CHAPTER – VI

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Earlier than the adoption of Industrial Policy Resolution, 1948, Mahatma Gandhi expressed "The extent of mechanisation and size of an industrial plan depends upon the relative scarcity and cost of labour and capital during the present condition", which means he was clearly in favour of the formation of small-scale industries in India. It is unfortunate that we have not been able to appreciate the significance of Gandhian economic thought whereas China has understood and practiced it.

The development of small-scale industries has remained the responsibility of the State. In furtherance of the objectives stated in the Industrial Policy Resolution of 1948, the State Government tried to introduce some development programmes in the First Five Year Plan. But during the plan period, it was felt by all that what was being done was thoroughly inadequate to provide more employment of employed persons. The State Government was facing many problems in this respect. Therefore, the Central Government took the lead and intiated to invite an international team of Experts in the year 1953-54. The Team reported on the measures that could be adopted to develop small industries. Among many other recommendations, the team
recommended the establishment of an Industrial Extension Service, establishment of a Small Industrial Corporation and Formation of the Federation of Association of Small Industries of India. Implementing the recommendations of this Team, the Government of India set up a Central Small Scale Industries Development Organisation and the Central Small Scale Industries Board in 1954-55. The National Small Industries Corporation was incorporated in 1956. Thus, started the nationwide movement for the promotion and development of modern small scale industries.

But till recently, there was great confusion and lack of clarity about the definition of small scale industries in our country. Naturally, the definition of Small Scale Industry has undergone many changes and modifications, which can be seen from the following definitions given by different authorities or agencies.

The Fiscal Commission (1949-50) in its report gave the following definitions of a small scale and cottage industries.

A Small Scale Industry is one which is operated mainly with hired labour normally numbering 10 to 50 hands.

A Cottage Industry is one which is operated mainly or primarily with the help of the members of the family either as a whole or part-time occupation.
The Small Scale Industries Board (1957) revised the definition and grouped small-scale industrial undertaking into two categories. Those using power but employing less than 50 persons and those not using power but employing less than 100 persons. All small-scale enterprises, however, had a capital investment of less than Rs. 5 lakhs. The criteria on the number of persons employed, however, was considered defective as the figures of 50 and 100 persons were purely arbitrary. In fact, none of these criteria taken singly would be an acid test as they undergo changes over a period of time. The character of organisation and management also cannot be considered a sound basis of classification. As the tempo of the development of small-scale industries gathered momentum a need was felt to modify the definition further.

In 1960 the Ministry of Commerce and Industry, Government of India revised the above definition as -

Small-Scale Industries will include all industrial units with a capital investment of not more than Rs. 5 lakhs, irrespective of the number of persons employed.

The capital investment for the purpose of definition meant investment in such fixed assets as land, building, machinery and equipment.

In 1965, the limit was raised to Rs. 7.5 lakhs. In 1975 the Government raised the definition of small-scale enterprises so as to include all industrial units with a
capital investment in plant and machinery (fixed capital) of not more than Rs. 10 lakhs, irrespective of the number of persons employed and Rs. 15 lakhs in the case of ancillary units manufacturing parts and equipments. After the Industrial Policy Statement (1980) Government increased the limit of investment in the case of tiny units from Rs. 1 lakh to Rs. 2 lakhs in the case of small-scale units from Rs. 10 lakhs to Rs. 20 lakhs and in the case of ancillary units form Rs. 15 lakhs to Rs. 25 lakhs.

Further, in 1987 Government re-defined small-scale ancillary and tiny industry as -

Small-scale industry means all industrial units with a capital investment in plant and machinery (fixed capital) not more than Rs. 35 lakhs irrespective of the number of persons employed.

Ancillary Industry means an unit with a capital investment more than Rs. 45 lakhs and 50 per cent of the total production of the year used by other related industry. The related industry may be small, medium or large.

Tiny Industry means all industrial units located at a semi-urban or rural areas where the population is less than one lakh and total investment in plant and machinery is less than Rs. 2 lakhs.

For the purpose of valuating investment in plant and machinery of small-scale and ancillary industries pollution control equipment and pure Research and Development equipment have been excluded from the computation of present ceiling
of plant and machinery, viz. Rs. 35 lakhs in the case of ‘small-scale industrial undertaking’ and Rs. 45 lakhs in the case of ‘Ancillary Industry Undertaking’.

The new industrial policy for the small sector industries announced on 6 August 1991, envisages a number of changes in the old policy, with a view to making them strong and viable units.

In this connection it may be useful to have an idea of the constituents of the small sector. These are of varied nature but have been put together under one head, Small Scale Industries (SSI). Sometimes these are grouped under the title small-scale, Khadi and village industries. The constituents of this sector are: small industrial units with investment in plant and machinery up to Rs. 60 lakhs, ancillary units with investment in plant and machinery up to Rs. 75 lakhs, tiny industrial units with investment in plant and machinery up to Rs. 5 lakhs, handloom, handicrafts, khadi and village industries.

1. **Investment Limit For SSI Raised To Rs. 3 Crores**

The union government has ratified the raising of the investment limit for small scale Industries (SSI) to Rs. 3 crores from Rs. 60 lakhs. The investment limit of ancillary units has also been hiked to Rs. 3 crores.

The capital on foreign equity participation has been retained at 24 percent for the SSI Sector as well as for
domestic units.

The investment limit of Rs. 3 crores has been set for fixed assets in plant and machinery, whether held in ownership terms or on lease or hire purchase. Further, no small scale or ancillary industrial undertaking for this purpose can be a subsidiary of or owned or controlled by any other industrial undertaking.

The raising of limits based on the recommendations of the Abid Hussain Committee set up to examine derecognition of the Small Scale Industries Sector.

Towards this end, the Industry Ministry had also placed a copy of the notification in Parliament on March 21. However, this notification could not be ratified on account of procedural hiccups.

The notification states that where two or more industrial undertakings are set up by the same proprietor, each of such industrial undertakings shall be considered to be controlled by the other. The notification states that while calculating the value of plant and machinery, whether new or second hand, the cost of equipment like tools, jigs, dies, moulds and spare parts for maintenance and the cost of consumables would be excluded.

The cost of installation of plant, research and development equipment, pollution control equipment, generation set and extra transformers installed by the
undertaking as per the regulations of the State Electricity Boards will however, not be included for calculating the value of plant and machinery. As per recent announcement industrial policy of March-1999, the investment in Small Scale Industry Limit is Rs.1 Crore and Rs.25 Lakhs in Tiny industry.

Small-scale industries have a substantial contribution to make in the country’s economic development. Although the basic and heavy industries constitute the base for any programme of rapid industrialisation, it is the small industrial units that are best suited to the conditions prevailing in our country. With their small foreign exchange requirements high employment potential and short gestation period they can go a long way in promoting our economic growth on healthy lines. It is seen that economic progress and rising living standard may require diversification in the supply of goods. Small units are ideally suited for the purpose as these can produce such goods by employing less capital which is generally scarce in the developing countries. The industrial history of Dharwad and Hubli is not very long, though Hubli is reputed for its small industry concentration. In fact forty years ago it had no organised factories except a few engineering units, wearing and spinning mills. However, the progress during the last two decades had not only been steady but also has been fast and
varied. The main reasons advocated in promoting the small industry sector are -

1. The gestation period, i.e., the time required for setting up a unit to commence commercial production is comparatively less.

2. Helps to economic use of capital which is scarce and is needed for the development of infrastructure like roads, transportation and electric power.

3. Creates more employment opportunities with lesser amount of capital when compared to large-scale units.

4. Requires less use of expertise and skill which are in short supply in developing countries.

5. Preserves a healthy balance between the economic growth in urban and rural areas.

6. Check migration of labour from rural areas to urban areas.

Government has also been taking various steps to accelerate the growth of small-scale industries. It has been announcing incentive schemes like cash subsidy on capital investments in notified backward areas, exemption from various duties and taxes, preference in allocation of scarce raw material and other inputs, price preference in purchase and reservation of items for exclusive production in this sector.
2. Problems of Small Scale Industries

Small Scale industries are facing a number of problems, these problems in general are -

a) Problem of Raw Materials:

The small enterprises are not getting adequately the right type of raw materials at right time and right prices. As they have small capital, they will be compelled to use cheap and inferior raw materials. This adversely affects the quality of the finished products.

b) Problems of Suitable Machines

There is an acute shortage of machines and tools required by them. Moreover, their prices are higher and lot of delay is caused in their supply. The power supply is also inadequate, irregular and costly.

c) Lack of Finance:

Adequate and cheap credit facilities are not available to the small enterprises. Normally they depend upon the local money lenders who charge very high rates of interest. In order to repay the loans quickly, they will be compelled to sell their products at unfavourable prices.

d) Absence of Marketing Facilities:

The small entrepreneurs face many difficulties in marketing their products. Because (a) there are no organised sales organisations, (b) their products are not standardised,
(c) there are no adequate transport and communication facilities. (d) they cannot get up-to-date market information, and (e) they cannot wait for better prices due to lack of finance.

e) **Primitive Methods of Production:**

The methods of production. Particularly of cottage industries, are mostly primitive. Their products are also traditional. However, small industrial units do use modern machinery and produce many modern varieties of goods.

f) **Problem of Competition:**

The small industries are facing competition from the big industries particularly when they are producing varieties of goods.

g) **Burden of Taxation:**

The small industries have to bear a heavy burden of taxes imposed on them by the local authorities. The local bodies levy octroi not only on the raw materials but also on the finished products.

4. **Government Support to SSI Sector:**

Government, too, has formulated policies and guidelines to help small-scale units. It is felt that the delayed payments by public sector undertakings to the small ancillaries is coming in the way of their smooth functioning. To overcome this, government has issued directives that all
government departments including Railways should make prompt payments to the small, village and cottage industries for goods purchased from them. Public sector undertakings should also speed up payments and a maximum limit of 3 months for payments of goods purchased from small, village and cottage industries has been fixed.

Government has also been revising the list of items by adding more and more items for exclusive production in small-scale sector to avoid competition from large and medium-scale sector industrial units. In addition, government is giving preference to small-scale industrial units in its purchase rates.

Lastly, government is considering to make a budgetary provision to fund what have been named as margin for revival of the sick small-scale units in the country. The new scheme envisages the transfer of matching funds by the centre to respective State Governments, who will be responsible for its disbursement to sick small-scale units. Under the scheme, the State Government is expected to provide margin money assistance ranging from Rs. 1,000 to Rs. 20,000 for sick small-scale units in the form of long term loans at a nominal annual interest rate. The period of moratorium as also the subsequent repayment schedule will be decided by State level Co-ordination Committee.
5. **New Initiatives:**

Considering the significant role of small-scale sector in meeting the demand for products both in domestic and international market and for enabling the sector to maintain its tempo of performance, items of plant and machinery which contribute to modernisation of SSI units, viz., pollution control equipment and pure R & D equipment have been excluded from the computation of the present ceiling of plant and machinery, viz., Rs. 35 lakhs in the case of small-scale industrial undertakings and Rs. 45 lakhs in the case of ancillary industrial undertakings.

With a view to further strengthening the provision of financial assistance to small-scale sector, specially to smaller amongst the small-scale units, several schemes like small industrial development fund in 1986, National Equity Fund in 1987 and single window scheme in 1988 have been introduced. For meeting the longstanding demand of small-scale industries for a separate Apex Bank for providing assistance to them, the government introduced a Bill on 12 May 1989 for the setting up of a corporation by the name 'The Small Industries Development Bank of India' (SIDBI). After receiving the presidential assent, it has become an Act on 25.10.1989. SIDBI has two funds viz., Small Industries
Development Assistance Fund and Small Industrial General Fund.

National Equity Fund (NEF) set up in 1987 provides equity type support to small entrepreneurs to set up facilities for the manufacture of new products in tiny small-scale sector and also provides assistance in the form of loan to meet the gap in the equity after taking into account the promoter's contribution to the project to a maximum of 15 percent of the project cost within a ceiling of Rs. 75,000 per project.

The Single Window Scheme (SWS) introduced in 1988 provides working capital loans alongwith term loans for fixed capital to new tiny and small-scale units having project cost upto Rs. 5 lakhs and working capital requirement upto Rs. 2.5 lakhs.

6. Upgradation of Technology:

With a view to keeping pace with fast changing technologies all over the world and to enable small-scale industries compete in domestic and international markets, a Technology Development Division is proposed to be set up for transfer to improved technology to the small scale units.

The small-scale sector in India now produces a wide range of products, from simple consumer goods to such sophisticated products as scientific and precision instruments, hearing aids, electronic components, tape-
recorders, television sets etc., with a lower level of labour costs than in western countries. India enjoys an advantage in exporting both traditional and non-traditional labour intensive products. This apart, there is a favourable climate for SSI exports in foreign markets because frequent wage hikes and pollution hazards in industrial countries leads to favour imports from developing countries, particularly the import of SSI products.

To ensure a secure base for India's export, government has initiated various measure that would -

1. Strengthen export production,
2. encourage capacity expansion in export-oriented small industries,
3. augment bargaining power of our exporting community,
4. encourage entry of our products in the new market of both developed and developing countries, and
5. improve our inherent competitive strength through importing greater relative price stability of Indian economy.

Apart from this government has accepted some of export promotion measures recommended by Tandon Committee in May, 1980.
7. Exports Form Dharwad District:

Many units in different industries are showing remarkable capacity in increasing exports of various products such as electrical instruments, machine tools, spare-parts, leather goods, tiles, hardware materials, hosiery, ready-made garments etc. In such cases the increased provision of the above stated facilities for export appears to be very important. Export promotion councils can also help these units in their efforts. It would be more appropriate if some of the larger concerns could help smaller ones even in unrelated lines to export their products. Such a co-operation and mutual understanding is likely to be of immense benefit in the Hubli and Dharwad industrial area and the estate. Thus, in Hubli and Dharwad region exports may increase with variety in the near future.