants and hotels are at least

holding their own, and although the share of rural own-account units in manufacturing workers and gross value added is going down, their share in the number of enterprises has been very nearly stable.

It is also significant that in all sub-sectors, including trade and restaurants and hotels, own-account units are relatively less important in urban areas than in rural locations. In urban areas, in all sub-sectors except trade the larger establishments account for the majority of workers and contribute the most to GVA. In rural areas, however, the own-account enterprises still constitute the overwhelmingly dominant section in terms of enterprises and workers, and generate the most GVA, except in the transport sector.

This tends to confirm that local market size matters. This is why tiny own-account units have ceased to dominate in the urban setting. The larger urban market permits expansion to more efficient scales of production. On the other hand, most rural units are constrained to operate at scales which are sub-optimal. The small local market constraints operate most obviously on the demand side in the case of trade, hotels and restaurants, transport and services, and possibly less obviously, with respect to the sourcing of inputs, including repairs and business services, and stocks, on the supply side.

Finally, of all sectors, trade, especially retail trade and possibly restaurants are the ones in which own-account enterprises appear destined to survive and possibly to flourish, perhaps side by side with larger scale operations. The entry of super market chains into this business arena could, however, change this outlook drastically, at least in the cities and major market towns.

(c) Two Historically Significant Modernisations

Major structural changes have taken place in both unorganised manufacturing and in transport in directions commonly associated with “modern economic growth” (Kuznets, 1966). In manufacturing, the share of units using “modern” chemicals and metals based inputs has gone up, while the share of units relying on traditional, organic, raw materials has declined. In transport, the rapid switch to motorised equipment has been spectacular.

(i) Manufacturing: The Rise of Modern Chemicals and Metal-Based Activities

Most of the roughly 30 million people who work in unorganised manufacturing are concentrated in just three industries – food products, textile products and wood products, viz. furniture and fixtures – all of them based mainly on organic raw material inputs. These three traditional industries together account for nearly half of all employment in unorganised manufacturing and close to 40 per cent of gross value added. Their dominance is even greater in rural areas than in rural and urban areas combined. Unfortunately, the top two – food products and wood products – are in decline in both employment and labour productivity terms. Most other industries based on organic raw materials traditionally produced in rural areas have also suffered either negative employment growth or negative labour productivity growth, or both. In general, even in rural areas, manufacturing industries based on inorganic raw materials – the chemicals and metals based industries – are doing far better than the traditionally rural industries, but these are exceptions.

Table 10 cross-classifies all unorganised manufacturing industries into four sets, defined in terms of positive or negative employment and labour productivity growth rates (the figures in brackets are the National Industrial Classification codes).

The true sunrise industries can be readily identified as those enjoying both positive employment growth rates and positive productivity growth. Unfortunately, there are not very many of them – only five. Most other industries suffered negative employment growth.

On a combined employment and labour productivity criterion, the five industries which score first class marks are: (1) other manufacturing industries – code 38, (2) the rubber, plastic, petroleum, and coal products group – code 31, (3) the manufacture of transport equipment and parts – code 37, (4) metal products and parts – code 34, and (5) textile products, including wearing apparel – code 26. Unorganised segment units in these industries have demonstrated that they can survive and prosper even in an environment where unorganised manufacturing units in some other industries are doing badly. Unless policy changes adverse to these particular groups are made, they should continue to do well.

Table 10
**A Cross-Classification into Four Sets of Unorganised Manufacturing Industries Arranged by
Employment and Labour Productivity Growth Rates**

| | Growth | | <i>Industry</i> |
|------|---|---|--|
| I. | Positive employment growth and positive productivity growth (ranked from highest to lowest employment growth rates 1989-90 to 1994-95) | 1 | Other manufacturing industries (38) |
| | | 2 | Manufacture of rubber plastic, petroleum and coal products and processing of nuclear fuels (31) |
| | | 3 | Manufacture of transport equipment and parts, repair of locomotives and other rail road equipment (37) |
| | | 4 | Manufacture of metal products and parts except machinery and transport equipment (34) |
| II. | Positive employment growth and negative productivity growth | 1 | Manufacture of wool, silk and manmade fibre textiles (240) |
| | | 2 | Basic metal and alloy industries (33) |
| III. | Positive labour productivity growth and negative employment growth (ranked from highest to lowest productivity growth rates 1989-90 to 1994-95) | 1 | Manufacture of electrical, electronic machinery (36) |
| | | 2 | Manufacture of jute and other vegetable fibre textiles (except cotton textiles) (25) |
| | | 3 | Manufacture of leather and leather products (29) |
| | | 4 | * Manufacture of cotton textiles (23) |
| | | 5 | *Manufacture of beverages tobacco and related products (22) |
| IV. | Negative employment growth and negative labour productivity growth (ranked in ascending order of the absolute values of the negative employment growth rates 1989-90 to 1994-95) | 6 | *Manufacture of non-metallic mineral products (32) |
| | | 1 | *Manufacture of food products (20-21) |
| | | 2 | Manufacture of paper, paper products, printing, publishing and allied industries (28) |
| | | 3 | *Manufacture of wood, wood products, furniture and fixtures (27) |
| | | 4 | Manufacture of basic chemicals and chemical products (except products of petroleum and coal) (3) |

Note: *Industries employ 5 per cent or more of all unorganised manufacturing workers.

There is a second set of three industries, which record positive employment and negative labour productivity growth. Of these, one deserves special mention. The manufacture of wool, silk and manmade fibre textiles (code 24) records positive GVA and positive employment growth, but for rural and urban areas combined, labour productivity has been declining. This is not the case in rural areas, however. Units in rural locations have enjoyed positive productivity growth. This industry, therefore, may be treated as one which deserves support on both employment and income generation grounds.

There is another set of six industries whose long term prospects as members of the unorganised manufacturing segments may be better than they appear at first glance. All of them succeeded in increasing labour productivity; and all of them did it, at least in part, by reducing the number of workers employed in their respective industry groups. Most of these industries also recorded positive overall GVA growth rates. Large negative employment growth rates are found in rural areas in all but one of them. The exception is the manufacture of electrical and electronic machinery (code 36). In this case, both the number of enterprises and employment has contracted in urban areas (and overall) but expanded in rural locations. In short, in the early 1990s, this industry was the one in which unorganised segment units tended to shift from urban to rural areas.

As long as these industries as a group continue to raise labour productivity, they will probably survive as members of the unorganised manufacturing sector; but the prospects for increasing employment in them must be rated as poor. The likely scenario appears to be that there will be a smaller number of enterprises and workers, but higher per worker and per enterprise productivity, and in most cases positive growth in total gross value added by the surviving set of unorganised sector units in each industry.

Each member of the last set, of four sunset industries, appears to be giving way to producers, which are operating on a larger scale, in the organised sector. In the unorganised segment they are all characterised by negative GVA growth, negative employment growth and negative labour productivity growth. It is a bad combination, particularly because a large proportion of unorganised manufacturing employment is accounted for by these units, especially in rural areas.

Of these, the most important is the manufacture of food products (code 20-21). Regardless of rural or urban location, per worker and per enterprise productivity growth rates are both negative, GVA growth is also negative, and the number of unorganised sector enterprises is going down. There is a small positive employment growth rate in urban areas, but in rural areas the overall workforce is contracting. The food products industry accounts for 21 per cent of unorganised manufacturing employment in rural areas and nearly 19 per cent in rural and urban areas combined. In this industry, the organised segment is expanding. To illustrate: organised sector GVA growth rates in the food products industry were 3.92 per cent, 8.69 per cent and 6.09 per cent in 1978--9 to 1984--5, 1984--5 to 1989--90, and 1989--90 to 1994--5 respectively. The growth rates in employment and labour productivity in the most recent period were 2.10 per cent and 3.91 per cent respectively. In short, the evidence is overwhelming that in the food products industry, the unorganised segment of

manufacturing is losing out to the organised segment. This would not be a cause for concern were it not for the fact that the job losses in the unorganised segment far outweighed the gains in employment in the organised segment.

(ii) The Mechanisation of Unorganised Transport

In India, the switch from human and animal labour-intensive, non-mechanised transport to mechanised transport provides one of the most dramatic and significant examples of rapid restructuring recorded by the unorganised segment enterprise surveys conducted by the NSS.

The technological revolution began with a bang at the start of the 1980s. Initially, mechanised transport displaced non-mechanised transport, causing a sudden collapse in the number of enterprises and workers in the non-mechanised branch and overall. However, following a brief period of adjustment, the number of non-mechanised units and workers began to rise again, but at a relatively slow pace.

The explosion in the number of mechanised units was most marked in rural areas. Absolute numbers for enterprises and workers reveal the rapidity of the technological shift and its consequences for employment in both rural and urban areas. The displacement of rural workers from non-mechanised transport was made good within a decade, but in urban locations, even in the mid-1990s, the number of people engaged in the non-mechanised branch remained below the figures for the end of the 1970s.

Table 11
Enterprises and Employment in Unorganised Transport by Transport Type and Rural or Urban Location: All India - 1979-80, 1983-84, 1988-89 and 1993-94 (No.)

| Location and Year | Enterprises | | Workers | |
|-------------------|-------------|----------------|------------|----------------|
| | Mechanised | Non-mechanised | Mechanised | Non-mechanised |
| Rural | | | | |
| 1979-80 | 23,078 | 813,159 | 42,251 | 1,010,209 |
| 1983-84 | 36,999 | 245,868 | 115,619 | 283,445 |
| 1988-89 | 66,958 | 451,226 | 176,753 | 531,114 |
| 1993-94 | 264,106 | 991,664 | 597,638 | 1,123,217 |
| Urban | | | | |
| 1979-80 | 89,136 | 489,641 | 129,922 | 536,508 |
| 1983-84 | 8,689 | 257,124 | 248,446 | 289,296 |
| 1988-89 | 159,191 | 333,753 | 402,531 | 375,952 |
| 1993-94 | 261,807 | 415,116 | 662,291 | 443,403 |

Note: There is a third enterprise category within transport, not entered here, namely, "services incidental to transport". These units are overwhelmingly concentrated in urban areas.

Implicit in the figures of Table 11 is a tremendous increase in the rural share of non-mechanised transport units and workers. Today, more than 70 per cent of non-mechanised transport units operate in rural areas. At the same time, the share of mechanised transport has also gone up sharply.

What is happening, in short, is that the very small own-account human and animal labour intensive transport units are tending to concentrate in rural areas. Simultaneously, the unorganised transport sector in rural areas is becoming increasingly mechanised. Thus, in the early 1990s, the share of rural areas in mechanised transport jumped up suddenly, suggesting that a kind of rural catching up process had set in.

There is, however, a down side to these transitions. Because the productivity levels achieved by mechanised transport were so much higher than in any other line of unorganised sector activity in the early 1990s, large numbers of entrepreneurs and workers flooded into unorganised transport, pushing down labour productivity levels in both the mechanised and the non-mechanised branches of unorganised transport. Despite this downward pressure, however, productivity levels in unorganised transport remained well above those in the unorganised segments of the other important sectors.

Kuznets's work indicates that this is exactly what one should expect, by way of transition, during a process of "modern economic growth", at least in the relatively earlier stages of development.

At the end, it may be appropriate to underline the single most important finding of this study: the deceleration over time of unorganised non-farm sector employment growth rates. This observation, along with other evidence presented here, leads to the serious question raised at the beginning of this paper. Can the rural non-farm sector in India carry the burden of providing employment to an expanding rural population? The evidence presented in this study suggests that the answer is: No. The organised non-farm sector, which is mainly located in urban areas, has to generate jobs, and so does the massive agricultural sector where employment growth rates have collapsed to almost zero. Presently, the unorganised non-farm sector in India is not in a position to provide the jobs the rural labour force needs. And it is not likely to be able to provide them in future either.