

## ROLE AND PERFORMANCE OF SMALL-SCALE INDUSTRIES IN BIHAR

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### **ABSTRACT**

*Indian economy and the economy of Bihar in particular is an undeveloped rural economy and its vast resources are either unutilized or under-utilized. A major section of manpower is lying idle, per capita income is low, capital is shy and scarce, production is traditional, technique is outdated, output is insufficient and the basic needs of the people remain unfulfilled. Industrialization is the only answer to this state of affairs.*

*The development of small scale industries has followed more or less the general pattern of industrial development in the country.*

*For meeting the long standing demand of small-scale industries for a separate Apex Bank to provide financial assistance to them, the government set up the Small Industries Development Bank of India (SIDBI) in 1989.*

*The Government has initiated the Pradhan Mantri Mudra Yojna for development and refinancing activities relating to micro industrial unit.*

*Infrastructural facilities hold commanding position in establishment of village and small industries in the rural areas. Without infrastructural facilities, development of industries is beyond expectations.*

**KEYWORDS:** *MSME, The Challenges, The Government Plan*

### **INTRODUCTION**

Indian economy and the economy of Bihar in particular is an undeveloped rural economy and its vast resources are either unutilized or under-utilized. A major section of manpower is lying idle, per capita income is low, capital is shy and scarce, production is traditional, technique is outdated, output is insufficient and the basic needs of the people remain unfulfilled. Industrialization is the only answer to this state of affairs. The problem is of the approach which should be direct, utilitarian and pragmatic. It may not only be done by equipping the country with the diversified large-scale industries, but we shall have to focus round the cottage and small scale industries which do not require huge capital and sophisticated technology and being labour oriented, they are suitable for a country like India where the development of the nation lies in the development of the rural areas.

This history of institutional assistance to small-scale industries being just after achievement of Independence, when the state Government started providing assistance to small and cottage industries in a planned way.

The role played by the small scale industry in the economic activity of advanced industrialized countries like Japan, Germany, Great Britain and the United States of America is significant. Many Nations, both developed and developing exteriorized that the small industry sector is a useful vehicle for growth, in the later for the creation of new employment opportunities on a wide scale in the shortest possible time. Small and Medium enterprises account for approximately 80 percent of the private sector industrial workers and hence occupy an important position in the industrial structure of Japan. The employment creating capacity of the small and medium enterprises in Japan has been seen to be larger than that in Germany or United States.

Indian economy is an under developed economy. Its vast resources are either unutilized or underutilized. A major section of man power is laying idle. The per capita income is low. Capital is shy and scarce and investment is lean. Production is traditional and the technique is outdated. The output is insufficient and the basic needs of the people remain unfulfilled. Industrialization is the only answer to this present state of disrupted economy. The problem is the of the approach which should be direct, utilitarian and pragmatic. Such industries do not require huge capital and hence suitable for a country like India.

The concept of small scale industries , as it has developed in years, is one of the confusion and lacks clarity. Neither the Government, not the planners could provide a clear and graphic definition. Obviously small scale industries were not given such important during the British rule as is given today. We now have a pragmatic approach to the concept in view of the prevailing economic conditions, gradual industrial development and the difficulties that arise in the implementation of planned programmes. Hence, the concept has undergone changes from time to time. Before Independence, the present small scale industry was meant to denote the village and the urban cottage industry. This group included a variety of industries ranging from manufacturing of Iron safes, locks, carpets, marble jigs, baskets, hand-loom cloth and the like. In fact, at that time the term cottage and Small scale industries was used in juxtaposition to large scale industries, which were established under the British patronage. Small scale industries were indigenous with a historical background of ages. They received encouragement and support during the freedom movement. The nationalists considered it to be their patriotic duty to develop them. The cottager and small industries found a prominent place in the economic programme envisaged by the India National Congress.

In 1956 all India seminar on the development of small-scale industries was held at Puri. In this seminar top intellectuals, industrialist ministers and big officials took part in discussion. The report of the international perspective team which visited our country in 1954 and suggested ways and means for the rapid development of small-scale industries in India was considered. The international perspective planning Team which had recommended the undertaking of a positive programme for the development of small-scale industries in the country was also give due weight.

### **Growth and Development**

The development of small scale industries has followed more or less the general pattern of industrial development in the country. In the early stages they tended to concentrate only in big cities where transport, water supply, power, skilled labour, marketing and financing facilities were mostly available. Many of these units turned out mostly consumer goods.

**Development During the Plans**

In the first plan a provision was made for Rs. 5.2 crores for the development of small scale industries. During the plan period, in 1954, the International Planning Team on Small Scale Industries made a close study of these industries and came to the observation that the major single reason for most of the deficiencies was the lack of systematic approach to the overall problem.

**Japanese Team on Small Scale Industries**

The Japanese delegation visited India in 1959 to study the pattern of small scale enterprises. It submitted its report in 1960. The main recommendations of team were :-

- Small scale industries should be systematically mechanized and modernized. The guiding policy for their development should be one of guidance and encourage meant rather than one of protection and fostering.
- To improve financial facilities, a credit guarantee system should be evolved and credit insurance fund should be operated by the Reserve Bank of India. State Co-operative Bank should be set up in each state for providing financial to small scale industrial co-operatives and Government loans should be routed through corporations.
- Small industries service institutes and extension centres should be further strengthened and better equipped and more attention should be given by these institutes to research and testing facilities.
- Technical committees should be set up in each state to carry out survey and study the possibilities of development and use of local natural resources.
- Industrial co-operatives should be strengthened and new co-operatives organized to take up joint activities such as purchase of raw materials, arrange for common sale, provide storage and transportation facilities.
- Trade association should be developed for each industry in the states with a view to carry on research on products collect and disseminate technical information etc.
- For promoting export of small industries products, small units should first concentrate on the home market and after perfecting their qualities, they should be allowed to be exported.

The government announced its Second Industrial Policy in 1956, which replaced the industrial policy resolution of 1948. This industrial policy statement explicitly made it clear that "Small scale industries provide immediate large scale employment, offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized."

**Modern Small Scale Manufacturing Enterprises**

These firms, by their very nature, are located in large towns in order to take advantage of external production economies; they use hired labor and raw materials supplied by large scale enterprises located at a long distance. Their market is dispersed in a region or throughout the country. Sometimes they operate in export markets.

**Intermediate Groups of Small Enterprises**

These firms "use more or less tradition techniques to produce more in less modern products". The orientation of these enterprises is towards urban areas, rather than villages, as they have to procure their raw materials from towns, which also provide markets for the finished products. They provide immediate large-scale employment and have a shorter gestation period and relatively smaller markets.

### **Need for Rural Industrialization**

Rapid industrialization of the rural areas is a vital necessity for developing the country and making the people economically independent. Unemployment and under-employment are the prevailing economic diseases and they are the results of a fundamentally disproportionate relationship between population and the use of available land and resources. This situation is further aggravated by an antiquated system of land tenures, by poor standard of health and nutrition, by the continuance of primitive and inefficient techniques of agriculture on small economic holdings and absence of alternative means of employment and livelihood.

### **Efficiency of Small-Scale Industries**

Whether large-scale industries are more efficient or small-scale industries are more efficient, is a matter of debate. The problem arises because of the fact that efficiency can be defined in many different ways. An important study on this issue was conducted in 1999 by the SIDBI (small Industries Development Bank of India) Team in association with National Council of Applied Economic Research. The study covered the period 1980-94. It revealed that the small-scale industries by investing only 7 per cent to 15 percent of the total manufacturing sector's capital contributed to nearly one-fifth of the total industrial output and 35 to 40 per cent of total employment in the industrial sector. Moreover, both labour productivity and capital productivity in small-scale sector grew at a faster rate than the large-scale sector during 1980-94, Thus the small-scale sector has proved to be more efficient.

### **Contribution to Exports**

With the establishment of a large number of modern small-scale industries in the post-Independence period, the contribution of the small-scale sector in export earnings has increased by leaps and bounds. What is heartening to observe is that the bulk of the exports of the small-scale industries (in fact, around 93per cent ) consists of such non-traditional items like readymade garments, sports-goods, finished leather, leather products, woollen garments and knitwear , processed foods, chemicals and allied products , and a large number of engineering goods. The total exports of the small-scale industry products increased : 155 crore during 1971-72 to : 6,77,318 crore in 2012-13. This meant an increase in the share of the small-scale industries in the total exports of the country from 9.6 percent in 1971-72 to around 41.4 percent in 2012-13. MSME sector, as a whole contributes about 45 percent of export earnings presently.

### **Financial Assistance for SSIs**

Several schemes were introduced to provided financial assistance to small-scale industries. These include the Small Industries Development fund (SIDF) in 1986, National Equity fund (NEF) in 1987 and the single Window Scheme (SWS) in 1988. SIDF provides refinance assistance for development,, expansion, diversification and rehabilitation of small-scale ,cottage and village industries and tiny sector in rural areas. NEF provides equity type support to small entrepreneurs for setting up new projects in tiny/small –scale sector and also assistance for rehabilitation of viable sick units in the small-scale sector, SWS provides working capital loans along with term loans for fixed capital to new tiny and small-scale units.

**Setting up of SIDBI**

For meeting the long standing demand of small-scale industries for a separate Apex Bank to provide financial assistance to them, the government set up the Small Industries Development Bank of India (SIDBI) in 1989. SIDBI provides assistance to the small-scale units through the existing credit delivery system comprising State Financial Corporations, state Industrial Development Corporations, Commercial Banks, cooperative Banks and Regional rural Banks. The major activities of SIDBI are: (1) refinance of loans and advances; (2) discounting and rediscounting of bills; (3) extension of seed capital/soft loans; (4) granting direct assistance and refinancing of loans; (5) providing services like factoring, leasing etc.; and (6) extending financial support to state Small Industrial Development Corporations.

**Raising of Investment Limit**

The investment limit for the SSI sector which was Rs. 1 crore prior to 2006 has been raised to Rs. 5 crore in MSMED Act, 2006. This has been done to facilitate technological upgradation of this sector so that it is able to compete effectively in the new global competitive industrial environment.

**Credit Guarantee fund Scheme for Micro and Small Enterprises**

The government launched the Credit Guarantee fund Scheme for small Industrial (now renamed Enterprises) in August 2000 with the objective of small available credit to SSI units, particularly tiny units, for loans up to Rs. 100 lakh (later raised to Rs. 200 lakh) without up to collateral/third party guarantees. For making the scheme more attractive to both lenders as well as borrowers, several modification have been undertaken in recent years.

**Scheme for Technology Upgradation**

To encourage technology upgradation, a credit Linked capital Subsidy Scheme for technology upgradation has been launched. Under this scheme, 15 percent capital subsidy is admissible on loans upto Rs. 1 crore, advanced by scheduled commercial banks/State Finance Corporations/National Small Industries Corporation to small-scale industries for technology upgradation.

**Market Development Assistance**

A flexible growth stimulating and artisan-centric scheme named Market Development Assistance (MDA) to promote production and sales of khadi and polyvastra has been introduced from 2010-11.

Vide Notification dated April 10, 2015, the government announced the scrapping of the reservation list. Thus, all items have now been dereserved.

**Pradhan Mantri Mudra Yojna (PMMY)**

The Government has initiated the Pradhan Mantri Mudra Yojna for development and refinancing activities relating to micro industrial unit. the purpose of Micro Units Development and Refinance Agency (MUDRA) is to provide funding to the non-corporate small business sector. The government has also set up the MUDRA Bank. Loans extended under the Pradhan Mantri Mudra Yojna (PMMY) during 2016-17 Rs. 1.23 lakh crore was lent by banks while non-banking institutions lent about Rs. 57,000 crore. In December 2017, total number of borrowers were 10.1 crore, out of which 7.6 crore were women.

Outlay for the MSME sector was kept at Rs. 26,014 crore in the Twelfth plan (2012-17). The objective for the MSME sector in the Twelfth plan were as follows: (1) promoting competitiveness and productivity in the MSME space; (2) making the MSME sector innovative, improving technology and depth; (3) enabling environment for promotion and development of MSME ; (4) strong presence in exports; and (5) improved managerial processes in MSMEs.

### Industrializing Rural India

Industrializing rural India gained ground even before independence. But during the pre-independence period, economic thinking in the country considered agricultural development as the major plant for village reconstruction in which village and cottage industries played only a secondary role.

### Statement of Plan Allocation for Village and Small Industries

Table 1: Plan-Wise

Plan Period	Actual Expenditure Plan Allocation for VSI (Rs. Crore)	% of Total Outlay
First Plan (1951-1956)	42.0	2.1
Second Plan (1956-1961)	187.0	4.0
Third Plan (1961-1966)	240.8	2.8
Annual Plan (1966-1969)	126.1	1.9
Fourth Plan (1969-1974)	242.6	1.5
Fifth Plan (1974-1979)	592.6	1.5
1979-80	255.7	2.1

Source: Economy Survey, 1982-83.

### Corporate Sector Growth and Governance

The corporate form of business organization has become indispensable for the growth of modern industry that requires large investments which are generally beyond the means of individuals and partnership firms.

### Challenges of Raw Materials

Raw material is the basic requirement of an industrial enterprise and a programme of industrialization without adequate supply of raw material is not likely to make much progress. The International perspective planning Team (1963) observed that "of all present difficulties, raw material supplies available at competitive prices appear to be the greatest."

### Marketing Constraints

The problem of marketing is also a serious constraint in the way progress of the village industries which produce a wide variety of articles.

### Challenges of Finance

Finance is a powerful development tool which grasses the productive channels of industry and stimulates their smooth operation. It is regarded as a universal lubricant which keeps the enterprise dynamic develop products, keeps men and machines at work, encourages management to make progress and creates value. The availability of money and credit permits entrepreneurs to gain control of the real resources which enable them to engage in industry by producing and distributing industrial products. No business enterprise can reach its full potential of growth and success without adequate finance.

### **Power Constraint**

Power is the basic input for the growth of small scale industries and power run village industries. In the State of Bihar besides inadequacy, the supply of electricity is uncertain and breakdowns are quite frequent.

### **Challenges of Basic Infrastructure**

Infrastructural facilities hold commanding position in establishment of village and small industries in the rural areas. Without infrastructural facilities, development of industries is beyond expectations. Infrastructural facilities are of two type's physical and social infrastructural facilities.

### **CONCLUSIONS**

The study reveals the typical paradox of poverty in the midst of plenty in the State economy of Bihar. In spite of abundant natural and manpower resources and fertile lands, Bihar is almost at the lowest rung of ladder of economic growth in the country. The State also exhibits considerable physical variations. The three geographical regions in the State, namely, the North Bihar Plain Region, the South Bihar Plain Region and the Chhotanagpur Plateau Region differ considerably in respect of physical features and socio-economic conditions.

After discussing the physical and socio-economic features of the state of Bihar in general and district of Hajipur (Vaishali) in particular coming to the conclusion that the economy of Bihar is rural-oriented economy, we have focused out attention on the theoretical aspects of rural development such as concept and approach and then on the rural development programmes initiated in the country.

Industrialization is as much as essential ingredient of rapid and self-sustained development of rural areas as it is for the development of the entire economy. One may assume that the development of rural areas may be attained by exclusive specialization in agriculture whereas of the urban areas through industrialization.

We have then discussed the important place assigned to Khadi and village industries in the Five Years Plans of Bihar. It has been shown that promotion of Khadi and village industries was assigned the place of pride in our constitution as one of the Directive principles of State Policy.

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