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## **Problems of Unorganised Manufacturing Sector Enterprises in India**

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### **Abstract**

The unorganised manufacturing sector is mainly concentrated in rural areas and dominated by tiny own account family based units, which operates at sub-optimal levels and use obsolete technology therefore subject to various problems like infrastructure, connectivity, uninterrupted supply of various inputs etc. Therefore the present study tries to look at the problems faced by unorganised manufacturing enterprises in India. Share of enterprises facing problems has increased and more of rural enterprises are facing problems as compared to urban units. In rural areas more than fifty per cent of establishments are reporting problems. Shrinkage of demand is the major problem reported by both type of unorganised manufacturing enterprises in both the sectors along with other problems like power cuts and non-availability of credit. In major sub-sectors of unorganised manufacturing sector of India fall of demand and erratic power supply are main problems. These constraints of unorganised manufacturing sector needs to be taken care of by developing infrastructure and formal credit system to ensure growth of this sector.

**Keywords:** manufacturing, unorganised, problems, enterprises

## **I. Introduction**

In India, rate of growth of employment has found to be slower than rate of growth of economy. Though employment is treated as a corollary to growth the trends of the last two decades show that growth has not yielded desired results in the area of employment generation (GOI, 2011). The employment generation to a large scale is possible by a rapid growth of manufacturing sector and further by a rapid growth of labour intensive industries. Growth of employment has taken place in unorganised manufacturing sector and in organised sector, there is increase in informal employment i.e. increase in casual hired workers with no social security. But unorganised sector constitutes an important part of the Indian economy as more than 90 per cent of workforce and about 50 per cent of the national product are accounted for by the informal economy (GOI, 2012). Despite a large social role in terms of production and employment, the unorganised sector reaches nowhere near the corporate and organized sector in power and access to and control over resources (Kabra, 2003). Unorganised manufacturing enterprises are small scale enterprises and many out of them are own account manufacturing enterprises using obsolete technology. So these enterprises are subject to various constraints like inadequate supply of raw material, poor quality of raw material, obsolete technology used in processing, lack of finance, absence of adequate infrastructure, particularly rural road connectivity, inadequate information and marketing linkages, lack of electricity supply and the absence of cold chain system. Kotwal et al (2011) pointed out that it is difficult for tiny units in the unorganised sector to get credit and therefore unorganised sector may not be able to take advantage of superior technology. The Government of India constituted the National Commission for Enterprises in the Unorganised Sector (NCEUS) in September 2004 to examine the problems faced by the enterprises in unorganised sector and to recommend appropriate measure to enhance the competitiveness of sector and provide institutional support to facilitate easy access to credit, raw material, technology upgradation and marketing (NCEUS, 2009). It has been observed that in informal sector establishments reported problems like shortage of capital and competitiveness from large firms as major problems and for own-account units shortage of credit was serious problem (NCEUS, 2007). Therefore it is important to study the constraints faced by unorganised manufacturing enterprises because these enterprises are small scale enterprises, absorbing workforce in rural areas.

The present study tries to look at the problems faced by unorganised manufacturing enterprises in India. For the purpose of the study NSSO unit level data has been used pertaining to year 2010-11 and 2015-16. NSSO provides extensive data on various aspects of the unorganised manufacturing units in India. The structure of unorganised manufacturing sector has been studied by looking at the distribution of enterprises by type of enterprises in each sector and industry-wise distribution. Percentage of enterprises reporting problems has been calculated by nature of problem faced by type of enterprises in each sector and industry.

## **II. The Structure of Unorganised Manufacturing Sector in India**

Before analyzing the problems faced by unorganised manufacturing enterprises, let's have a look at the structure of this sector. The distribution of enterprises in each sector and by type of enterprises

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has been presented in Table 1. Total number of unorganised manufacturing enterprises has increased from 1.72 crore in 2010-11 to 1.96 crore in 2015-16. Share of rural sector enterprises has declined by 8 per cent points during 2010-11 to 2015-16. The distribution of enterprises by type of enterprise has shown that unorganised manufacturing sector is dominated by tiny own account units and share of Own Account Manufacturing Enterprises (OAMEs) has increased from 83.8 per cent in 2010-11 to 85.5 per cent in 2015-16. Own Account Manufacturing Enterprises are family based units which employs no hired worker on a fairly regular basis while establishment employs at least one hired worker. It has been also observed that number of own account units has increased slightly in rural areas whereas that of establishments has declined. On the other hand in urban areas there is increase in number of both OAMEs and establishments.

**Table 1: Sector-wise Distribution of Enterprises by Type of Enterprise**

Sector	2010-11			2015-16		
	OAMEs	Establishments	Total	OAMEs	Establishments	Total
Rural	9138228 (53.1)	976851 (5.7)	10115079 (58.8)	10497538 (53.4)	916893 (4.7)	11414431 (58.0)
Urban	5291761 (30.7)	1803426 (10.5)	7095188 (41.2)	6316315 (32.1)	1934128 (9.8)	8250444 (42.0)
Total	14429989 (83.8)	2780277 (16.2)	17210266 (100.0)	16813853 (85.5)	2851022 (14.5)	19664875 (100.0)

Source: NSSO unit-level data, 67<sup>th</sup> Round and 73<sup>rd</sup> Round

Note: Figures in parentheses are percentage to total

Therefore looking at the size and structure of unorganised manufacturing sector we can say that sector is mainly concentrated in rural areas and dominated by tiny own account family based units, however share of rural based enterprises in total unorganised manufacturing units has declined slightly. Since many of unorganised manufacturing units are family based own account units which operates at sub-optimal levels and use obsolete technology it is important to look at the problems faced by these units. Before going for this the distribution of enterprises in each sub-sector has been studied and presented in Table 2.

It has been observed that manufacture of wearing apparel has highest share in total unorganised manufacturing enterprises and its share has increased from 25.1 per cent in 2010-11 to 28.5 per cent in 2015-16. Industries like food and beverages, tobacco products, textile and wood and wood products also have considerable share in total unorganised manufacturing enterprises. These industries have combine share of more than 80 per cent in total enterprises in 2010-11 as well as in 2015-16. However share of wood and wood products, textile and food and beverages have shown a decline in 2015-16 and share of tobacco products has increased from 13 per cent in 2010-11 to 16.7 per cent in 2015-16. Share of non-metallic mineral products is around 3 per cent and that of fabricated metal is around 4 per cent of total unorganised manufacturing enterprises during the period under consideration. On the other hand, industries like transport equipment, machinery and equipment,

computer electronic, basic metal, rubber and plastic products have very negligible share in total number of units.

**Table 2: Industry-wise Distribution of Enterprises**

Industry	2010-11	2015-16
Food and Beverages	13.0	12.5
Tobacco	13.1	16.7
Textile and Cotton ginning	15.4	13.2
Wearing Apparel	25.1	28.5
Leather and Related Products	0.7	0.8
Wood and Wood Products, Furniture	12.7	10.5
Paper and Paper Products	0.7	0.5
Printing and Reproduction of Recorded Media	0.9	0.8
Chemical and Chemical Products, Pharmaceuticals	1.3	0.9
Rubber and Plastic Products	1.0	0.6
Non-metallic Mineral Products	3.5	3.1
Basic Metal	0.3	0.3
Fabricated Metal	3.6	4.0
Computer, Electronic and Electrical Equipment	0.3	0.3
Machinery and Equipment	0.4	0.4
Motor Vehicles and Transport Equipment	0.2	0.1
Others	7.8	6.7

Source: NSSO unit-level data, 67<sup>th</sup> Round and 73<sup>rd</sup> Round

### III. Problems faced by Unorganised Manufacturing Sector in India

Unorganised manufacturing enterprises are small scale enterprises and many out of them are own account manufacturing enterprises using obsolete technology. So these enterprises are subject to various problems like infrastructure, connectivity, uninterrupted supply of various inputs etc. This section deals with the problems faced by unorganised agro-based enterprises in north-west region. In unorganised manufacturing sector of India, share of enterprises reporting some problem has been observed around 37.6 per cent during 2010-11 whereas 62.4 per cent enterprises reported that they don't face any serious problem (Table 3). Share of enterprises reporting some problem has increased to 41.1 per cent during 2015-16. It can be seen that share of enterprises facing problems has increased in case of both OAMEs as well establishments during 2015-16 and share of establishments facing problems is higher as compared to OAMEs during the both time periods. Similar pattern has been observed in case of rural and urban areas. Share of rural units facing problems is higher than urban units in case of both OAMEs and establishments.

**Table 3: Share of Enterprises Reporting Problems**

Enterprise Type	2010-11	2015-16
	Rural	
OAMEs	39.8	43.5
Establishments	52.2	55.4
Total	41.0	44.4
Urban		
OAMEs	30.5	33.9
Establishments	39.4	45.0
Total	32.8	36.5
Total		
OAMEs	36.4	39.9
Establishments	43.9	48.4
Total	37.6	41.1

Source: NSSO unit-level data, 67<sup>th</sup> Round and 73<sup>rd</sup> Round

In rural areas 52.2 per cent of establishments are facing problems in 2010-11 and this share has increased to 55.4 per cent in 2015-16. Thus there is an increase in share of enterprises facing problems and more of rural enterprises are facing problems as compared to urban units. Share of establishments is high particularly in rural areas because establishments are relatively large sized and their production procedures are complex as compared to OAMEs which are family based units. So there is further need to study that which kind of problems is faced by these enterprises in both rural and urban areas. Therefore nature of problems faced by unorganised manufacturing units in India has been looked at and presented in Table 4.

During 2010-11 majority of unorganised manufacturing enterprises in India have reported fall of demand for their products as most severe problem. Percentage of enterprises reporting problems related to power supply, raw material and credit is also high. Share of enterprises facing fall of demand has increased in 2015-16 and share of enterprises reporting problems related to credit and recovery of financial dues has also increased during this period. In case of OAMEs majority of enterprises are facing problems related to shrinkage in demand, power cuts, raw material and non-availability of credit, whereas establishments are facing problem of non-availability of labour when needed, non-recovery of financial dues along with problem of power cuts and fall of demand however very few enterprises have reported shortage of raw material as a most severe problem in case of establishments. Similar kind of problems has been observed in rural and urban sectors. Majority of enterprises are facing problem of erratic power supply and fall of demand, however share of enterprises reporting problem of erratic power supply has declined and that of fall of demand has increased in both areas. In rural sector for OAMEs fall of demand is major problem but establishments are facing problems like power cuts and labour related problems also in both the sectors.

**Table 4: Nature of Problems faced by Enterprises by Type of Enterprise**

Nature of Problem	Rural			Urban			All		
	OAMEs	Est.	Total	OAMEs	Est.	Total	OAMEs	Est.	Total
<b>2010-11</b>									
Erratic power supply	6.0	17.0	7.1	5.4	12.7	7.3	5.8	14.2	7.2
Shortage of raw material	6.4	4.6	6.3	2.8	2.9	2.8	5.1	3.5	4.8
Fall of demand	10.8	6.7	10.4	10.6	5.1	9.2	10.7	5.7	9.9
Non-availability of credit	4.9	4.2	4.9	3.4	3.6	3.5	4.4	3.8	4.3
Non-recovery of financial dues	4.4	4.9	4.4	2.6	3.3	2.8	3.7	3.9	3.7
Non-availability of labour as and when needed	0.3	8.3	1.1	0.4	6.6	1.9	0.3	7.2	1.4
<b>2015-16</b>									
Erratic power supply	4.0	11.2	4.6	3.2	8.9	4.5	3.7	9.6	4.5
Shortage of raw material	4.1	3.9	4.1	3.2	1.3	2.7	3.8	2.2	3.5
Fall of demand	16.3	13.5	16.1	14.5	13.1	14.1	15.6	13.2	15.3
Non-availability of credit	5.0	7.0	5.1	3.9	4.0	3.9	4.6	4.9	4.6
Non-recovery of financial dues	4.3	6.6	4.4	2.7	5.2	3.3	3.7	5.7	4.0
Non-availability of labour as and when needed	0.3	8.1	0.9	0.9	8.3	2.6	0.5	8.3	1.6

Source: NSSO unit-level data, 67<sup>th</sup> Round and 73<sup>rd</sup> Round

Note: Share is percentage to respective total

To make the picture more clear a rank has been assigned to each problem with highest rank to the problem reported by highest number of enterprises out of the respective total enterprises (Table 5). It can be seen from the table that shrinkage of demand is the major problem reported by both type of unorganised manufacturing enterprises in both the sectors. This is attributed to the fact that informal units have to face competition in terms of quality and price which may affect demand for their product and another reason could be shrinkage of organized sector. Informal sector units, particularly producing intermediate and capital goods, mainly cater the demand of the factory sector and the recent industrial recession has led to a sharp decline in demand generated by factory sector (Mukherjee, 2003).

**Table 5: Rank of Problems in each Sector and by Type of Enterprise: 2015-16**

Nature of Problem	Rural			Urban			All		
	OAMEs	Est.	Total	OAMEs	Est.	Total	OAMEs	Est.	Total
Erratic power supply	5	2	3	3	2	2	4	2	3
Shortage of raw material	4	6	5	4	6	5	3	6	5
Fall of demand	1	1	1	1	1	1	1	1	1
Non-availability of credit	2	4	2	2	5	3	2	5	2
Non-recovery of financial dues	3	5	4	5	4	4	5	4	4
Non-availability of labour as and when needed	6	3	6	6	3	6	6	3	6

Source: Authors calculation based on NSSO 73<sup>rd</sup> round

For own-account units non-availability of credit is second major problem and for establishments second major problem is erratic power supply in both rural and urban sectors. Due to decline in demand these units become unable to generate enough resources and absence of formal credit system also led to credit related problems. The third problem is non-recovery of financial dues for rural OAMEs and for urban OAMEs it is problem related to power supply. On the other hand establishments are reporting problem related to availability of labour as and when needed as third major problem in rural as well as in urban areas. Since majority of enterprises in unorganised manufacturing sector are OAMEs thus it can be said that shrinkage of demand, non-availability of credit, non-recovery of financial dues and erratic power supply are major problems faced by this sector. Further these problems could be activity specific and to analyse this, different kind of problems faced by different sub-sectors of unorganised manufacturing sector has been presented in Table 6.

It can be observed from above table that many sub-sectors in unorganised manufacturing sector are facing the problem of demand crunch. Units producing intermediate and capital goods like chemical and chemical products, fabricated metal, machinery and equipment faced demand crunch due to slowdown in factory sector (Mukherjee, 2003). If we look at the industries having major share in unorganised manufacturing sector, it can be observed that during 2010-11 these industries like food and beverages, textile, wearing apparel and fabricated metal are facing problem of fall of demand along with erratic power supply. Manufacture of wood and products of wood and non-metallic mineral products are facing problem of shortage of raw material along with fall of demand. Similarly during 2015-16, fall in demand is the major problem faced by most of the sub-sectors of unorganised manufacturing sector. Share of enterprises reporting this problem is highest in case of food and beverages, textile, wearing apparel, wood and wood products, non-metallic mineral products and fabricated metal. It can be observed that percentage of enterprises reporting the problem of non-availability of labour is low in many industries and it is high in industries like printing and reproduction of recorded media, rubber and plastic products, machinery and equipment and

transport equipment. These are industries which employ skilled labour, so for these industries it is problem of non-availability of skilled labour on time. Therefore it can be said that major problems faced by unorganised manufacturing sector are demand crunch, power cuts and credit related problems.

**Table 6: Nature of Problems Faced by Enterprises in each Industry**

Industry	2010-11						2015-16					
	EPS	SRM	FD	NAC	NRFD	NAL	EPS	SRM	FD	NAC	NRFD	NAL
Food and Beverages	17.2	3.3	6.7	4.7	3.9	1.1	10.9	2.1	11.6	6.7	5.4	1.7
Tobacco	2.8	6.2	3.9	2.9	3.1	0.5	1.3	7.3	6.4	1.6	1.5	0.1
Textile and Cotton ginning	8.1	4.7	7.4	3.6	3.3	1.2	6.3	4.1	20.3	4.7	2.3	2.0
Wearing Apparel	5.5	0.9	11.2	3.6	5.2	0.9	3.2	0.5	16.7	4.3	5.0	1.1
Leather and Related Products	5.9	7.1	8.1	7.2	2.4	3.4	1.5	2.6	36.9	6.2	2.0	1.5
Wood and Wood Products, Furniture	3.9	11.3	14.7	5.3	4.7	1.4	2.9	6.7	21.2	6.2	5.2	2.4
Paper and Paper Products	3.8	2.7	6.9	16.0	4.3	1.0	4.6	3.1	8.9	5.9	10.0	1.1
Printing and Reproduction of Recorded Media	14.7	0.7	10.8	3.5	2.8	3.9	11.5	0.8	15.7	3.2	2.8	4.6
Chemical and Chemical Products, Pharmaceuticals	3.5	8.5	11.6	6.4	2.0	0.8	1.3	2.3	3.5	13.3	0.2	1.2
Rubber and Plastic Products	5.0	1.3	33.2	3.7	1.2	2.6	4.6	2.0	10.6	4.9	0.6	5.1
Non-metallic Mineral Products	2.0	18.1	18.8	3.8	2.4	4.9	1.1	13.0	22.3	4.6	2.6	3.5
Basic Metal	10.1	0.5	28.6	1.7	3.7	2.7	9.4	0.9	11.0	9.4	2.6	2.6
Fabricated Metal	12.4	3.2	11.7	3.5	2.1	3.3	10.0	1.4	15.5	4.3	5.5	4.6
Computer, Electronic and Electrical Equipment	23.7	0.7	3.5	3.6	0.9	3.0	9.3	0.5	13.5	6.0	5.6	4.5
Machinery and Equipment	13.4	1.0	9.5	3.1	0.2	9.4	9.1	0.3	9.9	1.7	33.4	10.8
Motor Vehicles and Transport Equipment	18.2	0.7	6.5	3.3	1.5	9.5	11.4	2.1	12.2	2.0	1.2	14.2
Others	5.3	3.5	9.6	7.4	1.8	2.1	2.9	1.8	15.9	6.3	3.0	1.8



Source: NSSO unit-level data, 67<sup>th</sup> Round and 73<sup>rd</sup> Round

Note: EPS- erratic power supply, SRM- shortage of raw material, FD- fall of demand, NAC- non-availability of credit, NRFD- non-recovery of financial dues, NAL- non-availability of labour as and when needed.

#### **IV. Conclusion**

Since many of unorganised manufacturing units are family based own account units which operates at sub-optimal levels and use obsolete technology these enterprises are subject to various problems like infrastructure, connectivity, uninterrupted supply of various inputs etc. The unorganised manufacturing sector is mainly concentrated in rural areas and dominated by tiny own account family based units, however share of rural based enterprises in total unorganised manufacturing units has declined slightly. Share of enterprises facing problems has increased in 2015-16 and more of rural enterprises are facing problems as compared to urban units. Share of establishments reporting problems is high as compare to OAMEs and in rural areas more than fifty per cent of establishments are reporting problems. Shrinkage of demand is the major problem reported by both type of unorganised manufacturing enterprises in both the sectors. Informal units have to face competition in terms of quality and price which may affect demand for their product. Other major problems are power cuts and non-availability of credit. In major sub-sectors of unorganised manufacturing sector of India fall of demand and erratic power supply are main problems. Problems related to labour supply are reported only by such industries which employ skilled labour. Therefore constraints of unorganised manufacturing sector needs to be taken care of by providing some sort of protection from competition. Because problem of fall of demand further led to lack of resources with decline in turnovers. An appropriate formal credit system is required to address the problem of credit availability. Infrastructural problems like uninterrupted power supply should be taken care of because these constraints hinders the technology upgradation and thus hampers the growth and productivity of sector.

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