

A SMALL SCALE ROUTE TO IMPROVING JOBS, INVESTMENT & PRODUCTIVITY IN TELANGANA

Cottage Establishment

MCS (1959) classified a cottage unit based on four markers: (1) Work-place: the production activities are conducted in the residence of the artisan, (2) Employment: the unit employed is mostly family labour, (3) Motive power used: the unit was run mainly on manual labour; and (4) Extent of market served: the market for the unit's products did not extend beyond the locality where the unit was situated.

Cottage or Small?

As early as the late 1950s the Regional Programmes Committee of the erstwhile Planning Commission had stopped distinguishing between cottage and small-scale establishments. In their classification of small scale establishments they had included all units—(a) which used power and employed less than 10 workers (including family labour) and (b) which did not use power but employed up to 20 workers (MCS, 1959)



Source: <https://msme.gov.in>

Small Scale, Better Returns

“In a modern economy, small-scale industry can hardly serve as an element of a democratic society unless, we repeat, it is placed within an adequate framework of cooperative institutions and public agencies, which take charge of its commercial and financial problems and feed it with a continuous flow of necessary knowledge and research” —(Datta, 1956)

Executive Summary

This Paper examines the causes of the stagnant growth of cottage/small industries in the southern Telangana, expected trends, the likely impact on employment generation, and possible policy responses. It argues for targeted investment by the central, state and local governments in land and equipment, thereby creating an enabling place for the sector to get a launch-pad. There is a need to tackle the exceptionally high unemployment rate amongst the 15-29

Small Establishments

The Ministry of Micro Small & Medium Enterprises classifies a small scale industry as those manufacturing enterprises and enterprises rendering services:

- with investment in plant and machinery or equipment not exceeding Rs.10 crore; and
- with an annual turnover of less than Rs. 50 crore. –(What's MSME, 2021)

"SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included."–(World Bank SME Finance, 2021)

In rural areas, about 55 per cent of the male workers and 73.2 per cent of the female workers were engaged in the agricultural sector. The proportions of male and female workers in rural areas engaged in 'construction' sector were 14.5 per cent and 5.3 per cent respectively. The proportions of male and female workers in rural areas engaged in 'manufacturing' sector were 7.7 per cent and 8.1 per cent respectively. –[para. 3.3.7.2, Annual Report: PLFS, 2017-18]

age cohort, especially the women entrepreneurs and engaging the management and engineering under-graduates to improve the productivity and market reach of these enterprises.

Investment, jobs and productivity: missing the big picture?

When it comes to investment decisions, both public economics and political economy deem it prudent to target job generation on a large scale combined with an improvement in overall productivity. Cottage/ Small Scale Industries provide us with an opportunity to cater to both these needs together. Still the data in the Indian context suggests an altogether reverse trend.

Table 1: Unemployment Rate (UR) (in per cent) according to usual status (ps+ss) for Telangana and India

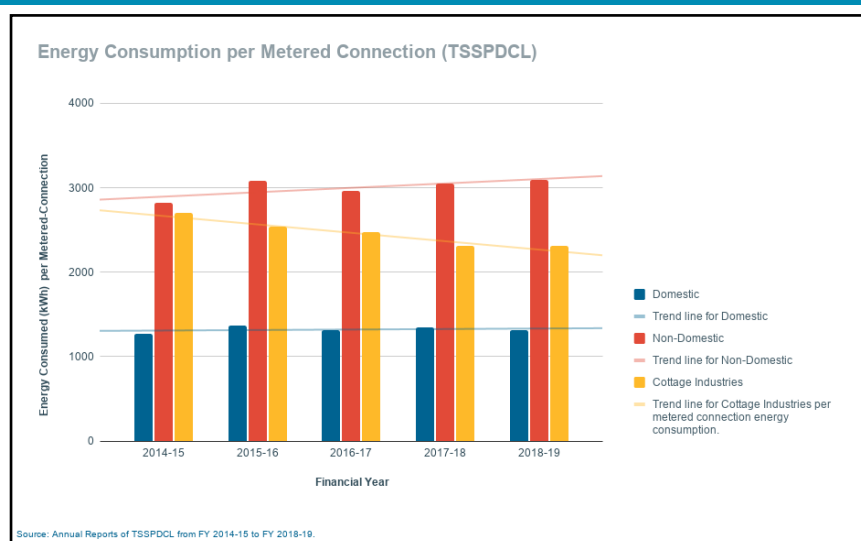
	Age Groups	Rural			Urban			Rural+Urban		
		Male	Female	Person	Male	Female	Person	Male	Female	Person
Telangana	15-29 years	20.6	21.1	20.8	26.2	29.2	27.0	22.8	24.5	23.3
	15-59 years	7.6	5.3	6.8	8.8	12.9	9.8	8.1	7.5	7.9
	All	7.2	5.0	6.5	8.5	12.6	9.4	7.7	7.2	7.6
India	15-29 years	17.4	13.6	16.6	18.7	27.2	20.6	17.8	17.9	17.8
	15-59 years	6.3	4.0	5.7	7.3	11.3	8.2	6.6	6.0	6.5
	All	5.8	3.8	5.3	7.1	10.8	7.8	6.2	5.7	6.1

Source: Annual Report (May, 2019), PLFS, 2017-18, Pages A71-A74

The employment scenario in the state of Telangana, both in isolation and in comparison to India, paints a very bleak picture. The unemployment rate is specially worrisome for the younger cohort in the age group of 15 to 29 years

Chart 1: TSSPDCL Metered Connections (Nos)



Chart 2: Energy Consumption per metered connection (TSSPDCL)

(23.3% for Telangana and 17.8% for India) (Table 1). The urban female fares poorly to her rural counterpart in the age group of 15 to 59 years both for Telangana and for India, but surprisingly the rural female performs better on the employment front in comparison to the rural male (Table 1).

The electricity consumption data of the

cottage industries, as retrieved from the annual reports of the Telangana State Southern Power Distribution Company Limited, was used as a proxy to measure the performance of the cottage/small scale industry.

Chart 1 tells us that although the number of cottage industries having a metered connection has grown over the years, still the growth is not that encouraging for a sector of such potential. Chart 2 presents an even more disturbing image. It tells us that the energy consumption per metered connection for the cottage industries has witnessed a steep decline over the years. The per unit charges are not an issue over here as 2016 onwards the per unit charges of the cottage industry connections have been kept lower than that of the household connections.

Ardic, Mylenko & Saltane (2011) in their policy research working paper for the World Bank point out that the loans provided to small and medium enterprises constitute only 13 percent of gross domestic product in developed countries and a meagre 3 percent in developing countries.

Policy Alternatives

Currently the central government through its ministry of Micro Small & Medium Enterprises is running eleven schemes especially targeted towards improving the market linkage, research and skill up-gradation of the Khadi industry and the people related to it. However, all these schemes are focussed on the people already in the sector. Attracting new talent and investment to this sector is still unaddressed. For such units to be successful they will have to be self-sufficient commercially with the know how for market linkages and the ability to successfully brand and market the products independently of the local merchants. Something on the policy front could be learned from the Japanese experience when the industry was trying to gain a foothold. Datta (1956) points out that in the early years of Japanese industrialisation, no tax yielded larger revenue to the government than the land tax.

Policy Recommendations

Priority lending and leasing: *The governments at different levels must collaborate to ensure priority lending to the units which seek finance to start up their business. Long moratorium periods on loan repayments, preferably a period of 3 years, should be ensured with government guarantees, easy on pocket rentals for leased spaces and equipments. Better and lenient terms to attract women entrepreneurs.*

Space and equipment pool with guaranteed power supply: *Providing credit based access to pooled space and equipments/machinery would help overcome the problem of the entry barrier. This should be supplemented with a guaranteed power supply with an option to pay when you earn.*

Database of willing to work youngsters: *Prepared by the local governments (panchayats and municipal bodies) in collaboration with the middle and high*

Bringing about information symmetry: *Teaching the entrepreneurs to effectively market their produce and also, helping them to identify the best produce for the current market. The management and engineering graduates could be roped in to help these enterprises with product identification and branding.*

Course credits to the management and engineering students: *The final semester engineering and management students could be entailed into improving the productivity and sale of small enterprises by providing them with course credits based on the performance of the enterprise they collaborate with. This would bring about the much needed linkage between the academia and the small scale industry ensuring flow of knowledge in real time.*

References

- Ardic, O.P., Mylenko, N. and Saltane, V. (2011) *Small and Medium Enterprises: A Cross-Country Analysis with a New Data Set*. The World Bank Policy Research Working Paper No. 5538
- Datta, A. (1956) *Small-Scale Industry and Its Place In Economic Development*. THE ECONOMIC WEEKLY.
- MCS (1959) *Cottage and Small Scale Industries: A reclassification*. THE ECONOMIC WEEKLY
- World Bank SME Finance. (2021). Retrieved January 03, 2021, from <https://www.worldbank.org/en/topic/smefinance>
- What's MSME. (2021). Retrieved January 04, 2021, from <https://msme.gov.in/know-about-msme>