

Unit - II

Chapter - 4

Rural Enterprises

Aspects Discussed

- A. Meaning, Importance and Classification of Micro, Small and Medium Enterprises (MSMEs)**
- B. Progress and Problems of MSMEs**
- C. Khadi and Village Industries**

A. Meaning, Importance and Classification of Micro, Small and Medium Enterprises (MSMEs)

Industries are classified into different categories on the basis of investment of capital made in the industry and also on the basis of number of persons employed in it. This classification is in tune with the definition given by the government.

1. Cottage Industries : Cottage industries are those industrial units personally organized by the members of the family, and managed by utilizing private resources, either as a full-time or part-time occupation. Such industries need very less amount of capital. A large part of the products of these industries are usually required to fulfil personal demand. Application of very old method of production is a glaring phenomenon in these industrial units. These are the concerns run by the members of the family themselves. Usually farmers engage in these industries at their leisure time or in slack season in order to get additional income by way of supplementary employment. Electricity is normally made use of in production in these units.

Prominent examples for cottage industries are weaving by handlooms; carpentry; making of coir, toys, mat, baskets, etc.

2. Tiny Industries : Industrial units having capital investment of less than 25 lakh rupees are considered to be tiny industries. These industries usually produce spare parts and intermediate products.

3. Small-scale Industries : According to the Industrial Policy of 1990, industries having capital investment between 5 lakh rupees and 60 lakh rupees were classified as small-scale industries. This limit was raised to 3 crore rupees in 1997. This limit was again brought down to one crore rupees in 1999-2000. In the union budget for 2007-08, industrial units having capital investment upto 1.5 crore rupees were classified as small scale industries. These industrial concerns are engaged in producing spare parts, machineries, intermediate goods and a large many types of producers goods as well as consumer goods. These industries mostly make use of electricity and small machineries and engage a small number of workers. They are small industrial units and factory type of enterprises.

4 Ancillary Industries : The Industrial Policy of 1990 categorised the industrial concerns with capital investment of less than 75 lakh rupees as "ancillary industries". As part of its industrial reforms, the government of India raised this limit to 3 crore rupees in 1997. But this limit was reduced to one crore rupees in 1999-2000. These units are named as 'ancillary' because they assist medium scale and large scale industries by supplying goods required for production in those industries. These industries also undertake repair of machineries.

All the industries described above have been considered as "small scale industries".

5. Medium-scale Industries : Medium-scale industries are those which have capital investment of less than 10 crore rupees.

6. Large-scale Industries : Those industries having investment of capital exceeding 10 crore rupees have been recognized as large scale industries.

In total, all the industries are broadly classified into three groups. They are :

- i) Small - scale industries,
- ii) Medium - scale industries, and
- iii) Large - scale industries

Micro, Small and Medium Enterprises (MSMEs)

Of late, a broader category is created by combining all micro, very small and medium-scale industrial concerns. The new category is named as "micro, small and medium scale industries".

After adoption of Micro, Small and Medium Enterprises Development Act 2006, the small and medium sector has been very clearly defined as micro, small and medium sector. This definition was adopted on the 2nd of October, 2006. Further, separate investment limits are fixed for manufacturing and service enterprises.

1. Manufacturing Enterprises

Investment limit in manufacturing enterprises is as follows.

- i) Micro enterprises are those which have capital investment in plant and machineries not exceeding 25 lakh rupees.
- ii) Enterprises comprising investment exceeding 25 lakh rupees but less than 5 crore rupees in plant and machineries have been categorized as small enterprises.
- iii) Industries having capital investment exceeding 5 crore rupees but less than 10 crore rupees in plant and machineries are classified as medium - scale enterprises.

2. Services Enterprises

Investment limit in services enterprises is as follows.

- i) Industries having capital investment of more than 10 lakh rupees in equipments are considered as micro enterprises.
- ii) Industries with capital investment of more than 2 crore rupees but not exceeding 5 crore rupees fall in the category of small scale enterprises.

Revised Definition

Definition of micro, small and medium enterprises was revised on 1st June 2020 during the union cabinet meeting while decision was taken to funding loans to these units which was proposed in the Atmanirbhar package to firm up recovery of the economy which was badly hit by Covid-19.

Both manufacturing and services firms with investment upto Rs. one crore and turnover of less than Rs. 5 crore are classified as micro enterprises.

Industrial units with investment upto Rs. 10 crore and turnover of upto 50 crore rupees will be small enterprises.

Firms with an investment of upto Rs. 50 crore and turnover upto Rs. 250 crore are classified as medium enterprises.

B. Progress and Problems of MSMEs

Small-scale Industries occupy a special place in the Indian economy. Units having capital investment not exceeding Rs. 60 lakhs in plant and machinery and ancillary units having capital investment not exceeding Rs. 75 lakhs have been considered to be small industries. These industries are no less important as they have a significant contribution to economic development through industrialization. Small enterprises are more useful in certain respects as compared with big industries.

Data available for 2019 reveal that of the total micro, small and medium enterprises, 31.8 percent were manufacturing units and 68.2 percent were services enterprises. Of the total micro, small and medium enterprises, 55.3 percent are localized in rural areas.

At present India has 3.61 crore micro, small and medium enterprises. These industries have been recording growth rate of 15 percent per annum. They contribute about 37.5 percent to the total product of the industrial sector in India.

Small-scale industries face many problems prominent of which may be described as follows.

1. Scarcity of raw materials : One of the major problems is scarcity of raw materials. Many of the small enterprises, particularly, handloom industries, depend upon big industries for raw materials needed by them. But big industries fail to supply raw materials to them on time.

2. Deficiency of capital : Small industries do not have much capacity to mobilize capital since they usually possess lesser production capacity and output. Where majority of the small producers lack sufficient income base, they are not able to provide security to obtain loan. Further, financial institutions providing resources to these industries are less in number. Instances are plenty where these industries borrow from money lenders and indigenous bankers when they face financial stringency. They are obliged to pay a higher rate of interest on these loans which makes the business less profitable.

3. Lack of technical know-how : Absence of sufficient technical know-how is another problem haunting these industries. Majority of these industries use old and obsolete machineries in production. Slow pace of production and low quality of the products are the resulting problems. These

industries are starved of funds and other facilities for research and training needed to cultivate efficiency in production.

4. Lack of marketing facilities : Organised marketing is lacking for the products of these industries. Consequently, these industries are placed in a disadvantageous position as far as forecasting demand for the products and to sell at profitable prices. In majority of cases, profit is cornered by middlemen.

5. Low demand : Small enterprises to a great extent fail to fulfil tastes and preferences of consumers as they produce goods in unattractive fashion. They face scarcity of modern technology and equipments to bring about change in mode of production and design of goods to match the changing tastes and preferences. This is a major cause for low demand for products and lesser output.

6. Competition : Small units have been engaged in severe competition with large industries as regards production of certain goods. Further, their products have been facing competition even from goods imported from foreign countries. Growth of small industries is to a large extent affected by competition.

7. Acute scarcity of electricity : Severe scarcity of power and its untimely supply has come in the way of their production upto the installed capacity.

8. Obsolete machineries : A large part of the machineries of these industries have become old and obsolete. Consequently, they are not attuned to produce goods of high quality leading to low demand for them. Deficiency of capital has restricted renovation and repair of machineries.

9. Lack of export incentives : Small industries face lack of export incentive measures. They suffer from deficiency of global market facilities.

10. Labour problems : These enterprises are caught in the problems of labour absenteeism, indiscipline, demand for higher wages, etc. There is deficiency of labour too.

11. Unnecessary controls : These industries face a huge number of problems while transacting with offices of government. Red tapism, unnecessary restrictions and lack of cooperation from bureaucracy are the common problems and these industries are in a completely disadvantageous position in the face of these problems.

C. Khadi and Village Industries

Introduction

Rural industrialization is considered to be a job of establishing and developing industrial units in remote areas, rural parts and in places situated far off from urban centres. It is a measure of setting up of industrial concerns in semi-urban areas and rural parts and designing programmes and schemes for their development instead of establishing and developing the industries in a concentrative way in and around cities and big centres. Such an industrialization should be supplementary to development of the rural system. Industries established in the rural sector are usually micro, small, cottage and handicrafts units. These industries enshrine the objectives of utilizing the local resources in the very place of their availability, providing employment to rural people and making the rural life self-sufficient.

'Khadi' is an Indian cloth woven out of yarn with the help of charaka, a spinning machine. Khadi industry has been one of the major rural industrial concerns. Khadi played an extraordinary role in India's freedom movement. Mahatma Gandhi started weaving the clothes he himself had spun from the charaka. Khadi was the symbol not only of thrift or economy

but also of patriotism or love for the country.

Output in rural industries grew from Rs. 3895 crore in 1997-98 to Rs. 7,141 crore in 2001-02.

But Khadi and village industries are shattered in the regime of liberalization and globalization. This sector has been facing stiff and severe competition in the aftermath of removal of quantitative restrictions in foreign trade and when unrestricted import of cloth was resorted to.

Gradually over the years, production of Khadi cloth has been on the decline. As a result, employment opportunities too have been sliding in this sector. There have been a large number of reasons for considerable decline of Khadi output. Major causes for this may be enumerated as follows.

1. Growth of Khadi industry has been restricted owing to stoppage of offering rebates to producers and also pursuance of a wavering and uncertain policy in this regard.
2. Quantity of unsold khadi grew from year to year. This resulted in large-scale losses to the industry.
3. The earlier approach of supplying finances to these enterprises was stopped, and instead 'Project Finance Approach' was pursued and this led to decline in the volume of finances provided to these enterprises.

Need for Rural Industrialisation

Factors in favour of small scale industries are as follows.

1. More employment opportunities : Since small-scale industries are basically labour-intensive industries, they are capable of providing employment opportunities to a large number of people. They play a great role in solving unemployment problem. This is a major factor in a populous country like India. The number of people employed in these

industries in 2021-22 was 26 million. Small-scale enterprises have more employment potentiality than large-scale industries.

2. Lesser capital : Small-scale industries require lesser amount of capital for their establishment and operations. In underdeveloped as well as developing countries suffering from deficiency of capital, development of these industries is the most appropriate method to accomplish industrial development and to reap the advantages of industrialisation.

3. Utilization of latent resources : Small industries are the best suited to effectively utilize local raw materials and entrepreneurial talent and stored wealth. Most of the times, entrepreneurial skill of the people and raw materials available in rural parts go waste without use in any manner. Establishment of small enterprises provides the best opportunity to utilize these resources productively.

4. Industrial decentralisation : Large-scale industries are usually localized in urban areas leading to glaring imbalances between industrial centres and rural areas, and inequalities in income and ownership of wealth. Development of small-scale industries undoubtedly provides the best remedy to this problem. Since these industries can be established in almost all parts of the economy, they bring about industrial decentralization and balanced growth of different regions. Establishment and growth of small enterprises in every nook and corner of the country leads to grand success of the measure of industrialization.

5. Equality : The common proposition advanced is income generated in small enterprises is distributed among a large number of people. In the case of big industries, income is concentrated only with a few people resulting in inequality and concentration of economic power. Small enterprises assist immensely in providing income to more number of people as also in bringing about equality in incomes.

6. Better industrial relations : Small industrial units serve as an effective platform to develop harmony and direct relationship between workers and employers since lesser number of people are employed in these industries. Industrial disputes are remote possibilities in small scale industries and this will be a fascinating factor for unhindered process of production.

7. More Production : Small enterprises provide scope for close supervision and this results in more production. Absence of a large number of industrial disputes too leads to higher output. Extent of output is normally more in small industries than in large scale industries.

8. Supplementary to the growth of big industries : Small industrial units function as supplementary to big enterprises. They produce machineries, spare parts, tools, etc, and supply them to large industries. Production is facilitated in big industries because of this and they will be in an advantageous position to develop and expand their business.

9. Foreign exchange earnings : Contribution of small industries to foreign exchange earnings of the country is no less important. Their prominent products such as readymade garments, leather goods, artefacts and two wheelers have very high demand in foreign countries. In recent years, value of export of products of these industries stands at around Rs. 40,000 crore per year. Small industries account for about 35 percent of total earnings of industrial products.

10. Removal of regional imbalances : Small industries may be set up in different parts throughout the country. Thus, they avoid concentration of industries only at a few places and will have substantial contribution to overcome regional imbalances.

11. Short-gestation period : Small enterprises are known for providing returns in a very short period. In other words, the

period between initial investment of capital in these industries and securing returns from them happens to be very short. Since output for the capital invested is secured without much gap, there will be no scope for inflationary pressures. But this gap in big industries is unusually long leading to shortage of goods in the intervening period and hence alarming rise in prices. Small units are helpful in overcoming this problem and in quickening the pace of economic growth by providing output in a relatively short time.

12. Support to agricultural sector : Substantial assistance is provided by small industries to agricultural sector. Many of these industries provide market to agricultural products by utilizing these products in their production process. Similarly, many of the products of these industries such as machineries, chemical fertilizers, insecticides, etc, are needed for agricultural production. Small scale industries play a considerable role in the development of agricultural sector by way of supplying these products.

Small enterprises are more helpful than big industries to secure many types of benefits. In countries like India with high rate of unemployment and deficiency of capital, development of these industries proves to be an important tool to quicken the pace of economic growth.

Measures undertaken for Promotion of Khadi Enterprise

Many and varied measures were undertaken for development and expansion of khadi industry during the Ninth and the Tenth five-year plan. Most prominent of them are described hereunder.

1. Sarvodaya : In the Ninth plan, a brand 'Sarvodaya' by name was introduced with the aim of enhancing the quality of commodities produced by rural industries. Measures were pursued to introduce new brands in the khadi. Novel brands

and designs developed by National Institute of Fashion Technology existing at New Delhi were started to be produced in the khadi enterprise. This measure was of substantial assistance in elevation of demand for kahdi products and in enhancement of employment in that industry.

2. Package of Special Measures : A committee was constituted under the chairmanship of K.C. Pant who was Deputy Chairman of the Planning Commission of India to offer suggestions for development of khadi and village industries. The Committee which submitted its report in November 2001, recommended a package of special measures for development of this sector. The following were the major measures the package contained.

- i) Provision of assistance for expansion of market for development of khadi.
- ii) Offering assistance for sale of khadi cloth at discounted price and to enhance demand through this measure.

3. The concept of 'No Loss' : Prior to the recommendation of the Committee 'no profit' was kept as goal in khadi industry. In other words, the goal pursued was, profit need not be earned, instead service should be the chief motive. However, on the basis of recommendations of the Pant committee, importance was accorded to the principle that loss should not occur in the business at any cost. This measure was pursued with the purpose of strengthening the khadi and village industries sector.

4. Margin Money Assistance : Since 1995-96, policy of providing margin money assistance for projects exceeding cost of the order of ten lakh rupees was brought into force under the aegis of Rural Employment Generation Programme. This scheme enabled to meet the additional cost if the project was in need of.

5. Marketing Assistance : Khadi and Village Industries Corporation (KUIC) has been providing all types of assistance for domestic and export sales with the purpose of market expansion of khadi enterprises. Financial assistance was given on continuous basis to the Boards of States and Union Territories and to their aided institutions for different programmes such as setting up of sales outlets, renovation or expansion of existing sales outlets, purchase of mobile vans and organizing exhibitions to create awareness about khadi and village industries products. More emphasis was laid upon strengthening of the market rather than on export sales.

6. Technology Assistance : During the Tenth five year plan, technology adoption centres were established with the purpose of dissemination of technology to rural and khadi industry. Financial assistance was provided for facilitated functioning of these centres.

7. Exemptions and Concessions : For development of village industry, efforts were made to provide adequate finance, tax exemptions, particularly in sales tax, octroi, etc.

8. Rural Industrial Estates : Rural industrial estates were set up in the Tenth plan period to provide the required infrastructure and support services to village industries and artisan units.

9. Cluster Development : Under the National Programme for Rural Industrialization (NPRI), fifty clusters were identified by the Khadi and Village Industries Corporation for cluster development. Work on the promotion of clusters for increasing rural employment and common service network support for satellite cluster units were taken up by the Khadi and Village Industries Corporation.