CHAPTER III

ROLE AND CONTRIBUTION OF COTTAGE AND SMALL SCALE INDUSTRIES IN ECONOMIC DEVELOPMENT

- 3.1- Meaning and Concept of Cottage and Small Scale Industries
- 3.2- Cottage and Small Scale Industries- The Underlying Differences
- 3.3- Registered and Unregistered SSI Units
- 3.4- Role of Small Scale and Cottage Industries in Regional and Backward Area Development
- 3.5- Role and Contribution of Small Scale Industries in Economic Development of India
- 3.6- Specific Role of Small Scale and Cottage Industries in Mizoram
3.1. MEANING AND CONCEPT OF COTTAGE AND SMALL SCALE INDUSTRIES

Cottage and small scale industries are defined in terms of investment in plant and machinery under section II B of Industries (Development and Regulation) Act 1951. The limit is revised from time to time to offset the impact of inflation and to meet the technological needs.

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. According to the Fiscal Commission (1949-50) “cottage industry is an industry which is run either as whole-time or part-time occupation with the full or partial help of the members of the family”. These industries are mostly run by the artisans in their own homes. The use of power and machines in these industries are very limited. 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. They are mostly located in villages and rural areas.

According to the Economic Commission of Asia and the Far East (ECAFE) “cottage industries are those industries which are run fully or partially with the help of family members”\(^1\). In the words of Dhar

\(^1\) http://www.ecafe.org/
and Lydall\textsuperscript{2} “cottage industries are mainly traditional industries which produce traditional goods with the traditional techniques”. Examples of cottage industries are khadi industry, handicrafts, handlooms, cane and bamboo base industries, pottery, black smithy etc.

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.

In 1955 Small Scale Industries Board defined small scale industry as “A unit employing less than 50 persons, if using power and less than 100 persons without the use of power and with capital assets not exceeding rupees five lakhs”\textsuperscript{3}.

The Ministry of Commerce and Industries modified the above definition in 1960 on the recommendation of the Small Scale Industries Board. According to it “small industries will include all industrial units with a capital investment of not more than rupees five lakhs, irrespective of the number of persons employed”\textsuperscript{4}. Thus, this revision has enlarged the scope of employment opportunities in small scale sector, but the investment ceiling remains unchanged.


\textsuperscript{4} Government of India,Ministry of Commerce and Industries, letter No.12 SSI(A) 136/137 dated 4\textsuperscript{th} January 1960.
In 1972, the Government of India constituted a Committee for drafting legislation for small-scale industries, which suggested that the small-scale industries might be classified into the following three categories.\(^5\)

a. **Tiny Industry**
Tiny units are those in which the investments in fixed assets are less than Rs. 1 lakh or Rs. 4000/- per worker and the annual turn-over does not exceed Rs. 5 lakh.

b. **Small Industry**
Small industry is one in which capital investment in fixed assets does not exceed Rs. 7.5 lakh irrespective of the number of persons employed.

c. **Ancillary Industry**
An ancillary unit is the one rendering services and supplying or proposing to render 50 percent of its production or total services, as the case may be, to other units for production of other articles. Moreover, such a unit should not be owned or controlled by any undertaking. The limit for investment in fixed assets of such an industry is fixed at Rs. 10 lakh.

The Industrial Policy of 1980, announced on July, 23 has revised the ceiling limits of investment in plant and machinery for small

scale industries. According to the Industrial Policy resolution of 1980, the investment limit in small scale industries has been increased with a view to develop these industries. In case of small ancillary industries, the limit has been revised from Rs. 15 lakh to Rs. 25 lakh and for tiny industries it has been raised to Rs. 12 lakh from Rs. 1 lakh.

In March 1985, the Government has again revised the investment limit of small scale undertakings to Rs. 35 lakh. As per the Industrial Policy Resolution of 1990, the investment limit in plant and machinery for small scale industries has been raised to Rs. 60 lakh and correspondingly for ancillary units from Rs 45 lakh to Rs. 75 lakh.

In 1997, on the recommendation of Abid Hussain Committee, the Government has raised the investment limit in plant and machinery for small units and ancillaries from Rs. 60/75 lakh to Rs. 3 crore and that for tiny units from Rs.5 lakh to Rs. 25 lakh.

In 2000, the Union Government has reduced the investment limit in plant and machinery for small scale units from Rs. 3 crore to Rs. 1 crore. However the investment ceilings for tiny industries remain unchanged to Rs. 25 lakh.

In accordance with the provision of Micro, Small and Medium Enterprise Development (MSMED) Act, 2006. the micro, small and medium enterprises are classified into two classes-
a. **Manufacturing Enterprises**- The enterprise engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951. The manufacturing enterprises are defined in terms of investment in plant and machinery.

b. **Service Sector**- The enterprises engaged in producing or rendering of services and is defined in terms of investment in plant and machinery.

The limit for investment in plant and machinery for manufacturing and service enterprises are given in table 3.1 & table 3.2.

### TABLE- 3.1

**INVESTMENT LIMIT IN MANUFACTURING SECTOR**

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Investment in plant and machinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro-enterprises</td>
<td>Does not exceed twenty five lakh rupees.</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>More than twenty five lakh rupees but does not exceed five crore rupees.</td>
</tr>
<tr>
<td>Medium enterprises</td>
<td>More than five crore rupees but does not exceed ten crore rupees.</td>
</tr>
</tbody>
</table>

Source: Micro, Small & Medium Enterprises Development (MSMED) Act, 2006
TABLE -3.2
INVESTMENT LIMIT IN SERVICE SECTOR

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Investment in equipments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprises</td>
<td>Does not exceed ten lakh rupees:</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>More than ten lakh rupees but does not exceed two crore rupees</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>More than two crore rupees but does not exceed five crore rupees</td>
</tr>
</tbody>
</table>

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 (Table-3.3).

TABLE-3.3
CHANGES IN THE DEFINITION OF SMALL SCALE INDUSTRIES IN TERMS OF INVESTMENT LIMITS

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Year</th>
<th>Investment limits in plant and machinery</th>
<th>Additional Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1955</td>
<td>Up to Rs. 5 lakhs</td>
<td>Less than 50/100 persons with/without power</td>
</tr>
<tr>
<td>2</td>
<td>1960</td>
<td>Up to Rs. 5 lakhs</td>
<td>No conditions</td>
</tr>
<tr>
<td>3</td>
<td>1966</td>
<td>Up to Rs. 7.5 lakhs</td>
<td>No conditions</td>
</tr>
<tr>
<td>4</td>
<td>1975</td>
<td>Up to Rs. 10 lakhs</td>
<td>No conditions</td>
</tr>
<tr>
<td>5</td>
<td>1980</td>
<td>Up to Rs. 20 lakhs</td>
<td>No conditions</td>
</tr>
<tr>
<td>6</td>
<td>1985</td>
<td>Up to Rs. 35 lakhs</td>
<td>No conditions</td>
</tr>
<tr>
<td>7</td>
<td>1991</td>
<td>Up to Rs. 60 lakhs</td>
<td>No conditions</td>
</tr>
<tr>
<td>8</td>
<td>1997</td>
<td>Up to Rs. 3 crores</td>
<td>No condition</td>
</tr>
<tr>
<td>9</td>
<td>2000</td>
<td>Up to Rs. 1 crore</td>
<td>No Condition</td>
</tr>
<tr>
<td>10</td>
<td>2006</td>
<td>Up to Rs. 5 crores</td>
<td>No conditions</td>
</tr>
</tbody>
</table>

Source: Compiled from various Acts and Notifications.

At present small scale industry (Micro, Small and Medium Manufacturing Enterprises) is defined as an industrial undertaking which is engaged in manufacturing, preservation, processing, mining and quarrying or assembling and in which the investment
in fixed assets in plant and machinery whether held on ownership terms, on lease or on hire purchase does not exceed Rs. 5 crore \(^6\) subject to the condition that the unit is not owned, controlled or subsidiary of any other industrial undertakings.

Small scale service sector enterprises (Micro, Small and Medium Enterprises) is defined as an enterprises engaged in producing or rendering of services of which investment in plant and machinery does not exceed Rs. 2 crore.

3.2 COTTAGE AND SMALL SCALE INDUSTRIES - THE UNDERLYING DIFFERENCES.

The Fiscal Commission remarks\(^7\) over the distinction of cottage and small scale industry is that “Cottage industries are normally associated with agriculture in rural areas and provide part-time employment to the agricultural labourers, while small scale industries are established in urban and sub-urban areas and provide full time employment to the labourers”.

The main difference as mentioned in First Five Year Plan (1951-56) between cottage and small scale industries are\(^8\):

1. Cottage Industries are mainly located in villages although they are scattered all over the country while small-scale

\(^8\) Government of India, Planning Commission, the First Five Year Plan. p.17
industries are mostly located in urban and suburban areas.

2. Cottage industry normally do not employ hired-labour as these units are primarily run by the members of the family at their own premises while small-scale industries produce goods with partially or wholly mechanized equipment employing outside labourers. Negligible or no capital is invested in cottage industries and production is done by hand with simple tools.

3. Small scale industrial units employ wage earning labour and production is done by the use of modern techniques which involves capital investments.

4. Small-scale industrial units use modern sophisticated machines run by power while in cottage industries the production is done by hand without the use of power.

5. The products of cottage industries usually meet local demands and supply ancillary goods to small-scale industries while the products of small-scale industries meet the demands for a larger area.

6. Small scale industries are located as separated establishment but cottage industries are located in the homes of the artisans.
7. Traditional goods like khadi, mattress, shoes, candle, cane and bamboo products are produced in cottage industries while small-scale industries produces many modern goods like radio, television, mixer-grinder etc.

3.3- REGISTERED AND UNREGISTERED SSI UNITS

Registration in the small-scale industrial unit is voluntary and solely depends on the desire of the proprietor or entrepreneur. The registration is done with the District Industries Centre (DICs) or the Directorate of Industries. Initially the registration is given on a temporary basis and subsequently, on the request of the concerned entrepreneur, permanent registration is granted. However, as far as the manufacturing units are concerned, their registration is mandatory under section 2m (i), and 2m (ii) of the Factories Act. Besides, some state governments notify certain industrial activities for mandatory registration, although they do not conform to the criteria laid down under Sections 2m (i) and 2m (ii). Such registrations are done under Sections 85 (i) or 85 (ii) by the concerned state governments.

To obtain the knowledge regarding the activities of the small scale industrial sector and to improve the information-base of this sector, the Office of the Development Commissioner (Small-Scale Industry) undertakes various surveys and studies.
Industries) of the Government of India has conducted three all India census so far. The first census was conducted in 1973-74 in respect of 2.58 lakhs SSI units registered up to 30.11.1973. The second census was conducted during 1990-91 in respect of 9.87 lakhs SSI units registered up to 31.3.1988. The latest and the most ambitious was the Third Census conducted during 2002-03 with reference year being 2001-02. In addition to 13.75 lakhs registered SSI units, this Census also covered 91.46 lakhs unregistered units making up a total of 105.21 lakhs SSI units. Collection of data for the unregistered SSI sector along with the registered SSI sector has considerably enhanced the information-base on the total SSI sector.

3.4- ROLE OF SMALL SCALE AND COTTAGE INDUSTRIES IN REGIONAL AND BACKWARD AREA DEVELOPMENT

‘Backward area or backward region’ is a term used to denote the backwardness of a particular region as compared to the other parts of the country. The reason of backwardness may be economic, geographical, political, social or cultural. Among the various causes, economic reason is the most prominent one.

Industrialization plays a very important role in economic development of a backward region. This is why ‘industrial development’ occupies priority in the policy of regional development. "The concept of regional development was originated from the ideas of Stalin. The Burlow Commission in 1937 and the Political and Economic Planning Group in 1939 had mentioned about
the need of regional development and thereby stressed the need for dispersal of some relevant industries in backward areas. By the term regional development we mean the attainment of economic development of a particular region of the country. Thus it also includes the process and the strategy to be adopted for the economic development of particular region along with other regions of the country.”

Backward area development is necessary for overall development of the country. In the absence of regional development of backward areas the industrial activities will be confined to a few selected areas of the country. This leads to unequal distribution of income and industrial development. Moreover, the main aim of regional development is to secure maximum efficiency in the utilization and exploitation of available resources would remain unfulfilled.

Regional development contributes and helps in the involvement and empowerment of common people by demolishing the geographical boundaries. It leads to an equitable distribution of employment opportunities and helps in reducing per capita income among different regions. It also helps to check rural-urban migration and the concentration of population and industry in a few big industrial centers of developed region and also reduces the growth of agglomeration.

Industrialization is the crying need of the hour and rapid development of industries in backward areas can be achieved only

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through promotion of small-scale industries. Small-scale industries can have profound influence by raising income level of the rural people, creating employment in our economy by diversification of production through ancillarisation, diffusion of ownership through the promotion of local entrepreneurship and geographical dispersal of industrial activities by setting up industries based on local resources.

The main aim of Small Scale Industries Development Programmes in various Five Year Plans is through equitable dispersal of industries for balanced regional development. The second five year plan while elaborating on this strategy stated “Industrial expansion on the periphery of large towns could scarcely be said to reduce the concentration of industry, what needed therefore was a pattern of industrial activity in which a group of villages converging on their natural industrial and urban centre form a unit or to use the Karve Committee’s expression, a pyramid of industry based on a progressive rural economy.”

The main reason behind SSI Development is to initiate regional industrial balance by counteracting or neutralizing as far as possible the polarization of industrial activities within developed regions. With the development of small-scale industries in backward regions it is possible to maximize utilization of local resources both natural and human and it helps to minimize inter-regional gaps.

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14 http://planningcommission.nic.in/
Since independence the Government of India has provided various incentives and concessions from time to time to promote industrialization in backward areas. The programme of industrial estates, rural industries projects, provision of capital and transport subsidies to those units located in the identified backward districts or regions, fiscal concessions to industries in backward areas and District Industries Centre (DIC) programmes were formulated and designed to promote and foster dispersed and decentralized industrial growth and thereby reduce regional disparities. Moreover, the government has set up various financial institutions for relieving and alleviating backwardness.

Institutions like “National Small Industries Corporation (NSIC), Khadi and Village Industries Commission (KVIC), National Bank for Agricultural and Rural Development (NABARD), and Small Industries Development Bank of India (SIDBI) were set up to promote and assist small-scale industries in backward or rural areas of the country. The Government of India has created the Rural Infrastructure Development Fund in NABARD to create infrastructure such as irrigation, roads, bridges, and market yards in rural areas.”

The Khadi and Village Industries Commission is also helping the rural people in the village and cottage industries by providing various incentives and organizing various training programmes thereby increasing employment avenues in rural and backward areas. The Regional Rural Banks (RRBs) were also set up in 1975,

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which increased the scope of village and cottage industries. The RRBs used to provide various types of loans to the artisans and entrepreneurs in rural areas at concessional terms. The SIDBI and Commercial Banks are also playing crucial role in development and promotion of cottage and small scale sector in backward areas. The SIDBI is also operating various schemes such as Micro-credit, Mahila Vikas Nidhi, Rural Industries Programme, and Adoption of Clusters for Technology upgradation etc, to boost up industrial development in backward areas.

In spite of all these efforts, the distribution of small scale industries in our country is highly uneven. Some areas like Maharashtra, Andhra Pradesh, Haryana, U.P. and Gujrat etc are highly industrialized while the North-Eastern States, Bihar, Jammu & Kashmir, Himachal Pradesh etc are lagging far behind in industrialization. More than 50 percent of the districts in these States do not have significant number of SSI units. In practice SSI faces a lopsided regional growth due to lack of proper infrastructure for small-scale industries in various States.

But still we can be proud that, since independence we have achieved a high degree of self reliance and have created a strong industrial base for meeting the domestic requirements of the economy by introducing a wide variety of products. Many new medium and small scale industries have emerged and entrepreneurial base has also been widened. The greatest achievement of the government policy measure is that, industry
has spread in those backward and inaccessible areas where it did not exist earlier.

Now, the government should also play an important role in the liberalized set up in order to grow the industries in a balanced manner and infrastructure development should be initiated on a widespread basis so that the first generation entrepreneurs find it profitable to invest in areas that still remain unindustrialized.

Finally, we cannot deny that with “obsession over industrial liberalization”, the crucial matter of employment creation has taken a backseat. This is not at all good for the country. If the small scale sector is to act as an agent of decentralization in rural and sub-urban areas, the government should come forward by strengthening the infrastructure in the rural and semi-urban areas and improving the transport facilities, raw materials facilities, providing more financial help in the form of loans by establishing more co-operative banks and also opening the branches of various other nationalized banks which could meet both the short term and long term credit needs of the existing and also the potential industries.\(^\text{16}\)

### 3.5- ROLE AND CONTRIBUTION OF SMALL SCALE INDUSTRIES IN ECONOMIC DEVELOPMENT OF INDIA

The role and importance of Small Scale, Village and Cottage Industries has equally been felt even in countries which are classic lands of big business and industrial set-ups. Such industries are very common in Japan, U.S.A., Switzerland, Sweden and several other countries.

In an over populated and developing country, like ours, the Small Scale and Cottage Industries have a vital role to play and therefore, it occupies a definite and important place in the upliftment of the rural economy of the region. The Government, at the Centre has made a clear announcement on the importance attached to this sector of Industries in its programmes and plan-outlays, from time to time for utilization of the massive manpower in both the rural and the urban areas.

The small scale industrial (SSI) sector is a vital constituent of India’s industrial sector. It plays a prominent role in overall economic development of the country and contributes significantly to India’s Gross Domestic Products and export earnings besides meeting the social objectives including that of providing employment opportunities to millions of people across the country, income equality, balanced regional development and creation of strong entrepreneurial base.

The SSI sector covers a wide variety of industrial activities categorized as under –

(a) Village and cottage industries (VCI),
(b) Small scale industries (SSI),
(c) Ancillary industries (ANC),
(d) Export oriented units (EOUs),
(e) Small-scale service enterprises (SSSEs),
(f) Small-scale business (industry related) enterprises (SSBEs)
(g) Women enterprises.

The small-scale and cottage industries have an important role in India’s industrial and economic development-

3.5.1. EXPANSION OF SSI SECTOR AND ITS OUTPUT

The small-scale industrial sector has recorded a high growth rate since independence inspite of stiff competition from the large sector and not so encouraging support from the government. This is evidenced by the number of registered units which went up from mere 16,000 units in 1950 to 36,000 units in 1961 and to 33.7 lakh units in 2000-2001.\textsuperscript{17} During the last decade alone, the small-scale sector has progressed from production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro-wave components, electro-medical equipments, T.V. sets etc.

Growth and contribution of small-scale industries during the period 1994-96 to 2004-05 is given in table: 3.4. It is clear from the above table that the number of units in SSI sector was 79.6 lakhs. This number has steadily risen to 118.6 lakhs during the year

\textsuperscript{17} Datt, R. and Sundaram, K.P.M (2007): Indian Economy, S. Chand & Company Ltd, New Delhi,p.677
2004-05. The annual average growth rate of this sector was 4.1 percent during this period.

### TABLE: 3.4
GROWTH, PRODUCTION, EMPLOYMENT AND EXPORT IN SSI SECTOR
(1994-95 to 2004-05)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of units (in lakh)</th>
<th>Production (Rs. crore)</th>
<th>Employment (in lakh)</th>
<th>Export (Rs. crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td>79.6 (4.1)</td>
<td>1,22,154 (23.6)</td>
<td>191.4 (4.8)</td>
<td>29,068 (14.9)</td>
</tr>
<tr>
<td>1995-96</td>
<td>82.8 (4.1)</td>
<td>1,47,712 (20.9)</td>
<td>197.9 (3.4)</td>
<td>36,470 (25.5)</td>
</tr>
<tr>
<td>1996-97</td>
<td>86.2 (4.1)</td>
<td>1,67,805 (13.6)</td>
<td>205.9 (4.0)</td>
<td>39,248 (7.6)</td>
</tr>
<tr>
<td>1997-98</td>
<td>89.7 (4.1)</td>
<td>1,87,217 (11.6)</td>
<td>213.2 (3.5)</td>
<td>44,442 (13.2)</td>
</tr>
<tr>
<td>1998-99</td>
<td>93.4 (4.1)</td>
<td>2,10,454 (12.4)</td>
<td>220.6 (3.5)</td>
<td>48,979 (10.2)</td>
</tr>
<tr>
<td>1999-2000</td>
<td>97.2 (4.1)</td>
<td>2,33,760 (11.1)</td>
<td>229.1 (3.9)</td>
<td>54,200 (10.7)</td>
</tr>
<tr>
<td>2000-01</td>
<td>101.1 (4.1)</td>
<td>2,61,297 (11.8)</td>
<td>239.1 (4.4)</td>
<td>69,796 (28.8)</td>
</tr>
<tr>
<td>2001-02</td>
<td>105.2 (4.1)</td>
<td>2,82,270 (8.0)</td>
<td>249.1 (4.2)</td>
<td>71,244 (2.1)</td>
</tr>
<tr>
<td>2002-03</td>
<td>109.5 (4.1)</td>
<td>3,11,993 (10.5)</td>
<td>260.2 (4.4)</td>
<td>86,013 (20.7)</td>
</tr>
<tr>
<td>2003-04</td>
<td>114.0 (4.1)</td>
<td>3,57,733 (14.7)</td>
<td>271.4 (4.3)</td>
<td>97,644 (13.5)</td>
</tr>
<tr>
<td>2004-2005</td>
<td>118.6 (4.1)</td>
<td>4,18,263 (16.9)</td>
<td>282.6 (4.1)</td>
<td>1,24,417 (27.4)</td>
</tr>
</tbody>
</table>


As far as the output of the SSI unit is concerned, it was Rs. 1,22,154 crore in 1994-95 and this has considerably risen to Rs. 4,18,263 crore in 2004-2005 (at current prices). Production in SSI sector during the last ten years has recorded an annual average growth rate of 8.6 percent. The share of small-scale industries in the countries industrial output is around 39 percent.18

### 3.5.2. EMPLOYMENT GENERATION

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A Small Scale or a Cottage Industry is labour-oriented and labour-intensive with relatively high labour-investment ratio. A given amount of capital invested in this sector of industries is likely to provide more employment, at least in short run, than the same amount invested in a large industry. It is estimated that an investment of Rs.1.00 lakh, in fixed assets, in a large industry may create, on an average, employment to 2-4 persons whereas the same amount of investment made in a small-scale industry, for the same purpose, might do so for 10-12 persons\textsuperscript{19}. This is one of the main considerations for an overpopulated and developing country, where millions of people are either unemployed or underemployed, to utilize the possible potentiality of this sector for providing employment opportunity not only to the educated and technical manpower but also to the unlimited labour force which have been increasing, day by day, at a relatively low capital cost and very short gestation period.

Further, the encouragement to small scale and cottage sector would, no doubt, serve to counter the seasonal un-employment of the agricultural labour force and thus utilize it which otherwise would go waste. The small-scale industrial sector has employed a total of 191.4 lakh people in 1994-95 (table-3.4) and this number has consistently risen to 282.6 lakh people in 2004-05. Within the manufacturing sector itself, small and cottage industrial sector contributes about four-fifths of manufacturing employment in India. Given the acute unemployment, underemployment and

disguised unemployment problem in India, creation of employment opportunities will depend crucially to the development of small-scale and cottage industries. This would be clear from the fact that while employment in the industrial sector as a whole including large scale, medium scale and small scale has increased by only 2.21 percent per annum over the period from 1972 to 1987-88, employment in small-scale sector grew at the rate of 5.45 percent per annum over the same period.\(^\text{20}\) As far as the future prospects of small-scale and cottage industry is concerned, the rural non-farm sector accounting for about 22 percent of rural employment can play a crucial role in the further expansion of employment opportunities in the rural areas. An important constituent of this sector is the manufacturing activity consisting mainly of textile-based and agro-based products and units producing construction materials. In urban areas employment potential seems to be the largest in the non-household and tiny units of the manufacturing sector.\(^\text{21}\)

Obviously, the growth rate of small scale industrial sector has been faster both in terms of output and employment. In other words, the output employment ratio for the small-scale sector is 1:1.4. The rapid growth of the small-scale industries has a great relevance in our national economic policies. The growth of small-scale sector improves the production of non-durable consumer goods of mass consumption. As such, it acts as an anti-inflationary force. If a big push is given to the small sector, it can become a stabilizing factor.


in a capital-scarce economy like India by providing a higher capital-output ratio as well as a higher capital employment ratio.

3.5.3. EFFICIENCY OF SMALL SCALE INDUSTRY

Unlike a large industry, which calls for a great deal of technical skill and manpower viz. engineers, foremen, accountants and so on, a small scale industry is relatively skill light and provides the entrepreneurs every opportunity to broaden his technical and managerial capability. Large industries require imported machineries, materials and technical know-how, small scale industries, generally, are less dependent on foreign machineries, raw-materials and they, being skill light, are “quick yielding types”, i.e. the time lag between execution of the project investment and commencement production is relatively short. Thus, low import intensity in the capital structure of the Small Scale Sector reduces the need of foreign capital or, foreign exchange earnings and obviates the difficulty in balance of payment, on one hand and also compromises between the highly inflationary potential, on the other. That is, this sector tries to arrest inflation simultaneously gearing up the rapid rise in the standard of living of the people because of their low capital intensity and less gestation period.

There is always a controversy over the issue of efficiency of small-scale industry vis-à-vis large scale industries. While some studies have pointed out that small-scale industries are more efficient, others point out that large scale industries are more efficient. Dhar
and Lydall\textsuperscript{22} have undertaken a study on the relative efficiency of small-scale industries in India during last fifties. They concluded that modern small-scale industry is fairly capital intensive; these units do not generate more employment per unit of capital than large scale industry. Similar conclusions were reached by Sandesara in a study conducted for the period 1953-58. Sandesara\textsuperscript{23} found that, for a given volume of investment, small-scale units neither generate more employment nor produce more output compared to large scale units. Goldar\textsuperscript{24} found that SSIs generally have low labour productivity, high capital productivity, low capital intensity and low total factor productivity. He inferred that modern small scale sector is relatively inefficient as compared to large scale industries in a large number of industries. He also found that the efficiency of SSIs varies directly with capital intensity, so that the SSIs can not be relied as a source of efficient employment generation.

However, there are some other studies which prove that small scale units are more efficient as compared to large scale industries. An important study on the efficiency of small scale industries was conducted by SIDBI\textsuperscript{25} Team in 1999 in association with National Council of Applied Economic Research. The study covers the period 1980-94, and reveals that the small scale industries, by investing only 7 percent to 15 percent of the total manufacturing sector’s

\textsuperscript{22} Dhar, P.N. and Lydall. H, opcit.pp. 358-60.
capital contribute to nearly one-fifth of the total industrial output and 35 to 40 percent of total employment in the industrial sector. The estimated relative total factor productivity of small scale industries during the study period is greater than one; suggesting that at the all India level, the small scale sector is more efficient than the large scale sector.

The employment potentiality is a major factor while discussing the efficiency of industries in a labour abundant country like India. Comparison of the SSI sector with large manufacturing sector made for the year 2001-02 by the Census Report\textsuperscript{26} shows that small scale sector is a better employment generating sector. The employment generated by the small scale sector per Rs. One lakh investment was 1.39, as against only 0.20 in respect of the large manufacturing sector. This means that the organized large scale sector requires an investment of Rs. 5 lakhs to generate employment to one person while the unorganized small scale sector generates employment for seven persons with the same investment. With regard to investment-output ratio also, the small scale sector fared almost at par with the large scale sector- an investment of about Rs. 43,000 was required in the large scale sector to generate an output worth Rs. one lakh, whereas in the SSI sector, marginally higher investment of Rs. 48,000 is required to generate the same amount of output\textsuperscript{27}.

3.5.4. EQUITABLE DISTRIBUTION OF NATIONAL INCOME

\textsuperscript{26} Government of India, (2004), Final Results: Third All India Census of Small Scale Industries 2001-02, Ministry of Small Scale Industries. New Delhi, p.68.

\textsuperscript{27} Government of India, (2004), Final Results: Third All India Census of Small Scale Industries 2001-02, Ministry of Small Scale Industries. New Delhi. Table 50, p.68.
Removal of inequalities in income distribution is one of the main objectives of India’s successive five year plans. Development of small scale and cottage industries has contributed a lot to achieve the objective of our five year plans. Small scale and cottage industries are instrumental in the equal distribution of wealth and income. The income generated in large number of small scale and cottage industries are dispersed more widely in the community and also among different geographical regions as compared to the income generated by few large industries. In small scale industries the industrial capital is not concentrated in a few hands rather it is widely distributed in small quantities among large number of people throughout the country. In other words, the income benefit of small scale and cottage industry is derived by a large population while large industries more concentration of economic power. In this way small enterprises bring about greater equality in income distribution. Most of the small enterprises are either proprietary or partnership concerned, hence the relationship between the workers or the employers are more harmonious in small industry than in large industry.

Dhar and Lydall consider this argument as fallacious. Statistical evidence suggests that “there is a common tendency in all countries, for the average wage to be lower in small factories than in large factories”. Moreover, the virtual non-existence of trade unions in small factories enables the employers to exploit the workers to the maximum. Thus, it is true that the workers in small factories are
neither economically better off than in large industries, nor do they obtain more benefits under social security schemes.

There is no doubt that the argument of Dhar and lydall does have some force on it. But on the contrary, it is also true that in a developing country like India, where unemployment, under employment and disguised unemployment is rampant, the low paid job is accepted under circumstances. In the absence of small enterprises, the workers have to lose even the small wage which they hope to get. Moreover, by a more effective implementation of the existing factory lows, the exploitation in small industry can be minimized. Thus there is no denying fact that small scale and cottage industries encourage the distribution of national income and wealth more equally among large number of population and region of the country.28

3.5.5. CONTRIBUTIONS TO EXPORTS

During the post independence period and especially after the Second Five Year Plan, large numbers of modern small scale industries were established in India. As a result, the contribution of small scale industries in India’s export earnings has achieved significant position. Small scale industrial sector plays a major role in India’s present export performance. About 45-50 percent of the Indian Exports is being contributed by SSI Sector29. Direct exports from the SSI Sector account for nearly 35 percent of total exports.

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The number of small scale units that undertake direct exports would be more than 5000.

Besides direct export, it is estimated that small scale industrial units contribute around 15 percent to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use for finished exportable goods. It would surprise many to know that non-traditional products account for more than 95 percent of the SSI exports. The exports from SSI sector have been clocking excellent growth rates in this decade. It has been mostly fuelled by the performance of garment, leather and gems and jewellery units from this sector. The lucrative product groups where the SSI sector dominates in exports are sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products.

The major thrust areas for SSI exports are agriculture and allied, chemicals, plastic items, leather and textile product groups. The United States and European Union have been identified as the potential markets for textile whereas export of chemicals product groups holds a potential for Japan. Another interesting feature to note is the consistent increase in the percentage share of SSI Exports in the field of electronics and computer software. The

percentage share in the field of electronics and computer export has more than doubled from 5.40 percent in the year 1999-2000 to 13.12 percent in 2001-2002\(^{31}\).

While bulk of the SSI export consists of such non-traditional items like readymade garments, sports goods, finished leather, leather products, processed foods, chemical and chemical products and a large number of engineering goods, states like Madhya Pradesh, Uttar Pradesh, Jharkhand, Karnataka, West Bengal and Maharashtra together accounted for 55.41% of the total exporting units in the country. The total export of small scale industrial products has increased from Rs. 155 crores to Rs.1,24,417 crores in 2004-05 (Table-3.4) which signifies an increase in the total share of small scale industries in the total export of the country from 9.6 percent in 1971-72 to 33.1 percent in 2004-05.

3.5.6. MOBILISATION OF CAPITAL AND ENTREPRENEURIAL SKILL

A country like India, where capital and entrepreneurial skill is scarce; the small scale industrial sector has a distinct advantage so far as the mobilization of capital and entrepreneurial skill is concerned. A large number of entrepreneurs are spread over small villages and towns throughout the country. Obviously large industries can not utilize them as effectively as the cottage and

\(^{31}\)Ibid.
small scale industry does. This is mainly because cottage and small scale industries are distributed over the length and breadth of the country. Similarly, large scale industries can not mobilize the savings done by the people in rural and remote places far away from the towns and cities. This difficult task can effectively be accomplished by setting up a network of small scale and cottage industries. In addition, a large number of other resources spread over the country can be put in to an effective use by the cottage and small scale industries. The rapid development of cottage and small scale industries in the post independence period is a proof that given the necessary credit power and technical knowledge, a large quantity of latent resources of the economy can be mobilized for purposes of industrial development\textsuperscript{32}.

3.6- SPECIFIC ROLE OF SMALL SCALE AND COTTAGE INDUSTRIES IN MIZORAM

Mizoram economy is still an agriculture dominated and hence it is categorized as an underdeveloped state. One among many reasons for its underdevelopment is the slow growth rate of industrialization. Industrialization plays a pivotal role in development of any region. Development of industries can increase income, output, and employment and can accelerate the rate of growth of a backward area. Further industry tends to exercise profound influence on other sectors of the economy including agriculture.

In Mizoram industrialization is still at an infantile stage. The entire state has been notified as backward and is categorized as ‘No Industry State’ due to the non-existence of any large and medium industry.

In the traditional Mizo-villages agriculture was the sole occupation. Their agriculture is still practiced on traditional jhum (shifting) cultivation. There was no alternative occupation worth mentioning as the village pottery, blacksmithy, handicraft etc. were carried out on a part time basis.

At present about 70 percent of the total population of the state are engaged in agriculture. Around 60.66 percent (cultivators and agricultural labourers) of the total workforce are engaged in primary sector of the economy while the state is far away from self sufficiency in food grain production. Only 1.5 percent of the work force is engaged in cottage and small scale industries, the only industrial sector of the state, which reveals the industrial backwardness of the state.

The traditional shifting cultivation, due to decreasing returns over time; no longer remain desirable to the farmers to support their growing needs. Besides, there are hardly any plain area except Champhai, ‘The Rice bowl of Mizoram’ and few other areas where cultivation can be practised with scientific methods, modern tools and on permanent basis. Agro based products like ginger, chilly,
oranges, passion fruits etc. are grown intensively throughout the state, the farmers are forced to sell their products to outsiders at cheap rates as most of the products are perishable in nature and no sufficient facilities like cold storage and other scientific techniques to preserve these commodities are available in the state.

Due to the above mentioned reasons, there is a discontentment among the farmers; they are very much keen to find an alternative occupation to support the growing needs of their expanding family members. The secondary and tertiary sectors of the economy has not yet fully developed to absorb all willing work force at once; the shifting of population from primary sector results in unemployment and underemployment in the economy\textsuperscript{35}.

Due to poverty and lack of technical knowledge, the unskilled people in rural are can not move from the traditional sector to a new sector. This in turn puts heavy pressure on agriculture which gives rise to disguised unemployment. Thus the fast growing population, together with decreasing job opportunities in the government sector and growing number of educated youths in the state make it a crying need for speeding up the process of industrialization in the state to absorb the rapidly increasing labour force.

At this juncture cottage and small scale industry has specific role to perform in the context of Mizoram’s economy. As ‘No Industry State’ the contribution of industrial sector in the state economy is

negligible. The contribution of industry both registered and unregistered hardly reaches 1 percent to the GSDP.\textsuperscript{36} The industrial Policy 2000 was announced during 10\textsuperscript{th} Plan period which envisages various fiscal and financial incentives to local entrepreneurs. Further, the Government of India also announced new industrial policy for the north-eastern region “North East Industrial and Investment Promotion Policy” which was enforced with effect from 1\textsuperscript{st} April, 2007. The policy covers the 8 North-eastern states including Sikkim and provides various incentives like exemption of Excise Duty, exemption of income tax, Capital Investment subsidy, Central Transport subsidy, Interest Subsidy, comprehensive insurance and substantial expansion of Industrial units etc.

Small scale and cottage industries are best suited in Mizoram as they require less capital, low levels of technical skills and less managerial experience. The vast natural resources and local raw materials can be exploited more efficiently by setting up small industries in the state. Location aspects of the traditional small scale and cottage industries are mostly rural and semi-urban. Thus they create employment opportunities mainly to the agricultural labourer and local artisans, which in turn helps in equal distribution of state income. Besides increasing the income of the rural poor, these industries preserve craftsmanship and old age heritage.

\textsuperscript{36}Government of Mizoram, opcit. p.51.
Handloom and handicraft industry plays a prominent role in the socio-economic development of the state. The beautiful shawls and puan\textsuperscript{37} of different designs reflect the weaving skill of the Mizo women. While Mizo women excel in weaving, the Mizo men reveals their talent by transforming mere functional bamboo, cane and wooden pieces in to works of art. These industries safeguard the Mizo customs, tradition and culture which become the pride of the Mizo’s for its ethnic beauty, distinct characters and identities. Such small scale industries have high employment potential which enable a large number of people to earn a decent income and thus pave the way for social justice.

\textsuperscript{37} A typical Mizo cloth used in various religious and cultural programmes in Mizoram.