Role of Industrial Development of Bihar

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Abstract :

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manpower is lying idle, per capital income is low, capital is shy and scarce, production is traditional, technique is outdated, output is insufficient and the basic needs of the people remain unfulfilled.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

Efficiency of small-scale industries. Whether large-scale industries are more efficient or small-scale industries are more efficient, is a matter of debate. The problem arises because of the fact that efficiency can be defined in many different ways.

Small-Scale and Cottage industries during the plans the government policy.

It has been argued by some economists that small-scale industries are hampered in their growth by imperfections in factor markets (particularly distortions in capital markets as small-scale industries are discriminated against in these markets).

Key Words : Small industrial, Govt. policy, New Policy.

Introduction :

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manpower is lying idle, per capital income is low, capital is shy and scarce, production is traditional, technique is outdated, output is insufficient and the basic needs of the people remain unfulfilled.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

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

Modern Small scale Manufacturing Enterprises :

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

Intermediate Groups of Small Enterprises :

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

Need for rural Industrialization :

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

Changes in the Industrial pattern during the plans : A Brief resume

Important changes that have occurred in the industrial pattern during the period of planning are as under :

Increase in the share of industrial sector in GDP. The share of the industrial sector in Gross Domestic Product has slowly but consistently increased over the planning period. For instance, the share of industry (includes mining and quarrying, manufacturing, construction, electricity, gas and water supply) in GDP at factor cost increased from 16.6 per cent in 1950-51 to 27.7 per cent in 1990-91 and stood at 26.2 per cent in 2013-14. The new series on national accounts released by CSO in January 2015, presents data on GVA (gross value added) at basic prices with base year 2011-12. According to this series, the share of industry in GVA at basic prices was 31.5 per cent in 2015-16 and 31.2 per cent in 2016-17.

Some problems of Industrial Development in India :

Gaps between targets and achievements. Excepting the period of the 1980s when targets of overall growth in industrial sector were achieved, in the entire earlier period of planning, achievements were below the targets. It has been estimated that the average shortfall in industrial achievement was about 20 per cent in each plane period during the pre-liberalization phase.

The missing middle sector. The Indian manufacturing sector is characterized by the persistence of dualism. There is a strong concentration of employment in small enterprises (6-9) workers) and large enterprises (employing more than 500 workers), with a conspicuous missing middle.

The lack of integration of markets could be a bottleneck in the development of mass markets for manufactured consumer goods.

Underutilization of capacity. A large number of industries suffer from substantial underutilization of capacity. Because of the difficulties in defining "capacity" there are vast differences in estimates of underutilization of capacity in Indian industries. The estimates very from 20-30 per cent to 60-70 per cent.

Performance of public sector. We have noted earlier in this chapter the phenomenal growth of public sector in the planning period. However, the performance of public sector enterprises has raised many eyebrows. Undoubtedly, the performance of the public sector units cannot be judged by the yardstick of profits since their cannot be judged by the yardstick of profits in their justification lies in fulfilling certain broader socio-economic objectives.

Infrastructural constraints. One of the major constraints in industrial development is poor qualify and high cost of infrastructure particularly power and transport network. Supply of coal has mostly been less than demand and this has had an adverse impact on the power situation Shortage of gas availability has also resulted in considerable generation loss over the years.

Growth of regional imbalances. Industrial development in India has remained concentrated in a few States while other States continue to lag far behind. For instance, the four industrially advanced States of the country – Maharashtra, Gujarat, Karnataka and Tamil Nadu – accounted for 44.5 per cent of the total factories, 47.4 per cent of invested capital and 51.5 per cent of the gross output of the industrial sector in India in 2015-16.

Industrial sickness. A number of industries are plagued by sickness which in some cases is due to bad and inefficient management. Also as noted by the Sixth Five year plan. 1980-85, “the pattern of industrial development has not been sufficiently guided by cost considerations.

Emerging challenges. As a founder member of the World Trade Organization (WTO), India has withdrawn all quantitative restrictions on imports. This is bound to result in intense competition with imports in coming years forcing a number of industrial units to close down. The pressure of competition will be particularly harsh on many small-scale units as they simply cannot withstand competition from resource rich and technologically advanced multinational companies.

Employment generation. The SSI sector employed 249.3 lakh people in 2001-02 and this number rose to 294.9 lakh people in 2005-06. Employment in the MSME sector stood at

805.2 lakh in 2006-07 and this increased to 1,171.3 lakh in 2014-15. The fact that labour intensity in the micro and small enterprises sector is almost 4 times higher than the large enterprises.

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

While discussing the issue of efficiency, it is also important to keep the employment potential in view in a labour-supply economy like India. This is precisely what the Third all India census of small-scale Industries, 2001-02. Does. Comparison of the SSI sector with large manufacturing sector made for the year 2001-02 by the Census Report shows that the SSI sector is a better employment generating sector. This would be clear from the fact that the employment generated by the SSi sector per Rs. One lakh investment was 1.39, as against only 0.20 in respect of the large manufacturing sector. This means that the organized sector requires in investment of Rs. 5 lakh to generate employment to one persons with the same generates employment for 7 persons with the same investment. With regard to investment – output ratio also, the SSI sector fared almost on par with the organized sector – an investment of about Rs. 43,000 was required in the organized sector to generate in output with Rs. One lakh, whereas in the SSI Sector, a marginally higher investment of Rs. 48,000 was required to generate the same amount of output.

Equitable distribution of national income. One of the main arguments, put forward in support of the small, scale and cottage industries is the they ensure a more equitable distribution of national income and weather. This is accomplished because of the following two considerations. (i) the ownership of small-scale industries is more widespread than the ownership of large-scale industries and (ii) they possess a much larger employment potential as compared to the large industries.

Mobilization of capital and entrepreneurial skill. The small-scale industries are at a distinct advantage as for as the mobilization of capital and entrepreneurial skill is concerned. A number of entrepreneurs are spread over small towns and villages of the country. Obviously, large-scale industries cannot utilize them as effectively as the small-scale and village industries distributed over the entire length and breadth of the country. Similarly, large-scale industries cannot mobilize the savings done by people in areas far flung from the urban centers. But this task can be effectively accomplished by setting up a network of small, scale and cottage industries. In addition, a large number of other resources spread over the country can be put to an effective use by the small-scale and cottage industries. The rapid development of small-scale industries in the post, Independence period is a proof that given the necessary credit, power and technical knowledge, a large quantity of latent resources of the economy can be mobilized for purposes of industrial development.

Regional dispersal of industries. In our discussion on industrial licensing policy in the chapter on Industrial policy, we shall point towards the tendency of massive concentration of large-scale industries in the States of Maharashtra, West Bengal, Gujarat and Tamil Nadu. Thus, disparities in industrial development have increased. Even within these industrialized Sates, industries have tended to get concentrated in a few large cities like Mumbai, Kolkata and Chennai. People migrate in large numbers from villages and lower order urban centers to these centers of industrial and lower order urban centers to these centers of industrial development. This swells the population of slums and creates various social and personal problems. The whole urban environment gets polluted. As against this, the small-scale industries are mostly set up to satisfy local demand and they can be dispersed over all the States very easily. This can also effect a qualitative change in the economy of a State. The most glaring example of this phenomenon is the economy of Punjab which has more small-scale industrial units than even the industrially developed State of Maharashtra.

Contribution to exports. With the establishment of a large number of modern small-scale industries in the post-Independence period, the contribution of the small-scale sector in export earnings has increased by leap and bounds. What is heartening to observe in that the bulk of the exports of the small-scale industries (in fact, around 93 per cent) consists of such non-traditional items like readymade garments, sports-goods, finished leather, leather products, woolen garments and knitwear, processed foods, chemicals and allied products, and a large number of engineering goods. The total exports of the small-sector industry products increased from Rs. 155 crore during 1971-72 to Rs. 6,77,318 crore in 2012-13. This meant an increase in the share of the small-scale industries in the total exports of the country from 9.6 per cent in 1971-72 to around 41-4 per cent in 2012-13. MSME sector, as a whole, contributes about 45 per cent of export earnings recently.

Small-Scale and Cottage industries during the plans the government policy.

It has been argued by some economists that small-scale industries are hampered in their growth by imperfections in factor markets (particularly distortions in capital markets as small-scale industries are discriminated against in these markets). Therefore, special support policies are needed for small-scale enterprises. The policy of the Government of India towards the small-scale sector has been guided by this consideration.

This discussion is divided into the following sub-sections :

1. Policy prior to 1991
2. New Small enterprises Policy 1991
3. Comprehensive Policy Package 2000 and recent policy measures.

Policy Prior to 1991

A large number of steps were initiated by the Government of India after Independence for the development of small-scale and cottage industries. These included the building up of organization structure, increase in the outlay for the development of small-scale and cottage industries, reservations for production, credit and marketing facilities, concessions, exemptions etc.

Organizational Structure. (i) A Cottage Industries Board was set up in 1947 itself. This was split into the following three boards during the First Five year Plan – All India Handloom Board. All India Handicrafts Board, and All India Khadi and village Industries Board in addition, three more boards were set up.

(ii) National small Industries Corporation Ltd. (NSIC) was set up in 1955 to provide machinery to small-scale units on hire-purchase basis and to assist these units in procuring orders from government departments and offices.

(iii) Four Regional Small Industries Service Institutes, with a number of branches, were set up to provide technical assistance to the small-scale industries.

(iv) Small Industries Development Organization (SIDO) was set up in 1954. It functions as an apex body in the formulation of policies and coordination of institutional activities for sustained and organized growth of small-scale industries.

(v) The programme of Industrial Estates was initiated in 1955. The programme aims at providing factory accommodation and a number of common facilities like power, water transport etc, at one place.

(vi) The programme of District Industries Centers (DICs) was introduced in May 1979. The idea was to establish one agency in each district called the District Industries Centre to provide and arrange a package of assistance and facilities for credit guidance, raw materials, training, marketing etc.

Plan Expenditure. Expenditure on small-scale and cottage industries has increased considerably over the plane. It was Rs. 42 crore in the First Plane, Rs. 187 crore in the Second plane, Rs. 1,945 crore in the Sixth plane (1980-85) Rs. 3,249 crore in the Seventh plan (1985-90) and Rs. 7,266 crore in the Seventh plane (1985-90) and Rs. 7,266 crore in the Eight plane (1992-97). Expenditure on small-scale and cottage industries in the Ninth plane (1997-2002) is estimated at Rs. 8,384 crore.

Reservation for SSIs. To protect small-scale units from competition from large-scale units, government has reserved the production of a large number of items from the small-scale sector.

New Small Enterprise Policy, 1991

The Government announced a policy package for small, tiny and village industries in August 1991 with the primary objective of imparting more vitality and growth impetus to this sector. Important measures announced in this policy were as under.

The investment limit for tiny units was raised from Rs. 2 lakh to Rs. 5 lakh (this limit was raised to Rs. 25 lakh in February 1997). Moreover, the locational restrictions were done away with. This opened up the way for tiny units within the new investment limit and located in bigger towns (population of more than 50,000) to become a part of the tiny group.

Comprehensive Policy Package 2000 and Recent Policy Measures

A comprehensive policy package for the small-scale sector was announced by the Prime minister on August 30, 2000. The main elements of this package were : (i) Conducting the third census of small-scale industries : (ii) raising the exemption for excise duty limit from Rs. 50 lakh to Rs. 1 crore to improve the competitiveness of small-scale sector (3) providing credit linked capital subsidy of 12 per cent against loans for technology up gradation in specified industries (4) raising the limit of investment in industry related service and business enterprises from Rs. 5 lakh to Rs. 10 lakh (5) raising the limit of composite loans from Rs. 10 lakh to Rs. 25 lakh etc.

The level of industrialization in Bihar is still very low and the contribution of this sector to the state's GSDP stand at below 20 percent, compared to the national average of above 30 percent (Table 1). Indeed, this ratio is the lowest in Bihar, for Chhattisagarh, Gujarat, Jharkhand and Odisha, the ratio are all above 40 percent. Since the contribution of the industrial sector to GSDP in Bihar stand nearly unaltered at 19 percent, it is obvious that whatever modest structural change that Bihar's economy has shown in recent years is due to the higher growth rate of its tertiary sector.

Table 1 : Contribution of Industrial Sector in GSDP at 2011-12 prices

States	2013-14	2014-15	2015-16	States	2013-14	2014-15	2015-16
Andhra Pradesh	26.3	26.5	26.6	Maharashtra	34.2	34.6	-
Bihar	**19.8**	**17.9**	**19.0**	Odisha	41.7	39.6	41.4
Chhattisgarh	49.2	49.1	-	Punjab	24.5	24.4	-
Gujarat	45.0	45.0	-	Rajasthan	30.5	30.5	-
Haryana	30.8	30.5	-	Tamil Nadu	36.3	34.9	34.7
Jharkhand	45.2	44.6	43.7	Uttar Pradesh	28.0	28.1	27.7
Karnataka	28.3	28.1	28.0	West Bengal	19.1	18.7	-
Kerala	27.2	27.0	-				
Madhya Pradesh	27.2	27.0	26.9	**India**	**31.6**	**31.2**	**31.3**

Source : Directorate of Economics and Statistics, GOB, Patna

4.1 Annual Survey of Industries.

The Annual Survey of Industries (ASI) is one of the principal sources of industrial statistics in India although is covers only the large industrial units. This survey relates to manufacturing units employment at least 10 workers (with power) or 20 workers (without power)

Table 2 : Number of Factories and Factories in Operation

Categories	2011-12		2012-13		2013-14	
	India	Bihar	India	Bihar	India	Bihar
No. of Factories						
Agro-based	93251 (42.9)	**1126 (34.8)**	87803 (39.5)	**1141 (34.1)**	87775 (39.1)	1148 (33.6)
Non-Agro Based	124303 (57.1)	**2106 (65.2)**	134317 (60.5)	**2206 (65.9)**	136803 (60.9)	2272 (66.4)
All	217554 (100.0)	**3232 (100.0)**	222120 (100.0)	**3347 (100.0)**	224578 (100.0)	3420 (100.0)

No. of Factories in Operation						
Agro-based	72769 (41.4)	**1014 (35.3)**	68698 (38.4)	**1005 (34.1)**	70993 (38.2)	1036 (33.1)
Non-Agro Based	102939 (58.6)	**1858 (64.7)**	110403 (61.6)	**1941 (65.9)**	114697 (61.8)	2096 (66.9)
All	175708 (100.0)	**2872 (100.0)**	179101 (100.0)	**2946 (100.0)**	185690 (100.0)	3132 (100.0)

Source : Central Statistical Organization (CSO)

The SAI data is available roughly with a two-year delay and the latest data relates to 2013-14. In that year, there were 3420 units in Bihar, compared to 3347 units a year before, implying a growth of 2.2 percent (Table 2), For India as whole, there were 2.24 lakh units in 2013-14, compared to 2.22 lakh a year before, implying a growth of 0.9 percent. Not all these factories, however, were in operation. In Bihar, out of 3420 factories in 2013-14, 3132 were operational (91.6 percent); in India, out of 2.25 lakh factories, 1.86 lakh were operational (83.0 percent). Since the mineral resources in Bihar are extremely limited, one would have expected that the presence of agro-based industries will be relatively more in Bihar, but this is not the case as it apparent from Table 4.3 The share of agro-based industries in Bihar is 33.1 percent, the corresponding figure being a little higher at 38.2 percent for the entire country. This actually underlines that the substantial potential that Bihar has for agro-based industries, thanks to its wide bio-diversity, is yet to be realized fully. The number of different types of factories and their basic characteristics, within the broad categories of agro-based and non-agro-based, in Bihar are presented in Appendix.

Conclusion :

Any suggestion for the development of small scale industries in the rural areas of the State of Bihar as well as in the district of Hajipur (Vaishali) must be made on the basis of these findings. The immediate measures essential for this purpose are manifold and suggest for reorientation of the entire process with the help of action programmes. The support of the pro-active government which prefers to have an investor friendly climate in the industrial scenario will soften the challenges faced by the entrepreneurs as well of development of small industries as this region has less big industries with surplus alb our this will also promote the diversification of the economy and may help to life the region from the bootstraps of proverty and unemployment, underdevelopment.

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