

B.A. LL B. II Semester (Five Years Course)
Paper – Economics II

Small Scale And Cottage Industries in India

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Introduction

Small scale industries are important because it helps in increasing employment and economic development of India. It improves the growth of the country by increasing urban and rural growth. Role of Small and medium scale enterprises are to help the government in increasing infrastructures and manufacturing industries, reducing issues like pollution, slums, poverty and many development acts. Small scale manufacturing industries and cottage industries play a very important role in the economic development of India. If any amount of capital is invested in small scale industries it will help in reducing unemployment in India and increasing self-employment. The industry is a sector in which the production of goods is a segment of the economy. Let us learn more about the importance of Small scale industries and how SSI helps in developing the country.

Importance of Small Scale Industries

- Increases production
- Increases total exports
- Improves the employment rate
- Opens new opportunities
- Promoting welfare
- Use of domestic resources

Meaning of Small Scale & Cottage Industries

Small Scale Industries are industries in which the investment limit is up to a certain limit which was 1 crore initially 1 crore and now has been increased to 5 crores.

Cottage Industries are usually very small and are established in cottages or dwelling places.

In Small scale industry outside labour is used whereas in cottage industries family labour is used. SSI uses both modern and traditional techniques. Cottage industries depend on traditional techniques of production.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises are classified in two Classes:

Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries Development and Regulation Act, 1951. The Manufacturing Enterprise is defined in terms of investment in Plant & Machinery.

Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Manufacturing Sector & Service Sector of MSME-:

Comparison based on	Manufacturing sector	Service Sector
Enterprises	Investment in plant & machinery	Investment in equipment
Micro Enterprises	Does not exceed twenty-five lakh rupees	Does not exceed ten lakh rupees
Small Enterprises	More than twenty-five lakh rupees but does not exceed five crore rupees	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees	More than two crore rupees but does not exceed five crore rupees

Contribution of Small Scale Industries

The major contributions of the small scale industries towards economic development can be stated below:

1. The small scale sector accounts for over 80% of the manufacturing sector's employment.
2. It contributed significantly towards the economic growth of the nation, with over 39% of the industrial production.
3. The small-scale accounts for over 34% of the total exports and about 45% of the manufacturing exports. Further, over 90% of exports of the SSIs consists of non-traditional items like sports goods, readymade garments, processed foods, chemicals etc.
4. SSIs are conducive for the economic development of underdeveloped countries like India. Such industries are relatively labour intensive so they make economical use of scarce capital.
5. Small scale industries bring about regional dispersal of industries and alleviate regional imbalances and reducing the inequalities in wealth.
6. Small-scale industries make use of local resources including the capital and entrepreneurial skills which would have remained unused for want of such industries.
7. The small industry sector has performed exceedingly well and enabled the country to achieve a wide measure of industrial growth and diversification.
8. In these industries relations between employers and employees are direct and cordial. There is hardly any scope of exploitation of labour and industrial disputes.

Problems of Cottage and Small-Scale Industries

The small-scale industries, despite their importance for the economy, are not contributing to their full towards the development of the country. It is because these industries are beset with a number of problems in regard to their operations. These problems are discussed below-

1. Inadequate Finance:

A serious problem of these industries is in respect of credit, both for long-term and short-term purposes. Very often the credit has not been timely. Its delayed availability has been a major factor in causing much of industrial sickness in this sector. The credit situation is particularly hard for the very small or tiny units.

2. Difficulties of Marketing:

The small-scale industries also faced the acute problem of marketing their products. The problems arises from such factors as small scale of production, lack of standardization of products, inadequate market knowledge, competition from technically more efficient units, deficient demand, etc. Apart from the inadequacy of marketing facilities, the cost of promoting and selling their products too is high.

3. Low-Level Technology:

The methods of production which the small and tiny enterprises use are old and inefficient. The result is low productivity, poor quality of products and high costs. The producers for lack of information, know very little about modern technologies and training opportunities which concerns them.

4. Competition from Large-Scale Industries:

Another serious problem which these industries face is that of competition from large-scale industries. Large-scale industries which uses the latest technologies with access to many facilities in the country can easily out-priced and out-sell the small producers. With the liberalization of the economy in recent years, this problem has become all the more serious. For all these reasons, the small producers in the small-scale industries find themselves in a very precarious position.

5. Infrastructure:

Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts.

6. Shortage of Raw Materials:

Then there is the problem of raw materials which continues to plague these industries. Raw materials are available neither in sufficient quantity, nor of requisite quality, nor at reasonable prices. Being small purchasers, the producers are not able to undertake bulk buying as the large industries can do. The result is taking whatever is available, of whatever quality and at high prices. This adversely affects their production, products, quality and costs.

7. Skilled Manpower:

A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. The reason is Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers.

Besides non-availability entrepreneurs are confronted with various other problems like absenteeism, high labour turnover indiscipline, strike etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

8. Managerial:

Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves.

Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur who is required to undergo training and counseling for developing his managerial skills will add to the problems of entrepreneurs.

Government measures to promote small – scale industries:

1. Organisational measures

- Establishment of Boards
- National Small Industries Corporation (NSIC)
- Industrial Estates
- District Industries Centre (DIC)

2. Financial measures

- Small Industries Development Fund (SIDF) – set up in 1986 to provide refinance assistance for development, expansion, modernization, rehabilitation of SSIs.
- National Equity Fund (NEF)
- Single Window Scheme (SWS)
- Small Industries Development Bank of India (SIDBI):— Established in October 1989 by an amalgamation of small Industries Development Fund (SIDF) and National Equity Fund (NEF)

3. Fiscal Measures

- Small-scale enterprises having turnover, up to 1 crore are fully exempted from the excise duty.
- Concessional rate of customs duties is levied on import of certain kind of raw materials and components used by SSIs.
- Price and purchase preference is granted to products manufactured in the small-scale sector in government purchase programmes.

4. Technical assistance

- Small-scale Industries Development Organization (SIDO):— Established in 1954. It provides technical, managerial, economic and marketing assistance to SSIs through its network of extension centers and service institutes.
- Council for Advancement of Rural Technology (CART):—It was established in 1982 to provide technical assistance to rural industries.
- Technology Development and Modernization Fund (TDMF):—It was set up for the technological up gradation and modernization of the export-oriented units.