- To strengthen the existing technological facilities, the Government is formulating a scheme of assistance for Technology Up-gradation.
- To improve the access to latest information, automation of the Ministry of MSME Office of DC (MSME), Directorate of Industries and District Industries Centres have been taken up. SIDO knowledge portal takes this process further.
- In order to facilitate adequate flow of credit, a scheme of Credit Guarantee has been launched.

Measures have also been taken to improve infrastructure facilities and to promote marketing of products. Some of the recent policy reforms for the SME (Small and Medium Enterprise) sector in India are as follows:

- A single comprehensive legislation for the promotion, development and enhancement of the competitiveness of the MSME sector known as 'Micro, Small and Medium Enterprises Development (MSMED) Act, 2006' came into effect from October 2006. The Act replaces the concept of "Industry" with "Enterprises". In accordance with this act, SSI Registration process has been dispensed with. Now, the entrepreneur files the Entrepreneur Memorandum and gets an acknowledgement.
- The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 seeks to facilitate the development of enterprises and also to enhance their competitiveness. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium.
- Specific Funds have been established for the promotion, development and enhancing the competitiveness of these enterprises
- National Manufacturing Competitiveness Council has been set up to energise and sustain the growth of the manufacturing industry. It is a new promotional package for MSMEs, and focuses on accelerating development of clusters.
- Promotion and financial support for credit-cum-performance rating in the MSME sector in India has been taken up. This has been expected to facilitate higher and easier flow of credit from the banking sector to SMEs and this has been implemented.

UNIT 9: SMALL SCALE AND COTTAGE INDUSTRIES AND INDUSTRIAL SICKNESS

UNIT STRUCTURE

9.1 Learning Objectives
9.2 Introduction
9.3 Definition of Small Scale Industries and related Terms
9.4 Role of Small Scale Industries in the Indian Economy
9.5 Government Policy relating to Small Scale Industries
9.6 Problems of Small Scale Industries in India and their Remedial Measures
9.6.1 Problems faced by the Small Scale Industries
9.6.2 Remedial Measures
9.7 Let Us Sum Up
9.8 Further Reading
9.9 Answers to Check Your Progress
9.10 Model Questions

9.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- get a clear knowledge of the definition of small scale industries (SSIs) and other such industries
- describe the role of small scale industries in the Indian economy
- outline the problems of SSIs and discuss the respective government's policies undertaken to address the problems.

9.2 INTRODUCTION

The small-scale industrial sector in India has been a major contributor to the country's Gross Domestic Product (GDP). This traditional sector in India is considered to have huge growth prospects with its wide range of

products. With 40 percent share in the total industrial output and a contribution of approximately one-third to the country's total exports, the small-scale industrial sector in India is acting as an 'engine of growth' in the new millennium. This unit shall make you familiar with the different types of small scale industries (SSIs) of India and their role in the Indian economy. As you go through this unit, you will also be able to know the government policies undertaken to promote the SSIs in the country as well as acquire some insights into some of the problems of the SSI units. Special attention has been given to the problem of industrial sickness of the SSIs. The magnitude of industrial sickness of the SSIs, different causes, consequences as well as a few remedial measures to be undertaken to solve this problem have been discussed in this unit.

9.3 DEFINITION OF SMALL SCALE INDUSTRIES (SSIs) AND RELATED TERMS

The definition for small-scale industrial undertakings has changed over time. Initially, they were classified into two categories- those using labour power with less than 50 employees and those using labour power of more than 50 but less than 100 employees. However, the capital resources invested on plant, machinery and buildings have been the primary criteria to differentiate the small-scale industries from the large and medium scale industries. An industrial unit can be categorized as a small-scale unit if it fulfils the capital investment limit fixed by the Government of India for the small-scale sector.

As per the latest definition which is effective since December 21, 1999, for any industrial unit to be regarded as Small Scale Industrial unit the following condition is to be satisfied:

Investment in fixed assets like plants and equipment either held on ownership terms, on lease or on hire purchase should not be more than Rs 10 million (i.e., Rs 1 crore. The limit to the number of manpower employed has been relaxed since 1960). With effect from Oct. 2006, the investment limit in Small Scale Industries, has been increased to the range of 25 lakhs to 5 crores.

- **Growth Prospects of SSIs in Post Liberalization Period :** Post liberalization economic condition has created immense growth prospect for the small scale industries. The government has also supported the small scale industries by the way of implementing policies like investment ceiling for the SSI sector and priority lending. It is true that the formation of WTO in 1995 resulted in a major challenge to the well being of the SSIs. However, it has been found that if the SSIs upgrade their technology, adopt better management practices, reengineer their factories to improve productivity and provide qualitative product, they will become competitive in the post-WTO scenario. The advancement in computer and telecommunication technology, rapid popularity of e-commerce, opening up of markets due to WTO, mergers and acquisitions, improved infrastructure and outsourcing of non-core areas of business have all contributed to the growth of SSIs.



CHECK YOUR PROGRESS

Q 3: State whether the following statements are True or False.

a) SSI units are located only in some particular states of India.

b) SSIs generally use labour-intensive techniques of production.

Q 4: What are the major aims of promoting the SSI sector in India? (Answer in about 40 words)

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9.5 GOVERNMENT POLICY RELATING TO SMALL SCALE INDUSTRIES

The Indian government has been trying to improve the competitiveness of small scale industries through various measures. Some of these measures are:

particularly among the educated and professional class.

- **Balanced Regional Development :** SSIs promote decentralized development and help in removing regional disparities in industrialization. Again, by providing employment in rural areas they help check migration and overcrowding in urban areas. Small scale firms can be a useful means of rural reconstruction and development.
- **Optimization of Capital :** Small scale firms require less capital per unit of output and, therefore, greater output can be obtained with small investment. The Annual Surveys of Industries reveal that fixed capital per employee in case of small scale industry was Rs. 3,706 as compared to Rs. 27,757 in case of large scale industry. In India, where the rate of capital formation is low, SSIs are very suitable as their gestation periods are short.
- **Mobilization of Local Resources :** SSIs facilitate mobilization and utilization of local resources and family skills which might otherwise remain latent or unutilized. Small business promotes small entrepreneurs and encourages local talent. The growth of small enterprises helps in tapping latent resources like entrepreneurial skills and small savings, especially in the rural areas.
- **Exchange Earnings :** SSIs help in reducing pressure on the country's balance of payments in two ways. First, they do not require imports of sophisticated machinery and equipment. Secondly, they earn valuable foreign exchange through exports of their products. Small scale sector accounts for 40 percent of the exports of non-traditional items and about 33 per cent of the country's total exports (2005-06).
- **Egalitarian Society :** Small scale industries help in reducing the concentration of economic power in a few hands. They promote a more equitable distribution of national income and wealth. Development of SSIs, thus, helps to reduce monopolies and exploitation of consumers.
- **Feeder to Large industries :** The small scale sector is complementary to the large scale industries. Small scale industries manufacture various types of components, spare parts, tools and accessories which are required by the large scale sector.

However, such an industrial unit in no way can be owned or controlled or be an ancillary of any other industrial unit.

Khadi and handloom, sericulture, handicrafts, village industries, coir, bell metal are some of the traditional small-scale industries in India. Having defined as SSI unit, let us consider some similar categories of industries.

Tiny Enterprises : Investment limit in plant and machinery in respect of tiny enterprises is Rs 2.5 million (i.e., Rs 25 lakh) irrespective of location of the unit.

Cottage Industries : "Cottage industries" is a term that was used previously during the eighteenth and nineteenth centuries to describe the home-based system of manufacturing. In the changing context, a cottage industry is viewed as a system of production which takes place in private homes rather than in a factory, with the tools and other means of production individually owned. Cottage and small-scale industries are not required to be registered under the Factory Act.

There is no accepted line of distinction between cottage and small-scale industries. Earlier, the distinction was made based on use of electricity. However, with the change of time, and with easy availability of electricity even in the most interior villages of the country, this distinction has become blurred. Another basis of distinction between the two is the number of workers engaged in them. However, in practice, this criterion has very limited utility. The third criterion that may be applied in this regard is to look if the worker himself owns the unit (which is to be small as per existing norms), or it is run by a co-operative group. In the first case, it will be regarded as a cottage industry, and in the latter, it will be considered as an SSI unit.

Medium enterprises : Medium enterprises are those where Investment in Plant and Machinery is more than Rs. 5.00 crore but does not exceed Rs.10 crore.

The Micro, Small and Medium Enterprises (MSME) have been classified in two Classes:

- **Manufacturing Enterprises :** These enterprises are engaged in the manufacture or production of goods pertaining to any industry. The Small Manufacturing Enterprise is defined in terms of investment in Plant &

Machinery. In case of medium enterprises, investment in Plant and Machinery can be more than Rs.25 lakhs but must not exceed Rs.5.00 crores.

- **Service Enterprises :** These enterprises are engaged in providing or rendering of services and are defined in terms of investment in equipment. Micro Service Enterprises are those where Investment in equipment does not exceed Rs.10 lakhs.



CHECK YOUR PROGRESS

Q 1: State whether the following statements are True or False.

a) According to the latest norms, a unit employing less than 50 labourers is regarded as an SSI unit.

b) Registration of the cottage industries is mandatory.

Q 2: Define a SSI Unit. (Answer in about 40 words).

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9.4 ROLE OF SMALL SCALE INDUSTRIES IN THE INDIAN ECONOMY

Small Scale Industries are located throughout the country, though predominantly in the rural areas. To simply say that small scale units are an important part of the manufacturing sector is a very big understatement. Small and Medium Enterprises, or SME, form the large majority of industrial and service units across the world. In the present scenario, SMEs in India, have embraced high technology, accepted norms of quality and competitiveness and are thus expanding faster than the rest of the industrial economy. Their contribution to the Indian economy can be summarized as follows:

- It has been estimated that there were about 128.44 lakh SSIs in India as on March 31, 2007, accounting for about 39 percent of the gross value of output in the manufacturing sector.
- More than 7 million new jobs have been created in the sector in 2001-02 to 2006-07, taking the total employment to 31.3 million (estimated figure).
- Exports from the sector have gone up from US $15.28 billion in 2000-01 to $33.94 billion in 2006-07, representing one-third of the country's total exports.
- Some 6,000 items are produced in the sector.
- Over 21,400 units have been certified as ISO 9000/14001 compliant.

Small scale industries have a central place in rural development programmes. Products of large-scale industries have increasingly limited the market for several classes of artisans. Development outside the rural sector has not been rapid enough to arrest the increasing pressure of the population on the land. The development of village industries should, therefore, be as much a matter of State action as the increase of agricultural production. Indeed, one cannot be separated from the other, for, increase in agricultural production presupposes fuller utilisation of the available manpower and release of surplus workers for other occupations. In fact, since independence, the Government of India has nurtured this sector with special care with the following aims:

- To develop this sector as a major source of employment To encourage decentralized industrial expansion,
- To ensure equitable distribution of income, and
- To mobilize capital investment and entrepreneurship skills.

Small scale firms are helpful in the achievement of these goals in the following ways:

- **Employment :** Small scale firms use labour-intensive techniques and, therefore, they have high potential to provide employment to a larger number of people per unit of capital. For every worker employed in large scale industries about three workers are engaged in small scale and cottage industries. We have already said that, next to agriculture, small business constitutes the most popular occupation of the people of India