CHAPTER-I

Introduction
1.1. Background

Development of small industry has been accorded much priority for generating more employment opportunities and thereby to increase the income generation for bringing in a transition in the development of the economy. The small industry development has been pursued for promoting the entrepreneurial talents and skills and to utilize the resources and factor endowments to accelerate the process of industrialization\(^1\) in a developing economy. The development of small industry has also been pursued for increasing the efficiency in the use of capital and labour for augmenting the volume of output to meet the requirements of the people and to achieve the dispersal of industries for the regional imbalances and for sustaining the development.

The planners in India shifted emphasis from heavy industries to small industries in the recent times. Further the idea that "small is beautiful" is attracting the attention of people not only in developed countries but also in developing countries, including India.\(^2\) For a developing country such as India, the growth of small scale industries is a great significance. Pandit Jawaharlal Nehru, the architect of India's industrial policy observed that the Indian background gives democratic basis to small industry and develops the cooperative habit. He felt that it could be made to complement the big industries.\(^3\)

1.2. Role of Small Scale Industries in Indian Economy

Small scale industries form an integral part of the industrial structure of the country and play an important role in the manufacture of consumer goods and simple producer goods. Small scale industries have been given their due in the economic plans of the country due to their potentiality for large employment, equitable distribution of national income and their ability to accelerate the growth of the economy. These industries are more labour-intensive than large industries and have got better adaptability to variable production and market conditions. The development of small scale industries is essential for combating poverty and unemployment.

The definition of small scale industries has been changed from time to time under the MSMED Act 2006. The earlier rather limited concept of industries, has been widened to that of 'Enterprises'. Enterprises have been...
classified broadly in two categories, namely enterprises engaged in the manufacture / production of goods pertaining to any industries, and enterprises engaged in providing / rendering services.

The micro and small enterprises sector has emerged as a vibrant and dynamic sector and an engine of the growth at present. The sector has been playing a prominent role in the socio-economic development of the country for the past two decades. The Micro, Small and Medium Enterprises (MSME) sector which forms push of the total industrial sector, has direct impact on the growth of the national economy.

The Prime Minister Dr. Manmohan Singh presented the national awards to the successful, Micro, Small and Medium Enterprises (MSME) as also to the bank for excellence in MSE/Micro lending in New Delhi on 30th August, 2008, spelling out the positive contribution of the MSME sector towards employment generation. The Prime Minister said in his speech that this sector provides employment to over 42 million people. It contributes about 45% of the total manufacturing output and nearly 40% of India’s export. This sector has the capacity to generate economic activity at the local level that prompted Gandhiji to give the pride of place to khadi, he added. Dr. Manmohan Singh said that India is estimated to have the capacity to create 500 million skilled and trained technicians by the year 2020 and claim a fourth of the global workforce. Education and skill development can be India’s global opportunity.4

The biggest challenge of MSMEs in emerging market scenario is to fully exploit the benefits of their product and process capabilities on a sustainable basis. The MSMEs play a vital role in the Indian economy in terms of employment growth. They have recorded a high rate of growth since Independence. Inspite of the toughest competition from the large industries sector, it is now one of the fastest growing sectors in the country. The MSME sector has made steady progress during the recent years. The good performance of the small scale units is evident from their number, production, employment, and foreign exchange earnings.

The strategy for small and medium enterprises in the Eleventh Five Year Plan (2007-12) notes that small scale and medium enterprises are the main beneficiaries of investment incentives for modernization, upgradation
and additional capacity creation given in schemes like Technology Upgradation Fund Scheme (TUFS) for the textile sector. The schemes for establishment of industrial parks such as Scheme for Integrated Textile Park (SITP) in the same sector are also aimed at obtaining additional investment in small and medium enterprises. The plan propose to continue these schemes and replicate them in other areas as well. Since small units are handicapped by insufficient flow of credit, the plan advocates monitoring and improvement credit flows to these units.

The small scale sector has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronic control systems, microwave components, electro-medical equipment, T.V sets etc. The diversified expansion of SMEs during the sixties and seventies along with building up of a vast network of support services provided by the Government, became a pace setter for the developing world. The SSI has witnessed rapid strides. The value of investment is also considerable.

The performance of the SSI sector in terms of important indices viz., production, employment and exports during 1991 and 2003-04 shows that the SSI sector has grown steadily since Independence and continued growing even after liberalization of the economy. The performance of the SME sector is quite satisfactory even today.

The role of small-scale industry was emphasized in successive industrial policy resolutions, Five Year Plans and Report of expert bodies appointed by the Central and State Governments. They felt that small scale industries help the nation in different ways. Apart from increasing production, the growth of small scale industries also helps in the better utilization of local resources (i.e., men and materials), correcting regional imbalances, thereby improving the standard of living of the people. Small scale industries contribute significantly to the strengthening of the industrial structure. Small scale industries serve as seedbeds of entrepreneurship. They serve the developing economy not only by their output of goods but also by functioning as a nursery of entrepreneurial and managerial talent thus small scale industries play a decisive role in any economy.
The development of the small scale sector has been important in India because the small scale unit requires less capital outlay, and at the same time it provides more employment than the large scale sector. Also a small scale unit does not require highly sophisticated technology. Despite good intentions and constructive programmes, small scale industries in India could not achieve the desired levels of progress. It was pointed out earlier that the major problems that these units face were related to raw material and finance. But now the position is much better with respect to raw material and finance. The greatest problem that these units have been facing during the past few years is marketing. All these problems require an immediate probe and effective solution, and hence the present study.

1.3. Growth of Small Scale Industries

With the advent of the British power in India, the Indian cottage and Small Scale Industries were affected very badly. The demand for the products of these industries suffered due to competition with cheap machine made products of the British industry. In 1950, there were only 16,000 registered small scale units in India, which rose to 36,000 units in 1961. The number rose to 1,20,000 in 1966 and it rose to 2,38,000 units by 1971. The number of registered small scale units increased sharply from 4.16 lakh in 1973 to 10.48 lakh in 1983 registering a growth of about 2.5 times. As per the results of the Third All India Census of Small Scale Industries 2001-02, the SSI sector data are being presented from 1990-91 in respect of registered and unregistered small enterprises. The number of registered and unregistered small and medium enterprises increased from 6.79 million in 1990-91 to 10.11 million in 2000-01, 11.39 million in 2003-04, and 12.84 million in 2006-07, in terms of number of enterprises, fixed investment, production at current and constant prices, employment, and exports, details are given in table 3.2 (a) in chapter III.

Andhra Pradesh is one of the largest states in India. Spread over an area of 0.28 million square kilometers, it was formed in 1956. The state for various socio-political and historical reasons came to be viewed in terms of Coastal Andhra (the region along the coast, encompassing some of the most prosperous agricultural areas), Telangana (encompassing backward areas...
and till independence, part of a princely state with pockets of the rich natural resources), and Rayalaseema region, i.e., an industrially backward region.

Though Andhra Pradesh has been primarily an agricultural state, now it is leaping towards greater and faster industrialization. In Andhra Pradesh, the industrial estate programme was started during the Second Five Year Plan in 1957. Eight industrial estates were established in the comparatively developed regions of Telangana and Coastal Andhra and only one estate was started in the most backward region of the State viz., at Nandyal town in the Rayalaseema region. Since then, the Department of Industries of the State Government took up this programme till 1973.

On the recommendation of the International Planning Team (1953-54), apart from strengthening the directorates of industries, the Small industries development corporations have been set up in most of the states mainly to assist small industrialists in obtaining their requirements of scarce raw material, indigenous machines on hire purchase and promotion of the small scale sector. The corporation was registered with an authorized capital of Rs.50 lakh on 1st March 1961. It had Rs.20 lakh paid-up capital in 1962, as on 31st March 1982. The authorized capital and the paid up capital were Rs.700 lakh and Rs.443 lakh respectively. The capital of the corporation is fully subscribed by the Government of Andhra Pradesh.8

The Andhra Pradesh Industrial Infrastructure Corporation (APIIC) was formed in 1973 mainly to promote industrial estates in the state.9 The corporation as a government company comes under Sec.617 of the Companies Act. The objectives of the corporation are to aid, assist, counsel and protect small-scale industries in the state. Further, it helps small-scale industrial units in the (1) provision of technical and financial services such as consultancy services and preparation of feasibility reports (2) procurement and distribution of raw material, (3) supply of machinery on the hire-purchase scheme, (4) capital participation in small-scale industries so as to form joint ventures, (5) Development of entrepreneurial ability, (6) provision of common facility through servicing centres, marketing assistance and (7) revival of sick units and development assistance at the district level. Apart from10 that a few private and co-operative industrial estates have also come up in some parts of the state. APIIC has so far established 149 industrial estates and
industrial development areas in the state. As on March 2008, 208 industrial estates and industrial development areas, 9 autonagars and 23 mini industrial estates were set up by the Andhra Pradesh Industrial Infrastructure Corporation in the State. In the recent years from 2003, special economic zones, specialized parks for export purpose, and modernization purpose are being promoted, while cluster approach for modernization and export promotion is one important direction being pursued at present.

1.4. Development of Industrial Policy in India

Pre-Independence India had hardly any industrial policy of its own. The industrial policy adopted by the British rulers in those days mainly encouraged industries which were contributing in various ways to the development of the economy of their parent country. Whatever little industrial development that had taken place during that period was mostly exploitative in character. As a matter of fact, the industrial policies followed by the British rulers resulted in complete destruction of the age old economic fabric of India. For example the highly developed handloom industry, which was the backbone of the Indian economy, was completely destroyed and a well knit rural economic structure was thrown into complete chaos all over the country. Millions of artisans were thrown out of employment and were forced to lead a life of utter poverty and misery.

The support to SSIs in India has been fine-tuned over a period of time. Though often it has been in response to changes in the business environment, at other times it has been proactive anticipating changes and threats to the small scale industries. Since Independence, it has moved from protection to promotion and lately to facilitation and advocacy.

In the post-liberalization era there has been suitable policy changes depending upon the changing economic scenario. Policy changes were also necessitated for provision of product specific incentives and concessions to small enterprises for product standardization, technology upgradation, modernization etc.¹¹

Since Independence, the Government of India has formulated a total of seven industrial policy resolutions / statements aimed at providing economic foundation to increase opportunities of gainful employment and improving living standards and working conditions of the people. These

Immediately after Independence, the Government of free India had to attack this problem seriously, and solve it on a long term basis. Pandit Jawaharlal Nehru, the first Prime Minister of India, was convinced that industrialization was the key to the problems of the Indian economy. He, therefore, immediately started the process of industrialization. The first industrial policy resolution was adopted in 1948 which outlined the country's approach to industrial growth and development. In 1950, the constitution of the Republic of India was framed and adopted. It enlisted various socio-economic objectives for the people of this country. These objectives became the basis for the industrial policy resolutions which were adopted from time to time. Modified industrial policy resolution was introduced in 1956. Thereafter various changes were incorporated in the industrial policy resolution which were introduced subsequently in the years 1973, 1977, 1980, 1990, 1991 and 2000.

The basic principles of these industrial policy resolutions can be summarized as follows:

1. Acceleration of the growth of industries to achieve rapid economic development of the country.
2. To achieve the goal of a socialistic pattern of society.
3. To create facilities for increase in skills of Indian labour, thereby creating opportunities for more employment.
4. To establish industries in the public sector, as the core sector of the Indian economy.
5. To make the country more self-reliant by establishing basic and heavy industries such as, iron and steel, heavy engineering goods, heavy chemicals etc.
6. To encourage small scale, cottage and village industries, and handicrafts in a dispersed manner in bigger and smaller towns, as well as extensively in rural areas, and in the process to encourage development of entrepreneurship.

1.4.1. Industrial Policy Resolution, 1948

The Industrial Policy Resolution, 1948 which was adopted by the Indian Parliament envisaged a mixed economy for the country where the public sector as well as private sector had to participate in the industrial development of the country. They divided industries into different categories. Both public and private sectors were required to play the respective roles allotted to them through this categorization. This resolution also stated that the State must play an increasingly active part in the development of industries, and demarcated definite spheres for Government undertaking and private owned industries.


After India became a full-fledged Republic, economic planning was adopted as the method for development towards the goal of achieving a socialistic pattern of society. The First Five year Plan was taken up in 1951, and was successfully completed in 1956. Many problems which the newly independent country confronted in 1947 were solved to a great extent. The economy was vibrating with great enthusiasm and confidence. In these circumstances, it was felt that the industrial policy should undergo a change. As a result, the Industrial Policy Resolution of 1956 was adopted with the following important provisions.

Industries were divided into three different categories, namely, Schedule-A, Schedule-B, and Schedule-C.

Schedule-A

Industries included in this schedule were exclusively allotted to the State. There were 17 industries included in this list. Some of the important industries were arms and ammunition and defence equipment, iron and steel, heavy engineering, heavy chemicals, minerals, railways, ship building etc.
Schedule-B

In this schedule, those industries were listed which were to be gradually owned and managed by the State. In this category were included industries like machine tools, aluminium, ferro alloys, fertilizers, synthetic rubber etc.

Schedule-C

All the remaining industries were included in Schedule-'C' and they were allotted to the private sector for development.

In this resolution, small scale sector, village and cottage industries were given preferential treatment. Certain products were exclusively reserved for manufacture in the small scale sector. They were also to be given some tax exemptions. Direct subsidy provisions were made to give them assistance to improve their techniques of production so as to become more competitive in the market.

The Industrial Policy, 1973 has witnessed some changes in the form of a new approach to industrial planning. It has been found necessary for achieving the objective of speedy self-reliance and for bringing about dispersed industrial development. The existing policy of reservation for the small scale sector (involving investment in plant and machinery upto Rs.7.5 lakh) was continued. It also incorporated another provision to the effect that the area of such reservation was extended, consistent with the potentialities and performance of the small scale sector.


In March 1977, the Janata Party Government came to power replacing the Congress Government. They felt that the industrial policy of the earlier Congress Government had failed in many respects. According to them, unemployment had increased, rural and urban disparities had increased, and the rate of real investment had stagnated. The Janata Government, therefore, felt the need for a revised industrial policy. In view of this, the industrial policy statement of 1977 replaced the earlier industrial policy. The most important feature of this policy statement was to give a special status to small-scale industries and to give encouragement to the development of this sector. Whatever could be produced by small and cottage industries must be produced by them only. This statement classified
small-scale industries into three categories: (i) cottage and household industries, (ii) Tiny industries, where investment in plant and machinery was limited to Rs.1 lakh, and were situated in places with population of less than 50,000, (iii) Small scale industries having investment in plant and machinery upto Rs.10 lakh. In case of ancillaries this limit was raised to Rs.15 lakh. The measures to be adopted for the development of this sector were:

1. List of products reserved for exclusive manufacture in the small scale sector was increased from 180 items to 807 items.
2. The District Industries Centre (DIC) was established in each district to provide single window service, and assistance to small, tiny and village enterprises.
3. Scope of operation of khadi and village industries commission was expanded to include even the production of goods like footwear, soaps etc., and service activities.

1.4.4. Industrial Policy Statement – 1980

The Janata Government was replaced by the Congress Government in 1980. The new Government announced the Industrial Policy of 1980 replacing the Industrial Policy Statement of 1977. The relevant features of this industrial policy in relation to small scale and village industries are as follows:

In view of a great rise in the prices of capital goods and plants, and to encourage development of small-scale industrial units, investment limits were raised: (a) the limits of investment in plant and machinery was raised form Rs.10 lakh to Rs.20 lakh for small scale units, (b) for ancillaries, the limit was raised from Rs.15 lakh to Rs.25 lakh, (c) the limit for tiny units was raised from Rs.1 lakh to Rs.2 lakh. These limits were raised mainly to encourage the establishment and modernization of small scale units. This resolution also tried to encourage the starting of small scale sector units in rural areas.

The rapid industrial growth depends upon the availability of infrastructural facilities. There was need for improvement of infrastructural facilities also. The Industrial Policy of 1980 suggested certain measures for the development of infrastructural facilities. Modernization, transfer of technology, promotion of R&D, decentralization of industries, streamlining of
licensing procedures etc., were some important measures suggested by the industrial policy statement. The public sector enterprises did not rise to the occasion and continued to remain lethargic. In effect overall performance of the economy was disappointing.

1.4.5. Industrial Policy – 1991

Through the industrial policy of July 1991, the Government of India decided to launch a determined struggle for social and economic justice. It is wedded to the idea of building a modern, democratic, socialist and prosperous India to end poverty and unemployment. Towards this end, it was felt that, India must get integrated with the world economy and not remain in isolation.

There was rethinking on various aspects of industrial growth and development. Although the Government wanted to continue the policy of self-reliance, there was great stress on meeting our import commitments through our own foreign exchange earnings. The development and utilization of indigenous technology and its upgradation to world standards was aimed at. To this end, it was necessary to incur more investment in research and development and invite new technology from developed countries. Thus, foreign investment and foreign technology collaborations were welcomed.

In dealing with various objectives of the industrial policy statement, the Government decided to give greater support to the small scale sector in its endeavour to increase its economic efficiency and technology upgradation with the introduction of comprehensive economic reforms through the industrial policy of 1991. A new economic era was started through liberalization, privatization and globalization, competition in domestic as well as international markets, and debureaucratization. This gave a new impetus to the Indian industry which surged forward with greater vigour and enthusiasm. The positive results of the industrial policy in the country, are already being experienced by the Indian economy.

1.4.6. The Industrial Policy, 2000

The Industrial Policy, 2000, has been based upon the new challenges of growing competition, both globally and domestically, problems being faced relating to credit, infrastructure, technology, marketing, delayed payment harassment etc and new opportunities offered to the small scale industrial
sector in the liberalized and competitive environment. The policy decisions announced on August 31, 2000 related to:12

1. Raising the excise duty exemption limit from Rs.50 lakh to Rs.1 crore to improve the competitiveness of the small scale sector.
2. Granting of a capital subsidy of 12 per cent against loans for technology upgradation in admissible industries.
3. Conducting the third census of small scale industries.
4. Raising the limit of investment in industrial related services and business enterprises from the present level of Rs.5 lakh to Rs.10 lakh.
5. Increasing the limit for composite loans from Rs.10 lakh to Rs.25 lakh.
6. Raising the family income eligibility limit of Rs.24,000 to Rs.40,000 under the Prime Minister’s Rojgar Yojana (P.M.R.Y.)
7. RBI to take up with banks the question of sub-allotting over limits to the large borrowers specifically to meet the payment obligations in respect of purchases from SSIs.
8. Working out strategy for capacity building amongst entrepreneurs as well as workers.
9. A scheme to be drawn up for upgrading industrial estates.
10. The Small Industries Development Organization (SIDO) should have a market development assistance scheme similar to the one existing in the Ministry of Commerce. It should be a plan scheme.

This industrial policy resolution states that the Government would stress the role of cottage and village and small scale industries in the development of the national economy. The policy further envisaged that the decentralised small scale industry should acquire sufficient vitality to be self-supporting and its development be integrated with that of the large scale industry.

1.4.7. Evaluation of Industrial Policy

India’s industrial structure is highly differentiated in many ways. The scale, product, technology and organizational differentiation get reflected in its categorization of large, medium, small industries. Obviously it poses a problem for identification of units to be put under the small industries category.
The area in which small scale industries have encountered the greatest difficulty is that of management. A well organized industry owes its success mainly to its good management. The management tools are planning, control, finance, inventory, production, marketing, accounting, manpower, maintenance etc.\textsuperscript{13}

The most significant aspect of small and medium industry development is the fact that this sector has stimulated economic activity of far reaching magnitude and created a sense of confidence among a large number of enterprises about their vitality and viability. It is emerging as a self-reliant sector and does not depend on subsidies for its existence.\textsuperscript{14} Apart from its economic aspects, the social value of the small industries sector justifies its being given the most significant role in attaining the major objectives of removal of poverty, attainment of self-reliance, reduction in disparities in income, wealth consumption standards and regional imbalances that the country has set out to accomplish.

Throughout history, constraints have predominated over supports, and even in those countries where the most positive and enlightened policies have been adopted towards small enterprises this probably still care.\textsuperscript{15} Nevertheless, jobs are not increasing as fast as job seekers in India, and there are critics who contend that the planners should give importance for more direct attention to the employment objective, and urge that employment planning ought to have been given the first claim on resources of capital organization.\textsuperscript{16}

Over the years the Government of developing countries have adopted positive measures to defeat the forces of stagnation. To perform this gigantic task, well considered and the most suited policies of economic development have been framed. The growth process of these countries aims at accelerating the economic development to enhance the social welfare of their people. In fact, the economic change is a part of a wider social change and economic development is a long term process of intrinsic growth.\textsuperscript{17} Therefore, the tasks of policy making have a vital role to play in selecting the desired objectives and suitable alternatives for stimulating the economic growth. It also requires a careful examination of the existing institutional framework, social values, economic requirements and the implications,
keeping in view the need for rapid social and economic development of the economy.

The evolution of the policy for development of SMEs in India during the past few decades has its roots in the ideological premises of the pre-independence era. The village self-sufficiency idea was the cornerstone of the Gandhian socio-economic philosophy. It stressed the protection and development of traditional village industries and crafts and artisan-oriented small enterprises, as a part of rejuvenating and developing rural India, and in creating a decentralized and self-reliant economic and industrial structure. At the same time, the founding fathers of the Independence movement were not oblivious of the need for development of modern industries. The National Planning Committee set up in 1938, which deliberated upon the approach to industrialization, recommended a three-tier concept of cottage, small scale and large scale industries. This view was reinforced by the success of cottage and small industries in Japan. The development of Village and Small Industries became a “symbol of nationalism” for India and emerged as a major plank of the economic and industrial policy.\(^{18}\)

The policy dealing with credit, technical assistance and imported equipment are tailored somewhat to the needs of SME. Credit has hitherto been more important for the expansion of SME firms than for their creation.\(^{19}\) Most of the help recently contemplated for the small scale industries, has shown little regard to the fundamental distinction among the categories of industries, as well as the very concept of small scale industries. Each category has a definite and distinctive connotation, it has economic implications of its own and the help intended for each ought to be made suitable to it.\(^{20}\) What is more significant is the policy of helping small units, whenever they may be as distinct from the small scale industries that have not come into any noticeable vogue as yet.

1.5. Thrust areas of Small and Medium Enterprises Programmes

In an increasingly globalised world market, the MSMEs have to constantly upgrade their capabilities through competition and innovation. Some approaches adopted for the development of MSMEs are given below:

1. Cluster Development Approach: Cluster development programme focuses on technology upgradation / modernization, and export
intensiveness to improve the competitiveness of micro, small and medium enterprises. Cluster refers to "a geographically bounded concentration of similar related or complementary business, with active channels for business transactions, communication and dialogue that share specialized infrastructure, labour, markets and services, and that are faced with common opportunities and threats". Cluster is a geographical concentration of similar or related or complementary manufacturing / business units that are exposed to similar opportunities and threats. Cluster Development Programme focuses on building a self sustainable development mechanism at identified locations. This is primarily to enhance the productivity and competitiveness of enterprises through technology upgradation, entrepreneurship development, environment management, research and development etc. SIDBI proposes to focus on greater and easier flow of credit through clusters while extending development support. Branches of SIDBI propose to focus on greater and easier flow of credit through clusters while extending developmental support. Branches of SIDBI located in clusters can play a supportive role to improve the flow of credit to micro and small enterprises in clusters. A few clusters are planned to be developed as knowledge hubs. As per the recent study by the UNIDO (United National Industrial Development Organization) there are 338 clusters in the country with predominance of small scale industries, and over 2000 artisan enterprises / clusters in rural areas and small towns in particular. In recent years, the focus of small enterprise promotion programme has changed to development in clusters, with focus on identified clusters of industries specializing in certain product lines, belonging to one or a few related product groups, which may have linkages among themselves as well as with medium and large industries, and the hinterland economy. Under the World Bank led multi-agency project on financing and development of SMEs, it is proposed to develop around 25-30 clusters as 'model clusters' with technical assistance from DFID (Department for International Development of the United Kingdom). SIDBI branches located in clusters will hereafter be designated as Small Enterprise Financial Centres, and take up co-financing with bank branches through a strategic alliance with banks. The Union Ministry of Small Scale Industries has
identified 60 clusters. Commercial banks have been advised to adopt a full service approach to cater to the diverse needs of SME sector by extending banking services to the cluster enterprises by adopting a four-C approach, namely, Customer focus, Cost control, Cross sell, and Contain risk.

2. Export Promotion and Import Competitiveness

1. Marketing strategies for identified markets and specific product.
2. Reduction in transaction costs and ensure hassle-free policy environment for export promotion.
3. Adequate credit flow from financial institutions/banks.
   (a) credit guarantee fund scheme for micro, small enterprises
   (b) credit-linked capital subsidy scheme for technology upgradation for existing micro and small enterprises
   (c) credit rating for SME sector through accredited rating agencies. The rating serves as a trusted third party opinion on the enterprise’s capabilities and credit worthiness.
   (d) Strategic alliance of SIDBI and NSIC with commercial banks to meet the term loan and working capital requirements of SMEs.
4. Integrated resource utilization and high quality infrastructure through specialized parks, and special economic zones.
5. Support for technology upgradation and modernization and technology facilitation services, India SME Technology Services Ltd.
   (a) Modern testing facilities and quality certification for promoting sustainable development.
   (b) Support for product development, design intervention, and packing.
   (c) Support for research and development, technology transfer, joint ventures, finance, etc.
6. Access to modern management practices, entrepreneurship development and skill upgradation, through appropriate training facilities.
7. Assistance for better access to domestic and export markets, through comprehensive marketing support.
8. Promotion of inter-firm linkages.
9. Public-private partnership (PPP) mode for implementing strategies in various programmes, and involvement of large enterprises, and industry/MSME associations.

10. SSI market development assistance for:
   (a) Participation in overseas trade fairs / exhibitions
   (b) Individual overseas study-tours as individuals or as members of the trade delegations
   (c) Sector-specific market studies by industry associations, and
   (d) Production of publicity material for overseas publicity etc.

11. Developing a comprehensive plan for preparing MSMEs for e-commerce, with appropriate electronic infrastructure support.

12. To sensitise the MSMEs and prepare them to meet the challenges of the emerging WTO environment.

13. To sensitise the MSMEs for adoption of intellectual property rights (IPRS) and Bar coding technique.

14. Promotion of ICT tools in the manufacturing sector. Enabling MSMEs to be competitive through quality management standards, quality technology tools and quality certification.

   Annexure-I given at the end of the volume presents the concept and definition of Micro, Small and Medium Enterprises as practised at present, after the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act in 2006.

1.6. Policy Support and Programme of Assistance

   The achievements in the Small Scale Sector are primarily due to the active policy support and comprehensive programme of assistance launched by the Government of India. The basic approach towards development of small industries, as outlined in industrial policy statements and national plans can be summarized as: (a) to create immediate employment opportunities on a massive scale at a relatively small cost, (b) to meet a substantial part of the increased demand for consumer goods and simple producer goods, (c) to facilitate the mobilization of resources of capital and skill which may otherwise remain unutilized in rural areas, (d) to help in raising income and standard of living of a large number of artisans, craftsmen and entrepreneurs, (e) to make small industries export-oriented and help export
promotion and, (f) to remove regional disparities through a deliberate policy of encouraging growth in villages and small towns. The outlays for the development of small scale industries in the successive five year plans have increased substantially.\textsuperscript{21}

1.7. Development of District Industries Centres in Andhra Pradesh

The District Industries Centres concept has come into prominence in India through the Industrial Policy Statement of 1977 and the Central Government subsequently issued guidelines for establishing DICs, in the States. In Andhra Pradesh the DIC programme was implemented with effect from 01.11.1978 in three phases covering 22 districts excluding the metropolitan district of Hyderabad, which is not entitled for Central assistance.\textsuperscript{22} The DIC is expected to provide the critical mass of capabilities at the District level, which may provide under a single roof, various facilities and obtain necessary clearances from the authorities concerned. The intention is that an entrepreneur need not run from pillar to post, for these time-consuming tasks and may obtain necessary and requisite information and counseling at a single point. 422 DIC of 436 districts in India now cover almost the entire country. To remove the bottlenecks in the supply of raw material, credit, machinery, spare parts as well as information on the projects, which can be taken over, the Government has initiated the scheme of District Industries Centres.\textsuperscript{23}

A number of studies carried out in different regions at regional and macro level, and as part of doctoral research work, pinpointed problems facing the SME sector in recent years. An All India study of NCAER and FNST, New Delhi\textsuperscript{24} of 1993 has highlighted various performance deficiencies of small industries, and reasons for inadequate performance. These are briefly recalled here:

Performance deficiencies of small enterprises relate to:

(i) motivation for entrepreneurs to set up enterprises is largely from their own desire to be self-employed, and not so much because of the promotional efforts of Governmental organizations.

(ii) Inadequacy of training and acquisition of managerial capabilities in an organized manner.

(iii) Inadequacy of institutional finance,
The reasons for the low level of performance in many small enterprises are attributed to the following key issues:

(i) procedural bottlenecks and delays in obtaining clearances, and lack of guidance and counseling services.

(ii) Management deficiencies

(iii) Limited institutional finance

(iv) Low level of technology, and technological obsolescence,

(v) Inadequacy of information and lack of awareness of the use of information technology tools.

(vi) Sickness and mortality or closure among small enterprises can be attributed to a number of factors. These factors are endogenous and exogenous.

The third All India Census of Small Industries 2001-02 of Development Commissioner (Small Scale Industries)\(^{25}\) pinpointed the major reasons for sickness and closure of small enterprises as follows. Lack of demand, shortage of working capital, marketing, power shortage, and raw material non-availability, marketing and finance, thus constitute the key areas for low level of performance of small enterprises in majority cases.

1.9. Need for the Present Study

Until recent times much importance was given to large industries. Recently, the emphasis has shifted from large scale to micro, small and medium scale industries. With increasing pressure of population on agriculture, rural unemployment is also increasing on land and to reduce unemployment, there is every need to take up small scale industries as the most effective way of alleviating these problems.

Small enterprises offer opportunities for (a) industrialization with low capital base, (b) balanced regional development, including rural industrialization, and (c) development of entrepreneurial talents in a cross section of persons including weaker sections and women, with relatively low investments. In the post-liberalization era, technology and quality assurance have gained prominence along with the need to cater to export markets, and
not be contented with catering to the domestic environment alone. Liberalization has thrown up challenges as well as opportunities. Entrepreneurs need to test their capabilities in the new competitive environment. Acceleration of micro and small enterprises with technological sophistication is necessary for bringing about rapid industrialization. It is important to overcome the problems faced by small enterprises, and devise strategies for the future. It is in this direction, the present study with focus on small enterprises has been launched through coverage of sample enterprises in the selected industry groups in the Kurnool district of Andhra Pradesh.

Industrial estates have been set up to play an important role in the provision of infrastructure facilities that are indispensable for the development of small-scale industries. A basic problem faced by the district is the increasing pressure of population on land. Among the total working population, sixty-eight per cent of the workers depend on agriculture. Unemployment particularly among educated persons is rampant in the district. Further the increase in the number of job seekers on the live registers of employment exchanges is indicative of the need to take up employment-oriented schemes in the district. Therefore to solve the problems of pressure on land and unemployment, there is no other option, than to take up small-scale industries as the most effective way of alleviating these problems. In view of the above need, area specific studies are needed. There is an urgent need to accelerate the development of small-scale industries, especially in the district of Kurnool.

The small and medium enterprises sector plays a vital role in the economy of our country. The small scale industries sector over the years has grown steadily and has occupied an important place in the economy. The various problems of small scale industries viz., finance, marketing, production, technology were undertaken by the researchers only recently. In fact only few studies are there on the problems of small scale industries in India, although small scale industries are playing an important role in the economic development of the district. The development of small scale industries is studied through a sample survey conducted in Kurnool district, Andhra Pradesh.
1.10. Chapterization

The dissertation based on the study of secondary and primary data is divided into six chapters as listed here:

Chapter-I: It deals with introduction, important policies and the need for the present study.
Chapter-II: It deals with design of the study and review of literature.
Chapter-III: It deals with the small enterprises scenario, national perspective, and their status in Andhra Pradesh, with special reference to Kurnool district.
Chapter-IV: Entrepreneurial background and performance of sample enterprises.
Chapter-V: An analysis of the problems of small enterprises.
Chapter-VI: It deals with the summary of findings, conclusions, and action strategy.

1.11. Summary

In brief the chapter covers the national perspective of the industrial policy including small enterprise policy, impact of economic reforms on the growth of small enterprises sector in the context of liberalization; thrust areas of small and medium enterprise programmes in the competitive environment and institutional support for small and medium enterprises at National, State and District levels. Towards the end, the chapter refers to problems of small enterprises, and need for the present study pursued in Kurnool district of Andhra Pradesh. It also presents the chapterization adopted for the dissertation.

With the opening up of the economy from 1991, the small and medium enterprise sector has performed well. In fact it has been much better compared to the overall industrial and manufacturing sectors. The sector with its dynamism, flexibility and innovative spirit has been adapting itself to the fast changing needs of the market-driven economy where the Government acts as a facilitator and promoter, and no longer as a regulator. The strategies evolved particularly from the year 2000, have tried to boost the morale of the sector in enhancing its competitiveness. The sector's contribution to balanced regional development, employment generation, exports and development of entrepreneurial talents, is noteworthy. The challenges of the present economic environment, are formidable and
opportunities created by the WTO environment are yet to be fully reaped by the sector. The sector could not only withstand pressures of the international economic environment, but could also grow much faster than the industrial sector as a whole, and improve its contribution to exports on the same lines as the overall export position of the country.
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