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### **Unorganized Manufacturing Sector in India: 1984-85 to 2015-16**

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#### **ABSTRACT**

The main purpose of this paper is to study the Unorganized Manufacturing Sector in India over a period of 30 years or so (1984-85 to 2015-16). Specifically, we looked into aspects such as its size, structure and growth performance with respect to number of enterprises, employment, gross value added and labour productivity. For this purpose, we used NSSO data for four rounds – 40<sup>th</sup> (1984-85), 51<sup>st</sup> (1994-95), 62<sup>nd</sup> (2005-06) and 72<sup>nd</sup> (2015-16). The study period has been divided into three sub-periods (1984-85 to 1994-95, 1994-95 to 2005-06 and 2005-06 to 2015-16) to shed some light on performance of this sector consequent upon adoption of various policies, including economic reforms, by the Government in support of this sector. We found that the unorganized manufacturing sector in India was overwhelmingly rural in 1984-85 as the majority of its total number of enterprises and employment has been generated by the rurally-located units. However, the rural areas lost its share in total number of enterprises, employment as well as gross value added of the unorganized manufacturing sector remarkably especially during the latest sub-period of 2005-06 to 2015-16. As regards growth performance of the sector, we found appreciable improvement with regard to the growth rate of gross value added and labour productivity over time. However, the growth rate of employment of the unorganized manufacturing sector appears unsatisfactory.

**KEYWORDS:** unorganized manufacturing sector, NSSO, growth, employment, labour productivity

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## **I. INTRODUCTION**

During past three decades or so, the Unorganized Manufacturing Sector (UMS) in India faced two broad policy regimes: ‘protectionist’ and ‘liberalized’. During the ‘protectionist’ policy regime that continued till about mid-1980s, the Government’s focus was on creation of an environment conducive for the domestic industries, both organized and unorganized, so that they could grow steadily without facing much competition from the foreign producers. As a consequence, the then trade policy of the country emphasized on applications of instruments like import licensing, quantitative restrictions on imports, high tariff rates, restrictions on foreign direct investment, etc.<sup>1</sup> During this period, the UMS enjoyed additional protection in terms of various fiscal supports including product reservations, tax concessions, direct subsidies, etc., given to them by the Government.

On the contrary, the period of ‘liberalized’ policy regime witnessed adoption and implementation of policies that were by and large at variance with those implemented during the ‘protectionist’ period. During the era of liberalization, policies were taken for reduction of tariff rates, abolition of quantitative restrictions on imports, withdrawal of restrictions on foreign direct investment, which allowed the foreign goods to enter the Indian market freely. Thus, both the organized and unorganized segments of the manufacturing industry faced stronger competition from their overseas counterparts during this period. The competition faced by the smaller units has been accentuated further when the Government started implementing the de-reservation policy since 1997 following the recommendation of the AbidHusain Committee<sup>2</sup>. The Committee argued that the exclusion of the large-scale industries from production of the ‘reserved goods’ became counter-productive as the imports of such goods have flooded the Indian market. As a consequence the committee recommended de-reservation of more than 800 items out of 821 items in the reserved list in a phased manner between 1998 and 2010.

The empirical literature analyzing the growth performance of the UMS in India revealed that as the level of competition faced by the manufacturers of the UMS intensified during the early phase of the liberalization era, it became gradually difficult for them to expand employment and gross value added<sup>3-5</sup>. This is so notwithstanding the fact that the Government adopted various policies right from the beginning of the planning era to improve the performance of the enterprises in the Small Scale Industries, most of which operate under the UMS<sup>6</sup>. Consequently, both the researchers as well as policy makers questioned effectiveness of such policies to improve the health of the UMS in India<sup>7-10</sup>. It is only at the beginning of the decade of 2000s when the Government realized the challenges faced by the sector in the ongoing phase of intense competition that it devised policies

focusing specifically to ensure adequate credit supply, infrastructure, technology, and marketing facilities so as to raise the level of competitiveness of the enterprises in this sector<sup>11</sup>. In spite of these efforts, the UMS suffered decline, especially with regard to employment during the decade of 2000s, although it experienced some improvement in this regard in the previous decade<sup>12</sup>.

Nevertheless, the situation is expected to change for better as more than a decade has gone by ever since announcement of the comprehensive policy package for the UMS. So now we might expect that the policies taken in time would pay some dividends. This is more so as the overall economic situation (as revealed by the growth of GDP) in the country improved since mid-2000s following attainment of better agricultural performance, more livelihoods diversification, better implementation of the public employment programs, and rising wage rates<sup>13-15</sup>. All these factors created a favorable impact on the UMS by improving the local demand for the goods produced by such units. However, it also needs to be noted that the export demand for the manufacturing sector got affected by the global economic meltdown at the end of 2009. At that time, the industries of textile products, readymade garments, and diamond cutting were the three activity groups that experienced heavy job losses<sup>16</sup>. It is to be underlined that these industries accounted for a significant share in the total employment as well as gross value added of the UMS in India.

As against this above background, we look afresh into the structural changes of the UMS in India over a period spanning over 30 years or so (1984-85 to 2015-16). In addition, we seek to analyze the growth performance of the UMS as understood in terms of indicators like the number of enterprises, employment and gross value added over time. We also look into the growth of labour productivity in the UMS during this period. An important contribution of this paper has been incorporation of data on the UMS for the latest available year (2015-16) which helped to evaluate the policies adopted for this sector from a long-term perspective.

This paper is divided into five sections. Section II briefly describes data sources and methodology adopted for data analysis. Section III shows how the size and structure of the UMS in India has changed over time. In Section IV, we analyzed the growth performance of the UMS in terms of the growth rate of number of enterprises, employment and gross value added. This section also looked into the growth performance of the sector with respect to labour productivity during our study period. The final Section V provides main conclusions of this study.

## **II. DATA BASE AND METHODOLOGY**

We sought to find out answers to above questions by analyzing the NSSO data for four survey rounds. These are surveys on the 'Unorganized Manufacturing Sector' for 40<sup>th</sup> (1984-85), 51<sup>st</sup> (1994-95) and 62<sup>nd</sup> (2005-06) Rounds, and the survey on the 'Unincorporated Non-agricultural

Enterprises (Excluding Construction)' for 72<sup>nd</sup> Round (2015-16). While we used data available from the published report for the 40<sup>th</sup> round, the unit-level data have been used for the remaining three rounds to generate comparable data tables to understand performance of the UMS during our study period. It needs mention here that as no data are available on Directory Manufacturing Establishments (DMEs) from the published report of the NSSO for the year 1984-85, we used the data available from the 'Directory Manufacturing Establishments Survey' for 1984-85, published by the Central Statistical Office (CSO).

Another important point to note in respect of our data set is that the coverage of the 40<sup>th</sup>, 51<sup>st</sup>, and 62<sup>nd</sup> Rounds of survey was somewhat different from the coverage of the 72<sup>nd</sup> Round survey. Two specific points need mention here: (i) while the NSSO in its 40<sup>th</sup>, 51<sup>st</sup>, and 62<sup>nd</sup> Rounds surveys considered the unorganized manufacturing sector alone at the time of data collection, for the latest round it collected data for the unorganized manufacturing, trade and other services sectors together. To overcome this problem, we extracted the data for the unorganized manufacturing sector only from the unit-level data files for the 72<sup>nd</sup> Round (i.e., excluded the data on trade and other services sector enterprises) by using the NIC-2008 table. (ii) The surveys for the 40<sup>th</sup>, 51<sup>st</sup>, and 62<sup>nd</sup> Rounds had excluded those manufacturing units which were registered under sections 2m(i) and 2m(ii) of the Factory Act 1948, and also bidi and cigar manufacturing units which were registered under the Bidi and Cigar Workers (Conditions of Employment) Act 1966. However, the 72<sup>nd</sup> Round survey additionally excluded those ownership categories of manufacturing units which were government and public sector enterprises, cooperatives as well as those which were not registered under the Companies Act 1956. Thus, the coverage of unorganized manufacturing sector survey was higher in the 40<sup>th</sup>, 51<sup>st</sup>, and 62<sup>nd</sup> Rounds as compared to the 72<sup>nd</sup> Round. However, a detailed inspection of the 40<sup>th</sup>, 51<sup>st</sup>, and 62<sup>nd</sup> Rounds data revealed that the shares of enterprises that were either government/public sector enterprises or cooperatives were negligible. Further, the shares of registered units in the 40<sup>th</sup>, 51<sup>st</sup>, and 62<sup>nd</sup> Rounds surveys were found to be negligible. Hence, the data sets used by us, after necessary adjustments, appear to be quite useful to build an understanding about the performance of the UMS in India during the period under consideration (1984-85 to 2015-16).

For the sake of understanding the performance of the UMS under different policy regimes, we divided the entire period of our study into three sub-periods viz., 1984-85 to 1994-95, 1994-95 to 2005-06 and 2005-06 to 2015-16, each having almost an equal span of 10 years. Now let us clarify the choice of these time periods. As is well-known, the opening up of the economy as well as implementation of some economic reforms policies being started in India since mid-1980s. Of course, a complete package of economic reforms policies, in general, was implemented in early

1990s. Hence, it may be expected that the period of 1984-85 to 1994-95 would capture the primary effect of increasing competition faced by the unorganized manufacturing enterprises under an emerging liberalized business environment. It is to be noted further that in the context of the UMS, the reforms initiated effectively since 2000 when the comprehensive policy package came into existence, the primary objective of which was to facilitate the provisions of credit, infrastructure, technology, and marketing to the Small Scale Industries as well as tiny enterprises. It is also a well known fact that the gestation period of any newly implemented policy/program would be high. Therefore, the period of 1994-95 to 2005-06 is likely to capture the impact of varying promotional measures taken for the UMS which were expected to help them to survive in the competitive era. The latest period of 2005-06 to 2015-16, on the other hand, is characterized by intensifying competition as a consequence of adoption of more liberalized trade policies and adoption of more focused policies for this sector that are expected to raise their levels of competitiveness.

We conducted our study on the UMS in India at subsector level, considering the rural and urban areas separately. In this regard it should be mentioned that the 40<sup>th</sup>, 51<sup>st</sup> and 62<sup>nd</sup> survey Rounds, the NSSO collected information separately for three subsectors of the UMS, viz., the Own Account Manufacturing Enterprises (OAMEs), Non-Directory Manufacturing Establishments (NDMEs), and Directory Manufacturing Establishments (DMEs). However, in its 72<sup>nd</sup> Round survey, the data have been compiled for two establishments (NDMEs and DMEs) together apart from the OAMEs. Thus, using the unit-level data of 72<sup>nd</sup> Round, we generated separate information for the NDMEs and the DMEs by following their respective definitions which are that an NDME has less than six workers while a DME has six or more workers (for both the categories, there is at least one hired worker). Again, it is to be mentioned that the NSSO used different versions of the National Industrial Classification (NIC) for its various survey rounds. For instance, the 40<sup>th</sup> round used NIC-1970, 51<sup>st</sup> round used NIC-1987, 62<sup>nd</sup> round used NIC-2004 and 72<sup>nd</sup> Round used NIC-2008. So, to bring in inter-temporal comparability, we made some adjustments by considering data at two/three/four digit levels and converted the entire database broadly in order of NIC-1987 (see Appendix Table 1A for an idea about how the adjustments were done).

It is also to be noted in this regard that the information regarding gross value added (in Rs.) of the UMS is provided at current prices by the NSSO rounds. So, they are not comparable over the rounds. To obtain a comparable data series on gross value added (which may also be called as real gross value added), we divided (following Single-Deflation Method) the gross value added of each production sector (at two-digit level of NIC) of the UMS in an year by the wholesale price index (WPI) of the same production sector with base 1993-94=100 (see Appendix Table 2A for WPI of

different production sectors of manufacturing in 1984-85, 1994-95, 2005-06 and 2015-16 considering 1993-94 as the base year).

### III. SIZE AND STRUCTURE OF THE UNORGANIZED MANUFACTURING SECTOR IN INDIA

In 2015-16, the unorganized manufacturing sector (UMS) in India (rural and urban areas combined) was comprised of 20.45 million units – 11.75 million in rural areas and 8.7 million in urban areas (Table 1). In the same year, these units provided jobs to 37.19 million people of whom 19.08 million were from the rural areas and 18.11 million were from the urban areas. Although the rural UMS was bigger than that of its urban counterpart in terms of the number of units and workers employed, it generated Rs. 355.58 billion of gross value added (GVA) which for its urban counterpart is more than double (Rs. 788.58 billion).

**Table 1: Absolute Numbers of Unorganized Manufacturing Enterprises, Employment and Gross Value Added (in constant 1993-94 prices)**

Location	1984-85	1994-95	2005-06	2015-16
<b>Number of Enterprises (in millions)</b>				
Rural	13.45 (75.99)	9.52 (75.86)	12.13 (71.06)	11.75 (57.46)
Urban	4.25 (24.01)	3.02 (24.06)	4.94 (28.94)	8.7 (42.54)
Rural+Urban	17.7	12.55	17.07	20.45
<b>Number of Persons Employed (in millions)</b>				
Rural	24.96 (72.81)	20.8 (69.4)	23.46 (64.4)	19.08 (51.30)
Urban	9.32 (27.19)	9.17 (30.60)	12.98 (35.63)	18.11 (48.70)
Rural+Urban	34.28	29.97	36.43	37.19
<b>Absolute Figures of Gross Value Added (in billion Rs.)</b>				
Rural	116.88 (46.22)	105.94 (42.20)	228.92 (41.87)	355.58 (31.08)
Urban	135.98 (53.78)	145.09 (57.80)	317.78 (58.13)	788.4 (68.92)
Rural+Urban	252.86	251.03	546.7	1143.99

*Note:* (1) GVA expressed at 1993-94 constant prices. (2) Figures in parentheses represent share of rural/urban areas in total (rural+urban) UMS of the relevant item. *Sources:* (1) NSSO, Reports on 'Unorganized Manufacturing Sector' in India, 1984- 85. (2) CSO, Report on 'Directory Manufacturing Establishment Survey, 1984-85; Summary Results'. (3) NSSO, unit-level data on 'Unorganized Manufacturing Sector' in India, 1994-95 and 2005-06, (4) NSSO, unit-level data on 'Unincorporated Non- agricultural Enterprises (Excluding Construction) in India, 2015-16.

The size of the UMS (measured in terms of the number of enterprises, employment as well as GVA at constant 1993-94 prices) in rural and urban areas combined expanded over past 30 years or so (1984-85 to 2015-16). The main contributor in such a growth process has been the urban segment of the UMS. During this period, 4.45 million additional units entered into the urban UMS that created additional employment of 8.79 million and generated additional GVA of Rs. 652.45 billion. On the other hand, for the rural UMS, although the GVA expanded by Rs. 238.7 billion during the period of 1984-85 to 2015-16, it suffered from reduction in the number of enterprises as well as

employment. Almost 1.7 million units have been closed in rural UMS, while 5.88 million workers lost their jobs during the entire period of our study.

The relative weights of the rural and urban areas in total number of enterprises, employment, and GVA of the UMS may also be understood in terms of Table 1. It is clear that the shares of the rural and urban areas in the industry of UMS (on the basis of the indicators like number of enterprises, employment and GVA) did not change much between 1984-85 and 1994-95. At both the time points, the industry, as a whole, appeared to be ‘overwhelmingly’ rural, especially when we consider the number of enterprises as well as employment. However, as regards the GVA, the share of the urban areas is comparatively higher than that of its rural counterpart in 1984-85 as well as 1994-95. During the first half of the post-1994 era (1994-95 to 2005-06) the rural areas lost its share to some extent, especially with respect to the number of enterprises and employment. However, the sector experienced significant declines regards the share of the rural areas in the UMS with respect to all three indicators mentioned above during the subsequent period of 2005-06 to 2015-16. While the share of the rural areas in total number of enterprises declined from 71.06 percent in 2005-06 to 57.46 percent in 2015-16, the share of the same in total employment of the UMS has declined from 69.4 percent to 51.3 percent. On the other hand, the urban areas, which had a higher share (58 percent) in total GVA of the UMS in 2005-06, improved this share further to 69 percent in 2015-16. Overall, it appears that there has been a tendency of relative weight of the rural segment of the UMS declining over time, and hence the relative share of the urban segment improving.

### ***Shares of Different Size Classes/Subsectors in the UMS***

The UMS in India consists of three categories of enterprises: Own Account Manufacturing Enterprises (OAMEs), Non-Directory Manufacturing Establishments (NDMEs) and Directory Manufacturing Establishments (DMEs). This classification is essentially based on the criterion of employment size as well as type of workers employed. The OAMEs are the units that run without any hired worker on a regular basis. The NDMEs are the establishments that employ less than six workers, of which at least one would be the hired worker, paid on a regular basis. Finally, the DMEs are the establishments that employ six or more workers, at least one of them being a hired worker.

**Table 2: Percentage Share of Three Subsectors in Total Number of Enterprises, Employment and Gross Value Added of the UMS**

Item	Location	Year	Category of Enterprises		
			OAME	NDME	DME
Number of Enterprises	Rural	1984-85	91.45	7.21	1.34
		1994-95	90.65	6.30	3.05
		2005-06	91.59	6.18	2.23
		2015-16	92.03	6.37	1.60
	Urban	1984-85	71.76	21.65	6.59
		1994-95	66.56	22.52	10.93
		2005-06	70.99	20.69	8.32
		2015-16	76.84	18.03	5.13
	Rural+Urban	1984-85	86.78	10.68	2.54
		1994-95	84.78	10.20	5.02
		2005-06	85.59	10.37	4.04
		2015-16	85.57	11.33	3.10
Number of Persons Employed	Rural	1984-85	83.06	9.01	7.93
		1994-95	80.34	7.93	11.73
		2005-06	76.84	10.15	13.01
		2015-16	76.01	10.96	13.03
	Urban	1984-85	50.21	22.32	27.47
		1994-95	41.88	25.52	32.61
		2005-06	43.68	26.12	30.20
		2015-16	49.34	26.74	23.92
	Rural+Urban	1984-85	74.13	12.63	13.24
		1994-95	68.54	13.31	18.15
		2005-06	65.01	15.86	19.13
		2015-16	63.02	18.65	18.34
Gross Value Added	Rural	1984-85	72.36	16.04	11.59
		1994-95	61.75	14.77	23.47
		2005-06	49.85	17.49	32.65
		2015-16	58.85	19.10	22.04
	Urban	1984-85	24.64	32.56	42.79
		1994-95	23.80	28.93	47.27
		2005-06	18.61	29.21	52.18
		2015-16	31.92	32.27	35.81
	Rural+Urban	1984-85	46.70	24.93	28.38
		1994-95	39.82	22.96	37.22
		2005-06	31.69	24.30	44.00
		2015-16	40.29	28.18	31.53

*Source:* Same as Table1

As regards the relative importance of different subsectors of the UMS in 2015-16, we observed that the household based OAMEs have large shares in the UMS in rural areas, in respect of the number of enterprises, employment, as well as GVA. Table 2 showed that while the share of the OAMEs in total number of enterprises in rural areas was around 90 percent, the same for total employment was almost 76 percent in 2015-16. As regards the GVA, the bulk of it in rural areas came from the tiny OAMEs, which is almost 59 percent in the latest year. The picture is a bit different in urban areas where, compared to rural areas, the OAMEs have relatively lower shares in

respect of all three indicators mentioned above. Furthermore, although the OAMEs accounted for almost 77 percent of total number of urban enterprises in 2015-16, the two establishments (NDMEs and DMEs) together absorbed majority (51 percent) of the urban workforce engaged in the industry of UMS and produced 68 percent of total GVA generated by the urban UMS.

As regards the structural changes over past 30 years or so, our observation is that the household-based OAMEs lost their share considerably in total employment as well as GVA of the UMS in rural areas. However, the OAMEs continued to share more than 90 percent of total number of enterprises of the industry of the rural UMS overtime. In the urban UMS, on the other hand, the share of the OAMEs in total number of enterprises and employment did not change much during 1984-85 to 2015-16; however, the share of the same in total GVA recorded some improvement during the same period. Broadly, it can be said that although some structural changes (measured in terms of the percentage share of various size classes in total number of enterprises, employment and GVA) took place in the industry of UMS during our study period, it remained largely dominated by the OAMEs, in rural areas, while the importance of the establishments (NDMEs and the DMEs together) found to be quite prominent in urban location.

#### **IV. GROWTH PERFORMANCE OF THE UNORGANIZED MANUFACTURING SECTOR IN INDIA**

##### ***Growth Rate of Number of Enterprises, Employment and GVA***

Table 3 showed that the UMS as a whole recorded negative growth rates with respect to the number of enterprises and employment during the period of 1984-85 to 1994-95, both in rural and urban areas. However, as regards the GVA, although the UMS recorded negative growth rate (-0.98 percent per annum) in rural areas during this period, it experienced low but positive growth rate (0.65 percent per annum) in urban areas. By and large, the same trend is observed for the OAMEs and the NDMEs in both the rural and urban areas. However, the DMEs experienced positive growth rates in respect to above-mentioned indicators in both the areas (rural and urban) during this period.

**Table 3: Growth Rates of Number of Enterprises, Employment and Gross Value Added of the UMS in India during 1984-85 - 1994-95, 1994-95 - 2005-06 and 2005-06 - 2015-16**

Item	Location	Period	Category of Enterprises			
			OAME	NDME	DME	All
Number of Enterprises	Rural	1984-85 - 1994-95	-3.48	-4.69	5.19	-3.39
		1994-95 - 2005-06	2.32	2.03	-0.61	2.22
		2005-06 - 2015-16	-0.27	0.05	-3.69	-0.31
	Urban	1984-85 - 1994-95	-4.11	-3.00	1.96	-3.36
		1994-95 - 2005-06	5.20	3.78	1.93	4.57
		2005-06 - 2015-16	6.67	4.35	0.78	5.81
	Rural+Urban	1984-85 - 1994-95	-3.60	-3.83	3.33	-3.38
		1994-95 - 2005-06	2.93	3.00	0.82	2.84
		2005-06 - 2015-16	1.82	2.73	-0.79	1.82
Number of Persons Employed	Rural	1984-85 - 1994-95	-2.14	-3.08	2.15	-1.81
		1994-95 - 2005-06	0.69	3.43	2.04	1.10
		2005-06 - 2015-16	-2.15	-1.30	-2.02	-2.04
	Urban	1984-85 - 1994-95	-1.96	1.20	1.57	-0.16
		1994-95 - 2005-06	3.60	3.43	2.48	3.21
		2005-06 - 2015-16	4.66	3.62	1.01	3.39
	Rural+Urban	1984-85 - 1994-95	-2.11	-0.81	1.83	-1.34
		1994-95 - 2005-06	1.30	3.43	2.28	1.79
		2005-06 - 2015-16	-0.11	1.84	-0.22	0.21
Gross Value Added <sub>t</sub>	Rural	1984-85 - 1994-95	-2.53	-1.80	6.26	-0.98
		1994-95 - 2005-06	5.19	8.92	10.52	7.26
		2005-06 - 2015-16	6.25	5.43	0.48	4.50
	Urban	1984-85 - 1994-95	0.30	-0.53	1.66	0.65
		1994-95 - 2005-06	5.01	7.48	8.36	7.39
		2005-06 - 2015-16	15.58	10.61	5.47	9.51
	Rural+Urban	1984-85 - 1994-95	-1.65	-0.89	2.68	-0.07
		1994-95 - 2005-06	5.13	7.89	8.98	7.33
		2005-06 - 2015-16	10.28	9.27	4.13	7.66

**Note:** Growth rates have been calculated by using the formula for compound annual growth rate (CAGR), which is  $Y_t = Y_0 (1+r)^t$ .

**Source:** Same as in Table 1.

The scenario observed for the UMS during the period of 1994-95 to 2005-06 is somewhat different. During this period, the UMS, in rural and urban areas combined, observed a dramatic turnaround with respect to the growth rates of number of enterprises, employment as well as GVA. Looking at the subsector level, we found that the OAMEs and the NDMEs experienced the similar turnaround during the same period. The DMEs, on the other hand, although recorded positive growth rates with respect to employment and GVA during 1984-85 to 1994-95, it improved further during 1994-95 to 2005-06. However, the growth rate of the number of enterprises of the DMEs declined during the later period compared to the earlier period. The broad trend remained by and large the similar if we consider the rural and urban areas separately.

In comparison with 1994-95 to 2005-06, the UMS (rural and urban areas combined) grew at a slower rate with respect to the number of enterprises and employment during 2005-06 to 2015-16.

While the growth rate of the number of enterprises declined from 2.84 percent per annum during 1994-95 to 2005-06 to 1.82 percent per annum during 2005-06 to 2015-16, the growth rate of employment fall from 1.79 percent per annum to 0.21 percent per annum. However, the growth rate of GVA improved marginally from 7.33 percent per annum during 1994-95 to 2005-06 to 7.66 percent per annum during 2005-06 to 2015-16. The trend followed by the rural and urban areas is somewhat different. The growth rate of number of enterprises, employment and GVA of the rural UMS declined during this period compared to the previous period. By and large, all three subsectors of the UMS followed the similar trend. It is important to note that the growth rate of the number of enterprises and employment for all three subsectors not only declined during 2005-06 to 2015-16 compared to 1994-95 to 2005-06, but also turned negative in most of the subsectors during 2005-06 to 2015-16. On the other hand, although the growth rate of GVA declined for the rural NDMEs (from 8.92 percent per annum to 5.43 percent per annum) and the rural DMEs (from 10.52 percent per annum to 0.48 percent per annum) the same has improved to some extent (5.19 percent per annum to 6.25 percent per annum) for the rural OAMEs. On the contrary to the rural areas, the urban UMS grew at a faster rate during 2005-06 to 2015-16 compared to the earlier period of 1994-95 to 2005-06 with respect all three indicators mentioned above. Looking at the subsector level, we observed that in urban areas, both the OAMEs and the NDMEs experienced faster growth with respect to the number of enterprises, employment and GVA during 2005-06 to 2015-16 compared to 1994-95 to 2005-06. However, the DMEs grew comparatively at a slower rate during the later period compared to the earlier period with respect to the above mentioned indicators.

### ***Growth Rate of Labour Productivity***

Table 4 showed that the UMS in India experienced low growth in labour productivity during the period of 1984-85 to 1994-95. While this growth rate is found to be 0.68 percent per annum for rural sector during this period, the same for the urban sector has been 0.48 percent per annum. Most of the subsectors of the UMS, irrespective of their location of operation (rural/urban), witnessed low growth in labour productivity during this period. However, the rural DMEs appeared to be an exception as it experienced a growth rate of 4.02 percent per annum. The period of post-1994 witnessed significant improvement in the growth rate of labour productivity of the UMS, both in rural and urban areas. This indeed is a positive development with regard to the performance of the UMS in India. The annual growth rate of labour productivity of rural UMS increased from 0.68 percent per annum during 1984- 85 to 1994-95 to 6.09 percent per annum during 1994-95 to 2005-06, which further increased to 6.68 percent per annum during 2005-06 to 2015-16. On the other hand, the same for the urban UMS increased to 5.92 percent per annum during 2005-06 to 2015-16

while the same being 4.05 percent per annum during 1994-95 to 2005-06 and 0.48 percent per annum during 1984-85 to 1994-95. By and large, the individual subsectors, especially the OAMEs and the NDMEs of the UMS witnessed improvement in the growth rate of labour productivity over time. On the other hand, although the DMEs recorded an improvement with respect to the growth rate of labour productivity during 1994-95 to 2005-06 compared to 1984-85 to 1994-95, the corresponding growth rate became slower during 2005-06 to 2015-16. The broad trend remained by and large the similar if we consider the sub-sectoral growth pattern separately for rural and urban areas.

**Table 4: Annual Growth Rate of Labour Productivity of the UMS in India during 1984-85, 1994-95, 2005-06 and 2015-16**

Period	Rural			
	OAME	NDME	DME	All
1984-85 - 1994-95	-0.40	1.34	4.02	0.68
1994-95 - 2005-06	4.47	5.31	8.32	6.09
2005-06 - 2015-16	8.59	6.82	2.55	6.68
	Urban			
1984-85 - 1994-95	2.31	-0.75	0.08	0.48
1994-95 - 2005-06	1.36	3.91	5.74	4.05
2005-06 - 2015-16	10.43	6.74	4.41	5.92
	Rural+Urban			
1984-85 - 1994-95	0.46	0.65	0.83	1.02
1994-95 - 2005-06	3.78	4.31	6.55	5.44
2005-06 - 2015-16	10.40	7.29	4.36	7.44

Source: Same as Table 1

The most striking observation with regard to the growth of labour productivity for the UMS in India during 2005-06 to 2015-16 is that such a growth has been relatively higher for the low productivity subsectors like OAMEs/NDMEs as compared to the high productivity subsector, i.e., the DMEs. In rural areas, this growth rate is found to be 8.59 percent per annum for the OAMEs, 6.82 percent per annum for the NDMEs, and 2.55 percent per annum for the DMEs. Also, in urban areas the growth rate of labour productivity is found to be higher for the OAMEs (10.43 percent per annum) in comparison with the NDMEs (6.74 percent per annum) and the DMEs (4.41 percent per annum). This implies that the ‘smaller’ units in the unorganized manufacturing sector have started catching up their ‘larger’ counterparts in terms of labour productivity in recent years. In any case, we find a clear tendency of productivity gaps between the unorganized manufacturing units of varying sizes reducing over time.

## V. CONCLUSION

In India, the UMS enterprises played an important role as regards generation of employment by utilizing the locally available resources. It is found that the UMS in India has grown over time in terms of the number of enterprises, employment and GVA. We examined the shares of the rural and urban areas in total UMS enterprises, employment, and GVA to test empirical validity of the oft-

mentioned hypothesis that the UMS in India is predominantly rural. In this regard, our broad conclusion is that notwithstanding the dominance of the rural segment of the UMS from the point of view of its shares in number of enterprises and employment, the urban segment of the UMS not only enjoyed higher share of the total GVA at all time points but also improved its shares in all aspects (number of enterprises, employment, and GVA) over time.

An important feature of the UMS in India is its heterogeneity as regards the size of the units (defined primarily in terms of number of workers employed). Thus, we examined the structure of the UMS by focusing on its three different size-classes/subsectors (which are Own Account Manufacturing Enterprises/OAMEs, Non-Directory Manufacturing Establishments/NDMEs, and Directory Manufacturing Establishments/DMEs, as classified by the NSSO surveys). As regards the structure of the UMS our observation is that it is overwhelmingly dominated by the OAMEs with respect to the number of enterprises, employment and GVA, especially in rural areas. In urban areas, on the other hand, the establishments are found to be much prominent especially when we examined their share in employment and GVA in the urban UMS. This phenomenon did not change much over the years, especially in urban areas; however, in rural areas the OAMEs lost their share considerably in total employment and GVA in the rural UMS.

The discussion regarding the growth performance of the UMS clearly revealed that this sector expanded quite appreciably in terms of popularly used indicators like number of enterprises, gross value added and labour productivity during the post-1994 period. Such type of performance by this sector is at variance with what was observed during the period of pre-1994. On the whole, it seems that the policy changes initiated during the decade of 2000s helped the sector to grow in terms of the indicators mentioned above. However, one dark spot during this otherwise healthy-growth phase for the UMS is unsatisfactory employment growth, especially in rural UMS. In the light of this unsatisfactory employment performance by the UMS which happens to be one of the largest employment generator in India, The Manufacturing Plan in India<sup>17</sup> that targeted generation of 100 million additional employments in manufacturing sector by 2025 seems to be quite ‘over-ambitious’. However, to accelerate the pace of employment expansion in the UMS, we cannot recommend a policy that will be detrimental to the process of higher level of capital utilization by the sector. As a matter of fact, improvement in capital utilization signifies modernization of production technology, which is one of the essential requirements for the UMS to survive in the newly emerging competitive environment. So our recommendation is that, besides taking initiatives to improve the level of capital utilization, the government should take steps to remove the marketing bottlenecks faced by the enterprises of this sector. It is expected that better access to markets would encourage the UMS units to expand their scales of production which will help generation of more employment.

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## APPENDIX TABLES

**Table 1A: Concordance Table for Adjustment of Data over Various Rounds of the NSSO**

Description	National Industrial Classification			
	1970	1987	2004	2008
The activity of food products	20+21+315	20+21	151+152+153+154	10
Beverages, tobacco and related products	22	22	155+16	11+12
Cotton textile, wool, silk, man-made fibre textile, jute and other vegetable fibre textile	23+(24-244)+25	23+24+25	171+01405	131+01632
Textile products including wearing apparel	26+244	26	172+173+181	139+141+143
Wood and wood products; furniture and fixture	27	27	20+361	16+31+9524
Paper and paper products and printing, publishing and allied industries	28	28	21+22	17+18+5811+5812+5813+5819+59202
Leather and products of leather, fur and substitutes of leather	29	29	182+19	142+15
Basic chemicals and chemical products	31-315	30	24	20+21+2680
Rubber, plastic, petroleum and coal products; processing of nuclear fuels	30	31	23+25	19+22
Non-metallic mineral products	32	32	26	23
Basic metals and alloys industries	33	33	27+371	24+3830
Metal products and parts except machinery equipments	34	34	2811+2812+289	2511+2512+259+3311
Machineries and equipments other than transport equipments	35+36	35+36+(39-394-398)	2813+29+30+31+32	2513+28+27+2610+2620+2630+2640+3312+3314+3320+9512+9521+2520
Transport equipments and parts	37	37	34+35	29+30+3315
Other manufacturing	38	38	33+369	2651+2652+2660+2670+32+3313+3319

Source: Central Statistical Organisation, Ministry of Statistics and Programme Implementation, Government of India, New Delhi.

**Table 2A: WPI for Different Production Sectors of Manufacturing [Base: 1993-94=100]**

COMMODITY NAME	IN19841985	IN19941995	IN20052006	IN201516
MANUFACTURED PRODUCTS	48.3	112.3	171.4	255.1
Food Products	46.2	114.1	176.8	304.7
Beverages Tobacco & Tobacco Products	36.2	118.3	226.8	446.5
Textiles	54.6	118.2	129.5	190.2
Wood & Wood Products	32.8	110.9	194.6	351.2
Paper & Paper Products	40.0	106.1	178.5	269.8
Leather & Leather Products	47.1	109.7	166.8	225.5
Chemicals & Chemical Products	53.9	116.6	188.2	273.5
Rubber and Plastic Products, coal and petroleum products	50.2	106.0	292.3	465.1
Non-Metallic Mineral Products	54.3	110.9	170.0	279.7
Basic Metals Alloys	45.6	108.7	224.8	304.0
Metal Products	41.6	105.0	144.1	283.3
Machinery & Machine Tools	47.2	106.0	147.4	189.2
Transport Equipment & Parts	50.0	107.4	159.9	213.0

Source: Ministry of Commerce and Industry, Government of India.