THE CONTRIBUTIONS OF SMALL SCALE AND COTTAGE INDUSTRIES IN ECONOMIC DEVELOPMENT OF INDIA-A STUDY

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Abstract

Industrialization does not necessarily imply the existence of huge factories spread over hundreds of acres, churning out power and using lots of fuel. This specifically points to large-scale industries. Industrialization also has to do with factories and industries and organizations that operate on a much smaller scale, but generate profits all the same. In India, particularly, there has always been a push for small-scale industrialization, since the disparities in income and resources will not make it possible for all sections of the population to be engaged in large-scale industrial work. Moreover, India is home to a large number of artisanal crafts, and these cannot prosper under the principles of large-scale work. Even before independence, there was a push for cottage industries to develop and become self-sufficient.

Industrial units are generally classified between small-scale, medium scale and large scale units; considering their size, capital resources and the number of labourers engaged upon.

In India, the small scale industrial sector has been growing at a very rapid scale. Industrial Policy Resolutions, 1948, 1956 and more particularly the Industrial Policy Statement, 1977 have offered a special favour for the development of small scale industries in India. Initially the fixed capital investment limit of the small scale units was restricted to Rs. 5 lakh and later on the limit has been raised to Rs. 10 lakh for small scale unit and Rs. 15 lakh for ancillaries in 1975. Again this fixed capital investment limit was raised to Rs. 15 lakh for small units and Rs. 20 lakh for ancillary units in 1980. In 1985, this investment limit was further raised by the Government to Rs. 35 lakh for small scale units and Rs. 45 lakh for ancillary units.

KEY WORDS- *COTTAGE INDUSTRIES, SMALL SCALE INDUSTRIES GLOBALIZATION LIBERALIZATION INTERNATIONAL MARKET INDUSTRIAL POLICY, ANCILLARIES, INVESTMENT, UNION BUDGET, PRIVITIZATION.*

INTRUDUCTION

Definition of Small Scale and Cottage Industries:

Industrial units are generally classified between small-scale, medium scale and large scale units; considering their size, capital resources and the number of labourers engaged upon.

There are differences between small scale and cottage industries on two different issues:

(a) Small scale industries are mostly located in urban centres as separate units, but the cottage industries are normally associated with agriculture and provide subsidiary employment in rural areas; and

(b) Small scale industries produce goods with mechanized equipment's, partially or fully, but the cottage industries involve activities mostly by hand and are performed primarily with the help of household workers.

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Again this fixed capital investment limit was raised to Rs. 15 lakh for small units and Rs. 20 lakh for ancillary units in 1980. In 1985, this investment limit was further raised by the Government to Rs. 35 lakh for small scale units and Rs. 45 lakh for ancillary units.

Again the Industrial Policy statement, 1990 raised the investment ceiling in plant and machinery to Rs. 60 lakh for small scale units and Rs. 75 lakh for ancillary unit and for the "tiny" units the limit was raised from Rs. 2 lakh to Rs. 5 lakh. Small scale industries were also given extra incentives for export.

Thus, their investment limit was raised further to Rs. 95 lakh on condition that these small scale units should export 30 per cent of their output by the third year of their commencing production.

In 1996-97 (January 1997), the Government of India in its policy of industrial reforms has again enhanced the investment ceilings in plant and machinery for small scale industries (SSI) and ancillary units from Rs. 60 lakh and Rs. 75 lakh respectively to Rs. 3 crore and that for the tiny sector has also been raised from Rs. 5 lakh to Rs. 25 lakh, Thus, this investment ceiling of SSI unit would also apply to ancillary and export oriented units for which no separate limit has been prescribed.

In 1999-2000, the investment limit for small scale and ancillary undertakings has been reduced from existing Rs. 3 crore to Rs. 1 crore.

Again the Union Budget 2007-08 has also proposed to raise the exemption limit of Small Scale Industry (SSI) from Rs. 1.0 crore to Rs. 1.5 crore.

Moreover, the process of reservation of items of production exclusively by the small scale sector was started in 1967 and reached the peak in 1984. There has been a continuous relaxation of the reservation policy overtime and the number of items reserved for the small scale sector was 239 on January 22, 2007.

The process of de-reservation of items from small scale sector continued in recent years. Number of items de-reserved in 2005, 2006 and 2007 were 108,180 and 212 respectively. Again on February 5, 2008, the Government has excluded an additional 79 items from a list of 114 items which can be exclusively manufactured in the small scale sector. With this de-reservation, only 35 items can now be manufactured in the SSI sector.

The Government has been de-reserving items in a gradual and calibrated manner to increase competitiveness of the industry, facilitate adequate flow of credit and upgrade technology. The 35 items that would continue to be manufactured in the SSI sector include—food and allied items, wood, wood products, paper, paper products, plastic product, organic chemicals, drug, drug intermediates, other chemicals, chemical products, glass, ceramics, mechanical engineering and electrical machines, appliances and apparatus.

Up-Gradation of Investment Limits of SSI in 1996-97 and Thereafter:

In 1996-97, the Government of India in its policy of industrial reforms has enhanced the investment ceilings in plant and machinery for small scale industries (SSI) and ancillary units from Rs. 60 lakh and Rs. 75 lakh respectively to Rs. 3 crore and that for the tiny sector has also been raised from Rs. 5 lakh to Rs. 25 lakh. Thus, this investment ceiling of SSI unit would also apply to ancillary and export oriented units for which no separate limit has been prescribed.

Selective enhancement of investment in plant and machinery from Rs. 1 crore to Rs. 5 crore was carried out in respect of 13 items in stationary sector and 10 items of drugs and pharmaceuticals sector from June 5, 2003 and also for 7 items of sports goods reserved for manufacture in the small scale sector from October, 2004 in order facilitate technology up-gradation and enhancing competitiveness. Moreover, Union Budget, 2005-06 raised the ceiling of SSI exemption on turnover from the existing Rs. 3.0 crore to Rs. 4.0 crore per year.

Moreover, the Union Budget 2007-08 has also proposed to raise the general exemption limit of Small Scale Industrial units from Rs. 1.0 crore to Rs. 1.5 crore.

It is expected that the recent increase in investment limit of small scale industries (SSI) sector could result in more opportunities for employment and exports.

New Measures:

Several new measures have been adopted for improving the efficiency and performance of the small scale units by the Government of India in recent years.

These include:

(i) Provision of excise concessions available for both registered and unregistered units depending on turnover upto Rs. 300 lakh;
(ii) Reservation of products for exclusive manufacture (35 products at present);
(iii) Enhancement of investment ceilings to Rs. 3 crore for SSI units;
(iv) Infrastructural support to Entrepreneurship Development Institutes (EDI) to augment their training capacities;
(v) Adoption of joint programme by SBI and SIDBI for modernisation and technology up-gradation of industry cluster;
(vi) Enhanced technology support for modernisation and quality up-gradation through opening of five new tool rooms with Danish and German assistance;
(vii) Launching of Technology Development and Modernisation Fund (TDMF) scheme for modernisation and to provide improved and updated technology to export oriented units;
(viii) Provision of infrastructural support in integrated manner through Integrated Infrastructure Development (IID) scheme;
(ix) Introducing seven point action plan for improving the flow of credit to SSI sector in 1995- 96;
(x) Simplification of procedural formalities by banks for SSI entrepreneurs;
(xi) Enhancing entrepreneurship development programmes by involving voluntary agencies,
(xii) Strengthening special employment generation programmes through PMRY schemes, and
(xiii) Enhancing the information and data base of the small scale industrial sector.

All these new measures introduced in post-reform era would definitely benefit the entire SSI sector which employs over 1.5 crore people and produce around 50 per cent of the total output produced in the manufacturing sector of the country.

The small scale industry with its inherent dynamism needs to be given vital inputs to boost its performance. The promotion of small scale units ensured greater participation and wider diversification of the production process and ensured dispersal throughout the country.

New Small-Sector Industrial Policy, 1991:

On August 6, 1991, the Government of India announced its new small sector industrial policy entitled 'Policy Measures for Promoting and Strengthening Small, Tiny and Village Enterprises.' The main objective of this new policy is to inject higher degree of vitality and growth impetus to this sector in order to attain a higher growth rate in respect of its output, employment and exports.

Expansion of Small-Scale Sector and Contribution to Industrial Output:

As is clear from the discussion above, the definition of small-scale undertakings has changed over time. Therefore, study of the expansion of small-scale sector over a long period of time is not possible. However, a study of the data contained in Economic Survey 2001-02 gives the following results for the period 1993-94 to 2000- 01.
(a) The number of small-scale units stood at 23.9 lakh in 1993-94 and this rose to 33.7 lakh in 2000-01. This shows that during the period eight years, the number of industrial units rose by as much as 41 percent.
(b) The output of small-scale units was Rs. 2, 41,648 crore in 1993-94 and this rose to Rs. 4, 50,450 crore in 2000-01 (at 1993-94 prices). This shows that the output of the small-scale industries increased by as much as 86.4 percent over the period 1993-94 to 2001-02.

(2) Relative Efficiency as Compared with Large-Scale Sector:

i) Whether large-scale industries are more efficient or small-scale industries are more efficient, is a matter of debate. The problem arises because of the fact that efficiency can be defined in many different ways. The study on this issue was conducted by SIDBI (Small Industries Development Bank of India) Team in 1999 in association with NCAER (National Council of Applied Economic Research).

The study covers the period 1980-1994. The study reveals that the small-scale industries, by investing only 7 percent to 15 percent of the total manufacturing sector's capital, contribute to nearly one-fifth of industrial output and 35 to 40 percent of total employment in the industrial sector.

Moreover, both labour productivity and capital productivity in small-scale sector grew at a faster rate than large-scale sector during 1980-94. Thus, the small-scale sector has proved to be more efficient.

(3) Employment Generations:

The small-scale units employed 129.80 lakh people in 1991-92 and this number has consistently risen to 185.6 lakh people in 2000-01. Given the acute problem of unemployment in India, creation of employment opportunities depend crucially on the development of small-scale and cottage industries.

There is already surplus labour in agriculture while the large-scale industrial sector, being capital-intensive in nature, has limited employment opportunities. In fact, the employment argument is the strongest argument that can be put forward in favour of small-scale and cottage, industries in India.

(4) Equitable Distribution of National Income:

The main arguments put forward in support of the small-scale and cottage industries is that they ensure a more equitable distribution of national income and wealth. This happens because of the following two considerations:

(a) The ownership of small-scale industries is more widespread than the ownership of large- scale industries, and

(b) They possess a much larger employment potential as compared to the large industries.

(5) Regional Dispersal of Industries:

There has been massive concentration of large-scale industries in the states of Maharashtra, West Bengal, Gujarat and Tamil Nadu. As a result, disparity in industrial development have increased. Even within these industrialized states, industries have tended to get concentrated in a few large cities like Mumbai and Chennai.

People migrate in large numbers from villages and lower order urban centres to these centres of industrial development. This swells the population of slums and create various social and personal problems. The whole urban environment gets polluted.

As against this, the small-scale industries are ostly set up to satisfy local demand and they can be dispersed overall the state very easily. They can also effect a qualitative change in the economy of a state. The most glaring example of this phenomenon is the economy of Punjab which has more small- scale industrial units than even the industrially developed state of Maharashtra.

(6) Mobilizations of Capital and Entrepreneurial Skill:

Small-scale industries are at a distinct advantage as far as mobilization of capital and entrepreneurial skill is concerned. A number of entrepreneurs are spread over small towns and village industries are distributed over the entire length and breadth of the country.

Similarly, large-scale industries cannot mobilize the savings done by people in areas far flung from the urban centers. But this task can be effectively accomplished by getting up a network of small-scale and cottage industries. In addition, a large number of other resources spread over the country can be put to an effective use by the small-scale and cottage industries.

The rapid development of small-scale industries in the post-Independence period is a proof that given the necessary credit, power and technical knowledge a large quantity of latent resources of the economy can be mobilized for purposes of industrial development.

(7) Less Industrial Disputes:

A number of supporter of small-scale and cottage industries have argued that as compared with large-scale units, these industries have less industrial disputes. While these are frequent strikes and lock-outs in large industries, small-scale and cottage industries do not face such problem.

Therefore, there is no loss of output in small-scale and cottage industries. However, this point of view is not totally correct. The fact is that workers in large scale units are organized and thus the strikes are well reported in media.

As against this workers in small scale units are unorganized and cannot resort to strike. Any worker who shows his resentment is immediately thrown out. Therefore, while in a small-scale unit relations between the employer and employees appear to be normal on the surface but in fact they may be not.

In the case of cottage industries, the question of dispute does not arise at all since the main form of labor in these industries is family labor.

(8) Contribution to Exports:

With the establishment of a large number of modem small-scale industries in the post-independence period, the contribution of the small-scale sector in export earnings has increased by leaps and bounds.

What is heartening to observe is that the bulk of the exports of the small-scale industries (in fact, around 93 percent) consists of such non-traditional items like readymade garments sports-goods, finished leather, leather products, woollen garments and knitwear, processed foods, chemicals and allied products, and a large number of engineering; goods.

The total export of the small-sector industry products increased from Rs. 150 crore during 1971-72 to Rs. 48,979 crore in 1998-99. This implies, an increase in the share of small-scale industries in the total exports of the country from 9.6 percent in 1971-72 to 34.9 percent in 1998-99. The share of the small-scale sector in manufacturing exports is about 45 percent. Exports of the small scale sector are estimated at $ 13 billion in 2000-01 which was about 30 percent of total exports in that year.

The following are some of the salient features of the new policy:

1. De-regulation, de-bureaucratization and simplification of rules, regulation and procedures in connection with the establishment and maintenance of these small scale units.
2. Enhancement of the investment limit in fixed capital asset of “tiny” enterprises from Rs. 2 lakh to Rs. 5 lakh, irrespective of the location of the unit.
3. Recognizing industry related services and business enterprises within small scale industries, irrespective of their location with investment upto Rs. 5 lakh.
4. Arranging adequate and regular flow of credit on a normative basis and to improve the quality of its delivery for smooth and viable operation of the small scale sector.
5. Establishing a special monitoring agency in order to look after the genuine credit needs of the small-scale industrial sector.
6. Arranging a suitable legislation to ensure prompt payment of small industries bills.
7. Introducing a scheme of integrated Infrastructural Development for small scale industries.
8. Setting up of a Technology Development Cell (IDC) in the Small Industries Development Organisation (SIDO) for providing technology inputs for improving productivity and competitiveness of the products produced by the small sector.
9. Ensuring market promotion of the products produced by small sector through co-operatives, public institution and other specialised professional or marketing agencies and consortia approach.

10. Establishing one Development Centre: Establishing Export Development Centre in Small Industries Development Organisation (SIDO).
11. Introduction of a limited partnership Act to limit the financial liability of new and non- active partners/entrepreneurs to allow foreign companies upto 24 per cent.

Steps Taken by the Government:

In the mean time, the Government have taken the following steps for the promotion of small- scale industries pursuant to the policy measures announced on 6 August, 1991.

(i) Restriction on registering new SSI units for the manufacture of certain products was disbanded.
(ii) Steps have been taken to remove the credit bottlenecks of this sector. The eligibility limit of projects under National Equity Fund Scheme has been doubled from Rs. 5 lakh to Rs. 10 lakh.
(iii) The single window scheme was extended to be operated by schedule banks also in addition to State Financial Institutions.
(iv) An ordinance was promulgated on 23rd September, 1992 making payment of interest obligatory on delayed payments to small scale and ancillary industrial undertakings. It has been re-promulgated in January 1993.

Recently various procedural simplifications including new registration forms have been introduced. In order to ensure prompt payment to small scale units a new legislation, viz. Interest on the Delayed Payments Act, 1993, has been enacted by Parliament.

A scheme has been formulated to train unemployed non-technical graduates so as to augment the availability of managers at affordable rates for the SSI sector and reduce educated unemployment.

The tiny industries sector, the majority among the SSI units, was at present passing through a bad phase which needed to be improved to keep pace with economic reforms. The Government has also announced the setting up of an expert committee to look into the problems and difficulties of SSI units in the country and their solution.

In the post-liberalisation scenario, the small industries sector has to face global competition and, thus, inherent strengths ought to be suitably moulded to adapt to the changed circumstances through up-gradation of technology and by forging closer ties between domestic and foreign enterprises.

Appraisal:

It is for the first time that a separate policy has been announced. It is important to note that the policy has announced the continuation of the reservation policy for the SSI sector.

J.C. Sandesera observed that the four measures of the new policy are really ‘Path breaking’ and the measures are well directed to minimize the problems of this sector.

These four measures include:

(a) Changes in the definition of tiny units,
(b) Separate package for the promotion of tiny enterprises,
(c) Providing for equity participation by other industrial units in the small scale units not exceeding 24 per cent of the total shareholding, and
(d) Introduction of a new legal form of organisation of business, known as restricted or limited partnership.

But this policy failed to redress the serious problems of large number of sick units in the small sector.

The new policy has legitimized the sub-contracting operation of big business by the large business houses and foreign firms to have an ownership stake.

The proposal of the new policy to allow equity participation by other industrial undertaking including foreign companies is intended to help build up linkage between the SSI and LMSI (large and medium) sectors. But this may lead to an intrusion to SSI sector by the large sector.

The new policy has completely stopped the concessional finance for the SSI sector. The priority sector status is also likely to be withdrawn.

Fund is a major constraint for the SSI sector. It is the timely and adequate credit that is very much needed by the sector. The new policy also proposed to raise the eligibility limit of investment up to Rs. 10 lakh for National Equity Fund and up to Rs. 20 lakh for single window schemes. Accordingly, more SSI units will be able to get financial assistance under these two schemes.

Other measure like introduction of factoring service through commercial banks, enactment of legislation of reducing the delay in payment of bills of the SSI units etc. are likely to benefit the SSI units etc. It will however depend on quick implementation of the proposed measures.

Thus, in this context it can be Served that it is not the' announcement of policy alone which is important but it is the implementation of the policy which is more important.

Policy Initiatives and Measure Undertaken for Micro and Small Enterprises (MSEs) During 2006-07 and MSMED Act, 2006:

The micro and small enterprises (MSEs) are playing an important role in Indian economy, contributing around 39 per cent of country's manufacturing output and 34 per cent of its exports during 2004-05. This enterprise provides employment to around 29.5 million people in both the rural and urban areas of the country.

The process of economic liberalisation and market reforms exposed the Indian MSEs to increasing levels of domestic and global competition and has also opened up attractive possibilities of access to larger markets and also stronger and deeper linkages of MSEs with larger enterprises.

Under this changed environments, the MSEs should achieve sustained growth by enhancing technological capabilities so as to improve the quality of products and services to global standards and also seeking ways of innovation.

In 2006-07, the Government has undertaken initiatives and measures to enable in MSEs enhance their competitive strength, address challenges of competition and also to avail the benefit of global market.

The other features of Act include:

(i) Establishment of specific funds, for the promotion, development and enhancement of competitiveness of these enterprise;

(ii) Notification of schemes/programmes for the purpose;

(iii) Progressive credit policies and practices,

(iv) Preference in Government procurements to products and services of the micro and small enterprises;

(v) Introducing most effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and

(vi) Simplification of the process of closure of business by all three categories of enterprise.

2. Amendment to KVIC Act:

The government has amended the Khadi and Village Industries Commission Act, 1956 introducing several new features to facilitate professionalism in the operations of the Commission as well as field level formal and structured consultations with all segments of stakeholders. Accordingly the commission has been constituted.

3. Approval of Package:

A package for promotion of Micro and Small enterprises has been approved recently, to address most of the concerns in the areas such as credit, cluster-based development, infrastructure, technology and marketing. Besides, capacity building of MSME Associations and support of Women entrepreneurs are the other important features of this package.

4. Setting up EGOM:
An Empowered Group of Ministers (EGOM) under the Chairmanship of the External Affairs Minister has been set up to lay down a comprehensive policy for cluster development and to oversee its implementation.

5. Introducing CGTSI:
Under the Credit Guarantee Scheme, life insurance cover for chief promoters of units provided guarantee cover by the Credit Guarantee Fund Trust for Small Industries (CGTSI) has been introduced. Further, the one-time guarantee fee under the scheme has been reduced from 2.5 per cent to 1.5 per cent with effect from April 1, 2006.

6. De-reservation:
After due consultation with the stakeholders, 180 items reserved for exclusive manufacture in micro and small enterprises have been de-reserved on May 10, 2006 and 87 such items have been de-reserved on January 22, 2007.

Major Initiatives Taken by the Government:

Recently, the Government has taken some major initiatives to revitalize MSME sector. These are:
(i) Implementation of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006.
(ii) A "Package for Promotion of Micro and Small Enterprises" was announced in February 2007. This includes measures addressing concerns of credit, fiscal support cluster-based development, infrastructure, technology and marketing. Capacity building of MSME Associations and support to women entrepreneurs are the other important features of this package.
(iii) To make the Credit Guarantee Scheme more attractive, the following modifications have been made : (a) enhancing eligible loan limit from Rs. 25 lakh to Rs. 50 lakh; (b) raising the extent of guarantee cover from 75 per cent to 80 per cent for (i) micro enterprises for loans upto Rs. 5 lakh, (ii) MSEs operated or owned by women and (iii) all loans in the North-Eastern Region; and (c) reducing our time guarantee fee from 1.5 per cent to 0.75 per cent for all loans in the North Eastern Region.
(iv) The phased deletion of products from the list of items reserved for exclusive manufacture by micro and small enterprises in being continued 125 items were de-reserved on March 13, 2007 reducing the number of items reserved for exclusive manufacture in micro and small enterprises sector to 114.0. Further, 79 items were de-reserved through a notification dated February 5, 2008.

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