

Financing of Small Manufacturing Establishment in India; a Case Study of Unorganized Manufacturing Establishments

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Introduction:

Most of the studies on Indian labour are characterised by the invisibility of labourers. Just like the view that 'farmers are men' [Shiva 1991], labourers are also viewed as 'men'. Few attempts have been made to theories the development in agriculture based on gender-disaggregated data. A few authors such as Ramachandran (1990) and Epstein (1973) have looked into the dynamics of female labour in agriculture. Macro-level studies have indicated an increase in labour productivity in Indian agriculture purely on the basis of studying male agricultural workers (MAW). The frequent changes in the definition of workers over various censuses are cited as the reason for not including female workers in the analysis due to problems of incompatibility [Bhalla and Singh 1997]. Theories and perspectives are built through such processes, and as Krishnaraj argues, "the absence of gender invisibilises women's problems, distorts analysis, derives conclusions that are invalid and finally, insufficiently credible theoretical apparatus" (2001:1425).

Mere employment and wage do not get translated into development. Understanding of issues such as structural differences, inequalities and exploitation are essential for a perspective on development. Many scholars have looked into these areas and a comprehensive review literature on the poverty and inequality in Indian villages has been done by Jayaraman and Lanjouw (1999). However, very few studies have focused on gender issues and inequality at the intra-household level. Jackson (1996:489) warns that the anti-poverty approaches through employment and income generation "cannot be expected to improve necessarily the position of women". Quoting the study of Hadded and Kanbur (1990), she argues that "...as household income rises so too do levels of inequality (measured...by calorie adequacy) among members, until relatively high incomes are reached" (1996:497). The impact of structural resource variables such as employment, income, skill, occupational prestige and education on intra-household power relations, need to be looked into.

Socio-Economic Surveys of various types have been conducted in different countries at different levels. Most of these surveys were, however, planned to meet the special need of particular industry or a region or a country. The aim of the present survey is to find out the economic condition non-agriculture workers at Aligarh.

The study is divided into four sections, section-I: Introduction-objectives, sample Selection, Date Collection, Section_II, findings in the blocks, section III findings of Surveys, and section IV, Conclusion and Tables.

In the last quarter of 1977 an economic census was conducted by the Central Statistical Organization, with the Objective of collecting some detailed information about non-agricultural workers in various enterprises. I have, however, decided to conduct the survey of non-agricultural enterprises. With particular reference to Aligarh during 2004-2005.

In economic census non-agricultural enterprises have been classified into two groups namely (I) own account enterprises- the enterprises which do not have any hired worker (2) Establishments-such enterprises which have at least one hired worker. Establishments have been further divided into two categories, namely (A) Non-directory establishments- those establishments whose total number of workers is less than six (including household workers, if any) and annual output is less than one lakh rupees (\$2100). (B) Directory establishments- the establishments with six or more hired workers and /or annual output. Receipt rupees on lakh or more (\$2100).

It has been decided to purpose the same line of approach and a survey has been conducted of non-agricultural belonging to own account enterprises and non-directory establishments. It has been further decided to confine survey to Enterprises at Aligarh. A survey of three blocks in different parts of the city has been made, Enterprises be taken as sample unit block covers approximately one thousand persons.

An attempt has also been made to include the samples of enterprises, though the city itself presented the choice of the lock manufacturing industry.

The samples were selected on personal preference basis, keeping in view the dominance of a particular enterprise in a block and the above mention limitations.

In these blocks six types of non-agricultural enterprises, namely manufacturing, repairing trade and hotel service, community services, construction and transport, were found.

(Section II)

In the selected blocks 287 units over six different services (including directory on non-directory and own account enterprises) were traced of which the own account enterprises were the largest in number. Of the total enterprises 165 were manufacturing and repairing, 92 trade and hotel, 24 community services, 4 constructions and 2 transport services. The manufacturing and repairing sector includes 97 own account, and 36 non-directory establishments.

Further more, amid manufacturing enterprises 49 units in the case of manufacturing and 14 of repairing were eligible for survey. From the repairing sector, 5 won account establishments were selected. Since Nickel polishing, Tailoring, Lock manufacturing and Cycle repairing were more in number; many samples were selected from these heads. Moreover, the blocks covered under the survey had 2,563 persons and 412 households per household average size work out at 5 persons. As stated earlier, manufacturing and repairing constitute the main bulk of these enterprises.

(Section III)

All the selected units were proprietarily concerns. The year of establishment ranges 0 to 99, and all the units operated 20 days a month. The date of survey was considered as the closing account day. Information from all the units was taken on yearly basis.

NON-DIRECTORY NON-AGRICULTURE MANUFACTURING ESTABLISHMENTS (NDME)

The study reveals that in the selected units, for a rupee investment in productive capital, the selected enterprises gave an output of 1.12 and a value added of Rs. 0.86.

The investment of a rupee in fixed assets resulted in a output of Rs. 3.30 and value added of Rs. 2.50.

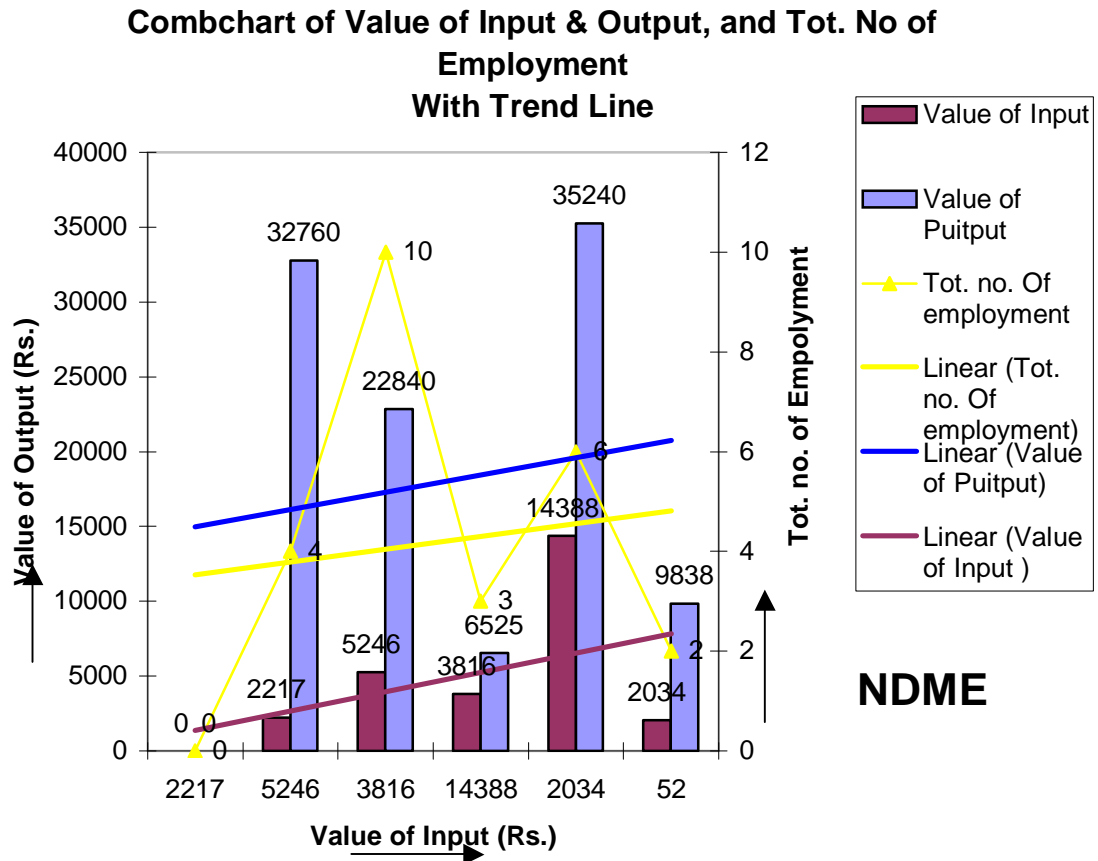
The investment of a rupee in fixed assets resulted in a output of Rs. 3.30 and value added of Rs. 2.50.

For a rupee investment in inputs resulted in a value added of Rs. 3.20 and out put of Rs.4.20.

The R^2 of Six observation is 0.2581 indicated that change in inputs results a change nearly double change in output. Coefficient of out put is 0.1923 and the t-value is 1.1796 as is evident from table 4.

Moreover the Rank percent of tall NDME is calculated and that printing units generated greatest out and then tailoring, Nickel polishing generated greatest out put, which varies from 100% to 605 respectively as is evident from Table 5. Not only out put is generated by these three enterprises but they also generated more employment as is shown in Table and graph.

I have also plotted chart of value of input, output and total employment which also shown that each inputs generated more output and employment. So one can understand that these units play a greater role in generating more output and employment at a very low investment.



Regression for Value of input over value of output (3&8) NDME

	Regression Output:
Constant	8.1975
Std Err of Y Est	0.7024
R Squared	0.2581
No. of Observations	6
Degrees of Freedom	4
X Coefficient(s)	0.1923
Std Err of Coef.	0.1630
t-value	1.1796

OWN ACCOUNT NON-AGRICULTURE MANUFACTURING ESTABLISHMENT (OAME)

The investment of a rupee in productive capital in the selected enterprises resulted in an output of Rs. 0.81 and a net value added or Rs. 0.40.

A rupee investment in fixed assets resulted in an output of Rs. 1.50 and a net value added or Rs. 0.73.

A rupee investment in total inputs gave an output Rs.2.00 and a value added of Rs.0.96.

In case of own account enterprises the Biscuits manufacturing units generated more output as compared to locks; though the city is known for lock making. As is evident from Rank & Percent table. The R^2 for these units as calculated for output is 0.1339 at a degree of freedom 4. The T values of observations are 7.87, which is more significant. The correlation coefficient of input is 0.933.

The Biscuits, locks and tailoring generated more output. They rank from 100% to 60% of output respectively.

The employment generation is also significant by these units. R^2 is 0.4353 and t value 1.7561. The correlation coefficient between investment and employment 0.4768. Each rupee invested in these units generated more employment.

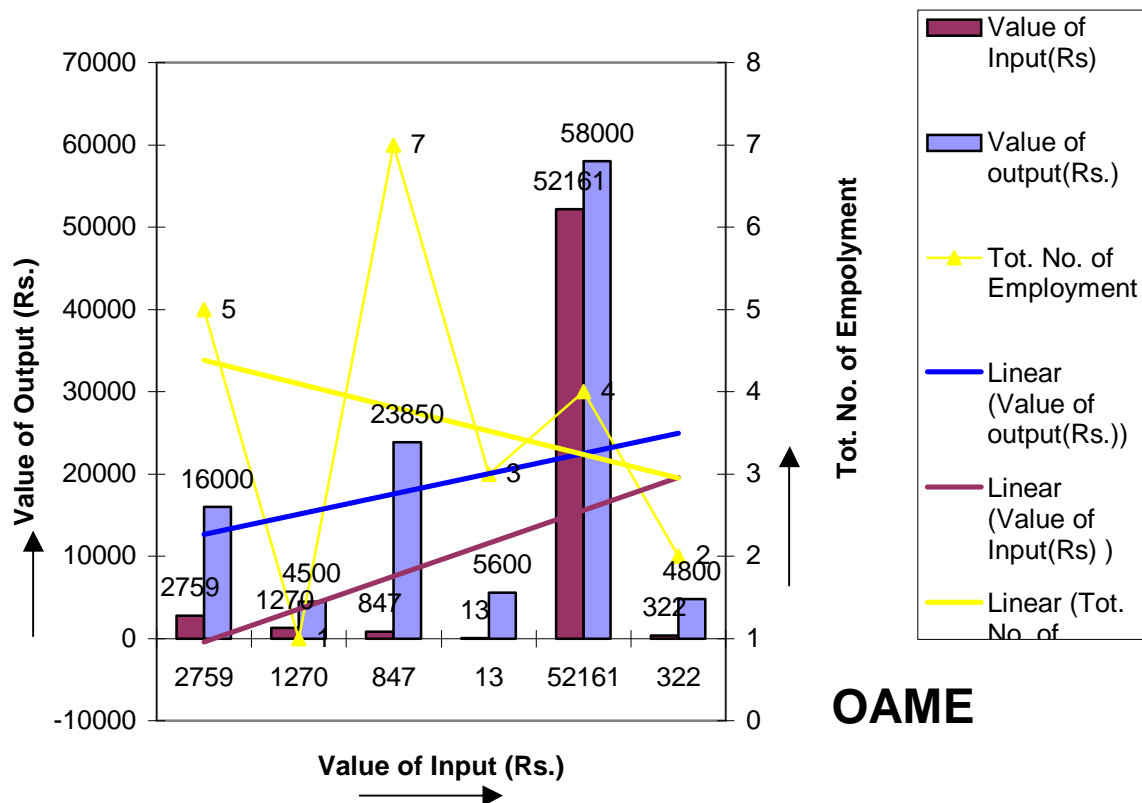
Amid all units investment made in locks generated more employment. Through Tailoring and Biscuits generated less as compared to locks. Hence in this city more Investment is made in lock making.

From the graph it is also clear that each inputs generated more output each inputs generated more output but as investment increase the employment in these units' increases.

In case of nickel polishing enterprises all the fixed assets were hired, only some tools belonged to the enterprises. And for spring manufacturing the raw fixed assets and inputs was recorded to by very low.

All other units, with the exception of biscuit making worked for the other concern.

Comchart of Value of Input & Output, and Tot. No. of Employment With Tren Line



OAME

Regression Output: OAME

Constant		0.649857043
Std Err of Y Est		0.133974891
R Squared		0.939400404
No.of Observations		6
Degrees of Freedom		4
X Coefficient(s)		0.17376
Std Err of Coef.		0.02207
t- value		7.8745

Corre.Coeffi (3&8)	0.933212867	
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Financing of unorganised manufacturing establishments

Unorganized sector is unorganized, both at employers' and workers' level. Organized sector workers' organisations deplore the poor working conditions and low wages in the unorganized sector and recommend that in the framework of employment policy, measures should be taken which ensure a gradual transfer of enterprises from the unorganized to the organized sector.

However, in many developing countries under presently prevailing circumstances, there are no indications that in the short- or medium-term, there will be substantial transfers from the unorganized to the organized sector. Therefore promotion and assistance to the unorganized Working conditions in the unorganized sector are characterised by poor pay, lack of social security, higher accident hazards, heavy physical work and long, irregular working hours. In India, weekly working time ranges from 40 to over 100 hours per week. The average was given as 66. In Mexico, 40 percent of the persons employed in the unorganized sector obtain less than 50 percent of the legal minimum wage, while 63 percent of organized sector workers earn more than twice as much as the minimum wage. Owners often claim ignorance of the need for improved working conditions and the higher productivity and higher job satisfaction in which they result.

Partly because these "unorganized" sources of finance cannot raise very large sums, fixed industrial capital is very modest. Of the 67 enterprises studied, in 30 cases it amounted to less than US \$ 96 and in only five cases to more than US \$ 9 6. For most workshops entrepreneurs have to make do with simple tools only or obtain very simple equipment which is often bought second-hand. There are problems with spare parts and maintenance. Among the registered manufacturers, 12.1 percent have portable electric tools. Even the smallest workshops generally employ portable electric tools. In un-organised manufacturing, electric tools are rarely available and simple hand tools prevail. Problems in obtaining suitable raw material are common, especially in lock Industry. Iron scrape prices tend to be high and for this reason waste iron sheets from of other industry are also used. Sometimes, iron scrape is bought planed and cut to size.

With regard to solutions for informal sector problems and measures to strengthen these activities, there is a large measure of agreement on the most important areas which require attention: raw material supplies, credit and training. However, proposals for improvement differ depending on local conditions. The key person to be involved is the owner of the workshop and the best approach to take care of his problems may in many instances be a cooperative one. Institutional help is desirable provided it is flexible and respects the peculiar conditions that allow the informal sector to operate. Access to credit under reasonable terms and conditions would be needed not only for the informal lock industry but for the informal sector as a whole. This might be coupled with advice in basic book-keeping and general business management. The involvement of public institutions would be necessary to take care of these questions.

Last but not least, the employers' and workers' establishments in the organised industry should not consider the unorganised sector as a foreign body engaged in unfair competition and clandestine work under unacceptable working conditions but as a partner requiring, as far as possible, integration into the industry as a whole for the benefit of all concerned.

Most unorganised manufacturing establishments mobilize resources to develop their enterprises and their dwellings slowly over time. Financial services could enable the establishments to leverage their initiative, accelerating the process of building incomes, assets and economic security. However, conventional finance institutions seldom lend down-market to serve the needs of unorganised manufacturing establishments. They are very often denied access to credit for any purpose, making the discussion of the level of interest rate and other terms of finance irrelevant. Therefore the fundamental problem is not so much of unaffordable terms of loan as the lack of access to credit itself.

The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by financial institutions and the economic characteristics and financing needs of unorganized manufacturing establishments. For example, commercial lending institutions require that borrowers have a stable source of income out of which principal and interest can be paid back according to the agreed terms. However, the income of many unorganized

manufacturing establishments is not stable, regardless of its size. A large number of small loans are needed to serve the poor unorganized manufacturing establishments, but lenders prefer dealing with large loans in small numbers to minimize administration costs. They also look for collateral with a clear title - which many low-income establishments do not have. In addition bankers tend to consider low income establishments a bad risk imposing exceedingly high information monitoring costs on operation.

The sources generally unorganized include funds available from family sources or local money lenders. The local money lenders charge exorbitant rates, generally ranging from 36% to 60% interest due to their monopoly in the absence of any other source of credit for non-conventional needs. Chit Funds and Bishis are other forms of credit system operated by groups of people for their mutual benefit which however their own limitations.

Lately, few of the NGOs engaged in activities related to community mobilisation for their socio-economic development have initiated savings and credit programmes for their target groups. These Community based financial systems (CBFS) can broadly be categorised into two models: Group Based Financial Intermediary and the NGO Linked Financial Intermediary.

Most of the NGOs like SHARAN in Delhi, FEDERATION OF THRIFT AND CREDIT ASSOCIATION (FTCA) in Hyderabad or SPARC in Bombay have adopted the first model where they initiate the groups and provide the necessary management support. Others like SEWA in Ahmedabad or BARODA CITIZEN'S COUNCIL in Baroda pertain to the second model.

The experience of these informal intermediaries shows that although the savings of group members, small in nature do not attract high returns, it is still practised due to security reasons and for getting loans at lower rates compared to that available from money lenders. These are short term loans meant for crisis, consumption and income generation needs of the members. The interest rates on such credit are not subsidised and generally range between 12 to 36%. Most of the loans are unsecured. In few cases personal or group guarantees or other collaterals like jewellery is offered as security.

While a census of NGOs in micro-finance is yet to be carried out, there are perhaps 250-300 NGOs, each with 50-100 Self Help Groups (SHG). Few of them, not more than 20-30 NGOs have started forming SHG Federations. There are also agencies which provide bulk funds to the system through NGOs. Thus organisations engaged in micro finance activities in India may be categorised as Wholesalers, NGOs supporting SHG Federations and NGOs directly retailing credit borrowers or groups of borrower.

The Wholesalers will include agencies like NABARD, Rashtriya Mahila Kosh-New Delhi and the Friends of Women's World Banking in Ahmedabad. Few of the NGOs supporting SHG Federations include MYRADA in Bangalore, SEWA in Ahmedabad, PRADAN in Tamilnadu and Bihar, ADITHI in Patna, SPARC in Mumbai, ASSEFA in Madras etc. While few of the NGOs directly retailing credit to Borrowers are SHARE in Hyderabad, ASA in Trichy, RDO Loyalam Bank in Manipur.

HDFC has been making continuous and sustained efforts to reach the lower income groups of society, especially the economically weaker sections, thus enabling them to realise their dreams of possessing a house of their own.

HDFCs' response to the need for better housing and living environment for the poor, both, in the urban and rural sectors materialised in its collaboration with Kreditanstalt fur Wiederaufbau (KfW), a German Development bank. KfW sanctioned DM 55 million to HDFC for low cost housing projects in India. HDFCs' approach to low-income lending has been extremely professional and developmental in nature. Negating the concept of dependence, HDFCs' low cost housing schemes are marked by the emphasis on peoples participation and usage of self-help approach wherein the beneficiaries contribute both in terms of cash and labour for construction of their houses. HDFC also ensures that the newly constructed houses are within the affordability of the beneficiaries, and thus promotes the usage of innovative low cost technologies and locally available materials for construction of the houses. The HDFC do not lend to unorganised manufacturing establishments

The security for the loan is generally the mortgage of the property being financed.

First of all, the poor repay their loans and are willing to pay for higher interest rates than commercial banks provided that access to credit is provided. The solidarity group pressure and sequential lending provide strong repayment motivation and produce extremely low default rates.

Secondly, the poor save and hence microfinance should provide both savings and loan facilities.

These two findings imply that banking on the poor can be a profitable business. In order to be sustainable, microfinance lending should be grounded on market principles because large scale lending cannot be accomplished through subsidies.

Eventually it would be ideal to enhance the creditworthiness of the unorganised manufacturing establishments and to make them more "bankable" to financial institutions and enable them to qualify for long-term credit. Microfinance institutions have a lot to contribute to this by building financial discipline and educating borrowers about repayment requirements.

Section IV

CONCLUSION OF STUDY

To recapitulate the distribution of samples units into two groups (own account and non-directory) are selected from three blocks. As mentioned earlier a large number of units are chosen from the common enterprises. It has been found on analysis that the amount invested on productive capital and value of output, value added etc. had more variation in different services, but they bear the same identity.

On the basis of this survey, the following points emerged clearly:

The enterprises could not run each day/house due to short supply of infrastructure particularly electricity.

The lock making units generated more employment. If Investment is made in these units they will create more employment. Not only lock making units but also other NDME units generated more employment and output.

This sector is completely ignored by the govt., policies. Though in India economy they are the only source of generating larger employment for the removal of poverty.

After Globalization these units are in bad shape due to foreign competition.

Govt., need to provide some protection of these units.

There is no policy of the govt., which could help these units from marketing of its output and supply of inputs.

Most of time it is found that most of these units are closed due to short supply of inputs, particularly raw material and electricity.

There is no credit policy of these units. The enterprises were refused by the bank to give any credit.

Since these units run by households in house hence they do not have any identity of being called as producer. Though they produce consumer goods.

Amongst these three establishments surveyed the unorganized enterprises are more capable in generating employment and output. If any policy is made of their development it will help in removal of poverty in India.

APPENDIX – 1

Log Value of Input and Output

	Enterprises	Value of Input (Rs.)	Value of output (Rs.)	X(log value of input)	Y(log value of output)
1	Tailoring	2,217	32,760	7.704	10.397

2	Nickel Polish	5,246	22,840	8.565	10.036
3	Black Smith	3,816	6,525	8.247	8.783
4	Printing Press	14,388	35,240	9.574	10.470
5	Embroidery Works	2,034	9,838	7.618	9.194
6	Iron Hooks	52	8,800	3.951	9.083
	Total	27,753	116,003		

Rank and Percentile (According to Total Employment)

Enterprises	Point	Column I	Rank	Percent
Printing Press	4	35240	1	100.00%
Tailoring	1	32760	2	80.00%
Nickel Polish	2	22840	3	60.00%
Embroidery Works	5	9838	4	40.00%
Iron Hooks	6	8800	5	20.00%
Black Smith	3	6525	6	.00%

Regression of Value of Input & Value of Output OAME

Value of Input (Rs.)	Value of output (Rs.)	X (Log value of input)	Y (Log val. of output)
2,759	16,000	7.923	2.070
1,270	4,500	7.147	1.967
847	23,850	6.742	1.908
13	5,600	2.565	0.942
52,161	58,000	10.862	2.385
322	4,800	5.775	1.753
57,372	112,750		

Rank & Percentile (According to Value of Output) OAME

Establishment	Point	Column I	Rank	Percent
Biscuits	5	58,000	1	100.00%
Locks	3	23,850	2	80.00%
Tailoring	1	16,000	3	60.00%
Springs	4	5,600	4	40.00%
Jewelry	6	4,800	5	20.00%
Nickel Polish	2	4,500	6	.00%

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