CHAPTER 1

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Industrial development plays a pivotal role in the economic development of any country. The major emphasis of the process of economic planning in the developing countries is to usher in an era of industrialization to improve their economic conditions, increase the Gross National Product (GNP), strengthen the infrastructure base, reduce the incidences of poverty and overcome the problems of inequalities in income.

However, in a developing economy, the capital is scarce and the labour is abundant. Due to low capital formation, the developing economies find it difficult to make huge investment in large industrial units, which are highly capital intensive and, thereby, restrictive in employment growth per unit of capital invested therein. Besides, the imperatives of reduction in regional disparities are also not very supportive of heavy industries.

The strategy for industrial development, therefore, inevitably, encompasses the encouragement and development of small scale sector. The small scale sector, due to its predominantly labour intensiveness, has an important responsibility for eradication of poverty, generation of employment, rural development, widespread dispersal of industrial activities, reduction of regional imbalances and so on.

1.1 STATEMENT OF THE PROBLEM

Small Scale Industries occupies a place of pride in the industrialization of Indian economy. It has to play multifarious tasks such as acting as catalyst for rapid industrialization, generation of employment opportunities at a relatively lower cost, effective utilization of scarce resources, reduction of regional disparities, ensuring equitable
distribution of national income and wealth, promotion of entrepreneurship and so on. Since independence, these industries have contributed significantly to the strengthening of the industrial sector as well as to the Gross Domestic Product of the country. The enormity of the small scale sector in Himachal Pradesh can be gauged from the fact that there are 39648 small scale units in the State, with an investment of Rs. 6530.20 crore, providing employment to 221842 persons.

These industries have become more significant in an economy such as that of State of Himachal Pradesh, where, due to hilly terrain and low infrastructural base, the setting up of large industries is an arduous task. This explains the predominance of small scale enterprises in the industrial economy of Himachal Pradesh.

One of the significant parameters of the economic development of a country is the structural changes that are witnessed in its industrial spectrum. The structural transformation from manufacturing of agricultural and other traditional goods to the modern economic activities is the key factor in an industrialization process. Further, as the economic resources are scarce and the demand for them is plenty, with the progress of economy, there needs to be the better allocation and utilization of scarce resource. The allocative inefficiencies need to be checked in order to ensure optimum utilisation of scarce resources. The rise in overall productivity and the consequent increase in production and income contribute to the modernization of an economy. The growth and structural changes in the small scale industries are intrinsically linked to the variations in the productivity and efficiency. Taking into account the enormous contribution being made by the small scale industries in the industrial development of developing countries, it becomes imperative to look into the changing pattern of growth, structure and productivity of these industries in order to have an idea as to where the industrial development of a country is heading for.
Realizing the significance of small scale industries in the industrial economy, the policy in India has, for a long time, been one of the protection of these industries through a variety of ways, such as reservation of items for exclusive production by small units, heavy custom duties, tax rebates or tax holidays, facilitations in terms of credit, power and technical know-how. The protective environment in which the small scale industries had been functioning for a long time blunted its competitiveness so much so that when the Indian economy was opened-up after the economic reforms of 1991, it was feared that these industries would be strangulated by the fierce competition from the large industries in India as well as the multi-national companies. In order to withstand the pressure of globalization, it has become necessary for small scale industries to usher in meaningful structural changes and enhance productivity of the inputs that are injected into the production process.

Since the small scale industries have been playing a key role in the industrialization of a small hilly State of Himachal Pradesh and contributing immensely to the generation of output and employment in the State, the changes in the structure and productivity of these industries in Himachal Pradesh is a matter of investigation and consequent policy intervention. Further, it also needs to be looked into as to how these industries have been performing in the post reform period (i.e. post-1991) as compared to the pre reform (pre 1991) period.

1.2 DEFINITION AND MEANING OF SMALL SCALE INDUSTRIES

The terminology of small scale industries includes small enterprises, small units, small scale sector, small scale enterprise, micro units, cottage industries, tiny units, ancillary units.

The concept of small scale industries is a relative concept and its formal definition is based on the objectives of industrial development,
the stage of economic development, the perception of political leadership, etc. However, while defining small scale industries, the term ‘small’ is of prime importance. In a general sense, a small scale industry is the one which is defined as such, according to the some criteria developed for the purpose of such distinction by the authorities concerned. The criterion which distinguishes a small scale unit from the large scale unit may be the number of workers employed or the amount of investment made in the plant and machinery or both. However, both the criteria lead to confusion and lack clarity. When defined in terms of number of workers employed, the small scale unit could be the one which have the specified number of workers but can still make any amount of investment within that specified number of workers. On the other hand, if small scale unit is defined in terms of amount of investment made therein, the unit can employ any number of workers within the defined limit of investment.

In India, before independence, the term small scale industries implied only cottage industries, village industries, rural industries or agro-based industries. After attaining independence, the Government of India embarked upon the programme of industrialization, which accorded a place of pride to the small scale sector. The policy has been that of promotion as well as protection of small scale industries. As such, the definition of small scale sector has been changed from time to time to suit the needs of changing circumstances and objectives as well as to chalk out the definite programmes of action for their development.

Initially, in India, the small scale industries were defined in terms of strength of workers engaged therein. Afterwards, the investment in plant and machinery was also taken into account along with the strength of labour while defining these industries. However the employment criterion was dropped in 1960 particularly (a) due to the seasonal changes in the employment, (b) year-to-year changes in employment
and (c) due to inducement to an industrial unit to limit the engagement of labour in order to remain within the small scale industries sector to enjoy the concessions given to such industries. As such, the small scale industries are now being defined purely in terms of investment in plant and machinery\(^2\).

The Industrial Policy Resolution of 1948\(^3\) defined small scale industries as those units which (a) use power and employ less than ten workers or (b) do not use power and employ up to 20 workers. During the first Five Year Plan, the small industries were defined as a group of those industries which were not forming the integral part of village economy, making it a distinct entity from village industries\(^4\).

The first official comprehensive definition for small scale industries came in 1955 whereby a small scale industry was defined as a unit having gross capital asset not exceeding Rs. five lakhs and employing less than 50 workers per day if power is used or less than 100 workers if no power is used\(^5\). In 1957, this definition was slightly modified by replacing ‘per day’ with ‘per shift’ in the employment criterion\(^6\).

The employment criterion was altogether dropped in 1960 which enlarged the scope of employment in small scale industries within the earlier ceiling on investment. As such, the “small industries will include all industrial units with a capital investment of not more than Rs. five lakhs, irrespective of the number of persons employed”\(^7\). The investment limit was revised upward in 1966 according to which, an industrial unit with the capital investment of not more than Rs. 7.5 lakhs in plant and machinery was qualified to be called as small scale unit. The ceiling was fixed at Rs. 10 lakhs in case of ancillary industries\(^8\). An ancillary undertaking was conceptualized as one which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tools, intermediates or rendering of
services and undertaking supplies, which render not more than 50 percent of its production or services, as the case may be, to one or more than one industrial undertakings.

The maximum limit on fixed capital investment in plant and machinery for determining small scale industries was raised in 1975 to Rs. 10 lakh, irrespective of the number of persons employed therein. In 1977, the concept of tiny unit was introduced which was to be located in rural areas/towns having population of 50,000 as per 1971 Census. The investment limit for tiny unit was kept at Rs. 1 lakh, which was raised to Rs. 2 lakhs in 1980, Rs. 5 lakh in 1990 and further to Rs. 25 lakhs in 1997.

The Industrial Policy Resolution of 1980 revised the investment limit to Rs. 20 lakhs for small scale industries and Rs. 25 lakhs for ancillary units. The definition for small scale and ancillary industrial units was again revised in 1985 as investment in fixed asset in plant and machinery to Rs. 35 lakhs for small scale industries and to Rs. 45 lakhs for ancillary units.

The Industrial Policy Resolution of 1990 revised the investment ceiling to Rs. 60 lakhs for small scale units and Rs. 75 lakhs for ancillary units. In 1997, the investment limit was raised to Rs. 3 crores for small scale as well as ancillary industrial units. The scope for ancillary units was expanded, inter alia, to the rendering of not more than 65 per cent of production or services to one or more industrial undertakings. However, in 1999 on request from the small scale industrial units and small scale industries association, the investment limit in plant and machinery was scaled down to Rs. one crore for small scale as well as ancillary undertakings. The investment ceiling for tiny industries, however, remained unchanged at Rs. 25 lakhs.
After the enactment of the Micro, Small and Medium Enterprise Development (MSMED) Act, 2006, the micro, small and medium enterprises are classified into two categories:

(a) **Manufacturing Enterprises** - The enterprise engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951. The manufacturing enterprises are defined in terms of investment in plant and machinery.

(b) **Service Sector** - The enterprises engaged in producing or rendering of services and are defined in terms of investment in plant and machinery.

These enterprises may be proprietorship, Hindu Undivided Family, association of persons, co-operative society, partnership, undertaking or any other legal entity.

The limit for investment is Rs. twenty five lakh for micro industries engaged in manufacturing activities and Rs. ten lakh for those engaged in service activities. Further, the investment limit for small industries is more than Rs. twenty five lakh but not exceeding Rs. five crore in case of manufacturing enterprises and more than Rs. ten lakh but not exceeding Rs. two crore in case of service enterprises. The medium industrial units have been defined as having investment of more than Rs. five crore but not exceeding Rs. ten crore for those engaged in manufacturing activities and more than Rs. two crore but does not exceed Rs. five core for those engaged in service activities.

### 1.3 SIGNIFICANCE OF SMALL SCALE INDUSTRIES

The small scale units requires comparatively smaller amount of capital investment vis a vis large scale industries. As such, these units need not encounter the problems associated with low level of capital formation being faced by the developing economies. The developing
economies are labour abundant and as such, the appropriate economic utilization of large human resource is one of serious concerns of economic policy of such economies. Since Small Scale Industries are labour intensive, they are able to create a large amount of employment opportunities, particularly at the local level. In India, small scale sector is the second largest (after agriculture) creator of employment opportunities. The people from rural and backward areas migrate to big cities in search for employment and better standard of living. The growth of small scale industries are also expected to generate more employment opportunities nearby the place of residence of the populace, and thus, would be able to check such migration.

Since the small scale units are located in remote areas or at the village level, they provide for optimum utilization of local resources, such as capital, labour, entrepreneurship, natural resources, etc., which may remain untapped otherwise. "These industries are particularly suited for better utilization of local resources and for the achievement of local self-sufficiency, in respect of certain type of essential consumer goods, like food, cloth and agriculture implements". The diversification of production system and demand structure of small scale industries provides ample opportunities for putting together local resources to produce diversified range of products to meet local demand.

The contribution of small scale units to the export basket of the country is immense. About 45 to 50 percent of the Indian exports is contributed by the Small Scale Industries Sector. Direct exports from the Small Scale Industries Sector account for nearly 35 percent of total exports, whereas indirect exports, in the form of merchant exporters, trading houses, export houses, export orders from large units or the production of parts and components for use for finished exportable goods, etc. account for about 15 percent.
Significance of Small Scale Industries

The most significant aspect of the export performance of small scale industries is that the non-traditional products contribute more than 95 percent of the Small Scale Industries exports, which shows the structural shifts of an economy. This is also an indicator of how the small scale units have progressed into the production of non-traditional products over the years. Besides, the small scale sector also saves precious foreign exchange by producing goods, which were imported previously, under import-substitution policy framework of the Government.

The small scale units do not require huge infrastructure and highly sophisticated technology for their operations, as compared to the large units. They draw strength mainly from the traditional skills and knowledge and thus, facilitate dispersal of industrial activities to the remote rural and backward areas depending upon their economic viability and the facilities extended by the Government. In fact, one of
the main objectives for encouragement of small scale sector over a
period of time is that it is helpful in correction of regional imbalances
and diversification of industrial structure through rural industrialization
so that the effects of industrial growth can percolate at each level.
Moreover, the increase in industrial activities in rural and backward
regions would generate more employment, raise income level of local
populace and create larger aggregate demand. This would, in turn, give
further impetus to economic activities and increase the standard of
living of the people residing in these regions.

The Small Scale Industries taps the entrepreneurial talent of the
local population and helps in widening the entrepreneurial and
managerial base of the country. The emergence of a new class of
entrepreneurs would accord vibrancy to the industrial spectrum of the
country and boost the industrial activities. The local entrepreneurs have
better understanding of the availability of capital, human resources, raw
material, technology and demand situation at the local level and can,
therefore, establish appropriate synergy among these resources so that
they are put to the optimum use and the waste is avoided.

The small scale sector promotes the production of indigenous
goods and services, either for final consumption or as an intermediary
product/input for use by the large scale units. This reduces the
dependency on imports as the goods can now be produced
indigenously. This saves precious foreign exchange. Besides, “Small-
scale industries make better use of indigenous organisational and
management capabilities by drawing on a pool of entrepreneurial
talent"20 which is available locally.

The small scale industries also promote the growth of large
industries by providing valuable inputs required by them, thereby
facilitating integrated industrial development in a developing economy.
The large scale industries get their inputs nearby, which are
economical, cost-effective and reduces the cost of production. The small scale industries, in turn, get the market for their products. As such, both the sectors can grow in tandem in a mutually cohesive manner for their mutual advantage.

The efficiency in production in any enterprise is determined by the relation between its employees and the employers. Since the small scale units are using the local manpower, the relations between the workers and the entrepreneurs are healthier and are based on mutual understanding, confidence and goodwill. The channel of communication between employees and employer in small scale sector is more direct and emphatic. The small scale sector is comparatively immune to the loss of production and man-days, which are quite prominent in the large scale industries, due to lock-outs and strikes. As such, the incidences of industrial disputes are quite negligible in small scale enterprises.

1.4 CONTRIBUTION OF SMALL SCALE INDUSTRIES

There is no gainsaying in the fact that the Indian economy has been able to strengthen as well as broaden its industrial base, both in terms of number of products and dispersal of industries to the backward and inaccessible areas, besides achieving a high degree of self reliance. The contribution of small scale sector in the industrialization as well as economic development is no less significant. It contributes significantly to India’s Gross Domestic Product and export earnings, besides providing a large number of employment opportunities, reducing income inequality, ensuring balanced regional development and assisting in the creation of strong entrepreneurial base.

Since independence, the small scale sector has grown phenomenally. There are about 26 million units in this sector producing over 6000 products, ranging from traditional goods to high-tech items. It is estimated that this sector accounts for about 45 percent of
manufacturing output and 40 percent of total exports of the country. Besides, 59 percent of the labour force is employed in this sector\textsuperscript{21}.

The small-scale industrial sector has recorded a high growth rate since independence. This has been corroborated by the tremendous expansion in the number of registered units in this sector as well as increase in the output of small units over the years. There were mere 16,000 small scale units in 1950. However, the number of registered units had increased to 4.2 lakh in 1972-73 and further to 298.1 lakh in 2009-10\textsuperscript{22}.

The small scale sector has also diversified its product and progressed from production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro-wave components, electro-medical equipments, Television sets etc\textsuperscript{23}. The output of small scale sector has increased from Rs. 34,200 crores in 1972-73 to Rs. 84728 crores in 1990-91 (at 1993-94 prices) and further to Rs. 982919 crores in 2009-10(at 2001-02 prices)\textsuperscript{24}.

One of the most significant advantage of small scale sector is that it is labour-intensive and has a relative high labour-investment ratio, which implies that with a given volume of investment, the small scale sector is likely to provide more employment as compared to the large industry. Within the manufacturing sector itself, small and cottage industrial sector contributes about four-fifth of manufacturing employment in India\textsuperscript{25}.

In developing countries a sizable number of population is engaged in agricultural activities. The marginal productivity of the labour engaged in agriculture is very low. With the encouragement of small scale industries, the problems of disguised employment and seasonal unemployment, which is peculiar in a predominantly agrarian economy, could be countered effectively. The small scale sector has been able to
provide employment to the surplus and ever increasing manpower, at a relatively low capital cost, in the developing economies.

In India, the small scale sector employed 39.7 lakhs persons in 1972-73, which had increased to 158.3 lakh in 1990-91 and further to 1061.52 lakh (in Micro, Small and Medium Enterprises) in 2013-14\(^6\). The growth rate of small scale industrial sector has been faster both in terms of output and employment. In other words, the output employment ratio for the small-scale sector is 1:1.4. The rapid growth of the small-scale industries has a great relevance in our national economic policies. The growth of small-scale sector improves the production of non-durable consumer goods of mass consumption. As such, it acts as an anti-inflationary force. If a big push is given to the small sector, it can become a stabilizing factor in a capital-scarce economy like India by providing a higher capital-output ratio as well as a higher capital employment ratio.

During the post independence period and especially after the Second Five Year Plan, a large number of modern small scale industries were established in India. As a result, the contribution of small scale industries in India’s export earnings has assumed significant proportions. The small scale industrial sector plays a major role in India’s export performance. About 45 - 50 percent of the Indian exports is presently contributed by Small Scale Industries Sector.

Significantly, the non-traditional products account for more than 95 percent of the Small Scale Industries exports. The exports from Small Scale Industries sector have been witnessing excellent growth rates due to the increased export of garment, leather and gems & jewellery. The Small Scale Industries sector also dominates in the exports of sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products. Moreover, there has been a consistent increase in the share of
electronics and computer software in the export kitty of small scale sector. Besides, the major thrust areas for Small Scale Industries exports are agriculture and allied, chemicals, plastic items, leather and textile product groups. The United States and European Union have been identified as the potential markets for textiles whereas the export of chemical products group holds a potential in Japan.

1.5 COMPARISON OF THE MICRO AND SMALL ENTERPRISES SECTOR WITH THE OVERALL INDUSTRIAL SECTOR

The idea for promotion of small scale industries in India was rooted in the Gandhian philosophy of self-sufficiency of villages. The National Planning Commission under the Chairmanship of Pandit Jawahar Lal Nehru in 1938 made an attempt to look into the various aspects associated with the development of village and cottage industries. The progress and contribution of small scale sector can be gauged by comparing its progress with that of the industrial sector as a whole.

The contribution of medium and small enterprises to the total industrial production has increased from 39.74 percent in 1999-2000 to 44.86 percent in 2008-09. Similarly, the share of such enterprises in the Gross Domestic Product has increased from 5.86 percent to 8.72 percent in during the corresponding period.

The progress and contribution of small scale sector can be gauged by comparing its progress with that of the industrial sector as a whole. The growth rate of small scale sector has always been ahead of that of total industrial sector. In 1994-95, the small sector clocked the growth of 10.10 percent as against the 9.1 percent growth rate of total industrial sector. Though the growth rate of small scale sector declined to 9.19 per cent in 1997-98 from 11.29 per cent in 1996-97, it was still higher than that of industrial sector during this period. Further, in 2007-
08 the growth rate of small scale sector reached 13 percent vis a vis 8.5 percent growth of overall industrial sector. The comparatively higher rate of growth in small sector shows the resilience of this sector even during the liberalized period where it has to face stiff competition from the large sector.

1.6 SMALL SCALE SECTOR – THROUGH ALL INDIA SURVEY OF SMALL SCALE INDUSTRIES

The Information and the data about the activities of small scale industries are collected by the Development Commissioner of Small Scale Industries by periodically conducting the censuses of Small Scale Industries on All India basis. So far, four All India Censuses of Small Sale Industries have been conducted. The First All India Census of Small Scale Industries was conducted in 1972-73 for the units registered upto 30th November, 1972. The second Census was held in 1990-91 in which the units registered upto 31.3.1988 were covered. The third Census of Small Scale Industries was conducted in 2002-03 which covered the Units upto 31st March, 2001. The most recent and the last All India Census of Small Scale Industries Units was conducted in 2007-08 which covered Small Scale Industrial Units upto 31st March, 2007.

The first two Censuses surveyed only registered units, whereas the last two censuses included both registered and unregistered units in order to get a complete picture of Small Scale Industries Sector. The collection of data about registered and unregistered units considerably enhanced the data base of Small Scale Industries which paved the way for more comprehensive policy intervention from the Government.

Thus, a comparative analysis of the results of third and fourth Censuses of Small Scale Industries would comprehensively delineate the progress made by this sector during the intervening period. According to the third Census, there were 1.05 crore Small Scale
Industrial units (as on 31st March, 2001) which increased to 2.61 crores (as on 31st March, 2007) as per fourth Census. Thus, the Small Scale Industrial units have increased at the compound annual growth rate of 25.56 percent during 2001-2007. However, the most significant aspect of the growth of units in the Small Scale Industries sector is that the growth of service enterprises is perceptibly more than that of manufacturing enterprises. The service enterprises grew at a compound annual growth rate of 32.36 percent vis a vis 13.79 percent annual compound growth of manufacturing enterprises between third and fourth Censuses. The service enterprises constitute 71.4 percent of Small Scale Industries sector whereas share of manufacturing enterprises dropped to 28.56 percent as per fourth Census. The employment in Small Scale Industries clocked compound annual growth rate of 24.27 percent during 2001-2007, thereby asserting the labour absorption characteristic of small scale sector. The percentage of rural enterprises has gone down marginally by 1.5 percent, whereas number of registered export units increased from 7,344 units to 40,504 units, registering an impressive annual growth of 53.25 percent, signifying the remarkable contribution of Small Scale Industries in the industrial spectrum of the country.

The per unit fixed investment has increased from Rs. 6.68 lakh in the third Census to Rs. 32.26 lakhs, indicating an annual increase of 37.11 percent, in the fourth Census, whereas the per unit gross output has increased from Rs. 14.78 lakh to Rs. 45.69 lakh (annual increase of 32.6 percent) during this period. Further, per unit employment has improved from 4.48 in the third Census to 5.93 in the fourth Census. However, the employment per Rs. one lakh of fixed investment has gone down from 0.67 to 0.185, showing a decline of 27.51 percent per annum. The export earnings from small scale sector have increased to 52.27 percent annually, from Rs. 14,200 crores in the third Census to Rs. 76,337 crores in the fourth Census.
1.7 INSTITUTIONAL ARRANGEMENTS FOR PROMOTION OF SMALL SCALE INDUSTRIES

Various organizations have been set up by the Central and State Governments support the development of the small scale enterprises.

At Central level, Ministry of Micro, Small and Medium Enterprises is the administrative Ministry in the Government of India for all matters relating to Micro, Small and Medium Enterprises (MSME). It designs and implements policies and programmes through its field organisations and attached offices for promotion and growth of Micro, Small and Medium Enterprises sector. Besides, the Office of the Development Commissioner (Micro, Small and Medium Enterprises) is the apex body to advise, coordinate and formulate policies and programmes for the development and promotion of the Micro, Small and Medium Enterprises Sector as well as to maintain liaison with Central Ministries and other Central/State Government agencies/organizations, including financial institutions.

The Development Commissioner (Micro, Small and Medium Enterprises) works through the institutional network of 30 MSME-Development Institute (MSME-DI), 28 Br. MSME-Development Institute (Br. MSME-DI), 4 MSME-Testing Centres (MSME-TCs), 7 MSME-Testing Stations (MSME-TSs), 10 Tool Rooms (TRs) and Tool Design Institutes (TDI), 4 MSME-Technology Development Center (MSME-TDC), 2 MSME, Technology Development Center-Footwear (MSME-TDC), 3 National Level Training Institutes, 1 Electronics Service & Training Centre (ESTC), 1 Institute for Design of Electrical Measuring Instruments (IDEMI). Further, there are bodies such as National Board for Micro, Small and Medium Enterprises, Small Industries Development Organization (SIDO), Micro, Small and Medium Industries Services Institute, National Small Industries Corporation (NSIC), National Institute for Micro, Small and Medium Enterprises
(NIMSME), Entrepreneurship Development Institute of India, Small Industries Development Bank of India (SIDBI) and Khadi and Village Industries Commission (KVIC) which caters to the varied needs of small and medium enterprises at the Central level.

At State level, the State Directorate of Industries is the apex body of promotion of small scale industries. The State Industrial Development Corporation looks after the promotion of small scale industries through industrial estates, etc, whereas State Financial Corporations caters to the financial needs of such industries. At District level District Industries Centre provides for multiple service & support under a single roof to the small scale industries.

1.8 ROLE OF GOVERNMENT FOR THE PROMOTION OF SMALL SCALE INDUSTRIES

The primary responsibility of promotion and development of Micro, Small and Medium Enterprises (as these are called after enactment of Micro, Small and Medium Enterprises Act 2006) is of the State Governments. However, the Government of India, supplements efforts of the State Governments by facilitating credit, technology support, augment of infrastructure, training and skill upgradation, development of entrepreneurship, promoting access to markets and capacity building, etc.

The development and promotion of growth of small scale industries have been the integral part of Industrial Policy Resolutions and Statements pronounced by the Government from time to time, both during the pre and the post reform periods. While most of the institutional support and incentives are provided by the Central Government, the State Governments, on their part, have taken varying degrees initiatives and offered various incentives to attract investments and to promote small industries in their respective States.
The Government encouraged small scale industries by providing a number of support measures which addressed the basic requirement of these industries. Some of these measures include:

(a) Reservation of products for exclusive manufacture by the small scale industries. However, the list of reserved products has been considerably scaled down during the post reform period.
(b) Ensuing flow of credit and special financial assistance at low interest rates through commercial banks and financial institutions.
(c) Supply of uninterrupted Power at subsidized rates.
(d) Availability of scarce raw material through special quote and import licenses.
(e) Tax holidays and differential tax rates.
(f) Marketing facilities, access to the domestic and foreign markets and preference to the products produced by the small scale enterprises.
(g) Plots at concessional rates and ready-built sheds in the industrial estates.
(h) Special incentives for setting up industrial units in remote and backward areas.
(i) Quality concerns and making available latest technical know-how to help modernize small scale industries.
(j) Development of human resource by providing appropriate training facilities and organizing entrepreneurship development programmes.
(k) Provision of extension services by setting up specialized organizations and institutes

1.9 PRESENT SCENARIO OF SMALL SCALE INDUSTRIES

The small scale enterprises constitute a vibrant engine of industrial growth in India. Over 6000 products, ranging from traditional and high-tech items, are currently being produced by this sector. There
are 467.56 lakh total working enterprises in 2012-13 in India as compared to 447.66 lakh working enterprises in 2011-12 and 105.21 lakh enterprises in 2001-02. A total of 1061.72 lakh workforce was employed in these enterprises in 2012-13 as compared to 1011.80 lakh in 2011-12 and 249.33 lakh in 2001-02. The Gross Value of Output produced by Micro, Small and Medium Enterprises was Rs. 1655580.60 in 2010-11 which increased to Rs. 1790804.67 crore in 2011-12. While the gross value of output of micro small and medium enterprises has increased over the years, its share in the total manufacturing output and the Gross Domestic Output has, however, steadily declined since 2007-08. The share of micro small and medium enterprises in the total manufacturing output was 37.52 percent and 7.28 percent in Gross Domestic Product in 2011-12. Rural area accounted for 55.34 percent of the total working enterprises, whereas urban area accounted for 44.66 per cent. However, the urban areas account for the larger percentage of the registered enterprises. In 2011-12, 31.79 percent of the enterprises were engaged in manufacturing activities, whereas 68.21 percent were engaged in the services activities. A comparatively larger percentage of unregistered enterprises are in the service sector. 55.53 percent of these enterprises were owned by the social disadvantaged groups such as scheduled caste, scheduled tribe and other backward class. However their share is more in the unregistered enterprises as compared to the registered enterprises\textsuperscript{35}.

In Himachal Pradesh, there were a total of 40028 small scale enterprises, providing employment to 2.25 lakh persons in 2014-15. The total investment made in these enterprises is 11312.31 crore\textsuperscript{36}. 

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1.10 PROBLEMS AND FUTURE PROSPECTS OF SMALL SCALE INDUSTRIES

Notwithstanding the contribution made by small scale industries in the industrial growth of the country, it is a stark reality that these industries have to function with a lot of handicaps. What is more ironical is that the most of the problems encountered by these industries inherently linked with the policy initiatives and incentives taken by the Central and the State Governments. The small scale sector is not getting adequate credit support from the banks and the other financial institutions. In fact, the banks are not very forthcoming to give loans, particularly to the new entrepreneurs, who found it very difficult to prove their credit worthiness. Besides, the procedure for obtaining credit facilities is very lengthy, discouraging and time-consuming. Since a bulk of small scale industries are set up in rural and backward areas, the infrastructure available to them is of very poor quality as compared to those in the urban areas. These industries also lack trained and skilled manpower without which they are not able to use modern technology. In most of the cases, they are simply not aware of latest technology and the information dissemination mechanism is too bureaucratic. Besides, there is a very little networking among these industries which is not conducive for information-sharing. The small scale industries also find it difficult to access the raw material in time, which hampers their production activities. The marketing skills of these enterprises is also not very sound and they are, in most of the cases, are not in a position to make expenditure on advertisement and publicity due to financial constraints. Further, there is a general lack of knowledge of sound management principles at the entrepreneur’s level which impede their capacity to make optimum use of scarce resources. In an era of globalization, the small scale industries have to face tough competition from the domestic large scale industries as well as foreign multinational corporations, whose resource-base as well as capacity to produce at a
lower cost is very high. Having protected for a long time from the competitive world, the small sector needs to make unrelenting efforts to stay in the market.

Despite the problems being faced by the small industries, there is no gainsaying the fact that they have huge potential for industrial growth in a developing economy. The foremost among them is the generation of employment for the ever-growing army of unemployed.

These industries could make dispersal of industries across the country, thereby reducing regional industrial imbalances, checking undesirable migration of population and ensuring equitable distribution of income and wealth. This would give impetus to the other economic activities. The small scale industries could also augment the exports, provided they are given unhindered access to the various inputs and modern technology.

1.11 STATUS OF SMALL SCALE INDUSTRIES IN HIMACHAL PRADESH

Considering the hilly topography of Himachal Pradesh and other geographical and socio-economic constraints, there is predominance of small scale industries in the industrial spectrum of the State economy. After attainment of Statehood in 1971, the State has made continuous stride in the stimulating structural changes in the industrial economy. In the initiate stages, the economic growth in the State was governed by the agriculture and its allied activities, however, the State has made significant progress in the growth of small scale enterprises.

The Micro, Small and Medium Enterprises, along with unorganized traditional industries commonly called as Village and Small industries constitute an important segment of State economy, with latter providing maximum employment, next only to the agriculture, to the workforce in the State. In terms of value added, this sector contributed
about 50 percent of the value added in the manufacturing activities. Besides, it not only promotes self employment and maximum utilization of local resources, but also ensures wide-spread dispersal of industrial activities\textsuperscript{37}.

In 1975, there were 2728 small scale industries with an investment of Rs. 60050 thousand in which 9215 persons were employed. However, by 1991, the number of small scale industries had increased to 20545 units, having an investment of Rs. 150054 lakh, providing an employment to 86227 persons. The post reform period had witnessed a declining trend in the setting up of small scale industries till 2003-04, after which there has been improvement in the registration of small scale industrial units in the State. As such, the number of small scale units had increased to 39648 as on 31.3.2014 in which a total investment of Rs. 6530.20 crores have been made and 221842 persons are employed. Kangra District (9164) leads in the establishment of small scale units, followed by Solan (5253) and Shimla (3553). After the declaration of special package of incentives to the small scale industries in 2003, the growth of smalls scale units have been observed in unclassified product group (others), followed by food processing industries and mechanical engineering, whereas in terms of investment, the growth was registered in chemical and allied activities, followed by mechanical items and electrical and electronics products\textsuperscript{38}.

In order to boost up the industrial activities in the State, the emphasis has been on development of infrastructure and for providing seamless services and facilities to the entrepreneurs as well as on the creation of industrial areas and industrial estates. Further, the programmes such as training of entrepreneurs and upgradation of skills of rural artisans are also being implemented.
The State Government has established a number of Corporations/Boards in order to boost industrialization in the States. Some of these organizations are:

(a) Himachal Pradesh Financial Corporation was set up on 1st April, 1951 to provide medium and long term loans for setting up small and medium scale industries in the State and also for providing financial assistance for expansion, modernization and rehabilitation of existing industrial units.

(b) Himachal Pradesh Khadi and Village Industries Board was established in April, 1956 with a view to promote, encourage and assists in the development of Khadi and Village industries, finance these industries as well as to provide employment to persons who have been professionally engaged in khadi and village industries.

(c) Himachal Pradesh State Small Industries and Export Corporation Limited was incorporated on 20th October, 1966 with the objectives to provide the capital, credit, technical, managerial and raw material assistance to the small scale industrial units.

(d) Himachal Pradesh State Industrial Development Corporations Ltd. was established in November, 1966 with a view to provide long terms financial assistance to the small and medium industrial units in the State as well as to undertake development of infrastructure.

(e) Himachal Pradesh State Handicrafts and Handloom Corporation Limited was established in 1974 with the objectives of promoting the growth and development of Handlooms and Handicrafts industries in the State as well as imparting training to the weavers and artisans in order to improve their skills.
1.12 CONCLUSION

The small scale industries play a crucial role in increasing output, employment and export of India as well as contributing significantly to the socio-economic development of the country. They create various backward and forward linkages to the large industries and help augmenting economic activities on regional/local basis. There has been positive understanding of the role of small scale sector in the national economy by the Government, which results in persistent support to this sector. Various measures have been taken by the Government to promote small scale sector along desired lines and the performance of this sector since independence stands testimony to this effort. While the definition of small scale units have been changed time and again in order to accomplish the underlying policy objectives, yet the promulgation of the Micro, Small and Medium Enterprises Act 2006, whereby the scope of this sector has been greatly increased, has necessitated distinct policy measures to ensure growth of each segment of the units clubbed together under these enterprises. However, despite the bottlenecks and problems being faced by these enterprises, this sector holds a great promise of growth.
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