Chapter 1

Introduction

1.1 The Background

The Report of the Task Force on Micro, Small and Medium Enterprises (MSMEs) in 2010 stated that more than 94 percent of the MSMEs, which provided jobs to 60 million people and contributed 8 percent of the country’s GDP, are unregistered of which majority belonged to the informal/unorganised sector. The National Commission for Enterprises in the Unorganised Sector (NCEUS, 2009) observed that the category of the ‘Micro’ enterprises within the MSMEs includes almost all the enterprises within the unorganised manufacturing, each employing less than 10 workers. The Eleventh Five Year Plan (Government of India, 2008) stated that the Micro and Small Enterprises account for almost 40 percent of total industrial production, 95 percent of the industrial units (together with the medium enterprises) and 34 percent of the exports by the country. It is thus clear that the unorganised segment of the manufacturing industry occupies a significant position in the economy of India.

However, the unorganised manufacturing sector (UMS) in India has been subjected to different types of policy interventions by the Government during past three decades or so. Broadly speaking, this sector grew under a ‘protective’ environment till about mid-1980s. The policy instruments like import licensing, quantitative restrictions on imports, high tariff rates, restrictions on foreign direct investment, import of technology, and foreign collaborations of industrial units, etc., provided protection to this sector by eliminating the scope of foreign competition. The small-scale industries (SSIs), the majority of which fall under the industry of unorganised manufacturing, enjoyed additional protection at the domestic level, in terms of various fiscal supports along with product reservation, tax concessions, and direct subsidies from the Government.

The above-mentioned protections, however, began to be withdrawn in phases, especially with the adoption of the economic reforms policies and opening up of the economy since 1991. Post-1991, the Government began to cut down import duties on various products including capital goods, intermediate goods, raw materials, and consumer goods. The coverage of the Open General License was extended even for the products
reserved for the SSIs. As a consequence, foreign goods, including those hitherto reserved for the SSIs, started entering into the Indian market (Chadha, 2003).

The business environment became tougher for the SSIs when the Government started to implement the de-reservation policies since 1997 following the suggestion of the Expert Committee on the Small Enterprises (Government of India, 1997). The Committee argued that the exclusion of the large-scale industries from production of the ‘reserved goods’ became counter-productive as the imports of such goods have flooded the Indian market. Meanwhile, the policy of trade liberalization intensified further after 1995 as India became a party to the agreement of the World Trade Organization (WTO). Due to her commitment to the WTO, India removed the Quantitative Restrictions on imports by April 1, 2001. So, the SSIs had to face a strong competition from their larger counterparts, both domestic as well as international, in the subsequent period.

However, the policy of liberalization not only threatened the UMS by increasing competition at the domestic market but also opened up several new opportunities for them. Increasing scope of inter-firm linkage between the large- and the small-scale units across various product lines was one such possibility. The larger units often preferred agreement with the smaller ones in order to take advantage of the latter’s cheap labour and low overhead cost. Whatever be the reason, the incidence of the inter-firm linkage provided the opportunity to the smaller units to serve beyond the local market, in one hand, and to utilize the advantage of getting quality materials as well as upgraded production techniques from the parent units, on the other. However, debates continued regarding whether the tiny units would really gain from the subcontracting arrangements or they would end up by being exploited by their masters/parent units (Chadha, 2003; Sahu, 2008; IDFC, 2013).

The SSIs in general and their tiny units in particular were expected to benefit from various policy initiatives taken by the Government since early 1990s. Specifically, it may be noted that the Government announced the New Industrial Policy in August 1991, which was accompanied by a Special Policy Statement for the Small-Scale Industries with the objective of imparting more vitality and growth impetus to the sector. Further, recognizing the challenges faced by these units, the Government announced the Comprehensive Policy Package in 2000 so as to facilitate the provisions of credit, infrastructure, technology, and marketing. In August 2005, the Government again took a number of actions to increase the quantity of credit to be supplied to the small and medium enterprises (including micro and
small enterprises). This is followed by some revisions of the previous package in 2007 to smoothen the credit flows towards the micro enterprises.

It clearly emerges that the Government was keen to help the unorganised manufacturing sector which prompted it to take necessary actions at regular intervals, especially during the decade of 2000s. Nevertheless, debates continued as regards the actual level of implementation of the various policies adopted over time. Apart from the individual researchers (e.g., Morris et. al., 2001; Papola, 2004; Damodaran, 2008), various Government reports (NCEUS, 2009; IDFC, 2013; Government of India, 2013) too brought out stories about ineffective implementation of the policies adopted in the past. In particular, it has been observed that as the policies taken so far have been ‘aggregative’ in nature, they failed to serve specifically to the enterprises of the unorganised manufacturing sector which are subjected to wide ‘heterogeneity’ in terms of the nature of goods produced, employment size, types of workers, and capital base. It has been found that the goods produced by the UMS varied in a wide range. In one hand, there is the ‘traditional sector’ comprising of units dealing with food products, tobacco, beverages and related products, textile products, leather products, paper products and wood products while, on the other, there is the ‘modern sector’ that includes units producing various items, from simple detergent powder, cosmetics, plastic products to sophisticated products like television sets, electronic controlling system, parts of transport equipments etc. Again, it needs mention that the same product may be produced by the units of different sizes. The ‘size’ of the units can be measured in terms of employment per enterprise or utilization of fixed assets owned. Whatever be the index of the ‘size’ of the UMS units, it has been observed that they operate in the market with different objectives. While the primary objective of the ‘tiniest’ of those units is to earn their subsistence, the bigger ones are supposed to be run on the principle of profit maximization. Hence, it is quite likely that the opening up of the economy, in one hand, and adoption of some promotional policies for them by the Government, on the other, had differential impact on various categories/sizes of enterprises of the UMS producing different goods.

1.2 Objectives of the Study

Against the above backdrop, this study attempts a disaggregated analysis of the performance of the UMS in India over past 25 years or so (1984-85 to 2010-11). We seek to
analyze the performance of the UMS in India and her major states, considering separately the rural and urban areas. We also attempt to build an understanding about the impact of various policies taken by the Government, especially since the early 2000s, on the performance of the UMS. This we do by comparing their status and growth performance for the two sub-periods – 1984-85 to 1994-95 and 1994-95 to 2010-11.

The specific objectives of our study are the following:

(1) To understand the size and structure of the unorganised manufacturing sector at the All-India level as well as in some major states for the period of 1984-85 to 2010-11.

(2) To compare the growth performance of the unorganised manufacturing sector during two sub-periods of our study (1984-85 to 1994-95 and 1994-95 to 2010-11) by considering data on growth of number of enterprises, gross value added, employment, and capital utilization (fixed assets owned per enterprise).

(3) To examine the changes in labour productivity in the unorganised manufacturing sector in India and her major states between the two sub-periods mentioned above.

(4) To examine the composition of employment (full-time/part-time and owner/hired/other workers) in the unorganised manufacturing sector, and the changes in it over time.

(5) To examine the incidence and pattern of the inter-firm linkage, especially in terms of ‘subcontracting’, across different categories (sub-sectors) of the unorganised manufacturing enterprises in India. In this context, we also seek to identify some important determinants of subcontracting status of the enterprises in the unorganised manufacturing sector in India.

(6) To assess the effect of various Government policies on this sector, and suggest some policies to improve its performance in future.

This study is fully based on secondary data generated by the NSSO surveys on the ‘Unorganised Manufacturing Sector’ for 40th Round (July 1984 – June 1985) and 51st Round (July 1994 – June 1995). We also used data on the ‘Unincorporated Non-agricultural Enterprises (Excluding Construction)’ available from the 67th Round of NSSO survey (July 2010 – June 2011). It needs mention here that the survey designs of the ‘Unorganised Manufacturing Sector’ for the 40th and 51st Rounds and ‘Unincorporated Non-agricultural Enterprises (Excluding Construction)’ for 67th Round are by and large the same. However, they differ in terms of coverage. While in the surveys of ‘Unorganised Manufacturing Sector’, the NSSO collected the data exclusively from the enterprises of the unorganised manufacturing sector, in the survey of ‘Unincorporated Non-agricultural Enterprises
(Excluding Construction)’, the data were collected from the unincorporated manufacturing enterprises along with the unincorporated trading and other services. However, we have separated the data on the manufacturing enterprises from the data files relating to the survey on ‘Unincorporated Non-agricultural Enterprises (Excluding Construction)’ [i.e., 67th Round NSSO survey], which are used to generate tables that make inter-temporal comparison about performance of the UMS possible.

1.3 Importance of the Study

An important feature of this study is that it incorporated analysis of data on the Unorganised Manufacturing Sector for the latest available year, which is 2010-11. The results obtained from analysis of these data have been compared with those obtained from analysis of data for two previous years, 1984-85 and 1994-95. This enabled us to provide an understanding about the performance of the unorganised manufacturing sector in India over past 25 years or so. Thus, our study provides the most up-to-date account of the performance of the unorganised manufacturing sector in India. Moreover, as a lot of policy changes have been initiated with regard to the unorganised manufacturing sector after 2000, we could provide some assessment of the impact of such policies on the performance of this sector.

1.4 Plan of the Study

This study is divided into eight chapters including the present introductory chapter. Chapter 2 presents a survey of past literature of the issues covered by this study. Chapter 3 describes the sources of data and the methodologies followed to analyze the data.

Chapter 4 provides detailed understanding regarding the size and structure of the UMS in India, and her 16 major states at three time points (1984-85, 1994-95 and 2010-11). The structure of the UMS both at the All-India level as well as for major states is analyzed in terms of the relative weight of three sub-sectors of the industry (viz., the Own Account Manufacturing Enterprises, i.e., OAMEs, Non-directory Manufacturing Establishments, i.e.,
NDMEs, and Directory manufacturing establishments, i.e., DMEs)\(^1\) in total number of enterprises, total persons employed as well as total gross value added of the UMS. We also looked into the structure of the UMS in India by disaggregating it into various production sectors following the two-digit National Industrial Classifications (NICs).

Chapter 5 compares the growth performance of the UMS in terms of indicators like the number of enterprises, employment, gross value added, and capital utilization both at All-India level as well as for major states. The discussion is carried out at aggregated as well as disaggregated formats – considering rural/urban, OAMEs/NDMEs/DMEs, and major production sectors at the two-digit level of NICs. We also examined the growth of labour productivity in UMS, both for All-India and major states, during the periods of 1984-85 to 1994-95 and 1994-95 to 2010-11. While analyzing the labour productivity growth at the state level, we also focused on the extent of inter-state disparity, if any, in this respect. Thus, the issue of convergence/divergence of growth rate of labour productivity of the UMS at the state level also figured in our discussion.

Chapter 6 discusses the patterns/composition of employment in the UMS in India. In this context, we looked into the shares of full-time/part-time, and owner/hired/other workers. This discussion is carried out separately for male, female and total workers, to the extent possible. In addition, an econometric exercise is conducted to identify the factors that determine the incidence of part-time workers (measured in terms of proportion of part time workers to total workers) in the enterprises of the UMS.

Chapter 7 deals with the issue of inter-firm linkage, especially in terms of ‘subcontracting’, across different categories (OAMEs/NDMEs/DMEs/) of the UMS in India. Besides examining the incidence of subcontracting, we looked into the pattern of dependency of the contracted units on their master units by focusing on various conditions to be fulfilled by the contracted units. Here an econometric exercise is carried out to identify the factors that determine subcontracting status of the enterprises of the UMS.

The final Chapter 8 provides a summary of main findings, and the conclusions emerging from our study. This chapter also suggests a few policies that might be beneficial for the unorganised manufacturing sector in India.

\(^1\) The OAMEs are enterprises run without any hired worker fairly on a regular basis; the NDMEs operated with less than six workers with at least one hired worker; and the DMEs employed six or more workers with at least one hired worker.