CHAPTER II.

PROBLEMS AND PROSPECTS OF SMALL SCALE

AND

COTTAGE INDUSTRIES.
PROBLEMS AND PROSPECTS OF SMALL-SCALE AND COTTAGE INDUSTRIES.

Before discussing the desirability, forms and extent of State aid to small-scale and cottage industries in Madhya Pradesh, it seems desirable to enumerate some of the important problems faced by the small-scale and cottage industries. Really speaking, the problems of different industries differ so widely in their form and magnitude that there hardly any basis for generalisation. The small-scale and cottage industries are at present labouring under serious handicaps, the chief of which are those relating to finance, marketing and organisation.

The following are some of the handicaps and difficulties under which these industries are suffering:

(1) RAW MATERIALS.

The cottage workers suffer from acute shortage of raw materials, e.g. the handloom industry is wholly dependent upon the supply of yarn from cotton mills and hence the shortage of yarn is always felt. The mofussil tanners also complain that good quality hides are bought by rich middlemen on behalf of city firms and exported and similarly good type of wool finds its way to cities and hence a serious shortage of these raw materials are often experienced. Not only that, the artisans do not get enough qualities but that they also have to pay comparatively higher prices for raw materials because of the middlemen. Besides there is also a lack of reliability in the quality of raw materials sold by the middle-men with the result that it adversely effects the reputation of the artisan who uses them. Thus, the artisan does not get enough of what he wants, what he gets is of poor quality and that too has to be bought at higher prices. The only way to meet these difficulties is to form collective or co-operative societies.
If the artisan is to become less dependent on middlemen and technical knowledge and guidance are to be carried to him, organisational advance must be made along two main lines, viz. the formation of co-operatives and formation of association in each established handicraft centre with co-operatives as well as handicraftsmen as workers. The work of organising co-operatives is the responsibility of the Industries Departments in the states with the assistance of the Co-operative Departments. Co-operative associations/societies can help the cottage industries by providing cheap capital, by helping them in the purchase of raw materials and by helping them in the purchase of raw materials and by finding means for the sale of finished goods. They will emerge as a new form of industrial enterprise capable of resisting success fully the encroachment of large industries.

(II) FINANCE

By far the most important problem is the problem of finances. The poverty and indebtedness of the Indian artisans is well known. Besides, adequate and cheap credit facilities are not available to them. The banks, in general, did not advance any loans to artisans, the number of co-operative societies is extremely limited, and the low credit of the artisan does not enable him to procure adequate amounts of loans. Only two sources remain open to the artisan: the money lender and the karkhanârs. The money-lenders often charge exorbitant rates of interest. They also often insist that the products should be sold to them at lower prices. In general, work is started only when the orders are received along with the raw materials or the advance payment. Most of the artisans in general do not work on their own account. They often work for a karkhanâdar or a trader who supplies them necessary raw materials, advances, money for wages, and certain other necessities and who often promises to pay the specified amount of product contracted for. These karkhanârs never hesitate to exploit the need and the ignorance of the artisans. This method of financing leads to the payment of higher prices for raw materials, thereby reducing the competitive power of the handicrafts. Secondly, it forces the artisans to sell at lower prices
and thus deprive them of their legitimate share of profits and wages. This defect can be remedied only through co-operative credit organisations.

For the purpose of providing finance to these industries co-operative banks should be set up on a large scale in the rural areas, which should lend more liberally and on a low rate of interest and should also look after the purchase of raw materials and the sale of finished goods, and supply of implements, tools, and improved machinery. This will, incidentally also solve the problems of supply of raw materials, techniques and marketing of the finished products.

The International Planning Team has recommended that the banking policy of the Commercial Banks should be changed. (1) They should increase their loans and advances to these industries by delegating more authority to branches to make loans to them; (ii) Co-operative banks should take a greater interest in financing these industries; (iii) Each State should have a separate State Finance Corporation part of whose funds should be exclusively reserved for small-scale industries, and (iv) a system of loans against the security of real estate mortgage should be developed.

The Shroff Committee emphatically suggested that in order to improve the financial position of these industries it is necessary to avoid delay in making payments for Government purchases from such industries. The State should also give greater assistance to these industries under the State-Aid to Industries Act. The Committee further suggested that the State Financial Corporations should give loans to small-scale industries and that efforts should be made to work such organisation by two or more States conjointly and that in the selection of the initial personnel, the Reserve Bank of India should be consulted.
(III) ORGANISATION

The third important problem relates to organisation. The greatest defect in the existing system is that the artisans are solely at the mercy of the financiers. Bulk purchase of raw materials and of tools and machinery is not possible. The result is that the most of the economies of external type cannot be properly obtained. By far the best solution in this matter also lies in the formation of co-operative societies. Such societies should be given recognition and help by the State Governments.

(IV) MARKETING

The fourth important problem relates to marketing. It is necessary that the artisans should get proper price for the fruits of their labour. Also the establishment of co-operative sales organisation will do a lot of good. Central sales organisation on the State or national basis should be established to co-ordinate and facilitate the work of small co-operative sales organisations. The Central Cottage Industries Board has already proposed important improvements in this direction. Some of the State Governments, notably those of Madhya Pradesh, Uttar Pradesh, Assam and Kashmir have started Arts and Crafts Emporium.

(V) LACK OF TECHNICAL KNOWLEDGE AND RESEARCH

The fifth important problem relates to the lack of technical knowledge and research, and the lack of education and the lack of efficient methods of production. Many of these defects are being removed through the Central Cottage Industries Board. The Board started with providing training facilities for small industries to the displaced persons. Services of experts from Japan were acquired. Later on, training facilities were extended to all other suitable persons. The work of research
regarding the adoption of improved tools and small machines
is seriously engaging the attention of the Government. The
Central Board also makes arrangements for the collection of
impart information regarding the market trends and the prices.

(VI) INEFFECTIVE AND WASTEFUL METHODS OF
PRODUCTION

Yet another difficulty is the presence of inefficient
and wasteful methods of production and the consequent high costs
of production. This can be removed by the introduction of cheap
electric power and by the training of the artisans. As our
development programmes proceed on and cheap electric power be-
comes available to the rural areas, the problem is expected to
be solved. In this connection, it is also essential that better
and more efficient tools must be supplied to the artisans. The
organisation of cottage industry workers into guilds, as in
Kashmir, is expected to yield useful results.

(VII) HEAVY BURDEN OF TAXATION

Cottage artisans have also to bear a heavy
burden of taxation imposed on them by the local authorities.
Their raw materials are subject to octroi duties, their finished
goods are also subject to octroi duties and these are paid
ultimately not from the consumers' pocket but come out of the
standard of the life of the artisans.

(VIII) LACK OF PUBLIC INTEREST

Till recently the cottage industries in the country
have been the victim of both official and non-official neglect.
The public preference appeared to be for durability and cheapness
to everything else, while the scientists and inventors did not
bother to consider over the woes of these people, the economists
also stood aloof contemptuous of what they regarded as uneconomic
part of the productive organisation. It was only due to the
untiring efforts of Mahatma Gandhi that public interest has been
aroused and focussed on the place of cottage industries in the
national economy - their difficulties and means of removing
them.
(IX) **COMPETITION FROM HOME AND ABROAD**

At the present time, small scale and cottage industries stand in isolation always threatened by competition from home and abroad. A co-ordination between the different links of the industrial chain is badly needed. The raw materials can be worked in the rural areas in small and medium-sized units and then brought in a semi-finished state to the big urban centres. By establishing a net work of small and medium sized industrial units in the heart of agricultural areas. We must industrialise the rural areas the modern concert of regional planning in fact knows no distinction between the rural and the urban or between the industrial and the non-industrial areas.

(X) **STANDAR**

Absence of standards and lack of facilities for quality control hamper sales of products of small scale industries. Even in respect of products where standards have been laid down by the Indian standards Institutions, small units do not strictly conform to these specifications.

(XI) **POWER**

Shortage of electric supply in certain places ever changing timing of power supply and high rates at which power is supplied lead to under-utilisation of installed capacity and raise the costs of production.

(XII) **TRANSPORT**

Difficulties of transport are not peculiar to small units and these are experienced by all industries. Their severity, however, is felt more by smaller units as they have to depend on regular supplies of raw materials as well as quick distribution of finished goods because they can not afford
to maintain large stocks, where transhipment from broad to meter-gauge system or vice-versa is involved, considerable delays have become common. Delay in transport locks up the funds for longer time thus raising interest costs.

(XIII) INDUSTRIAL PREMISES AND COMMON FACILITIES

Many of the small-scale units are located in old, congested, poorly lighted and ill-ventilated premises in crowded residential localities which not only affect the health of workers in the long run but also the efficiency of production. The housing of units in such centres creates difficulties regarding availability of power, proper installation of machinery shortage, etc.

Further, at present, many small-scale manufacturers lack common facilities like heat treatment, electro-plating, stove enamelling, cash-hardening, etc. because they can not be provided out of the resources of industrial units. Naturally, they adopt crude methods or get the finishing done by outside parties or sell their products in unfinished form. In some cases articles have to be transported to several different agencies for different operations, e.g., fly wheels of sewing-machines-they are cast by one party, machined by another, electroplated by a third and pointed by yet another, before they are brought to the factory. If the agencies are situated at a distance the process involves considerable delay as well as higher cost of transport.

(XIV) GOVERNMENT PURCHASES

Government is one of the largest bulk purchaser of products that could be manufactured by small industrialists but most of such industrial units are unable to fulfill the requirements of Government purchasing agencies especially those regarding security deposit, bank guarantee income tax clearance act certificate, container specification etc. The
delay in payment of bills, which is quite common also blocks up working capital. Further, the Government policy of deducting amounts due to it from supplier out of the proceeds of bills makes banks hesitant in giving advances against bills handed to them for collection.

**MEASURES FOR IMPROVEMENT**

In view of the very important place they occupy in the industrial structure of the country, it is very essential that suitable steps must at once be taken to remedy the existing defects and to remove the main difficulties of small scale industries.

1. Proper arrangement should be made for the supply of good raw materials so that the products of these industries may conform to definite standards and specifications.

2. In order to eliminate competition proper protective policy should be adopted. There should be reservation of spheres of production for cottage and small-scale industries. The large scale industries should not be allowed to expand their capacity.

3. Industrial cooperatives should be formed for purchasing raw materials and appliances, raising money for the industry and for marketing the finished products on the most favourable terms.

The cottage and small scale producers face considerable difficulty in marketing their products. Exhibitions of cottage products in the main cities of India and in the foreign countries such as Canada, U.S.A., Australia, New Zealand and the Middle East countries will increase the demand for these products. The internal market should also be developed as India posses the "the largest potential market in the world."

4. **Improvement in technique:** The artisan should be familiarised with new and more economical methods of production. Modern tools should be popularised on the hire-purchase system. Technical guidance and advice may be made available through 

   *mm* parties and through pamphlets in the various Indian languages. A system of training-cum production centres and pilot workshops
should go a long way in encouraging improved techniques of production. The use of new patterns and designs should also be encouraged.

(5) The State should take an active part in promoting the development of these industries. These industries should be granted exemption from taxes. To secure the same whole-hearted co-operation, which is now readily accorded to the field of large scale industry, a separate Central Ministry, presided over by a Minister with a cabinet rank as suggested by the Karve Committee, should be created. In the field of training, research and marketing the Government can be of substantial assistance to these industries. The stores purchase policy should be so directed as to favour the small scale and cottage industries.

(6) The availability of cheap electrical power is a basic necessity for the development of small-scale and cottage industries. The Karve Committee has also stressed the importance of cheap power in rural and semi-urban areas. To ensure repaid progress there should be the closest co-operation and coordination between the State Governments and the centre.

(7) Supply of Capital on credit: Co-operative societies are the best agency for this purpose. For small scale industries in urban centres, State Financial Corporations have already been set up for this purpose.

(8) Co-ordination with large-scale industries is very essential. Cottage industries should be complementary to the large scale ones. The raw materials can be worked in rural areas in small and medium-sized units and can then be brought in a semi-finished state to the big urban industrial units.

(9) Separate suitable machinery with large powers of initiative may be set up, for each category of small-scale and cottage industries to attend to their respective problems and thus to promote their development.
(10) Research in technique, etc. of both small-scale and cottage industry must also be organised. A central institute of research may be started which should refer their problems, if need be, to the National Laboratories for guidance and communicate results to smaller research centres and the artisans. In the case of small industries, special research sections may be opened in research institutes associated with large-scale industries.

(11) Besides, standards of quality should be laid down and enforced in all the important lines of production. Consumption goods, such as, toys, toilet requisites, food products including preserved fruits, meat and fish should be produced mainly by small-scale industries.

(12) **Proper education and training of the cottage workers:** Special industrial schools for different crafts should be established for this purpose.

(13) The cottage and small scale producers should be imbued with a spirit of enthusiasm and initiative.

(14) The last step is to decide which of the old cottage industries have a chance of doing well under present condition and to think out other such industries which can profitably be started. For this purpose detailed surveys of the existing industries should be conducted and production programmes of the main small-scale and cottage industries be drawn up.

The above is a general discussion of various measures that could be adopted to remove difficulties and handicaps faced by small scale and cottage industries. Some action has already been in these directions and discussion about the same is included at appropriate place in this study.

Measures discussed above could be classified into three categories (i) Co-operation and Co-ordination (ii) State Assistance and (iii) Patronage by consumers and the Government to the producers of small industries. The present study is mainly devoted to the need, desirability, forms, methods and extent of state assistance to small scale industries only.
PROBLEMS AND PROSPECTS OF SMALL SCALE AND COTTAGE INDUSTRIES IN MADHYA PRADESH.

As a consequence of the re-organisation of the State, the present State of Madhya Pradesh came into existence on November, 1, 1956. It has an area of 1,71,200 square miles making it the largest in the country. It is centrally located and it has common borders with as many as 8 states, namely Maharashtra, Gujrat, Rajasthan, Uttar Pradesh, Bihar, Orissa and Andhra Pradesh.

It is wellknown that the State of Madhya Pradesh is rich in agricultural, forest and mineral potentials and these provide a strong base for a number of industries. However, mere existence of resources does not in itself ensure growth of industries. Some go even to the extent of saying that existence of local resources is not a necessary condition for growth of industries. There are examples of countries which have developed their industries entirely on the basis of imported materials. Another important factor in the development of industries is marketing facilities. In this respect too Madhya Pradesh has an advantage because it is situated in the heart of the country and can have easy access to the potential markets in the neighbouring States.

It has, however, to be recognised that in spite of the above mentioned advantages, the State of Madhya Pradesh has remained industrially a backward State. The particular circumstances and topography of the State have made a large part of the State inaccessible by modern means of transport. The per unit mileage of railway and roads in the State is far below the national average. Lack of transport facilities have resulted in under exploitation of the resources.

The State has a large population but as pointed out by the Techno-economic Survey of Madhya Pradesh1 the population is not used to the discipline of industrial work. There is acute shortage of skilled workers and rate of absenteeism is

relatively high in Madhya Pradesh. This presents a situation where inspite of a large unemployed section of the population in the State labour from other States is imported for many industries of the State. Creation of industrial climate and training facilities for the workers are a prime need.

Lack of industrial enterprise is another adverse factor in the State. Recently, the Government of India has established a few large scale industries in the Public Sector. Keeping in view the fact that the industrially minded entrepreneurs are few in the State the State Government is trying to attract industrialists from outside the State to start industries. The incentives provided are in the nature of tax concessions, cheaper power and financial assistance.

Credit and banking facilities play an important role in providing fixed and working capital for the industries. The State of Madhya Pradesh is poorly served with modern banking facilities. However, since the nationalisation of major banks -bank branches are now being established in rural areas. In the first instance only some of the bigger villages alone could be expected to have this facility. Reaching of banking facilities in smaller and interior villages will still take a long time. Another difficulty in bank credit is the policy of banks to advance credit against pledging of goods and documents only. Personal credit up till now was practically non-existent. The nationalised banks have now decided to follow a bolder credit policy and have decided to advance credit even without pledging of goods, if they are satisfied about the viability of a project and the competence of the person concerned to execute it. Inspite all these efforts a large number of villages still have to depend on private agencies for credit. A programme for co-operative credit in a big way alone can solve the problem.

The most important problem in the State is that of lack of infra-structural facilities. Jackwardness of State is due to deficiency of over head facilities particularly transport. At the
same time the lack of infra-structural facilities has in turn not allowed the development of industries and kept the state in backward conditions. Thus it is a vicious circle and the problem has to be tackeled at the both ends simultaneously i.e. creation of overhead facilities and also incentives.

In the past few years large public sector undertakings like Bhilai Steel Plant and Heavy Electricals Ltd. have come up in the state. The state also has some large scale defence industries. A few large industries could not bring about industrialisation of the state. But they do provide opportunity for starting many ancillary industries around them. They have helped in creating an industrial climate in the state. These industries also to some extent provide training grounds for industrial workers. It must, however, be clearly understood that a large scale industrialisation can not be brought about by a few large industries here and there. Small industries dispersed all over the state alone can result in industrialisation of the state. For this what is needed is development of infra-structural facilities which can initiate and sustain the industrial growth. Concessions and incentives given for development of industries are no doubt important but the advantages of these concessions are lost when the lack of transport and other facilities result in much more increased cost. Another thing which has to be noted is that concessions, incentives or subsidies can not be permanently allowed to a industrial unit which should ultimate grow into a self sustaining enterprise.

A large part of the rural part of the state is not accessible either for the whole year or atleast for a few months in a year. Though a begining has been made in the direction of rural electrification it will still take a few years to provide electric power in each and every village of the state. Accommodation for small industrial units is another problem particularly in the rural areas. The Industrial Estates Programme is intended to solve some of these difficulties. Whatever has been done in this respect is practically negligible looking to the vast area of the state.
The cottage and small-scale industries suffer from the same difficulties and drawbacks as their counterparts in other States. Among the problems of the small-scale industries in Madhya Pradesh, the Techno-Economic Survey has enlisted the following "outmoded techniques of production, inefficient organisation, lack of financial resources to buy and sell on the most advantageous terms, dependence on middlemen, narrowness of the market, inability to adapt production to changing conditions of demand." Some of the small industries like textiles, oil crushing, rice milling and leather works have to face keen competition from the large-scale factories. Inspite of these short-comings the small-scale industries have occupied an important place in the socio-economic structure of the State and fostering of small-scale sector is an accepted policy of the Governments in the State and at the centre.

Even before the planned development of the country started in 1951, the State had a number of small-scale industries which accounted for a sizeable employment to the population of the State. The small-scale and cottage industries in Madhya Bharat Region of the State provided employment to 1951 persons per 1 lac population, while the comparative figure for the Mahakoshal Region was 1,799 persons. A districtwise data regarding the number of persons engaged in different industries is given in appendix 'A'.

Among the small-scale industries the foremost place was occupied by cotton-spinning and handloom weaving, which employed 39.8 percent of the total workers engaged in small-scale and cottage industries in the State. Other important small-scale industries were shoe-making and repairing, pottery, basket making, blacksmithy, oil pressing, carpentry, and tailoring. Percentage distribution of the workers in 15 important small-scale and cottage industries in Madhya Pradesh (in 1951) is given below:

Table - 1
Percentage Distribution of Workers in Small-Scale and Cottage Industries in Madhya Pradesh (1951)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage of the persons engaged in the industry to the total numbers engaged in the small and cottage sector.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cotton Spinning and Weaving.</td>
<td>39.8</td>
</tr>
<tr>
<td>2. Shoe making and repairing.</td>
<td>8.2</td>
</tr>
<tr>
<td>3. Pottery.</td>
<td>8.2</td>
</tr>
<tr>
<td>4. Basket making.</td>
<td>4.7</td>
</tr>
<tr>
<td>5. Black-smithy.</td>
<td>4.5</td>
</tr>
<tr>
<td>6. Oil-pressing.</td>
<td>4.1</td>
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<tr>
<td>7. Carpentry.</td>
<td>3.6</td>
</tr>
<tr>
<td>8. Tailoring.</td>
<td>3.3</td>
</tr>
<tr>
<td>9. Gold and Silver-smithy.</td>
<td>2.7</td>
</tr>
<tr>
<td>10. Woolen spinning and weaving.</td>
<td>1.8</td>
</tr>
<tr>
<td>11. Other Industries of woody material.</td>
<td>1.7</td>
</tr>
<tr>
<td>12. Sidi making.</td>
<td>1.6</td>
</tr>
<tr>
<td>13. Brick making.</td>
<td>1.4</td>
</tr>
<tr>
<td>14. Silk spinning and weaving.</td>
<td>1.4</td>
</tr>
<tr>
<td>15. Food Industries.</td>
<td>1.4</td>
</tr>
<tr>
<td>16. Dyeing, bleaching and printing.</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: Special Enumeration of Cottage Industries, 1951.
Since the planned development of the country was taken up, particular attention has been paid to the development of small scale and cottage industries. The State policy has been to protect small-scale producers from the competition of factory-made goods, reservation of certain products for small-scale industries only and granting tax concessions to small-scale industries. The State has also taken steps to bring about improvements in the production techniques through demonstrations, training, etc. Common technical facilities have also been provided. Organisation of co-operatives and financial and marketing assistance have also received due attention of the State Government. In an appraisal report on Small Industries in the State, development of following products and industries was recommended.¹

**FOREST BASED INDUSTRY:**
- 4 Model Saw Mills.
- 4 Wood Seasoning Plants.
- 1 Teakwood Veneer Plant.
- 5 Joinery Plants.
- 1 Bobbin Plant.
- 7 Stationery and Wooden Products Plants.
- 1 Tannin Plant.

**LIVESTOCK BASED INDUSTRY:**
- 2 Chrome Tanneries.
- 1 Leather Finishing Plant.
- 3 Footwear Units.
- 2 Leather Goods Plants.
- 20 Small Bone Mills.
- 2 Big Bone Mills.

**METAL WORKING INDUSTRY:**
- 5 Foundries-cum-smithy.
- 3 Wire Nails, Screws and Pins.
- 5 Bolts and Nuts Plants.
- 4 Agricultural Implement Plants.

4 Builders Hardware Units.
1 Tin Container Plant.
4 Hand Tool Plants.
2 Machine Tool Plants.
1 Textile Machinery Plants.
1 Water Pype and Sanitary Fittings Plants.
7 Composite Engineering Plant.
3 Electric Motor Plants.
1 Electrical Accessories Plant.
1 Domestic Appliances.
1 Stainless Steel Domestic Appliances.
1 Surgical Instruments.
4 Scientific Instruments.
4 Bicycle Parts.

CHEMICAL AND ALLIED INDUSTRY:

2 Soap Stone Plants.
2 Thymol Plants.
3 Paints and Varnished Plants.
3 Soap Units.
2 Scientific Glass Plants.
1 Electrical Procelain Wares.
3 Plastic Units.
2 Paper Plants.
3 Mosaic Tiles.

MISCELLANEOUS INDUSTRIES:

1 Ready Made Garments.
1 Sports Goods plant.
4 Laundries.

From what has been stated above the industrial development of the State requires that the State should take concrete steps in the following directions:

(i) Development of transport and other infra-structural facilities.

(ii) Fiscal concessions and other incentives for starting industrial units in the State.

(iii) Financial assistance in adequate measure.

(iv) Training facilities for industrial and managerial skills.
(v) Administrative support in the matter of procuring materials and equipment and in the marketing of products.

(vi) A positive plan for development of ancillary industries around large public sector undertakings.

(vii) Credit facilities and development of Co-operatives.

If appropriate policies and assistance from the State Government come forth the prospects of agricultural based, forest based, mining and metal-based industries are bright in the State.

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