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Problems of Small Scale Industry in India

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Abstract: The small-scale industrial (SSI) sector is vital part of India's industrial sector. It contributes significantly to India's Gross Domestic Product and export earnings besides meeting the social objectives including that of providing employment opportunities to millions of people across the country. Small-Scale and cottage industry is those industries where small number of people are working within a small farm producing various products. In this case, investment amount is also small because owners of those industries do not have much capital in hand for investing their business. Most of the cases, government gives subsidy loans for running those industries. In industrial development sector especially in case of India which is labour intensive country, Small-scale and cottage industry plays a vital role with large scale industry. But now-a day, those industries are facing a large number of problems which hampers industrial production.

Keywords: Small -Scale, cottage industry, entrepreneur, enterprises, sick mills, artisans, import, export, technology etc.

Introduction: The small-scale industrial sector covers a wide spectrum of industries categorized under i) small-scale industrial undertakings ii) ancillary industrial undertakings (ANC) iii) export-oriented units (EOUs) iv) tiny enterprises (TINY) v) small-scale service enterprises (SSSEs) vi) small-scale service business enterprises vii) artisans, village and cottage industries viii) women entrepreneurs' enterprises i.e. a small-scale unit where one or more women entrepreneurs have 51 percent or more of financial holding. The small-scale and cottage industries face a number of problems. As a result, many small-scale units turn sick and a large number have to close down. At the end of March 2016, as many as 4, 90,000 of small-scale and cottage units were sick and an amount of Rs 34 core was blocked in them. This research paper tries to point out the defeats prevalent in small-scale industries and tries to find out the ways for development of these industries.

Objectives of the study: The objects of the study are-

- 1) To study about the definition of small-scale & cottage industry and to know about the problems that are confronted in these industrial system.
- 2) To know about its performance in Indian economy.
- 3) To analyze the nature of the problem and to give a picture of production process in small-scale industrial system.
- 4) To suggest the measures for solving the problem.

5) To put forward an ideal model for small-scale industrial system and compare it with the total small-scale & cottage industry in India.

6) To put forward recommendations for developing small-scale & cottage industry in India.

Methodology of the study: The data will be collected from primary and secondary source in industrial sector in India. The primary data will be collected with the help of interview & survey method. The primary data will be collected from a sample survey among different small-scale industry, the producer & owner of the small-scale & cottage industry, labourer, retailer, whole seller, buyer and consumer in different industrial market etc. The information has been collected through observation and the conclusion has been made on the basis of this information. For evaluating the objectives of the study the secondary data will be collected from the various sources such as books, reports, websites, university libraries, planning commission, govt. publications (central and state), state & district wise statistical office, small-scale industrial produce market committees etc.

Statement of the problem: In 1980, units having investment of less than Rs 12 lakh were defined as small-scale industrial undertakings while for ancillary units, the investment limit was Rs 15 lakh and for tiny enterprises the investment was less than Rs 1 lakh. In 2000, the investment limit for small-scale sector was Rs 1 crore, for ancillary units Rs 1 crore and for tiny enterprise Rs 25 lakh. In 1991, the investment limit was for small-scale sector Rs 60 lakh, for ancillary units Rs 75 lakh and for tiny enterprises Rs 5 lakh. Micro, Small and Medium Enterprises: Development Act, 2006 has been effected from October 2, 2006 including medium enterprises for the first time. Further, separate investment limit have been prescribed for manufacturing and service enterprises.

1) Manufacturing Enterprises: i) A micro enterprise where the investment in plant and machinery does not exceed Rs 25 lakh. ii) A small enterprise where the investment in plant and machinery is more than Rs 25 lakh but does not exceed Rs 5 crore and iii) A medium enterprise where the investment in plant and machinery is more than Rs 5 crore but does not exceed Rs 10 crore.

2) Service Enterprises: i) A micro enterprise where the investment in equipment does not exceed Rs 10 lakh. ii) A small enterprise where the investment is more than Rs 10 lakh but does not exceed Rs 2 crore and iii) A medium enterprise where the investment is more than Rs 2 crore but does not exceed Rs 5 crore. Registration in the SSI sector is voluntary. The registration is done with the District Industries Centers (DICs) firstly on temporary basis and subsequently, on the request of the concerned enterprises on permanent basis. Here their registration is mandatory under section 2m(i) and 2m(ii) of the factories Act. Section 2m(i) refers to units engaging 10 or more workers and using power whereas Section 2m(ii) refers to units engaging 20 or more workers and not using power. Besides some state government notify certain industrial activities for mandatory registration which are done under Sections 85(i) or 85(ii) respectively. Sections 85(i) refers to units engaging less than 10 workers and using power and Section 85(ii) refers to

units engaging less than 20 workers and not using power. To obtain knowledge about the activities of the SSI sector and improve the information-base of this sector, the Office of the Development Commissioner (small-scale industries) of the government of India conducted the First Census in 1973-74 in respect of 2.58 lakh SSI units registered upto 1973. The second census was done during 1990-91. Moreover among total 105.21 lakh small-scale industry units registered SSI unit are 13.75 lakh and unregistered SSI unit are 91.46 lakh. The latest Census conducted by the MSME Ministry is fourth All India Census in period 2006-07 and was completed during 2011-12 and covered medium enterprises also. Thus the definition of small-scale industries has changed over the period of planning.

The Role and Performance of Cottage and Small-Scale Industries in Indian Economy:

- 1) Expansion of SSI sector and its share in industrial production: The total number of units in the SSI sector stood at 105.2 lakh in 2001-02 and this number rose to 510.6 lakh in 2014-15. Output of MSME sector in 2006-07 was Rs 11,98,818 crore and this rose to Rs 18,09,976 crore in 2012-13. MSME sector manufactures over 6000 products ranging from traditional to high-tech items. 68.21% enterprises are service providers among which 34% are engaged in manufacturing. In 2014-15 the MSME sector contributed 7% of GDP and 37% of manufacturing output.
- 2) Employment generation: The SSI sector employed 249 lakh people in 2001-02 and this increased to 1,171.3 lakh in 2014-15. Within manufacturing employment in India. Creation of employment opportunities will depend on the development of small-scale and cottage industries. Labour intensity in the micro and small enterprises sector is almost 4 times higher than the large enterprises.
- 3) Efficiency of small-scale industries: An important study on this issue was conducted in 1999 by the SIDBI (Small Industries Development Bank of India) Team with National Council of Applied Economic Research in 1980-94. The small-scale industries contributed to nearly one fifth of total industrial output and 35-40% of total employment in the industrial sector. Moreover labour and capital productivity in this sector grew at a faster rate than large-scale sector. So they are efficient more. According to All India Census of Small-Scale Industry's comparison, in 2001-02 an investment of Rs 5 lakh in large industry generate employment to one person whereas the SSI sector generate employment to 7 persons with the same investment.
- 4) Equitable distribution of National income: Small-scale industry ensure a more equitable distribution of income and wealth because the ownership of small-scale industries is wide spread and possess a much larger employment potential.
- 5) Mobilisation of capital and entrepreneurial skill: A large number of entrepreneurs are spread over small towns and villages of the country. The Small-scale industry can utilise them

effectively and mobilize the savings well. A large number of country's resources can be used effectively by small-scale industries than the large scale industries.

6) Regional dispersal of industries: With industrial licensing policy, disparities in industrial development have increased. Generally, industries have tended to get concentrated in a few large cities like Mumbai, Kolkata, and Chennai. People migrate in large numbers from villages to these industrial development centres. This swells the population of slums and creates various social and personal problems which pollute the whole urban environment. The small-scale industries satisfy local demand and they can be dispersed over all the states very easily. Thus they can effect a qualitative change in the economy of the country. This is seen in state of Punjab.

7) Contribution to exports: The contribution of the small-scale sector in export earnings has increased by leaps and bounds. Most of exports of the small-scale industries like readymade garments, sports-goods, finished leather, leather product, woolen garments, knitwear, processed foods, chemicals and allied products, engineering goods. Thus MSME sector contributes about 40% of export earnings presently.

Problems of Small-scale and Cottage Industries: 1) Finance and Credit: The scarcity of finance and credit is the main obstacle in the development of small-scale units. The position of cottage and village industries in this regard is even worse. The capital base of the small industrial units is very weak since they have partnership. In many cases owner of these industries take credit from Mahajans or the traders at high rate of interest and is thus exploitative in character. For lack of finance and investment small-scale industries does not develop smoothly. Due to shortage of fund, most of these industries have been closed down. 2) Infrastructural constraints: Many of 716 firms faced significant infrastructural problems. Many productive activities are being constrained by inadequate physical infrastructure. These industries have to depend on small electricity boards for meeting their requirement which do not supply regular and adequate power. Moreover because of rampant corruption, many small-scale industries are forced to make private deals with the electricity officials to save from danger of tampering with their meters by the electricians. Transportation and communication infrastructures are also constraints.

3) Inverted tariff structure and raw material availability: Many of these industries use imported raw material and intermediate goods. Despite import liberalization in the economic reform period the tariffs on materials like steel, copper, plastics, chemicals, paper, non-ferrous metals remain high in comparison to tariffs on manufactured goods. This has created the problem of a significant 'inversion' in tariff structure which hurts small firms as they are more labour using and have material-to-output ratios. Local raw material used industries also face a number of problems.

4) Machines and other equipment: Machinery and other equipment in many small industries have grown obsolete. So their costs of production are high and its good's quality is inferior as compared to the large-scale units. So, modernization and rationalization are urgently required in small-scale industries.

- 5) Problems of marketing: The small-scale industries often do not possess any marketing organization and consequently their products compare unfavorably with the quality of the products of the large-scale industries. Therefore, they suffer from a competitive disadvantage. Because of the shortage of capital and financial resources, these units do not have adequate 'saving capacity' and are forced to sell their products at un-remunerative prices.
- 6) Delayed payment: The small-scale industry goes through on account of delayed payments by large firms and government departments. The small firms have very little bargaining power in the markets they operate as they buy raw materials and components in small lot. But they have to make advance payment to have an assurance of supply. When these small firms sell to whole sellers and other firms are often forced to offer extended credit periods due to complex procedure and rampant corruption in these departments.
- 7) Problem of sickness: A complex and unfriendly business ecosystem pushes small entrepreneurs towards the informal and unregistered segment which is growing faster than the organized segment by more than five times and accounts for 95% of all MSMEs.
- 8) Poor database: Another weakness of this sector is the inadequate database for the small-scale sector. There are two major sources of information on the small-scale sector, viz. Small Industries Development Organization and Central Statistical Organization. Complete information is not available from these sources. There is an urgent need for a regular system for collection of data on the SSI sector.
- 9) Other problems: They face a number of other problems like inefficient management, unchanging and unresponsive production pattern, burden of local taxes, competition from large-scale industries etc. Technological obsolescence, inadequate and irregular supply of raw materials, lack of organized markets channels, imperfect knowledge of market, unorganized nature of operation, lack of credit, constraint of infrastructure facilities including power, deficient managerial and technical skills are the other major problems of those industries.
- 10) Adverse effects of economic reforms and globalization: The decade of 1990s was marked by considerable deregulation of industrial economy through delicensing and dereservations, opening up the industrial sector to both internal & external competition, lowering of tariffs, removal of quantitative restrictions etc. Cheaper and better quality imported goods are posing a serious threat to small-scale units operating.

Recommendations and government undertaken policy for solving the problems:

Recommendations:

- 1) To remove the problem Finance & credit facility should be improved and infrastructural development should be made.

- 2) The government should reduce the tariff on these industries & ensure the availability of raw materials.
- 3) New & modern machinery and technology should apply.
- 4) The government should adopt various policies to remove the problem of marketing, sickness, delayed payment.
- 5) A regular data collection system for SSI unit should introduce & should arrange the system of perfect knowledge of market condition & regular power supply. To encourage new youth and the owner of those industries should also give special job oriented training by the government and to give loan facility at subsidized rate.

Government policy prior to 1991: 1) Organizational Structure: A cottage industries board was set up in 1947 itself which was split into three boards-i) All India handloom, All India handicrafts, All India khadi & village industries Board. There were also Small-scale industries, coir and Central silk Board under the plan period. ii) National Small Industries Corporation Ltd was set up in 1955 to provide machinery and to assist them. Four regional small industries service institute were set up to provide technical assistance. Small industries development organization was set up in 1954 which was renamed as Micro, small and medium enterprises development organization to formulate policies & to coordinate institutional activity. The programme of industrial estates was initiated in 1955 to provide factory accommodation like power, water supply etc. The programme of District industries centers was introduced in May 1979 for assistance of credit guidance, training, marketing etc.

2) Plan Expenditure: Expenditure on small-scale and cottage industries has increased considerably over the plans. It was Rs 8,384 in Ninth plan.

3) Reservation for SSIs: To protect them from competition the government has reserved the production of a large number of items for SSI units which stood at 500 in 1977 and at 836 in 1989.

4) Financial assistance for SSIs: Several schemes were introduced to provide financial assistance which include Small industries development Fund in 1986, National Equity Fund in 1987, Single window scheme in 1988, etc.

5) Setting up of SIDBI: For meeting demand of long term loan facility for small-scale industries the Small Industries Development Bank of India was established in 1989 which gives financial assistance.

5) Other measures: A Council for Advancement of Rural Technology was set up in October 1982 to provide technical inputs. Price and purchase preference was granted to products manufactured in this sector. Excise concessions were granted to registered & unregistered units up to Rs 300

lakh. Full exemption was granted up to a turnover of Rs 30 lakh & concessional rate of excise duty was levied for a turnover exceeding Rs 30 lakh. New Small Enterprise Policy, 1991:- i) The investment limit for tiny units was raised from Rs 2 lakh to Rs 5 lakh. Moreover, the locational restrictions were done away with which opened up the way for tiny units within new investment limit & located in bigger towns.

ii) The 1991 policy proposed a separate package where small-scale units receive various types of support like preference in land allocation, power connections, skill & technology up-gradation etc.

iii) The 1991 policy provided for equity participation by other industrial units in the small-scale units not exceeding 24 % of the total shareholding.

iv) A new legal form of organization of business namely restricted or limited partnership was introduced where the liability of at least one partner is unlimited whereas other partners have their liability limited to invested capital.

v) The priority was given to tiny sector in government purchase programme. Priority was also given to small-scale sector in allocation of indigenous raw materials. The policy proposed a scheme of integrated infrastructure development for small industries to facilitate location of industries & to promote stronger coordination.

Comprehensive Policy Package 2000 & Recent Policy Measures: 1) A policy package for the small-scale sector was announced by the Prime Minister on August, 2000. The Third Census of the small-scale sector in 2001-02 provided valuable information about this sector. 2) Raising of investment limit: The investment limit for the SSI sector which was Rs 1 crore prior to 2006 has been raised to Rs 5 crore in MSMED Act, 2006.

3) Credit Guarantee Fund Scheme for micro and small enterprises: The government launched this scheme for micro & small enterprises in August 2000 for making available credit to SSI units.

4) Scheme for technology up-gradation: To encourage technology a Credit Linked Capital Subsidy Scheme for technology up-gradation has been launched where 15% capital subsidy is admissible on loans up to Rs 1 crore advanced by scheduled commercial bank/state finance corporations etc.

5) Extension of IID: The Integrated Infrastructure Development (IID) scheme has been extended to cover the entire country with 50% reservation for rural areas.

6) Market Development Assistance: A flexible growth stimulating & artisan-centric scheme named MDA to promote production and sales of khadi and polyvastra has been introduced from 2010-11.

7) Dereservation: The government policy of dereservation has been introduced to upgrade their technology & improve the quality of their products. In April, 2015 the government announced the scrapping of the reservation list where all items have been dereserved.

8) Credit delivery to SSI sector: For credit delivery to SSI sector many steps have been undertaken. i) The composite loan limit has been raised from Rs 50 lakh to 1 crore. ii) The limit of collateral free loans has been raised from Rs 15 lakh to Rs 25 lakh. iii) Laghu Udyami Credit Card scheme has been liberalized by enhancing the credit limit from Rs 2 lakh to 10 lakh. iv) Small & Medium Enterprises Fund of Rs 10,000 crore was operationalised by the SIDBI. At March 2015 the amount of credit was Rs 6,479 billion.

8) MUDRA launched: Prime Minister launched Micro Unit Development And Refinance Agency or MUDRA on April 8, 2015 to fund & promote microfinance institutions which in turn provide loans to these sector.

9) Enactment of MSMED Act, 2006: Micro, small, and Medium Enterprises Development Act was enacted in 2006 to provide the first ever legal framework for recognizing of the concept of enterprises and integrating the three enterprises, micro, small & medium.

10) National Manufacturing Competitiveness Programme (NMCP): The government has launched this scheme aimed at enhancing the competitiveness and productivity of the enterprises through better technologies & skills for this sector.

11) MSE-Cluster Development Programme: The Integrated Technology Up-gradation and Management Programme in 1998 undertaken by the government was renamed as small Industry Clusters Development Programme in August, 2003 for export promotion, building marketing & skill development etc. The scheme was renamed as Micro & small Enterprises-Cluster Development Programme & Integrated Infrastructural Development Scheme with its existing funding pattern in August, 2007.

12) Prime Minister's Employment Generation Programme: This scheme was a new employment generation credit link subsidy scheme, launched by the government in August 2008 by merging two programmes, namely Prime Minister's Rozgar Yojana and Rural Employment Generation Programme.

13) Public Procurement Policy: The government has introduced a Public Procurement Policy for goods produced and services rendered by Micro and Small Enterprises Order, 2012 effective from April, 2012 to procure a minimum of 20% of their annual value of goods & services required by them from MSEs & has a sub-target of 4% procurement out of this 20% for SC, ST enterprises.

14) Udyog Aadhaar Memorandum: This scheme was launched in September, 2015 for promoting business for MSMEs under which MSME enterprises need to file an online entrepreneurs' memorandum to instantly get a unique Udyog Aadhaar Number (UAN).

15) A scheme for promoting Innovation and Rural Entrepreneurs: It was launched on March, 2015 to set up technology centers & incubation centers to encourage entrepreneurship and promote start-ups for innovation in rural & agro-based industry. Outlay for the MSME sector has been kept at Rs 26,014 crore in the Twelfth Plan (2012-17) with objective of making good environment for promotion & development of MESEs.

Conclusion: The Small-scale & Cottage industries constitute a major portion of Indian industry. In recent time unemployment is a great problem of the country. To create employment opportunities for the youth, development of the small-scale industry is necessary. The MSME sector contributed a great percentage of GDP and manufacturing output of the country. This sector help each and every one person of the country even women also, in rural and urban areas to establish on their own feet and their earning possibility in future will increase by which they participate in their family income. It also increases per capita income of the people and national income of the country. So country's growth and development depends on large-scale and small-scale industry also. Unemployed youth can open up new small industries in many rural areas where various types of handloom things & local entrepreneurs are given priority. But many of this industry have been closed down for lack of fund investment & for other problems. Therefore, an initiative measures and various legal policy undertaken by the government are needed.

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