

PROBLEMS ENCOUNTERED AGARBATHI MANUFACTURERS IN THE CITY OF BANGALORE

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EXECUTIVE SUMMARY

The present scenario of Agarbathi industries in India is that majority of this industrial sector is unorganized, mainly due to the lack of machinery, labour and research in this sector. The Karnataka state is home to many such industries and is the largest producer of Agarbathis in India, Bangalore and Mysore being its major industrial sectors. This sector has provided employment to unskilled women for decades and has helped in poverty alleviation. It has also been a major export sector which has great potential for growth.

In Bangalore, Agarbathi making was one of the noblest professions, where the Maharajas of the Mysore state acted as ambassadors of the incense stick and sandal oil. Even today, Bangalore exports Agarbathis to various countries of the world like Germany, USA etc. However, today the problems faced by the local manufacturers like shortage of raw material, unavailability of labour etc. has increased drastically resulting in many companies not able to meet the demand of the product and there by losing out on many good opportunities. The entry of MNC's into the sector has also further increased the woes of these local manufacturers, who do not have the finance, infrastructure and labour as these big companies and stands no chance in competing with them. The increase in taxes, unavailability of bank loans, and lack of help from the government has added to their worry. This sudden turn of events have caused many of the industries to shift their businesses to other neighboring states and some have even closed down resulting in the economy of Bangalore is losing out on export markets and foreign currency these industries would have brought in.

The studies conducted by different organizations have found that the number of Agarbathi industries are facing a lot of problems relating to shortage of Raw Material, Labour, support from Government, Heavy tax burden, underequipped R&D department and ineffective Association of which they are members, huge cost in terms of rising fuel prices as transportation cost shoots up because of the same and also tough competition.

The main focus of the study has been to examine the different problems faced by Agarbathi manufacturers in Bangalore, this has thrown light on different causes which varied between companies and a comprehensive strategy has been formulated to overcome these problems. This study was carried out in Bangalore City. An effort was made to cover at least 150 companies, spread across Bangalore North, Bangalore West, Bangalore East, Bangalore South and Bangalore Central. The sample respondents included Agarbathi- manufacturers, local packers, traders, Agarbathi stick making unit (Round and Square), consumers, Middlemen/Contractors, Perfuming unit, Transporters.etc.,

THE MAIN OBJECTIVE OF THE STUDY WAS

1. To study the Agarbathi Industry in Bangalore city and develop a cluster based approach for Agarbathi stick production and its marketing.
2. To map the potential procurement points of Bamboo for establishing a viable Agarbathi Stick making industry in Bangalore city
3. To analyze the support system with special reference to Government, taxes, subsidy, technology, infrastructure, financial assistance and R&D etc.,
4. Formulate a comprehensive strategy to overcome the problems associated with the Agarbathi manufacturing sector.
5. To scale down a suitable policy to address the above issues

SAMPLING OF DATA:

The study gains importance on account of the fact that in the recent past the number of Agarbathi industries in Bangalore has decreased drastically and this has impacted the export sector of the economy. The study will understand the magnitude of the problems faced by the Agarbathi manufacturers, its effect on the economy of Bangalore and the role of Government and NGO's to overcome these problems.

This study was carried out in Bangalore City. An effort was made to cover at least 150 companies, spread across Bangalore North, Bangalore West, Bangalore East, Bangalore South and Bangalore Central. The data on all aspects of the study was elicited by interviewing the respondents in the selected area. An interview schedule was created for this purpose and it was

pre-tested with a pilot survey. The secondary data drawn from various sources served as background to the study

The sample respondents included Agarbathi- manufacturers, local packers, traders, Agarbathi stick making unit (Round and Square), consumers, Middlemen/Contractors, Perfuming unit, Transporters. The data was analyzed using statistical techniques such as ratios, percentages, graphs, charts etc.

SAMPLE:

The sample for the study comprised of 150 companies, the database of Agarbathi manufacturer's in Bangalore was collected from ALL INDIA AGARBATHI MANUFACTURER'S ASSOCIATION, the respondents were selected from the database with the help of the Cluster analysis. An effort was made to cover at least 150 companies, spread across Bangalore North, Bangalore West, Bangalore East, Bangalore South and Bangalore Central.

PERIOD OF THE STUDY

The study conducted was for the period starting from March 2012 to July 2013

MAIN FINDINGS:

- There has been a drastic increase in the *shortage of Labour*. At least 70% of the respondents find it hard to employ labourers. Most of the women now prefer to work in Garments, Railway station and malls. As a result, many companies have stopped rolling of bathis and buy raw bathis from other companies.
- The *manufacturers depend heavily on labourers* due to the fact that there are hardly any machines for manufacturing Agarbathi and it is usually handmade. There are a few machines that can be used but it is very costly and there is problem in importing the machinery, most of the machines are still in the trial or development stage. So the Agarbathi industries have to meet all the demands of the labourers even though at times the demand is unrealistic.

- There is *cut throat competition* in the Agarbathi industries because there is many players, the entry of ITC has not helped matters. The local traders find it difficult to compete with the finance, infrastructure and labour of the big companies.
- The companies are taxed 14% purchase tax while they are allowed to charge only 5% sales tax, the government delays in payment of the accumulated 9% of tax and due to this, manufacturers suffer from erosion of capital due to *payment of heavy taxes* at different levels.
- There is *shortage in the availability of Bamboo* due to forest laws and so bamboo is imported from Assam. However, during the rainy seasons bamboo cannot be got from Assam and there is scarcity. Also prices keep fluctuating according to demand and the manufacturers get fewer margins due to increase in cost.
- The Ban on Plastic by the Karnataka Govt. has forced companies to search for *alternative packing material* which has become a major concern for manufacturers. A few natural herbs are *found only in certain parts of the country* (E.g. Sandal Wood), a ban on using those materials by the Govt. have caused manufacturers to look out for alternative artificially made substances where many chemicals are added. These synthetic perfumes have an adverse effect on the health of people and the manufacturers and perfumers are not able to identify which chemical causes allergy, cancer etc.
- Majority of the companies feel it is better to *sell under a brand* because incense sticks with a brand name run very well in the market. Consumers prefer branded products to unbranded ones because it symbolizes quality and status, especially now consumers are demanding for more quality than quantity and this can be ensured through branding. It also differentiates their product amongst others and customers are liberal towards payment if the product is branded.

- There are some species of *herbal and aromatic plant* which are in *danger of getting extinct*, which has been used in the Agarbathi making process for years; hence there is unavailability of that product. Further these plants are not cultivated by anybody. Of them, some are medicinal and aromatic plants which have been in use the making of Agarbathi for a very long time. There has been no attempt taken by the Govt. or any organization to replant the herbs, this has caused a major setback for manufacturers.
- The Agarbathi industry is mainly *unorganized*. But in Karnataka, it comes under the small scale industries Act. Hence there are a lot of regulations that the Agarbathi industry has to follow apart from also being taxed, which disrupts the smooth production of the Agarbathis. In order to avoid this many manufacturers have shifted to the other state borders, not far from Bangalore so as to get tax exemptions which are prevalent in the other states.

RECOMMENDATIONS

POLICY RECOMMENDATIONS:

- The forest department has to play a significant role. A committee could be set up to monitor the requirement of industry involving Department of Industries and Commerce, Forest Department and Association. Present availability of forest based materials and the requirement to be studied. Biotechnology, Tissue culture, horticulture may be requested to work on requirements of Agarbathi industry. Plantation of basic raw materials producing trees/vegetation to be implemented.
- Strict rules/regulations to be brought in for duplication counterfeits. Proper pricing policy to be implemented for raw materials/bathis. These changes that are being brought in by the Free Trade regime should be studied with respect to Agarbathi industry and then a required support system to be developed
- The government should make an effort to make raw materials which are abundance in the city available to raw material users. Further undertake projects to plant extinct medicinal aromatic plants which have been in the use of manufacturing Agarbathi for centuries.

- The Govt. should grant subsidies to manufacturers who undertake exporting to increase exports of Agarbathi's. Also assistance should be given because Agarbathi making is a handicraft industry as work is mostly manual.
- Govt. should introduce more SEZ's to make exporting easy for manufacturers as well as to reduce tax burden while importing raw materials.
- Govt. and other NGO'S must take an initiative to plant more herbal and aromatic plants to prevent it from becoming extinct.
- Sales tax on Agarbathi products needs to be reassessed. The current rate of 8% (in Karnataka the rate was 10% until recently) should be brought down since it is fairly still high. The taxes on raw materials such as bamboo, charcoal, Jiggat and Aromas – which range between 25-30% should also be revised downwards.
- Although government has adopted liberal economic policies, they are doing away with the inherent bottle neck of obtaining licenses for small rural and cottage industries, the Agarbathi industry is still facing long delays in obtaining government permission to start a production unit (average time taken is 3-4 months). Small units with specified capacity should be freed from licensing formalities.
- Government should ensure essential infrastructural facilities to small scale industries. One example which can be cited is the provision of workshop sheds to facilitate drying of sticks especially during rainy seasons.
- Manufacturers face lot of issues while transporting, as private transporters charge exorbitantly, government can facilitate the manufacturer's with special goods train to overcome this problem.
- Gaining an increased share in international markets is possible for Indian Agarbathi industry if proper production and export strategies are adopted. Trade promotion agencies of the government could help the industry in this regard.
- Introducing Simple Tax Rates and Simple Regulation can help the manufacturers as it reduces the burden already faced by manufacturers. Further as the industry falls under handicraft industry, there should be minimal tax burden. An effective tax system (Preferably computerized) should be set up so as to make it easier for the manufacturers to get back the accumulated taxes without much hazel.

- Govt. should simplify the rules and regulations in the Agarbathi industry cause Agarbathi industry is in the unorganized sector and as such the local manufacturers run their business with very little capital and so they are not able to follow to many regulations.
- Provide assistance and concessions on the initial cost incurred by the Agarbathi companies on setting up of the product and also provide subsidies to manufacturers as the industry comes under handmade Industry.
- Govt. should also make the procedure for getting the license easier, and it should be precise and clear for many companies found the procedure not proper.
- Govt. should give aid the manufacturers in getting the machinery in terms of finance and encouraging the imports of machinery by giving tax exemptions on its procurement.
- Increase the number of SEZ's in Karnataka so as to make importing of material easy to manufacturers. And also increase the number of tax holidays for Agarbathi industries in a year.
- Make micro-finance loans available to manufacturers with very minimal interest rate and security so the manufacturer has regular working capital and the company is able to sustain itself.

RECOMMENDATIONS

- Besides the innumerable constraints being faced by the industry, what this industry needs is an “Agarbathi Park” in and around Bangalore city. This would help to a great extent in accommodating the Agarbathi manufacturing units in one industrial area like the crafts park of Channapatna (wooden toys and dolls), industrial area earmarked/allotted for leather footwear and machine tools. The gesture of allotting of land for “Agarbathi Park” would really be a highlighting factor of the credibility of this handicraft industry in specific. The idea behind allotting land is to help the industry surpass the present day drudgery of traffic and other hurdles.
- The much needed raw material bamboo can be cultivated locally as a homestead crop as a part of waste land development or as a private initiative of the manufacturers through a community of small farmer. The same is true for Jiggat and charcoal. Innovative schemes of social forestry (Rajendran and Hanumappa 1992) particularly for aromatic plants are

also feasible for meeting the expected needs. Appropriate policies and technology transfer mechanism are needed to promote bamboo cultivation as a part of farming systems practiced by general farmers. Both measures could well reduce the cost of production, the establishment of these alternatives could well come as development interventions from the government, saving major outlay to small manufacturers who lack the collaterals for loans. Additionally, large manufacturers should be mandated to organize the raw materials from private firms.

- Small businesses, entrepreneurs and trading agencies need to be exposed to modern business management methods and philosophies. A systematic market survey would help them to identify consumer tastes and preferences.
- Set an Indian Standard for Indian Agarbathi that is being exported, so as to enhance exports by improving the quality and creating a brand name worldwide for Indian bathis.
- Undertake steps to renew the FAME R&D that is situated in Bangalore, so as to help the members undertake research and thereby sustain the industry from collapsing. A strategic/ applied research can be taken up to address the quality, range of products and other problem faced by the Agarbathi industries
- Make it compulsory for the manufacturers to give crèche facilities to the labourers instead of payment of advance so that the labourers are bound under to serve for a longer period. However, this should be done on fair grounds.