CHAPTER II
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LEGISLATIVE BACKDROP

In this chapter we propose to trace the evolution of certain statutory provisions relating to small scale industries. These are discussed under the following heads:

1) Nature and Scope of Small Scale Industries;
2) Industrial Policy Statements;
3) Objectives and strategies for the development of Small Scale Industries under the Plans;
4) Measures to achieve the stated objectives.

NATURE AND SCOPE OF SMALL SCALE INDUSTRIES:

There is no unanimity of opinion in regard to the exact nature and scope of Small Scale Industries. While some have defined them on the basis of their qualitative characteristics, others have laid stress on their quantitative features. Often, the two sets of definitions have been found to be overlapping. Various agencies have attempted to define the term in different ways and their understanding of the term
appears to have changed over the period with the passage of time.

An example of definition based on qualitative characteristics is provided by the Bolton Committee of Inquiry into Small Firms in the United Kingdom. According to this Committee a firm which has a relatively small share of the market, is managed by its owners in a personalised way and does not form part of a larger enterprise may be called 'small'. The Wiltshire Committee of Australia in a similar fashion defines a small firm as "a business in which one or two people are required to make all the critical management decisions without the aid of internal specialists".

Such definitions indicate the essential nature of small business but are too vague to be accepted for research purposes. From the viewpoint of administration of policies, they are totally irrelevant. Hence, the alternative definitions based on the quantitative features of the operating units are generally accepted to be superior. An example of statistical definition is furnished by the working group of the Economic Commission for Asia and the Far East according to
which small industries cover "establishments employing not more than 20 persons when using power or 50 when not using power". In certain other countries, additional restrictions have been imposed on the quantum of capital for eligibility to be included in the scope of small industries. These limits have been revised upwards from time to time as in India.

Before the advent of planning in India, no clear-cut line of demarcation was observed between cottage and small scale industries. The terms 'handicrafts', 'cottage industries' and 'small scale industries' were used as synonyms. Even the First Five Year Plan did not go beyond stating that the Small Scale Industry had to be treated as a separate entity from the Large Scale Industry. According to the Plan, the Small Scale Industries could cover any or all of the following enterprises:

(a) Those in which small scale production had certain advantages and were not affected by large scale industry to any great extent.

(b) Those in which Small Scale Industry was concerned with the manufacture of certain parts with certain stages of production in a manufacturing process in which predominant role was that of large scale industry.
(e) Those in which Small Scale Industry had to compete with large scale industry.

A workable definition of Small Scale Industry was adopted by the Small Scale Industries Board in Jan. 1955. It read as follows:

"A unit employing less than 50 persons, if using power and less than 100 persons without the use of power and with capital assets not exceeding Rs. 0.5 million."

This definition, primarily adopted for administering the various programmes of the Government for assisting the Small Scale Sector, however proved to be abortive, particularly from the viewpoint of maximum utilisation of equipment and capital. The Ministry of Commerce and Industry had therefore, to modify it in 1959.¹ Under the modified form, the restriction relating to employment was made applicable to each shift separately, so that a unit working double or triple shift could get the benefit of Government policies even when it employed double or triple the number of workers administered in the definition. The restriction in regard to investment

¹ Vide their letter No. 12551(A)(133)/57 dated 19-3-1959.
was, however, maintained and a discriminatory policy favouring small investors was adopted.

As the tempo of development of small scale industries gathered momentum, need was felt to modify the definition once again. This time, the employment limitation was removed altogether. According to the new definition, Small Scale Industries included "all industrial units with a capital investment of not more than Rs. 0.5 million, irrespective of the number of persons employed". 1

The mode of valuation of 'capital investment' was also clearly defined to avoid loopholes.

Emergence of the Ancillary Sector (1962)

The above changes in the definition of Small Scale Industry benefited a much larger number of units which could now claim the concessions under various programmes, but it was soon realised that the units engaged in ancillary industries needed more sophisticated machinery and higher capital investment. It was, therefore, decided to raise the capital ceiling:

to Rs. 1.0 million for units manufacturing components and parts in the following industries:

1. Industrial and agricultural machinery.
3. Electrical Machinery and Equipment.
4. Radios.
5. Electrical and Mechanical Instruments.
6. Transport Industry including Automobiles, Railways and Shipping.
7. Steel, Iron foundry and Forge-shops.
8. Re-rolling and Wire drawing industry.

The ancillary industries had to produce standardised goods of high precision conforming to the requirements of certain reputed large scale manufacturers and it thus became imperative for them to install costly machinery and equipment not only for manufacture but also for testing. The relaxation of capital investment limit was, therefore, considered necessary in their case. It was, however, confined to specific programmes of assistance, so that units with relatively larger investments in the small scale sector may not encroach on the major portion of the developmental allocations primarily meant for small units.
In 1962, the list of ancillary industries eligible for assistance under the Small Scale Industry programme was enlarged so as to include the following:

1. Industrial Machinery.
2. Agricultural and Earth Moving Machinery.
4. Industrial, Scientific and Mathematical Instruments (Mechanical).
5. Locomotives and Rolling Stocks, Ships and Aircrafts.
7. Boilers and Steam-generating plants.
8. Steam Engines, Turbine and Internal Combustion Engines.
10. Commercial, Office and Household Equipments.
11. Electrical Machinery, Equipment and Appliances.
12. Tele-Communication Equipment.
13. Industrial Instruments (Electrical)
15. Air Conditioners and Cold Storage Equipment including Refrigerators.

The fixation of separate investment limits for ancillary and non-ancillary units gave rise to considerable
conflicts and controversy, A subcommittee was therefore, appointed by the Small Scale Industries Board to give its considered opinion on the following points—

(a) Should the investment limits be modified ? If yes, to what extent.

(b) Should there be a common limit of investment for all units, ancillary and non ancillary, or separate limit for each category ?

(c) In case the limit is revised upwards, should it be for all facilities or for some specific facilities like credit, hire purchase etc. ?

The sub-committee recommended an upward revision of investment limit from Rs. 0.5 million to Rs. 1 million for all units - ancillary as well as non ancillary, but felt that as a result of the revision of the definition as proposed by them, there would be some strain on the already limited resources available with the Government. It therefore, recommended imposition of certain restrictions on the various categories of facilities to be made available to small scale industries with comparatively large capital. The Government, however, did not give effect to these recommendations.
It was in July, 1966 that the Government had to raise the investment limit from Re. 0.5 million to Re. 0.75 million for non-ancillary units. Since this covered the cost of only plant and machinery, the effective revision was actually much higher. The need of listing the ancillary units was also done away with by giving a suitable definition covering these units. But the distinction before ancillary and non-ancillary units continued to persist.

This distinction was more openly recognised in 1974 by defining the two terms as follows:

(a) **Small Scale Industries:**

"Undertakings having an investment in fixed assets in Plant and Machinery not exceeding Re. 1.00 million.

(b) **Ancillary Industries:**

Undertakings having investment in fixed assets in Plant and Machinery not exceeding Re. 1.5 million and engaged in

(i) the manufacture of parts, components, sub-assemblies, toolings or intermediates, or

(ii) the rendering of services and supplying or rendering or proposing to supply or render 50 per cent
of their production or the total services as the case may be, to other units for production of other articles;

provided that no such undertaking should be subsidiary to or owned or controlled by any other undertakings”.

The definition of ancillary industries, apart from the increase in the investment ceiling, had the following new ingredients:

(i) Units producing intermediates were recognised as ancillaries.

(ii) Units providing servicing facilities like sand blasting, machining, pressure cleaning, grinding etc., were also recognised as ancillaries.

(iii) One small unit could function as ancillary to another.

(iv) A unit to be recognised as ancillary had to supply (or propose to supply) at least 50 per cent of its production to one or more parent units.
Recognition of Tiny Sector (1977)

The Industrial Policy Resolution of 1977 introduced the concept of "Tiny Industries" initially defined as those having investment of not more than Rs. 0.1 million and situated in places with population of less than 50,000. Subsequently, the capital limit in respect of tiny industries was raised to Rs. 0.2 million with no change in population limit.

Definition of Small Scale Industry (1980)

The scope of Small Scale Industry, as defined by the Government in 1980, has been enlarged, so as to cover all small scale units - tiny small and ancillary. These definitions are reproduced below:

1. **Tiny Units**: Undertakings having investment in fixed assets in plant and machinery not exceeding 0.2 million.

2. **Small Scale Units**: Undertakings having investment in fixed assets in plant and machinery not exceeding 2.0 million.
3. **Ancillary Units:**

Undertakings having investment in fixed assets in plant and machinery not exceeding Rs. 2.5 millions and engaged in (a) manufacture of parts, components, sub-assemblies, toolings or intermediates, or (b) rendering of services and supplying or rendering or proposing to supply or render 50 per cent of the production or the total services as the case may be, to other units for production of other articles.

Provided that no such undertakings shall be subsidiary of or owned or controlled by any other undertakings.

**Redefinition of Small Scale Industry in 1966**

Under the present definition the investment limit of Small Scale Unit in respect of plant and machinery has been enhanced from Rs. 2.0 million to Rs. 3.5 millions. In case of an ancillary unit the investment limit is increased from Rs. 2.5 million to Rs. 4.5 million.

It is expected that the enhancement of the investment limits in plant and machinery would give a boost to genuine small scale units to ensure their rapid growth. It would also facilitate modernisation of many existing units.
2. NATIONAL POLICY ON SMALL SCALE INDUSTRIES:

The need for protecting Small Scale Industries against the ruthless competition of Large Scale Industry was recognised even before the dawn of independence, but no concrete policy could be evolved for this purpose due to opposition by vested interests, supported by the British rulers. It was only in 1949 that a definite policy statement was issued by the National Government. Subsequent changes in the policy during 1956, 1977 and 1980 further enlarged the scope of protection of these industries through State induced incentives.

*Industrial Policy Resolution (1949)*

The importance of cottage and small scale industries was recognised by the Government in the following emphatic words:

"Cottage and Small-Scale Industries have a very important role in the national economy, offering as they do scope for individual, village or co-operative enterprises, and access for the rehabilitation of displaced persons. These industries are particularly suited for the better utilisation of local resources and for
the achievement of local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements”.

The measures required for the protection and promotion of these industries were also spelt out. The resolution clearly stated:

“The healthy expansion of cottage and small-scale industries depends upon a number of factors like the provision of raw materials, cheap power, technical advice, organised marketing of their produce; and, where necessary, safeguards against intensive competition by large-scale manufacture, as well as on the education of the worker in the use of the best available techniques”.

The objectives for small-scale and village industries were laid down as follows:— (a) to meet a substantial part of the increased demand for consumer goods and simple producer goods; (b) to create large-scale employment at relatively small capital costs; (c) to mobilise unused resources of

capital and skills, (d) to ensure a more equitable distribution of national income including the spread of industry over different regions of the country; and (e) to counteract tendencies towards concentration of economic power by a widening of opportunities for new entrants and for medium and small sized units.  

Industrial Policy Resolution (1955)

By 1956 when the First Five Year Plan came to an end, the industrial policy of the Government had undergone a major shift in emphasis. "Decentralized Industrial Development" as recommended by the Kervz Committee and the International Perspective Planning Team, had become an accepted slogan to avoid the evils of concentration. Apart from this, the need of integration of the decentralized industrial units into the large Scale Sector had also received recognition. The State had to adopt more positive steps to achieve these objectives.  

"The State has been following a policy of supporting cottage and village and small-scale industries by restricting

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the volume of production in the large-scale sector, by differential taxation, or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the State Policy will be to ensure that the decentralized sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large-scale industry.¹

The objectives of the new policy were as follows:

1. To provide immediate large-scale employment opportunities as capital per unit of labour is less (for unemployed and especially for the educated young men and displaced persons);

2. To avoid concentration of production from the viewpoint of ownership and location and method of ensuring more equitable distribution of income;

3. To provide opportunities for generation of new entrepreneurs;

4. To mobilize small capital resources and skill which might otherwise remain unutilized.

5. To restrict the unplanned growth of urban centres which is inevitable if the unemployed start migrating to cities in absence of employment openings in the present place of living.

1977 Statement:

The importance assigned to small industry was emphasised in still stronger terms in the 1977 policy statement, as could be seen from the following:

"The emphasis of industrial policy so far has been mainly on large industries, neglecting cottage industries and completely relegating small industries to a minor role. It is the firm policy of this Government to change this approach.

The main thrust of the new Industrial Policy will be on effective promotion of cottage and small-scale industries widely dispersed in rural areas and small towns. It is the policy of the Government that whatever can be produced by small and cottage industries must only be so produced."

The above policy statement highlighted the role of small and cottage industries. For this purpose the list of
industries exclusively reserved for the small scale sector was significantly expanded and included more than 504 items (later reclassified into 804 items). Similarly, the Government Purchasing Agency (The DGSD) identified 257 items which were to be purchased exclusively from the small scale sector. In addition, the District Industries Centres were sought to be set up in the rural and semi-urban areas to provide a package of assistance to entrepreneurs in those areas.

Another important feature of the new policy was to revise the investment limits for the Tiny and Small Scale Sectors. These were raised from Rs. 1.0 million to Rs. 2.0 million for the Small Scale Sector and from Rs. 0.1 million to Rs. 0.2 million, for the Tiny Sector.

The Industrial Policy Statement of 1977 represented an important landmark for the development of small and cottage industries. For the first time, it clearly and unambiguously stated that "it is the policy of the Government that whatever can be produced by the small and cottage industries must only be so produced". The emphasis had thus to shift progressively from the large sector to the small and cottage sector.
1980 Statement:

The industrial policy announced on 23rd July 1980 stated: "Government is determined to promote such a form of industrialisation in the country which can generate economic viability in the village. Handlooms, handicrafts, Khadi and other village industries will receive greater attention to achieve a faster rate of growth in villages". Laying emphasis on balanced and harmonious development of all sectors of industries the statement added "while making all efforts towards integrated industrial development, it is proposed to promote the concept of economic federalism by setting up of a few nucleous plants in ancillaries and in small and cottage industries as far as possible". The concept of nucleous plants with a view to upgrading the technology of small units was emphasised. To achieve this the units had to be supported by a suitable system of incentives. The new Industrial policy spelled out some of these incentives as follows:

1. Strengthening the existing arrangements for credit facilities to small and cottage industries through an apex financing institution.

2. Establishing buffer stocks of essential and critical
raw materials. The SIDC at the State level and NSIC at the centre will work on this.

3. Extending research and development and new technology to small sector.

4. To formulate a package of incentives including soft loans for modernisation which will use the right kind of technology and also improve efficiency in the use of scarce raw materials.

5. To establish an early “warning system” in the Small scale sector so as to avoid sickness in the preliminary stages and to take appropriate remedial action.

The policy statement further clarified that the existing support programmes for marketing as well as for reservation of items in Small Scale Sector would continue.

The basic objective of the new policy was thus to ensure a balanced growth of the economy where large, medium, small and cottage industries could play their respective role in the growth of national economy.

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1. The number of reserved items stood at 837. The protective policy of reservation for Government Purchases was further strengthened and 407 items were exclusively reserved for the small scale units under the Government Store Purchase Programme (See - Government of India, Planning Commission Sixth Five Year Plan, 1980-85, Mid-term Appraisal, p.56).
3.

OBJECTIVES AND STRATEGIES FOR THE DEVELOPMENT OF
SMALL SCALE INDUSTRIES UNDER THE FIVE YEAR PLANS

In a labour abundant capital scarce country like ours it is little wonder that Small Scale Industries have come to occupy a significant position in the planned industrialisation of the economy. They have important social and economic significance. They are for the most part relatively labour intensive and often generate more indirect jobs per unit of capital invested than the larger firms. They have further locational flexibility which is an effective instrument in achieving a wide dispersal of industries. Small Scale Units are also a means for bringing forth indigenous entrepreneurship and sleeping dormant in rural areas. Because of such intrinsic advantages promotion and development of Small Scale Industries has been given due emphasis in our plan documents within the framework of the Industries policy Resolution.

First Plan (1951-56)

Under the First Plan, separate development programmes were formulated for village industries and other small industries. The importance of these industries in providing additional
opportunities for employment and earnings especially to the people in the rural areas and also trained and educated persons, was fully recognized. The Plan envisaged formulation of "common production programmes" for the small units so as to facilitate both the sectors to make their respective contributions in meeting the total requirements of the community in a co-ordinated and balanced manner. The possible elements of a common production programme included reservation of spheres of production, non-expansion of capacity of large-scale industry, imposition of a cess on large scale industry arrangements for the supply of raw materials, and co-ordination of facilities for research, training etc. Considerable stress was also laid on development of demand for the product of small scale industries through the Government's stores purchase programme and production of articles which were imported. The need for provision of adequate finance for these industries was also emphasised.

*Second Plan (1956-61)*

The main architect of the II Plan, P.C. Mahalanobis, later expressed his thought thus: "In India a dual strategy
was adopted from 1956 in the II Plan to expand, on one side the strategic heavy industries for steel, metals, machinery, electricals and chemicals etc., to build up foundations for industrial progress, and at the same time also to expand the traditional cottage industries and small scale production.¹

Thus in the light of Industrial Policy Resolution 1956, the small scale sector was accorded a more important role. The total outlay in the II Plan was about Rs. 180 crores as against Rs. 43 crores in the First Plan. A number of new programmes were organised and steps were taken to provide a more assured market for the products of some of the industries. Reservation of the production of certain varieties of cloth and certain types of agricultural implements, prohibition of further expansion in certain large-scale industries like vegetable oils, leather, foot-wear, match etc. and the laying down of separate targets of production for Small Scale Industries and large scale industries in respect of certain industries like bicycles and sewing machines etc., were some of the steps taken.

From the viewpoint of administration, a three-tier organisation was developed—the Ministry of Commerce and Industry, All India Boards and State Departments of Industries, and State Boards of Industries.

The Programmes of the Second Plan were reviewed by Karve Committee. The Committee, while making proposals recommended to provide the basis for the structure of an essentially decentralised society and also for progressive economic development at a fairly rapid rate. The Committee, however, envisaged that even in the traditional village industries, to the extent immediately possible, technical improvements should be adopted, and for the future, there should be a regular programme of gradual transition to better techniques. It also emphasised the need for satisfactory arrangements for meeting the requirements of finance, marketing research etc. Accordingly State Financial Corporations were established to provide financial assistance.

**Third Plan (1961-66)**

Under the Third Plan, the main objectives of the programmes for the entire small industries sector were to:
(i) improve the productivity of the worker and reduce production costs by placing relatively greater emphasis on positive forms of assistance, such as improvement of skill, supply of technical advice better equipment and credit etc. (ii) reduce progressively the role of subsidies, sales rebates and sheltered markets; (iii) promote the growth of industries in rural areas and small towns; (iv) promote the development of small-scale industries as ancillaries to large industries; and (v) organise artisans and craftsmen co-operative societies.

The plan document also outlined the policies and measures for achieving these objectives. It pointed out that adequate measures need be taken in respect of traditional industries to provide enduring preferential treatment and assurance of marketing facilities for a comparatively longer period than provided in the case of Small Scale Industries.

In regard to small scale industries, it was emphasised that the programmes in the Third Plan must aim not only at increasing and diversification of production, but also at securing closer integration between small scale and large scale units over a wide range of industries and the development
of small industries as ancillaries. The Third Plan report devoted a separate chapter to balanced regional development, indicating the increased importance of this problem. The Plan document further emphasized the fullest utilization of the resources of each region. For this purpose it recommended that "each region should endeavour to identify, plan for, and promote industries which are specially suited to its conditions and for which it can provide relatively greater facilities".

Fourth Plan 1969-74:

In the context of small scale industries, the Fourth Plan aimed at improving their production techniques so as to enable them to produce quality goods and to bring them to viable level, to promote decentralisation and dispersal of industries and to promote agro-based industries.

During the Fourth Plan Period, greater emphasis was placed on a variety of positive measures of assistance including liberal credit facilities, adequate supply of scarce raw materials, provision of technical assistance and improved
appliances, tax concessions and differential excise duties.

In order to protect small-scale industries from undue competition, the existing reservations were to be continued and modified in accordance with the requirements. This was to be preceded by careful identification of industries, parts, components and processes in which the large size of the operation or a high degree of mechanisation, had no pronounced impact on economics. The identifications were to be followed by fiscal and credit policies and measures to accelerate their development in the small sector evolving of appropriate technology for small units in different industries, introduction of quality control and formulation of well co-ordinated programmes of assistance. Outside the designated fields of small industries, the small and large industrial sectors were to be developed, wherever possible, as supplementary to each other so as to facilitate growth of ancillary industries.

In the Fourth Plan period, it was decided to enlarge the area of the Rural Industries Projects to cover the entire districts (excluding towns with a population of more than 15,000) and to take preliminary steps for starting 57 new
projects. Special schemes were taken up for assisting technically qualified persons to set up small industries and service units. The number of items under reservation was increased. The Central Government continued to implement schemes related to industrial research, industrial extension services, supply of machines on hire purchase terms etc.

**Fifth Plan (1974-79)**

The principal objectives of the programme for the development of different small industries in the Fifth Plan were to facilitate the attainment of some of the major tasks for the removal of poverty and inequality in the consumption standards of these persons through the creation of large scale opportunities for fuller and additional productive employment and improvement in their skills so as to raise their level of earnings. Furthermore the programme was reoriented to set up the production of some of the basic and essential articles for the masses and of the products which have a larger potential for exports. In a way the broad strategy of the programme was to:

1) develop and promote entrepreneurship and provide a
"package of consultancy services" so as to generate the maximum opportunities for employment, particularly self-employment,

ii) facilitate fuller utilisation of the skills and equipment of the persons already engaged in different small industries,

iii) progressively improve the production technique of these industries so as to bring them to a viable level,

iv) promote these industries in selected "growth centres" in semi urban and rural areas including backward areas.

Further, adequate steps were taken to facilitate the flow of institutional credit and for co-ordinating the programmes of handloom sector, Khadi and Village industries with that of rural industries projects.

**Sixth Plan (1980-85)**

Because of their favourable capital output ratio and high employment intensity, Small Scale Industries were given an important role in the national development strategy. During the Sixth Plan, the programmes for village and small industries sector were designed to subserve the following objectives:
i) To effect improvements in the level of production and earnings, particularly of the artisans, by taking measures to up-grade skills and technologies and producer oriented marketing.

ii) To create additional employment opportunities on a dispersed and decentralised basis.

iii) To make a significant contribution to growth in the manufacturing sector by making a fuller utilisation of existing installed capacities.

iv) To establish a wider entrepreneurial base by offering appropriate training and a package of incentives.

v) To create a viable structure of village and small industries with a view to progressively reducing the role of subsidies.

vi) To expand efforts for export promotion.
Seventh Plan (1985-90)

It is envisaged that during the seventh plan adequate steps would be taken to ensure the rapid growth of the village and small industries which would contribute towards improving the economic and occupational profile of rural, semi-urban and weaker sections of urban communities. The sector would -

i) assist in the growth and widespread dispersal of industries;
ii) increase the level of earnings of artisans;
iii) sustain and create avenues of self-employment;
iv) ensure regular supply of goods and services through use of local skills and resources;
v) develop entrepreneurship in combination with improved methods of production, through appropriate training and package of incentives; and
vi) preserve craftsmanship and art heritage of the country

The strategy for achieving the above objectives would constitute the following:-

1) Improve productivity, enhance quality, reduce costs and re-structuring product-mix through upgradation of technology and modernisation.
ii) Optimize utilisation of existing capacities through supply of adequate inputs including credit, power and raw materials etc.

iii) Expand share of VSI products in the domestic markets through publicity, standardisation, market support and increased participation in the Government purchase programmes.

iv) Strengthen the programme of ancillarisation to establish and improve linkages between large and small industries leading to harmonious growth of the total industrial sector.

v) Promote specialisation in production and export oriented industries.

vi) Strengthen and enlarge skill, profile and entrepreneurial base and management practices to increase opportunities for self-employment.

vii) Improve general levels of welfare of workers and artisans through better working conditions, welfare measures and security of employment.
4. MEASURES:

The two important objectives underlined in the Industrial Policy Resolution of 1956 were: (1) preventing undue concentration of economic power and (2) encouraging and protecting small industry.

Taken together, these objectives implied that it was socially more desirable if industrial growth took place by co-ordinated growth of small scale industries and large scale industries rather than by disproportionate growth of large firms. This philosophy was operationalised by means of two broad measures: (A) Promotional and (B) Protectionist.

A. PROMOTIONAL MEASURES

1) Institutional Support

The strategic role played by a Small Scale Industry could be ascribed to the institutional support received by this sector. Various institutions like Small Industries Development Organisations, Small Industries Service Institutes, State Small Industries Corporations, Export Promotion Councils, etc., were already functioning. District Industries Centres were added to this chain in 1975.
The District Industries Centres were consolidated and integrated into units at the district level to look after all the steps that prospective small entrepreneurs have to take before setting up a small scale unit. They help in the location of sites and the acquisition of necessary plant and equipment, raw materials, spare parts and skilled labour, credit, warehousing and marketing facilities etc. They serve as a "mini secretariats" at the district level to provide all the information which new entrepreneurs might require. In this sense they sought to bring the administration to the district level instead of leaving the entrepreneurs to come to it.1

The DIC programme was put into effect in May 1976. By the end of 1982, the number of DICs had shot up to 395, covering 403 districts out of 418 districts in the country.2

11) **Exemption From Industrial Licences**

A Small Scale entrepreneur need not obtain any licences for setting up a unit, unless the item of manufacture is

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covered in the list of industries notified by the Government of India as subjected to special regulations. The unit has, however, to be registered with the State Directorate of Industries in order to avail various facilities from the Government.

iii. Financial Assistance:

As a policy, public sector financial institutions and banks provide finance to the small scale sector on a priority basis and at concessional terms. State Financial Corporations (SFCs) are authorised to provide both risk capital and long, medium and short term loans on liberal terms. A number of commercial banks have special schemes for the grant of loans on easy terms to the sector. The Industrial Development Bank of India (IDBI) has established a special wing which exclusively deals with small, village and cottage industries. Assistance sanctioned to the small scale sector by the IDBI in the form of refinance of industrial loans and rediscounting of bills amounted to a total of Rs. 23,400 million at the end of March 1982.
iv. Bank Finance

Small Scale Industrial Units form part of the 'priority sector' along with agriculture, small borrowers, weaker sections etc. for purpose of availing assistance and credit from banks. Loans to priority sector attract lower interest rates and are generally exempted from occasional credit constraints imposed by the Reserve Bank of India. The Commercial Banks are also directed to increase their lending to the priority sector. Adequate steps have been taken to achieve the lending target of 40 per cent for the priority sector. The National Bank for Agriculture and Rural Development (NABARD) has been set up to provide refinancing facilities against loans and advances to artisans, small scale industries, including village and cottage industries, and industrial units in the tiny/decentralised sector.

v. Exemption From Certain Statutory Provisions

In view of the small scale of operations and investment, these units have been exempted from the provisions of industrial licensing under the INEA, 1951. Additionally, the provisions of section 58A of the Companies Act, 1956, are also made inapplicable to them. Companies falling under the category of small
scale industrial units engaged in the manufacture of a
number of products have been exempted from the provisions
of the Cost Accounting Records Rules, 1977.†

B. **PROTECTIONIST MEASURES:**

1. **Fiscal Concessions:**

In order to encourage the healthy growth of this
sector the Government has extended complete or partial exem-
ption from excise duties from time to time. For instance small
scale units operating in industries like foot-wear (employing
less than 50 workers), tooth paste, metal containers, roller
bearings, sip fasteners, playing cards, carbon black (whose
value of production is not more than Rs. 1 lakh) and confection-
ery, starch, various kinds of yarn, paper, steel furniture,
bolts and nuts, grinding wheels, insulation tapes, paints and
varnishes, aerated water, khandasari, soap, safas and strong

1. This exemption is applicable to Small Scale Industrial
Units in cement, cycles, tyres and tubes, caustic soda
room air-conditioners, refrigerators, automobile batte-
ries, electric lamps, electric fans, electric motors,
motor vehicles, tractors, aluminium, tussur, bulk
drugs, sugar infant milk food, jute goods, paper rayon,
dyes, soda ash, polyester, nylon, dry cell batteries,
cotton textiles and sulphuric acid industries. For
purpose of this exemption "the expression" small scale
industrial units" means any industrial undertaking
registered with the Directorate of Industries of Small
Scale Industries as the case may be of the State Govern-
ment in respect of which the investment in plant and
machinery is not in excess of twenty lakhs of rupees,
in value" C2. Notifications GOI Nos. 14 to 41 dated
XXI, No. 5, May 1985, pp. 11-23.
boxes and metal containers and vegetable non-essential oils (if no power is used) get complete exemption from excise duties. Similarly, differential rates of excise duties apply to industries like wires, cables and paper mills in the small scale sector.

Under the new scheme clearance up to Rs. 7.5 lakhs in a year will be fully exempt. For clearances exceeding Rs. 7.5 lakhs but up to a turnover limit of Rs. 15 lakhs, small scale units will get an excise concession of 10 percentage points below normal duty, subject to a minimum excise duty of five per cent. Above the small scale units will pay normal duty but continue to enjoy the concessional rate on the first Rs. 75 lakhs of turnover. However, the concession will be lost when the turnover exceeds Rs. 1.5 lakhs.

2. **Infrastructural Facilities**

Since the beginning of the Second Plan, the Government has taken up the task of establishing industrial estates in the country. Industrial estates not only provide readymade

2. *Budget Speech of Finance Minister*, 28th February 1986. The exemption limit however, has been raised to Rs. 15 lakhs from 7.5 lakh for small scale units, and further to Rs. 30 lakh for units producing more than one article—The Economic Times, April 4, 1986.
industrial sheds -- to minimise preliminary expenses to individual small entrepreneurs -- but also offer common services at subsidized rates. The Small Industries Development Organisation (SIDO), through a network of Small Industries Service Institute (SISI), provides management consultancy, industrial design, common tooling and testing facilities, information on technical know-how, market advice, and information for export promotion, etc. The National Small Industries Corporation (NSIC) and State Small Industries Corporations supply machines on hire-purchase basis and assist Small Scale Units in securing Government orders. State Directorate of Industries has been assigned the task of providing sources of raw materials to the units in this sector.

3. Preferential Government Purchases:

It is made compulsory for various Government Departments and agencies to buy their requirements of a number of items from the constituents of the Small Scale Sector. At the end of 1983 there were 401 items for which purchases were to be made only from the small scale sector. In addition to these, there are 12 and 25 items in whose case the DOS&D has to make purchases to the extent of 75 and 50 per cent respectively of
its requirements from small scale units. Price preference to
the extent of 15 per cent is allowed to small scale units in
the case of items purchased both from the small and the large
scale sectors.¹

4. **Reservation of Certain Products:**

Beginning with the Third Plan a number of industrial
products have been earmarked for production exclusively by
the small scale sector. The list of reserved items has under­
gone substantial changes since then. At present the list
contains more than 657 items. Large Houses and FERA companies
are generally not permitted to start or expand the production
of the items reserved for the small scale sector. Any liberali­
sations in the licensing policy are also not supposed to be
applicable to the large and foreign controlled sectors, when
the item of manufacture happens to be a reserved one 'though
exceptions are allowed for export purposes'.

**Retrospect and Prospect:**

The various measures devised for the promotion and
protection of small scale units, briefly outlined above have

¹. Government of India - Planning Commission - VI Five
Year Plan 1960-65, Mid-Term Appraisal, p. 59.
not yielded the expected results. Some of the reasons responsible for this are as follows:

a) Lack of awareness among the small scale units of the precise content and extent of state support available to them.

b) Indifference and apathy of the Government officials responsible for the administration of various programmes of assistance.

c) Break-up of large units into small units by the large business houses to get 'official recognition' as a small scale unit, eligible for assistance under various programmes.

d) Inability of the small units to fulfill the preliminary conditions for getting official recognition for assistance.

e) Complicated procedures involved in the sanction of assistance.

Due to the above reasons it would appear that the concessions and assistance provided by the State for protection, promotion and development of the small scale sector in India are likely to contribute primarily to the benefit of a
limited number, and amongst the clients and the beneficiaries there would be many who were never sought to be assisted and promoted under the scheme. ¹

Thus it is evident that the Government of India has provided scope and given policy guidelines in encouraging small scale industry in all possible ways. It has given financial incentives, has exempted this sector from licences etc., and has provided many other types of encouragements, enticements and stimuli to attract entrepreneurs to this sector. How far the efforts have been successful will be discussed at relevant places.