CHAPTER II
ROLE OF SAMPLE SMALL SCALE INDUSTRY IN THE NATIONAL AND STATE ECONOMY - AN OVERVIEW

Small Scale industries plays a key role in our planned economic development with its advantages of low investment, high potential for employment generation, diversification of the industrial base and dispersal of industries to rural and semi-urban areas. The sector has, therefore, been appropriately given a strategic position in our planned economy towards the fulfilment of the socio-economic objectives, particularly in achieving equitable growth. P.N. Dhar and H.F. Lydall in introduction to their book, the role of small enterprises in Indian Economic Development, have observed that the promotion of small scale industries has been widely recommended as one of the most appropriate means of developing industry in overpopulated backward countries.¹

Small Scale Industry sector in India has undergone sea changes both conceptually and functionally over the last four decades. Before independence, India has no industrial base and even sewing needles used to be imported. However, since 1947 the scenario has changed and now-a-days highly sophisticated electronic and engineering goods are being

manufactured within the country for domestic use and exports to other countries. The contribution of small scale industry in this direction is no less. In this chapter the periodic changes in our understanding of the term Small Scale Industry and its role in the National and State Economy have been discussed.

Concept of Small Scale Industry

The term small scale industry has been defined and redefined from time to time and variedly from country to country, depending upon their historical conditions and economic growth. A small industry in a developed country may not be that small as compared to its counterpart in a developing country. Different factors such as size of the enterprise, number of persons employed, amount of investment, energy input, physical measure of production, nature of activities engaged in etc., make the basis for defining small scale industry. In most of the industrially advanced countries, number of persons employed is taken as the basis of distinction between large and small industries. In some of the important countries a small scale industrial unit is defined as under:

Ceylon

Small scale industries have been defined as those industries which are mainly run by power and have a capital investment (land, building and machinery) not exceeding Rs.200,000.

ECAFE

The working group of the Economic Commission for Asia and the Far East had suggested in 1952 that small industries be defined for statistical purposes as establishments employing not more than 20 persons when using power or 50 when not using power.

Germany, Sweden, Norway and Denmark

There is no official definition of a small industry. Units employing up to 300 workers are considered to be small. There is no clear-cut definition of a small industry in Scandinavian countries. However, such units as employ 10 to 100 workers are taken to be small scale units.

Iran

Small industries are defined as those:

a. with 100 per cent Iranian ownership and management
b. Whose assets do not exceed 5 million rials.
c. Whose employees per shift do not number more than 50 and
d. Whose products are not artistic in nature.
It has been further provided that investment in land and buildings must not exceed 25 per cent of the total capital.

**Japan**

By small industries is meant those relatively small in the scale of management and capital investment, although the basis for classification varies according to the type of industry, and cannot be generalised. The Government applies the term to those industries which employ less than 300 persons in the manufacturing sector with a capital of less than 50 million yens ($133,000); and, in the commercial and professional services sector, with a capital of less than 10 million yens ($26,000) employing less than 50 persons. The small enterprise includes retail shops, shopping districts, beauty saloons, hair dressing establishments, and laundry shops (Basic law of 1963).

**Korea**

The term small and medium industry is defined in the small and medium industry cooperative act as any unit:

a. In manufacturing with more than 5 and less than 200 employees or with assets of less than 50 million won; and

b. In mining with more than 5 and less than 300 employees or with asset of less than 50 million won (275 won=1 US$)
Taiwan

In the manufacturing and processing sector (including handicrafts), any business employing less than 100 persons or with total assets worth NT $ 5 million is a small industry.

U.K.

There is no demarcation between small and large industries. However, in books and treaties on industrial subjects, units employing less than 500 workers are generally referred to as small units; but this cannot be considered as a criterion of universal applicability.

USA

In the USA, the manufacturing firm is officially a small business for Government procurement purposes, if it is not dominant in its field of operations and if it has fewer than 500 employees, or if it is certified as small by the Small Business Administration. For purposes of financial and other assistance, it is classified as small if it employs fewer than 250 employees, depending on the size and the standard set for different industries.

Small Scale Industry in India

Soon after independence, the Indian Government convened an Industrial Conference in December 1947. The conference defined the scope of small and cottage industries
On the recommendation of the Industries Conference, a Cottage Industries Board was set up for promoting small scale industries. Later on, it was realised that a single Board was adequate to deal with the problems of both the village and the small industries (VSI) which cover a wide variety of industries. Accordingly five boards were set up in 1952-53 for Handloom, Handicrafts, Coir, Silk and Khadi and Village Industries.

In 1953-54, The Ministry of Commerce and Industry invited an International Planning Team through the good offices of the Ford Foundation to suggest measures that might be adopted to develop small scale industries. The International Planning Team recognised the scope for the expansion of small industries in the country. On their recommendation, the Government of India set up the Central Small Industries Organisation and the Small Scale Industries Board in 1954-55. The later was intended to be an advisory body. Since then the definition of small industries has been modified from time to time;

**Definition 1955**

The Government of India realised the need for providing governmental assistance for the development of small scale industries and economic growth of the nation. The Small Scale Industries Board was entrusted with the job
of evolving a suitable definition so that it may satisfac-
tory administer the various programmes. At its first
meeting held in January 1955 the Board evolved the first
working definition of a small scale industrial unit.

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.5 lakhs.

This definition was evolved to administer the
Government programmes for the development of small scale
industries including financial assistance and extension
facilities, viz., the supply of machinery on hire-purchase,
marketing assistance, providing technical knowhow and
factory accommodation in Industrial Estates. The industries
covered by other Boards and the factories registered under
the Industries Development and Regulation Act 1951, were
excluded from this definition.

The working definition was modified further to
cover those units working on bigger programmes on a
multiple-shift basis. In September 1957, the Small Scale
Industries Board recommended a revised definition.
Accordingly, the Ministry of Commerce and Industries
modified the definition so as to cover undertakings which
employed less than 50 persons when using power and less than
100 persons when not using power, per shift. Thus the scope
of assistance was enlarged to cover units working on multi-shifts basis.

**Definition 1960**

During the course of time, it was felt by the Government of India that the employment limitation stood in the way of the implementation of the various schemes for the promotion of small scale sector. The Small Industries Board recommended a new definition which was notified by the Ministry of Commerce and Industries as under;

Small Scale Industries will include all industrial units with a capital investment of not more than Rs.5 lakhs, irrespective of the number of persons employed.

This change in definition marked an important turning point in the functioning of small scale industries. After the change, a number of small scale units could employ a larger number of workers and with the same resources in equipment and capital investment could generate greater volume of production.

The capital investment in terms of the revised definition meant investment in fixed assets such as land, building, plant and machinery. In case of units working in rented premises, the capital valuation of such building was to be taken into account in assessing the prescribed limit of Rs.5 lakhs. Workers housing and welfare amenities were...
excluded from the capital estimates for this purpose. While calculating the value of plant and machinery, the original price paid by the owner, irrespective of whether it was new or second hand was taken into consideration.

A new concept of a higher limit of capital investment for ancillary industry also emerged during those days. Small Scale industries producing ancillary goods for large industries needed costly plant and machinery. It was felt in several cases, these industries required capital investment of much higher order producing high precision goods to suit the requirements of large scale units. It was thus necessary to instal costly testing equipment and laboratories for the purpose. It pointed to the necessity of relaxation of the capital investment limit. It was decided that Government assistance should be availed of by relatively smaller units and the limit of investment should be relaxed exclusively for ancillary industries. It was, therefore, decided that the relaxation in capital ceiling upto Rs.10 lakhs be allowed in respect of small industrial units, manufacturing components for the following industries:
1. Industrial and Agricultural machinery;
2. Machine tools and small tools;
3. Electrical machinery and equipment;
4. Radios;
5. Electrical and mechanical equipments;
6. Transport industry, including automobiles, railways and shipping;
7. Steel, iron, foundry and large-shops;
8. Re-rolling and wire drawing industry; and

The Small scale Industries Board on the recommendations of the ancillary Sub-Committee at its meeting held on 9th January 1962, revised the list of ancillary industries eligible for assistance under the small scale industries programme.

The revised list included the following industries:
1. Industrial Machinery
2. Agricultural and Earth Moving Machinery;
3. Machine Tools;
4. Industrial, Scientific and Mathematical Instruments (Mechanical)
5. Locomotives and Rolling Stocks, ships and Aircrafts;
6. Bicycles;
7. Boilers and Steam generating plants;
8. Steam Engines, Turbines and Internal combustion Engines;
9. Automobiles;
10. Commercial, Office and Household Equipment;
11. Electrical Machinery, Equipment and Appliances;
12. Tele-communication Equipment;
13. Industrial Instruments (Electrical)
14. Radios and Electronic Equipment; and
15. Air conditioners and Cold Storage Equipment including Refrigerators.

The Small Scale Industries Board, in 1962 also appointed a sub-committee to review the definition of small scale industries and make recommendations regarding the following issues:

To what extent the present definition of Rs.5 lakhs for general and Rs.10 lakhs for ancillary industries should be revised. The committee should consider, if the present difference in definition between ancillary and non-ancillary industries should be abolished, making one simple definition applicable to all.

The Sub-Committee recommended the enlargement of the definition to cover small scale units with capital assets ranging from Rs.5 lakhs to Rs.10 lakhs to avoid administrative problems of differentiating ancillary from non-ancillary industries.

The Government examined the recommendations of the sub-committee in view of limited resources of raw materials and finance; and decided not to implement them, for the time being.
Definition, 1966

In October 1966, Ministry of Industry on the recommendations of the Small Scale Industries Board revised the definition of small scale industry as follows:

Small Scale industries will include all industrial units with a capital investment of not more than Rs. 7.5 lakhs irrespective of the number of persons employed. Capital investment for this purpose will mean investment in plant and machinery only.

Ancillary industries under the definition were defined as under:

A unit which produces parts, components, sub-assemblies and toolings for supply against known or anticipated demand of one or more large units manufacturing/assembling complete products and which is not a subsidiary to or controlled by any large unit in regard to the negotiation of contracts for the supply of its goods to any large unit. This shall not, however, preclude an ancillary unit from entering into an agreement with a large unit giving it the first option to take former's output.

Definition 1974

In view of steep rise in cost of capital equipment and enhanced replacement costs, the prevailing ceiling on capital investment in the definition for small scale
industries had become obsolete. The Small Scale Industries Board in November 1974 meeting opined that a revision of the ceiling was necessary to facilitate the modernisation of existing small industries and promotion of the growth of new viable units on sophisticated lines of production. It therefore revised the definitions as under:

**Small Scale Industries**

Undertakings having investment in fixed assets in plant and machinery not exceeding Rs.10 lakhs.

**Ancillary Industries**

Undertakings having investment in fixed assets in plant and machinery not exceeding Rs.15 lakhs and engaged in:

a. The manufacture of parts, components, sub-assemblies, toolings or intermediates; or

b. 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 shall be subsidiary of, or owned or controlled by, any other undertaking.
Tiny Sector, 1977

In the Industrial Policy Resolution announced on 23rd December 1977, main thrust was on an effective promotion of the cottage and small industries which were widely dispersed in rural areas and small towns. With this objective, a new sector—Tiny Sector—was added for the first time. All industries with a capital investment of Rs.1 lakhs in plant and machinery and located in rural areas and small towns, (with a population limit of less than 50,000 according to 1971 census) are included in the tiny sector, so that financial institutions and other developmental agencies may give special attention to their rapid development. It was the objective of the policy to achieve a rapid increase in:

a. Employment;
b. Productivity, and
c. Income of industrial workers.

Definition 1980

In view of further rise in the wholesale price index of industrial inputs, transport equipment and in order to boost the development of small units, the Parliament on 23.7.1980 passed a resolution, effective 1st August, 1980, raising the level of investment in tiny units, small scale industries and ancillaries as under:
The limit of investment in tiny units has been increased from Rs.1 lakh to Rs.2 lakhs (There is no change in the population limit of less than 50000 according to 1971 census for location of such units).

The limit of investment in small scale units has been raised from Rs.10 lakhs to Rs.10 lakhs; and

The limit of investment in the ancillaries has been increased from Rs.15 lakhs to Rs.25 lakhs.

The new definition was quite broad-based. It was in recognition of the higher investment levels that inflation had made impossible for the entrepreneurs to avoid the purview of the small scale sector and to avail of the various incentives and benefits offered by the Government.

Definition, 1995

The Ministry of State for Industry in March 1995 further revised the definition of small scale and ancillary industrial undertakings by raising the level of investment. Thereby it made it possible for some of the industries be assisted, which were not covered under the definition of 1980.

The present revised definitions of small scale and ancillary industrial undertakings as per Notification No.50 202-(E) dated 18.3.1995 are as under.
Small Scale Industrial Undertakings

Undertakings having investment in fixed assets in plant and machinery, whether held on ownership terms or by lease or by hire purchase, not exceeding Rs.3 crores.

Ancillary Industrial Undertakings

Undertakings having investment in fixed assets in plant and machinery, whether held on ownership terms or by lease or by hire purchase, not exceeding Rs.1 crore and engaged in:

a. the manufacture of parts, components, sub-assemblies, tooling and intermediates; or

b. 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 their units for production of their articles;

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

Small Scale Services Establishments

The scope of the extension services—presently available to the small scale and ancillary industries has been extended to the Small Scale Service Establishments as well. All the service oriented enterprises whose investment
in the fixed assets in plant and machinery does not exceed Rs.75 lakhs and are being located in rural area and towns with a population of 50 lakhs or less have been made eligible to the concessions and incentives as available to the units covered by the definition of Small Scale and Ancillary undertakings.

**Small Scale Industries Development in India**

Till Independence, only cottage industries, village industries, rural industries or agro-based industries were considered to be small industries. Long before the dawn of independence in 1947, Indian leaders and economists were wrestling with the problem of reconciling the undoubted advantages of large scale industrialisation with the need for decentralisation and diffusion. Mr. Satish Chandra Mukerjee, the editor of the journal—The Dawn from Calcutta in 1905, raised voice against large-scale, capitalistic industry and desirability of introducing and promoting western technique and industry in India.¹ Although Mahatma Gandhi had spoken against the Craze for machinery he was not against the villages playing their implements and tools with electricity. He wanted essential

¹ Bipin Chandra, The Rise and Growth of Economic Nationalism in India, People's Publishing House, New Delhi, pp.65-73
large scale industries to be in the State sector interfering as little as possible with the cottage industries which were to him, vital to the economy.¹

In 1938, the Indian National Congress constituted. The National Planning Committee under the Chairmanship of Pandit Jawaharlal Nehru to study the scope and promotion as well as protection of the small scale industrial sector.

Soon after Independence, the Indian Government took steps to revive and develop cottage and small industries. Indian thinking at that time was as that of Pandit Nehru who wrote in his book Discovery of India:

I am all for tractors and big machinery but I am equally convinced that the most careful planning and adjustment are necessary if we are to reap the full benefits of industrialisation and avoid many of its dangers. He wrote wistfully of the Indusco movement of China (started by a New zealand, Rewi Alley) and felt that some such movement was peculiarly suited to India. He wrote: It would fit in well----the Indian background give a democratic basis to small industry and develop the cooperative habit. It could be made to complement the big industries.²

² Ibid.
Programmes for the development of small scale industries and cottage industries in India was the natural result of a philosophy that was part of the freedom movement, particularly, after Gandhiji took over to leadership.

The industries conference in 1947, recognised the importance of cottage and small industries in the economic uplift of the country. It was of the view that because of size and nature of these industries, their proper development and protection must remain the responsibility of provincial and state governments. The main recommendations of the conference were as below:¹

a. Establishment of a permanent All India Cottage Industries Board;

b. Establishment of a separate Directorate of Cottage and small industries under the Ministry of Industry and supply;

c. Provincial Governments should establish separate departments of cottage and small industries;

d. Formation of provincial cottage industries cooperative banks to finance cottage and small industries;

e. Separate provision in the distribution of raw materials in short supply and priority assistance for cottage and small industries.

The Government was interested in the improvement of the techniques of production used by cottage and small scale industries so that they can compete with the products of better organised large scale industries and find their place in the market. The Government had to chalk out a comprehensive assistance programme for attaining this position.

**Industrial Policy Resolution 1948**

The need for the development of small scale, village and cottage industries was specifically highlighted in the industrial policy resolution dated 6th April 1948. It stated:

Cottage and small industries have a very important role in the national economy, offering as they do scope for individual, village or cooperative enterprises and means for 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.1 It

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was also recognised that 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 products and, where necessary, safeguards against intensive competition by large scale manufacturer as well as on the education of the workers in the use of best available techniques.

First Five Year Plan

By the time the First Five Year Plan (1951-56) was formulated in July 1951, small industries had not emerged as a significant factor in the economy of the country. There were traditional occupations in the villages such as the carpenter, blacksmith or potter. These were languishing and no tangible assistance was rendered to them to improve their technology or production. There were also handloom weavers in the South, Bombay, Bihar and Uttar Pradesh, which produced cloth used mostly in rural areas. Gandhi's campaign on behalf of Khadi (hand-spun and hand-woven cloth) were emotional and ideological but made no substantial dent on the progress of the textile mill industry. A few items required for the armed forces such as chappals, ankleboots, and other leather goods, packing boxes, brushes, locks etc., were beginning to be made in the small scale sector but their importance was limited.
A major step taken for the development of village and small industries was the establishment of All India Boards to advise and assist in the formulation of the programmes of development of small scale industries, including sericulture and coir.

Although, the importance of small industries were recognised in the First Plan, the allocation made for its development was nominal Rs.5.2 crores in a plan of Rs.4200 crores or little more than one-eighth of one per cent—which was hardly adequate for any meaningful programme to be implemented. Only 10 industrial estates were sanctioned to be set up by 4 State Governments Construction of two industrial estates, one at Okhla, New Delhi and the other at Naini(Uttar Pradesh) were undertaken at the Central Government level.

Karve Committee and the International Prospective Planning Team (IPP Team)

In June 1955, a committee was appointed by the Planning Commission with professor D.G.Karve as Chairman. The Committee recommended that any development programme for small industry should be decentralised, aim at gradual improvement in technique without reducing job opportunities, assure marketing through cooperatives, and aim at positive promotional support rather than enforce protection or
reservation. The Karve Committee was of the opinion that even in the case of traditional village industries, technical improvements should be brought about to the extent possible, and that in future, there should be a regular programme of gradual transformation to improve techniques of production. Any new required capital investment should be on improved equipment. The Karve Committee also emphasised the requirements of finance, power and marketing research to help development of the small scale industrial sector.

Another important landmark in the development of the small industry in the country was the visit of the International Perspective Planning Team in 1953-54 jointly sponsored by the Government of India and the Ford Foundation. The team, in a well-written report, recommended the setting up of four regional Extension institutes to provide technical advice and guidance, the establishment of a marketing service corporation, and the provision of adequate credit facilities. In accordance of these recommendations, four regional institutes were set up at Calcutta, Bombay, Delhi and Madras to provide technical assistance to the small industrialists. A National Small Industries Corporation was also set up to assist the small scale sector in marketing its products. A small Scale Industries Board was constituted in 1954 and a number of
assistance schemes such as supply of machinery on hire-purchase, liberal and wider grants and price preference in Government purchases were also initiated to provide support to the small sector.

**Industrial Policy Resolution 1956**

The second Industrial Policy Resolution, enunciated in 1956 (which is still in force), reiterated the desirable features of the small industry. In this Resolution an attempt was made to rephrase industrial policy in the light of changes that had taken place in the intermediate period of eight years. The objective of economic policy now was to establish a socialistic pattern of society.

The Government had been following a policy of supporting village and small scale industries by restricting the volume of production in the large scale sector by differential taxation, or by direct subsidies. While such measures were taken whenever necessary, the aim of the Government policy was to ensure that the decentralised sector acquired sufficient vitality to be self-supporting, for its development is integrated with that of large-scale industry. The State, therefore, concentrated on measures designed to improve the competitive strength of the small scale producer. For this purpose, it was essential that the
techniques of production should be constantly improved and modernised. The pace of transformation of technology should be so regulated as to avoid, so far as possible, technological unemployment.

The Resolution recognised the importance of locational factors like availability of raw materials, cheap power, water supply, transport facilities etc. It reiterated very clearly that these facilities will be provided in those regions where they are not available at present so that the unbalanced growth in the various regions may be corrected and the country as a whole may achieve higher standards of living. The Programme of industrial development will make large demands on the country's resources of technical and managerial personnel. Steps be therefore, taken to meet shortage of supervisory level personnel to organise apprenticeship schemes of training, and to extend training facilities in business management in universities and other institutions.

Second Five Year Plan

The categorical enunciation of Government policies towards the development of the small industries in the Industrial Policy Resolution 1956, was reflected in the Second Five Year Plan (1956-61). In this plan, the allocation for the development of small industry was
increased to 56 crores (out of a total plan of Rs.6000 crores) or about 1 per cent which meant that there was an eight fold increase in the percentage allocation between the First and Second Plan. It was the Second Plan that really initiated the development process in the fields of small industries. Organised industrial production practically doubled in the two plan period. The index of industrial production rose from 100 in 1950-51 to 194 in 1960-61.

The National Small Industries Corporation (NSIC) started supplying machinery on a hire purchase basis and also assisting in the sale of the products of the small industry to the Government departments. A nationwide network of industrial Extension services started operating under the control of the Development Commissioner, Small Scale Industries. It was assigned the task of providing information to the existing and potential entrepreneurs, undertaking management training programmes, rendering help in improved design and conducting market research. 110 industrial estates were sanctioned in different parts of the country out of which 60 were completed. The expenditure incurred on industrial estates during First and the Second Plan together was Rs.10.98 crores. The programme for small scale industries as a whole provided full time employment to 3 lakh persons.
In addition to the above institutional support, specific policy measures were taken to help the small scale sector. These were to draw up a common production programme for sewing machines, bicycles and storage batteries, restrict further expansion of capacity in the large scale sector in respect of agricultural implements, radio receivers, hand tools, leather and draw up indicative targets of production for some time in small scale sector.

The Second Five Year Plan further pleaded for the development of small industry as an ancillary sector to provide precision parts and components to the large scale units which should be prohibited from including such items in their production programme.

**Third Five Year Plan**

The main objectives of the Third Plan (1961-66) in regard to the development of village and small scale industries were:

a. To improve productivity of the workers and reduce production costs by placing a relatively greater emphasis on positive forms of assistance, such as improvement in skill, supply of technical advice, better equipment and credit;

b. To reduce progressively the role of subsidies, sales rebates and sheltered markets;
c. To promote the growth of industries in rural areas and in small towns;
d. To promote the development of small scale industries as ancillaries to large industries; and
e. To organise artisans and craftsmen on cooperative lines.

The Third Plan outlay on small industries was Rs.113.06 crores (out of a total expenditure of about 10500 crores--again about 1 per cent of the total outlay. Total outlay of Rs.264 crores was proposed for programmes of village and small industries, made up of Rs.141 crores for schemes of the States and Union Territories and Rs.123 crores for the centre and centrally sponsored programmes and schemes. In addition, Rs.273 crores were expected to be invested from private sources, including banking institutions and Rs.20 crores on the programmes of community development, rehabilitation of displaced persons, social welfare and of backward classes. While the Third Plan envisaged an annual industrial growth rate of 14 per cent, except in 1965-66, the annual industrial growth rate of only 7.6 per cent would be achieved.


A number of serious difficulties had cropped up during the course of the Third Plan (1961-66).
The Chinese aggression in 1962 and hostilities with Pakistan in 1965 caused very heavy commitments of resources to defence and that compelled the diversion of resources from development to defence. There were difficulties on account of a series drought in 1965-66. This compelled import of foodgrains on a very large scale, thus upsetting the balances of payments position of the country. Industrial production which depended upon the supply of agricultural raw materials also slowed down considerably. Western countries, notably the United States, stopped giving financial aid to India after the commencement of hostilities with Pakistan. All these developments resulted in steep rise in prices. This led to demand for more dearness allowance by government employees and factory workers who resorted to strikes.

All these developments produced untenable conditions in the country. The problem of defence and the necessity of finding resources for a defence plan were so pressing that the Fourth Five Year Plan (which was to commence in 1966-67) had to be redrafted in the light of all the developments. A Plan Holiday, was therefore thought of for the year 1966-67. But it continued for another two years, viz., 1967-68 and 1968-69.
Financial allocation in the Three Annual Plans in the industrial sector are indicated in Table 1.

**TABLE 1**

PUBLIC ALLOCATION FOR INDUSTRIAL SECTOR

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During the period of the Three Annual Plans the index of industrial production (base 1960=100) increased by a mere 0.2 per cent in 1966-67 and by 0.5 per cent in 1967-68. A number of measures initiated by the Government such as import liberalisation following devaluation of the Indian Rupees, decontrol of commodities like steel, coal, paper, fertilisers and commercial vehicles, delicensing of a number of industries and rise in the export of engineering goods, etc., had a favourable effect on the industrial sector. The annual industrial growth rate for 1968-69 was 6.2 per cent, which reflected a substantial increase over the last two years.
Fourth Five Year Plan

The main plans during the Fourth Plan (1969-74) was to entrust the work of administration of credit facilities under the State Aid to Industries Act, training and common service facilities, quality marking, marketing and consolidation of the Industrial Estates Programme, to the states.

During the Fourth Plan it was proposed to spend about Rs.293 crores on the development of village and small industries besides about Rs.500 crores, expected to be invested by banking institutions and through individual sources. In July 1969, 14 major commercial banks of the country were nationalised and this helped to accelerate the flow of funds from the banks to the small scale sector.

The Third Five Year Plan resulted in spurt in need for industrial plots. It is for this reason that upto the end of the Fourth Plan, schemes for 612 industrial estates had been sponsored. An amount of Rs.5.73 crores was spent on industrial estates during the plan.

National Development Council Committees on Backward Areas

In September 1968, two committees were constituted by the National Development Council to study the problem of regional imbalances. One was headed by B.D.Pande (the then Secretary, Planning Commission) and was charged with the
task of identification of backward areas in the country. The other headed by N.N.Wanchoo (the then Secretary in the Ministry of Industrial Development) was assigned the task of suggesting suitable incentives (primarily financial) for their development.

B.D.Pande Committee considered the following criteria for identification of backward states:

a. per capita income;
b. percentage per capita income from industry and mining;
c. number of workers in registered factories;
d. per capita annual consumption of electricity;
e. length of surfaced roads in relation to area and population of the state;
f. railway mileage in relation of population and area in the State.

On the basis of above criteria, Andhra Pradesh, Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh were identified as backward states. Besides, the States of Jammu and Kashmir, Assam and Nagaland were recommended assistance because of their special problems.

The Working Group on Incentives headed by N.N.Wanchoo suggested that incentives should be provided in regions with a potential for development and in selected industries which can be developed in the medium and small
scale sectors. There should be a preferential treatment in the issue of licenses and allocation of foreign exchange for setting up new industries in the backward regions. Such industries should be primarily based on locally available raw material. State Governments should assist potential entrepreneurs by making available developed industrial plots on payment of 10 per cent of value of land and also subsidized accommodation up to 50 per cent. Machines should be available from the National small Industries Corporation at more favourable terms. A higher development rebate should be allowed to industries in such areas and the industrial units be given a tax holiday for an initial period of five years.

The National Development Council considered both the reports in October 1969 and decided that two districts in each of the backward states identified by the Pande Committee and one in each of the rest should be given special incentives. Instead, however, of the wide ranging incentives suggested by the Wanchoo group, it was decided to grant 10 per cent of the total project cost as subsidy, with a ceiling of Rs. 5 lakhs in any one case for all industries located in the designated areas. The states, in consultation with the Central Government would select the districts in which the programme was to be implemented. In addition, a
large number of districts were also designated as being eligible for financial assistance at concessional rates.

Administrative Reform Commission Report on Small Scale Sector, 1969

Another important report regarding the small scale sector was the one brought out by the Administrative Reform Commission, a high level body set up to probe the administrative pattern of the entire range of Government operations. The report, issued in December 1969, recommended the setting up of an autonomous commission, known as the Small Scale Industries Commission, to guide the development of the small industries including handlooms and handicrafts (but not village industries which will be looked after by the Khadi and Village Industries Commission). It further recommended an apex financial institution at the centre to cater exclusively to the needs of small scale sector. It recommended a greater emphasis on technical guidance and consultancy services provided by the Small Industries Service Institutes and suggested the establishment of well-equipped laboratories for testing raw materials, components and quality inspection. It also realised that marketing and management training should be particularly taken care of by the proposed commission.
Industrial Policy Enquiry Committee

An Industrial Licensing Policy Inquiry Committee was appointed in July 1967 to examine whether the working of the present licensing system was in consonance with the Industrial Policy Resolution, particularly in preventing the growth of monopolies. After collection and analysis of considerable data, the committee came to the conclusion that the licensing system had not operated well as it should and that a disproportionate amount of the assistance from the financial institutions had gone to the large houses. Regarding regional dispersal of industries, the committee felt that the existing policies have helped the more developed states and there has been no systematic attempt to distribute the industries on a regional basis. The committee, however, found that in so far as small and medium industries were concerned, some protection was being afforded to it because of the policy of reservation and because of the existence of an official (the Development Commissioner) exclusively devoted to monitoring the growth of the small industry. It found that in some cases such as the radio receiver industry, the interest of the small producers have not been adequately considered and licenses were issued to large producers, many of whom had foreign affiliations. It recommended that a wider and more
purposeful use of reservation might be made to provide protection to the small and medium industrial sector.

New Licensing Policy

Early in 1970, the Government announced a new licensing policy based on the recommendations of the Industrial licensing Policy Inquiry Committee report. The need for licensing in the area between Rs.25 lakhs and Rs.1 crore was waved except where foreign exchange was necessary either for capital machines or raw material. They designated a core sector which was left free for the large houses to develop. In addition to Core sector, all new investment propositions of over Rs.5 crores would be considered in the heavy investment sector. Except for industries reserved for the public sector, undertakings belonging to the large industrial houses together with foreign concerns and subsidiaries would be expected to participate in and contribute to the establishment of industries in the Core and Heavy Investment Sector. While the medium range investments between Rs.1 crore and Rs.5 crores would be open to new investors not belonging to one of the large houses. In so far as the small scale sector was concerned, the Government reiterated the policy of reservation of certain items—underwhich 47 items had already been reserved for exclusive production in the small scale sector.
to which were added 8 more items such as cycle tyres and tubes, tooth paste, steel furniture, mechanical toys, electric horns, hydraulic jacks (below 30 tonnes capacity), aluminium utensils and fountain pens.

It was further announced that this list of reservation would be expanded progressively depending upon the ability of the sector to produce goods economically.

**Fifth Five Year Plan**

The fifth five year plan, in essence, continued the programme enunciated in the previous plan. Major emphasis was placed on the development of ancillaries. In order to achieve this objective, necessary caution was to be exercised while granting licences for large-scale industrial units. The motive being to ensure that large scale undertakings do not establish productive capacity to produce those items for which the small scale industries had already established technical and economic viability.

At the end of the Fifth Five Year Plan, Janata Party came to power. They introduced changes in economic policy. It was stated in the context of Small Scale Industries that the main thrust of the new industrial policy would be the effective promotion of cottage and small industries widely dispersed in rural areas and small towns.
In December 1977, a new category Tiny Sector was introduced for the first time in the Industrial Act. Another important step taken by the Janata Government (1977-80) was the creation of a single window service system by setting up District Industries Centres, one in each district in the country.

A special cell was set up in the Industrial Development Bank of India to deal exclusively with the credit needs of the small, village and household industries. The cell was required to guide, coordinate and monitor the entire range of credit facilities made available by different financial institutions and commercial banks to the small scale industries sector.

A very important step, that was taken by the Janata Government in 1978 was raising the number of items to be exclusively produced in the small scale industries sector from the then prevailing 180 to 504 and subsequently to 807.

The Fifth Plan (revised) provided a total outlay of Rs.10200 crores on organised industries and mining and Rs.535 crores for village and small scale industries. This investment in the industrial sector constituted 26 per cent of the total public outlay. The planned outlay exclusive for the development of Small Scale Industries including industrial estates was fixed at Rs.221.74 crores.
The Fifth Five Year Plan (1974-79) aimed at the annual industrial growth rate of 8.1 per cent. But the actual industrial growth rate was only 2.5 per cent during 1974-75 and 5.7 per cent during 1975-76. During this plan period 184 new industrial estates were sponsored by various States Governments and Union Territories. With their addition the total number of industrial estates reached the figure of 796.

Sixth Five Year Plan

The objectives of the Sixth Five Year Plan (1980-85) in regard to small scale industries sector were to bring about in improvement in the levels of production and income, particularly of artisans. This was to be done through measures such as upgradation of technology and skills, and better marketing of goods produced in the sector. All there was to be a dispersal and decentralisation of those industries to provide increasing employment opportunities. This sector was also expected to make a significant contribution to the manufacturing sector of the economy by making fuller utilisation of productive capacities already installed. With a view to encourage entrepreneurial personnel and skills in this sector, additional training facilities and a package of incentives was to be provided. The aim was to make small scale industrial sector a viable
sector with decreasing dependence on subsidies; and help it to play an important role in the field of exports.

During the Sixth Plan on outlay of Rs.1780.45 crores was provided for the public sector. Out of this outlay, investment component was about Rs.1000 crores in the form of margin money assistance, capital subsidy, creation of infrastructural facilities and investment in the share capital of the financial, promotional and development corporations concerned with the development of village and small industries. It was estimated that private sector investment in this sector would be of the order of Rs.12600 crores contributed by financial institutions, promoters' own resources and non-institutional sources. The planned outlay exclusive for the development of small scale industries including Industrial Estates was Rs.616.10 crores.

Industrial Policy 1980

The Industrial Policy Statement of 23rd July 1980 primarily seeks to harmonise the growth in the small scale sector with that in the large and medium sectors. The emphasis in the new policy is on fostering the complementary between the large and small sectors so that the dichotomies between the two sectors do not distort the economic pattern.
The broad socio-economic objectives of the policy are: optimum utilisation of installed capacity; maximising production and achieving higher productivity; higher employment generation; correlation of regional imbalances through a preferential development of industrially backward areas; strengthening of the agricultural base by according a preferential treatment to agro-based industries, and promoting optimum intersectoral relationship; faster promotion of export oriented and import substitutions industries; promoting economic federalism with an equitable spread of investment and the dispersal of returns amongst widely spread small but growing units in rural as well as urban areas and consumer protection against high prices and bad quality.

An important element of the new policy was the raising of the investment limits of tiny and small scale sectors. The policy made it clear that the existing support programme for marketing as well as the reservation of items in the small scale sector will continue. The basic thrust of the policy was to ensure a continued growth of the small scale sector without inhibiting the growth of other sectors. It also aimed at establishing nucleus plants in backward districts around which a programme of ancilliatisation could be developed.
The basic objectives of the Industrial Policy 1980 was to ensure a balanced growth of each sector of the economy.

**Seventh Five Year Plan**

In the Seventh Five Year Plan (1985-90) attention has been focused on the upgradation of technology by strengthening/creation of tooling and workshop facilities for development of proto types design, new products and processes, revamping the organisational structure for the development of this sector, promoting the dispersal of industries to the less developed areas and imparting higher level of training. Ancillarisation has been given greater emphasis. Steps have been taken to provide product design development and testing facilities. Quality control facilities would be strengthened. Quality control order for domestic electric appliances would be implemented rigorously.

The office of Development Commissioner (SSI) has been engaged in the promotional, developmental and regulatory activities for the small scale sector. The office inter-alia takes care of the above objectives.

The District Industries Centres (DIC) programme which was launched in 1978 as a centrally sponsored scheme shall continue in the Seventh Plan with greater delegation of powers to them by the State Governments.
Emphasis would be laid on giving integrated and comprehensive marketing support to small units through counselling, marketing research and special studies, assistance to marketing consortia, participation in the trade fairs and exhibitions.

To improve the lot of sick units some measures were suggested. They include adequate and timely availability of credit, timely payments by parent units for purchases made by them small units or in its absence earmarking a portion of credit limit sanctioned by banks to the parent units for payment of bills of small units, and introduction of seed capital assistance by banks on the lines of the scheme of State Financial Corporation.

During the Seventh Plan period, the production in the small scale sector is targeted to increase from Rs.50520 crores to Rs.80220 crores (at 1984-85 prices), exports from Rs.2350 crores to Rs.4140 crores and employment from 90 lakh persons to 119 lakh. Of the total public outlay of Rs.180000 crores the small scale industries sector is allocated Rs.2752.7 crores, constituting just 1.5 per cent of the total central outlay on the Seventh Plan. Allocation for small scale industries sector for 1985-86 was Rs.540.5 crores and for 1986-87 Rs.606 crores.
Plan Outlays

The outlay for central and state plans are indicated in Table 2. The table also indicates the outlay for the development of industrial estates. It is observed that the financial outlay has been increasing with each plan which indicates the importance being given to the sector in the economic development of the nation.

### TABLE 2

**PLAN OUTLAYS**

<table>
<thead>
<tr>
<th>Plan period</th>
<th>Industrial Estates</th>
<th>Small Scale Industries (including industrial Estates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan (1951-56)</td>
<td>N.A.</td>
<td>5.20*</td>
</tr>
<tr>
<td>Second Plan (1956-61)</td>
<td>11.60</td>
<td>56.00*</td>
</tr>
<tr>
<td>Third Plan (1961-66)</td>
<td>22.15</td>
<td>113.06</td>
</tr>
<tr>
<td>Annual Plans (1966-69)</td>
<td>7.58</td>
<td>53.48</td>
</tr>
<tr>
<td>Fourth Plan (1969-74)</td>
<td>15.73</td>
<td>96.19</td>
</tr>
<tr>
<td>Fifth Plan (1974-79)</td>
<td>24.61</td>
<td>221.74</td>
</tr>
<tr>
<td>Annual Plan (1979-80)</td>
<td>--</td>
<td>104.81</td>
</tr>
<tr>
<td>Sixth Plan (1980-85)</td>
<td>--</td>
<td>616.10</td>
</tr>
<tr>
<td>Seventh Plan (1985-90)</td>
<td>--</td>
<td>1120.51</td>
</tr>
</tbody>
</table>

Note: * Excluding Industrial Estates

Source: a. Table 12.3 of the Sixth Plan documents
b. Table 4.3; p.104 of the Seventh Plan documents Vol.II
Growth of Small Scale Industries

The number of small scale units, the volume of production and the value of exports by these industries have grown substantially during the last 10 years. During 1986-87, the production of small scale industries is estimated to be around Rs.72250 crores at current prices (Rs.64500 crores at 1984-85 prices) providing employment to about 101.4 lakh persons at the end of 1986-87. Exports from the sector accounts for about 22 per cent of the total exports from the country. During 1986-87, village and small scale industries taken together account for about 49 per cent of total industrial production and the contribution of industries falling under the purview of small industries Development Organisation is about 33 per cent. Exports from this sector (SSIs) account for about 22 per cent of the total exports from the country.

Table 3 indicates the growth of small scale industries during the Sixth Plan period (1980-85) and the first two years of the Seventh Plan viz., 1985-86 and 1986-87.
TABLE 3
GROWTH OF SMALL SCALE INDUSTRIES DURING SIXTH PLAN AND FIRST TWO YEARS OF THE SEVENTH FIVE YEAR PLAN

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of units (Lakhs Nos)</td>
<td>8.74</td>
<td>9.62</td>
<td>10.59</td>
<td>11.58</td>
<td>12.42</td>
<td>9.76</td>
</tr>
<tr>
<td>Production at current prices (Rs. crores)</td>
<td>28060</td>
<td>32600</td>
<td>35000</td>
<td>41620</td>
<td>50520</td>
<td>18.71</td>
</tr>
<tr>
<td>Production at 1970-71 prices (Rs. crores)</td>
<td>10906</td>
<td>11837</td>
<td>12800</td>
<td>14120</td>
<td>14970</td>
<td>8.36</td>
</tr>
<tr>
<td>Employment (in lakh Nos)</td>
<td>71.00</td>
<td>75.00</td>
<td>79.00</td>
<td>84.15</td>
<td>90.00</td>
<td>6.08</td>
</tr>
<tr>
<td>Export (Rs. in crores) at current prices</td>
<td>1643</td>
<td>2071</td>
<td>2097</td>
<td>2219</td>
<td>2541</td>
<td>16.68</td>
</tr>
</tbody>
</table>

Note: Figure in brackets indicate percentage increase over the previous year

Sources: 1. Development Commissioner (SSIIs) Annual Report, 1985-86
During the Sixth Five Year Plan period; the Small Scale Industries sector has registered significant growth. The average annual growth rates during this period were: number of units (9.76 per cent), production at constant prices (8.36 per cent), employment (6.08 per cent) and exports at current prices (16.88 per cent). The trend has continued during the first and second years of the Seventh Plan.

The growth in the number of small scale units has been phenomenal. The statewise distribution of registered small scale units during the year 1982-86 are given in Table 4.
<table>
<thead>
<tr>
<th>Name of State/Union Territory</th>
<th>Cumulative No. of SIDO Units granted permanent Registration as on 31st December</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>--</td>
</tr>
<tr>
<td>Assam</td>
<td>--</td>
</tr>
<tr>
<td>Bihar</td>
<td>--</td>
</tr>
<tr>
<td>Gujarat</td>
<td>--</td>
</tr>
<tr>
<td>Haryana</td>
<td>--</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>00</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>--</td>
</tr>
<tr>
<td>Karnataka</td>
<td>--</td>
</tr>
<tr>
<td>Kerala</td>
<td>--</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>--</td>
</tr>
<tr>
<td>Madras</td>
<td>--</td>
</tr>
<tr>
<td>Manipur</td>
<td>--</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>--</td>
</tr>
<tr>
<td>Nagaland</td>
<td>--</td>
</tr>
<tr>
<td>Orissa</td>
<td>--</td>
</tr>
<tr>
<td>Punjab</td>
<td>--</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>--</td>
</tr>
<tr>
<td>Tamilnadu</td>
<td>--</td>
</tr>
</tbody>
</table>

contd..
### Table 4 contd..

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tripura</td>
<td>--</td>
<td>1715</td>
<td>1400</td>
<td>1715</td>
<td>1815</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>--</td>
<td>58874</td>
<td>73136</td>
<td>88126</td>
<td>102982</td>
</tr>
<tr>
<td>West Bengal</td>
<td>--</td>
<td>113802</td>
<td>117117</td>
<td>120765</td>
<td>124752</td>
</tr>
<tr>
<td>Sikkim</td>
<td>--</td>
<td>45</td>
<td>50</td>
<td>66</td>
<td>80</td>
</tr>
<tr>
<td>Andaman &amp; Nicobar</td>
<td>--</td>
<td>189</td>
<td>244</td>
<td>340</td>
<td>424</td>
</tr>
<tr>
<td>Arunachal Pradesh</td>
<td>--</td>
<td>262</td>
<td>246</td>
<td>262</td>
<td>300</td>
</tr>
<tr>
<td>Chandigarh</td>
<td>--</td>
<td>1620</td>
<td>1782</td>
<td>1997</td>
<td>2171</td>
</tr>
<tr>
<td>Dadra, Nagar and Haveli</td>
<td>--</td>
<td>167</td>
<td>192</td>
<td>209</td>
<td>217</td>
</tr>
<tr>
<td>Delhi</td>
<td>--</td>
<td>17981</td>
<td>18904</td>
<td>19958</td>
<td>21240</td>
</tr>
<tr>
<td>Goa, Daman and Diu</td>
<td>--</td>
<td>2820</td>
<td>3100</td>
<td>3388</td>
<td>3700</td>
</tr>
<tr>
<td>Lakshadweep</td>
<td>--</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Mizoram</td>
<td>--</td>
<td>539</td>
<td>628</td>
<td>684</td>
<td>825</td>
</tr>
<tr>
<td>Pondicherry</td>
<td>--</td>
<td>1220</td>
<td>1389</td>
<td>1595</td>
<td>1840</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>--</td>
<td>687418</td>
<td>751006</td>
<td>853235</td>
<td>942823</td>
</tr>
</tbody>
</table>

Source: Directorate of Industries of respective state/Union Territory
As may be observed from the figures of 1986, concentration of small scale units in Tamilnadu is pretty high and constitutes about 7.95 per cent of the total. Rankwise too, the position of Tamilnadu is at number four, next only to west Bengal, Uttar Pradesh and Madhya Pradesh respectively.

**Recent Developments in small Scale Industries Sector**

During 1996-98 a number of important development have taken place. They are:

Eight new items, have been added and thirty one items have been deleted from the list of items reserved for the Small scale industries sector for exclusive production. Thus, at present, 863 items are reserved for the small scale industries sector for exclusive production.

A small Industries Development Fund (SIDF) has been set up in the IDBI in May 1986 to provide refinance assistance for the development expansion, modernisation and rehabilitation of small scale industries. Under the auspices of this fund the IDBI has also decided to assist in setting up of Model Quality Control Centres in different parts of the country for small scale industrial units.

A programme of modernisation is currently under implementation of Small Industries Development Organisation (SIDO) in cooperation with the State Directorate of
Industries, Nationalised Banks and Financial Institutions. Under this programme, 20 industries have been selected on an All India basis and 38 industries on the basis of concentration in different states for a programme of modernisation. Small Scale Industries units covered under modernisation scheme continue to obtain assistance from the IDBI scheme of providing concessional finance and the subsidy scheme of Industrial Finance Corporation of India to such units for encouraging modernisation of small scale sector.

The Reserve Bank of India has set up a special committee to look into the various aspects of sickness in the Small Scale Industries Sector. The committee submitted its report in October 1996. On the recommendations of the said report, the RBI issued guidelines in February 1997 regarding preparation of rehabilitation package in respect of sick Small Scale Industries Units.

A number of excise duty concessions were announced for this sector in the Budget for 1996-97. Thus, units in the small scale industries sector whose value of clearance does not exceed Rs.15 lakhs (Rs.30 lakhs where a unit is manufacturing more than one article falling under different tariff headings) are completely exempted from the payment of excise duties.
Concessional rates of excise duties have been prescribed for clearance between Rs.15 lakhs and Rs.75 lakhs. Small Scale Industrial units whose value of clearance does not exceed Rs.10 lakhs per year are no longer required to obtain excise licence. Also, excise procedures have been simplified. Excise inspection is limited to once a year and self-assessment procedure has been introduced for clearance upto Rs.15 lakhs per year.

In the import export policy for the years 1995-98, a number of items, components and raw materials/machinery and equipments were brought under OGL or the limited permissible list. A number of raw materials and capital goods were removed from the OGL to promote indigenous industries.

The Government of India, is setting up an apex financial institution exclusive for small scale industries sector. The new institution—The Small Industries Development Bank of India (SIDBI) shall be working on the lines of IDBI. It will give a boost in the rapid growth of small scale sector.

To promote quality consciousness, November 1996 was observed as Quality Maintenance and Improvement Month by the entire Industrial sector in the country. In pursuance of this, The Small Industries Service Institutes (SISIs)
organised and conducted 30 seminars, 4 Industrial Clinics and 5 Exhibitions in different parts of the country.

SMALL SCALE INDUSTRIES DEVELOPMENT IN TAMILNADU

Physical Features and Resources

Tamilnadu is a progressive state in India. According to 1991 census the population of the state was 167.89 lakhs and the destiny worked out to 333 persons per sq.kilometer. Over 72 per cent of the population is rural and engaged in agricultural pursuits.

In the year 1977, the total livestock population in the state was 8996000 of which cattle and buffaloes constituted the bulk. The availability of milk in the state is much more as compared to many other states and per capita consumption was 597 grams a day during 1995-96.

The State is well known for its irrigation and well planned canal system. It leads all other states in the country in the development of irrigation facilities and occupies the place of pride in the irrigation map of India. In 1994-95, 86 per cent of the net sown area in the State was irrigated against the average of 28.2 per cent for the country in 1992-93.

An integrated system of transport connects all important places of industrial concentration, sources of raw material places of tourists interest etc. in the State.
Tamilnadu has electrified all its towns and villages. The annual per capita consumption of electricity in Tamilnadu is 351.78 K.W.H. as per 1994-95. The industrial and agricultural percentage consumption of electricity of the total is 40.56 and 40.40 respectively.

Growth of the Economy

Tamilnadu is primarily an agricultural state. Agriculture (including livestock) is the mainstay of the economy and accounts for more than half of State Domestic product.

The Economic development of Tamilnadu since the beginning of the Planning era has been phenomenal. The advent of Green Revolution immediately after the Third Five Year Plan imparted stability to the agricultural economy and resulted in sharp increase in the yield per hectare of wheat and later on of rice, which emerged an equally important crop in the State.

The Net State Domestic Product at constant (1980-81) prices increased from Rs.1382 crores in 1980-81 to Rs.3001.54 crores (quick estimates) in 1995-96. Table 5 shows Net State Domestic Product.
<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>838.21 (58.37)</td>
<td>838.21 (58.37)</td>
<td>1147.60 (49.86)</td>
<td>1981.57 (44.58)</td>
<td>1564.93 (52.14)</td>
<td>3667.07 (44.83)</td>
</tr>
<tr>
<td>Secondary</td>
<td>219.94 (15.31)</td>
<td>219.94 (15.31)</td>
<td>395.93 (17.20)</td>
<td>917.91 (20.63)</td>
<td>464.01 (15.46)</td>
<td>1541.74 (18.85)</td>
</tr>
<tr>
<td>Tertiary</td>
<td>378.01 (26.32)</td>
<td>378.01 (26.32)</td>
<td>758.31 (32.94)</td>
<td>1545.95 (34.79)</td>
<td>972.60 (32.40)</td>
<td>2970.83 (36.32)</td>
</tr>
<tr>
<td>Total Net state Domestic product per capita</td>
<td>1436.16 (100)</td>
<td>1436.16 (100)</td>
<td>2301.84 (100)</td>
<td>4444.53 (100)</td>
<td>3001.54 (100)</td>
<td>8179.63 (100)</td>
</tr>
<tr>
<td>Net State Domestic Product (per capita income) Rs.</td>
<td>1070</td>
<td>1070</td>
<td>1383</td>
<td>2671</td>
<td>1621</td>
<td>4416</td>
</tr>
<tr>
<td>All India (Rs.)</td>
<td>633</td>
<td>633</td>
<td>700</td>
<td>1558</td>
<td>775</td>
<td>2355</td>
</tr>
</tbody>
</table>

Source: Statistical Abstract of Tamilnadu, 1996
The Net State Domestic Product at constant (1980-81) prices is exhibiting an average annual compound growth rate of 4.8 per cent from 1980-81 to 1990-91. The industrial sector (both registered and unregistered) witnessed an annual compound rate of growth of 8.4 per cent whereas in the agriculture sector (proper) the rate of growth was 2.7 per cent during decade 1980-81 to 1990-91. As per indication the growth of the economy in 1995-96 over 1994-95 is likely to be 5.7 per cent and that of agriculture is 7.5 per cent against the All India figures of 5.0 per cent and 1.3 per cent respectively.

The Net State Domestic Product (State Income) in itself does not reflect the prosperity or otherwise of a State. The growth of income or production in an economy is no longer regarded as the main objective or index or development. It implies an Upward Movement of the Entire Social System. It is the per capita income i.e. the average income per person, that reflects the relative well being of a State with respect to other State or vis-a-vis the country as a whole. The aforesaid Table also indicates the per capita income of the State of Tamilnadu and of the All India to give a clear picture of prosperity of the State.

The development of secondary and tertiary sector is also important from the point of view of accelerating the
process of economic growth, for the value added in these sectors being more, larger returns can be reaped by comparatively smaller investments. The need of diversification of economic structure in the state towards secondary and tertiary sectors can, therefore, hardly be over emphasised for attaining higher rate of economic growth and then sustaining it.

For achieving balanced growth, greater emphasis is now being placed on the development of both large, medium and small scale industries by providing a package of incentives to the intended entrepreneurs in the state. Tamilnadu has a strong agro-base which is particularly suitable for light engineering and electronic industries where value added is high are also good. To sustain, the hitherto vigorous growth in the small scale industrial sector, for which, Tamilnadu is well known, large and medium scale industrial projects are now being encouraged so that small scale industries may develop as ancillaries to these projects.

The programmes for the development of industries have been conceived in the light of growth of State economy and visualise the attainment of the following objectives:

a. Accelerated growth of the already created infrastructure of industries;
b. Diversified rapid industrialisation of the State;
c. Promotion of rural industries to ameliorate the economic conditions of weaker sections;
d. Special emphasis on small scale units to create maximum employment;
e. Incentives to industrialists for setting up industries in Tamilnadu; and
f. Export of State Industrial products exploring new markets for exports.

The measures taken by the Government to promote the development of industries in the State, conform to the broad policy objectives as listed above. Accordingly the Tamilnadu Government adopted a: New Industrial Policy 1989. It lays down emphasis on providing conducive industrial environment, strengthening of infrastructure, identifying thrust area developing skill and encouraging entrepreneurship, for accelerating the rate of industrial development and generating employment opportunities, particularly for the educated unemployed rural youth. It provides for:

a. a minimum 10 per cent of the total annual plan outlay in the industrial sector;
b. rate of industrial growth to go up to 20 per cent by the end of eighty Five Year Plan.
c. The share of industrial sector to 20 per cent in the SDP during the same period.

Growth of Small Scale Industries

The rate of industrial growth in small scale industrial units can be assessed from the phenomenal increase in the number of such units, their investment, employment and value of industrial production.

Table 6 depicts the number of small scale working units in the state, their estimated fixed investment, employment and industrial production for the years 1992-93 to 1996-97.
### Table 6

**Development of Small Scale Industrial Units in Tamilnadu**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of small scale working units</td>
<td>(No.)</td>
<td>64901</td>
<td>75588</td>
<td>88271</td>
<td>97517</td>
<td>108913</td>
</tr>
<tr>
<td>Estimated fixed investment</td>
<td>(Rs.cr)</td>
<td>491.71</td>
<td>571.96</td>
<td>656.31</td>
<td>738.94</td>
<td>830.02</td>
</tr>
<tr>
<td>Employment</td>
<td>(No.)</td>
<td>339952</td>
<td>378846</td>
<td>424478</td>
<td>464899</td>
<td>533397</td>
</tr>
<tr>
<td>Production (value at current prices)</td>
<td>(Rs.cr)</td>
<td>1585.52</td>
<td>1786.07</td>
<td>1957.92</td>
<td>2150.99</td>
<td>2358.63</td>
</tr>
<tr>
<td>Per Unit fixed investment</td>
<td>(Rs.1acs)</td>
<td>0.76</td>
<td>0.76</td>
<td>0.74</td>
<td>0.76</td>
<td>0.76</td>
</tr>
<tr>
<td>Productivity per employee</td>
<td>(Rs.000)</td>
<td>46.64</td>
<td>47.15</td>
<td>46.13</td>
<td>46.28</td>
<td>46.85</td>
</tr>
<tr>
<td>Production per unit</td>
<td>(Rs.000)</td>
<td>245.00</td>
<td>236.30</td>
<td>221.81</td>
<td>220.58</td>
<td>216.56</td>
</tr>
</tbody>
</table>

Note: Investment and production figures are at current prices

Source: Director of Industries, Tamilnadu
The number of small scale working units increased from 5402 in 1991-92 to 108913 in 1996-97. The percentage increase in the number of units in 1996-97 over 1995-96 works out to 11.68. The number has doubled in 1996-97 over a period of 5 years. The estimated fixed investment rose from Rs.401.63 crores in 1991-92 to Rs.830.02 crores in 1996-97 registering an increase of 12.32 per cent over the previous year. The average fixed investment per unit increased steadily from Rs.0.74 lakh in 1991-92 to Rs.0.76 lakh in 1996-97.

The employment provided by these units showed an increased of 8.30 per cent during the year ending 1996-97 over the previous year. It rose from 304155 persons in 1991-92 to 503397 persons in 1996-97. The value of production increased from Rs.1342.66 crores in 1991-92 to Rs.2358.63 crores in 1996-97.

Productivity per employee also exhibited a steady upward trend and moved up from Rs.44.14 (thousand) in 1991-92 to Rs.46.85 (thousand) in 1996-97. The per unit production has not shown a steadily trend. It has rather shown a declining trend since 1991-92 upto 1996-97 from Rs.248540 to Rs.216560.
Exports—Role of Small Scale Industries of Tamilnadu

The major export-oriented industries in Tamilnadu are handtools, bicycle and bicycle components, electrical items, textiles, hosiery and sports goods. The point to note is that almost all these items are non-traditional. Secondly we see that the state's 1.09 lakh small scale units produce much more than the 374 large/medium units in the State. This has been true throughout the last decade as shown in Table 7. The table also indicates the contribution of small scale sector to the total exports of industrial goods from the country with comparative position in Tamilnadu and the growth of exports in Tamilnadu vis-a-vis the country.

From the available statistics we see that Tamilnadu has made remarkable progress in boosting exports up but the growth in exports of industrial goods has not been uniform. There was a continuous and substantial increase from Rs.90.13 crores during 1986-87 to Rs.228.71 crores during 1992-93. There was only a marginal increase of about 4 crores during the year 1992-93. Suddenly the exports slumped to Rs.197.19 crores during the year 1993-94. but a modest recovery was made in succeeding years; exports rose to Rs.245.20 crores during 1995-96 and to Rs.274.88 crores in 1996-97.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Small Scale Sector</th>
<th>% share of small scale sector</th>
<th>Tamilnadu Exports</th>
<th>% share of Small Scale sector</th>
<th>% share Tamilnadu Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986-87</td>
<td>5142.71</td>
<td>765.83</td>
<td>14.9</td>
<td>90.13</td>
<td>57.54</td>
<td>64.06</td>
</tr>
<tr>
<td>1987-88</td>
<td>5407.87</td>
<td>884.82</td>
<td>16.4</td>
<td>93.85</td>
<td>57.50</td>
<td>61.26</td>
</tr>
<tr>
<td>1988-89</td>
<td>5726.26</td>
<td>1069.24</td>
<td>18.7</td>
<td>106.20</td>
<td>66.80</td>
<td>62.90</td>
</tr>
<tr>
<td>1989-90</td>
<td>6458.76</td>
<td>1226.30</td>
<td>19.0</td>
<td>125.45</td>
<td>74.33</td>
<td>59.52</td>
</tr>
<tr>
<td>1990-91</td>
<td>6710.71</td>
<td>1643.20</td>
<td>24.5</td>
<td>162.13</td>
<td>85.18</td>
<td>52.54</td>
</tr>
<tr>
<td>1991-92</td>
<td>7796.28</td>
<td>2070.60</td>
<td>26.6</td>
<td>224.74</td>
<td>188.85</td>
<td>52.71</td>
</tr>
<tr>
<td>1992-93</td>
<td>8834.15</td>
<td>2096.90</td>
<td>23.7</td>
<td>228.71</td>
<td>124.00</td>
<td>54.22</td>
</tr>
<tr>
<td>1993-94</td>
<td>9865.30</td>
<td>2159.22</td>
<td>21.9</td>
<td>197.19</td>
<td>99.19</td>
<td>50.30</td>
</tr>
<tr>
<td>1994-95</td>
<td>11493.72</td>
<td>2540.78</td>
<td>22.1</td>
<td>203.57</td>
<td>123.47</td>
<td>60.65</td>
</tr>
<tr>
<td>1995-96</td>
<td>11011.91</td>
<td>2785.83</td>
<td>25.3</td>
<td>245.20</td>
<td>157.18</td>
<td>64.10</td>
</tr>
<tr>
<td>1996-97</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>274.88</td>
<td>174.08</td>
<td>63.33</td>
</tr>
</tbody>
</table>

Source: 1. Directorate of Industries, Tamilnadu

2. Development Commissioner, SSI, Nirman Bhawan, New Delhi
The share of small scale sector in all India exports has been varying between 14.9 per cent to 26.6 per cent; whereas the small scale industries share of Tamilnadu has never been less than 50 per cent in any year and the highest has been during 1995-96 when the percentage share was 64.10 per cent. The growth of all India exports at current prices has been about double from 1986-87 to 1995-96 whereas in case of Tamilnadu is almost three times. The speaks volumes about the tremendous efforts of the industrialists and the priority accorded by the Government. The fact, however remains that the percentage share has been varying between 1.74 to 2.88.

**Commercial Bank and Small Scale Industries**

Commercial banks play an important role in the growth of industry and trade. The network of branches, spread over the entire state help them to manage their financial affairs efficiently. In Tamilnadu there are 2608 branches of commercial banks as on 31st December 1995. The number of commercial banking offices in various states vs. area and population at the end of February 1995, is given in Table 8.
<table>
<thead>
<tr>
<th>State/Union territories</th>
<th>No. of Banking offices</th>
<th>Area in square kms</th>
<th>000 Banking offices per 000 sq.km. of area</th>
<th>Population per Bank office (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhrapradesh</td>
<td>3827</td>
<td>277</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Assam</td>
<td>798</td>
<td>79</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Bihar</td>
<td>3597</td>
<td>174</td>
<td>21</td>
<td>19</td>
</tr>
<tr>
<td>Gujarat</td>
<td>2908</td>
<td>196</td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>Haryana</td>
<td>1046</td>
<td>44</td>
<td>24</td>
<td>12</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>505</td>
<td>56</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Jammu and kashmir</td>
<td>654</td>
<td>222</td>
<td>3</td>
<td>9</td>
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<tr>
<td>Karnataka</td>
<td>3717</td>
<td>192</td>
<td>19</td>
<td>10</td>
</tr>
<tr>
<td>Kerala</td>
<td>2639</td>
<td>39</td>
<td>68</td>
<td>10</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>3460</td>
<td>443</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>4667</td>
<td>308</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Manipur</td>
<td>57</td>
<td>22</td>
<td>3</td>
<td>25</td>
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<tr>
<td>Meghalaya</td>
<td>117</td>
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<td>Nagaland</td>
<td>62</td>
<td>17</td>
<td>4</td>
<td>12</td>
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<tr>
<td>Orissa</td>
<td>1593</td>
<td>156</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>Punjab</td>
<td>3795</td>
<td>130</td>
<td>29</td>
<td>13</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>2359</td>
<td>342</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Sikkim</td>
<td>19</td>
<td>7</td>
<td>3</td>
<td>17</td>
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<td>State</td>
<td>1944</td>
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<td>6599</td>
<td>2919</td>
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</tr>
<tr>
<td>Tamilnadu</td>
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<td>294</td>
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<td>Tripura</td>
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<tr>
<td>Andaman and Nicobar</td>
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<td>2</td>
<td></td>
</tr>
<tr>
<td>Arunachal Pradesh</td>
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</tr>
<tr>
<td>Chandigarh</td>
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<td>--</td>
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<td>Dadra and Nagar</td>
<td>6</td>
<td>*</td>
<td>--</td>
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</tr>
<tr>
<td>Haveli</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Delhi</td>
<td>1019</td>
<td>2</td>
<td>510</td>
<td></td>
</tr>
<tr>
<td>Goa, Daman and Diu</td>
<td>259</td>
<td>1</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Lakshdweep</td>
<td>5</td>
<td>*</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>Mizoram</td>
<td>37</td>
<td>21</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Pondicherry</td>
<td>61</td>
<td>*</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>48932</td>
<td>3287</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

Note: * Below 500

Source: Statistical Abstract of Tamilnadu 1996

The percentage of Advances to Deposits indicates the investment being made within the State out of the financial resources available with banks. Table 9 states the yearwise deposit and advances ratio of scheduled commercial banks in Tamilnadu.
TABLE 9

DEPOSITS AND ADVANCES OF SCHEDULED COMMERCIAL BANKS IN
TAMILNADU

(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year Last Friday of June</th>
<th>Deposit</th>
<th>Advances</th>
<th>% of advance to deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986*</td>
<td>27360</td>
<td>9586</td>
<td>35.04</td>
</tr>
<tr>
<td>1985</td>
<td>66945@</td>
<td>25478</td>
<td>38.00@</td>
</tr>
<tr>
<td>1989</td>
<td>143001</td>
<td>54141</td>
<td>37.86</td>
</tr>
<tr>
<td>1990</td>
<td>175394</td>
<td>67653</td>
<td>38.57</td>
</tr>
<tr>
<td>1991</td>
<td>216095</td>
<td>93395</td>
<td>43.22</td>
</tr>
<tr>
<td>1992</td>
<td>253566@</td>
<td>108786</td>
<td>42.90@</td>
</tr>
<tr>
<td>1993</td>
<td>295707</td>
<td>121904</td>
<td>41.22</td>
</tr>
</tbody>
</table>

Note: * As on the last friday of December
@ Revised

Source: Statistical Abstract of Tamilnadu, 1996

It is observed from Table 9 that about 40 per cent of the deposits are advanced to the borrowers within the State 60 per cent of the State's deposits are invested outside Tamilnadu.
Table 10 gives an analytical view of the deposits and advances to priority sector, weaker sector, agricultural sector and DRI by 2000 commercial banks (excluding 623 cooperatives) in the State.

**TABLE 10**

**BANKS PERFORMANCE IN KEY AREAS IN TAMILNADU**

<table>
<thead>
<tr>
<th>Type of Advance/Deposit</th>
<th>Last friday March 1996</th>
<th>Last friday March 1997</th>
<th>Growth Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate Deposits</td>
<td>4471.26</td>
<td>5346.86</td>
<td>19.58</td>
</tr>
<tr>
<td>Aggregate Advances</td>
<td>2113.56</td>
<td>2483.60</td>
<td>17.51</td>
</tr>
<tr>
<td>Priority sector Advances</td>
<td>1338.25</td>
<td>1586.15</td>
<td>18.52</td>
</tr>
<tr>
<td>Weaker sector Advances</td>
<td>258.36</td>
<td>313.46</td>
<td>21.32</td>
</tr>
<tr>
<td>Direct Agriculture Advances</td>
<td>599.78</td>
<td>701.98</td>
<td>17.04</td>
</tr>
<tr>
<td>DRI advances</td>
<td>17.58</td>
<td>18.21</td>
<td>3.58</td>
</tr>
</tbody>
</table>

Source: State level bankers Committee Meeting Report, Tamilnadu, September, 1997

It is observed that the deposits increased by Rs.875.60 crores during the year 1996-97 registering growth of 19.58 per cent over the previous financial year. Total advances reached to Rs.2483.60 crores with growth of 17.5 per cent, whereas volume of priority sector advances showed an increase of Rs.147.90 crores growth of 18.52 per cent.
Direct Agricultural Advances improved from Rs.599.78 crores to Rs.701.98 crores depicting growth of 17.04 per cent. Weaker sector advances stood at Rs.313.46 crores against advances of Rs.258.36 crores as at March 1996 registering growth of 21.32 per cent. Volume of DRI advances improved from Rs.17.58 crores to Rs.18.21 crores.