

## Chapter - I

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# INTRODUCTION

## 1:1 Prelude

Development has no limit, whether the country is developed or under-developed. The need for development arises in developed countries for the sustenance of full employment and to avoid secular stagnation. In the case of under-developed countries, development is to overcome poverty, improve employment, face global competition and enhance the physical quality of life. The history of economic development indicates that one has to break the dominance of the primary sector and sustain the development of the secondary before proceeding to gain through the tertiary sector.

The development of the industrial sector for the overall growth of the economy has been a known fact. In the words of George Rosen (1962), "Industrialisation is necessary to increase average per capita throughout India" Samuelson (1964) is of the opinion that "advanced technology was itself developed to meet the special conditions of advanced countries. In an under-developed, capital starved country, technological innovation can often be capital saving rather than capital using". Kindleberger (1958) agrees with the view that technology should be "spreading of the available capital and not capital deepening". Locational decisions of entrepreneurs are influenced by nearness to raw material and nearness to the market, as demonstrated by Alfred Weber. All these ideas suggest the need for development of small scale industries,

which is well appreciated by Schumacher, an advocate of small scale production, in his, "Small is Beautiful".

The industrial policy of the Government of India as well as Government of Tamilnadu have been providing special status to Small Scale Industries (SSIs) in the Indian economy. P.N. Dhar and H.F. Lydall (1964) have studied the role of small scale industries and analysed the financial problems of small scale industries. J.C. Sandesara (1980) has examined the need for incentives for small industries. R.Jayaraman (1988) has studied "Fiscal Incentives for Private Savings and Investment", but with reference to the Corporate Sector. A good number of similar studies have been conducted; but these studies are at a macro level taking into consideration the problems and development of small industries at the National and State level. However, similar exercises at micro level i.e. at district level are scanty. Development of small scale industries at the District level will provide a good basis for District planning and hence this study is executed.

## **1:2 Small-Scale Industries in Indian Economy**

The importance of and small-scale industries arises from the various advantages which they possess.

**a. Employment :** The unemployment and underemployment are the prevailing economic diseases in most of the underdeveloped countries. As is well-known, there are too many people working on the land in India and it is imperative that these should be drawn away from the land as has happened in

most of the developed countries. It is now recognised that too many people working on the land contribute too little output. The problem of unemployment is becoming more and more acute with each plan period. The statistics indicate that the number of unemployed has been 5.3 million at the end of the First Plan, nine million at the end of the Second Plan and 12 million at the end of the Third Plan(Ram K. Vepa, 1969). The number of unemployed at the end of March 1993 has been of the order of 36.3 million. The problem is further aggravated by rapidly increasing population. The population is increasing at a fast rate of 2.46 per cent per annum. To provide employment to such a large number is a difficult task. Large-scale industries are capital intensive and their capacity to provide employment is very little. So large industries alone can not solve this gigantic problem. As the small-scale industries being labour-intensive, more employment could be provided through their development. In underdeveloped countries with large reserves of surplus labour there is undoubtedly a case for paying special attention to labour-intensive and light industries scattered and decentralised rather than concentrating on capital intensive heavy industries (S.K.Basu, 1957). So, it is often argued that one of the most promising opportunities for employment lies in developing small industries (B.N. Rangaramu, 1970). The healthy development of small-scale industries would be of effective approach to the pressing human welfare problem of unemployment and would more over provide a strong base for stable growth of a large sector of the Indian economy (Govt. of India, 1953)

About 65 per cent of the people in India are dependent on agriculture. Agriculture is a seasonal occupation as a result of which labour working in agriculture would be seasonally unemployed. An agricultural labourer will find work for a period of six months and rest of the year he will be unemployed. Only small scale industries can solve the problem of seasonal unemployment. The industry can be easily started and operated. These industries will provide employment without adversely affecting the main occupation, namely, agriculture. The illiterate masses of rural areas can undertake work during off seasons in these industries.

In India, the small-scale industries provide employment roughly to 44 million people, whereas large-scale industries provide employment only to 7.6 million people. As far as employment is concerned, they stand next only to agriculture. Hence, there is great need for developing small-scale industries. While emphasising this, our former President has said: "An employment-oriented industrial programme to bridge the widening gulf between economic growth and surplus man power is urgently called for" (V.V. Giri, 1971).

**b. Capital :** In India capital is scarce. While capital is scarce, the optimum use of available capital resources in terms of employment and productivity must, therefore, become one of the main goals of economic planning. Large industries require huge amount of capital. Small industries can be established with limited capital. If we invest the scarce capital in small-scale industries, the returns are quick and hence the generated returns may again form capital.) Small rural industry

can do without many of the urban services and can thereby save for productive purposes capital expenditures that would otherwise be involved in the cost of urbanisation (H. Aubery, 1960). Therefore, as small-scale industries need less capital, yield quick returns with less risk, investment in these units is preferable in India, a country where capital is relatively scarce.

**c. Inequalities in income:** In India, there is a wide disparity in wealth and incomes of the people. One of the important objects of planning is the reduction of inequalities. It is possible to reduce these inequalities, to some extent, by providing opportunities to the have-nots to take up small-scale industries for their living. True to this expectation, Professor V.K.R.V. Rao has said that the small-scale industries have this in their favour that, with proper safeguards they will result in a large and more widely distributed sharing of the productive function and therefore, a more equitable distribution of the produce of industry (Rao V.K.R.V., 1965). Further, small-scale industries apart from playing dominant part in our economy, serve as a means by which there can be an equitable distribution of national wealth.

**d. Regional Disparities :** For reasons partly economic and social and partly political, all regions in India are not equally developed. Some areas like Bombay, Madras, and Calcutta attained a high degree of development, when compared to other parts of the country. So in some quarters it is felt that there is need for dispersal and decentralisation of industries. Small-scale industries play an important role in dispersal and decentralisation as they can be established

with relative ease. Small-scale industries have a special claim for consideration in that they are the local investment through which the decentralisation of industrial production can be achieved.

**e. Miscellaneous :** Small-scale industries are also adaptable to a large extent to the changing conditions and habits of the people. In large-scale industries, as the scope for personal touch between the workers and management is less, there is scope for industrial strife. But in the case of small-scale industries, the owner will be generally in touch with the workers, which enables them to understand each other.

Where artistic skill is the sole criterion, large-scale industries are not best suited to produce such articles. Development of small scale industries will prevent migration of people to cities and its resultant consequences. Further, while development of large-scale industries places a heavy strain on our limited foreign exchange resources, small-scale industries need not require higher outlays of foreign exchange.

All the above considerations form a strong base for the urgency to develop the small-scale industries. As Aldous Huxley put it : "The ownership of the means of small-scale production has none of the disastrous political, economic, psychological consequences of large-scale production, loss of independence, enslavement to an employer, insecurity of terms of employment."

To sum up, the small scale industrial sector has emerged as a dynamic and vibrant sector of the Indian economy during the eighties. At the end of the seventh plan period it accounted for nearly 35 % of the gross value of output in the manufacturing sector and 40 % of the total exports from the country. It also provided employment opportunities to around 12 million people.

### **1:3 Problems Faced by the Small Scale Industries**

In spite of the many advantages they possess and their vital role in the national economy, the small-scale industries face varieties of problems. Some of the major handicaps may be listed under the following heads :

**a. Raw Materials :** It is estimated that the raw materials alone account for nearly 70 per cent of the ex-factory price of the products in the small-scale sector and most of these industries have to depend heavily on the open market for the supply of scarce raw materials, where the prices are more. Large-scale industries being more organised take away most of the raw-materials. The inequality in the struggle for existence of the small-scale units against the large units is too glaring owing to the government's faulty distribution policy of raw-materials. All the other facilities and incentives, provided by the Government, would have only a marginal impact unless these are accompanied by a commensurate and regular supply of essential raw-materials. Though there have been many important recommendations of the various study teams appointed by the Government for studying the problem of equitable distribution of raw-materials among the various sectors of industries,

unfortunately many of these recommendations did not get implemented and the few which were implemented were not carried out with the necessary dynamism with the result that the status quo continues in several fields. Though a number of public sector undertakings like the State Trading Corporation of India, Minerals and Metals Trading Corporation of India, Hindustan Steel Ltd., Indian Drugs and Pharmaceutical Ltd., Indian Copper, etc., virtually control the supply of the basic raw materials required by the industries, these undertakings have not been able to meet the requirement of the small-scale sector. Besides these public sector undertakings, some basic raw-materials and intermediaries are being produced by the private sector undertakings. The availability of even these items to small-scale sector is uncertain and the prices are exorbitant. To quote the recommendation of the Dutt Committee on Industrial Licensing. Certain components or materials needed by small-scale industries have to be produced on a large scale for technological and economic reasons.

**b. Technique of Manufacture :** In the small-scale industries, the technique of manufacture is poor and primitive. They use old methods and implements. The existing techniques in a number of cases have descended from the hoary past and still retain the form, shape and size which they first had centuries ago. The Ford Foundation team also came to the similar conclusion, when they stated: "More often than not, age-old methods are being used and seemingly have not been changed for generations. Thus, the production per capita is low, resulting in low earnings and low wages"(Rao V.K.R.V., 1965).

Though the position in some small industries like light engineering industries is somewhat better, when compared to the organised large-scale sector, the instruments of production and management of small industries leave much to be desired. The Planning Commission has also admitted that the development of small industries has been hampered by the low level of technology. It is also pointed out that more than the availability of credit, lack of technical consultancy services at all levels has been pointed out as the biggest obstacle in the development of small-scale industry by a survey made by the Reserve Bank of India. Recognising the need, the Government set up the Small Industries Service Institutes. But technical assistance provided through these Small Industries Service Institutes is neither adequate nor effective. Facilities like testing laboratories have to be set up in large numbers(Dutt S., 1969).

**c. Finance :** The biggest problem for small-scale industries is that of obtaining necessary finance. The Industrial Planning Team, 1955, in their report stated that : "In most of the workshops visited, real finance did not seem to exist at all. There was a severe lack of capital as well as of credit. The problem of finance is more acute in the case of small-scale industries which are comparatively capital-intensive like engineering units. Government's assistance in the field of finance is inadequate (Ford Foundation, 1955).

Small-scale units doing jobs or supplying goods to Government departments suffer due to the delays in payment of the bills for months and

years and funds involved in those transactions remain blocked for long without their being ploughed back into the industry in time.

**d. Marketing :** Lack of proper marketing channels is another difficulty. The products of the cottage industries have to be sold mainly in the local markets. This considerably limits the scope for remunerative prices. The artisans are not aware of the market information and their products are not in accordance with the changes in fashions of the customers. Though SSI's are better placed in this respect when compared to cottage industries, they are faced with competition from large-scale industries.

**e. Heavy Taxation :** The small-scale industries have to bear a heavy burden of taxation. Their raw materials are subject to octroi duties and their finished products to sales-tax, when in all fairness, they should be exempted from sales-tax on all purchases.

**f. Filling of Cumbersome Statistical Returns :** Apart from the normal work that production in the unit involves, the small-scale industrialist has to comply with a spate of dictates from municipal, State and Central Government departments to submit a number of returns. Employment of additional staff becomes a burden on the small units, resulting in higher costs.

#### **1:4 Promotional Measures**

In order to accelerate the small industries development, Government at the central and state have set up a number of developmental agencies/institutions such as DICs, Small Industries Service Institutes, Small Industries Development

Organisations and so on. All India financial institutions like, IDBI, IFCL, ICICI have promoted a number of Technical Consultancy Organisations to assist small entrepreneurs in a number of ways. In 1986, The Small Industries Development Fund was setup in IDBI in order to assist small scale industries and tiny sector units in rural areas. Recently the Small Industries Development Bank of India has been established to help small scale units. In addition to these institutions there are all agencies like National Science and Technology Entrepreneurship Board, Khadi and Village Industries Commission, Commercial Banks, Exim Bank and Co-operative Banks also undertake several promotional activities.

#### **District Industries Centre**

The Industrial Policy Resolution of 1977 mentions, the setting up of District Industries Centre (DIC) as focal points for transfer of technology to marketing and allied fields. Accordingly the DICs were established in May 1978 in order to cater to the needs of the small units.

#### **Small Industries Development Organisation (SIDO)**

SIDO is a policy making co-ordinating and monitoring agency for the development of small scale entrepreneurs. It maintains a close liaison with government, financial institutions and other agencies which are involved in the promotion and development of SSIs.

### **National Small Industries Corporation (NSIC)**

The NSIC was set up in 1955 with the objective of supplying machineries and equipments to small enterprises and assisting them in procuring the government orders for various items of stores.

### **Tamil Nadu Small Industries Development Corporation (SIDCO)**

In Tamil Nadu SIDCO plays a lead role in developing small scale sectors. The main functions are (a). provision of constructed sheds in industrial estates; (b). assistance in procuring scarce raw materials; (c). financial assistance in the form of subsidies to industrial units in backward areas like, Central Investment Subsidy, State Capital Subsidy, Interest Free Sales-tax Loans, Power Tariff Subsidy and Margin Money Assistance for the rehabilitation of the sick small scale industries and (d). marketing assistance .

### **Small Industries Service Institutes (SISI)**

The SISI was established in 1956 , in each state and rendering very useful services. The major schemes are (i). Technical Consultancy and Advisory Service; (ii). Common Facility Service; (iii). Training Facilities (iv). testing facilities and marketing assistance.

### **State Industries Promotion Corporation of Tamil Nadu Ltd., (SIPCOT)**

SIPCOT was set up with the specific objective of playing a catalytic role in the promotion and development of medium industries and listen the industrial dispersal in backward and underdeveloped area of the state.

## **Incentive Measures**

One of the measures for the development of SSIs is the provision of incentives and subsidies. The term incentives is a general one and includes concessions, subsidies and bounties. These subsidies and incentives offer the following advantages.

- (a) They motivate prospective entrepreneurs to enter into manufacturing line.
- (b) They encourage the entrepreneurs to start industries in backward areas.
- (c) By providing subsidies the government can bring industrial development uniformly in all regions, develop more new entrepreneurs which leads to entrepreneurial development, increase the ability of entrepreneurs to face competition successfully and reduce the overall problems of small scale entrepreneurs.

In a developing and predominantly agriculture region like Tamil nadu the SSIs can exercise a stabilising influence in the vagaries and uncertainties of rural economy besides contributing to its prosperity. The Govt. of India has notified 105 out of 170 taluks of Tamil nadu as " industrially backward ". Hence, 62 percent of the taluks in Tamil nadu becomes eligible to avail various incentives offered by the Government.

### **1:5 Scope of the study:**

Development of any institution can be brought about both with a market economy as well as planned economy. India, having chosen a planned economy, proper direction through policy measures and promotional measures

have to be provided for by the state. Small industries are receiving the best attention since 1977 and after the setting up of District Industries Centre at the district level. A Good number of institutions, like NSIC, TIIC, SIDCO, SIDBI are also functioning for the development of SSIs. Not sufficed with these, Fiscal incentives in the form of Capital subsidy, Generator subsidy, Tax concessions, Export subsidy are also provided to make the small industries competitive and make them viable. Further planning and promotional activities depend upon the performance of SSIs. The performance has to be analysed and evaluated at the micro-level also so as to bring about an overall, as well as balanced growth of all regions.

The present study is on the development dimensions of SSIs in one of the districts of Tamilnadu, Thanjavur District, hailed as the "Granery of Tamilnadu". The study is restricted to the growth of SSIs, pattern of growth, problems, structure of industries, investment, production, employment level availability of fiscal incentives and problems faced by the units in availing fiscal incentives. This study contains policy implications pertaining to the scope for future planning of SSI units in the district.

### **1:6 Objectives of the Study**

The broad objective of the study is to examine the development of small scale industries in a district dominated by agriculture. It also highlights the awareness of fiscal incentives, as a promotional measure, among the SSI units in the selected District. The specific objectives of the study are :

1. To find out the growth trends of SSIs in the sample district.
2. To study the investment and employment levels in SSI units of the district and to ascertain the extent of Capital employed and level of production by the SSIs.
3. To assess the economic viability of the Units and to compare the performance parameters of SSIs at the State and National levels.
4. To examine the availability and distribution of fiscal and financial incentives for the small scale units and the problems involved in getting the assistance.
5. To suggest policy measures for further action on the part of the Government.

#### **1:7 Hypotheses of the Study:**

This study is directed towards testing of the following hypotheses :

1. Among the SSI units in the study region which is agrarian, Food industry is dominant.
2. The Investment, Employment and Production pattern of the units in the study district is on the same pattern of the SSI units of the state of Tamilnadu.
3. The economic viability of the SSI units in the study district is not equal to the state of Tamilnadu.

#### **1:8 Methodology and Data Base :**

This micro level study is restricted to the composite Thanjavur District of the State of Tamilnadu, India. The district has been bifurcated in October 1991 with the coming up of Nagapattinam District and trifurcated in July 1996 with the new Thiruvarur District.

The required secondary data have been collected from the respective District Industries Centres. For the purpose of comparative analysis and to select the performance parameters, Report of Registered Small Scale Industrial Units in Tamilnadu (Small Industries Service Institute) as well as Report of the Second All India Census of small scale units, 1992 have been made use of. Data on fiscal financial incentives are drawn from the publication of Tamilnadu Industrial Guidance and Export Promotion Bureau, (Government of Tamilnadu), titled "Incentives offered by Government of Tamilnadu to Industries" which provides a complete picture of incentives offered and the conditions thereof for availing the incentives.

Reports published by Development Commissioner, Small Scale Industries, Ministry of Industry, New Delhi adds to the sources of secondary data.

The primary data have been collected by administering a specific structured schedule on different aspects of SSIs. A sample of 300 units were selected for interview on the basis of stratified random sampling well spread out in all the taluks of the district. Among these, 45 units were not functioning and 20 units refused to deliver the required data. Another 75 schedules were incomplete and defective. Hence, only 160 schedules with all complete informations were processed and taken for analysis. However, these 160 units were distributed region-wise so as to supply a well balanced picture of the sample size.

Simple statistical tools like Mean, Standard Deviation, Percentages, Trend lines have used for depicting growth and comparing it. Ratio analysis has been used to assess economic viability, have been adopted for analysis and testing of hypotheses.

#### **1:9 Period of the Study :**

This study pertaining to the growth of the SSI units covers a period of ten years from 1982-1991, to enable a comparative analysis at the State and National level. To know in depth the current position, problems and distribution of incentives, the period from 1991-1996 has been chosen.

#### **1:10 Limitations :**

\* The present study is confined to the data collected from registered SSI units only of the district, leaving a substantial number of unregistered units.

\* Even the units which have been taken for the study have not maintained adequate records due to carelessness, poor educational qualification of the entrepreneurs and desire to evade excise duty, income tax and sales tax.

\* Bifurcation of the district in 1991 and subsequent trifurcation in 1996 are other impediments in the collection of data.

\* Existence of sick units and closure of the units during the study period imposed further constraints on data collection.

\* Inferences from the analysis based on macro level secondary data pertains to All India Survey of SSI of 1991, whereas an analysis of the

development of the SSI in the district taken for study due to fiscal incentives is based on the primary data collected relate to the period 1991-96.

### **1:11 Plan of the Study :**

The present study comprises nine chapters. The first chapter is an 'Introduction'. A brief Review of the literature is delineated in the second chapter. The third chapter is on the The Rationale of Incentives and Its Applications. The fourth chapter provide a brief description of the study area. A macro analysis of the growth of Small Scale Industries forms the core of the fifth chapter, 'Development Dimensions of Small Scale Industries in Thanjavur District'- with inter-industry and intra-district comparison. The sixth chapter is a micro analysis of Small Scale Industries in Thanjavur District. The seventh chapter is an analysis of the Tax Incentives vis-a-vis SSI Units-Thanjavur District. The problems of Small Scale Industries in Thanjavur District is focussed in the eighth chapter. The last and nineth chapter contains the findings and suggested policy measures.

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# CORRECTIONS

## Chapter - I

Page No	Paragraph	Line	As it is	As it should be
2	Third	I	of and	of
5	Second	II	Objects	Objectives
6	Second	IV	strife	strike
6	Quotation - Source "Southern Economist"- Vol 30 June 15, 1991" - Quoted by <b>Prasad .S.A</b>			
7	First	IV	form	from
8		Last line	Rao VKRV	VKRV Rao
10	Second	II	materails	materials
10	Second	III	exemptd	exempted
11	Third	II	liasion	liason
17	First	III	availability	viability
17	Third	I	regidstered	registered
14	- Scope		- The study is restricted.	
15	- Objective		- To examine the availability and distribution of incentives.	