

# Opportunities And Challenges In The Manufacturing Units Of Unorganized Sector In India

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## Abstract

The present paper aims in bringing forth, the challenges and opportunities faced by the manufacturing units of the unorganized or informal sector. The manufacturing sector can be divided into both- organized and unorganized sectors. But both of these sectors vary in terms of employment opportunities, business volume, the technology used, and even the contribution towards the national income. The unorganized sector lacks a well-defined structure and usually, is enterprises owned by self-employed labourers or individuals, which are engaged in the production of goods and services in an economy. Also, there are various categories of workers in this unorganized manufacturing sector or class as well. These labourers work in the presence of a wide range of opportunities and challenges existent in this sector. This sector has over 50% share of labours in the Indian economy. This leads to the formation of the manufacturing sector's own set of opportunities and challenges in the nation. The development of this sector has a direct connection with the betterment of a wide range of populations. But during their functioning, the manufacturing units in this sector are restricted by several obstacles and difficulties in the nation that needs to be worked upon. Though the government of India has implemented many initiatives to push the manufacturing units of the unorganized sector, the nation needs more powerful approaches and proper monitoring to uplift the condition of this sector. This paper attempts to reflect on the opportunities and also the importance of this sector, along with the challenges or constraints that it goes through. Moreover, discussing the probable solutions that can tackle the limitations effectively throughout the paper.

## Keywords

Manufacturing, Unorganized sector, Unorganized Labours, Employment

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## 1. INTRODUCTION

In India, the terms “unorganized” and “informal sector” are used interchangeably at the international level as per the recommendation of the International Labour Organization (ILO). There prevails a general ignorance and low uniformity about this concept in the nation. A major part of the Indian workforce or about 83% of the entire population can be located

in the unorganized sector. The unorganized manufacturing unit encompasses both – non-household and household units. These units accumulate a large amount of manufacturing employment in the nation and are generally small in size.

According to Central Statistical Organization (CSO), “Un-organised or informal sector consists of enterprises who producing for the market do not have more than 20 employees (without power) or 10 employees (with power).” The workers of these enterprises are not registered under any legal stipulation like the Industrial Dispute Act of 1948, etc., and can, therefore be included in the household sector (and hence within the informal sector) as per the System of National Accounts (SNA), 1993. On the other hand, The National Commission for Enterprises in the Unorganized Sector (NCEUS) set up by the Indian Government in September 2004 took into account different aspects of this matter and defined this sector as, “The unorganized sector consists of all unincorporated private enterprises owned by the individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten workers.” There exists quite a low level of organization among such units and also there is an absence of distinction between capital and labour as separate factors of production

as these are done on a small scale. Even if labour relations prevail, these are mostly based on social relations and other similar associations.

These definitions indicate that the unorganized manufacturing sector is not residual; rather it is one of the crucial sectors operating in the Indian economy. Though there has been a halt in the overall improvement of the organized sector, the unorganized sector has reflected an improvement in different aspects over these years. Different schemes of the government can also be attributed to this growth – ‘Make in India’ being a prominent one, which aims in uplifting the condition of these manufacturing units and boosting overall development. However, this sector is not free from challenges that often act as hurdles in the path of their growth. Working towards the removal of such obstacles and taking strict action for their development is the need of the hour for the nation.

## 2. NEED AND SIGNIFICANCE OF THIS STUDY

The manufacturing units of the unorganized sector play an important role in creating gainful employment opportunities, especially in developing countries, like India which are in general, labour abundant countries. Though this sector gives employment to various unorganized labours, we can see the unemployment problem increasing day by day. Moreover, the manufacturing unit of the unorganized sector faces various types of challenges or difficulties. With the help of this study, the focus is given to throwing light on those problems so that government can adopt effective strategies for improving manufacturing units of the unorganized sector.

Also, this paper reflects on the significance of this sector and its contribution to India’s economic development. These unorganized manufacturing units offer an amazing opportunity for entrepreneurs, even with low capital to have their start-ups. Apart from that, these units also encourage the rural population to start their small enterprises with the aid of their locally available resources and skills. This sector has a considerable amount of potential that needs to be fully explored. And, with the integration of the correct strategies and monitoring techniques implemented by the government, this huge sector will rightfully be able to contribute towards the economic growth and development of the nation.

## 3. OBJECTIVES

The present Indian economy is hugely based on the existence of informal or unorganized sectors. The majority of the Indian labour force is found directly or indirectly to be engaged in this sector. To ensure that the paper has practical relevance and not only theoretical aspects but is also based on the following objectives:

- To recognize the significance of the unorganized manufacturing units in India.

- To gather a broad understanding of the opportunities available to these units in the nation.
- To understand the wide range of challenges faced by unorganized manufacturing units.
- To discuss the solutions for tackling the limitations existent in this sector.

## 4. DATABASE

The unorganized manufacturing sector has a significant role in providing livelihood to a huge Indian workforce. Different tables can be used to depict the importance of the unorganized sector in the lives of the general masses of the nation. The growth of formal and informal employment across the unorganized sector can be shown with the help of a table given below.

**Table 1.** Formal-Informal employment across unorganized sectors (in crores)

YEAR	FORMAL	INFORMAL
2017-18	0.28	37.79
2018-19	0.45	38.87
2019-20	0.80	43.19

Source: Economic Survey, 2021-22

Table 1 highlights that both types of employment have been constantly increasing with passing years, as it can be observed that the quantity was 0.28 for formal and 37.79 for informal employment in 2017-18, which rose to 0.80 for formal and 43.19 for informal employment spread across the unorganized sector for the period 2019-20. This data indicates the overall significance of the unorganized sector in the field of employment generation.

**Table 2.** Share of the informal economy across the manufacturing sector to GVA (%)

SECTOR	2011-12	2017-18	2020-21
MANUFACTURING	25.5	22.7	19-21

Source: IMF Policy Paper Feb 21; P: SBI projections

Table ?? reflects the share of the informal economy across the manufacturing sectors to GVA for different periods. After the global pandemic, there has been a huge digitization drive due to which almost 80% of the economy is now under the formal sector. This is as per the report of economists of the SBI. Also, at least, Rs. 13 lakhs cr. has come under the formal sector due to various channels over these past years. With these factors, the share of the informal economy has also decreased in the GVA (%) from 25.5% in 2011-12 to 19-21% in 2020-21. Besides that, a recent report estimated by the SBI reflects that the informal economy of the nation declined to around 15-20% of the GDP in 2020-21 from 52% in 2017-18.

## 5. METHODOLOGY

The method applied in this paper is descriptive. The data collection and analysis of the condition of the unorganized manufacturing sector are done through secondary data. The data are collected from various books, existing research papers on the related aspect of unorganized manufacturing units, and government portals meant for similar.

## 6. OPPORTUNITIES IN THE MANUFACTURING UNITS OF THE UNORGANIZED SECTOR

The manufacturing units of the unorganized sector face various opportunities in their fields. Some of the opportunities are discussed as follows:

1. **Employment Generation:** This sector provides employment opportunities, especially within developing countries, to those who do not have job security, employment security, and social security in both rural and urban areas. With this, the unorganized manufacturing sector can be reflected as one of the prominent employment hubs of the nation as there is a huge number of unorganized labours as well.
2. **New Startups and Businesses:** In this sector workers get the opportunity to start their new business with a small amount of capital and their skills. In this way, they become independent and work on their own choice.
3. **Adequate Diversity In Opportunity:** The manufacturing units of the unorganized sector offer a wide range of professional advancement prospects due to the high need for competent workers. With the advancement of technology workers now get more options to work.
4. **Reduced Poverty:** This sector reduced poverty by offering employment opportunities to a wide range of workers. With the help of employment, the workers can earn in better quantity, thus improving their standard of living. A majority of the workforce in India depends on the unorganized sector, which makes this sector highly significant in the removal of poverty in the backward and rural areas as well.
5. **Promotion Of Innovation And Creativity:** Workers get the opportunity to use innovative ideas in different fields and also they get the platform to implement their new ideas. They can carry out their unit's production activities with their sole decisions and ideas, reflecting the epitome of "Atmanirbhar Bharat".
6. **Fulfillment Of Social Needs:** Man is a social animal and so they need social satisfaction in their work field. This sector fulfills the social or mental needs of the workers. In these unorganized manufacturing units, people get to work on their terms, hence, attaining satisfaction from

their work and also the ability to fulfill all their social needs.

## 7. CHALLENGES FACED BY UNORGANIZED MANUFACTURING UNITS

In comparison to the organized sector, unorganized manufacturing enterprises have to go through different challenges while their functioning. The major challenges and obstacles in the course of the unorganized manufacturing sector are –

1. **Deficit of Proper Infrastructure:** The backward regions of the nation still lack proper infrastructural facilities like transportation, communication, and other amenities that possess the power to encourage the productivity of these units. Having an uninterrupted power supply for smoothly conducting the production process is a big obstacle. All these shortages directly impact the productivity, quality, and even the quantity of units produced in these units.
2. **Inefficient Management Skills:** For the success of an unorganized manufacturing unit, having efficient managerial skills is paramount. The entrepreneurs can ensure the smooth maintenance of all the activities, starting from the stock of raw materials to managing the employees, and every other activity revolving around the manufacturing unit. However, due to a lack of proper knowledge and vision, entrepreneurs often face difficulty in the effective management of their units. This is majorly the case in the rural and backward regions of the nation, where people lack effective managerial skills which even leads to losses.
3. **Inadequate Exposure To Technology:** The role of technology is crucial when it comes to manufacturing units, even in the unorganized sector, where the units are often small to medium in size. The entrepreneurs or owners of such unorganized units in India are not fully exposed to modern technology and equipment. Apart from that, there is an absence of prominent resources that can help in upgrading the available machinery.
4. **Unfavourable Conditions For The Labours:** Unlike the organized sector, the labourers in the unorganized manufacturing units are deprived of job security. Also, there are no provisions like remuneration for overtime, medical facilities, pension, and other compensation, for the employees of these units.
5. **Low level of skilled manpower:** Apart from facing unfavourable conditions, the manpower employed in such units often lacks the proper skills that are essential for the success of manufacturing units. This leads to incurring higher costs in training. Also, the manufacturing units do not get enough skilled labours if such units are located in remote and backward areas.

6. Lack Of Marketing Opportunities: The unorganized manufacturing units also face difficulty in finding a proper market to sell their produced goods and services. These units often lack information regarding the preferences, tastes, or demands of the market or even about their competitors. Besides that, due to a lack of capital, they may find it hard to upgrade their techniques and spend on advertisements and promotional activities for their products.
7. Low level of facilities for research and development activities: The unorganized manufacturing units are often small-sized venture that is started with a meager amount of capital. In such situations, it is not possible for the units to spend extra amounts on research and development that could otherwise help them in standing firmly against their competitors.
- [5] The Times of India. Informal sector's share in the economy may have shrunk nearly 20Report, 11 2021. Accessed 9 March 2023.

## 8. CONCLUSION

For a developing economy like India, the unorganized or informal manufacturing sector plays an important role despite its declining share in the economy. Apart from that, a nation needs sustainable development to ensure overall improvement. And being the most populous nation in the world, India needs to work on reducing widespread poverty and unemployment by boosting the unorganized sector. Although there are abundant types of challenges present in this sector, the determination and proper strategies to tackle this problem are paramount. The government of India has taken an initiative and popularized the concept of “Atmanirbhar Bharat” or “self-reliant India” in 2020, which can help in encouraging more people to join this sector. And unorganized sector is the prominent pillar of this mission. To sum up, we can say that, proper approaches need to be adopted that will ensure the spread of awareness among the general masses about this sector. Also, steps can be taken to develop managerial and entrepreneurial skills among the youth of rural and backward areas. And last but not the least, proper monitoring should be maintained, so that the funds and aids reach the rightful and needy people at the proper time to sustain the development of the unorganized or informal manufacturing units.

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