CHAPTER-2
Policy Perspective for Small-scale
Industrial Development: A Critical Appraisal
**Introduction:**

Small-scale industries typically make a large contribution to manufacturing employment in poor countries. However, the developmental contribution of most of them is limited to generating subsistence employment ‘of last resort’. Hence, in the face of a fast labour force growth and limited employment absorption in other sectors, developing country governments have mounted efforts to improve productivity and earnings in these firms. This has spawned a plethora of policies and programmes, and an almost boundless literature documenting them. The present chapter not only reviews of existing policies for small-scale industries but also attempts a critical appraisal of it and throws some light on alternative policy setups for a more viable and competitive small-scale industrial sector.

The importance of small-scale industry was never lost to policy makers in India, and for reasons of social and political expediency, if not entirely of economic efficiency, the issue of small-scale industrial development has always been spelt out side by side with the general strategy of industrialisation. In order to understand the contours of small-scale industrial development policies and programmes in the proper perspective, it is essential to sketch out the main strands of policy changes in respect of general industrial development. This alone would inform us whether or not, and the extent to which, the policy initiatives for small-scale industrial development were purposefully integrated into the process of general industrialisation.

I. **Policy for General Industrialization:**

When India gained political Independence in 1947, it had a strong case for industrialization. A large territory, big and growing population, a highly uneven
distribution of national income with its implicit pressure on the demand for consumer
durables, a modest industrial base inherited from the colonial empire, the presence of a
powerful national bourgeoisie, etc., all combined to justify India's claim towards
industrialization (Shirokov, 1980: 9; Chakravarty, 1987, Ch.2). Two major schools of
thought on the approach to industrialization stand out clearly (for three other
viewpoints on industrialization, see Swamy, 1994: 44-46). While the
Nehru-Mahalanobis model favoured a strategy of building basic and key industries
with the expectation of maximising growth rates over the long-run, Gandhi did not
think that large factories would be able to solve either the problem of un- and
under-employment or that of providing the Indian masses with their basic requisites
(Chakravarty, 1987, Ch.2). As is well known, ultimately the Nehru-Mahalanobis
strategy prevailed over the Gandhian approach and the Second Five Year Plan
embarked upon an ambitious programme of building a network of basic and key
industries, whose gestation period was long, whose investment requirements were too
heavy, and whose growth propelling effects were to flow after big time gaps.
Nevertheless, the merit of Gandhian philosophy was not completely lost to the
Nehru-Mahalanobis school of thought, and the ultimate shape in which India's
industrialisation strategy emerged did help to boost modern industrial growth in the
country at the same time that it sought to support the traditional village industries.
India thus chose to 'walk on two legs', and this core element of industrialisation
strategy somehow stays on.

Like any other populous developing economy, India too effected, from time to
time, a series of policy changes that sought to strengthen and diversify its industrial
sector; various policy measures touched upon practically every aspect of the sector’s
existence and functioning. Besides launching the public sector as the harbinger of
modern industrial development, and the sole custodian of the heavy and strategic industries, the Industrial Policy Resolutions of 1948 and 1956 delineated the domain within which the private industrial endeavours were free to operate; monopolies were to be doggedly checked; industries in the public sector were to produce and supply a wide range of industrial raw materials; small and tiny industries were to play a significant role on the employment and consumer goods fronts, and in lieu thereof, would enjoy state protection which, *inter alia*, took the shape of product reservation; the cottage and household sector too had its own role to play, at least in sustaining the livelihood of a large mass of rural population, and so on (Chadha, 1996: 4-8). These policies and strategies did not fulfill the expectations attached to them. Against 'half a bread today but two breads tomorrow', what the nation was getting was 'half a bread today and half a bread tomorrow'. Moreover, with tardy industrial growth, the 'gleaming future' shifted too far ahead "especially for agricultural workers, small peasants, workers in household industries, etc., as these groups have had to bear the main burden of a postponed increase in the level of consumption" (Haan, 1980: 3).

Thanks to the 1979-80 oil price shock, it became clear that India could no longer afford the luxury of a highly protective industrial policy regime. If domestic industries had to be promoted as an alternative to imports, the productivity and quality aspects could not be ignored. For boosting productivity, the whole range of bottlenecks had to be removed, and the restrictive and complex features of the industrial licensing policy were, *inter alia*, held responsible for production bottlenecks in many areas. It is understandable, therefore, that the July 1980 Statement of Industrial Policy (SIP) was an interesting amalgam of political statements aimed to demonstrate the government's eagerness to attain social justice in economic development and, at the same time, covertly supporting the resumption of the country's uninterrupted growth.
through an optimum utilisation of existing capacity as well as the expansion of industries (Inoue, 1992: 92-94). Higher employment generation, promotion of economic federalism and preferential treatment to agro-based industries, stood out as the core objectives of the 1980 policy statement; its operational strategy was to set up a few ‘nucleus plants’ in each district identified as industrially backward. Such ‘nucleus plants’ would generate a spread-out network of small-scale and cottage industrial units. In short, the 1980 policy sought to link small and ancillary enterprises with large industries. Moreover, large industrial groups and foreign companies were no longer barred from entering the fields of production hitherto restricted to small-scale enterprises on the condition that such production would promote exports. Finally, the backward areas industrial development programme was intensified through investment and other subsidies, and through infrastructural improvements. The programme of industrial development of backward areas was especially welcome by state governments who vied with one another in promoting industries in districts within their respective states, which were not necessarily remote or industrially disadvantaged but were industrially promising. This served to increase, rather than decrease, the regional unevenness in industrial development.

1.1 Policy Changes under the 1991 Reforms:

It is true that despite a decade of incremental reforms that came forth in response to the 1989 World Bank report, at the end of the 1980s, India still had a tightly regulated manufacturing sector. Nonetheless, in July 1991, as a part of the economic restructuring and liberalisation programme, many of the 1989 World Bank recommendations were forthrightly implemented. For example, industrial licensing was completely abolished; licensing for capacity expansion by existing units was also
abolished for all except 18 industries which accounted for only 20 per cent of the manufacturing output; the number of industries reserved for public sector investment was drastically reduced from 17 to 8; the MRTP Act was amended to lend a free hand to big firms for facilitating expansion, diversification and mergers; and most importantly, administrative and regulatory barriers to entry, expansion and modernisation by industrial units were also drastically reduced. Until the close of the 1980s, foreign direct investment was a mere trickle. The new industrial policy sketched out an elaborate list of industries in which ownership upto 51 per cent, by both existing and new foreign companies, was freely permitted. Private domestic and foreign investment in the oil, gas, and power industries was also welcomed. Clearance for technological collaborations could now almost be taken for granted (Cassen-Joshi-Lipton, 1993: 72-73). The public sector too faced far-reaching changes. It now had to: 1) absorb the gradual elimination of budgetary support from the government to meet enterprise losses; 2) partially disinvest equity in selected enterprises in order to inject a greater degree of accountability and performance-consciousness; and 3) effect restructuring or closure of patently unviable enterprises while mitigating the social cost of adjustment by instituting a social safety net. (Cassen, et al., 1993: 175). As a corollary, the public-private sector dichotomy was getting blurred. Big industry could grow as much bigger as it wished; multinationals were now welcome in diverse fields; foreign direct investment (FDI) started increasing, and so on.

1.2. Indian Industry under the WTO Regime:

Then came the WTO on January 1, 1995 and with that, the shape of the Indian industry started changing in a big way. On a broad plane, the canvas of WTO agreements is spread over three compartments: goods, services and intellectual
property rights. First, trade in goods of all descriptions (agricultural, industrial or others) was now to be governed under GATT re-formulations, effected under the Uruguay Round. Second, trade in services, of all kinds (e.g. business services including professional and computer; construction and engineering; financial services such as banking and insurance; transport services), was to be regulated under the General Agreement on Trade in Services (GATS). Finally, Trade Related Aspects of Intellectual Property Rights (TRIPs) would set out the terms and conditions for the international flow of intellectual property. Consistent with the theme of the present study, we had better take note of some of the GATT agreements that would have a direct or indirect bearing on domestic industry.

Many of the thirteen major agreements signed under GATT directly related to or impinged upon domestic industry. The fact that the structure of India’s foreign trade is now overwhelmingly biased in favour of manufactured products, supports the point. A few of the agreements, notable, the Agreement on Textiles and Clothing (ATC), and Agreement on Anti-dumping Measures (ADP) attract our pointed attention in view of the structure of India’s external trade, the employment stakes involved in ATC, and the harm that these agreements might to cause to the Indian economy. Under the ATC, the restrictions hitherto maintained by the developed countries on the import of textiles, clothing and ready-made garments from the developing economies, were to be progressively phased out by 2005. Under the ADP, if a country exported a product at a price that is lower than the one it normally charges in its domestic market or if it sold it at less than the cost of production, a complaint could be lodged against it for dumping activities; retaliatory measures can then be instituted. The serious implications of anti-dumping activities for small producers can be easily visualized (Chadha, 2001: 31-33).
It is essential to point out that no section of our economy and no category of economic functionaries would remain unaffected under the new economic dispensation. For example, petty farm operators, producing exclusively for the domestic market, will get linked with the international movement of input prices, just as their brethren engaged in tradable commodity production may face more severe earning swings under the new and volatile price regimes. Similarly, even a small scale, family-based industrial enterprise in a village may face a decline in its economic fortune just because the demand for its product is declining now that cheaper substitutes are available through imports, or else, its production efficiency may improve now that raw material costs are lower under the open trade regime or else, it could now be ancillarised to an urban-based, modern industrial enterprise, and so on. The fact is that those in international trade may have started feeling the pinch soon after the WTO came in, in a variety of ways. And, for those engaged in the other sectors, the pinch might have followed later. In any case, small and rural industry is most certain to face the worst possible situation (FISME, 1999: 1).

Admittedly, the full impact of WTO membership on domestic industry, most pointedly on the junior partner of small-scale industry, is difficult to spell out so neatly and comprehensively. We are nonetheless sure that under the new dispensations, production efficiency would be the touchstone for survival and growth, sub-contracting, ancillarisation and integration would expand, under the aegis of the open market system, and the public sector would have diminishing prospects to support the survival of production units, through extra-market instruments such as subsidized finance, product reservation, tax exemptions, sale-purchase measures, and so on. To what extent and which branches of small-scale industry are able to chip off the benefits of technological updating, industrial
hook-ups and ancillarisation, market expansions, etc. are questions which are yet to be answered. After all, small-scale industry has had its own profile of successes and failures and, on that basis, one can speculate on the positive effects of the new industrialisation strategy for one bunch of small-scale industry just as one has reasons to predict a difficult time for others. The speculation would, however, be less vague if we look back into the history of small-scale industrial policy. This follows now.

II. Policy for Small-scale Industrial Development:

On the basis of a variety of policy documents, one readily discovers that in the whole era of planned economic development, there has been no dearth of policy pronouncements on the significant role that small-scale industry had to play in India. In Plan after Plan, one discovers adequate emphasis on the need, rationale and concern for accelerating the growth of rural and small-scale industry (Kurien, 1978: 457). The ambit of institutional support, and financial and marketing concessions has been expanding ever since the inception of the planning era. It almost appears to an outside observer that the government wanted to take upon itself each aspect of small-scale industrial development, and if one were to follow in letter the declared intentions, the government certainly seemed to be 'overdoing'. In any case, the government never 'hesitated' in imposing product-line demarcations, most ostensibly to obviate competition between 'weak' small and tiny units and 'strong' organised and/or registered enterprise. Special institutions and organisations came up to take care of the diverse problems of specific groups of small-scale industries or producer groups. Attention was also fixed on technology upgradation and product improvement, and so on. In brief, it would appear from official documents that the small industry in India
has been the recipient of a well thought-out policy and a wide range of state patronages. Yet an objective assessment of its track record shows that it has not yet come of age; many problems especially those concerning technology-in-use, product quality, marketing and price disadvantages, are still afflicting their economic performance.

2.1. Policy for Small-Scale Industry during the Earlier Plans:

As far back as 1948, the first industrial policy resolution (IPR) emphasised better utilisation of local resources and achievement of local self-sufficiency in respect of certain essential consumer goods such as food, clothes and agricultural implements as the most suitable characteristics of cottage and small industries (Papola, 1982: 20). It thus appears that, from the very beginning, the policy for small-scale industries was intended to be closely related to rural development, and the responsibility for creating job opportunities was entrusted to small-scale and rural industries (Inoue, 1992: 67).

In reality, much of the rural demand itself spilled over beyond such industries.

The First Five Year Plan drew a distinction between cottage and small-scale industries in that the former were to play a central role in coping with the problem of un- and under- employment. Cottage industries were treated synonymously with traditional artisanal crafts. Again, small-scale industries were perceived to be located in urban centres, producing goods with partially or wholly mechanised equipment employing some outside labour while the cottage industries mostly involved manual operations that were carried out primarily through family labour (First Plan, 1952: 162). Finally, a common production programme was proposed for the cottage and factory industries which were producing the same products. The crucial element in the First Five Year Plan was that small-scale industrial development was conceived largely
in isolation of the rest of the economy (Haan, 1980: 23). In the Second Plan, the scope of cottage and factory industries was widened considerably and they were seen as an integral component of the national economy. The 1956 IPR visualised the role of cottage, village and small-scale industries as under:

*They provide immediate large-scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create, will be avoided by the establishment of small centres of industrial production all over the country* (Haan, 1980: 25-26).

The 1956 IPR supported a protective policy for the cottage, village and small-scale sector by restricting the volume of production in the large-scale sector, by differential taxation, and by direct subsidies. At the same time, it did emphasise the necessity of improving the competitive strength of small-scale producers and their self-supporting capacity (Inoue, 1992: 72).

During the Second Plan, the primary focus was fixed on basic and key industries, and the production of a large variety of consumer goods was expected to come from the cottage and small-scale industries sector. The Mahalanobis model was criticised on this account. There was confusion in policy as well as industry circles, especially because, as in the First Plan, cottage and small-scale industries were lumped together as far as the investment versus consumption goods debate was concerned. And then, the Plan over-stressed the employment side rather than the production side; consequently, vertical relationships in the industrial sector remained undefined or unelaborated.

The issue of industrial dispersal suffered confusion of a different kind. The Plan did acknowledge that some of the small-scale industries (SSIs) were ancillaries to large industries and, in the interest of their operational efficiency, had to be located in urban or semi-urban areas. However, in its perception, the process of development of
village and small-scale industries, in general, was to graduate from traditional village industries to 'modern' small industries; by implication, this rural-oriented approach lent only a marginal push to industrial dispersal into the rural areas. Finally, in order to forge stronger links between agriculture and rural industry, 26 pilot projects, intended to promote cottage and small-scale industries in rural areas through co-ordinated activities in the selected community development blocks, were launched towards the end of the 1950s (Jain, 1980: 1748).

The Third Five Year Plan, drawing upon the working experience of these pilot projects, formulated an extended Rural Industries Projects (RIP) programme. The goal of this programme was to promote village and small-scale industries primarily to achieve a balanced regional development and to reduce the tendency of concentration of industry in large urban areas. It was realised that by locating large industries in specified regions, the problem of uneven regional development could hardly be tackled. Instead, village and small-scale industries could spread all over the country, and could trigger off the process of balanced regional development. Thus, it was for the first time that sectoral policies were sought to be integrated with the area development approach.

During the Fourth Plan, emphasis was laid on area development by means of growth centres for small and rural industrialisation under the auspices of the Backward Area Development Programme (Papola, 1982: 21). These growth centres, in small towns or rural areas, were expected to serve as the nuclei for more widespread development. Following the recommendations of the Pande Working Group and the Wanchoo Working Group, a programme was introduced for providing financial, fiscal and other supports (e.g. store purchase facilities, price preferences, quality control, marketing assistance, raw material depots, etc.) to private entrepreneurs for locating
industrial units in backward areas. The Backward Area Development Programme became instantly acceptable to state governments who, in fact, vied with one another in extending the ambit of concessions so that their range and coverage differed widely from state to state. It was natural, therefore, that the programme made a better impact in those ‘backward’ areas “which had access to such factors as markets, a skilled labour force, materials and better infrastructure. For those backward areas with preferable conditions, there was often a rush to establish new firms while quite a few other backward areas were ignored due to the lack of industrial facilities” (Inoue, 1992: 80).

Although the wisdom of spreading limited resources over various regions, in the name of balanced regional development, has been challenged by some analysts (Harris, 1977: 142-43), yet political pressures from federating regions did not allow the government to consider such reasoning. A more equal development across regions was a programme that would sell politically, and would indirectly add to employment/earning network of the poor people and the poorer regions. In actual effect, many things went by default.

The Fifth Plan broadened the RIP programme spatially under which the existing 49 RIP areas were extended to cover the entire districts, except towns with a population of more than 15,000 (1971 Census), and 100 new districts were to be included in the existing projects. From now onwards, the focus of implementation of the RIP programme was to be rural areas while the Backward Area Development Programme would be oriented to urban centres with a population of more than 15,000. The focus shifted entirely to village and small-scale industries, and employment promotion became a political watchword of the times.
2.2 Pre-Reform Policy Changes:

The Sixth Plan mainly laid emphasis on employment creation in the village and small-scale industries. Four new elements were directly connected with small-scale and village industrial development. First, an effective integration of spatial development and sectoral policies was to be achieved through the creation of District Industries Centres. These centres were to assume the overall responsibility of promoting village and small-scale industries, and their functions would be as diverse as the provision of raw material, machinery and equipment, credit and marketing support, dissemination of market intelligence, and so on (Kurien, 1978: 457). Further, the Industrial Development Bank of India (IDBI) would have a special wing to deal exclusively with the credit requirements of small, village and cottage industries, and this very wing would co-ordinate the entire range of credit facilities offered by other institutions for the small and cottage sector. Second, the number of products reserved for the small-scale sector was increased from 180 to about 500, under the motto "that whatever can be produced by small and cottage industries must only be so produced". Most of these items, however, were largely produced by the urban-based small-scale units, and bore little significance for the rural sector. Third, within the small-scale sector, special attention would be given to units in the 'tiny' sector. Finally, special legislation was introduced for cottage and household industries in order to ensure that these activities got due recognition in industrial development. However, the nature of these measures was not specified.

The Seventh Plan laid further emphasis on improving productivity, enhancing product quality, reducing costs and restructuring the product-mix through upgradation of technology and modernisation. At the same time, the need to strengthen the programme of ancillarisation for a harmonious growth of the total industrial sector was
given special importance. Institutional, financial and marketing bottlenecks facing the village and small industries were to be expeditiously dealt with, primarily through the aegis of the District Industries Centres. At the same time, financial constraints of the tiny sector were to receive special attention. For example, the units that had investments of upto Rs. 2 lakhs were to be accorded preference for availing of concessions and facilities. In overall terms, the need for dispersing industries from urban concentrations to the rural and less developed areas was to command special attention so as to check the exodus of artisans to urban concentrations. Even the possibility of setting up a separate commission for village industries and handicrafts was hinted at (Seventh Plan, 1985: 98-100).

2.3. Policy Regime since 1991:
Rapid political changes, however, occurred between 1990 and 1991 and policy statements during the interregnum could hardly assume a concrete shape. Tremendous shifts took place in industrial policy. Most significantly, the Congress Government announced, for the first time on August 6, 1991, separate policy measures for promoting and strengthening small, tiny and village industries in order to demonstrate its concern for rural development matching the policy intentions declared by the Janata Government just a year ago, on the one hand, and, to let the small and tiny sector absorb the effects of new economic policies and of the opening up of the economy, on the other. This was followed by minor policy tinkering, almost on a year-to-year basis, till WTO came in.

Under the auspices of the August 1991 policy, many new things were introduced. For example, a distinction was now made between small-scale, ancillary,
export-oriented, tiny and industry-related service/business units. Investment limits in plant and machinery were raised to Rs.60 lakhs for small-scale units, Rs.75 lakhs for ancillary and export-oriented small units, and Rs.2 to Rs.5 lakhs for tiny and service/business units. Tiny enterprises were to be the prime focus of special development programmes and supports. While the small-scale sector would be mainly entitled to one-time benefits, tiny enterprises would be eligible for support on a continuing basis, including easier access to institutional finance, priority in government purchase programme, and so on. The single window loan scheme would be sufficiently enlarged. An extremely important change would be to shift the focus from subsidised/cheap institutional credit to its adequate and timely availability; accordingly, the banking sector would have to be roped in to meet the rising credit requirements. A legislation (Prompt Payment Act) to ensure prompt payment of bills to small and tiny enterprises and/or to impose penal interest for delayed payment was also enacted. In order to facilitate the location of industries in rural/backward areas and to promote stronger linkages between agriculture and industry, a new scheme of Integrated Infrastructural Development for small-scale industries was to be implemented soon. For marketing, hope was again pinned on co-operative and public sector institutions. Complementarity in production programmes of large/medium and small industries was yet another area of pointed focus (Government of India, 1991, Economic Survey: 88). In 1994, a Quality Certification Scheme was launched to improve the quality standards of SSI products which were to be assisted by awareness programmes and financial support to acquire ISO 9000 or similar international quality standards (Government of India, 1995, Economic Survey: 116).

It is thus evident that the Government did not wish to give any impression of a policy let-up or support withdrawal. In fact, the inventory of problems was well
articulated in the Eighth Plan document (pp.132-33). Nonetheless, when one looks, say, at the plan outlay for village and small industries, or concrete government-supported steps for industrial relocations and dispersals, or technological upgradation through public support, one clearly discerns that market-driven propensities would henceforth guide all policy outfits. The most striking features of the changing policy under-currents were a gradual elimination of input, price and marketing subsidies, a reduced dependence on budgetary support, and an increasing reliance on private initiative and risk-absorbing capabilities. Adequate hints about such changing winds are available from what the Eighth Plan says:

*In the new orientation to planning during the Eighth Plan, people’s initiative and participation would be a key element in the process of development. Greater emphasis will be laid on private initiative in industrial development. The public sector will become very selective in the coverage of activities and in making investment. Small enterprises in the village and small industries sector are, more or less, based on private initiative and entrepreneurship (p.133).*

or

*In this context, it is necessary to increase the active involvement of banks in funding of KVI programmes and in this process to reduce their dependence on the budgetary support. It is also necessary to review the subsidies which are presently being provided for the development of khadi and village industries. The present policy of KVIC to advance loans for the development of village industries to the beneficiary organisations at 4 per cent rate of interest also needs to be reviewed in view of the hike in the lending rates of commercial banks (p.136).*

2.4. Policy Changes under the WTO Regime:

The entire policy thrust for the Ninth Five Year Plan was evolved under the shadow of the WTO economic regime and policy preparedness needed for meeting the impending challenges of having to compete with freer imports or to pursue ‘aggressive export drive’, on the one hand, and the lessons learnt from the working of the liberalisation and globalisation policies that came up under the previous Congress Government during the first half of the 1990s, on the other. It is in this perspective that the
definition of small scale sector was revised in 1997, enhancing the ceiling for plant and machinery from Rs. 5 lakh to Rs. 25 lakh for tiny units and from Rs. 60 lakh to Rs. 300 lakh (subsequently, during 1999-2000, brought down to Rs. 100 lakh in the case of small scale and ancillary undertakings; Government of India, 2000, Economic Survey, p.127) for small scale units as a way of helping them to modernise and upgrade their technologies, and to expand/diversify for becoming more competitive. A number of product lines, most notably leather products, ready-made garments, hosiery, hand tools, toys, packaging material, auto components, pharmaceuticals, food processing, would benefit from such enhancements. Further, credit upto 60 per cent under priority sector lending to the small-scale industry (SSI) sector was earmarked for the tiny sector in order to ensure that the credit is not cornered by relatively larger units within the SSI sector. Still further, excise duty exemption limit for the small-scale sector, including tiny units, was also enhanced from Rs. 50 lakh to Rs. 100 lakh. In order to secure timely payments to SSI units for supplies made by them to large industrial units, the Interest on Delayed Payments to Small Scale and Ancillary Industrial Undertakings Act was suitably amended. It was now compulsory for payments to SSI units to be made within 120 days after which penal interest would be imposed.

Since mid-1990s, the policy on product reservation for the small scale sector has attracted a lot of public debate; it has increasingly been felt that in spite of the reservation umbrella extended to the sector for well over three decades, technological obsolescence of both products and processes, managerial, financial and marketing weaknesses, cumbersome rules, regulations and procedural hassles, etc. cannot be tided over. It is against this background that in 1997 the Abid Hussain Committee recommended de-reservation, accompanied by appropriate assistance to the small-scale sector in terms of information base, availability of technology, technology transfer,
improved credit availability and infra-structural and marketing support. Some of the recommendations of the Committee, especially those related to de-reservation in areas, which are critical for exports, have been accepted in principle. The latest Economic Survey reports that in October 2004, 85 more items were de-reserved and the total number of reserved items now stands at 605 (Government of India, 2005 Economic Survey: 166).

A small but important policy tinkering, introduced in 1999-2000, largely to increase the reach of banks to the tiny sector, was to enlarge the definition of priority lending by the banking sector; financial accommodation by banks to non-banking financial companies or other financial intermediaries, for expanding their lending to the tiny sector, was now brought under the ambit of priority sector lending (Government of India, 2000 Economic Survey: 127). A special policy landmark that came up in 1999 was about the setting up of 100 rural industrial clusters every year under the umbrella of the National Programme for Rural Industrialisation. In particular, it was decided to create a special cell in the office of the Development Commissioner to disseminate information to Small Scale Industrial Associations regarding recent developments, in and outside the Indian economy, with the aim of preparing the small-scale sector for the threat posed by the WTO-monitored multilateral free trade regime.

Special packages have been offered to the tiny sector, from time to time. For example, the National Small Industries Corporation started giving composite loans upto Rs. 25 lakh to the tiny sector at a heavily subsidised interest rate of just one per cent; the Small Industries Development Bank of India started charging a 10.5 per cent concessional rate of re-finance from the tiny sector as against 12 per cent from the SSI sector, and so on. Perhaps, in due recognition of the mounting difficulties surrounding the tiny and small-scale industry, especially after the WTO regime commenced in
1995, the Government thought it politically expedient to extend a few more institutional concessions to it. For example, the Prime Minister announced in August 2000 that from then onwards, preference would be given to tiny units for more loans for technology upgradation; more specifically, under the National Equity Fund Scheme, 30 per cent of the investment would be earmarked for the tiny units; under the Integrated Infrastructure Development Scheme, 50 per cent of the plots would be set aside for the tiny units; under the National Programme for Rural Industrialisation, the major beneficiaries of the cluster development programme would be the tiny sector units; the sponsoring organisations, i.e. KVIC, SIDO and NABARD for each cluster would be solely responsible for design development, capacity building, technology intervention and consortium marketing, and so on (Government of India, 2000, Economic Survey: 9).

III. Policy Synthesis and Suggestions:

As one looks back at the history of industrial development policy, it is clear that the strategy of ‘walking on two legs’ sought to encompass many aspects connected with small-scale industry in India. Although the emphasis on different aspects changed from time to time, yet never was an impression given out that the small-scale industry was losing its relevance. This impression was kept intact even after the advent of the economic reforms in 1991, though in the course of the expanding pace of liberalisation and marketisation, small-scale industry might have receded to lower levels of policy attention. In all fairness, the intensity of policy concern for small-scale industry, in general, and its more employment-intensive traditional component, in particular, that was unfailingly discernible during the 1960s and 1970s, was getting eroded; small-scale industry was no longer the same old darling of our policy makers.
Our analysis of the general industrialisation strategy (Section I) and policy strands for small-scale industrial development (Section II) puts the broad policy threads together, and one can develop an idea of how small-scale industries were to be groomed to serve many socio-economic objectives, partly as an adjunct to modern industrial development and partly on their own. We cannot draft an exhaustive critique of all that had been happening in the name of the small-scale industrialisation policy; instead, only a few broad issues connected with the chosen industrialisation strategy are delineated in this concluding section.

First, looking at the plethora of descriptions freely used in plan documents, one is justified to believe that the contours of small-scale industry have never been clearly defined, much less rigidly followed. While the rural locale has always been implicit in all policy assertions, the rural-urban linkage has never been denied either. Sometimes, a small-scale industry implied a household or cottage enterprise, using local material and catering to local markets, while at other times, it included modern industrial enterprises as well. Clearly, one cannot operate with one concept or definition since, after all, all that was envisaged in the name of ‘small-scale industrialisation’ was expected to promote general rural development also. In operational terms, therefore, small-scale industry in India means a huge and heterogeneous conglomerate of industrial activities; enormous variety of products, technology-in-use, scale of operation, market coverage, etc. are all discernible under the rubric of small-scale industry.

Second, till about the beginning of the 1990s, public-private partnership was never thought of with the degree of seriousness that has become inevitable in recent years. This partnership is now most vitally felt in the area of infrastructure development. Housing, roads, transport, water, sanitation are pre-requisites of one
kind; information dissemination, training centres and repair workshops are the infrastructural requirements of another kind; institutional finance, technology development and power distribution are other areas in which a partnership is now considered a *sine qua non*, especially because of the critical resource shortages that the public sector is now faced with. Besides the state and private entrepreneurs, people's institutions at the grassroots level, and NGOs could also be roped in.

New ideas such as the creation of industrial parks, presumably on the lines of what was done around Seoul, South Korea, science and incubation parks where information-intensive, non-polluting labour-using small-scale enterprises could be encouraged to come up, government-private sector partnership in the power sector (e.g. trifurcating electricity boards into generation, transmission and distribution corporations), encouragement to the Jamaican model of telecommunication expansion, expansion of Internet facilities, the installation of inland container facilities including customs clearance, etc., are at various stages of national thinking and debate. These need to be carried forward to a meaningful end.

Third, there is a lot that can be said in favour of and against the *institutions that have been connected with small-scale industrial development in India*. In the matter of educational expansion, public institutions have made a tremendous contribution in India, including rural areas; perhaps a fairly sizeable proportion of workers engaged in small-scale industrial enterprises are educated, the quality of their education notwithstanding. It is, however, equally true that public training institutions have not proved to be of great help in imparting training that is germane to small-scale industrial sector; by and large, their orientation is along the lines of the organised industrial sector, and most of the technical specificities of the small-scale industrial sector go beyond the purview of their academic circuit. The state support in
infrastructural development is also a mixture of successes and failures; provision of rural roads and transport network, railways, rural banking facilities, market centres, telephone and communications, electricity and water, sewerage, etc., have all witnessed tremendous expansion, and yet, a very high proportion of the rural areas, and rural enterprises, are devoid of such facilities. In the area of technology improvement also, the role of government and public institutions has been confined to a few aspects of conventional components, e.g. improved machinery, new products, new raw materials and new designs; about the IT components of technology, there is more hype than content. Even for the conventional components, the story of limited success stops at the use of improved machinery alone.

The areas of conspicuous failure are the continuance of archaic rules and regulations, red-tapism, corruption, most notoriously among the field officials, and the over-arching hold of the bureaucracy over economic matters, with a studied degree of indifference, on the one hand, and the non-involvement of the grassroots public institutions and NGOs, in vital issues of local administration, on the other. These are now the ‘virtues of India’s economy and society’ that most of us are now accustomed to living with. The small-scale industry is one of the worst affected victims of such unresponsive attitudes. The ‘Inspector Raj’ has gone de jure, but de facto it has not. The plethora of outdated rules is still around; inspections are still the means to harass tiny and small enterprises; most crucially, increased awareness about the evolving structure of the Indian economy, and the changing pattern of its links with the world outside, on the one hand, and the more stressful time ahead of the tiny and small industries, on the other, has to be created from the top to the bottom. In sum, the economic regime has changed but most of the public institutions and much of the official mindset remain much the same. Under the heightened economic importance
that the 73rd Constitutional Amendment lends to Panchayati Raj institutions, it is time to evolve a tripartite partnership between rural entrepreneurs, government and panchayat institutions, in the interest of the rural economy, in general, and rural industrial expansion, in particular. It is also time to think, and re-define and re-demarcate, the respective roles of public institutions such as the KVIC, district industries centre, co-operative institutions, local governments and NGOs, so that new economic institutions get evolved, and new norms for people-government relationships get hammered out. The role that the rural community polytechnics are reported to be playing in promoting improved technologies and work opportunities among the rural people, in general, and the rural youth, in particular, deserves to be studied in detail for its possible replication in wider areas and activities.

Fourth, the most avowed objective of promoting small-scale industrialisation has been to provide expanding avenues of employment to the growing labour force. The allied problems of product acceptability, technical capabilities of the rural workforce, and rural-urban competition, were not seriously dwelt upon. Employment expansion per se received the most heightened emphasis, ostensibly to accommodate the Gandhian strategy of rural development. In the case of many traditional village industries, self-employment in family enterprises readily fulfilled these expectations. Any absolute accrual of incremental income to the household was welcome, irrespective of the number of working hands involved or the amount of human effort put in or product quality and price considerations. Perhaps unconsciously, our policy administrators opted for employment gains whose multiplier effect remained extremely limited. The realities have, however, changed drastically during the 1990s; all is not well with rural employment, in general, and rural industrial employment, in particular. All those considerations, e.g. productivity, technology, competitiveness and market-
savviness, that earlier commanded lower priority, have now to come to the forefront; it is absolutely clear under the new economic dispensation that employment cannot expand in a vacuum.

As an adjunct to our excessive pre-occupation with employment, policies have generally been production-focused. Perhaps, the relatively closed economic regime that was operating before the arrival of economic reforms in the 1990s, could afford to pay less policy attention to information dissemination, transportation cost and efficiency, marketing margins, product designing, industrial consultancy, etc. This, however, is no longer possible. It is not merely production, but efficient production that can survive under the open economy.

Fifth, from the Fourth Plan onwards, under the auspices of the Backward Area Development Programme, the dispersal of 'modern' industrial enterprises into the countryside became the new operational strategy of boosting rural industrial development. The ambit thus went beyond the traditional village industries. Inter-industry linkages would now rope in small-scale industries also. Ancillarisation was no longer an alien concept to small-scale industrial sector. Many among the rural industries now started aping the urban industrial sector, in style, if not in content. The objective of modernising, at least a part of the rural industrial sector thus got firmly entrenched in our development strategy. 'Modern' rural industrial units do face many operational difficulties, yet many among them are working in tandem with urban industries. The vertical industrial integration is tending to promote rural-urban integration also. It needs to be carried forward.

Sixth, at the present juncture of India's small-scale industrial development, while the displacement of workers from non-viable, market-unfriendly tiny units is a foregone outcome, tremendous opportunities can also be explored for forging sub-
contracting and ancillarisation, especially in product lines that admit production under the putting-out system. As a matter of fact, there are systematic global trends towards decentralised production through sub-contracting and franchising arrangements. The element of flexibility applies not just to the spatial dimension, involving a network of widely scattered sub-contractors linked via a parent unit in the production of a complex industrial output, but also a temporal one, where such linkages are continually re-defined and re-oriented. This also involves a capacity to re-tool and adapt production capabilities of the small-scale and tiny units for acquiring fresh contracts in different product lines that still exploit the specialist skills of these units (Saith, 2000: 56-57).

As we will discuss in later chapters, the network of sub-contracting units, which is a wide conglomerate of product lines, spare parts and component manufacturers, activity specialists (e.g. weaving, dyeing, stitching, bleaching, and packaging), etc., is gradually expanding from the urban to semi-urban and/or from semi-urban to rural areas, as also from nearby places to distant locales. It really seems that an hierarchical structure is emerging among the sub-contracting enterprises with units employing as few as one person and undertaking as simple an activity as stitching or packaging, on the one extreme, and those employing as many as 10 persons, with varying levels of skills and job specialisations, being IT-savvy and well-informed about technological developments in their trade line, on the other. In conformity with what Saith suggests, a fairly high proportion of the sub-contractors, especially those located in industrial clusters, are graduating themselves upwards to more numerous job activities, and more skill- and technology-intensive jobs, embracing more than one parent company. Finally, both competitive and complementary production relationships exist among the sub-contractors.
But sub-contracting has its problems too, i.e. delayed payments by the parent companies, problems of undue price-cutting, unjustified termination of the contract, stringent quality standards etc. In a sense, it reflects their inferior standing in terms of quality consciousness, which gets rectified through contract-production regimes, and exposure to open market competition that such regimes entail on them; without such contracts, the product quality would leave much more to be desired. In any case, sub-contracting is an area that merits a much more concerted policy attention, most ostensibly to ensure the survivability and growth of the tiny and small industrial enterprises.

Seventh, worldwide, a common characteristic of growth of small and tiny enterprises is their agglomeration in clusters. India is not an exception to this. Recently, the government has announced the creation of new rural industrial clusters as the key policy instrument under the National Programme of Rural Industrialisation. The Abid Hussain Committee Report also emphasises the role of industrial clusters in achieving efficient, competitive, export-oriented growth. Industrial clusters thus come across as the flag carriers of the new market-led industrialisation strategy. The cluster approach is basically a sound idea, particularly in the prevailing circumstances under which the whole house of tiny and small industrial enterprises is under threat, both from within and without. But then, India's own working experience with industrial clusters should not be lost sight of when new incarnations are being advocated.

India does have a history of cluster approach to small-scale industrialisation. It is essentially a mix of successes and failures. A recent UNIDO survey of 138 industrial clusters in India shows that only 13 of these clusters were induced by government policy while the remaining 125 grew spontaneously at the initiative of entrepreneurs.
themselves (SIDBI, 1999: 57; Hussain, 1997: 79-80). No less than 99 grew in response to market opportunities in the region; only six were attracted by the availability of infrastructure and the rest were drawn by raw material or skilled labour. Moreover, industrial estates developed by the government have been plagued by under-utilisation due to the wrong choice of locations. A fundamental flaw in the policy has been the belief that the initial burden of cluster development rests squarely on the government, and that, once a cluster comes into existence, the government can completely withdraw. In fact, it is at the later stage that such clusters start stagnating when adequate institutional support is not available. It is the creative interface between local entrepreneurs, government agencies, clients and other concerned parties that explains the success stories of the Tiruppur industrial estate in Tamil Nadu, and the Barotiwala industrial estate in Himachal Pradesh, against a not-so-successful rural industrial estate of Bhiwadi in Rajasthan.

In brief, industrial clusters can come up but may not survive unless a comprehensive and intensified policy and action programme is initiated. In particular, special importance should be attached to the specific needs of tiny units. The basic elements of such a programme would be technology upgradation, skill enhancement, information dissemination and entrepreneurial competency development. The most restrictive bottleneck is the poor infrastructure, and it is here that the government has to play a leading role (SIDBI, 1999: 58-59; Hussain, 1997: 80: Saith, 2000: 58-59). Even independently of such vertical links, small-scale industrial units are seen to enjoy various competitiveness-enhancing advantages through horizontal interactions and collective arrangements that arise when such units exist in the form of an industrial cluster (Saith, 2000: 57)
Eighth, government support has been extended in many different ways, to protect a wide range of village industries, and to promote the commercial viability of others. Until recently, the traditional village industries have been operating under the expanding umbrella of official protection while the modern sector among the rural industries has been extended various forms of promotional support. Protection measures have naturally been more numerous and more costly, including more binding budgetary supports and more pervasive market interventions. The involvement of public institutions and public money has been the most important instrument of promoting/protecting rural industry. Under the new market-driven economic regime that came into existence in July 1991, and was intensified since January 1995 under India’s obligations to the WTO, a protection-promotion balance needed to be re-worked. The original objective of ‘compulsorily’ protecting the traditional village arts and crafts faced considerable policy dilution; rural industries too were now to be seen in terms of their development and modernisation potential. Non-market considerations were to be necessarily kept aside while answering questions of product quality, productivity levels and cost efficiency.

Protection to small-scale industry as a whole, inter alia, took the shape of product reservation. For example, the number of items reserved for exclusive manufacture in the small-scale sector, which was only 47 in April 1967, gradually rose to 836 in July 1991 (Hussain, 1997:102-03). Although, because of political expediency and the anticipated employment stakes, the number has summarily remained the same since 1991, yet for a variety of reasons, most noticeably the forceful plea for de-reservation made in 1997 by the Abid Hussain Committee, and reinforced by the domestic organised industry lobby, the product reservation policy seems to be on its way out. In more recent years, the WTO-inspired free trade regime seems to
have hastened the process of de-reservation. The de-reservation in the garments sector has already been announced (The Economic Times, November 3, 2000: 5); it may soon follow for the other sectors. A sizeable proportion of the small-scale industry awaits its worst drubbing yet.

Ninth, the small-scale industry, in all its manifestations, has never been looked at from the points of view of workers' welfare, working conditions, occupational and health safety, productivity and earning levels, etc. as from the employment angle; in fact, the near-exclusive fixture on employment promotion, irrespective of productivity levels or the quality of work environment or health status of workers, can be pointed out as a devastating failure of policy vision. For understandable reasons, employment in small-scale industry has largely been taken as an adjunct to employment in the main economic activity, namely agriculture, and the need for enforcing public safety standards and hygienic working conditions, or even for enforcing simple labour laws, has never been considered to be an issue. Ironically, the partnership between public authorities and the small industrial enterprises themselves, in maintaining a studied silence about such serious matters, is a shameful episode in the history of industrialisation in India.

The hiatus between the organised and the unorganised industry is rather glaring in terms of labour laws, industrial safety standards and pollution control measures. While, legal provisions for protecting workers against a variety of occupational risks and other exploitations do exist and are applied, in varying form and content, to workers in the organised industry, nothing of consequence exists for, and much less applied to, workers engaged in the unorganised industry. As we have seen above, tiny and small rural industries in India nearly completely belong to the latter group and lend themselves to all kinds of exploitation, including self-exploitation and
industrial abuses. Occupational health hazards are even more serious for those employed temporarily on a contractual basis. It is a pity that acts such as the Workmen's Compensation Act, Employees State Insurance Scheme Act (ESI), Indian Factory Act, Industrial Disputes Act, Dangerous Machines (Regulation) Act, Fatal Accidents Act, Payment of Gratuity Act, and Employers Liability Act do not generally apply to casual and contract workers or to those engaged in the unorganised sector. (Anant, et al., 1999: 36-38). Even for those engaged in the organised sector, relief through these acts does not come that easily (Nihila, 1995: 1485). A greater pity is that a few of these acts, e.g. the Workmen's Compensation Act and ESI, which are legally supposed to be applicable to all varieties of industrial workers, are observed more in breach, in respect of those working in the unorganised sector (a very large proportion of which consists of small-scale industry). This is plainly so because, inter alia, there is negligible scope for organising labour engaged in such tiny and geographically scattered enterprises as small-scale industries are. In a preponderant majority of such small-scale enterprises, no labour is hired from outside (as in OAMEs); the family workers themselves act as employers as well as employees and in their case, the question of compensation or relief under most of these acts is, at best, an academic exercise.

Tenth, there has been no serious attempt, at the national level, to evolve a regional view of the small-scale industrial development policy. It is generally given out that a growing small-scale industrial sector has the potential to mollify the disparities in regional development. A national level co-ordinated plan initiative to foster small-scale industrial development in different regions, has hardly been in evidence; for all practical purposes, individual states have been ploughing their lonely furrows, with occasional support only under some special schemes.
Finally, we make a brief reference to a few other measures, which, in our view, are extremely crucial for the revitalisation of India’s small-scale industry. Of these, the credit-related problems faced by tiny and rural industry are of paramount importance. Many suggestions, such as the restructuring of State Financial Corporations (SFCs) and State Small Industries Development Corporations (SSIDCs), extending credit ratings to small-scale enterprises, earmarking a substantial proportion of priority lending to the small-scale sector in favour of tiny enterprises, exploring other funding sources (e.g. additional equity support under the National Equity Fund currently operated by the SIDBI), ventured into some three years back by the Abid Hussain Committee need to be pursued to their logical end.

This is also the time to have another look at the respective roles of the Central and state governments in the matter of industrialisation, in general, and small-scale industrial development, in particular. Economic expediency demands that small-scale industrial development should stay on with the state governments, as of now. The resolution of newly emerging problems such as infrastructural development through foreign direct investment may also be entrusted to their care, primarily because the decentralised mode of governance meets the flexible needs of small-scale industrial development, especially in export-linked sectors, in a much more reliable manner.

No programme of small-scale industrialisation in India can, and should, be seen independent of agriculture. In the on-going surge of IT-oriented industrial expansion, the nation’s attention is riveted away from agriculture. Perhaps, the claims of the agro-processing industries, most expressly in their rightful countryside abode, are getting overlooked. Regardless of the heights that the Indian economy may achieve in the regime of industrialisation, in general, and IT-based
Industrialisation, in particular, agriculture will continue to occupy the central stage, and with that the importance of agro-based industrialisation needs to be kept up. It is strongly pleaded that policy fixtures had better come out of such aberrations.

It may also be mentioned that the strongest argument for sustaining small-scale industrialisation is the existence of adequate demand, on an enduring basis. This demand potential has remained latent so far. Perhaps, the issue of land reforms needs to be revived, most ostensibly because the much publicised story of rural industrialisation in China and other East Asian countries, owes itself heavily to this institutional reform.

Lastly, apart from policy changes and re-orientations directly addressed to the small-scale industry, some other policy initiatives arising out of domestic compulsions and international obligations are also likely to indirectly affect its future. For example, the contemplated change in the ownership structure of the commercial banking sector, say, the dilution of share-holding by the state, is likely to affect the whole operation of priority sector lending by the public sector banks; undoubtedly, in the industrial sector, the most pronounced credit squeeze would be faced by the small-scale industrial enterprises. As a matter of fact, the axe has already started falling; the share of the SSI sector in priority sector lending witnessed a steep decline from 29 per cent in 1998-99 to only 15 per cent in 1999-2000 (Economic and Political Weekly. Editorial, 2000: 4068). Likewise, the subsidised or prioritised availability of electricity would disappear with the state electricity boards being revamped and the privatisation of electricity generation, transmission and distribution, being increasingly resorted to. Still again, under increasing international pressures for environment concerns and labour issues in the days ahead, production regimes in the small-scale industrial sector would get more and more stiffened. It is abundantly clear that difficult times lie ahead
of the small-scale industrial sector. Some policy safeguards therefore need to be provided for.

Keen analysts of India's development experience would testify that small-scale industry has witnessed a remarkable mingle of enlightened and obfuscated policy initiatives, of 'too-much-care' for some segments and 'too-little-attention' for others, of 'sustained garnering of growth propensities' for some and 'resuscitation through continual official props' for others, and so on. In a single study, especially the one based on secondary data, it is rather difficult to see through the veracity of claims and disclaims. Nonetheless, in the following chapter, we put the available secondary data together, and look at the performance of small-scale industries so that the weaknesses and strengths, both at the policy and implementation levels, are thrown bare, in a fairly general way.