

TRENDS, OPPORTUNITIES & CHALLENGES IN SMALL SCALE AND COTTAGE INDUSTRIES IN UTTAR PRADESH

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Abstract: The most important factor for economic development of a country is its industrialization. In the process of industrialization, emphasis is given to the three major groups of industries; large-scale industries, small-scale industries and cottage industries.

We propose to study in this paper the problems and prospects of small-scale and cottage industries in Uttar Pradesh, where large and medium scale industries are completely absent and whose development is vitally linked with various programmes and policies designed to remove poverty, unemployment and backwardness of the rural people.

Key Words: SSIs, Problems, Employment Prospects, Uttar Pradesh.

1.0 INTRODUCTION

Cottage and small-scale industrial sector plays a dominant role in the economic development of both developed and developing countries. In developing countries cottage and small-scale industries are especially important in context of employment opportunities, equitable distribution of national income, balanced regional growth and development of rural and semi urban areas. They provide immediate large-scale employment, offer a method of ensuring a more equitable distribution of the national income and facilitate effective mobilization of resources of capital and skill which might otherwise remain unutilized¹.

Small-scale industries play a very vital role even in industrialized and advanced countries like the U.S.A., the U.K., Canada, and West Germany and more particularly in Japan. This sector is considered to be an engine of growth, especially in a developing country like India due to their

contribution to income generation, employment, GDP and export earnings.

Small and cottage industries are those industries whose capital is supplied by the proprietor or through means like partnership or from financing agencies setup for this purpose etc. Those industries generally use power driven machines and also employ modern methods of production, engage labor on wage, produce for expanded market. Their work pattern is on permanent basis. Such industries can be managed with little resources and in terms of returns provide much better results.²

Cottage industries, on the other hand also called household industries, are organized by individuals with private resources and with the help of family members and are pursued as full-time or part-time occupation. The capital investment is small and the equipments used are simple. These industries generally use locally available resources, raw materials and indigenous skills. The output produced in each industrial unit is generally sold in local market.

Small scale industries, including traditional cottage and village industries and modern small enterprises have been given an important place in India's economic planning for ideological and economic reasons. Our late Prime Minister Mrs. Indira Gandhi once remarked, "Small scale industries offer many opportunities; besides adding to production, they broaden the industrial base. They enable the process of modernization as well as entrepreneurship to spread to more regions and layers of society".³ Father of our Nation, Mahatma Gandhi ji had strongly advocated the development of Indian villages by making them financially viable through small and village industrial units.

² Funda, K. K. (2003): 'How to start a Small Scale Industry', Laghu Udyog Samachar, April-September, 2003. p.78.

³ Ali, M. Z. (2004): 'Absenteeism in Small Scale Industries', SEDME (Small Enterprise Development, Management and Extension) Journal, Vol.31, No.4, December, 2003.

¹ Rahman, M. (2006): 'A Study on the Problems and Prospects of Small-Scale Industries in Hill Districts of Assam' (Unpublished Ph.D Thesis), Department of Commerce, Assam University, Silchar. Pg.1.

Small and Medium Enterprises (SMEs) are showing their impact on national and regional economies throughout the world. They have been recognized in both developed and developing countries as an effective instrument for creating employment opportunities with a small amount of capital investment.

The small scale and cottage industries also play an important role in removing regional disparities. The industrial development in a backward area can only be achieved by the rapid development and promotion of small scale industries. Besides economic aspects, the social role of small scale and cottage industrial units are quite significant in achieving various social goals such as removal of poverty, attainment of self-reliance, reduction in disparities in income, wealth and standard of living and regional imbalances.

In 1995, Government grouped small scale industries into two categories- those using power but employing less than 50 persons and those not using power but employing less than 100 persons. All small scale enterprises had capital investment of Rs. 5 lakh. This limit was revised to Rs. 10 lakh in 1975 and Rs. 15 lakh in 1980. 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 for small scale industries has been revised to Rs. 60 lakh and correspondingly for ancillary units from Rs. 45 lakh to Rs. 75 lakh.

During 1997, on the recommendation of Abid Hussain committee, the Government has raised the investment limit on plant and machinery for small scale industrial 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. The investment limit on plant and machinery was reduced from Rs. 3 crore to Rs. 1 crore for small scale units in 2000. However the investment ceiling for tiny industries remained unchanged to Rs. 25 lakh.

According 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 and Service Sector- The enterprises engaged in producing or rendering of services and are defined in terms of investment in plant and machinery.

The limit for investment in small manufacturing enterprises is more than Rs. 25 lakh but does not exceed Rs. 5 crore and that of service enterprises is more than Rs. 10 lakh but does not exceed Rs. 2 crore.

Traditional small scale industries includes Khadi and Handloom, Handicraft, Village industries, Bamboo based industries, Sericulture and coir etc. Modern small scale industries produce a wide spectrum of goods ranging from comparatively simple items to sophisticated products such as television sets, electronic control system, mixer grinder and various engineering products particularly as ancillaries to the large industries. The traditional small industries are highly labor intensive, while the modern small scale units use highly sophisticated machinery and equipments.

The New Industrial Policy of 1991 announces a number of measures to promote small scale industries. Presently, 836 items have been reserved for exclusive manufacture in the small scale sector. A new scheme of Central Investment Subsidy exclusively for the small sector in rural and backward areas capable of generating higher employment at lower capital cost would be implemented.

Programmes for modernization and upgrading of technology in the small scale sector to improve their competitive strength will be implemented. A new Apex bank known as Small Industries Development Bank of India (SIDBI) has been established to channelize need based higher flow of credit, both by way of term loan and working capital to the tiny and rural industries. To help the artisans working with Khadi and Village Industries Commission (KVIC) and KVI Board, special Marketing organization at the Centre and State level shall be created.

I.1 IMPORTANCE OF THE STUDY

Uttar Pradesh is considered to be an underdeveloped state. One among the many reasons for its underdevelopment is the low growth rate of industrialization. Industrialization plays a vital role in economic 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. That is why industrialization is considered as an indicator of economic growth and hence the underdeveloped countries give highest priority to industrial development.

In the traditional UP Villages, agriculture was the sole occupation. There was no alternative occupation worth mentioning as the village pottery, black smithy, bamboo works, handicrafts were carried on part time basis. At present about 70 percent of the population is engaged in agriculture. There is a discontent among the farmer community; they do not want to remain in the traditional sector and are very much keen to find out an alternative occupation to support the growing needs of their expanding family members.

The secondary and the tertiary sectors of the economy has not yet fully developed to absorb all willing work force at once; the shifting of people from primary sector results in unemployment and under employment in the economy. As a result of poverty and lack of technical knowledge, the unskilled people in rural area cannot move from the traditional sector to a new sector. This in turn results in heavy pressure on agriculture which gives rise to disguised unemployment in the economy.

Small scale and cottage industries are best suited to the State as they require less capital, low level of technical skill and use local resources. It has been seen that the shifting of people from the traditional agricultural sector leads to unemployment, underemployment and disguised unemployment in the economy. The numbers of jobless persons are increasing year after year. People who came out of the agricultural sector, search jobs in Government offices and other non-government agencies but they cannot be absorbed suddenly due to lack of vacancies and so remain unemployed.

There is a problem of educated unemployment in the state, a large numbers of youths coming out from colleges and universities every year are hanging around without any permanent job. So far this section of the work force is concern, starting small scale and cottage industry is best suited as their career. This is the reason why people in the state having no other substitute jobs are trying to enter into this sector of the economy.

People are choosing any small scale and cottage industry without technical knowledge, its viability and profitability etc. Sometimes they succeed in getting loans from financial

agencies to start a small scale or cottage industry. Loans received without knowledge of its proper and optimum utilization often leads to poor recovery by the lending agencies which also create problems in smooth functioning of these financial institutions.

At this juncture of transition from primary sector to the secondary sector, a comprehensive study for the future planning of balanced regional development and self sustained growth of this sector of the economy is the crying need of the present situation. The natural resources of the state to be exploited, the people have to be educated and trained; the government needs advice and suggestions in policy making. The problems, barriers and obstacles to development have to be detected and eradicated, markets have to be created, industries suited to the area with regards to the availability of raw materials, skills and capital suitability have to be identified.

The present study aims to provide a concrete and proper ideas and information about all the factors discussed above. This work may prove to be the pathfinder to the new generation who are roaming here and their and chasing after jobs. This research would be of immense help to the common people, the policy makers, government officials, researchers and also to other non governmental organizations who are engaging themselves in the upliftment of the poor in particular and the socio economic development of Uttar Pradesh as a whole.

II.0 REVIEW OF LITERATURE

A thorough review and survey of related literature forms an important part of research. It deals with the critical examination of various published and unpublished works related to the present study. Knowledge of related research enables the researcher to define the frontiers of his fields; it helps in comparing the efficiency of various procedures and instruments used⁴. Further review of literature avoids unintentional replication of previous studies and also places the researcher in a better position to interpret the significance of his own results.

In the early literature on economic growth and development, industrialization as a source of employment and capital accumulation has been recognized by various economists. Here I highlight the review of works by various

⁴ Verma, S.P. (2006): Practical Approach to Research Methodology, Akansha Publishing House, New Delhi, p.230.

authors as well as different committee reports related to the small scale and cottage industries at international, national and local levels.

For the first time, J.M. Keynes (1936)⁵ has focused his attention on the forces that determine employment policy followed in industrialization. He propounded the theory that entrepreneurs will offer the amount of employment which maximizes their output and profit. Here he stressed the productivity of labor as the determining factor of the level of employment. There is a positive relationship among productivity of labor, output and employment.

According to Keynes⁵ “*employment can only increase pari-pasu with an increase in investment*”. W.A. Lewis (1954)⁶ has strongly advocated the application of labor intensive techniques of production to have a steady and smooth economic growth. He opined that many important works can be done by human labor with very little capital. Efficient labor could be used to make even capital goods without using any scarce factors. In this sense, small scale and cottage industry should be developed and promoted especially in an economy where capital is scarce. He recommends the use of capital intensive techniques only when they are necessary.

Leibenstein and Galenson (1955)⁷ took an opposite stand and tried to show that labor intensive techniques might generate immediate output but little surplus since the wage bill would be large. Economic development preceded investment but the use of labor intensive a technique leaves little surplus for investment. Hence, according to them, use of capital intensive techniques in the process of production will increase the re-investible surplus by minimizing the wage bill.

A.K. Sen (1957)⁸ had propounded the surplus maximization criteria advocating the capital intensive techniques. Choice of technology depends on the nature of the economy whether developed or developing. According to him, a high wage rate will dictate a capital intensive technique, but a

low wage rate, such as may be operative in the less developed countries will mean that a relatively labor intensive technique will maximize the surplus for further investment.

Ranis and Fei (1961)⁹ focused on the nature of the output employment conflict in the Indian context. They feel that only after ‘*a critical minimum effort*’ greater emphasis should be given to output rather than employment. By this criterion, they meant that the rate of labor absorption (L) in industry should be greater than the rate of population growth (G), i.e. $N > G$.

Dhar and Lydall (1961)¹⁰ made their study on the data collected from Census of Indian Manufactures, 1956 and the study prepared by the Perspective Planning Division of the Planning Commission in respect of capital, labor and output relations in various industries. They concluded that the issue of choice between large and small industries for the purpose of an employment-oriented industrialization strategy is largely irrelevant, and it should aim at making the best use of scarce resources, instead of aiming at creating employment for the sake of employment.

Professor Gunnar Myrdal (1968)¹¹ the recommends the adoption of a strategy based on predominantly labor-intensive techniques in less developed countries on the ground that “*the large volume of unutilized labor possessed by these countries has a productive potential, capable of creating capital and increasing production*”.

According to the Village and Small scale Industries Committee Report (1955), popularly known as Karve Committee Report, since a substantial number of employed and underemployed belongs to the village and small industries group, setting up of small scale and village industries will provide employment to them in occupations in which they have been traditionally trained and for which they possess equipments. The committee realizes the necessity of introducing better techniques in the village industry, so that they can keep pace with the progressively expanding economy and do not become unsuitable tomorrow.

⁵ Keynes, J.M. (1936): *The General Theory of Employment, Interest and Money*, Harcourt Brace & Co, New York.

⁶ Lewis, W.A. (1954): *The Theory of Economic Growth*, George Allen and Unwin.

⁷ Galenson, W. and Leibenstein, H. (1955): ‘*Investment Criteria, Productivity and Development*’, *Quarterly Journal of Economics*, August.

⁸ Sen, A. K. (1957): *Choice of Techniques*, Blackwell.

⁹ Ranis, G. and Fei, J.C.H. (1961): ‘*A Theory of Economic Development*’, *American Economic Review*, September.

¹⁰ Dhar, P.N. and Lydall, H. (1961): *The Role of Small Enterprises in India’s Economic Development*, Asia Publishing House, Bombay.

¹¹ Myrdal, Gunnar. (1968): *Asian Drama*, Penguin Books, London.

Professor A.M. Khusro (1999) holds that “if you attempt to create only employment without regard to efficiency, output and surplus, you will soon end up with neither employment nor output or surplus”. Accordingly, Khusro suggests formulation of a strategy that depends on “self-financing surplus generating schemes”. A World Bank Study (1978) has shown that all important requirements of more jobs and higher incomes are met by rural non-farm activities. The study suggests that these activities, which have capital-labor ratio of less than \$50 at 1969 prices, deserve a high place in any employment oriented industrial strategy.

Prasad (1983)¹² in his study found that the small scale industrial sector is an integral part of not only the industrial sector, but also of the country’s economic structure as a whole. If small scale industries are properly developed, they can provide a large volume of employment, can raise income and standard of living of the people in lower income group and can bring about more prosperity and balanced economic development.

Small scale industrial sector has vast potential in terms of creating employment and output, promotion of export, expansion of base for indigenous entrepreneurship and dispersal of industries and entrepreneurship skills in both rural as well as backward areas.

Desai (1983)¹³ also stated that rapid industrialization in India depends on the growth of small scale industries. Most of the small scale industries are operating under certain handicaps like shortage of raw materials, low levels of technical knowledge and counseling, poor infrastructure, inadequate capital and credit facilities, improper distribution system, lack of facilities for market analysis, research and development. They are also weak in marketing their products beyond their localities especially in international markets.

Moreover, there is a need for the setting up of specialized bank branches for small scale industries, the absence of which has led to serious bottlenecks. Further, the system of providing term loan and working capital by two kinds of institutions, viz. Banks and State Financial Corporations (SFCs) has given rise to a host of problems of co-ordination

among them. Abid Hussain Committee (1997)¹⁴ Report on small enterprises has examined and suggested institutional arrangements, policies and programmes for meeting long term and short term requirements of the small scale industries. The Committee found that the reservation policy of specific products for exclusive manufacture by small scale industries had not served much purpose as most industrialization had occurred in items not reserved for small scale industries. Moreover, it had resulted in low efficiency and productivity and restricted the expansion and export potential of important industries like light engineering, food processing, textiles and others. Credit to small scale industrial sector had become more and more expensive especially after interest rate deregulation. Institutions and regulatory policies responsible for technical assistance, human resources development, industrial standardization etc. expected to play a provocative role in halting technological obsolescence particularly among tiny units did not proved so effective.

Mali (1998)¹⁵ in his study has observed that small and medium enterprises (SMEs) and micro enterprises have to face increasing competition in the present scenario of globalization, they have to specifically improve themselves in the fields of management, marketing, product diversification, infrastructural development, technological up gradation. Moreover, new small and medium enterprises may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighboring countries. Data bank on industries to guide the prospective entrepreneurs including investors from abroad is also needed.

III.0 OBJECTIVES OF THE STUDY

Uttar Pradesh is bestowed with rich agricultural resources. Most of the state’s wealth lies untapped yet, and these could provide a strong base for industrial development. Despite enormous latent potentialities for setting up of various

¹² Prasad, L. (1983): Industrialisation- Concept and Issues, S. Chand and Co. New Delhi.

¹³ Desai, Vasant (1983): Problems and Prospects of Small scale Industries in India, Himalaya Publishing House, Bombay.

¹⁴ Report of the Expert committee on Small Enterprises, Ministry of Industry: (1997). Department of SSI, A & R.I. (Abid Hussain Committee). Government of India. New Delhi.

¹⁵ Mali, D.D. (1998): ‘Development of Micro, Small and Medium Enterprises of India: Current Scenario and Challenges’, SEDME (Small Enterprises Development, Management and Extension) Journal, Vol.25, No.4, December.

resources based industries, no significant progress could be achieved in the field of industrialization in the state. With a view to bring about sustained and balanced regional development of this region and also to improve the living standard of the UP's, the present study aims to focus on problems and prospects of industrial development especially that of small scale and cottage industries in the state. In order to make the study not only of academic interest but also of practical utility, the following objectives have been set.

1. To study the structure and growth of small scale and cottage industry in the state.
2. To examine the level of contribution of these units in providing employment and income opportunities to the people.
3. To examine the problems of small scale industries related to finance, marketing etc. in the study area.
4. To analyze the impact of Government Policies towards the development of small scale and cottage industries in the region.
5. To suggest suitable measures for the development of small scale and cottage industries in Uttar Pradesh.

IV.0 HYPOTHESES

To meet the objectives of the study, the following hypotheses are postulated for empirical verification in the study:

1. The area suffers from excessive and acute unemployment and under employment problem.
2. Persons suffering from underemployment are interested in taking up complementary jobs to uplift their level of living.
3. There is a lack of innovations and entrepreneurship in the state.

V.0 METHODOLOGY AND DATA BASE

In order to achieve the objectives our present study requires both primary and secondary data. Accordingly, a field survey has been conducted to obtain primary data adopting a sampling design of "two stage purposive sampling" with the selection of industries at the first and industrial units at the second stage. Information is obtained from the eight districts namely Lucknow, Kanpur, Sultanpur, Faizabad,

Barabanki, Sitapur, Hardoi and Unnao about the existing cottage and small scale industries. For this purpose an aerial survey of the district head quarters has been done. Various cottage and small scale industrial units were visited and informal meeting and interview was conducted with the owners and workers of these units. Information has been gathered from the Directorate of Industries, Government of Uttar Pradesh from the personal interview with the Director, Joint Director, Project Officers and the Dealing Assistants of different sections. A total of 120 units have been randomly selected as sample units. The entire eight districts have been included in the sample according to the relative strength of their existing industrial units. Care has been taken to include the maximum number of trades and activities in these groups so that we can draw results for all the categories.

In order to accomplish the objectives, the present study is mainly based on both primary and secondary sources of information. The secondary data is mainly congregated from published and unpublished works on the related topics. Census reports, economic surveys, journals, news papers, government and non government organizations (NGOs) associated with the industrial sector especially the Directorate of Industries, Directorate of Economics and Statistics, Directorate of Agriculture and Minor Irrigation, 49 Directorate of Industries, Government of Uttar Pradesh.

In addition, personal interviews and informal discussions also held with the government officials, policy makers and NGOs to know their reactions and suggestions. The primary data has been collected mainly from extensive field survey of the sample units. To obtain primary information, personal interview has been conducted through well designed questionnaires especially prepared in view of the objectives of the study. Quick survey of 15 SSI unit located in Lucknow has been conducted to make the required modifications in the questionnaire.

Consequently, the final questionnaires were distributed among the owners, entrepreneurs or managers. Besides, unstructured interview and informal discussions were also held with the owners and workers SSI units. Though the questionnaire was prepared in English, local language was also used during the interview.

Due to the fact that majority of the SSI units in the state do not maintain proper account of their business, it was not possible to gather time series data on the variables like investment, employment and production etc. from primary

sources. The information collected from primary and secondary sources has been edited, categorized and arranged in logical order. In the process, certain errors and omissions were detected and corrected subsequently. Tabular analysis was done both manually and also with the 'Statistical Package for Social Scientists' (SPSS) and SYSTAT software.

The collected data so arranged has been examined with the help of appropriate statistical tools to draw the inherent facts. In analyzing data, simple statistical techniques such as percentage, comparisons, mean and coefficient of correlation has been used to deduce the association among variables, in order to reach conclusions. The correlation coefficient between variables has been tested by employing the bi-variate model.

VI.0 RESULT AND DISCUSSION

Small scale and cottage industries are no doubt very important for the economy of the state in particular and the economy of India as whole. Recognizing the important role that small scale industrial sector play in the national economy, both the central and state government have taken active steps to develop, promote and foster their growth. Some of these initiatives have been effective: but most of the problems of SSI still continue to afflict the sector. They can play their rightful role only if they are on sound lines. Small scale and cottage industries are suffering from a number of problems; some are more or less common to a wide range of industries while others have particular relevance to a group of industries located in rural and backward areas.

VI.1 INTERNAL AND EXTERNAL PROBLEMS

The problems offsetting small scale and cottage industries can broadly be divided in two major groups- internal and external. Internal problems are those which are not influenced by external forces; mainly crop up from within the industry and can be controlled internally. External problems on the other hand, are those which are the outcome of external factors and are beyond the control of a particular unit¹⁶. The availability of power, communication and other infrastructural facilities etc. are examples of external problems while organizational structure,

production, distribution, management, training etc. are internal problems. Most of the internal problems coupled with external problems put a major threat to the smooth functioning of the SSI units. A few internal problems of small scale and cottage industrial units are given below:

1. Most of the small scale industries belong to individual proprietorship form of organization. The owners come with personal egos and ideas, proprietarily attitudes and ineffective delegation.
2. To a large extent the development of the units depends on the attitude, audacity and spirit of the owners which in turn influenced by personal and family requirements.
3. There is a lack of expertise, professionalism and planning and the dealings are informal. The emphasis is on short term gain even at the cost of quality.
4. There is no logical reasoning, proper career plan and strong motivation. Pay scales are generally lower, goodwill and job security is absent.
5. In many cases, business ideas and exposures are not up-to-date and adequate, rules and regulations are not complied, product and market knowledge are not up to the mark and business remains confined to the local level.

Some of the major external problems of SSI and cottage industrial units are mostly related to:

1. Financial support and investment promotion.
2. Consultancy and counseling services.
3. Quality control, market promotion, testing, scientific research and development facilities.
4. Entrepreneurship development, training and skill formation.
5. Technology development and applications.
6. Infrastructure development.
7. Establishment of linkages between various industries and other sectors of the economy.
8. Information collection and dissemination of technology.

Despite these problems the small scale and cottage industrial units continue to survive due to the efforts of the

¹⁶ Desai, V. (2006): Small Scale Industries and Entrepreneurship, Himalaya Publishing House, Mumbai, p.288.

owners but remain limited in their progress mainly because of the non application of right corporate approach and team work.

VI.2 INHERENT PROBLEMS OF SMALL SCALE AND COTTAGE INDUSTRIES IN NORTH REGION

The problems faced by the industrial sector in this area are different from their counterparts in the other parts of the country. The SSI sector in this region suffers from a number of innate constraints like financial, social, political, infrastructural and entrepreneurial. Although the rate of growth in terms of number of units registered in this region has been higher than all India growth rate, the status of SSIs can be expressed as unhealthy in terms of size, bank finance, market access, entrepreneurial excellence, etc. The development of SSIs in this region is lagging far behind as compared to the other regions especially western and southern part of the country. Despite the vast potential for different types of resource based industries; the pace of industrialization is too slow due to the unique geographical location, poor availability of funds, inadequate infrastructure, apprehensive investment climate, remoteness of market and lack of entrepreneurial skill, etc. There has been a significant growth of small scale industries in the country; a disconcerting feature is that the growth is uneven and biased towards relatively advanced states than in the backward areas.

VI.2.1 FINANCIAL PROBLEMS

The paucity of adequate and timely finance and credit is the main setback in the development of SSI units. It is even worse in case of cottage and village industries. The capital base of the small industrial units is usually very weak since they generally have partnership or sole proprietorship form of organization. The initial investment of these units mainly comes from their own fund or borrowed fund from unorganized sectors like friends, relatives and professional lenders. Much lesser proportion of required investment comes from organized sectors like banks, financial institutions and government channels. The artisans running cottage industries either run their units with whatever capital they possess or take loan from local moneylenders or the traders who supply raw material to them. Such types of credits are often obtained at a very high rate of interest and are thus exploitative in nature.

Recognizing the importance of smooth credit flow for the development of small scale and cottage industrial sector, the Government of India nationalized all the major commercial banks in the country. It has also set up SFCs (State Financial Corporations) and SIDBI etc. to look after the financial needs of the small scale sector. Banks were mandated to provide 40 percent of their lending to priority sectors including small scale industry. However, banks claim to meet their lending target on pen and paper but in reality they are reluctant to lend to the SSI units due to low recovery rates and higher cost of lending to small firms.

Moreover, banks insist on collateral security against the spirit of RBI guidelines. Sometimes the market value of collateral could be as high as five times the value of the outstanding loan or credit limit. The small scale units are not in a position to offer the guarantee required by the banks. Small loans can be raised from government agencies but the procedure is so cumbersome that most of the entrepreneurs hesitate to avail these facilities due to their poor educational level.

The flow of credit to the SSI sector is affected because of *“a weak financial base, which eventually prompts the entrepreneurs to bring in funds by way of loan rather than capital, improper maintenance of books of account, inability to provide collateral security, delay in payments by the larger units, lack of appreciation of financial data required by banks or financial institutions etc. high mortality rate, high administrative cost of lending to small units and the concessional interest rate does not basically motivate the financial institutions to invest in SSI units.”*

SSI units in the sample are seriously affected by financial problems while 47.50 percent are moderately affected by it. Moreover, the District Industries Centers make lots of recommendations to the banks from time to time regarding needs and requirements of fund by the small scale industrial sector. It is found that the banks and financial institutions in the state does not give due importance to those recommendations forwarded to them by the DICs and always been overruled. The specialized bank branches like IDBI, NABARD, SIDBI and NEDFI etc. are located only in the state capital while the small scale and cottage industrial units in the state are located across the state. Thus it prevents the access to adequate and timely credit to the units which are located in rural and backward areas of the state.

VI.2.2 MARKETING CONSTRAINTS

Market is the ultimate destination of all industrial concerns whether small or big where the produced are being bought and sold. Marketing is a broad process of linking the gap between the producer and consumer. The vital role of marketing in accelerating industrial development lies in selling the goods and services produced by these units. The goods have no value for the manufacturing units unless these are sold. Marketing is a tricky technique involving detection of what the consumers wants, then planning and developing a product or service which satisfies those demands and ultimately determining the best way to price, promote and distribute that product. The expertise of entrepreneurs in marketing their product plays a vital role in the success and growth of his enterprise. Entrepreneurs without marketing techniques are supposed to have a greater chance of failure than others with this skill. Marketing has been identified as an important aspect affecting the performance of small scale industrial sector. Besides finance, marketing is the key element which, if not pragmatically assessed leads to sickness and ultimately closure of the units.

Small scale industrial sector faces a number of difficulties in marketing their products due to growing competition among themselves and in recent years due to the emergence of stiff competition from foreign goods in the era of liberalization. It is due to weak financial base of the small scale units they cannot afford to spent as heavily as the large units does on marketing their product. Owing to the limited resources and lack of experience small scale units cannot incur heavy selling cost on publicity, advertisement and other sales promotion measures. Moreover, market analysis is almost absent in the sector which leads to failure in marketing the products. Many problems which the SSI units face in marketing their products related to lack of demand, poor quality and design, poor bargaining power, poor service to customers, brand preferences and ignorance of potential market areas, etc.

In absence of a marketing channel and cooperatives for selling of their own products, most of the small scale and cottage industrial units in rural areas are forced to sell their products produced to the middlemen or money lenders to whom they depend for finance and raw materials at low prices due to poor bargaining power. Many small scale units even in urban areas sell their products to large industrial houses having wide and improved marketing

network. The well known business house of the country like Britannia, Bata, and Hindustan Unilever etc. markets a good number of products produced by small units. Thus the large companies make huge profits from marketing the products of small scale units by charging much higher prices from the consumers.

Therefore, there is a need for a larger number of marketing consortiums for marketing promotion of the products of small industrial units.

VI.2.3 PROBLEMS REGARDING RAW MATERIALS

Adequate and timely availability of required raw materials that also at reasonable prices affects the entire operations of small scale industrial sector. Because of their smallness and weak financial base and poor bargaining power small scale industrial units required to utilize the services of middlemen to get raw materials on credit. Such an arrangement results in higher costs due to the high margins of the middlemen. This in turn induces small industrialists to use cheap and low quality materials, which in turn affects the quality of their finished products. Moreover, irregular supply of certain raw materials adversely affects their production schedules and delays in delivery.

The availability of raw materials has been a major problem in our country. Some of them are very scarce at times and abundant at others causing great price variations. There are often artificial shortages created by dishonest manufacturers and suppliers to rig the prices up. This is particularly true for small scale and cottage industries. Bad conditions of road networks especially during rainy season leads to uncertainties in the procurement of essential raw materials and construction materials from outside which creates artificial shortages.

VI.2.4 INFRASTRUCTURAL BOTTLENECKS

Infrastructural adequacies are necessary to subsist in order to aid the smooth and continuous economic growth in general and industrial growth in particular. Industrial production requires not only machinery and equipment but also skilled manpower, management, energy, banking and insurance facilities, marketing facilities, transport services which include railways, roads and waterways, communication facilities, etc. All these facilities and services which facilitate industrial and agricultural production and accelerate the overall economic development of a country constitute collectively the

infrastructure or economic and social overheads of the economy. Unfortunately, the state of Uttar Pradesh is suffering from insufficient social overheads like power and roads. Strictly speaking, industrial development is the effect for which infrastructure is the cause. The inadequacy of infrastructure facilities holds back the state from reaping the benefits of whatever it has in terms of natural resources.

VI.2.5 TRANSPORT PROBLEMS

Efficient, cheap and quick means of transport of wide varieties is essential for the expansion of trade and commerce. Inadequate transport system in the entire region have resulted in crippling disincentives of excessive transportation cost, undue delay in movement of materials and problems of marketing. It has been observed that the study area- Uttar Pradesh suffers from inadequate transport facilities, which is the major obstacle to the socio-economic development of this region.

VI.2.6 POWER SHORTAGES

Power and electricity is the basic infrastructure around which all economic activities moves. The degree of economic growth is highly related with the generation and consumption of electric power. Growth of industry in a particular region depends upon adequate and uninterrupted power supply. Power shortage, power shutdown and power cuts could paralyze industrial activity, throw thousands of workers out of job and cause inconvenience to consumers.

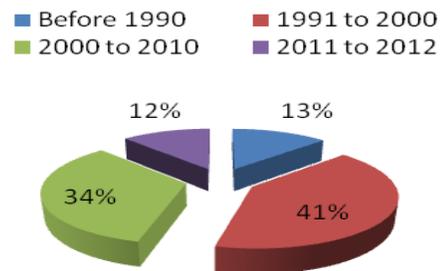
Although Uttar Pradesh posses a vast hydel potential, the progress in this sector is very slow, thus creating a huge gap between demand and supply of electricity. Achievements made so far in terms of installation and generation of power could not keep pace with the growing demand of power. Subsequently, the power situation in the state continues to remain unsatisfactory.

VI.2.7 GENERAL PROFILE OF ENTREPRENEURS

VI.2.7.1 Year of establishment

The survey shows that majority of the small scale units i.e. 41% in the Uttar Pradesh were established between 1991 and 2000 followed by 34% in 2000 and 2010, 13% in 2011 and 2012 and 12% before 1990. A tremendous growth has been seen in recent years. Around 46% enterprises have started amongst chosen in last decade say after year 2000.

Year of Establishment

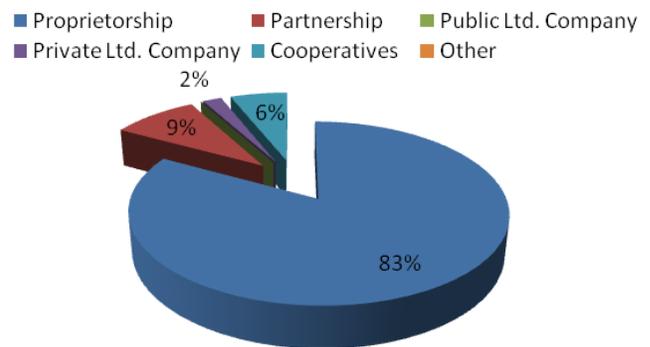


VI.2.7.2 Types of Organization

There are various types of organization like individual proprietorship, Partnership, Public Limited Company and private Limited Company, cooperatives etc. are found in small scale industrial sector.

Sole proprietorship form of organization is the oldest and most common form of organization for small scale industries. 83% of the respondents owe proprietorship form of organization followed by partnership, cooperatives and Private Sector Company.

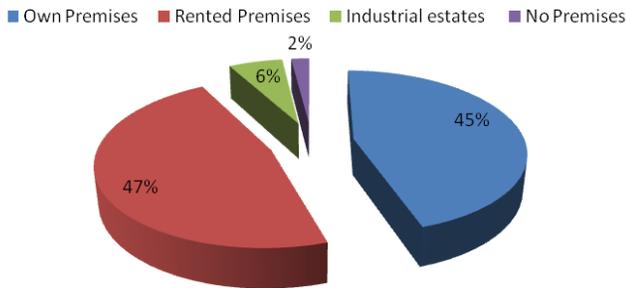
Types of Organization



VI.2.7.3 Type of Premises

Majority (47%) of the small scale units are operating in rented premises. Nearly 42 percent of the units under study are having own premises. Units operating in industrial estates are only 6 percent while 2 % units have no premises, they are operating at home. Food products like pickle making, chips making and incense stick making are falls under this category.

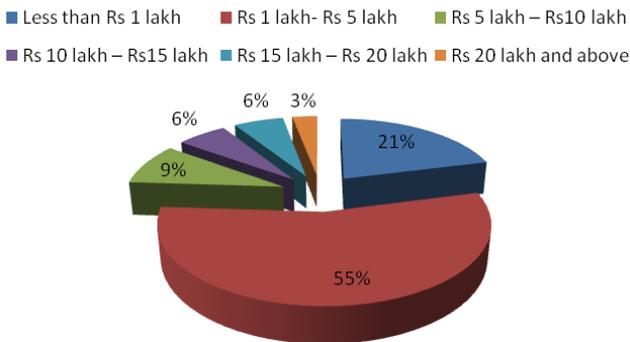
Type of Premises



VI.2.7.4 Investment in Plant and machinery

Investment in plant and machinery of an industry indicates its strength. Larger the industry, larger is the size of investment in plant and machinery. Majority of the sample small scale units are having investment in plant and machinery. 55% enterprises invested between 1 to 5 lakhs followed by 51% invested less than 1 lakh.

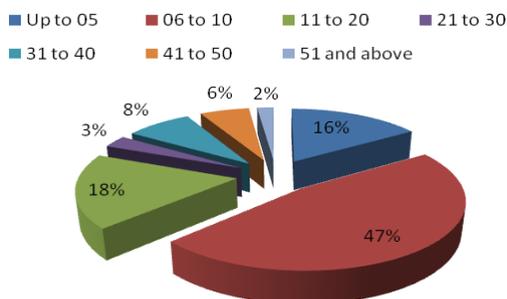
Investment in Plant and machinery



VI.2.7.5 Size of Employment

The number of persons working in an industrial concern indicates the overall strength and capacity of the industry. 47% enterprises have six to ten employees followed by 18% eleven to Twenty, 16% up to five, 8% thirty one to forty, 6% forty one to fifty, 3% twenty one to thirty and 2% fifty one and above.

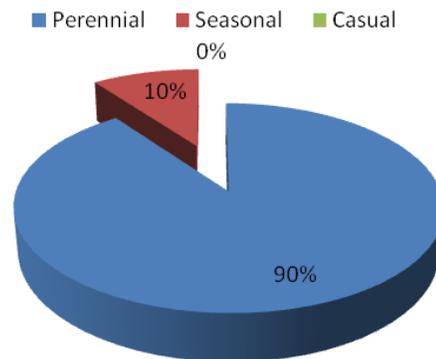
Size of Employment



VI.2.7.6 Nature of Operation

Most of the small scale industrial units in the state are operating on perennial basis. Majority (90%) of the small scale industrial units are operating on perennial basis while 10 per cent are operating on seasonal basis. Ice Plants, Brick making units and units which depends on seasonal raw materials for their production like fruit juice units, gur making etc operates on seasonal basis. No casual units found operating within the sample units.

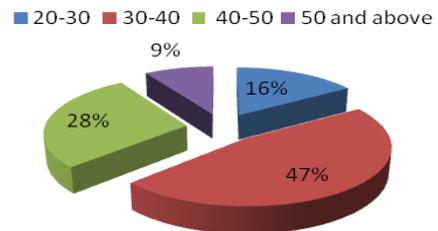
Nature of Operation



VI.2.7.7 Age of Entrepreneur

The age of the entrepreneur plays an important role in the overall growth and expansion of any industrial concern. Innovative spirit, adoption of new methods and techniques of production, progressive outlook, risk taking ability etc. are very closely related to the age of the entrepreneur. 47% entrepreneurs are in the age group of 30 to 40 followed by 28% in the age group of 40 to 50, 16% in the age group of 20 to 30 and 9% in the age group of 50 and above.

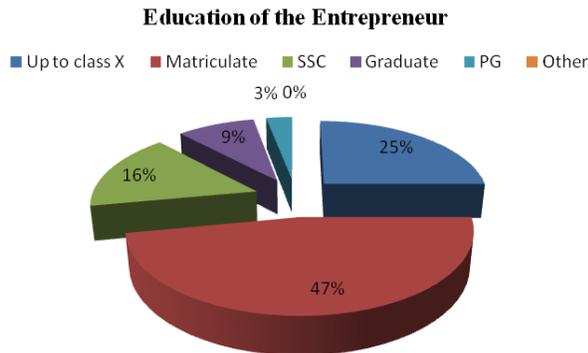
Age of Entrepreneur



VI.2.7.8 Educational Qualification of Entrepreneurs

Education is a major factor which determines the quality of human resources of an area. Economic development largely depends on the quality of human resource; this is particularly true in case of entrepreneurial growth. Literacy affects the decision of a prospective entrepreneur in

selection of an enterprise, location and cost of project and application of modern technology. It also helps in day to day decision making as well as in running of a project. Education keeps him aware of various facilities, incentives and policies of the government. 47% respondents were matriculate followed by 25% up to class 10th, 16% SSC, 9% Graduate and 3% Post Graduate.



VII.0 RECOMMENDATION & SUGGESTION

In the light of the above finding the study suggests the following policy prescriptions and measures for the growth and development of small scale and cottage industries as well as entrepreneurship development in the state of Uttar Pradesh:

- Uttar Pradesh has the natural advantage in setting up plywood industry, other timber-based units. Once the Government takes the initiatives; private entrepreneurs will come forward; both forward and backward linkage will be established with other sectors of the economy which ultimately give rise to economies of scale both internal and external.
- Though agriculture is not developed in Uttar Pradesh to become self sufficient in rice production, yet other agricultural and horticultural products are produced in the state in huge quantities which can be efficiently utilized by setting up small scale and cottage industries based on these resources. Fruits like passion fruit, lemon, banana, papaya etc. spices like ginger, turmeric, cardamom, cinnamon, black pepper etc. are grown intensively all over. Besides, oilseeds like mustard, soyabean, sesame is also grown in the state.
- Poor infrastructural facilities barriers rules out the viability of major industries in the state. The agriculture-industry linkage can only be established by starting small and medium scale industries. Government of Uttar Pradesh should come forward with attractive schemes and incentives to attract the potential talent of the young entrepreneurs of the state in this sector; encourage collaboration with big industrial houses of the country or even foreign collaboration to promote industrialization in the state.
- To accelerate the process of industrialization, the adequacies of infrastructural facilities are necessary to exist. It is a proven fact that if infrastructural facilities are adequate and in desired shape, the economy progress but if they are inadequate, it halts the progress of the economy. Unfortunately, the infrastructure facilities in Uttar Pradesh are very poor and the industrial sector has equally been the victim of infrastructural bottlenecks especially in electric power and transportation. If the state is concerned about its industrial development, the development of infrastructure should be taken seriously. Power and electricity is the basic infrastructure around which all economic activities moves.
- Though the state has vast hydro-electric potential, the progress in this field is very slow creating a huge gap between the demand and supply of electricity.
- The small scale and cottage industries in the state are suffering from adequate and timely finances. The problem of finance is widespread and one of the major constraint towards industrial growth which needs immediate remedy. Being ‘No industry state’, the state deserves much more assistance from All India Financial Institutions. To channelize smooth credit flow to small scale and cottage industrial sector, specialized bank branches like SFC, SIDBI, IDBI, IFCI etc. should be opened at the district level. All major commercial banks operating in the state have to set up their branches at all district headquarters. Simplification in the existing procedures of granting loan to SSI, minimal paper work, delegating more power to the branch manager etc. are some of the ways and means expected to ease the financial setbacks of SSI in the state to a large extent.

- The growth of industrial activities largely depends on harmonious relationship between employer and worker. All the industrial units in the state should initiate labor welfare measures like medical benefit, payment of bonus, retirement benefit etc. This will not only create a healthy environment among the workers but also increase their productivity and promote industrialization.
- Most of the small scale industrial units in the state belong to individual proprietorship form of organization. To pool the skill and to spread the risk involved in the business; partnership and company type of organization are preferred. Therefore, partnership and company type of industries are to be encouraged in the case of small scale industrial units in Uttar Pradesh. Similarly operation on rented premises should be discouraged and industrial estates and Growth Centers should attract the entrepreneurs by providing sufficient facilities to locate their units in these centers.
- Most of the workers in SSI sector of the state are unskilled. To solve the problem of skilled workers proper man-power plan is to be prepared at the district level and steps are to be taken to promote the required skills through education, training and other human resources development programmes. Steps are also required to be taken to minimize the dependency on migrated and foreign workers. Strict administrative action and inducement of local manpower may prove to be fruitful in this regards.
- Training is necessary but not sufficient for the development of entrepreneurship in the state. Training alone is not development; it may result in mere entrepreneurship but does not guarantee success until and unless it is backed by conducive external environment. The socio-political and administrative set up helps to mould the mind set of a prospective entrepreneur to a large extent. Once an enterprising youth comes out with right attitude, zeal and technical know-how suddenly finds him struck in the administrative red tap, corruption and non-cooperation by the officials, consequently his enthusiasm and interest slow down and finally make exit. So the social, political

and administrative system should be put in order and in right shape to achieve the greater goal.

VII.0 CONCLUSION

Reorientation in the attitude of the people of the state in general, the educated youths and capitalist class in particular is the urgent requirement for paving the way of industrialization in the state. It is an accepted fact that people with right attitude, total commitment and right conception can change the existing system. People of the state must give up the lure to earn easy money and set their mind to take risk. They should learn from the past. 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.

Packages of incentives and the inherent talents of the Uttar Pradesh in the form of a big push are required to move the economy on industrialization path. A gradual approach is necessary, apart from the government, the capitalist class and the educated youth must come forward with a new vision and energy to break the vicious circle of non-industrialization in the state.

VIII.0 LIMITATIONS OF THE STUDY

Researchers usually come across many constraints and barriers in the course of their studies. The present study on the small scale and cottage industries in Uttar Pradesh was not an easy task as the units are dispersed over a wide geographical area with unique characteristics, managed and run by persons with moderate level of education. During the course of present study, the researcher faced many problems which were resolved to the desired level; however these were very cumbersome and time consuming. The following are the main limitations of the study:

1. The main difficulty faced in the present study is of lingual in nature. Most of the sample units are run

by UPs while the researcher is a non-UP, not fluent enough in the local UP language. There was a communication gap which some how overcome with the cooperative and amicable nature of the UP people who worked as an interpreter.

2. Majority of the units do not maintain proper and uniform records or accounts of their business. Moreover the sector is unorganized and disclosure of accurate information by entrepreneurs left doubt. However, efforts on the part of the researcher managed to gather the adequate information as much as possible for the purpose of data analysis.
3. All the aspects relating to the cottage and small scale industries in the state could not be covered in the present study leaving scope for further research in the field.

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