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**CHALLENGES BEFORE SMALL SCALE & COTTAGE INDUSTRIES IN THE ERA OF GLOBALIZATION**

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**ABSTRACT**

*Cottage industry is the one which is run by an individual with the help of his family members with very little capital. Most of the cottage industries do not use power. The products produced in cottage industries are usually to satisfy the local demands. Number of hired-labour in this sector is very limited and the capital investment is also small. Despite government institutional and policies support to enhancing the capacity of small and medium scale enterprises, small and medium scale enterprises has fallen short of expectations. SMEs are faced with significant challenges that compromise their ability to function and to contribute optimally to the economy. This study examines the challenges and prospects of micro and small scale enterprises development in India particularly in the context of economic reforms introduced since 1991.*

**KEYWORDS**

Small-scale sector, Cottage Industry, Economic Liberalization, Diversification

**SUBJECT CLASSIFICATION**

D04 & D80

**INTRODUCTION**

Since independence, SSI sector has played significant role in economic development of India. In terms of industrial production, exports, employment and creation of an atmosphere of entrepreneurial base in the country coupled with faster gestation period, it creates a better incentive for investment and production of non-durable consumer goods despite competition from the large-scale sector. In India, the first official criterion for small scale industry dates back to the second Five Year Plan when it was defined in terms of gross investment in land, building, plant and machinery and the strength of the labour force. The definition of small scale industries has undergone changes over the years in terms of investment limits to boost up the development of this sector. The role and importance of small scale, village and cottage industries has equally been felt even in countries which are classic examples of big business and industrial set-ups. Such industries are very common in Japan, U.S.A., Switzerland, Sweden and several other countries. In other words, this sector, undoubtedly, has tremendous importance in overall economic development because of the fact that it requires less capital investment and offers more employment opportunities to skilled, semi-skilled and unskilled labour. However, in spite of its role and importance, this sector is afflicted with a number of problems. Recognizing the important role that small scale industrial sector play in the national economy, both the central and state Governments have taken active steps to develop, promote and foster their growth.

**REVIEW OF LITERATURE**

Small-scale sector requires a multi-dimensional package of assistance. They can play their rightful role provided they are on sound lines. The Industrial Policy of 1991 was a landmark policy particularly for the small-scale industries (Government of India 2000) which emphasized on promotion and strengthening of this sector. There is no denying the fact that employment-output ratio is the lowest in small scale sector but employment generation capacity is eight times that of large scale sector.

The net capital-output ratio of small and medium sector worked out to be 4 & 3.2 times that of large scale sector despite low productivity of labour while the net capital-output ratio of large enterprises worked out to be three times that of small enterprises (Venkatraman, 2004). Mahalanobis quoting Myrdal (Asian Drama, 1963) said in view of meagreness of capital resources there is no possibility for creating much employment in the short-run through the factory industry..... now consider household or cottage industry, which require very little capital, with any given investment, employment possibilities would be 10 or 15 times greater in comparison with the corresponding factory industry.

The estimated relative total factor productivity of SSI during the period 1980-81 to 1994-95 was greater than one, suggesting that at the all-India level, this sector is far more efficient than large-scale sector (SIDBI & NCAER, 1999). This is despite the fact that government intervention did not contribute much to the growth of small scale sector and concessional credit induced efficiency (Patvardhan, 1988).

**BACKGROUND (PRE-REFORM ERA)**

Government in pursuance of its policies came out openly with various measures from time to time which include reservation, revision of investment ceiling, modernization, technological upgradation, marketing etc. Further, shifted the focus from 'protection' to 'promotion' in the post-reform period by changing the investment limits, partial dereservation, foreign participation, establishment of growth centres and so on. This led to a phenomenal growth in this sector, yet it manifested some of the maladies which can be enlisted as:

- a. Concentration of growth in few metropolitan cities and large towns;
- b. Small percentage of institutional credit going to this sector;
- c. Underutilization of capacity and sickness;
- d. Unorganized sector within SSI remained undeveloped

In addition to that the availability of power, communication and other infrastructural facilities which are external and beyond the control of this sector poses as external handicap. Moreover, the policies intended to favour SSI in terms of reservation and financial incentives, are neither favourable for employment nor improving the competitive base of this sector.

One of the measures taken to overcome this malady incorporated in 'Decentralization.' Basically it helps to tap local resources such as raw materials, idle savings which, in turn, improve the standard of living of the backward regions and helps to solve the congestion problem.

**REFORM PERIOD**

When India initiated economic reforms in 1991, measures were undertaken based on proper understanding of the problems faced by this sector and were well directed to mitigate these handicaps.

A policy package for small, tiny and village industries was announced in August 1991 with the primary objective of imparting more vitality and growth impetus to this sector. Other features of this policy were related to setting up of monetary agency to secure credit needs of this sector, review of all statutes, regulations, procedures and their modifications depending upon circumstances, quality counseling, testing facilities, entrepreneurship development programmes, Single Window Loan etc.

Despite all these measures there was deceleration in the growth of output of this sector during 1990s. It provided an opportunity to foreign companies seeking to invest in this sector. FDI in sectors reserved for SSI was permitted only if the company concerned agreed to export 50% of the production and investment had to come through FIPB. So if this obligation was scrapped, investment in this segment would have come through automatic route. Consequently government was planning to scrap the mandatory export obligation on such investment. Considering the NPA of the banking sector, RBI was of the view that this sector is at high-end risk and therefore, did not find favour of scrapping mandatory export obligation.

It is fact that despite deceleration during 1990s, the number of small scale units which stood at 6.79 million in 1990-91 rose to 12.34 million in 2005-06. According to the Fourth Census of SSI units conducted in 2006-07, there are about 260 lakh MSMEs in the country, contributing about 8% of GDP and about 45% of manufactured output.

In term of output of SSI, it was Rs. 78,802 Cr. in 1990-91 which increased to Rs. 4, 76,201 Cr. In terms of employment, it employed 15.84 million in 1990-91 rose to 29.4 million. In terms of total exports, it increased from Rs. 9664 Cr to Rs. 1, 24,417 Cr. during the same period. Thus small scale sector maintained a steady growth than the overall industrial sector, in fact, higher rate of growth. It has consistently registered a higher growth rate as compared to the overall manufacturing sector.

## POST-REFORM PERIOD

It took quite some time for government to realize, as late as Ninth Plan that the biggest problem was the inadequate availability of credit facility and proposed a number of initiatives like strengthening the financial and managerial base of State Financial Corporations, State Industries Development Organization so as to enable them to provide better services. However, there has been lack of effective coordination among the support organizations. In addition to that, 67% of the firms were constrained by inadequate physical infrastructure and they had to depend upon State Electricity Boards for their power requirements which are erratic & far from being adequate. Added to that poor road condition and delays at the entry point have a lasting impact on the growth of this sector. Following import liberalization in 1990s, tariffs on materials like steel, plastic, non-ferrous metals remained high as compared to manufactured goods. This invariably affected this sector as these units are more labour-intensive and have high material-to-output ratio.

The economic reforms have brought in intense competition. This poses a threat to many obsolete and uncompetitive units & which led to closure of a number of units. With removal of quantitative restriction, the problem is further aggravated particularly in consumer goods sector which will find it extremely difficult to survive. Due to absence of marketing organizations, the terms of trade is highly unfavourable, in respect of quality of products from the multi-national companies and large scale sector. Poor infrastructural facilities and competitive strength, slow technological upgradation, ignorance of WTO provisions, lack of international exposure and flow of costly credit are the main factors responsible for low performance recorded in this sector.

Finance is the most crucial factor because all other parameters revolve around it. Hence the success of any industry depends mainly upon the quantum and quality of financial assistance available to it. The flow of credit to this sector from all the public sector banks since 2000 reveal that the share of SSI sector in net bank credit of public sector banks show a decline from 14.6 to 9.4 percent in 2005 though in absolute term it increased from Rs. 46,045 Cr to Rs. 67,634 Cr. However, though Banks are skeptical in respect of the SSI but are very liberal in providing credit to good entrepreneurs. This is obviously due to the fact that banks are profit seeking institutions and importantly, the credit-deposit ratio is falling which is a matter of concern.

Government had been following the policy of reservation of items for exclusive development of this sector. During the planning period there had been considerable increase of items reserved for this sector. When the reform programme introduced in 1991, around 800 items were reserved for this sector. But in recent years, government has been following a policy of dereservation as it feels that reservation is impeding the development. This has been corroborated by Rakesh Mohan, the former Dy Governor, RBI. Consequently, the number of items has been brought down to 239 upto January 2007 & further to 114 in March 2007. At present, only 14 items are reserved for the small scale sector.

## POST-REFORM MEASURES

A number of measures have been initiated by the government for the growth and development small scale and cottage industries. Some of these measures include:

1. National Commission on Enterprises to suggest policies and programmes for addressing wide range of issues connected with the unorganized sector.
2. Setting up of Small Industry Development Organization (SIDO) way back in 1954 has served as a catalyst of growth of micro, small and medium industries, providing comprehensive range of common facilities, technology support services through its network of 30 SISIs, Regional Centres, Field Testing Centres, Small Entrepreneur Promotion & Training Institutes.
3. Entrepreneurship development and training is one of the key elements for the promotion of micro, small and medium enterprises. To undertake this task on regular basis the Ministry of MSM enterprises has set up three national level institutions: National Institute of Small Industry Extension Training at Hyderabad, National Institute of Entrepreneurship and Small Business Development at Noida and the Indian Institute of Entrepreneurship at Guwahati.
4. To enhance the competitive strength of this sector, the Government also introduced an incentive scheme for the quality improvement and environment management. The scheme provides incentives upto Rs.75,000 per unit to those units which acquire ISO 9000/ ISO 14001 certification since 1994 which has now been enlarged to include reimbursement of expenses for acquiring ISO 14001 certification w.e.f. October 2002.
5. In addition to that the Government announced the National Manufacturing Competitiveness Programme in 2005-06 to enhance the competitive strength of small & medium enterprises. It also announced a promotional package under the said programme for development of manufacturing sector enterprises by providing full support in areas of credit, marketing, technological and infrastructural upgradation.
6. In July 2007, the Ministry of Micro, Small and Medium Enterprises laid special emphasis on skill development through technical and vocational education to ensure growth. It has been found that percentage of population undergoing vocational training is much low compared to other developing countries. So the objective was to increase skilled workforce from five to 50% by 2010-11. This objective was in tune with skill development being made market-driven and relevant to emerging market opportunities.
7. The other implicit objective of this task is encouraging self-employment among the youth since job opportunities in both government and private sector is less.

## CHALLENGES

The process of economic liberalization has, however, brought about enormous challenges before the small scale and cottage industries both at the domestic front as well as internationally. The enormity and intensity of these challenges is complex. Some of these challenges are: -

1. Reforms have opened up the Indian small scale sector to global competition.
2. They need to upgrade their technology and adapt to modern marketing practices.
3. It is necessary that competitive strength and viability of this sector must increase to overcome problem of sickness.
4. They must select technology from among the available alternatives which is cost-effective and better in terms of quality. There is lack of expertise, professionalism and planning and the dealings are informal.
5. The emphasis is on short term gain even at the cost of quality.
6. To improve the quality of the products, these industries have to conduct market research by all means either on their own endeavour or through engaging some agency.
7. Wherever and whenever opportunities arise, they should be given chance to participate in international trade fairs including access to overseas markets.
8. Inventory planning has been a perennial issue connected with this sector which needs to be looked into seriously as in many cases, industries have stocks of certain raw materials, but due to shortage of certain other materials the production has been held up.



**CONCLUSION**

Indian small scale entrepreneurs still face a wide range of obstacles, many of which are the products of bad policies. In the light of these challenges, it is necessary that competitive strength and viability of this sector must increase to overcome problem of sickness. The support to SSI sector needs to shift emphasis from 'protectionism' to 'promotional policies' so that it enables this sector to face challenges from domestic market. They must select technology from among the available alternatives which is cost-effective and better in terms of quality. To improve competitiveness, schemes for establishment of mini tool rooms, setting up design clinics, providing marketing support, sensitization to IPR requirements, use of IT & ITES should be evolved through PPP basis.

Provision must be made by the government to take essential steps to educate and create consciousness among the stakeholders the importance of modern management practices. Institutes imparting management education should provide easy access in terms of admission to the prospective and existing entrepreneurs for training through short-term, tailor-made and need-based management courses with a provision to upgrade the courses as frequently as possible so that much of precious time is not wasted. The government can accord priority in allocation of raw materials, extend market assistance and grant rebate and concessions with those units having a better performance record.

Suitable provision in the MSME Development Act 2006 may take care of the cost under promotional programmes. Taxes and import duties are obstructing the productivity and the cascading effect of indirect taxes will continue to burden the entrepreneurs until GST is fully implemented.

Stringent labour laws continue to deter entrepreneurs from hiring labour services. Demand for higher wages has forced many entrepreneurs to close down their units in West Bengal and Assam.

The September surge announced by the Prime Minister in 2012 allowing FDI in retail trade, followed by the report of the Vijay Kelkar committee recommending lowering excise duty, subsidy cut, stepping up disinvestment will pose more challenges before this sector.

Thus diversification, leaning towards service oriented production such as mobile repairing, mending electronic gadgets etc. are the new avenues due to which this sector will be able to bear and sustain.

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