

SUBJECT - Economics,

CLASS: M.A. Economics, Semester - II

PAPER CODE/NAME:CC - 5, Indian Economy: Issues & Policies - 1

TOPIC: Cottage and Small Industries

FORMAT: Word

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Cottage and Small Industries

by

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Cottage and Small industries are, for several strong reasons, of great significance for the Indian economy. To enable small and cottage industries to play their role well in the development of the country, it is necessary to remove their difficulties and make them healthy and sound.

The government has, in its development-profile, assigned an important place to this sector. It is considered a very helpful factor in the growth of the country. As provider of various consumer goods, mostly for mass consumption, as also items for high-income groups and exports, it has been given fairly high ranking in the economy. The policy leans much on this sector for a widespread dispersal of industries. In this connection it is emphasized that this sector is of considerable significance in creating and sustaining employment, in particular self-employment. Alongside it implies a direct way of raising the levels of earnings of artisans, as also of the poor and the very poor. This sector is also favoured as crucial for the use of local skills and resources. It is also much praised for providing opportunities for the development of entrepreneurial skills. Through the promotion of this sector, the policy also looks upon this sector as a good contributor to the furtherance of the objectives of growth and welfare.

Besides plan-resources, quite a large investment has taken place on private account financed partly by government financial institutions, and partly from promoter's own financial, and non-financial sources.

In a country like India, the position of small scale industry is quite worth mentioning. The number of small scale units has been increasing in a comprehensive manner in recent years, more particularly after the introduction of economic reforms. Table 1 shows the present position of cottage and small scale industries (C&SSI) units in India. The small scale industry sector continues to remain an important sector of the economy with a noteworthy contribution to GDP, industrial production, employment generation and exports. The performance of the small scale industry sector based on final results of the Third All India Census of SSIs, 2004 is given in Table 1. It is observed from Table 1 that, there were all total 25.71 lakh SSI units in the country in 1994-95, out of which 19,44 lakh were registered units and 6.27 lakh were unregistered units. Again total number of such SSI units in 2004-05 increased to 118.59 lakh, showing a growth of 4.1 per cent over the previous year, out of which 17.53 lakh were registered units and 101.06 lakh were unregistered units. It is estimated that the number of SSI units during 2006-07 has increased to 128.44 lakh registering a growth rate of 4.1 per cent over the previous year. The value of production of SSI units in India at current prices has increased from Rs. 2,98,886 crore in 1994-95 to Rs. 4,18,263 crore in 2004-05 and then to Rs. 4,76,209 crore in 2005-06, registering a growth rate of 16.9

per cent and 13.9 per cent respectively over the previous year. Again total value of production of SSI sector at constant prices has increased from Rs. 2,66,054 crore in 1994-95 to Rs. 2,51,511 crore in 2004-05 and then to Rs. 2,77,668 crore in 2005-06, registering a growth rate of 10.0 per cent and 10.4 per cent respectively over the previous year. Again total value of production of SSI sector calculated at 2001-02 prices increased to Rs. 4,71,663 crore registering a growth rate of 12.6 per cent over that of previous year. Total number of persons employed in these SSI units has also increased from 146.56 lakh in 1994-95 to 271.36 lakh in 2004-05 and then to 312.52 lakh in 2006-07, showing a growth of 4.1 per cent and 4.2 per cent respectively over the previous year.

Again exports emanating from SSI sector account for about 35 per cent of the total value of exports of the country. Total value of exports of SSI units in India has increased from Rs. 29,068 crore in 1994-95 to Rs. 1,50,242 crore in 2005-06 registering a growth of 20.8 per cent over the previous year.

Table – 1

Performance of cottage and small scale sector

Year	No. of Units (lakh)	Production (Rs. Crore)	Employment	Exports
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	Regd.	Unregd.	Total	(at current prices)	at constant prices)*	in lakh	(Rs. Crore)
1994-95	11.61	67.99	79.60	1,22,210	1,09,116	191.40	29,068
			(4.1)	(23.7)	(10.4)	(4.8)	(14.9)
1996-97	11.99	74.22	86.21	1,68,413	1,35,380	205.86	39,248
			(4.1)	(13.6)	(11.3)	(4.0)	(7.6)
1998-99	12.00	81.36	93.36	2,12,901	1,59,407	220.55	48,979
			(4.1)	(12.5)	(7.8)	(3.5)	(10.2)
2000-01	13.10	88.00	101.10	2,61,289	1,84,428	239.09	69,797
			(4.1)	(11.5)	(8.0)	(4.4)	(28.8)
2002-03	15.91	93.58	109.49	3,11,993	2,10,636	263.68	86,013
			(4.1)	(10.5)	(7.7)	(4.5)	(20.7)
2004-05	18.34	100.35	118.59	4,18,263	2,51,511	287.55	1,24,417
			(4.1)	(16.9)	(10.0)	(4.5)	(27.4)
2006-07	20.32	108.12	128.44	N.A.	4,71,663 \$	312.52	N.A.
			(4.1)		(12.6)	(4.2)	

* : 1993-94. \$ - at 2001-02 prices.

Note : Figures in brackets indicate percentage growth over previous years.

Source : Ministry of Small Scale Industries and Economic Survey, 2007-08, p. 198.

Again the total value of exports in US dollar terms from the SSI sector has increased from \$ 8.07 billion in 1993-94 to \$ 10.90 billion in 1995-96 and then to \$ 13.13 billion in 2000-01.

Thus over last five decades after independence, the small scale industries sector has acquired a place of prominence in the economy of the country. It has contributed significantly to the

growth of the gross domestic product (GDP), employment generation and exports. The sector now broadly includes not only SSI units but also small scale service and business enterprises (SSSBEs) and is thus referred to as the small enterprises sector.

SSI sector is maintaining an important position on the industrial map of the country. Total value of production of SSI units accounts for nearly 40 per cent of the total value of industrial output of the country in general. The SSI sector being an labour-intensive project, can employ on an average 18 to 19 persons with an investment of Rs. 1 lakh only. Moreover, the SSI sector is also maintaining a good number of export oriented units (EOUs) producing goods for meeting demands coming from international market.

To implement the policy objectives, the government has adopted several measures to promote these industries. These may be listed as under :

Facilitative set-up : One set of measures pertain to the establishment of a number of agencies or organizations to render various services free or at nominal charges for the development of

these industries. Some of the important organizations are, for example, the National Small Industries Corporation, Small Industries Development Organisation, District Industries Centres, State Financial Corporations, All India Handloom and Handicrafts Board, The Central Silk Board, The Khadi and Village Industries Commission, the State Khadi and Village Industries Boards, etc. In addition, the commercial banks are under obligation to provide credit to these industries as part of help to the priority sector. Most of these organizations provide support of many types at various stages beginning with the setting up of these industries to the final stage of scale of their products. These various agencies are the responsibility of the state governments as the promotion of industries in this dispersed sector primarily falls within their responsibility. The Centre, however, plays its important role at the national level, although it only supplements the efforts of states.

Concessions and reservations : The services, rendered by the above-mentioned organizations, as also other government measures of support to these industries, are of various types. One of them relate to fiscal concessions like those in the field of excise duties on their products. There is provision also for the procuring of machinery for the small manufacturers on hire-purchase basis on

easy terms. Land is also allotted to them on cheap rates. Considerable latitude is also shown in respect of import of raw materials for this sector. The small units are also exempted from certain labour and factory laws. These industries are given protection in various forms, the most important being reservation of a large number of products for exclusive production in the small sector.

Credit flow : Government measures also bear upon the credit supplies to the small sector. Such agencies as Commercial Banks, Cooperative Banks, Regional Rural Banks, State financial Corporation etc. fulfil this function under the direction of government. In fact these small units are included in the priority sector to which commercial banks provide a certain percentage of their credit, at present fixed at 40 per cent. Although non-institutional sources of finance (like the moneylenders) still figure much in this field, Government's efforts are to reduce this dependence. The credit offered is both for long-term purposes like buying of equipment etc, and for short-term needs like for inputs such as raw materials, also for marketing etc. Quite a significant part of the credit is given on concessional terms. Efforts are also being made to

overcome this difficulty of small borrowers to offer adequate security for loans by extending loans on the basis of their viability of projects.

Supply of raw materials : Arrangements have also been made to ensure the supply of raw materials. In the past, the policy has been to earmark specified quantities of raw materials from major suppliers and to route them through the state small industries development corporations for distributions to the small-scale and cottage units. There have also been selective relaxation in the import policy in favour of the small-scale sector for the import of certain raw materials. Buffer-stocks of some of the essential and scarce raw materials have also been set up for this purpose. As for the supply of critical inputs (like iron and steel etc.) are concerned, efforts are made to see that the small sector does not suffer. And that in the event of scarcity of these inputs becoming acute, its impact is at least evenly spread between the large and the small industries.

Marketing support : Government efforts also aim at improving the marketing of the products. For this, measures are adopted to orient production so as to meet the consumer needs. The strategy adopted includes such elements as diversification of markets and product-mix, introduction of modern marketing

techniques, better management practices, exploring new markets etc. The mass media is also made use of for consumer education and sales promotion. The encouragement of ancillary units is also seen as helpful factor in this regard, as the products of these industries get an assured demand for their products from the large industries. Besides, cooperatives are also promoted to undertake marketing of these products. In all this, the object is both to sell more and keep the cost of marketing low.

Improving skill and technology : Government help is also available for skill-formation and technological upgradation. As for skill-formation, facilities have been provided for the development of basic as well as process-oriented skills. These facilities are made available through training institutes, demonstration centres, mobile training units etc. Training in technology is also made available so as to enable the workers to overcome obsolescence in their skills which is caused by rapidly progressing modern science and technology. At the technological front, efforts are also being made to develop suitable technologies which ensure better utilization of local abundant resources, substitutions of plentiful domestic materials for the imported ones, reduction of drudgery and fatigue of the workers etc. At the same time emphasis is laid on the improvement of quality

