

## UPSC Civil Services Examination

### UPSC Notes [GS-III]

#### Topic: Small Scale & Cottage Industries - UPSC Economy Notes

Small Scale Industries are industries in which the investment limit is up to a certain limit which was 1 crore initially 1 crore and now has been increased to 5 crores. Cottage Industries are usually very small and are established in cottages or dwelling places.

In Small scale industry outside labour is used whereas in cottage industries family labour is used. SSI uses both modern and traditional techniques. Cottage industries depend on traditional techniques of production.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

- **Manufacturing Enterprises:** The enterprises 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 Enterprise is defined in terms of investment in Plant & Machinery.
- **Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment:

This is an important topic for the [IAS Exam](#). In this article, relevant information regarding small scale and cottage industries have been provided.

#### Manufacturing Sector & Service Sector – Comparison

Comparison based on	Manufacturing sector	Service Sector
Enterprises	Investment in plant & machinery	Investment in equipment
Micro Enterprises	Does not exceed twenty-five lakh rupees	Does not exceed ten lakh rupees
Small Enterprises	More than twenty-five lakh rupees but does not exceed five crore rupees	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees	More than two crore rupees but does not exceed five crore rupees

## Contribution of Small Scale Industries

The major contributions of the small scale industries towards economic development can be stated below:

- Small enterprise sector provided employment to about 225 lakh people during 2008-09. The small scale sector accounts for over 80% of the manufacturing sector's employment.
- It contributed significantly towards the economic growth of the nation, with over 39% of the industrial production.
- The small-scale accounts for over 34% of the total exports and about 45% of the manufacturing exports. Further, over 90% of exports of the SSIs consists of non-traditional items like sports goods, readymade garments, processed foods, chemicals etc.
- SSIs are conducive for the economic development of underdeveloped countries like India. Such industries are relatively labour intensive so they make economical use of scarce capital.
- Small scale industries are instrumental in reducing the inequalities in wealth.
- In these industries, capital is widely distributed in small quantities and the surplus of these industries is distributed among a large number of people.
- Small scale industries bring about regional dispersal of industries and alleviate regional imbalances.
- Small-scale industries make use of local resources including the capital and entrepreneurial skills which would have remained unused for want of such industries.
- The small industry sector has performed exceedingly well and enabled the country to achieve a wide measure of industrial growth and diversification.
- In these industries relations between employers and employees are direct and cordial. There is hardly any scope of exploitation of labour and industrial disputes.

## Government measures to promote small – scale industries

### Organisational measures

- Establishment of Boards
- National Small Industries Corporation (NSIC)
- Industrial Estates
- District Industries Centre (DIC)

### Financial measures

- Small Industries Development Fund (SIDF) – set up in 1986 to provide refinance (i.e. finance to the financial institutions in lieu of their
- Lending to SSIs) assistance for development, expansion, modernization, rehabilitation of SSIs.
- National Equity Fund (NEF)
- Single Window Scheme (SWS)
- Small Industries Development Bank of India (SIDBI):—It was established in October 1989 by an amalgamation of small Industries Development Fund (SIDF) and National Equity Fund (NEF)

### **Fiscal Measures**

- Small-scale enterprises having turnover, up to 1 crore are fully exempted from the excise duty.
- Concessional rate of customs duties is levied on import of certain kind of raw materials and components used by SSIs.
- Price and purchase preference is granted to products manufactured in the small-scale sector in government purchase programme.

### **Technical assistance**

- Small-scale Industries Development Organisation (SIDO):—It was established in 1954. SIDO provides technical, managerial, economic and marketing assistance to SSIs through its network of extension centres and service institutes.
- Council for Advancement of Rural Technology (CART):—It was established in 1982 to provide technical assistance to rural industries.
- Technology Development and Modernisation Fund (TDMF):—It was set up for the technological upgradation and modernization of the export-oriented units.

### **Reservation of items for SSIs**

- The policy to reserve certain items for the small-scale sector was introduced in 1967.
- It aims to promote the SSIs by protecting them from the competition with the large-scale units. In April 1967 there were only items in the reserved category which were increased in several phases to 873 in 1984.
- The policy of reservation was widely criticized by a number of economists because it adversely affected the production and productivity of the reserved items. So, the government appointed the Abid Hussain Committee to review the policy of reservation of items for the SSIs.
- The committee gave its report in 1997 with the observation that the policy of reservation has actually reduced the competitiveness of the SSIs engaged in the production of such items.
- Only a few SSIs were involved in the production of the reserved items and their output was almost negligible in comparison of the total output of the SSIs. Thus, the committee recommended that the policy of reservation of items for SSIs should be abandoned.
- The government did not abandon the policy of reservation altogether; however, the government has reserved a few items in the recent past. Government reserved 79 items in February 2008. The total number of reserved items now stands at 35.

## **Problems of Cottage and Small-Scale Industries**

The major problems faced by the cottage and small-scale industries are stated below:

1. Non-availability of timely and adequate credit.
2. Inefficient management
3. Lack of infrastructure
4. Technological obsolescence
5. Limited availability of raw materials

6. Marketing problems
7. Competition with large-scale industries and imports.
8. Excessive burden of local taxes
9. Widespread sickness

