

# Declining Registration by Small Manufacturing Units: A Case Study of Durgapur

MOUSUMI MAJUMDAR, SARBAJIT SENGUPTA

Economic policy since Independence has provided various benefits to small enterprises to ensure employment to workers who did not find work in the organised sector. These benefits provided incentives to small entrepreneurs to formally register their enterprises. This paper examines the impact of liberalisation – which led to a withdrawal of many of these benefits – on the registration of small enterprises. There appears to be a sharp fall in the growth rate of employment in registered small enterprises around the time of liberalisation. A case study of Durgapur in West Bengal shows that while registration has a positive impact on profits for firms set up before liberalisation, no such trend exists for post-liberalisation firms.

One of the major objectives of the liberalisation of the Indian economy in the 1990s was the modernisation of the industrial sector, to raise it to global standards in terms of technology, processes, rules and efficiency. However, there is reason to be worried that such liberalisation may lead to increasing “informalisation” of small manufacturing units in India – a phenomenon that runs directly counter to these objectives.

India is one of the very few countries to have consistently supported small-scale enterprises in order to promote greater employment and perhaps also a more egalitarian distribution of wealth. Even the heavily capital-intensive Second Five-Year Plan model reserved the crucial roles of providing employment and relatively inexpensive consumer goods for the “small-scale sector”. In addition to the creation of small industrial estates, tax and other financial incentives were provided and later, many products were “reserved” for this sector. All these benefits were available to small firms which “registered” their units. Registration is, of course, also a means of bringing firms, which would have been otherwise been “informal” enterprises, into the domain of the formal sector of the economy.

Partly as a result of such encouragement, small-scale enterprises, which provide most of the industrial employment in India, have recorded a high rate of growth since Independence in spite of stiff competition from the large-scale sector. Constant support to the small-scale industry (SSI) sector by the government in terms of infrastructure development, fiscal and monetary policies have helped it to emerge as a dynamic and vibrant sector of Indian economy.

However, since the liberalisation of the Indian economy in the early 1990s, most of the advantages of registration, particularly those relating to taxes, loans and the restrictions on the larger enterprises have been withdrawn. To the extent that such withdrawal of benefits demotivates firms from registering, it is likely to lead to a greater “informalisation” of the industrial sector.

The purpose of this paper is to examine how the incentives of small-scale manufacturing enterprises in India to register their units have changed in the era of liberalisation. In addition to the all-India trend, we also look at West Bengal, which has a significant share of such enterprises, and more specifically at the Durgapur industrial region. Along with the changes in the number of registered firms, employment, output and capital employed, we also attempt to look at the benefits obtained from registration and the impact of registration on the profitability of such enterprises.

The paper is organised as follows. Section 1 discusses the registration of small-scale units. Section 2 discusses in brief the benefits of registration in the pre- and post-liberalisation periods.

Mousumi Majumdar ([mousumimajumdar@gmail.com](mailto:mousumimajumdar@gmail.com)) and Sarbajit Sengupta are at the department of economics and politics, Visva Bharati, Santiniketan, West Bengal.

Section 3 outlines the changes in the trend of registration in India and West Bengal. Section 4 briefly describes the industrial environment in the Durgapur industrial region. Section 5 concludes.

## 1 Registration of Small-scale Units

The registration scheme for small-scale industries was introduced in the early 1960s, mainly to provide a “single window service” to the small-scale sector in availing incentives, facilities and other services offered by central and state governments for their promotion. Guidelines were issued by the Development Commissioner (Small-Scale Industries) (DC-SSI) in 1975 to introduce a uniform procedure for registration. Subsequent detailed guidelines were issued in 1989 that prescribed a coded pro forma application form for both provisional as well as permanent registration. In 1992, further simplification and rationalisation were carried in the procedures for registration. New and simplified registration forms were introduced for utilisation by state/UT governments. The new forms came into force from January 1994. With effect from this date, the requirement of obtaining a registration certificate from the Directorate of Industries or DC-SSI has been dispensed with as a condition for excise duty concessions. This implies that there would be no distinction between registered and unregistered units for SSI concessions.

The registration scheme does not have a statutory basis. It is not mandatory for a small-scale unit to register itself. The units would normally get registered to avail the benefits, incentives or support given either by state or central government. The objectives of the scheme are: (1) To enumerate and maintain a list of small industries to which the package of incentives and support are targeted. (2) To provide a certificate enabling the units to avail statutory and other benefits. (3) To serve the purpose of collection of statistics. (4) To create nodal agencies at the central, state and district levels to promote SSI. (5) To provide a single window service to SSI.

## 2 Changing Benefits of Registration

### Tax and Excise Duty under SSI

From time to time, various incentives in the shape of exemptions from payment of excise duties and licensing registration controls have been extended to small-scale units producing

**Table 1: Tax Concessions to the SSI Sector in India**

Year	Concessions
1978	Full exemption from the payment of central excise duty on a specified output and thereafter slab-wise concessions of certain specified items in the reserved items list.
1985	General small-scale exemption scheme in respect of specified commodities.
1986	General small-scale exemption scheme was replaced.
1993	General small-scale exemption scheme was amended.
1994	Gate-pass system was replaced by manufacturer invoice to cover clearances of goods as the duty-paying document.
1995-96	The limit of Rs 2 crore turnover for a small-scale unit to be eligible to exemption was revised to Rs 3 crore.
1998-99	The exemption limit of payment of excise duty was raised to Rs 50 lakh from Rs 30 lakh in a financial year.
2000	The exemption limit was raised to Rs 100 lakh.

Source: www.dcmsme.gov.in

excisable goods. This has been the long-standing and consistent policy of the government to encourage the small-scale sector and to improve its competitive position vis-à-vis the large manufacturing units.

### Credit Availability to SSI Units

The Government of India (GOI) recognised the need for a focused credit policy for micro and small enterprises (MSEs) in the early days of promotion of this sector.

**Priority Sector Lending:** Banks are required to compulsarily ensure that a defined percentage (currently 40%) of their overall lending is made to priority sectors as classified by the government. Credit to the small-scale sector is ensured as part of the priority sector lending by banks. The Narasimham Committee (1991) recommended a reduction from 40% to 10%. However, this recommendation has not been implemented and the targets of 40% of net bank credit for domestic banks and 32% for foreign banks have remained the same. While the nominal targets have remained unchanged, the effective burden of priority sector advances has been reduced by expanding the definition of priority sector lending to include, for example, information technology companies (Reserve Bank of India 2004:16).

**Institutional Arrangement:** The Small Industries Development Bank of India (SIDBI) was set up as the apex refinance bank for the sector. Term loans are provided by State Financial Corporations (SFCs) and scheduled banks. Credit lending in direct/indirect forms is also undertaken to some extent by the National Bank for Agriculture and Rural Development (NABARD), and National Small Industries Corporation (NSIC).

With the liberalisation of the Indian economy, the focus was shifted to the institutional aspects of credit to SSIs. This was manifest through the following initiatives:

- (1) Earmarking of credit for the tiny sector within overall lending to small industries.
- (2) Public sector banks advised to operationalise more specialised SSI branches at centres where there is a potential for financing many SSI borrowers. As of March 2002, 391 specialised SSI branches are working in the country.
- (3) The Laghu Udyami Credit Card (LUCC) scheme launched by public sector banks for providing simplified and borrower-friendly credit facilities to SSIs, tiny enterprises, retail traders and artisans.
- (4) Establishment of a National Equity Fund for venture capital support.
- (5) Technology Development and Modernisation Fund through SIDBI.
- (6) Enhancement of turnover limit for assessing aggregate working capital requirement.
- (7) In order to ensure that credit is available to all segments of the SSI sector, RBI has issued instructions that out of the funds normally available to the SSI sector, 40% be given to units with investment in plant and machinery up to Rs 5 lakh, 20% for units with investment between Rs 5 lakh and Rs 25 lakh, and the remaining 40% for other units.

(8) Banks to consider three slabs for rate of interest, for loans of up to Rs 50,000, between Rs 50,000 and Rs 2 lakh and above Rs 2 lakh.

(9) The limit on collateral free loans to be increased to Rs 25 lakh in deserving cases.

(10) The composite loan limit to be enhanced to Rs 50 lakh from Rs 25 lakh.

(11) An interest rate band of 2% above and below prime lending rates (PLRs) should be applicable to ssis. As per the announcement made by the finance minister in the union budget of

**Table 2: Credit Flow to the SSI Sector in India**

As of March Each Year	Net Bank Credit (Rs Crore)	To SSIs (Rs Crore)	Share of SSIs (%)
1991	1,05,632	16,783	15.89
1992	1,12,160	17,398	15.51
1993	1,32,782	19,388	14.60
1994	1,40,914	21,561	15.30
1995	1,69,038	25,843	15.29
1996	1,84,381	29,485	15.99
1997	1,89,684	31,542	16.60
1998	2,18,219	38,109	17.50
1999	2,46,203	42,674	17.33
2000	2,92,943	45,788	15.60
2001	3,40,888	48,445	14.20
2002	3,96,954	49,743	12.53
2003	4,77,899	52,988	11.10
2004(P)	5,58,849	58,278	10.40
2005(P)	7,18,722	67,634	9.40

(P) stands for "provisional".

Source: RBI.

sector was introduced for the first time in 1967, with the reservation of 47 items. Reservation affords support to ssis against competition from medium/large/multinational companies. Non-ssi units (i.e., medium/large units including multinationals) can manufacture reserved items if they have obtained a carry-on business licence, which capped their capacity, and fixed the location of the plant and the goods produced, or accept an export obligation of 50% of their production.

As only manufacturing of items is reserved, trading in these items is not a violation of the reservation policy. Table 3 shows how this policy changed overtime. We can clearly see that after liberalisation, de-reservation has been the continuous process. As of March 2007, 114 items are reserved for exclusive manufacture in the small-scale sector.

2003-04, the Indian Banks' Association (IBA) has advised banks to adopt the interest rate band of 2% above and below PLRs for advances to ssi.

Though various steps have been taken by the government for improving the credit flow, the share of credit going to the ssi sector has declined over time.

### Reservation

Reservation of products for exclusive manufacture in the small-scale

**Table 3a: Reservation of Items in SSI Sector in India**

Year	Number of New Items Reserved
1967	47
February 1970	55
February 1971	128
November 1971	124
February 1974	177
June 1976	180
April 1978	504
1978	807
1989	836

Source: www.dcmsme.gov.in

**Table 3b: De-Reservation of Items in SSI Sector in India**

Year	Number of New Items De-reserved
April 1997	15
February 1999	9
January 2001	1
June 2001	14
May 2002	51
May 2003	75
October 2004	85
March 2005	108
May 2006	180
January 2007	87
March 2007	125
February 2008	79

Source: www.dcmsme.gov.in

### Support to SSIs in West Bengal

The West Bengal Incentive Scheme, 1999, had an attractive provision for sales tax, "remission" or "deferment". But in pursuance of the national policy, the state government had to discontinue the sales tax-related incentives from 1 January 2000. However, as there is a strong need for fiscal support for the promotion of industry in the state, the state government decided to introduce the West Bengal incentive scheme, 2000, with new features, quite attractive for industries in the large, medium, small-scale and tourism sectors.

Since their introduction in 1978, the District Industries Centres (DICs) under the Directorate of Cottage and Small Scale Industries of West Bengal are engaged in promotion of ssi to achieve the goal of providing more employment and rendering economic development. The registered small-scale units under the DICs enjoy certain benefits:

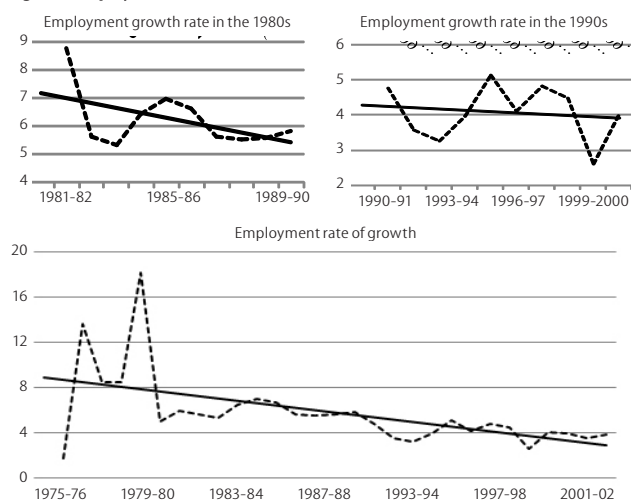
- A capital subsidy of 25% on the fixed capital.
- 50% subsidy on the long-term loans taken from banks or any other financial institutions for establishment of the firm.
- A five years holiday on electricity duty.
- 25% energy subsidy if they do not have their own captive plant.
- 75% of the Employees' State Insurance/Employees' Provident Fund (ESI/EPF) expenditure will be returned up to seven years.
- 50% discount on the stamp duty for purchasing land for a new firm.

### 3 Employment in the Registered Small-scale Sector: India and West Bengal

The secondary data on registered small-scale enterprises in India is collected from the second and third All-India Census on Small-scale Industrial Units (AICSSI) conducted by the Central Statistical Organisation (CSO), different National Sample Survey Organisation (NSSO) reports, the Economic Census 1998 and from the different GOI web sites. The entire period is divided into two phases – the 1981-1990 and the 1991-2000. The 1980s represent the pre-reform period, and the 1990s, the post-reform period. We are here focusing on the employment growth rate in ssis. One of the objectives of the registration policy after liberalisation was to bring the working population into the formal sector.

From Figure 1 (p 67), we can see that there is a great change in the ssi employment growth rate in India in the pre- and post-liberalisation period. The trend line in the 1980s shows an employment growth rate around 6-7%. The trend line in the 1990s shows a clear decline in the employment growth rate, which is around 4%. Thus from the above trend, it appears that the government policy of formalising the employment sector was a failure.

To support the deductions from Figure 1 and to find out the actual changes in the growth rate of employment in the two periods, we did a regression analysis (Table 4, p 67), taking employment growth rate as the dependent variable. When we regress the employment growth rates separately on "time" in the two periods (1 and 2), the t- and F-values are statistically insignificant and R<sup>2</sup> is low. This implies that there has been no significant change in employment growth over time. However, when

**Figure 1: Employment Growth Rates in the SSI in India (in %)**

Source: www.dcmsme.gov.in

we consider the combined period 3, we find a significant change in the employment growth over the span of 20 periods. When did this significant change occur? To find an answer to this question, we did a dummy variable regression, with 0 representing the 1980s, and 1 representing the 1990s. We found that the t-value of the dummy variable is significant at 5% level of significance. The  $R^2$  and F value in this regression equation are quite significant, which also implies the significance of the explanatory variable. Thus we observe a large (and statistically significant) drop in the employment growth rate in the registered small-scale sector immediately after the Indian economy embarked on the course of liberalisation.

**Table 4: Regression on Growth in SSI Employment in India** (Dependent Variable: Employment Growth Rate)

	1	2	3	4
Intercept	173.83 (t=1.198)	-7.478 (t=-0.044)	299.329 (t=4.889)***	84.125 (t=-0.759)
Period 1 (1981-91)	-0.379 (t=-1.158)			
Period 2 (1991-2000)		0.024 (t=0.067)		
Period 3 (1981-2000)			-0.750 (t=-4.808)***	-0.200 (t=-0.706)
Dummy				-0.634 (t=-2.241)**
$R^2$	0.144	0.001	0.562	0.662
F	1.341	0.004	23.119	16.652

\* significance at 10% level, &lt;0.1 \*\* significance at 5% level, &lt;0.05, \*\*\* significance at 1% level, &lt;0.01).

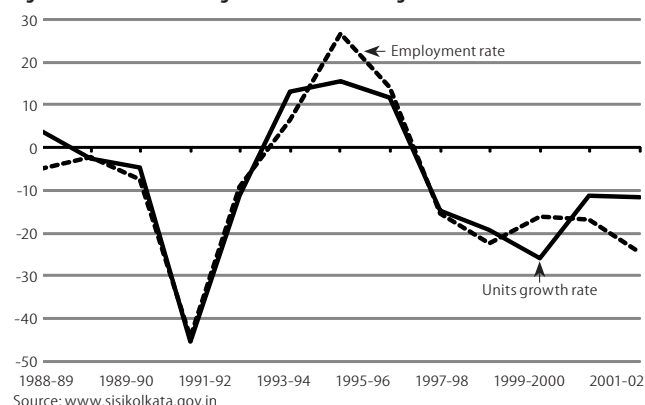
This indicates that the policy introduced at the time of liberalisation, and the withdrawal of many of the benefits given to the registered small-scale sector have led to a contraction in employment in this sector. As indicated before, this implies a tendency towards greater “informalisation” of the economy, which is contrary to the perceived benefits of liberalisation.

### Growth of Registered SSIs in West Bengal

We now analyse the growth pattern of registered ssi enterprises in West Bengal. The secondary data for the registered ssi in West Bengal is collected from the second and third AICSSI conducted

by the CSO, different NSSO reports, and from the different GOI web sites.

From Figure 2, looking at the registered small-scale sector in West Bengal, we find that there is an almost identical pattern of growth in the number of registered units and employment in the registered ssi sector in West Bengal. There is a decreasing trend in the growth rate up to 1993-94, i.e., in the transitional period. In the post-reform period, up to 1996-97, we find an increasing trend in the growth of registered ssi but there is a drop after that. The first half of the post-reform period shows a picture opposite to the whole of India. As the growth rate patterns are identical, employment grew at the same rate as the number of units. Only the last two years show that there is a drop in the employment growth rate, which can be an indication of firms becoming more capital-intensive.

**Figure 2: Growth Rates of Registered SSI in West Bengal**

Source: www.sisikolkata.gov.in

### Growth of Informal Sector Enterprises in India after Liberalisation

The previous section suggested a tendency towards increasing informalisation of the small-scale sector in India following liberalisation. To examine this issue more thoroughly, we now study the growth of the informal sector since liberalisation.

The “informal” and unorganised” sectors are sometimes taken to be same concepts. Hart (1973) introduced the term “informal sector” to include the part of the urban labour force that falls outside the organised labour market. Like the unorganised sector, the informal sector is also defined as a residual category and includes both manufacturing and services. According to Papola (1986), the units in the informal sector do not have a formally

### For the Attention of Subscribers and Subscription Agencies Outside India

It has come to our notice that a large number of subscriptions to the *EPW* from outside the country together with the subscription payments sent to supposed subscription agents in India have not been forwarded to us.

We wish to point out to subscribers and subscription agencies outside India that all foreign subscriptions, together with the appropriate remittances, must be forwarded to us and not to unauthorised third parties in India.

We take no responsibility whatsoever in respect of subscriptions not registered with us.

MANAGER

structured organisation. But, strictly speaking, there are differences between “informal” and “unorganised” sectors; and more importantly, the term “informal” sector, which incidentally is a highly debated concept, is not used in the Indian official statistical system (Mukherjee 2002). The National Accounts Statistics (NAS), for example, uses the term “organised” and “unorganised” and not “formal” and “informal”. According to the National Sample Survey (NSS) 55th round report, the “organised” sector comprised enterprises for which information was available regularly from budget documents and reports and/or those whose activities are regulated under some act. On the other hand, the “unorganised” sector refers to those enterprises whose activities or collection of data is not regulated under any legal provision and/or those, which do not maintain any regular accounts. Parthasarathi (1996) says that in the Indian context, the unorganised sector is defined as a sector in which the units are not recorded under any factory legislation. Information on employment in the unorganised sector is sometimes obtained as a residual after deducting the registered labour force from the total labour force. Hereafter, with these caveats in mind, the words “informal”, “unorganised” and “unregistered” are used synonymously in the paper.

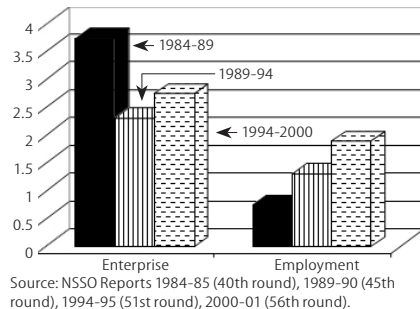
The growth of the informal sector in India can be studied from two different data sources. One is data provided in the Economic Census, while the other is sample survey data from NSSO. There are some differences in the definitions of the informal sector in the two reports. So we have analysed the two sets of data separately.

**NSS Data**

First, we analyse the comparative growth pattern of the number of units and employment in the informal enterprises in India from the data collected from the different NSSO reports. Specifically, we considered the data collected regarding informal sector enterprises in the NSS 40th round (1984-85), the NSS 45th round (1989-90) and the NSS 51st round (2000-01). We have divided the entire period into three phases – the pre-reform phase (1984-89), the transitional phase (1989-94), and the post-reform phase (1994-2000).

Though there was a drop in the growth rate of enterprises in the unorganised sector during the transitional phase compared to the previous (pre-reform) period, Figure 3 shows an upward trend in the post-reform period. And in sharp contrast to the trend in the registered small-scale sector (see Figure 1), employment in the unregistered or unorganised sector shows a continuous rising trend.

**Figure 3: Growth Rates of Enterprises and Employment in the Informal Sector**



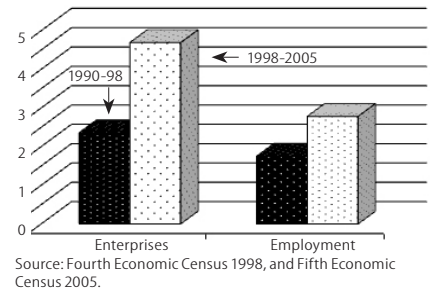
**Economic Census Data**

This picture of growth in the unorganised or unregistered sector is confirmed by the data obtained from the third, fourth and fifth

Economic Censuses carried out in 1990, 1998 and 2005 respectively. We may define 1990-98 as the transitional phase and 1998-2005 as the post-reform phase in context of this data.

From Figure 4, we see that compared to the transitional phase (1990-98), there is a significant rise in the number of informal units in the post-liberalisation period (1998-2005). We find the same

**Figure 4: Growth Rates of Enterprises and Employment in Informal Sector**



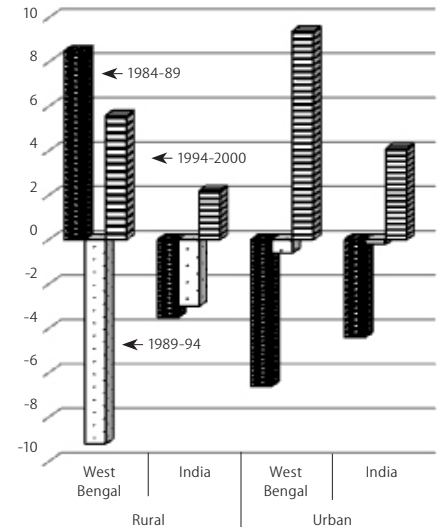
trend in case of employment too. But the growth rates of units in both the transitional and post-liberalisation period are much higher compared to the growth rate of employment. Thus, not only does the growth of the informal sector show an increasing trend following liberalisation, but the enterprises in this sector also appear to have become more capital-intensive.

**Growth of Informal Sector in India and West Bengal**

This section presents the comparative growth pattern of the informal enterprises in the rural and urban areas of India and West Bengal as revealed in the NSS data. As before, we have divided the total period into three phases – the pre-reform phase (1984-89), the transitional phase (1989-94), and the post-reform phase (1994-2000).

From Figure 5, we see that the growth rate of informal enterprises in rural areas in West Bengal, during the pre-reform phase, shows a positive trend but it is negative in the urban areas. In the transitional phase, the growth rate of enterprises in West Bengal deteriorated a lot in rural areas, and to a smaller extent in urban areas. The growth rate of informal enterprises all over India shows a negative trend both in the pre-reform and transitional phases.

**Figure 5: Growth Rates of Enterprises in Informal Sector**



But both the rural and urban growth rates of informal enterprises revived to a great extent in the post-reform era. This remains true for both India and West Bengal. West Bengal ranked first in the establishment of new firms in the urban areas during this phase. This result is also similar to the all-India trend.

Regarding employment generation (Figure 6, p 69), we find a similar picture. In the pre-reform period, though the all-India

picture shows a positive growth rate of employment in the urban sector and a negative rate in the rural sector, the picture is reversed in West Bengal. It implies that there was substantial development in the West Bengal rural sector in the pre-reform period. In the transitional phase, we find that though the growth rate in urban areas was negative its decline was larger in rural areas. In the post-reform period, the growth rate of employment generation improved a lot, both in West Bengal and all-India.

In 1984-89, we can find a sharp rise in the growth rate of enterprise and employment in the informal sector of rural West Bengal, which goes against the general trend in India, and even urban West Bengal. But urban India showed a slight rise in employment growth. This can be due to some reasons:

- Land reform was very successful in West Bengal. So in rural areas, there were many landlords whose land got vested or recorded for registration. So, now their expenditures in agriculture decreased and they started investing in non-farm activities rather than agricultural work.
- Agricultural productivity increased during this period in West Bengal. Rural people became very prosperous. Their demand for the non-farm products increased. Thus people started investing in non-farm goods in rural West Bengal.
- In the post-reform period, the entire analysis shows the high rate of growth of informal sector enterprises in contrast to the declining growth rate for the registered ssi sector.

### Liberalisation and the Unorganised Sector

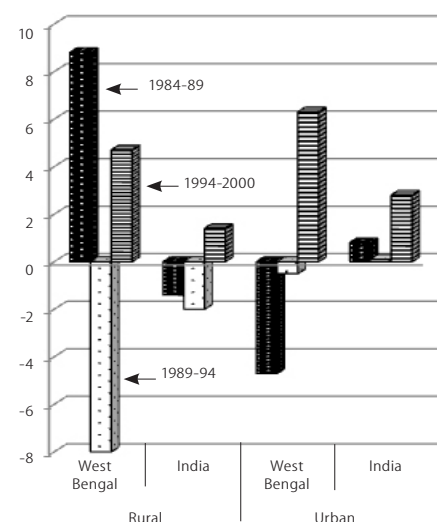
The foregoing discussion confirms the view that the adverse impact of liberalisation on small enterprises was confined to the registered sector and did not extend to the unorganised enterprises. There is, therefore, ample reason to believe that this was the direct result of withdrawal of benefits to registered enterprises. These benefits had previously helped maintain the position of these enterprises in the face of competition from the larger enterprises.

To the extent that the withdrawal of such benefits reduces the incentive for small enterprises to go through the often time-consuming process of registration, it may be said to implicitly encourage "informalisation" of the economy, which is clearly incompatible with the stated objective of liberalisation – to modernise the economy.

### 4 The Decline in Registration: A Case Study of Durgapur

In this section, we study small enterprises in the city of Durgapur, West Bengal to examine the reasons behind the trend of declining registration of small firms in India. The Durgapur-Raniganj-Asansol belt is one of the major industrial agglomerations in West Bengal where many large and small-scale enterprises coexist. A large number of the small-scale firms in Durgapur are in ancillary status to the large-scale enterprises. It is reasonable to assume that in such a developed industrial region, all the firms

Figure 6: Growth Rates of Employment in Informal Sector



Source: NSSO reports 1984-85 (40th round), 1989-90 (45th round), 1994-95 (51st round), 2000-01 (56th round).

receive the benefits of registration as per the government rules. Despite this, we can find a declining trend in the registration of the ssi units in the post-liberalisation era. Durgapur is therefore suitable as a case for the study of the reasons behind the declining trend of registration in the ssi sector.

The industrial city of Durgapur is the most economically advanced industrial agglomeration in West Bengal. It is situated in Burdwan district, on the northern bank of river Damodar, within 175 kilometres from the state capital Kolkata. Due to its favourable position with respect to raw materials such as good quality iron ore, coal and lime deposits, fresh water supply and easy transport for labour and markets, it was chosen for setting up a number of large industries like iron and steel, thermal power, cement, chemicals, machinery and other allied industries. Industrialisation started in Durgapur during the Second Five-Year Plan. It was known as "the Ruhr of India". Along with the industries, industrial townships were created and commercial activity began to cater to their needs. Some of the large industries are the Durgapur Steel Plant (DSP), the Alloy Steel Plant (ASP), Durgapur Projects Limited (DPL), and Durgapur Thermal Power Supply (DTPS) and so on. In recent years, Durgapur has become a municipal corporation, with a population of 4,15,986 in 1991 and 5,00,578 estimated in year 2000 over an area of 154 square kms. Development of the core city facilitated both "spreading out" and "trickle down" of growth and attracted workers in search of living.

The DSP acted as the catalyst for development of the region. It has played a major role in encouraging SSIs. A total of 125 small-scale units are registered with the DSP, out of which 31 have been accorded ancillary status. The healthy and forward-looking industrial climate, together with adequate support services, has set the pace for a quantum growth. The value of orders placed with local small-scale/ancillary industry has shown an upward trend.

The Durgapur region was the embodiment of the Nehruvian dream (Gang 1998, Little et al 1987). However, in the early 1990s, a deceleration of the organised large-scale industrial sector set in. The profile of the city has been changing. Large-scale industries like the Mining and Allied Machinery Corporation (MAMC) and Hindustan Fertiliser Corporation Limited (HFCL) have closed down, and the chances of revival for Bharat Ophthalmic Glass Limited (BOGL), once a pioneering industry, are slim. Side by side with the modernisation of the steel plants, they are trying to reduce their number of employees. The steel plants are compelling their employees to opt for the Voluntary Retirement Scheme (VRS). In the last 10 years, they have reduced almost 50% of their employees. A large number of SSIs, which were ancillary to those public sector units (PSUs), were also forced to close down.

On the other hand, from the late 1990s, Durgapur has emerged as a major educational hub with two engineering colleges, one

general degree college, various professional training institutes, and a large number of computer training centres coming up to complement the existing facilities. In the last three years, there seems to be a hint of industrial recovery, with quite a few private enterprises – mainly sponge iron, machine tools, one cement and a few polymer units – being set up.

Naturally, the turbulence in the city’s character has affected the pattern of growth and performance of ssis in Durgapur. The small industries sector, stretching right across the belt was fashioned roughly in bits and pieces instead of in a coordinated manner, and at the moment has been languishing from decreased demand. Some of the problems faced by the informal sector in Durgapur are low demand due to local industrial recession, resource problems due to low turnover and non-availability of credit due to institutional barriers, activity-specific problems, and lack of mobility (Mukherjee 2004).

But the future prospects of the informal sector in Durgapur are bright as the regional economic scenario is changing with the revival of the factory sector. There has been a substantial expansion of informal manufacturing sector in Durgapur over the last few years. There exists a strong positive association between the performance of the units and the availability of resources indicated by capital intensity and capital per enterprise.

**Secondary Data**

The data of the registered small-scale units has been collected from the Durgapur Sub-District Industries Centre (Sub-DIC), department of cottage and small-scale industries, West Bengal. The data of the unregistered sector has been collected from the Durgapur Municipal Corporation (DMC). We obtained the number of firms having municipal trade licences (Oudin 1986). Then by deducting the number of registered firms in that category, we have the number of unregistered firms.

Again initially, there was Durgapur Notified Area Authority (DNAA) but very recently in 1999, the administration was changed to DMC. So we got the data regarding trade licences from 1999 onwards. Using the names and addresses of the registered sector firms from the DIC office, and of the unregistered sector firms from the DMC office, we did a random sampling of 45 registered and 37 unregistered firms all over Durgapur to collect the primary data. A random sampling method was used to avoid any bias towards any particular type of business, any particular area, size of the firm and so on. We did a primary survey on the selected firms in the year 2005. We collected data primarily on registration benefits, production, profit, all the factors of production, etc.

**Table 5: Number of Registered Units in Durgapur**

Year	Number of Registered Units	Total Investment	Total Employment
1991-92	13	5,03,243	65
1992-93	17	38,05,606	109
1993-94	22	31,61,409	92
1994-95	12	20,48,343	72
1995-96	5	15,41,000	29
1996-97	45	76,99,000	237
1997-98	23	14,10,600	87
1998-99	17	62,20,000	100
1999-00	2	35,44,000	24
2000-01	5	16,05,000	30
2001-02	7	1,74,78,000	77
2002-03	7	81,20,704	93
2003-04	12	74,42,552	89

Source: Durgapur Sub-DIC, department of cottage and small-scale industries.

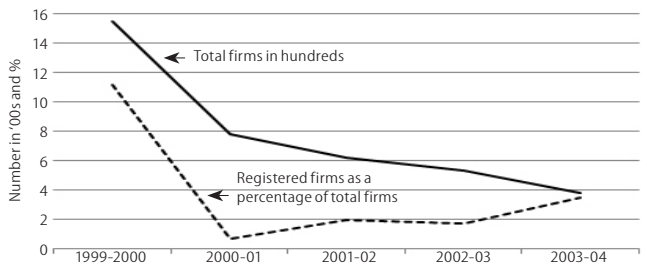
**Registered SSIs in Durgapur**

Table 5 shows the changes in the number of firms getting registered in Durgapur over the period of liberalisation, from 1991-92 up to 2003-04. In the case of Durgapur, we find a picture opposite to that of West Bengal. There is a downward trend in the firms getting registered in the first half of the post-reform era (1992-96). The sudden hike in the number of new firms getting registered during the year 1996-97 with another drop thereafter resembles the all-India picture but it is just the opposite of the West Bengal scenario. Again, there is a rise in the number of registered firms in the latter half of the post-reform era.

In the initial stages of the post-reform period, when there was a closure of the psus in Durgapur, the ancillary units helped the psus face a severe demand crunch. Thus there was a drop in the number of new industries. It continued up to 1999-2000 with an exception in the year 1996-97. After that, starting with the initial year of this century, we find an upward trend. This is mainly because of improvements in the industrial scenario of Durgapur in this decade.

The total amount of employment generated in the registered small-scale sector in Durgapur increased in 1992-93 but decreased from then onwards until 1995-96. The peak year of maximum employment generation in the ssi sector was 1996-97. Then after 1999-2000, it again showed a rising trend.

**Figure 7: Registered Firms in Durgapur**



Source: Durgapur Sub-DIC, department of cottage and small-scale industries, Durgapur Municipal Corporation.

From Figure 7, we can see a decreasing trend in establishing new firms, with a slight increase in 2003-04. But the total number of firms shows a decreasing trend. We can find possible causes behind the apathy of the newly established firms in getting registered.

**Growth of Informal Sector in Durgapur**

There were 999 informal manufacturing units in Durgapur with 2,839 employees in 1971 according to the Establishment Tables. In 2001, there were 2,657 units, a marginal increase from 1991, while estimated total employment was 10,683 (Mukherjee 2004).

The informal sector enterprises in India generally consist of the following three segments:

Own Account Manufacturing Enterprises (OAME) or manufacturing enterprises operating with no hired worker employed on a fairly regular basis;

Non-Directory Manufacturing Establishments (NDME) or units employing less than six workers, including household workers;

Directory Manufacturing Establishments (DME) or units employing six or more workers with at least one hired worker but not registered under the Factory Act.

In 1989, there were about 600 DMES in Durgapur. The Economic Census of 2000 could identify only 504 DMES, implying a decline of almost 15% in the number of DMES during the 1989-2000 period. The marginal expansion that has taken place has been mainly in the OAME and NDME segments. The last decade also experienced a slump and decline in the factory sector in Durgapur. From 79 units employing 67,047 employees in 1991, it decreased to 62 units with 48,169 employees in 2001. This indicates that perhaps the DMES live or die along with the factory sector, while the OAMES and NDMEs grow when the economic environment is slackening.

Table 6 shows that there was a jump in the number of informal sector enterprises between 1981 and 1991. But there was no significant rise in the next decade.

**Table 6: Informal Manufacturing and Factory Sector in Durgapur**

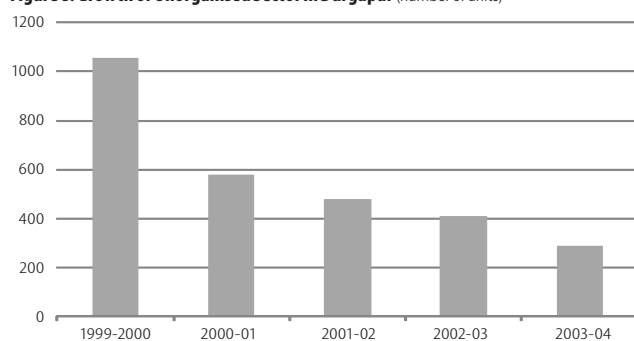
Year	Enterprises			Employment		
	Informal	Factory	Total	Informal	Factory	Total
1971 housing tables	786	30		-	33,779	-
1981 housing tables	811	64	875	-	66,397	-
1991 housing tables	2,566	79	2,645	-	67,047	-
2001 primary survey and economic census	2,657	62	2,719	10,683	48,169	58,852

By 2004, factory sector employment had again crossed the 50,000 mark.

Source: Gol (1971, 1971a, 1981, 1991).

Though we find an increasing growth trend in informal enterprises in West Bengal, Durgapur shows a decreasing trend (Figure 8).

**Figure 8: Growth of Unorganised Sector in Durgapur** (number of units)



Source: Durgapur Municipal Corporation.

The economy in Durgapur is dependent on the industrial sector. The slow pace of growth of the industrial sector in recent years has resulted in a general economic recession. Its effect is felt by the informal sector in general, and the intermediate and capital goods producing sector in particular (Mukherjee 2004). However, the demand for consumer goods has been increasing. Since these products usually require low skill and capital, it is also easier to set up firms producing such products. As a result, there has been a relative increase in the number of consumer goods producing units in the informal sector.

Though the rate of growth of the informal sector in India and West Bengal has been increasing, at least after the first few years of liberalisation, it shows a decreasing trend in Durgapur. Some of the reasons are as follows:

- The slow pace of growth of the public sector industry, which is the backbone of Durgapur, has resulted in a general economic recession. Its effects are felt by the informal sector in general,

**Table 7: Benefits Received by the Registered SSI Firms Surveyed in Durgapur**

Registration Benefits	Firms Registered before Liberalisation	Firms Registered after liberalisation
	(Age >15)	(Age <15)
Tax benefits	6	6
Loans	26	12
Inputs	4	3
Electricity	4	1
Marketing	13	2
Transport	0	0
Private concerns, i.e., benefits from private organisations	0	1
Priority in government tenders	6	3
Security money exemption in government tenders	1	1
Other licences	0	1
Exemption in customs and excise duty	1	0
Earnest money exemption	8	2
Can give free training	1	0
Price preference	2	0
No benefits at all	7	6

Source: Primary Survey.

particularly those firms producing intermediate and capital goods (Mukherjee 2004) to meet the demand of the local large-scale industries.

- The demand problems faced by the consumer goods producing informal sector are of a different kind. Although, total

**Table 8: Loan Benefits Received by the Surveyed SSIs in Durgapur**

Loans	Registered		Unregistered	
	Age >15	Age <15	Age >15	Age <15
Initial set-up	3	6	1	1
Machine purchase	6	0	0	1
Working capital	9	2	1	5
Initial set-up + working capital	4	2	0	0
Initial set-up + machine purchase	0	0	0	0
Working capital + machine purchase	4	2	0	0
Total loan recipients	26 (78.78%)	12 (57.14%)	2 (10.53%)	7 (28.00%)
Did not receive a loan	7	9	17	18

Source: Primary Survey.

demand is steadily increasing, the low skill and capital requirements in this sector encourage people with no other employment opportunities to set up enterprises. Lots of PSU employees have taken VRs and then invested that money to set up small enterprises. This has led to greater competition and lower prices and profits, discouraging new firms from entering the sector.

- The smaller firms face the problem of collaterals required for institutional loans. Sometimes the entrepreneurs are harassed by bank officials and are unable to get loans even after giving the requisite collaterals, until and unless they bribe the bank officials.

### Field Survey

Based on secondary data collected from the DIC and the DMC, a field survey was carried out to analyse the condition of small manufacturing establishments in Durgapur. In all, 54 registered and 44 unregistered firms were surveyed using a questionnaire. The firms were classified based on their date of establishment (pre-liberalisation, i.e., age >15 or post-liberalisation, i.e., age <15) as well as whether they were registered or unregistered.



The firms surveyed belonged to a variety of industries like machining, chemicals, steel almirahs, RPVC and polymer pipes, electric heater, tubelight, fittings and battery, readymade and woollen garments, etc.

### Government Support

Table 7 (p 71) presents a summary of the benefits received by the registered SSIs in our sample. The table shows that the principal benefits received were in the areas of credit, marketing, tax benefits, priority in government tenders. While most of the pre-liberalisation origin firms in the registered SSI sector received

**Table 9: Registered and Unregistered SSIs in Durgapur**

	Registered		Unregistered	
	Age >15	Age <15	Age >15	Age <15
Number of firms	33	21	19	25
Annual gross sales (lakhs)	107.00	81.64	13.75	11.14
Fixed investment (lakhs)	16.73	18.25	0.74	2.52
Cost of production (lakhs)	78.34	57.60	12.38	9.78
Yearly labour pay (lakhs)	6.01	2.37	2.72	2.41
Number of workers	17.48	13.81	6.16	5.96

Annual gross sales, Fixed investment, Cost of production, Yearly labour pay, Number of workers all represent averages over all firms in that category.  
Source: Primary Survey.

some kind of government support, a high percentage of firms that registered post liberalisation received no aid at all. The difference is starker in the case of taxes and credit than for marketing and input support.

Table 8 (p 71) gives us a picture of the bank/institutional loans received by the SSIs, broken down according to the purpose. The registered firms received most of the bank or institutional loans, both for long-term investment (initial set-up or machine purchase) as well as working capital. Unregistered firms only obtained loans for working capital, if at all. The registered firms in the pre-liberalisation period received much more credit than the firms in the post-liberalisation period. This implies that the benefits of registration are gradually declining.

### REFERENCES

- DC-SSI (1992): "Report of the Second All-India Census on Small-scale Industrial Units", CSO, New Delhi.
- (2002): "Report on Sample Survey of Registered SSI Units 2000-01", Ministry of Small Scale Industries, New Delhi.
- (2004): "Report of the Third All-India Census on Small-scale Industrial Units", CSO, New Delhi.
- Gang, Ira N (1998): "Small Firms in India: A Discussion of Some Issues" in Dilip Mookherjee (ed.), *Indian Industry: Policies and Performance* (New Delhi: Oxford University Press).
- GoI (1971): *Census of India 1971, H-series Tables – Tables on Houses and Household Amenities*, Registrar General of India, New Delhi.
- (1971a): *Census of India 1971, E-series Tables, Establishment Tables*, Registrar General of India, New Delhi.
- (1981): *Census of India 1981, H-series Tables – Tables on Houses and Household Amenities*, Registrar General of India, New Delhi.
- (1991): *Census of India 1991, H-series Tables – Tables on Houses and Household Amenities*, Registrar General of India, New Delhi.
- (2001): "Fourth Economic Census 1998", Ministry of Statistics and Programme Implementation, New Delhi.
- (2008): "Fifth Economic Census 2005", Ministry

of Statistics and Programme Implementation, New Delhi.

- Hart, Keith (1973): "Informal Income Opportunities and Urban Employment in Ghana", *Journal of Modern African Studies* 11(1): 61-89.
- Little, Ian MD, Dipak Mazumdar, and John M Page Jr (1987): *Small Manufacturing Enterprises: A Comparative Study of India and Other Enterprises* (New Delhi: Oxford University Press).
- Mukherjee, Dipa (2004): "Problems and Prospects of Informal Manufacturing Sector in an Industrial Economy: Lessons for Regional Development", *Indian Journal of Regional Science*, 36(2).
- Mukherjee, R (2002): "The Unorganised Sector in India – An Appraisal", Indian Statistical Institute, Kolkata.
- NSSO (various): "Processed Data on Survey of Unorganised Manufacture: Non-directory Establishments and Own Account Enterprises", 40th, 45th, 51st and 56th Rounds, CSO, New Delhi.
- Oudin, Xavier (1986): "Petits établissements et secteur non structuré à Abidjan: un dénombrement par le fichier des patentes municipals", *Stateco*, 47: 65-75.
- Papola, T S (1986): *Urban Informal Sector in a Developing Economy* (New Delhi: Vikas Publishing House).
- Parthasarathi, G (1996): "Unorganised Sector and Structural Adjustment", *Economic & Political Weekly*, 31 (28): 1859-69.

### Registered and Unregistered Firms in Durgapur: An Overview

The consequences of declining government support may be seen in Table 9, which presents some basic facts regarding registered and unregistered small-scale units in Durgapur.

Note that:

- (1) Registered firms are, on an average, larger than unregistered firms with respect to number of workers, fixed investment and gross sales.
- (2) The percentage decline in annual sales (23.7%) and employment (21%) for registered firms that originated after rather than before liberalisation has been much larger than the corresponding decline for unregistered firms (18.98% and 3.24% respectively).
- (3) The fixed investment in both types of firms has increased, with the percentage increase being larger in the unregistered sector. This is despite the fact that our calculation of fixed investment – particularly land – is at present market value rather than book value.

Thus, declining government support appears to have reduced the attractiveness of registering small enterprises. This has led towards a trend of declining registration in Durgapur, as elsewhere in West Bengal and India.

### 5 Conclusions

Subsidies are perhaps not the best way to support the SSI sector. Subsidies and reservations cause distortions. However, these modes of support have provided a motivation for small firms, which would have otherwise remained informal enterprises, to register and become a part of the formal sector. With liberalisation, such distortions have been removed. That is, in itself, conducive to competition. However alternative policies must be formulated to ensure that this does not cause increasing informalisation in the industrial sector of the economy.

- Portes, Alejandro, Manuel Castells and Lauren A Benton, ed. (1989): *The Informal Economy: Studies in Advanced and Less Developed Countries* (Baltimore: John Hopkins University Press).
- RBI (2004): *Report on Trend and Progress of Banking in India 2003-04*, RBI, Mumbai.

#### More Retail Outlets for EPW

The Economic & Political Weekly (EPW) is now available at a number of additional retail outlets.

You can now buy the latest issues of the EPW at Landmark, Odyssey, Crossword, Sankars and other select bookstores across the country. Please look for EPW at the **Outlook Counter** at the above mentioned stores.

If you need any help locating a store please call us at 022-40638282 and we would be able to assist you.