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***Nagarik***

**Inclusive growth through large-scale  
employment generation (summary)**

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## FOREWORD

India is uniquely positioned among the global economies - by 2020, it will have one of the youngest workforces in an aging world. The government of India is seized of the task of preparing this youthful workforce in order to encash our demographic dividend through initiatives such as "National Skill Development Mission" and "Pradhan Mantri Kaushal Vikas Yojana". The Honorable Prime Minister, Mr. Narendra Modi, has exhorted the government to predict the possibilities of the future, and prepare for them today itself.

In this regard, PwC's Nagarik report is quite timely and points out a very useful insight - there is a need to augment the stellar investment promotion initiatives nationwide with an institutional framework to facilitate entrepreneurial job creation in informal sectors. In the spirit of competitive federalism, we have seen remarkable strides made by states on the World Bank's "Ease of Doing Business" framework. The time has now come for government to move beyond its traditional supply-side role for job creation and work on deepening the market connects for key sectors like agriculture, dairy, rural entrepreneurship and other informal sectors, which can create additional jobs / improve livelihoods. This will go a long way in realizing the honorable Prime Minister's vision of doubling farmer incomes by 2022.

Nowhere is this challenge starker, than in the state of Uttar Pradesh, which is home to one-sixth of India's population and has one of the youngest population in India. I compliment PwC for proposing solutions to this pressing need in a state that needs it the most.

I hope that this report will be of great interest to not just the central and state government personnel, but equally to non-governmental organizations, corporates seeking to make a difference as well as banks. I am confident that implementing the approaches outlined in this report will make a dramatic impact on the economic and social spheres of our nation, and serve as a lasting legacy of this generation.

  
(Amitabh Kant)  
06.06.2018

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# Introduction

The employment situation in India is being debated intensely. However, there is a broad consensus on one point – if India links its growing population to gainful employment, economic growth will accelerate and become more inclusive. On the other hand, if we are unable to provide employment to millions of young people entering our workforce over the coming decade, prosperity will flow to a few and this can lead to social tensions.

Nagarik is a platform that addresses this challenge as a strategic opportunity. Nagarik supports employment generation where it is needed most – in the smaller districts of India, where a majority of Indians reside. It takes the view that local capabilities have to be the starting point of any employment generation process. It believes that the citizen (nagarik) has a key role to play in this equation. Nagarik focuses on connects to the national or international market as a key ingredient in sustainable employment generation.

Nagarik starts by taking a specific view of a state or a set of districts within a state. Nagarik solutions have their basis in the existing traditional strengths of the state in agriculture, self-enterprise, and its social and cultural heritage – namely local capabilities. For instance, agro-processing, dairy, non-timber forest products and local tourism are resources that are specific to a region or a district. By seeing the citizen and local leaders as producers, it shifts value creation from larger cities and well-developed parts of India to the smaller districts of India.

Nagarik has direct applicability to the backward states in the north and the east. These 10 states (Uttar Pradesh [UP], Madhya Pradesh, Chhattisgarh, Rajasthan, Jharkhand, Maharashtra, Odisha, West Bengal, Bihar and Assam) have 62% of our total population but will have 80% of new employment requirements over the coming decade. By creating local employment, widespread migration from these states can be reduced. Nagarik is equally applicable in other parts of the country, where the urban-rural divide creates contrasts and economic divides that need to be bridged.

Nagarik believes that the private sector has to play a key role in this process, with the government as a catalyst, and the citizen and entrepreneur at the centre of the employment generation process. The capital needed to create employment solutions also comes largely from private banks and financial institutions. Many see Nagarik as 'Ease of Business 2.0' as it goes beyond creating an environment for good business. It extends to catalytic support to seed enterprises, projects and themes that generate employment. This will be delivered through a partnership between governments, the private sector and the citizen to kick-start the process of economic activity and employment generation.

We are pleased to see enormous interest from different state governments and the Central government as well as private sector players in the Nagarik platform. The private sector sees Nagarik helping its core business, where it can de-risk supply chains and create alternative, often cheaper, supply sources to augment its business. Citizens and local entrepreneurs are embracing it as they see the value of market connects and positive support from different stakeholders.

The adoption of Nagarik in different areas of the country should be seen as a citizens' movement. It is a once in a lifetime opportunity to focus on building the real India, involving citizens and utilising the bountiful resources of our smaller districts where employment is most needed.

**Shashank Tripathi**

Leader, PwC Strategy& India

# *India's decade for using its demographic dividend*

India's demographic growth, lower labour force participation and marginal employment necessitate urgent focus on large-scale employment generation. A young and growing population will continue to increase our workforce, while improving our low labour force participation is important to empower sections of our society that have been left behind in terms of participation in economic opportunities.

## ***Demographic pressure as opportunity***

Demographic transition starts with declining infant mortality as the primary healthcare system improves. The mid-stage transition occurs when the share of working age population increases owing to high fertility rates in the past. Only countries that leverage the demographic dividend during their mid-stage transition can bear the burden on a sustainable basis.

India is in the mid-stage of demographic transition, with a large young demography and a median age of 27.6. More than 50% of India's population is below the age of 25 and more than 65% is below the age of 35.<sup>1</sup>

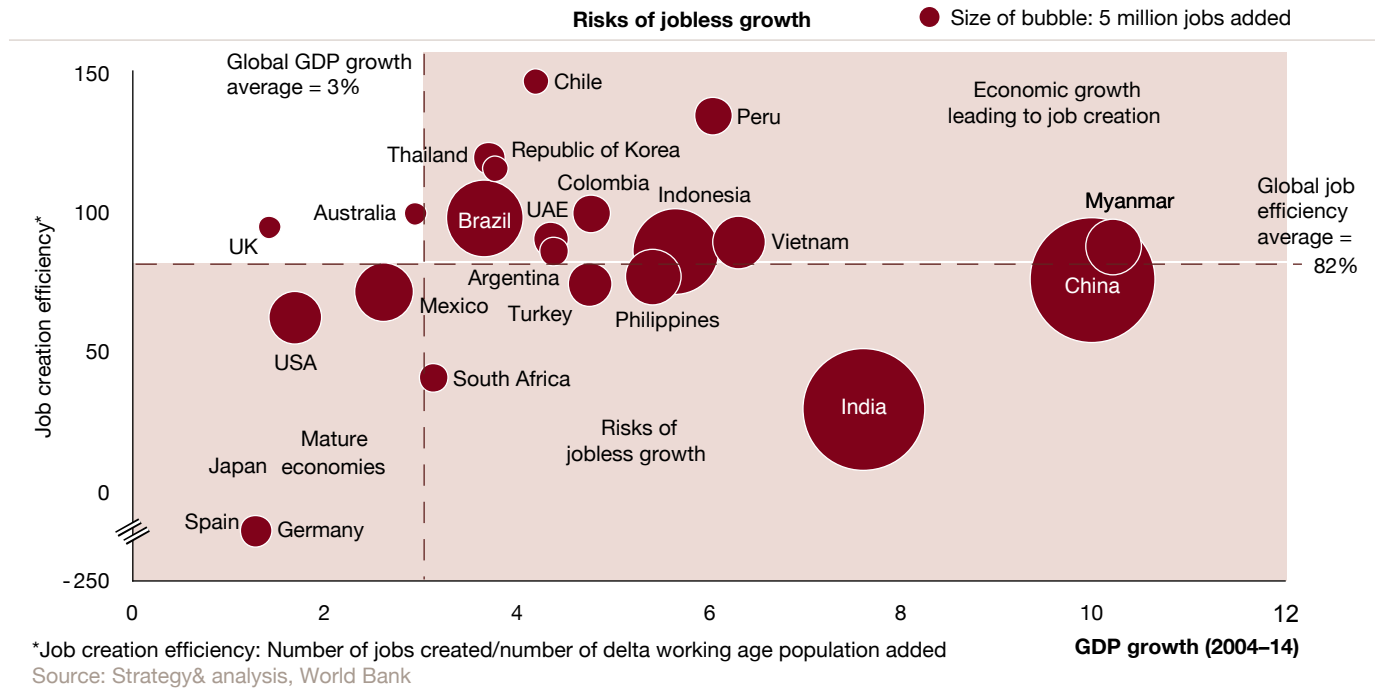
Over the coming 15 years, India's population will continue to grow younger before it starts ageing from 2034. In the coming decade, through 2027, India will add 100 million young people into the working age population. This is roughly what happened in the USA in the 1980s, when its baby boomer generation entered the labour force with concomitant growth in the economy.

While there is a fierce debate on the quantity and quality of jobs being created by the economy, we took a forward-looking view. In practical ways, we asked how we can get our young workforce to be employed so that growth can be accelerated. This challenge is even more important as traditional sources of jobs through manufacturing are declining due to wide-scale automation. A large part of India which lives in its Tier 2 and Tier 3 districts is under stress as agriculture is reducing jobs both due to lower productivity and farm automation. The low and decreasing labor force participation of women also needs to be corrected. These are the types of issues that need to be addressed.

<sup>1</sup> Statista

*Exhibit 1*

**Without concerted efforts, India risks falling into ‘jobless growth’ that will neutralise its demographic dividend.**



**Improving labour force participation**

India has a lower labour force participation rate (LFPR) – 57% in 2014 – compared to the global average (63.5%). A key reason is the poor participation of women – out of the 390 million women in the working age group, only 29% are in the labour force.<sup>2</sup>

India will need to increase its LFPR by providing greater opportunities to its working population while focusing on women and encouraging them to enter the workforce. Reaching the global LFPR average of 63.5% in line with the increase in working age population will be critical.

<sup>2</sup> World Bank data

## ***Marginal labour force***

In many states, for a proportion of those employed, the number of days of employment stands below a 180-day threshold, qualifying them as marginally employed. Any employment generation strategy should also address this issue by bringing surety of employment that goes beyond 180 days.

In total, India needs to create approximately 100 million new employment opportunities over the coming decade as it looks to encash its demographic surge, improve labour force participation and bring those at the marginal employment level into full employment (>180 days). To put this in perspective, over the coming decade, we need to create employment opportunities equivalent to the population of five Australias. This is one of the most critical agenda items facing the country which, if tackled with foresight and energy, can help accelerate our growth and make it inclusive.



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# *The geography of employment*

On the basis of demography, India is broadly divided into two parts. The prosperous south and west have a relatively high per capita GDP and lower population growth, while the north and east have low per capita GDP and are still experiencing a demographic surge. In addition, there exists a 'district divide'. Most new employment opportunities will be required in those Tier 2 and Tier 3 districts where a Majority of India resides. These rural and semi-urban areas are characterised by large-scale employment requirements as agriculture's percentage share of GDP declines over the coming decade and farming becomes more automated.

The north and east of India, which together comprise 62% of India's population, will account for 80% of the new employment opportunities over the coming decade. These states have a large rural, and often tribal, population, and given their poor economic and social infrastructure, it is difficult to attract large industries here, barring in some select clusters. These states are caught up in a vicious cycle of lagging infrastructure which makes them unsuitable for large traditional employment-creating methods involving large-scale manufacturing plants, organised services, and IT and IT-enabled services.

Unless the challenge of providing local employment opportunities in these states is tackled on an immediate basis, the migration that is taking place to the south and west will accelerate. If ignored, social strife that is on the increase in these states will continue. This includes young citizens, who may be educated, often skilled, taking the law in their hands. In this context, providing large-scale employment is a key national economic and social objective over the coming decade.

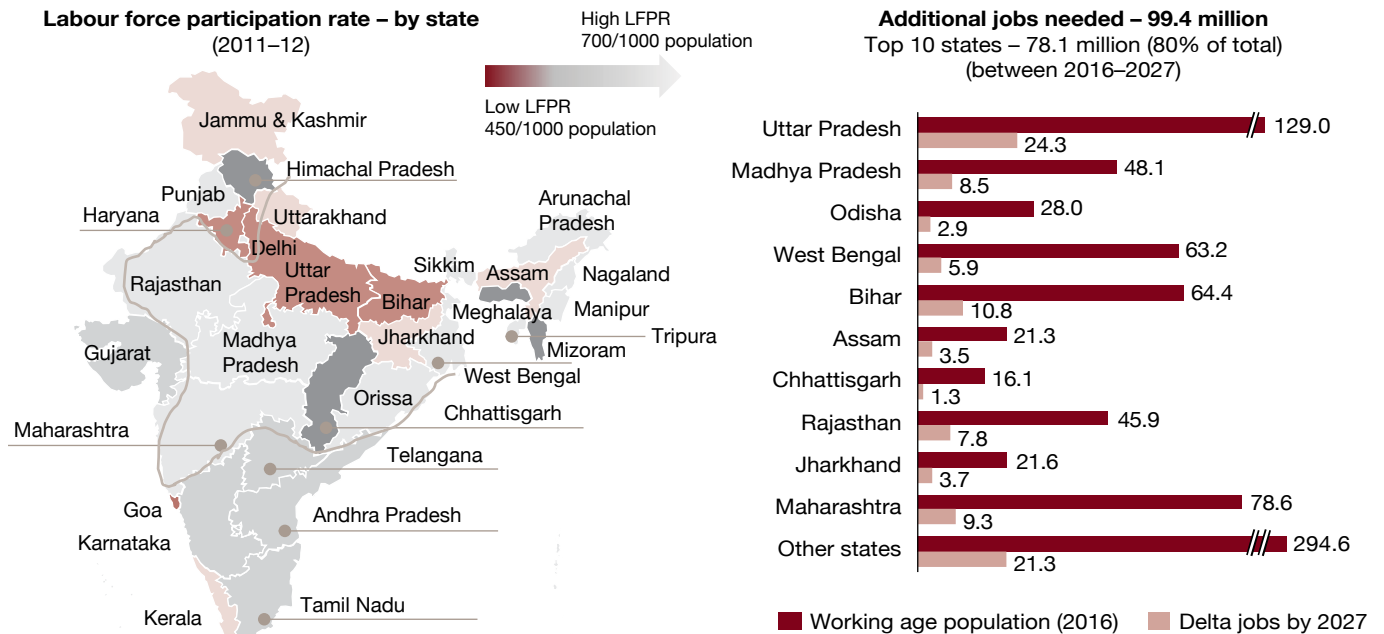
Southern states too require employment solutions as the employment opportunities in larger cities and metropolises are higher in contrast to smaller districts and the rural and semi-urban hinterland. For example, in the Vidarbha area of a prosperous Maharashtra, lower economic growth and lower opportunities for employment stand out in sharp contrast to the more prosperous regions in western Maharashtra.

This creates friction between the prosperous urban elite in the state and the smaller districts where unemployment is a problem.

*Exhibit 2*

**Beyond UP, Nagarik can be applied in states like Bihar, Madhya Pradesh, Rajasthan, Jharkhand, Maharashtra and Assam.**

**10 states contain 62% of India's working population and need ~80% of new jobs.**



Source: NSS survey, Census 2011, Strategy& analysis

Over the next 10 years, a Nagarik-type solution would help bridge these gaps in the country. We believe Nagarik as a solution has applicability in all the states of India.

Our research suggests that while the focus of employment generation would be different for different states based on their stage of evolution, some core principles apply. The strategy and detailing for job creation will ultimately be state and region led. Each state, region or district within the state will have different resources and distance from the market, and will require different solutions, enabling infrastructure and an implementation approach for employment generation. Nagarik takes a holistic approach to job creation by incorporating the different facets of the employment generation problem that need to be addressed for a specific state.

# ***Nagarik: An integrated employment generation approach***

Nagarik has been developed as a platform for large-scale employment generation. It comprises a methodology and an approach to employment generation that is market led and citizen driven. It works with a set of stakeholders that benefit from large-scale employment generation. Nagarik can be applied to create large-scale employment at the district, state or country level. Nagarik believes that the task of large-scale employment generation is not only that of the government – it has to have the citizen (nagarik) at its centre, with market connects and private sector players playing a key role and the government serving as an active enabler.

## ***Key principles of Nagarik:***

The Nagarik methodology finds its basis in and is driven by five key principles:

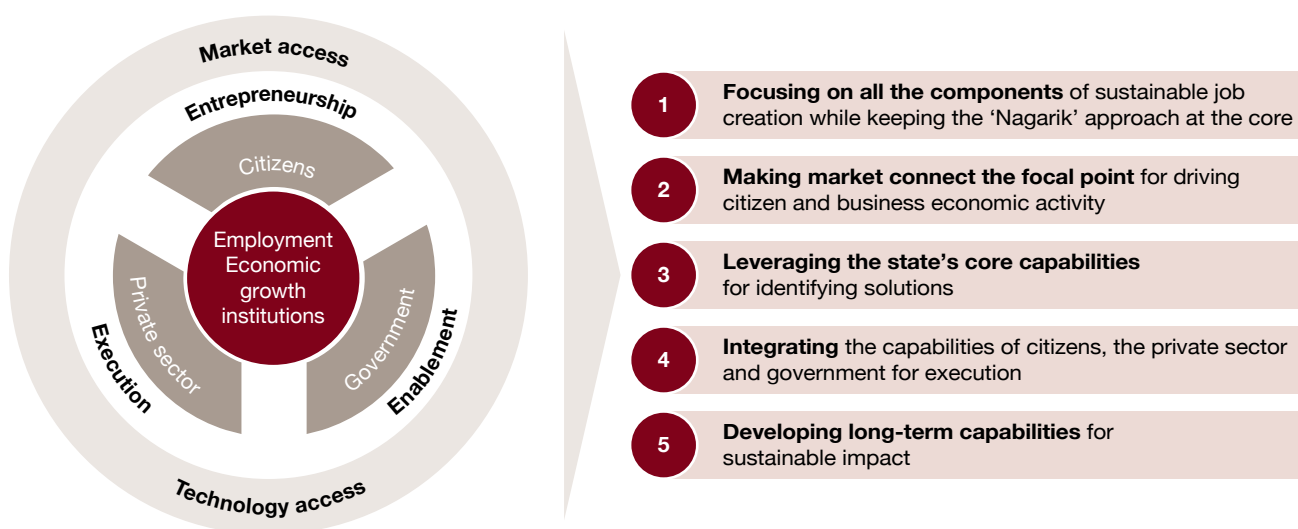
1. It focuses on all the components of employment and customises its focus depending on the key challenge of a specific district, state or nation. For example, while the number of net jobs to be created may be the key concern for UP and Jharkhand, with 48% of marginal labour in their workforce, the states might focus more on converting marginal employment to full time.
2. For the development of employment strategies, Nagarik first leverages a state's core capabilities and existing strengths. To illustrate, for UP, agriculture, its MSMEs and its cultural heritage are its traditional strengths.
3. It makes the creation of market connect, both physical and digital, the focal point for each employment generation solution that it proposes. A distinct strength of Nagarik is its focus on creating linkages to demand centres and basing solutions on market needs.
4. Nagarik also identifies additional long-term capabilities that need to be developed for sustainable employment generation. These capabilities relate to the proposed solutions and are important enablers for these solutions to be effective and sustainable in the long term.

- It lays equal importance on the role of citizens, along with that of the government and private sector, in employment generation. Nagarik's philosophy emphasises the active role of citizens instead of regarding them as passive receivers of benefits.

This methodology visualises citizens, the private sector and government playing an active role in job creation through entrepreneurship, execution and enablement respectively. Market access and technology access are the two key strands that support this platform, combining the three stakeholders' resources and expertise for employment generation, economic growth and institutional development. While Nagarik is most applicable to the northern and eastern states, the solutions and themes find near-universal applicability across the nation.

### Exhibit 3

The 'Nagarik' methodology has five key principles that guide the approach to employment creation.



The solutions that lead to large-scale employment creation when the Nagarik approach is applied at the state or district level offer a number of advantages that are complementary to existing employment approaches. Nagarik also requires careful curation for execution.

### ***Key advantages of Nagarik:***

- Shifts our mind-set towards citizens – from seeing them only as consumers to valuing them as producers, with local value addition from local resources as a key feature of the solution.
- Complements ‘business as usual’ job creation and recent focus on skill development. States and districts will create employment in the normal course of growth; Nagarik tackles the ‘extra employment’ that is required given the strong demographic growth in population.
- Employment opportunities created by Nagarik in a district are largely local, and this helps reduce migration, social stress and creates local economic activity, rather than a remittance economy.
- The quantum of funding required from the government is relatively low – typically 30% of the overall funding, with banking and private capital as key sources of finance to help generate employment.
- The flow of products becomes more local as local resources (agricultural, dairy, animal husbandry, tribal produce) are also consumed locally, reducing the round trip time and cost to and from a large urban centre.
- Over time, the Nagarik solution would reduce the cost of producing goods in larger cities, diversify the sourcing options of existing plants and actively shift the economy to smaller districts.

### ***Implementation approach:***

While Nagarik can produce large-scale employment, it requires careful curation and collaboration with different stakeholders. The following implementation principles should be adopted:

- Given the specific nature of local resources in a particular state or even at a regional level, which is used as a starting point for the employment generation effort, there is no ‘one-size-fits-all’ implementation approach.
- The solution relies on market connects where the role of private sector companies, local entrepreneurs, local industry bodies as well as local financing mechanisms assumes more importance than government-only execution.

- Implementation requires a ‘light touch’ approach where the government acts as an enabler. Many have described Nagarik as ‘Ease of Business 2.0’, as it asks the government to ease business circumstances and help catalyse economic activity in smaller districts.
- Requires active hand-holding till the capabilities required for long-term employment creation have been built at a district level. This requires a diverse set of stakeholders, ranging from private sector players, government officials and civil society leaders, to be brought together through different organisational structures.

Nagarik requires buy-in from the representatives of the people who can actively encourage citizens to take part in the solution. It should be seen as helping create a people’s movement aided by government and private sector funding and expertise. Once a Nagarik-like programme has been implemented over a 3–5 year period, the economic circumstances become ripe for that district to set up traditional large-scale manufacturing plants and service industries. Nagarik may be seen as a way of starting inclusive growth and transformation rather than the end of the journey.

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# ***Implementation of Nagarik solutions***

Any solution to employment generation that is located in our smaller districts will have its own challenges. The challenges in implementation relate to bringing together a diverse set of stakeholders who add value to the local product or service; connecting entrepreneurs; securing financial partners; and finding a market connect as well as satisfying the requirements of stakeholders at the district and state level to create infrastructure and provide subsidies if needed.

## ***Structure of implementation team***

The implementation structure for Nagarik seeks to involve a diverse set of stakeholders as its implementation should not be seen as a 'project'. It should be seen to catalyse and create a local ecosystem that connects to the market to create jobs.

Typically, we would encourage the local industry association or an equivalent local body to lead the implementation, with support from the government and a consulting body. Short-term implementation can also be run by a consulting organisation till the final, steady state implementation structure is created as part of the industry body or as a separate Section 8 company.

## ***Financing for implementation***

The finance for implementing the employment solution draws largely upon the private sector. Typically, this is 60–70% of the overall outlay for the implementation. The state government has to provide the remaining financing in terms of building infrastructure and, in some cases, subsidy for larger companies that are willing to relocate their production plan to the district.

## ***Timelines for implementation***

Typically, post a 3–4 month assessment and implementation planning period, a 12–18 month implementation period should be planned. This will allow the quick-win jobs to be created as well as long-term capabilities and

implementation structure to be erected for long-term employment generation.

### ***Outcomes of Nagarik***

Each district and each location will have different results in terms of employment generation. Typically, for a district that has a population of 2 million people, one would expect an employment generation potential in the range of 20,000 to 30,000 over a 5-year period. Approximately 25% will be short term, 40% medium term and the remaining 35% will require long-term employment creation. The cost of a job created, in general, will be 60,000 to 80,000 INR per job in terms of spend from the government. This would create significant positive externalities and multiplier effects for the district economy, and is very favourable as compared to the traditional methods of job creation by investing in large manufacturing units in larger cities.

### ***Who should initiate Nagarik?***

State governments who are interested in generating employment in certain districts or across all their districts are best positioned to initiate Nagarik. However, private sector organisations who are interested in improving their business performance may also participate in a Nagarik-type exercise, particularly those in industries that source agro produce, NTFP and talent that is more commonly available in smaller districts.



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# Conclusion

Nagarik is developing as a platform as it gets implemented in different states and under different circumstances. As more and more private sector enterprises join it to provide market connect and as more funding institutions and entrepreneurs embrace it, we see the platform growing exponentially.

While the government is a key driver of this solution, ultimately, citizens will both drive its success and benefit from the large-scale employment opportunities it generates. Nagarik's approach of considering the citizen as both a valuable producer and consumer of goods shifts the focus of economic value creation and makes it local and emanating from districts, where a large majority of India lives, rather than from the top. This is a major shift, both economic and intellectual, in the way we look at our citizens.

The Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) was aimed at providing employment and some economic sustenance at the bottom of the economic ladder. Nagarik should be seen as helping those Indians who are living in districts that are neither very poor nor very rich. These are the approximately 230 Tier 2 and Tier 3 districts which comprise 58% of India's population. This section of India requires 'self-help' and enablement. It has the ability to generate employment opportunities for itself and its regions, provided support is received from different stakeholders. Nagarik provides this platform, starting with an assessment of local resources and conditions.

Nagarik takes forward the vision of our founding fathers, who recognised that India lives in its smaller towns and villages. Political leadership has always recognised and focused on this area. Nagarik as an approach matches that political reality with economic opportunities. This shift of focus and attention to providing employment where it matters most will balance our approach to development going forward. In times to come, it will narrow the gap between our larger and more prosperous regions and the poorer regions. It will also narrow the gap between smaller districts and larger ones. Most importantly, it will enable a large proportion of Indians to achieve their economic aspirations.

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