CHAPTER II

THEORITICAL PERSPECTIVE OF DISTRICT INDUSTRIES CENTRE

2.1 INTRODUCTION

This chapter highlights the conceptual background of District Industries Centre, functions of the DIC, organizational setup and other theoretical aspects of the District Industries Centre.

2.2 DISTRICT INDUSTRIES CENTRE (DIC)

A District Industries Centre is an institution at the district level which provides all the services and facilities to entrepreneurs at one place so that they may set up small and village industries. These services and facilities include the identification of a suitable scheme, the preparation of a feasibility report, arrangements for the supply of machinery and equipment, provision of raw materials, credit facilities and input for marketing and extension services, quality control, research and entrepreneurial training. The District Industries Centre would also ensure that small industries continue to be viable. For this purpose, it provides all the facilities to the entrepreneur under one roof at the district and sub-district levels. At present,
an entrepreneur has to go to several agencies, many of them far from his district, in order to get the facilities. Suitable powers have now been delegated by several departments of the state government to the District Industries Centre so that an entrepreneur may get from one agency all the assistance he needs.

### 2.3 FUNCTIONS OF THE DIC

To survey the existing, traditional and new industries, to survey raw materials and human resources, to identify schemes, to make market forecasts for different items and to prepare techno-economic feasibility reports.

To arrange training courses for entrepreneurs of small and tiny units in association with small industries service institute.

To ascertain the raw materials requirements of various units, their sources and prices and to arrange for their bulk purchase and distribution to entrepreneurs.

To give particular attention to the development of khadi and village industries and other cottage industries in connection with the state khadi board and to organise training programmes for rural artisans.
To maintain liaison with the lead bank and other financial institutions, appraise process applications, monitor the flow of industrial credit in the district and arrange for financial assistance to entrepreneurs.

To arrange marketing outlets, maintain liaison with government procurement agencies, provide market intelligence to entrepreneurs, organise market surveys and market development programmes.

To expedite the issue of clearances and licenses to business units under a single-roof arrangement.

To assist entrepreneurs of small-scale units and rural artisans, in establishing industries, collectively through industrial co-operatives.

To help in extending suitable technical training to women entrepreneurs for pursuing self-employment schemes.

To provide immediate aid required by entrepreneurs in respect of power supply and licenses from municipal and health departments.

To assist entrepreneurs in the allotment of work shed and sites required for establishment of industries, in industrial estates.

To help in arranging hundred percent loans to the educated unemployed belonging to scheduled castes, scheduled, tribes and socially or
economically backward communities, for starting industries under special employment schemes.

To assess the requirements of the machinery and equipment of small-scale, tiny and village industries and to indicate the locations, where the required machinery and equipment for different plants may be available for entrepreneurs, to maintain contact with research institutions and to arrange for the supply of machinery on the hire-purchase basis.

To calculate and distribute subsidies to entrepreneurs provided by state governments under the schemes like state/special capital subsidy, low tension power, tariff subsidy, generator subsidy, sales tax waivers and sales tax deferral schemes.

2.3.1 DIC as a Co-ordinating Agency

DIC, which has been created essentially as a co-ordinating agency, seeks guidance from the existing agencies and uses the expertise so gained for the benefit of small-scale units and cottage industries by maintaining close contact with the development blocks entrusted with the task of integrated rural development.
All the activities relating to handlooms, handicraft, coir board, silk board, khadi and village industries commission are integrated with those of DICs. Figure 2.1 shows the co-ordinating agencies of DIC.

**FIGURE 2.1**

**CO-ORDINATING AGENCIES OF DIC**

2.3.2 Monitoring of DIC

The activities of the DIC subjects to monitoring at the district and state levels.
2.3.3 District Advisory Committee

The Collector of the district provides effective co-ordination between DIC and the state government departments, non-official agencies and local bodies in the task of assisting entrepreneurs, as head of the district advisory committee. This committee meets once in a month (or) once in two months. The committee approves the action plan prepared by DIC and reviews the implementation of various schemes under the DIC programmes, the progress in the establishment of the small and village industries and artisan development programmes. It particularly suggests measures for improving performance. The highest priority is given to view points of banks and all concerned for the successful implementation of the scheme, in particular, the recovery of loan amounts from the entrepreneurs.

2.3.4 State level committee

To supervise and monitor the work of DIC, the government constituted a state level co-ordination committee with the Minister of Industries as chairman and the Chief Secretary, the Director of Industries, the Secretary for Rural Development, the Secretary for agriculture, the Director of Small Industries Service Institutions (SISI), the secretaries
in-charge of agriculture and the commissioner in-charge of panchayat raj institutions, as members.

The state level co-ordination committee meets once in six months to review the activities of DICs and reports to the government of India on their progress.

2.4 CONCEPTUAL BACKGROUND OF DIC

At the district level the responsibility for field-level implementation of industrial development policies rested with the District Industries Officer and project authorities. By the late seventies, certain deficiencies in the structure had become apparent. In particular, the small entrepreneur was deprived of a package of services from the government. Since many of the functions were concentrated in the state headquarters, the small entrepreneurs found it difficult to go to the state capital again and again. More importantly, little attention was given to follow-service to assist the small units in solving their teething trouble.

In pursuance of the industrial policy resolution, 1977, a programme for setting up District Industries Centres as an effective nodal agency for the
promotion of cottage and small industries widely dispersed in rural areas and small towns. The policy emphasis was to shift the focal point of development of small-scale and cottage industries from big cities and state capitals to the district headquarters. The programme is envisaged to provide all services and support needed by small and village entrepreneurs, artisans, under a single roof.

The DIC programme was stated on 1st May 1978, as a centrally-sponsored scheme. Under the programme, each district was to have an agency to deal with all the requirements of small and village industries. The DIC was also to draw schemes for making available margin money assistance to tiny units.

2.4.1 Network

Efforts have been made to cover each district in the country with an industries centre. By the end of 1978-79, the number of approved DICs had gone up to 346. At the end of March 1993 the total number of DICs stood at 442.
2.4.2 Objectives of DIC

The main objectives of the DIC programme are

1. To make available the various assistance and clearance required under one roof.

2. To promote rural industries.

3. To develop small and cottage industries in the country and to generate greater employment opportunities especially among the rural and backward areas in the country.

4. To develop close linkages with the rural development blocks and developmental institutions which are involved in grass root activities and integrate their activities with the DIC set-up.

5. To act as the nodal agency for providing support services to village and small entrepreneurs

The main thrust of the DIC programme is on the development of such industrial units which create larger employment opportunities in rural and semi-urban areas.
2.4.3 Functions of the DICs

The following are the functions of the DICs

i) To survey existing, traditional and new industries, and raw materials and human resources to identify schemes and make market forecasts for different items; to prepare sample techno-economic feasibility reports, and offer investment advice to entrepreneurs;

ii) To assess the machinery and equipment requirements of small-scale, tiny and village industries; indicate the locations where machinery and equipment for different plants may be available for entrepreneurs; to liaison with research institutions and arrange for the supply of machinery on hire-purchase basis;

iii) To arrange for training courses for entrepreneurs of small and tiny units and liaison with Small Industries Service Institute, the SIET Institute, and other institutions; to keep abreast of research and development in selected product lines and quality methods;

iv) To ascertain the raw material requirements of various units, their sources and prices, and to arrange for their bulk purchases for, and distribution to, entrepreneurs;
v) To liaison with lead banks and other financial institutions, appraise applications, monitor the flow of industrial credit in the district, and arrange for financial assistance to entrepreneurs;

vi) To organise marketing outlets, to liaison with government procurement agencies, convey market intelligence to entrepreneurs, organise market surveys and market development programmes;

vii) To give particular attention to the development of khadi and village industries and other cottage industries, to liaison with the state khadi board, and organise training programmes for rural artisans.

2.4.4 Role of DICs

The manager of the economic investigation department of a DIC is responsible for the survey of the position in respect of raw materials and human skills, for the identification of potential industries, for data collection on existing industries and for the preparation of sample techno-economic feasibility studies. The manager of the machinery and equipment section assesses the requirements of the machinery and equipment needed by various small-scale industries, including simple machines for village industries; he ascertains their sources of supply in the country, maintains
lists of prices and of suppliers, places orders on behalf of small entrepreneurs, and liaison with various research institutions for the provision of Research and Development Technology. The manager of the research, extension and training section ascertains the problems faced by small-scale entrepreneurs in their production processes and methods and in the procurement of quality raw materials and keeps abreast of Research and Development in select product lines and quality control methods. He is also responsible for arranging training courses in production management. The manager of the raw materials department ascertains the raw materials requirements of various units, their sources of supply and the prices at which they are available, and arranges for their co-operative or bulk purchase.

The manager in charge of the credit section explains various credit schemes to entrepreneurs, helps them in filling up application forms to financial institutions, acts as a liaison agency with the lead bank and other institutions in the appraisal of the application received from small units. He also monitors the flow of industrial credit in the district. The manager for marketing organises market surveys and market development programmes, conveys market intelligence to entrepreneurs, organises marketing outlets and liaison with government procurement agencies. The manager for cottage
industries pays special attention to khadi and village industries, maintains liaison with the state khadi board and similar organisations engaged in promoting these industries, and organises training programmes for rural artisans.

In order to ensure that the DICs deliver the goods, care has been taken to ensure that they do not degenerate into procedure-bound organisations. For this purposes, they are manned by functional managers deputed from the state industries departments and from other state agencies involved in the process of industrial development. These officials should have experience and expertise in their respective areas. But this will come about only if the state governments do not take advantage of the situation to depute to the DICs only the disposables among their staff. It may be pointed out, however, that the parent bodies themselves may face difficulties on finding capable persons who are also willing to go to the villages. The delay in the setting up of some DICs is in fact due to the non availability of suitable manpower; and when the necessary staff is available some difficulties are encountered in changing or even modifying heir bureaucratic outlook. Moreover, unless the managers who man the DICs are capable of understanding the vital and
dynamic role they are called upon to play, the success of the DICs cannot be ensured.

In this context, it may be necessary to consider seriously the need for offering incentive to capable persons outside the state to join the DICs. The experience of large scale units, if properly harnessed, will be extremely useful for the DICs. The government is already working the large-scale units for this purpose.

Secondly, the DICs cannot discharge their responsibilities unless they are vested with authority to work as clearing agencies where state regulations are concerned, and given adequate financial powers to discharge their responsibilities. Already, instances have come to light of banks having refused to finance parties recommended by the DICs.

Finally, even the nest of DICs, though they are manned by suitable men and vested with sufficient powers, will have to contend against all those problems which have hindered the growth of small units in rural areas. For example, the absence of infrastructural facilities in villages is not something which can be wished away. Huge resources are needed to create these facilities in rural areas. Ineffective marketing and marketability of small-
scale units is another problem which will have to be competently tackled before the DICs become effective.

The marketing manager of a DIC no doubt acts as a liaison officer between the units and such organisations undertaking marketing functions at the state and central levels as the SIDO and the NSIC. However, these organisations have to prove their mettle as effective sellers of the small industry’s products. The other functional managers, too, will face problems of liaison if they depend on higher-level organisations for raw material, machines or even information. Delays, sometimes disappointments, will ensue unless some sort of raw material banks, machinery banks and information banks are created to help the DICs.

2.4.5 Financial Assistance

The original pattern or financial assistance was 100 percent non-recurring grant towards the cost of the DIC building, vehicles, furniture and equipment (limited to ₹5 lakhs per DIC); 100 percent grant for expenditure on promotional schemes; a recurring grant for expenditure on establishment up to 75 percent of the actual expenditure by the central government and the
balance of 25 percent by the state/union territory government, and 100 percent loan assistance by the National Development Council. The central and state governments will share the expenditure on 50 : 50 basis on each financial component of the programme, namely, non-recurring grant, recurring grant, grant for incentives and promotional schemes and loans. For union territories, the central government assistance is 100 percent.

2.4.6 Organisational Set up

Each District Industries Centre is headed by a general manager, who is assisted by seven functional managers and other supporting staff. The seven functional managers deal with the following subjects:

i) Economic investigation;
ii) Machinery and Equipment;
iii) Research, Extension, and Training;
iv) Raw materials;
v) Credit;
vi) Marketing;
vii) Cottage industries;

This staff is supplemented by functionaries of other departments and organisations who work as members of the team at a DIC

2.4.7 Restructuring of the DICs
In terms of the Industrial Policy Statement (1980), a study was conducted of the selected DICs to evaluate the effectiveness of the existing arrangements on consultation with the state governments. The study recommended a restructuring of the DICs with a view to increasing their project formulation and implementation capabilities.

Accordingly, the ministry of industries has made changes to ensure their efficient functioning. The staffing pattern has been made more flexible to increase their capabilities for project formulation. Under the restructured staffing pattern, each DIC will have one general manager, four functional managers and three project managers in disciplines which are relevant to the requirements of a district. It has been presumed that technical expert; will give a proper direction to the programmes to be implemented. In changing the staffing pattern, the industries ministry was of the opinion that better results of developmental activities would be ensured. In fact, there was nothing wrong in the staffing pattern of the DICs, The real problem was motivation, integration and co-ordination of activities connected with the development of the district. In the circumstances, the industries ministry,
instead of removing the shortcoming in the working of the DICs, has made
the issue more complicated.

2.4.8 Responsibilities of various heads of DIC

Each district industries centre is headed by a general manager, who
holds a key position and is responsible for the overall co-ordination and
development of industries in the district. The main functions and tasks
assigned to various functional managers in a district industries centre are:

2.4.8.1 Manager (Economic Investigation)

i. To survey the potential of various types of industries in the
district;

ii. To tap the sources of raw materials and human skills available
in the district.

iii. To identify product lines and prepare sample techno-economic
feasibility studies;

iv. To collect available data;

v. To offer investment advice to entrepreneurs.

2.4.8.2 Manager (Machinery and Equipment)

i) To assess the requirements of machinery and equipment needed by
various small-scale, tiny and village industries;
ii) To ascertain the sources of supply of machinery and equipment on the country;

iii) To keep lists of suppliers and price lists and keep entrepreneurs advised about these;

iv) To help in placing orders;

v) To liaison with research institutions regarding developments in machinery and equipment;

vi) To assess the need for simple machines in rural areas.

2.4.8.3 Manager (Research, Extension and Training)

i) To keep abreast of quality control methods and of Research and Development in select product lines;

ii) To identify the problems of entrepreneurs, in regard to the quality of raw materials, production methods and processes;

To arrange for training courses in production management for entrepreneurs engaged in small and tiny units

2.4.8.4 Manager (Raw Materials)

i) To determine the raw material requirement of various units, locate their sources and ascertain their prices;

ii) To arrange for co-operative or bulk purchase of raw materials.
2.4.8.5 Manager (Credit)

i) To explain the various credit schemes to entrepreneurs;

ii) To help in preparing application to financial institutions;

iii) To liaison with the lead bank and other institutions;

iv) To help in an appraisal of applications;

v) To monitor the flow of industrial credit in the district.

2.4.8.6 Manager (Marketing)

i) To organise market surveys and market development programmes;

ii) To organise marketing outlets;

iii) To liaison with government procurement agencies;

iv) To convey market intelligence to entrepreneurs.

2.4.8.7 Manager (Cottage Industries)

i) To pay special attention to the development of cottage industries with a special reference to khadi and village industries, handlooms and handicrafts;

ii) To liaison with state khadi board and other state government agencies involved in this work;

To organise the training of rural artisans
2.4.9 Co-ordinating Agency of DIC

The DICs which have been envisaged essentially as co-ordinating agencies, seek guidance from the existing agencies and utilise the expertise so gained for the promotion and service of small-scale units. They work in close liaison with the development blocks entrusted with the task of integrated rural development. The central khadi and village industries commission and its state boards co-ordinate their work with that of the DICs which, in their turn, co-ordinate the work of various other central and state agencies. In other words, all the activities of handlooms, handicrafts, the coir board, the silk board, the KVIC, etc., have been integrated with those of the DICs. The general manager of a DIC operates all their programmes in his district.

2.4.10 District Credit planning of DIC

Credit is the lubricant of development, and should be related to their volume of production activity in a district. District credit plans constitute the framework for credit extension in the district under viable banking schemes, which are expected to contribute to an all-round and integrated development of the economy of the district and to a reduction in regional imbalances.
District credit plans also incorporate schemes prepared under the Integrated Rural Development Programme (IRDP). They are an answer to the phased development of a district during the sixth five-year plan period (1980-85).

The advantages of district credit plans are:

i) District credit plans include development schemes based on a careful study of the potential resources and needs of the areas. The technical feasibility and economic viability of the schemes are duly established. The financing of the schemes is, therefore, likely to yield optimum results.

ii) While preparing a credit plan, it is ensured that the various schemes are integrated, i.e., the backward and forward linkages of these schemes are considered and provided for. For example, if a large-scale agricultural development programme is proposed, measures for providing fertilizers, seeds, etc., distribution centres and facilities for storage, marketing and transportation of produce are also recommended.

iii) Infrastructure and other facilities necessary for successful implementation of the various schemes are spelt out and financial and physical resources, which are necessary for the purpose, are
estimated. Schemes which can be implemented within the existing infrastructure and/or which require only a marginal strengthening, are included in the credit plans. Unforeseen problems, therefore, are not likely to arise at the implementation stage.

It has been observed that backward districts in general do not have much credit absorption capacity. Therefore, at present, there is not much demand for credit from these districts. That is one of the reasons why the credit-deposit ratio in the backward regions is very low at present. However, if credit plans are prepared for backward districts, they will contain bankable schemes and needs of the local people. Credit plans will thus help to improve the credit absorption capacity of backward districts and break the vicious circle of “no demand for credit, consequently, coextension of credit, and therefore, no development and therefore, again, no demand for credit”.

i) If credit plans are prepared for all the districts in the country, they will help reduce the inter–district imbalances because hitherto neglected and backward areas will also start progressing. For this purpose, however, it is necessary that all the lead banks should prepare credit plans for their lead districts.
ii) The schemes, included in the district credit plans are expected to benefit all the areas, rural as well as urban, of the district. The locations of various schemes/projects included in them are carefully selected so as to yield the maximum returns and benefit as large an area as possible. Therefore, credit plans will help reduce disparities. Thus the preparation of credit plans is useful even from the point of view of developed districts.

As the schemes included in credit plans cover all the sectors of the economy, district credit plans will help channel credit to the various factors according to their needs, and thus reduce sectoral disparities.

A DIC has adopted district planning as an internal tool of management. Lead banks have already prepared district plans for each district, which may be rephrasing and implemented by DICs.

2.5 DEVELOPMENT OF SSI IN INDIA

The Small Scale Industries (SSI) sector has occupied a pivotal position in the process of the economic development of the Indian economy in terms of employment and growth inspite of the stiff competition from large scale industries and the not so encouraging support from the
government since independence. The encouragement of small scale industries, particularly in rural areas, is very urgently needed to counteract seasonal unemployment in agriculture and, thus, to make use of the labour which might otherwise be wasted.

Rapid economic development has become the foremost concern of developing countries including India. In planned economic development, industrialization occupied a crucial place. This is because industrialization and economic development have become closely integrated with each other.

Under the planned programme of rural development, rural industrialization has the major objective of creating employment opportunities in the non-farm sector in rural areas, especially for rural labour, artisans, marginal farmers, women, and thereby, improving the economic wellbeing of wage earners. In other words, rural industrialization is a systematic, scientific and integrated approach to diversify the occupational structure in rural areas by improving employment opportunities in secondary and tertiary sectors, and, thereby, reducing the pressure on agriculture. It helps to engage the underemployed and the unemployed rural
labour in productive and socially viable occupations and enable them to earn an income that would meet their basic minimum needs.

In underdeveloped and developing countries, agriculture is the dominant sector. However, the real rate of economic growth in developing countries like India depends on the co-ordinated development of agriculture and industry. In fact, agriculture and industry are complementary to and interdependent of each other. Obviously, in a country like India, the answer to the question of economic development is, indeed, “balanced growth”.

After independence, economic development became the primary and foremost objective of the government policies in India. Indian plans have targeted the balanced growth in the two major sectors of the economy, namely, agriculture and industry.

At the beginning of the first five year plan (1950-51), the Indian economic scene presented the picture of a stagnant economy. For almost all industrial products, the country depended on imports. Long term development of small scale industry was unknown. Recognizing the need to speed up industrialization in the country, the industrial policy resolution
1948, envisaged the planned development of industries and their regulation in national interest.

Regional imbalances which retard the growth of Indian economy need to be eradicated at the earliest. For this, a practical measure was to start and develop small scale industries in the backward and rural areas. The Indian five year plans have been emphasizing the development of small scale industrial sector right from the first plan. In the present context, Small Scale Industries (SSIs), have a significant and strategic role to play in achieving the plan objectives of increase in industrial production, generation of additional employment, reduction in regional imbalances, equitable distribution of national income, development of local resources etc. They have the potential for achieving these goals at a relatively low capital cost.

Small scale industries are labour intensive and they have the potential for generating more employment. They can help to reduce regional imbalance. The employment generating capacity of small scale industries could be noted from the fact that in India, one lakh of fixed investment in plant and machinery in small scale units provides employment to 21-26 persons; while in a large scale unit, the same amount of investment provides
employment to only four persons\textsuperscript{1}. In a rural economy, where there is surplus labour, the small scale industrial sector gains special significance on account of its low capital requirements, liberal labour absorption, effective mobilization of local resources of capital and skill, equitable distribution of income and wealth, short-gestation period, and less sophisticated management techniques. The salience of small scale industry lies in “resource use” and “distribution of benefits”. Small enterprises make use of the latent resources and generate employment. They can act as a means of decentralization. Small is environment-friendly and beautiful.

The small scale industries sector has made a significant contribution to India's emergence as the world’s tenth industrial nation. The sector has a sizeable quantity in India’s index of employment, production, export income and foreign exchange. The total number of small scale units in the country in 1998-99 was 31.21 lakhs compared to 30.14 lakhs in 1997-98. The value of production of small scale units in 1998-99 aggregated to ₹5,27,515 crores. The volume of employment in small scale sector stood at 171.6 lakhs as of end March 1999. Exports from the SSI sector accounted for about 35 percent

of the country’s total export. In 1998-99, SSI exports valued at ₹49,481 crores increased by 11.4 percent over 1997-98\(^2\).

Today, the SSI sector produces almost 8000 products including consumer oriented products. The number of units has gone up from 19 lakhs in 1991 to over 31 lakhs in 1999. Perhaps, the most remarkable figures are in respect of employment. During the seven year period from 1991, when liberalization began, till 1998, the small scale created almost 42 lakhs new jobs whereas the entire organized industry including the government was able to create only 14.3 lakh new jobs\(^3\).

### 2.6 INDUSTRIAL POLICY AFTER INDEPENDENCE

The attainment of independence by India on August 15, 1947, made a tremendous difference in the industrial landscape. Indigenous enterprise was no longer required to function as the camp followers of foreign interest. Production in India had declined but its population was on the increase. Inflation got worse, because of the economic upheaval consequent upon the


partition of the country and the problem of refugee rehabilitation. In view of
the need to set up production and counter inflationary tendencies, it became
essential to announce an industrial policy which could create conditions of
economic security so vital for the growth of industrial structure and produce
a climate for stimulating investment in industry. In view of the various cross
– currents that confused the industrial climate, a statement of industrial
policy was necessary to clear the fogey atmosphere⁴.

The Industrial Policy Resolutions of 1948, 1956, 1977 and 1980 have
emphasized the following aspects⁵.

(i) To bring about the rapid economic development of the country by
accelerating the growth of industries and industrialization of the
country.

(ii) To provide increasing opportunities for gainful employment and
skill formation of various types required for modernizing society.

(iii) To bring about the expansion of the public sector as a dominant
sector of the Indian economy.

⁴ Ruddar Datt and K.P.M. Sundaram, Development Issues of the Indian
Economy, S.Chand & Company Ltd., New Delhi, 1985, p.484.

⁵ Government of India, Industrial Policy Resolutions, dated 6th April 1948, 30th
(iv) To help to achieve the goal of the socialistic pattern of society as accepted by the Indian parliament in December 1954.

(v) To bring about the development of basic and heavy industries with a view to reducing dependence of the country on foreign countries in the case of essential and vital goods and services such as defense production and various types of metals, heavy chemicals, heavy, and light engineering goods and the like and to make the country self-reliant in all such matters.

(vi) To give encouragement to the small-scale, cottage and village or rural industries and handicrafts and also to the co-operative industrial sector of the Indian economy.

(vii) To take steps to promote the exports of industrial goods so that India can have its due share in world export trade.

(viii) To bring about reduction in regional disparities by establishing public sector industries especially in economically backward regions of the country and also by promoting industries in the backward regions of the country.

(ix) To bring about the development of modern industrial culture by establishing scientific, technical and professional institutions of
education, as all such skills are essential and basic to the modern type of industrialization.

The main thrust of the 1948 industrial policy was to lay the foundation of a mixed economy in which both public and private enterprises would march hand in hand to accelerate the pace of industrial development. The policy reiterated the right of the state to acquire industrial undertaking in public interest, but it also reserved an appropriate sphere for the private sector.

The Industrial Policy Resolution of 1956 set out some of the principles of Nehru’s philosophy, though it retained sufficient ambivalence to placate the uncommitted elements. As Rangnekar rightly put it, “Private sector investment zoomed in the wake of public sector expansion”. This policy resulted in the rapid expansion of the public sector in basic heavy industries such as coal, oil, fertilizer, chemical, engineering and the like.\(^6\)

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2.7 SMALL SCALE INDUSTRIES AND GOVERNMENT POLICY

The salient features of the various industrial policy resolutions in respect of small scale industries have been summed up so as to trace how small scale industries have been protected, promoted and developed by the government over the last four decades.

2.7.1 Industrial Policy Resolution of 1948

The importance of small scale industries was fully recognized after the conference on “Industrial Development” held in New Delhi in December, 1947. The Cottage Industries Board was set up as an advisory body. The approach of the government of India towards the small-scale sector was emphatically reflected in the Industrial Policy Resolution of April 6, 1948. The policy resolution outlined that cottage and small industries had a very important role in the national economy, offering, as they did, scope for individual, village, or co-operative enterprises and means for the rehabilitation of displaced persons. The objectives specified for small- scale and village industries in this policy resolution were:
i) To meet a substantial part of the increased demand for consumer goods and simple industrial goods through small industry.

ii) To create large scale employment at relatively low capital costs,

iii) To ensure a more equitable distribution of national income, including the spread of industry over different regions of the country,

iv) To counteract the tendency towards concentration of economic power by the widening of opportunities for new entrants to small-sized units.

Thus, the thrust of the policy in respect of the small-scale sector was to generate employment on a very large scale at low capital costs so as to ensure equitable distribution of national income.

2.7.2 Industrial Policy Resolution of 1956

The Karve Committee and the International Perspective Planning Team envisaged decentralized industrial development to avoid the evils of concentration. The Industrial Policy Resolution of 1956 fully endorsed this recommendation. Decentralization formed the essence of the policy in relation to small scale industries in the 1956 resolution. The resolution
pointed out that the State was following a policy of supporting cottage and small scale industries by restricting the volume of production in the large – scale sector, through differential taxation or direct subsidy. The aim of the State policy was to ensure that the decentralized sector acquired sufficient vitality to be self – supporting, integrating its development with that of the large – scale industries. The objectives for small-scale industries specified in the policy were

i) To provide immediate large-scale employment opportunities with low capital cost per unit of labour.

ii) To provide opportunities for encouraging new entrepreneurs.

iii) To mobilize small capital resources and skills which might otherwise remain unutilized.

2.7.3 Industrial Policy Statement of 1977

The fifth five year plan (1974-79) emphasized the need for continuing the policy measures of protection and incentives to the small-scale sector. This was reiterated in the industrial policy statement of December 23, 1977. The main thrust of the industrial policy was on the effective promotion of cottage and small-scale industries widely dispersed in rural areas and small
towns. It was the policy of the Government that whatever could be produced by small and cottage industries should only be so produced and, for the first time, it was so stated. It was obvious that this policy resolution demanded a shift from the large sector to the small and cottage sector.

2.7.4 Industrial Policy Statement of 1980

The Industrial Policy Statement of July 23, 1980 emphasized the role of ancillary development in the small-scale sector and modernization of small-scale industries, ensuring rapid growth in backward areas. The concept of nucleus plants for upgrading the technology of small units was emphasized. The establishment of nucleus plants was to be supported by a suitable system of incentives. The basic objective of this policy was to ensure a balanced growth of economy where large, medium, small and cottage industries could play their respective roles in the growth of the national economy.

2.7.5 Industrial Policy Statement of 1990

The policy stressed the need for the promotion of small scale and agro-based industries. It also emphasized a change in the procedure for grant of industrial approvals. The core decision of this policy was to ensure
adequate and timely flow of credit for small-scale industries through the Small Industries Development Bank of India (SIDBI), commercial banks and other financial agencies.

2.7.6 Industrial Policy Statement of 1991

The Government announced the new policy for the small-scale enterprises on August 6, 1991. The salient features of this policy document were the promotion of small scale, cottage and village industries by enhancing the cut off limits of investment in plant and machinery for the small scale and tiny sector industries. The investment limit as per this policy in respect of small scale industries was ₹60 lakhs. The policy recommended the provision of chapter availability of credit and other facilities and more attention to the development of handloom, handicraft, khadi and other village industries. The concept of “Economic Federalism” was evolved and a few nucleus units were set up in districts identified as industrially backward to help and develop small and ancillary units by providing raw materials and assembling and marketing facilities through such units, and to facilitate the gradual move towards liberalization and marketization.
The New Industrial Policy of 1991 contemplated several changes in the old policy relating to the small scale sector with the objective of making small enterprises economically viable and financially strong. The new policy proposed several measures for ensuring the supply of adequate raw materials to SSI units. It also proposed to initiate steps for the creation of an effective marketing mechanism for SSI products. The Small Industry Development Organization was directed to act as a nodal agency for promoting the export of SSI products. With regard to financial support, the policy envisaged adequate flow of credit to SSI units by non-SSI undertakings, provision for the supply of risk capital through limited partnership and measures to ensure speedy payments arising from the sale of the products of the SSI sector. For the viability of small industry, its production programmes were to be integrated with large private and public sector units. The sector was allowed easy access to institutional finance.

The SSI has, in recent years, become the focus of attention of planners in the developed countries for a quite different and yet powerfully strategic

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reason. The technological revolution popularly known as Flexible Specialization or Flexible Manufacturing System (FMS)\(^8\) has enabled flexible responses to change in market demand which has been characterized by differentiated products rather than standardized products. In this, the small scale industries have been found to be extremely competitive\(^9\).

In the wake of the recent economic liberalization taking place in India, the relevance of flexible specialization and production by the SSI sector is bound to be appreciated sooner than later.

2.8 SMALL SCALE INDUSTRIES AND FIVE YEAR PLANS

The plan outlays for the development of small scale industries from the first five year plan to the ninth five year plan are presented in table 2.1.

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## TABLE 2.1

**PLAN OUTLAY FOR VILLAGE AND SMALL SCALE INDUSTRIES OVER THE PLAN PERIODS**

<table>
<thead>
<tr>
<th>Plan &amp; Years</th>
<th>Outlay Village and Small Scale Industries (₹ in Crores)</th>
<th>Percentage to Total</th>
<th>Outlay Modern Small Scale Industries (₹ in Crores)</th>
<th>Percentage of Small Scale Industries Investment on Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan (1951-56)</td>
<td>42.00</td>
<td>2.10</td>
<td>520.00</td>
<td>19.90</td>
</tr>
<tr>
<td>Second Plan (1956-61)</td>
<td>187.00</td>
<td>4.00</td>
<td>56.00</td>
<td>29.90</td>
</tr>
<tr>
<td>Third Plan (1961-66)</td>
<td>240.80</td>
<td>2.80</td>
<td>113.06</td>
<td>46.90</td>
</tr>
<tr>
<td>Annual Plan (1966-69)</td>
<td>126.10</td>
<td>1.90</td>
<td>53.48</td>
<td>42.90</td>
</tr>
<tr>
<td>Fourth Plan (1969-74)</td>
<td>242.60</td>
<td>1.50</td>
<td>56.19</td>
<td>39.50</td>
</tr>
<tr>
<td>Fifth plan (1974-79)</td>
<td>592.60</td>
<td>1.50</td>
<td>221.74</td>
<td>36.50</td>
</tr>
<tr>
<td>Annual Plan (1979-80)</td>
<td>255.70</td>
<td>2.10</td>
<td>104.81</td>
<td>36.20</td>
</tr>
<tr>
<td>Sixth Plan (1980-85)</td>
<td>1829.90</td>
<td>1.70</td>
<td>616.10</td>
<td>34.60</td>
</tr>
<tr>
<td>Seventh Plan (1985-90)</td>
<td>2752.70</td>
<td>1.50</td>
<td>1120.50</td>
<td>40.40</td>
</tr>
<tr>
<td>Eighth Plan (1992-97)</td>
<td>6334.20</td>
<td>1.46</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Ninth Plan (1997-2002)</td>
<td>4507.88</td>
<td>0.53</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Tenth Plan (2002-07)</td>
<td>5106.72</td>
<td>0.76</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Eleventh Plan (2007-2012)</td>
<td>5876.32</td>
<td>0.92</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

**Note:** N.A. – Data Not Available.

**Source:**
The aim of five year plan is to achieve balanced regional development. Since large industries are mainly concentrated in big cities, dispersal of industries and the consequent balanced development is possible only through the advancement of small scale units. To achieve this goal, the five year plans have allocated funds for the development of small scale industries. The industrial policy resolutions of the respective governments have considerable impact on the plan outlay.

Table 2.1 reveals that the plan outlay share of small scale industries in the total outlay has been continuously declining with the exception of annual plan (1979-80). It was mainly due to the industrial policy statement of 1977 of the Janatha Government which gave primary importance for the development of small scale industries.

Since 1991, the government has been following the logic of market and privatization. Since market plays a dominant role in the liberalized regime, the plan outlay has considerably been reduced. It has declined to a mere 0.53 percent. Therefore, the present policy of the government has greatly affected the plan outlay for small scale industries.
The small scale units have a high potential for generating employment by the adoption of labour intensive technique which ensures maximum utilization of raw materials locally available and for contributing about half of the gross value of output. The Sivaram Committee categorized states on the basis of per capita value added in manufacturing in 1976. In that year, the figure for all India was ₹160. States with that or a higher average were called developed states. Gujarat, Maharashtra, Tamilnadu, West Bengal, Haryana, Karnataka and Punjab crossed that limit and, therefore, they are industrially developed states\(^{10}\).

In the SSI sector, over 7500 products worth ₹6,31,463 crores were produced in 1998-99 using very simple to highly sophisticated technologies and offering opportunities for utilization of local resources and skills. The sector has, thus, emerged as a major supplier of a multitude of products for mass consumption as well as parts and components to a variety of industrial units. It has shown flexibility, adaptability, creativeness and customer friendliness leading to sustained economic growth. Small scale industry

accounts for roughly one third of the manufacturing value added and contributed about 6.9 percent GDP in 1996-97\(^1\).

The phenomenal growth of the small-scale industries in India from 2003-04 to 2011-12 can be understood from a careful perusal of the figures furnished in table 2.2.

The above table 2.2 shows the performance of small scale industries in terms of the number of units, the value of production, employment, investment and exports at current prices.

Regarding the number of units, there has been a continuous increase from 2003-04 onwards. From a mere 19.38 lakhs, it has increased to 31.21 lakhs in the year 2011-12. It is important to note that the year 2011–12 is significant because of the introduction of the new economic policy. Therefore, small scale industries in terms of units have shown considerable growth during the above period under consideration.

As a corollary to the number of units, the value of production has also shown remarkable performance. It has increased from ₹1,55,340 crores in the year 2003-04 to ₹5,27,515 crores in the year 2011-12. As regards investment, it has increased from ₹19,302 crores in the year 2003-04 to ₹29,500 crores in the year 2009-11.

Employment is an important variable that significantly influences the economic development of a nation. In a country with more than 100 crores of people, it is feasible to get employment mainly through small scale units.
only. Employment opportunities provided by SSI units are highly encouraging as the data reveal that they have increased from 124.30 lakhs in the year 2003-04 to 171.58 lakhs in the year 2011-12.

Small scale industries mainly cater to the local needs and are based on local raw materials and skills. The small scale industries, having their market operations in wider areas of the state or country, which are already in the export field, are experiencing increased competition in the domestic market on account of the removal of quantitative restrictions and the lowering down of tariff rates. In the scenario when even domestic markets are becoming more competitive and the export markets difficult to capture, small scale industries are facing serious problems.

Inspite of the competition from large scale industries, the share of small scale industries in the total export has shown wide fluctuations. It has increased from 28.2 percent in the year 2003-04 to 39.8 percent in the year 2008-09. But since 2008-09, the share of small scale industries has been declining. It declined to 33.4 percent in 2009-10, though 2011-12 has shown a marginal increase. The decline in share may be due to world wide competition and the stagnating growth of the Indian economy.
2.9 GROWTH OF SMALL SCALE INDUSTRIES IN TAMILNADU

In Tamilnadu, the growth of small scale industries is in consonance with national plans and objectives. The aim of SSI units is to bring about a balanced regional development, to tap the potential at the block level promoting entrepreneurship, to generate employment and induce personal savings. The focus on the SSI sector began only during the second five year plan. A systematic programme for the development of the small scale sector was formulated and there was also concentration on ancillary development.

The SSI units under the various five year plans have received varied assistance such as marketing assistance, financial assistance, tax exemptions, and subsidies and so on. During the second five year plan, the infrastructure was laid for the development of the SSI sector. A number of industrial estates were started and many innovative measures were introduced. The third five year plan helped the SSI units to diversify production and manufacture more complex items and goods exclusively reserved for the SSI sector. The third five year plan saw the formation of Tamilnadu Small
Industries Development Corporation, a government of India undertaking. The next three five year plans followed the pattern set in the earlier plans\textsuperscript{12}.

The census of small scale industrial units 1977 reveals that Tamilnadu stood first in the number of registration of the small scale industries. In terms of gross output (12.38 percent), value added (12.39 percent), investment in fixed assets (10.54 percent) and employment in the SSI sector (13.02 percent), Tamilnadu stood second next to Maharashtra\textsuperscript{13}.

The share of the small scale industries of Tamilnadu Vis-à-vis India from 2003-04 to 2011-12 is presented in table 2.3.


<table>
<thead>
<tr>
<th>Years</th>
<th>Number of Small Scale Industries (No. in Thousands)</th>
<th>Percentage Share of SSI Units in Tamilnadu</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All India</td>
<td>Tamilnadu</td>
</tr>
<tr>
<td>2003-04</td>
<td>1938</td>
<td>127</td>
</tr>
<tr>
<td>2004-05</td>
<td>2082</td>
<td>138</td>
</tr>
<tr>
<td>2005-06</td>
<td>2235</td>
<td>158</td>
</tr>
<tr>
<td>2006-07</td>
<td>2385</td>
<td>178</td>
</tr>
<tr>
<td>2007-08</td>
<td>2538</td>
<td>207</td>
</tr>
<tr>
<td>2008-09</td>
<td>2724</td>
<td>234</td>
</tr>
<tr>
<td>2009-10</td>
<td>2887</td>
<td>264</td>
</tr>
<tr>
<td>2010-11</td>
<td>3014</td>
<td>295</td>
</tr>
<tr>
<td>2011-12</td>
<td>3121</td>
<td>324</td>
</tr>
</tbody>
</table>

Source: Unpublished Records of Nucleus Cell Division, Director of Industries and Commerce, Chennai.

The above table 2.3 shows the number of SSI units in Tamilnadu in comparison with that of India. A close analysis reveals that both India and Tamilnadu are following the same pattern in terms of number of units. At the all India level, the units have increased from 1938 thousands in 2003-04 to 3121 thousands in the year 2011-12. So far as Tamilnadu is concerned,
the number of units has increased from 127 thousands in the year 2003–04 to 324 thousands in the year 2011-12. The percentage share of units in Tamilnadu increased continuously from 6.6 percent in 2003-04 to 10.4 percent in 2011-12. This is not a surprising trend since Tamilnadu is one among leading industrial states in India.

2.10 SUMMARY

In this chapter, the theoretical perspective of DIC such as its functions, objectives, assistance schemes has been discussed. This chapter also furnishes the information about industrial policies and plans of the government and the role of small scale industries in Tamilnadu.
<table>
<thead>
<tr>
<th>Years</th>
<th>Number of units (in `lakhs)</th>
<th>Value of Production at Current Prices (₹ in crores)</th>
<th>Employment (₹ in lakhs)</th>
<th>Investment (₹ in crores)</th>
<th>Exports at Current Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Value (₹ in crores)</td>
</tr>
<tr>
<td>2003-04</td>
<td>19.38</td>
<td>1,55,340</td>
<td>124.30</td>
<td>19,302</td>
<td>9,100</td>
</tr>
<tr>
<td>2004-05</td>
<td>20.82</td>
<td>1,78,700</td>
<td>129.80</td>
<td>20,438</td>
<td>13,883</td>
</tr>
<tr>
<td>2005-06</td>
<td>22.35</td>
<td>2,09,300</td>
<td>134.10</td>
<td>21,816</td>
<td>17,785</td>
</tr>
<tr>
<td>2006-07</td>
<td>23.85</td>
<td>2,41,648</td>
<td>138.40</td>
<td>22,934</td>
<td>25,307</td>
</tr>
<tr>
<td>2007-08</td>
<td>25.38</td>
<td>2,93,031</td>
<td>146.56</td>
<td>24,874</td>
<td>32,555</td>
</tr>
<tr>
<td>2008-09</td>
<td>27.24</td>
<td>3,56,213</td>
<td>152.61</td>
<td>26,726</td>
<td>36,470</td>
</tr>
<tr>
<td>2009-10</td>
<td>28.87</td>
<td>4,18,863</td>
<td>160.00</td>
<td>29,500</td>
<td>40,335</td>
</tr>
<tr>
<td>2010-11</td>
<td>30.14</td>
<td>4,65,171</td>
<td>167.20</td>
<td>N.A</td>
<td>44,437</td>
</tr>
<tr>
<td>2011-12</td>
<td>31.21</td>
<td>5,27,515</td>
<td>171.58</td>
<td>N.A</td>
<td>49,481</td>
</tr>
</tbody>
</table>

Note: N.A. = Data Not Available
2. Ruddar Datt and K.P.M.Sundaram, Indian Economy, S.Chand & Company Limited, New Delhi, 2012, p. 617